Platinum European Fund

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Performance and Commentary

(compound pa, to 30 September 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund	4%	22%	22%	15%	12%
MSCI AC Europe Index	0%	12%	20%	11%	2%

Source: Platinum and MSCI. Refer to Note 1, page 4.

The last three months have certainly been eventful. The quarter began with a referendum in Greece which saw the people overwhelmingly reject their creditors' bailout conditions, at the urging of Prime Minister Alexis Tsipras. Having won a powerful mandate to reject these conditions, Mr Tsipras proceeded to do the exact opposite, wasting no time *accepting* the Troika's demands and their money! Greece stayed in the Euro. The can was kicked down the road. And another crisis averted, for the time being.

Disposition of Assets

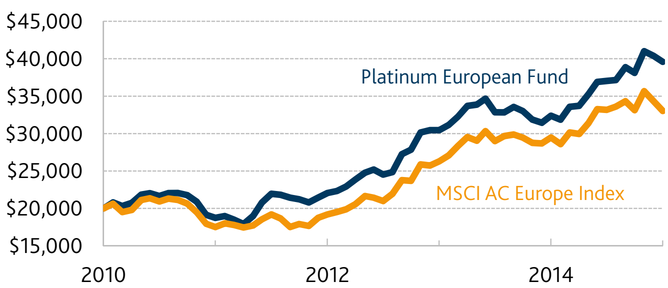
REGION	SEP 2015	JUN 2015
UK	22%	19%
Germany	16%	18%
Spain	6%	6%
Switzerland	5%	4%
Austria	5%	5%
Italy	5%	5%
France	5%	6%
US *	4%	3%
Russia	3%	4%
Hungary	2%	2%
Norway	2%	2%
Netherlands	1%	1%
Sweden	1%	1%
Turkey	1%	1%
Cash	22%	23%
Shorts	0%	-1%

* Stocks listed in the US, but predominant business is conducted in Europe.

Source: Platinum. Refer to Note 3, page 4.

Value of $20,000 Invested Over Five Years

30 September 2010 to 30 September 2015



Source: Platinum and MSCI. Refer to Note 2, page 4.

The reprieve was short-lived. As the quarter progressed, a growing chorus of companies reported weaker conditions in China. Over the past few quarters, we have been very much surprised to see European equity valuations ascend to ever greater extremes, despite the lurking risks. Investors seemed fixated on central bank monetary manipulation and exhibited a remarkable degree of complacency around the global economic outlook and the Chinese economy to which it is inextricably tethered. This complacency is now evaporating.

Compounding the market's woes, Europe's largest automaker, Volkswagen (VW), admitted to using 'defeat devices' to essentially *cheat* in regulatory emissions tests. VW's stock ended the quarter 51% lower. Other European automakers were not spared, falling 22-33% as investors fretted that this might be an industry-wide practice and that the bad publicity might hasten the demise of diesel engine technology, which these companies have invested so heavily in.

European equities ended the quarter down -7% in local currency. Global cyclicals fared worst: Autos -29%, Materials -17%, Energy -12% and Process Industries -14%. The more defensive sectors held up best: Property +1%, Staples -1% and Health Care -4%.

The Fund returned +3.9% for the quarter and +22.2% for the year, in Australian dollar terms. This compares to -0.3% and +12.0%, respectively, for our benchmark. We entered the quarter with a large cash holding (23%) which protected us as stock prices fell. We also had minimal exposure to the worst affected sectors. While the Fund owns BMW and Daimler, these positions were reduced earlier in the year and did not do much damage to our performance. Our biggest detractors were companies exposed to the Energy sector (**Applus Services**), companies with operations in Emerging Markets and large positions where the investment story has encountered the inevitable bump in the road (**GFK**, **Lloyds**). The biggest contributors to our performance were large holdings where the investment story is playing out (**Markit**, **Carnival**, **Sartorius**).

Changes to the Portfolio

The Fund started the quarter with a large cash position, reflecting the difficulties we had finding suitable investment candidates in an environment of high valuations and low risk aversion. By late August the European index had sold off over 10% and we began buying a number of companies.

Roughly half of the investments we made were new positions, the largest of which was luxury conglomerate **Compagnie Financière Richemont**. Richemont's earnings are roughly evenly split between jewellery and watches. Strong demand from Chinese customers has played no small part in the volume growth and pricing power that luxury goods vendors like Richemont have enjoyed in the last decade. Investors are now fretting about what the corruption crackdown and economic slowdown in China will mean for future watch sales.

While we have sympathy for these concerns, our view is that Richemont will meet the challenge better than most, thanks to its strong brands and unmatched retail distribution network. We expect their watch sales to decay very slowly, if at all, while their multi-billion dollar cash pile leaves them well-placed to buy any heritage-rich Swiss watchmakers that may decide to exit what will surely become a much tougher business.

What really excites us, however, is their jewellery business. We don't know if shiny stones can truly win the hearts of fair ladies. But it is clear that many believe this to be the case. And these hopeful and wealthy romantics are showing an ever-greater proclivity for branded jewellery. Establishing a jewellery brand is surprisingly difficult, not least because your wealthy clientele is well aware of the commodity cost of the item. But, while rare, jewellery brands do exist and they are taking share from unbranded jewellery.

Richemont's strongest jewellery brand, *Cartier*, was the jeweller of choice for European royalty since the 1840s and was famously described by King Edward VII as the 'jeweller of kings and the king of jewellers'. This kind of heritage and endorsement cannot be manufactured or bought, no matter how good your ad agency is. It is this heritage that allows *Cartier* to charge a significant premium over other jewellers without denting demand for its wares (quite the opposite in fact!). We are encouraged that Richemont's jewellery business continues to grow strongly despite the ructions in China and sub-par economic growth in the developed world. We are paying 17x earnings, which we see as a fair price for a good business with a supportive tailwind and plenty of optionality.

The other half of the money we invested during the quarter was channelled into existing positions. Of this, around a quarter was invested in Health Care stocks (**Novartis**, **Sanofi**), a quarter in Banks (**Lloyds**, **ING**) and the balance in a broad range of companies which have either been sold down for stock specific reasons, dumped in the general flight to safety or been caught up in the negative sentiment around China and the Volkswagen scandal.

Health Care companies are not obviously cheap relative to past valuations, but the underlying earnings power of these companies is far superior today. In the past, earnings were vulnerable as many companies had neglected to invest in a pipeline of new drugs to replace the earnings generated by drugs facing patent expiry. This challenge has now largely been met as pipelines have been replenished through a combination of increased spending on research and development and cash transfers to biotech shareholders.

The story is more nuanced, however. Not only have the drug pipelines been replenished, but the quality of these new drug candidates is very high, in terms of uniqueness, innovativeness and effectiveness. Further, biologics now feature heavily in pipelines. Biologics are much less susceptible to competition from generics, meaning the earnings they generate should have much greater longevity. As in any presidential election cycle, some political heat is being directed at drug companies. However, it is hard to argue against the idea that years of expensive and truly innovative research that save people's lives should be rewarded. We think paying 15-17x earnings represents a fair price for high quality businesses whose earnings will prove resilient in a weakening economic cycle.

Outlook

We continue to expect weak economic growth in Europe with low inflation and supportive monetary policy. There continue to be domestic risks. While the risk of a Scottish secession has fizzled and a Greek default delayed, new risks are threatening the economic, social and political order in Europe. Pro-independence parties in Catalonia now control the regional government and intend to push for independence from Spain. Further down the track, we face a high-severity British referendum on EU membership. Finally, one cannot help but wonder how Europe will meet the challenge of first accommodating and then integrating the flood of refugees pouring in from the south and east and what repercussions this will have.

While an economic slowdown in China is materialising, it is worth bearing in mind that economic cycles are normal and their effects are uneven. While there are clear excesses in certain sectors, the staggering progress that China has achieved over the last three decades is very much real. A large new middle class has emerged. The average Chinese household today is immeasurably better equipped in terms of education, capital and infrastructure to compete in the global economy. This underwrites their purchasing power. **And this is not about to reverse.** Companies that benefited from the build-out of the industrial base and infrastructure may suffer weaker sales and earnings in the years ahead. But those that correctly identify and best serve the needs of this huge new middle class will prosper.

Reflecting this, the Fund is positioned with minimal exposure to Energy, Materials, Industrials, Autos, Process Industries and Hardware sectors. We also retain a large cash balance of around 22% which will be gradually invested as opportunities present themselves, albeit with a high degree of selectivity.

Our outlook is much more optimistic than it has been in the last few quarters. While scientific innovation, social progress and human endeavour all play a role, **nothing creates investment opportunities quite as quickly and effectively as falling stock prices**. In the last few weeks we have found a number of attractive investment ideas. As the market comes to terms with what is happening in China, many more are likely to arise as perfectly decent companies suffer collateral damage. We are well positioned to seize them.

Notes

1. The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specific period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that historical performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

   The inception dates for each Fund are as follows:
   Platinum International Fund: 30 April 1995
   Platinum Unhedged Fund: 28 January 2005
   Platinum Asia Fund: 4 March 2003
   Platinum European Fund: 30 June 1998
   Platinum Japan Fund: 30 June 1998
   Platinum International Brands Fund: 18 May 2000
   Platinum International Health Care Fund: 10 November 2003
   Platinum International Technology Fund: 18 May 2000

   (NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist.)

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 30 September 2010 to 30 September 2015 relative to its benchmark index (in A$) as per below:

   Platinum International Fund - MSCI All Country World Net Index
   Platinum Unhedged Fund - MSCI All Country World Net Index
   Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index
   Platinum European Fund - MSCI All Country Europe Net Index
   Platinum Japan Fund - MSCI Japan Net Index
   Platinum International Brands Fund - MSCI All Country World Net Index
   Platinum International Health Care Fund - MSCI All Country World Health Care Net Index
   Platinum International Technology Fund - MSCI All Country World Information Technology Net Index

   The investment returns are calculated using the relevant Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the benchmark index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

3. Invested position represents the exposure of physical holdings and long stock derivatives.

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