

Platinum European Fund



Nik Dvornak
Portfolio Manager

Performance

(compound pa, to 30 June 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	-2%	16%	12%	14%	12%
MSCI AC Europe Index	2%	9%	6%	10%	3%

Net of accrued fees and costs. Refer to note 1, page 4.

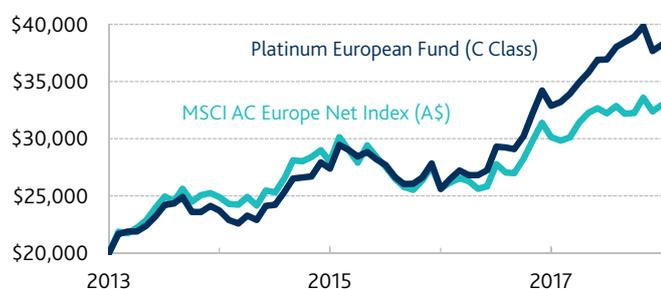
*C Class – standard fee option. Inception date: 30 June 1998.

Source: Platinum Investment Management Limited, FactSet.

Historical performance is not a reliable indicator of future performance.

Value of \$20,000 Invested Over Five Years

30 June 2013 to 30 June 2018



Fund returns are net of accrued fees and costs. Refer to note 2, page 4.

Source: Platinum Investment Management Limited, FactSet.

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 exposures, updated monthly, please visit <https://www.platinum.com.au/our-products/pef>.

Commentary

The European economy appears in rude health. Economic growth slowed somewhat in early 2018, following strong expansion in 2017, but there is no obvious cause for concern. Leading economic indicators have subsequently stabilised at robust levels. Employment continues to grow, with 2 million jobs added over the last year. Unemployment sits at 8.5%, down from 9.2% a year ago. Wages, retail sales and credit are all growing comfortably while inflation remains contained.

Fiscal policy is tightening though monetary policy remains extremely accommodative. Quantitative easing will end this year, but interest rates are unlikely to rise before mid-2019. The ever wider gap between interest rates in Europe and the United States is putting pressure on the Euro. So, too, is renewed concern about political instability. Thus, the Euro depreciated 5% relative to the US dollar this quarter.

Political developments are troubling investors. Many of these ructions originated from the US, including a new round of sanctions targeting Russia, withdrawal from the Iran nuclear deal and escalation of trade tensions. Others are home

Disposition of Assets

REGION	30 JUN 2018	31 MAR 2018	30 JUN 2017
Germany	21%	23%	23%
UK	14%	15%	14%
Switzerland	10%	9%	5%
Norway	8%	4%	2%
Austria	7%	8%	9%
Spain	6%	5%	3%
Russia	3%	6%	3%
Italy	3%	3%	5%
US *	2%	2%	4%
Denmark	2%	3%	2%
Hungary	2%	2%	3%
Romania	2%	1%	0%
France	2%	2%	6%
Ireland	2%	1%	0%
Netherlands	0%	1%	2%
Cash	16%	15%	19%
Shorts	-1%	-2%	-1%

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

grown, such as broad divisions amongst Europeans over how to deal with migrants and the antagonism between Italy's new populist government and the European Union.

Overall, the economic backdrop remains supportive. But the rally in European equities has ground to a halt in 2018 as political concerns dim investor enthusiasm.

Performance

The Platinum European Fund (C Class) returned -1.8% for the quarter and +16.2% for the 12 months to 30 June 2018. This compares to +2.1% and +9.3% respectively for the MSCI AC Europe Net Index (A\$).

Our holdings in Eastern Europe and Russia were responsible for much of our underperformance this quarter. These positions amounted to approximately 15% of the Fund's invested capital during the period.

Rising financial stress in Argentina, Brazil and Turkey has unsettled investors and increased their aversion to emerging markets. The vulnerabilities driving the sell-off in Argentina, Brazil and Turkey simply do not exist in Eastern Europe or Russia. Yet, these markets have sold off too, albeit to a more modest extent. Russian stocks were also hit by the introduction of new US sanctions in early April.

Our rationale for allocating significant capital to Eastern European companies is outlined in previous reports (e.g. December 2016 Quarterly Report). We would emphasise that our investment thesis remains very much intact and we remain enthusiastic owners of these businesses. We are adding selectively to these positions, but not aggressively, as we already have a sizeable exposure and the stocks have appreciated significantly since we first bought them.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank	Austria	Financials	3.8%
TechnipFMC	UK	Energy	3.8%
Siemens AG	Germany	Industrials	3.5%
Schibsted ASA	Norway	Consumer Discretionary	3.2%
Roche Holding AG	Switzerland	Health Care	2.9%
Saras SpA	Italy	Energy	2.9%
Glencore PLC	Switzerland	Materials	2.8%
RELX PLC	UK	Industrials	2.8%
Scout24 Holding	Germany	IT	2.8%
Applus Services	Spain	Industrials	2.6%

As at 30 June 2018.

Source: Platinum Investment Management Limited. See note 4, page 4.

Our sentiment towards **Russia** is far more circumspect. But one needs to be pragmatic. The shares we own represent an ownership stake in a business, not an investment in a country or an economy. These businesses have significant competitive advantages, strong market positions, excellent management and good growth prospects. They are also extremely cheap. Ultimately, we own them despite the fact that they are in Russia, rather than because of it.

After the latest round of US sanctions we have reappraised our Russian positions. These latest sanctions differ from previous rounds in that they target private individuals and businesses, with no direct link to the government. Our working assumption had been that such an escalation was unlikely; clearly a miscalculation on our part. Our reassessment of the risks led us to sell our positions in **Lukoil** and **Yandex**.

Another drag on the Fund's performance was our investment in Danish jeweller, **Pandora**.

In many ways, Pandora is a victim of its own success. It emerged from obscurity to become a global business so quickly that the company's operational structure is constantly playing catch-up. Their metamorphosis, in terms of sheer operational scope, from local brand owner to a global manufacturer, distributor and retailer, has been truly remarkable and proves just how responsive this organisation is to change.

Pandora faces two main problems. Customers are simply getting bored of the product offering which has come to resemble more of the same in recent years. They are also increasingly shopping online and the franchise model that Pandora operates in some large markets is not easily adaptable to this. These challenges have sapped Pandora's sales momentum, causing investors to abandon this former stock market darling.

We have observed the growing operational depth of this organisation with great interest and felt that they are finally in a position to address these shortcomings. A global overhaul of the product offering was kicked off in March 2018 and the early feedback was encouraging. Success in this endeavour will prove critical to reviving sales in their mature markets.

Encouragingly, Pandora has form in resurrecting demand in markets where it had been written off, having successfully done so in the UK, Australia and Germany at various points in its history. But success is by no means guaranteed. Retail is about putting the right product in front of customers. This is hard to do consistently. Retailers that fail to do this, simply fail. Pandora has evolved to be far more flexible in what it can

offer customers and this will improve its chances of success. But good execution and some measure of good luck will still prove essential.

The investment case was greatly sweetened by the fact that the company still had many immature markets that were growing quickly. Foremost amongst these was China. China is still a relatively small market for Pandora, but sales there were growing very quickly and consumer demand appeared insatiable. China has the potential to be Pandora's largest market and many investors were willing to overlook difficulties in other markets in the belief that China would trump everything.

In May 2018 the company reported that sales in China had slowed sharply. The market's reaction was savage with the share price down around 30% since then.

While success in China is not the central thrust of our investment thesis, we expected China would become a large, prosperous market for Pandora. This recent news certainly challenges our case. The company blames the slowdown on difficulties that have been encountered by many other Western brands in China. These can be overcome, albeit not quickly. Our main concern is that the difficulties Pandora is facing in this notoriously tricky market may reflect a broader range of issues than the company realises.

For now we have resolved to hold onto this position. While it is early days, Pandora's efforts to revive sales in their mature markets seem to be having some positive impact. Moreover, while investor attention is captivated by the US and, more recently, China, Europe remains by far the company's largest market and growth there remains robust. Also, the stock price is now significantly lower, making this investment a much less risky proposition. But, needless to say, we will follow developments in China closely.

Elsewhere in the portfolio a number of long-held positions performed well. German online classifieds, **Scout24**, has completed a wholesale restructuring of its sales force and its real estate segment seems set to benefit from buoyant market conditions. Investors are also taking a more favourable view of Norwegian media company, **Schibsted**, which has pared its global ambitions in favour of focusing on generating greater returns from its existing positions. Our best performing position, however, has been Norwegian seismic company, **TGS Nopec**, which appreciated markedly on signs that the hiatus in offshore oil exploration might finally be ending.

Changes to the Portfolio

During the quarter we identified a number of prospective investment opportunities. We deployed additional capital in various energy, healthcare and media companies. These sectors are unloved in the European context. We have also added to our Eastern European banks.

On the other hand we sold our holdings of **Lukoil** and **Yandex**, as discussed above. We also sold out of a number of other positions, including potash-miner, **K+S**, and fashion conglomerate, **Kering**, where we felt the stock price more than adequately reflected fair value.

Outlook

Political instability and rising interest rates do cloud the outlook somewhat and, broadly speaking, valuations tend to be high. Equity markets may struggle to appreciate in this environment. However, economic prospects remain favourable, making it hard to be too bearish. We would remind readers that we invest in individual businesses, not stock markets, and the simple fact is that we continue to uncover what we think are good investment ideas. The quarter that just ended was particularly fruitful in this regard and this gives us cause for optimism.

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. Fund 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 has been 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 FactSet.

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 specified Fund over the specified period relative to the specified 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. Fund 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. Fund returns have been provided by Platinum Investment Management Limited; MSCI index returns have been sourced from FactSet.

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.

3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the Fund's effective exposures to the relevant countries/regions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions (stocks and indices).

4. The table shows the Fund's top 10 long stock positions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.
5. The table shows the Fund's effective net exposure to the relevant sectors as a percentage of the Fund's net asset value, taking into account direct stock holdings and both long and short derivative positions (stocks and indices).
6. The table shows the Fund's effective exposures to the relevant currencies as a percentage of the Fund's net asset value, taking into account stocks holdings, cash and the use of derivatives.

Disclaimers

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum®). Platinum is the responsible entity and issuer of units in the Platinum Trust® Funds (the "Funds"). This publication contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons') investment objectives, financial situation or particular needs, and should not be used as the basis for making investment, financial or other decisions. This publication may contain forward-looking statements regarding our intent, belief or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. Platinum does not undertake any obligation to revise any such forward-looking statements to reflect events and circumstances after the date hereof.

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

You should read the entire Product Disclosure Statement for the Platinum Trust® Funds ("PDS") and consider your particular investment objectives, financial situation and needs prior to making any investment decision to invest (or divest) in a Fund. You should also obtain professional advice prior to making an investment decision. You can obtain a copy of the current PDS from Platinum's website, www.platinum.com.au or by phoning 1300 726 700 (within Australia), 0800 700 726 (within New Zealand) or +61 2 9255 7500, or by emailing to invest@platinum.com.au.

No company or director in the Platinum Group® guarantees the performance of any of the Funds, the repayment of capital, or the payment of income. To the extent permitted by law, no liability is accepted by any company in the Platinum Group or their directors for any loss or damage as a result of any reliance on this information. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum).

© Platinum Investment Management Limited 2018. All Rights Reserved.

MSCI Inc Disclaimer

Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data (contained in this publication) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI Inc, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the Index data is permitted without express written consent of MSCI Inc.