Platinum European Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	MAR 2010	DEC 2009
Belgium	3%	3%
Finland	3%	2%
France	27%	26%
Germany	37%	38%
Italy	3%	2%
Netherlands	2%	3%
Norway	2%	2%
Sweden	2%	3%
Switzerland	3%	3%
UK	7%	7%
US	1%	0%
Cash	10%	11%
Shorts	5%	4%

Source: Platinum

Performance

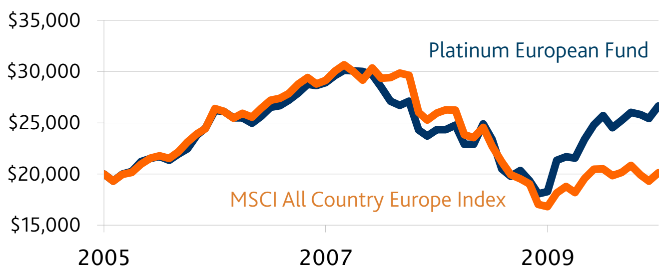
European markets were down 3.4% in AUD terms over the quarter, with the major European indices down 10% at one point as the worries around Greece peaked in February. In comparison the Platinum European Fund returned 2.3% over the same period. Over the last 12 months the Fund has returned 46% compared to 20% for the MSCI Europe Index.

Discernable trends were not obvious among the top performers over the quarter, but in general the cyclicals did well. Strong areas were advertising (JCDecaux +21%, WPP +12%); oil services (CGG Veritas +40%, Technip +22%) and tech (ARM holdings +35%, Infineon +32%). The clear areas of weakness were the Mediterranean EU members, with the Greek, Spanish and Portuguese markets down -10%, -7% and -5% respectively.

The Fund's return was helped by good performance by a number of its mid-cap holdings, most notably French aerospace engineer Safran and pulp producer Mercer. The Australian dollar has continued its year long bull run against all major European currencies, appreciating 9.5% versus the Euro and 7% versus the pound. The major currency positions of the Fund are 56% Euro, 20% AUD and 8% in both the Norwegian kroner and the Pound.

Value of $20,000 Invested Over Five Years

31 March 2005 to 31 March 2010



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

Commentary

Greece dominates headlines

The markets' continued optimism in the recovery was given a jolt in January as worries around debt again entered investors' minds. This time the specific focus was sovereign debt levels. Over the past two years, in the face of economic collapse most Western governments have chosen to prop-up their economies by turning on the fiscal spending taps whilst tax receipts plummet, resulting in massive increases in public debt. The normal (or hoped for) progression of events would be that debt markets tolerate the increased debt load as the nation works through the recession, with the government deleveraging once economic growth returns. Whilst Greece is in many ways a unique situation, what is happening there is still very much a warning shot as investors worry about our ability to spend our way out of trouble.

Greece is suffering a liquidity issue as it struggles to roll its maturing debt via the bond market even at unsustainably high interest rates (6%). From the perspective of a lender, the Greek government has a debt load of over 100% of GDP (€250 billion) and is also annually spending €30 billion more than it takes in as revenue. Greece's history shows little appetite for spending cut-backs and there are questions about the reliability of its national accounting. From the government's perspective, as a member of the fixed euro currency exchange, it can't devalue its way out of trouble and it is required to take the politically unpopular step of cutting spending when the economy needs it most. There is no "easy fix" for Greece.

During the whole affair there has been an almost complete market consensus that Germany et al will eventually step in with a rescue package, the rationale being that the possible fall-out from a Greek default would be too great (ie. firstly losses on Greek debt held by French and German banks but more importantly, a blow-out in lending costs for the likes of Portugal and Spain, as the market speculates they will be the next domino to fall). However, voters are rarely keen to see their tax dollars used to bailout foreign nations and unsurprisingly there has been much resistance to a bail-out package from EU members, with Chancellor Merkel of Germany in particular pushing for tough conditions on aid, if any were to be given at all. The European Commission in conjunction with the IMF, last week announced the details of an aid package for Greece should they need it. The next test is whether the existence of a firm plan (we are not there yet, the interest cost of the aid loans is still being contested by Germany) will calm markets to the extent that Greece won't have to call on it.

Whilst Greece dominates the headlines today, it is the broader implications for a united Europe that will absorb interest in the months ahead. We have written in the past that in a monetary union without a political union, it is inevitable that monetary policy will eventually become highly inappropriate for some part(s) of the union. Today the differences in economic situations between members could not be starker, the two most obvious contrasts being Spain and Germany. Spain having had a decade of high wage inflation together with a credit/housing boom and bust, faces an uncomfortable adjustment period as wages deflate to restore labour competitiveness and the government is forced to reign in its fiscal spending. Germany on the other hand has just come from a decade of almost zero real wage growth leading to a huge increase in labour productivity, having no credit or housing boom to speak of and with an export sector that will start benefiting from the weaker Euro.

Whilst Germany has long been against the prospect of inflation, as the excesses of the past decade unwind and the deflationary pressures build in the Mediterranean countries, the likely compromise is that the European Central Bank will maintain easy monetary policy to accommodate. In the short run German consumption will be subdued by higher unemployment, but given its sound foundations, a period of low rates could be the spark for some stronger than expected growth in Germany, finally providing some tailwind to the long struggling German retail and property sectors.

Changes to the Portfolio

Two notable additions to the Fund during the quarter were French retailing giant Carrefour and Finnish paper producer UPM-Kymmene.

The story at Carrefour is a good reminder of the difficulties of both corporate mergers and trying to enact change in the processes and culture of an organisation. Carrefour has its heritage as a pioneer of the hypermarket format, dominating its home market in France and then successfully expanding abroad into Spain, Brazil and China from the 1970s onward.

The difficulties within the company began following its merger with French rival Promodes in 1999, and the company has seen little profit growth over the last decade.

The company is now onto its third CEO this decade and the appraisal by the new CEO, Lars Olofssen (former head of Nestle Europe) has revealed problems stemming from multiple purchasing and stock-keeping IT systems, vast duplication within the warehousing and supply-chain and a surprising lack of progress in combining the original Carrefour and Promodes operations. Many of these issues were being worked on by previous CEO Jose Luis Duran; however, as always, the key problem is getting the co-operation of middle management to drive through the changes at the shop floor. It is of interest to us that in contrast to Duran, Olofssen has brought in a number of new management heads from the likes of Tesco and Wal-mart and we are starting to see gradual evidence of the changes coming through.

As with most 'turnarounds' it is more important to look down rather than up and given that Carrefour benefits from regular footfall, owns 70% of its store real-estate and has rarely traded cheaper in the last 12 years, the downside looks to be limited. Today most listed European food retailers make operating profits of between 4.5-6% of sales, in contrast to Carrefour who last year made 3%. Even a modest improvement of profitability towards the levels of its peers should see Carrefour do well for the Fund.

Our position in UPM saw us again return to the paper theme. The European paper industry has just lived through some of its darkest days, already suffering from overcapacity and an inability (even whilst the economy was booming) to push through input cost inflation. The subsequent collapse in demand and price of fine paper grades (ie. magazine & printing papers) during the global financial crisis pushed many producers into heavy losses. Adding to their woes, whilst domestic paper demand remains weak, soaring paper consumption in China is pushing up feedstock prices, with recycled paper and pulp prices now close to all time highs. This has led to the unprecedented situation in Europe of pulp prices now exceeding the cost of fine paper.

Unintegrated producers (ie. those that don't produce their own pulp) account for 35% of European paper supply and with these players making cash losses, fine paper prices must rise or we will see further capacity closures. The European paper industry is far more fragmented than its North American counterparts and given the realities of structural decline in demand for writing grades we hope this near death experience speeds up the move to consolidate. UPM as a fully integrated producer with a relatively sound balance sheet and an interesting portfolio of hydro and nuclear energy assets is set to benefit in most scenarios. With a share price roughly 30% below even our most conservative estimates of its asset value, UPM looks a good prospect.

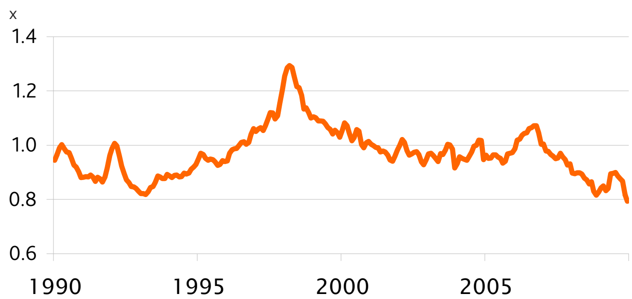
These additions were funded by the full exit of our holdings in French telecom and construction conglomerate Bouygues, Swedish paper manufacturer SCA (the stock has done well and we felt UPM the more interesting play) and German medical and safety equipment manufacturer Draegerwerk.

Outlook

Our central 'macro' thesis throughout the cycle has been that high debt levels and the need for subsequent deleveraging in the western economies will result in a prolonged period of weak and unpredictable domestic growth. As discussed we are now seeing this debt dynamic being played out in its different forms (ie. whether it be consumer, corporate or sovereign deleveraging), and remain mindful that these issues, far from being solved will weigh on markets.

We would encourage investors to remember that we are investing in specific companies rather than markets or domestic economies, and valuation matters. Accompanying the gloomy headlines in Europe are modest valuations, with European markets now at 20 year low price to book valuations relative to the world index.

Western Europe Price to Book Relative to World



Source: Factset

Notes

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 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: 1 May 1995
   Platinum Unhedged Fund: 31 January 2005
   Platinum Asia Fund: 3 March 2003
   Platinum European Fund: 1 July 1998
   Platinum Japan Fund: 1 July 1998
   Platinum International Brands Fund: 18 May 2000
   Platinum International Health Care Fund: 10 November 2003
   Platinum International Technology Fund: 18 May 2000

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 31 March 2005 to 31 March 2010 relative to their Index (in A$) 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
   (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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