

# PLATINUM EUROPEAN FUND

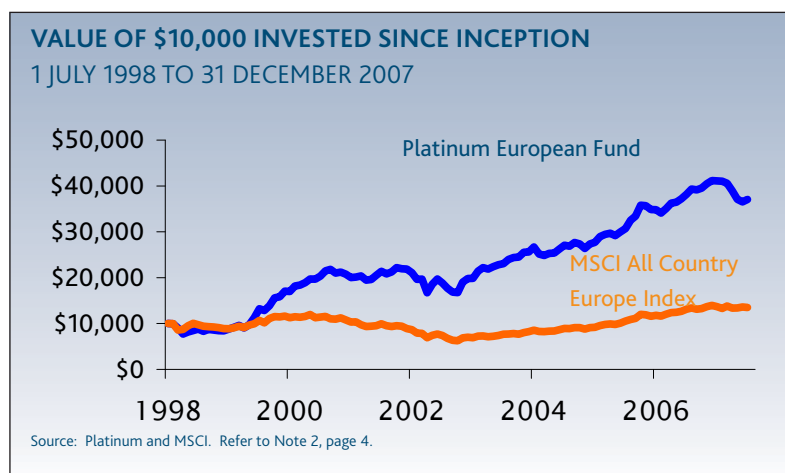
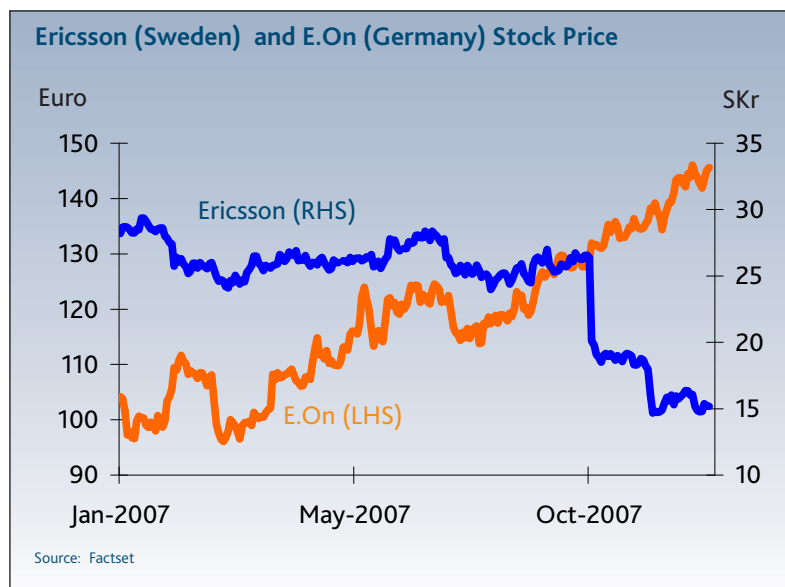


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## PERFORMANCE

### European markets bumpy on the surface, weak underneath

Boosted by the (softer) Australian dollar, MSCI Europe was +1% on the quarter, and up 3% for 2007 as a whole. The market indices have flailed around with increased anxiety in recent months, and the underlying stock price movements have been more dramatic still. The charts below show the comfort taken in “safe haven” utilities (E.On is a large electricity company based in Germany, market capitalisation >Eu100bn), and show also the horror of Ericsson after poor results and confidence-sapping obfuscation from senior management.



More generally the pattern has been of quite steady performance from the larger stocks – especially in the defensive areas of food, pharmaceuticals, utilities etc – and violent instability in the <Eu2bn group, especially in the more cyclical areas of machinery/capital goods, construction and retail (UK especially). The list of stocks down 30-40% during the year now runs to several pages.

This pattern of narrowing leadership, and greater volatility, is a familiar one in the latter stages of a bull market, but even so it is frustrating that the poor performance of some of our stocks (namely Ericsson and the small/mid cap holdings) has not been protected by the hedges in the German and Spanish indices. The Platinum European Fund declined 4.8% for the quarter and 2.9% for 2007, a disappointing outcome.

## COMMENTARY

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### **Company visits in November to Germany, France, Spain, Norway and the UK**

Five or six highly prospective investment ideas are a very good return from a two week excursion (entailing 40 or so meetings). To clarify a couple of other ideas, and to confirm that three existing positions are unlikely to contribute, means that 12-15% of the portfolio has been changed as a result of the meetings. This productivity is a function of a promising opportunity in the markets, namely the attractive valuation of some large, steady growth companies (ie. compared to the recently lauded commodity “cyclicals” like steel, mining, energy etc). Where management meetings confirmed that the coming 3-5 years are highly likely to offer continued growth, we’ve started to buy the stocks for the Fund.

Software giant SAP, specialising in so-called enterprise resource planning (ERP) programmes, is notorious for the disruptions many customers suffered when implementing the famous “R/3” product. This was the software that established SAP as a major player in the 1990s, and it required customers to match their procedures to the

programme’s standards. The additional general chaos of “corporate globalisation” (ie. business processes being standardised across geographies) meant that R/3 was a boon for IT implementers and consultants everywhere. Several years of steady growth – and unstinting product development – later see SAP selling robust, internet-enabled ERP software upgrades, with extra modules to manage supply chains, customer records, and much else in between. The real trick – and the value of meeting the management – was to understand that the good growth and profitability comes in the 2-4 years *following* customer upgrades, as they buy these extra modules, (and make SAP hard to dislodge!) Thus knowing the proportion of upgraded customers today gives us a solid basis to forecast earnings in 2008/9/10 – 12-15% growth pa is likely. This company is a key example of a stock with a fabulous track record and high probability of near term prosperity, yet which trades at its lowest multiple in many years. The Fund has 3.6% in SAP.

Energy efficiency as a sales and profits driver was a theme in our trip, adding to our ongoing attempts to invest in the solar energy sector (where great excitement has made direct plays uncomfortably pricey – we own some of the equipment suppliers to the solar cell manufacturers). EU energy usage directives are handed down from Brussels, tax incentives are offered in France and additional requirements are legislated in Germany and Sweden. Thus kWh of electricity usage per m<sup>2</sup> of building space (down from 400 to 170 in 30 years in Germany, planned to halve again by 2020), and investment payback periods (3-5 years for public and residential respectively) for energy efficient glass etc are becoming common parlance. For a typical house in France, a Eu10-15,000 investment in insulation and coated double glazing etc should cut electricity usage by 60-80%. Whether motivated by political/social issues, or its discomfort as an energy importer, Western Europe is leading the way on reducing energy usage, and the resident companies have the leaders’ advantage over foreign rivals (for a time). We met and bought stock in the French electricals giant Schneider (variable speed drives, all sorts of building controls etc). In addition we met building materials trailblazer St Gobain, and await

an entry point (the share price is falling due to worries over US/UK construction volumes).

A dozen or so meetings in Madrid marked our first visit to Spain in several years. Our interest stemmed from that country's wild property market and we were interested in the health of their banking system. The general conclusion was to remain cautious - half a million housing starts per annum in recent years is probably nearly double the "necessary" quantity, and the overhang will take time to work through. However, the dire predictions for Spain's banking system (with a 9-10% current account deficit funded by foreigners via the Spanish banks and the resultant Spanish property bubble) are probably exaggerated. Firstly, the Euro is what it is! Spain's profligacy is allowed by a system which for the moment is stable (without the Euro, Spain could expect higher interest rates or a weaker currency or both). Secondly, the Spanish central bank is a prudent regulator who has required the local banks to have the highest general provisions against their loans that we've seen in Europe. And with most banks wrongly guessing

that the housing boom peaked several years ago (!), they have generally been cautious, and hold "loan to value" ratios around 60%, with only 10% of the loan book above 80% (and that portion insured). And thirdly, the Spanish infrastructure boom is ongoing - most are familiar with the daring architecture from Bilbao to Barcelona - but Madrid's ring road system, the Madrid-Barcelona high speed train link, and the stunning new terminal at the capital's airport all highlight the benefits of the boom. The government, in surplus and conscious of the economy's vulnerability to a slowdown, will press on with major projects to offset the residential building contraction.

Our meetings in Norway and England were highly productive and may lead to the accumulation of some new holdings.

With its 40 or so company investments, the Fund has 74% net exposure to European stocks at the end of 2007: 7% cash and 19% shorts in the German and Spanish indices offsetting the 93% invested position.

## NOTES

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1. The investment returns are calculated using the 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 past 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).

2. The investment returns depicted in the graphs are cumulative on A\$10,000 invested in the relevant Fund since inception relative to their Index (in A\$) as per below:

Platinum International Fund:  
Inception 1 May 1995, MSCI All Country World Net Index

Platinum Unhedged Fund:  
Inception 31 January 2005, MSCI All Country World Net Index

Platinum Asia Fund:  
Inception 3 March 2003, MSCI All Country Asia ex Japan Net Index

Platinum European Fund:  
Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:  
Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:  
Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:  
Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:  
Inception 18 May 2000, MSCI All Country World Information Technology Index

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

The investment returns are calculated using the 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 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.

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Before making any investment decision you need to consider (with your financial adviser) your particular investment needs, objectives and financial circumstances. You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds.

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