Platinum European Fund

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Portfolio Manager

Performance

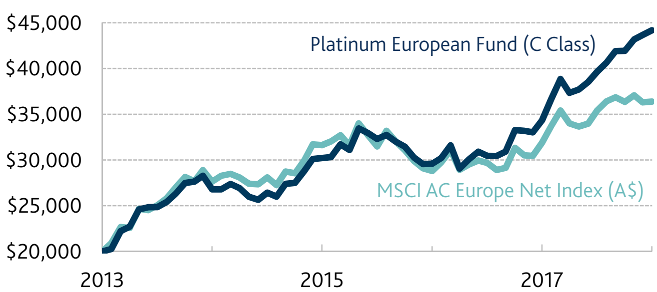
(compound pa, to 31 March 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	5%	29%	14%	17%	12%
MSCI AC Europe Index	0%	14%	5%	13%	3%

*C Class – standard fee option. Inception date: 30 June 1998.
Net of accrued fees and costs. Refer to note 1, page 4.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

Value of $20,000 Invested Over Five Years

31 March 2013 to 31 March 2018



Net of accrued fees and costs. Refer to note 2, page 4.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

Commentary

As 2017 drew to a close, the prevailing mood was one of extreme complacency. Volatility had been low for a long time. Share prices had been steadily grinding higher. The global economy was experiencing its first synchronised expansion in a decade. China was making progress defusing concerns around excessive corporate debt. Europe seemed to be recovering its mojo. And the United States Congress passed large tax cuts benefiting corporations and their shareholders.

Markets soared in January, but by early February a number of concerns surrounding the US have clouded what remains a fairly rosy economic outlook:

- Interest rates are rising in the United States. So long as capital is free to cross borders, there will be spill-over effects on the price of money and assets in Europe, domestic monetary policy notwithstanding.
- Tax cuts will increase credit demand as the US government seeks to fund them. They will compete for funding with other incremental sources of credit demand

Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017	31 MAR 2017
Germany	23%	24%	23%
UK	15%	12%	15%
Switzerland	9%	9%	5%
Austria	8%	9%	9%
Russia	6%	5%	3%
Spain	5%	5%	4%
Norway	4%	2%	3%
Denmark	3%	3%	3%
Italy	3%	3%	5%
US *	2%	2%	5%
France	2%	4%	6%
Hungary	2%	2%	3%
Netherlands	1%	1%	2%
Romania	1%	0%	0%
Ireland	1%	0%	0%
Cash	15%	19%	14%
Shorts	-2%	-3%	-1%

* Stocks listed in the US, but predominant business is conducted in Europe.
Source: Platinum Investment Management Limited. See note 3, page 4.

as well as existing assets. This will drain liquidity from other asset classes, put upward pressure on interest rates and may lead to a host of unintended consequences.

- Political risk is rising. The Trump Administration is becoming increasingly confrontational and abrasive in its dealings with both domestic civil institutions and foreign governments, allies and adversaries alike. Not much imagination is needed to see how this may have an adverse impact on markets globally.

In Europe, the backdrop is little changed.

Economic activity in the Eurozone grew 2.7% over the past year. Unemployment has fallen to 8.7%. Business confidence is high. Households are starting to borrow once again with household debt growing 3% over the last year. Government deficits narrowed further and now sit at just 1.5% of GDP. While government spending is restraining economic expansion for now, it's noteworthy that European governments generally have fuel in the tank should stimulus be required down the track.

Interest rate hikes remain a distant prospect for the Eurozone, although quantitative easing is expected to be phased out this year.

Unlike in the US, the political environment in most parts of Europe has calmed dramatically. While populist parties won a resounding victory in the Italian general election, their message and tone had moderated to such a degree that the market barely acknowledged it. Meanwhile Germany managed to form another Grand Coalition, albeit evidently less grand than the preceding one, ensuring a few more years of stability.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank	Austria	Financials	4.6%
Siemens AG	Germany	Industrials	3.3%
TechnipFMC	UK	Energy	3.0%
RELX PLC	UK	Industrials	3.0%
Glencore PLC	Switzerland	Materials	2.9%
Pandora A/S	Denmark	Consumer Discretionary	2.8%
Daimler AG	Germany	Consumer Discretionary	2.8%
Scout24 Holding	Germany	IT	2.4%
Erste Group Bank	Austria	Financials	2.3%
Lukoil PJSC	Russia	Energy	2.3%

As at 31 March 2018.
Source: Platinum Investment Management Limited. See note 4, page 4.

Performance

The Platinum European Fund (C Class) returned 5.4% for the quarter and 28.7% for the 12 months to 31 March 2018. This compares to 0.1% and 14.1% respectively for the MSCI All Country Europe Net Index (A$).

Our best performing stocks include Sartorius and Provident Financial.

Sartorius is a German company that makes disposable equipment used in the manufacture of biologic drugs. Over time biologics have accounted for an increasing share of new drug approvals. These large complex molecules need to be manufactured in a living system and contamination is a major concern. The industry is increasingly substituting steel vats and pipes that need to be cleaned after each batch for disposable plastic bioreactors, tubes and containers. This speeds up turnaround time between batches and reduces contamination risk. Sartorius manufactures this disposable equipment, earning revenue on each batch of a drug produced rather than on one-off equipment sales.

With biologic drugs, the manufacturing process and equipment are integral to the final product as approved by regulators, meaning there is little risk of displacement. Patent expiries lower drug prices but do not stop production, so they have little impact on Sartorius. There is almost no risk from the economic cycle. Competition is limited to a small circle of proven suppliers since no pharmaceutical company is going to risk undermining a $10 billion drug to save a few dollars on a piece of tube.

Sartorius is the quintessential market darling complete with a compelling growth story, extreme economic resilience and a valuation in excess of 40x earnings. It always hurts to sell such a marvellous business. However, our goal as fund managers is to uncover good investments, not good businesses. When we bought Sartorius many years ago it was both. Today it remains only the latter.

Provident Financial is a recent addition to the Fund. The UK-based company has two main businesses, doorstep lending and subprime credit card issuing. A bungled change to its agent model in the doorstep lending operation undermined the company's relationship with agents and thus, indirectly, with the end customer. Customers departed in droves, abandoning their outstanding debts as they did so. This placed the doorstep lending business under financial strain just as regulators began investigating whether a key product in Provident's credit card business was inappropriately sold.

Provident is dependent on wholesale funding and investors feared the building pressure would see creditors pull the rug out from under them. When we bought the shares we felt there was enough margin for error. They were down 80% from their high two years prior, while the underlying businesses remained viable and could earn an acceptable return on an expanded capital base. Within a month of us adding Provident to the portfolio, the company announced a rights issue to fund a full and final resolution to the regulatory investigation. The shares appreciated significantly in response.

Vodafone and **Siemens** were among our worst performing positions over the quarter. Investors worry Vodafone will overpay for assets it is looking to buy from Liberty Global. With Siemens they were disappointed by the valuation the healthcare unit achieved when 15% of its share capital was finally floated in March 2018. The investment thesis for these stocks has not deteriorated. Indeed, we added quite significantly to our holding of Siemens shares over the quarter.

Changes to the Portfolio

Recent market turbulence gave us opportunities to add new stocks to the portfolio, such as Provident Financial. We also added to existing positions, such as RELX, an Anglo-Dutch publisher of scientific journals.

We closed our successful short position in Hennes & Mauritz, the parent company of fast-fashion label H&M, whose global chain of stores has not been immune to the challenges of e-commerce and other competitive pressures facing apparel retailers at large.

Finally, we trimmed a number of holdings where valuations seem to reflect what is possible rather than what is probable; Sartorius is a prime example.

Outlook

The European economy continues to recover and has room to improve further. Internal political risk is dissipating. Interest rates are unlikely to rise for some time. While stock valuations appear on the high side at face value, averages muddy the water somewhat. The reality is that there are pockets of extreme exuberance mixed with pockets of exceptionally good value. We continue to uncover good investment ideas.

Although the economic outlook remains rosy, risks are nevertheless rising. In anticipation of a more difficult road ahead, we have rebuilt our cash position to around 15% of the Fund's capital. We consider this to be a neutral level.

Notes

1. Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of the stated unit class of the fund and represent the combined income and capital returns of the stated unit class over the specified period. Returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

   Index returns are in Australian dollars and assume the reinvestment of dividends from constituent companies, but do not reflect fees and expenses. For the purpose of calculating the "since inception" returns of the MSCI index, the inception date of C Class of the fund is used. Where applicable, the gross MSCI indices were used prior to 31 December 1998 as the net MSCI indices did not exist then. Fund returns have been provided by Platinum Investment Management Limited; MSCI index returns have been sourced from RIMES Technologies.

   Platinum does not invest by reference to the weightings of any index or benchmark, and index returns are provided as a reference only. A fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the fund's holdings may vary considerably to the make-up of the index that is used as its reference benchmark.

   The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the fund over the specified five year period relative to the relevant net MSCI index in Australian dollars.

   Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of C Class of the fund and represent the combined income and capital returns of C Class over the specified period. Returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

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3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the fund's exposure to physical holdings and long derivatives (of stocks and indices) as a percentage of the fund's net asset value.
4. The table shows the fund's top 10 long stock positions (through physical holdings and long derivatives) as a percentage of the fund's net asset value.
5. Sector breakdown represents the fund's net exposure to physical holdings and both long and short derivatives (of stocks and indices) as a percentage of the fund's net asset value.
6. The table shows the fund's major currency exposure as a percentage of the fund's net asset value, taking into account currency hedging.

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Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock performance are in local currency terms, unless otherwise specified.

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