

Platinum European Fund



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Portfolio Manager

Performance

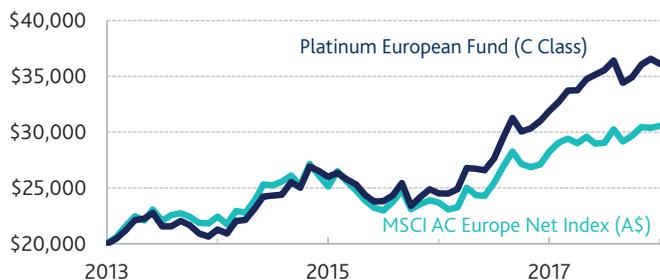
(compound pa, to 30 September 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	3%	13%	12%	13%	12%
MSCI AC Europe Index^	3%	8%	7%	9%	3%

* C Class – standard fee option. Inception date: 30 June 1998.
 After fees and costs, before tax, and assuming reinvestment of distributions.
 ^ Index returns are in AUD and are inclusive of net official dividends in AUD.
 Historical performance is not a reliable indicator of future performance.
 Source: Platinum Investment Management Limited, FactSet.
 Refer to note 1, page 4. Numbers are subject to rounding adjustments.

Value of \$20,000 Invested Over Five Years

30 September 2013 to 30 September 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
 Historical performance is not a reliable indicator of future performance.
 Source: Platinum Investment Management Limited, FactSet.
 Refer to note 2, page 4.

Over the past 12 months, the Fund (C Class) generated a 13.2% return for our investors. While this outcome is pleasing, returns in the latter half of the year were far more modest. This more recent period was characterised by growing investor discomfort with:

- Rising US Dollar indebtedness in emerging markets
- Signs that the Chinese economy is slowing
- Attempts to unwind global economic integration

Holdings exposed to one or more of these themes weighed heavily on our performance over the last six months, particularly those businesses that operate in Eastern Europe and Russia as well as those in the mining and automotive sectors. Examples include **Raiffeisen Bank** (-21%), **Sberbank** (-33%), **Glencore** (-6%) and **Daimler** (-22%).

Given the above concerns, readers may wonder why we own these companies.

For starters, they are very cheap; the four mentioned above have an average price-to-earnings (P/E) ratio of under 7 times. They have strong balance sheets and, in most cases, both margins and earnings are growing.

Daimler is the exception. Its earnings are suppressed by a conscious decision to invest heavily in a new range of electric and hybrid cars. These investments could pay off handsomely if customers can be convinced to buy cars that go faster, handle better and cost less to run, which we think they will.

The salient feature here is that these businesses are not broken, their assets are not impaired, and their competitive position is not eroded. Investors are simply shunning them because owning these businesses today feels uncomfortable. They operate in out of favour regions or industries and their share prices are falling.

Our approach is different. We do not concern ourselves with what share prices may or may not do. We appraise businesses as a private owner would, focusing on their earnings prospects and what we pay for them. If we get this right, we believe the rest will take care of itself. In our assessment, the earnings prospects of the above businesses offer fantastic value at current prices and we are enthusiastic owners.

Our single worst performing stock over the last six months is Danish jeweller, **Pandora** (-38%). Unlike the companies

discussed above, Pandora's performance reflects company-specific problems. We refer readers to our [June 2018 Quarterly Report](#) in which we explained the challenges the company faces and our rationale for wanting to remain invested.

We always try to be up-front with investors and acknowledge our shortcomings. But, lest we leave readers with the wrong impression, we should note that our successes far outnumber these. Indeed, a large majority of the stocks in the portfolio made money, even during the more recent six month period.

Among the better performers over this period are Norwegian media company, **Schibsted** (+40%), where the heavy investment of prior years is finally starting to shine through, and **MTU Aero Engines** (+41%), where teething problems with the geared turbo fan engine program are receding.

Changes to the Portfolio

The portfolio has changed little in recent months. We've added to existing investments exposed to emerging markets, mining and automotive manufacturing, as discussed above. New additions to the portfolio include a number of industrial businesses and a retailer, all of which, we believe, are well-placed to grow earnings, even under more subdued economic conditions.

Disposition of Assets

REGION	30 SEP 2018	30 JUN 2018	30 SEP 2017
Germany	21%	21%	24%
UK	12%	14%	12%
Switzerland	11%	10%	9%
Norway	10%	8%	2%
Austria	8%	7%	10%
Spain	7%	6%	3%
France	3%	2%	5%
Italy	3%	3%	4%
Russia	3%	3%	3%
US*	3%	2%	3%
Denmark	2%	2%	3%
Hungary	2%	2%	2%
Romania	2%	2%	0%
Ireland	2%	2%	0%
Netherlands	0%	0%	2%
Cash	13%	16%	18%
Shorts	-1%	-1%	-6%

* Stocks that are listed on US exchanges, but whose businesses are predominantly conducted in Europe.

See note 3, page 4. Numbers are subject to rounding adjustments. Source: Platinum Investment Management Limited.

We continue to trim holdings where the investment case is more than adequately reflected in current valuations. These are often some of our best performing investments and include companies such as **Sartorius**, **Hypoport** and **TGS-NOPEC**.

We also sold our entire holding of **Vodafone**, a rare loss-making investment for the Fund. The extent to which the competitive environment in Spain deteriorated, and the company's response, took us by surprise. Lower prospective earnings in Spain will offset the improvements we correctly envisaged in Germany. While the stock is now very cheap, we can buy similarly priced businesses with superior earnings prospects and we've done just that.

Outlook

Political developments continue to trouble the market. Brewing trade tensions are now translating into actual tariffs. Italy's populist governing coalition looks set to butt heads with the European Union. Turkey is undergoing a slow-motion current account crisis. Britain is no closer to winning special treatment when it leaves the European Union and time is running short. Meanwhile, populists continue to gain support across Europe at the expense of moderate mainstream parties.

Net Sector Exposures

SECTOR	30 SEP 2018	30 JUN 2018	30 SEP 2017
Industrials	22%	20%	11%
Financials	20%	20%	25%
Consumer Discretionary	13%	11%	12%
Health Care	10%	10%	10%
Energy	8%	8%	4%
Materials	7%	6%	4%
Information Technology	7%	7%	8%
Telecom Services	0%	2%	2%
Consumer Staples	-1%	-1%	<1%
TOTAL NET EXPOSURE	86%	83%	76%

See note 4, page 4. Numbers are subject to rounding adjustments.

Source: Platinum Investment Management Limited.

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>.

In recent months there has been rising concern that the Euro Area's economic recovery cannot be sustained. This anxiety stems from the fact that economic growth has slowed from the pace set in 2017 and both leading indicators and sentiment surveys have retraced somewhat.

Upon closer inspection, however, the economy appears to be in great shape. European consumers are highly confident. Over 2 million jobs were added over the last year, unemployment has fallen from 9.1% to 8.2% and real wages are rising. European business confidence is near 30 year highs, balance sheets have been de-gearred and capacity utilisation sits at near-record levels. European governments are approaching fiscal balance, leaving plenty of ammunition for fiscal stimulus. Meanwhile, European workers and businesses are highly competitive in global markets with the Euro Area's current account surplus now amounting to 3.5% of GDP. Simply put, the economic outlook appears quite favourable.

Most importantly, we continue to find plenty of good investment ideas. European equity markets remain near their highs, but certain pockets of the market are very much out of favour and cheap. These include emerging markets, mining and the automotive sector, as discussed at the outset of this report, but the list also spans offshore oil services, energy infrastructure, semiconductor manufacturing, agriculture and building materials. So while stocks in general may be expensive and political developments may be troubling, we are very pleased with the businesses we own. Our near-term performance may suffer if these segments remain out of favour, but in our assessment, our investments in these areas have all the right ingredients to generate very satisfactory returns in coming years.

Net Currency Exposures

CURRENCY	30 SEP 2018	30 JUN 2018	30 SEP 2017
Euro (EUR)	37%	34%	34%
Norwegian krone (NOK)	14%	13%	8%
British pound (GBP)	13%	14%	11%
Czech koruna (CZK)	11%	11%	13%
Swiss franc (CHF)	11%	6%	5%
US dollar (USD)	7%	6%	14%
Danish krone (DKK)	2%	2%	3%
Romanian leu (RON)	2%	7%	5%
Hungarian forint (HUF)	2%	3%	4%
Australian dollar (AUD)	<1%	2%	3%

See note 5, page 4. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
TechnipFMC	UK	Energy	4.3%
Raiffeisen Bank	Austria	Financials	4.1%
Schibsted ASA	Norway	Consumer Discretionary	4.1%
Siemens AG	Germany	Industrials	3.5%
Roche Holding AG	Switzerland	Health Care	3.3%
Glencore PLC	Switzerland	Materials	2.9%
Saras SpA	Italy	Energy	2.9%
Applus Services	Spain	Industrials	2.9%
RELX PLC	UK	Industrials	2.8%
Golden Ocean Group	Norway	Industrials	2.6%

As at 30 September 2018. See note 6, page 4.

Source: Platinum Investment Management Limited.

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.

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3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the Fund's effective long 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 effective net exposures 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).
5. The table shows the Fund's effective net exposures to the relevant currencies as a percentage of the Fund's net asset value, taking into account stock holdings, cash and the use of derivatives.
6. 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.

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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.

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