Platinum European Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	MAR 2012	DEC 2011
Germany	43%	48%
France	16%	16%
UK	16%	12%
Netherlands	4%	5%
Italy	4%	4%
Spain	2%	2%
US*	2%	2%
Sweden	2%	1%
Finland	1%	1%
Belgium	1%	1%
Switzerland	1%	1%
Cash	8%	7%
Shorts	6%	9%

* Pulp stock listed in the US but predominant business is conducted in Europe

Source: Platinum

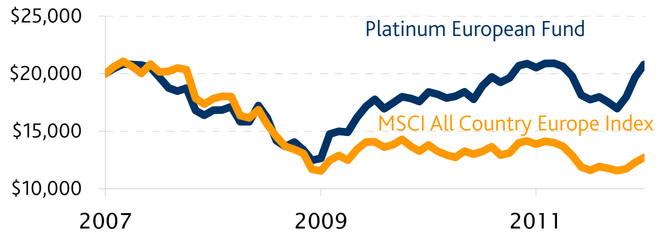
Performance

European markets continued their recovery over the quarter; the standout performer being the German market with the DAX up +18%, while the French CAC , Italian MIB and UK FTSE Indices were up +10%, +9% and +5% respectively.

There were a couple of catalysts for the market strength. The first was ongoing evidence that the US economy is recovering, with the housing market showing signs of life and the job market continuing to expand. The second was the implementation of the 'Long Term Refinancing Operation' (LTRO) by the European Central Bank (ECB). The LTRO enables European banks to borrow funds from the ECB for a three year period at a cost of 1%. Undoubtedly much of this money is being used by the banks to buy shorter dated government debt – evidenced by the fact that prior to implementation the interest rate on Italian one year debt was 6% in November versus 1.4% today! While one could go into great detail around the mechanics of the LTRO, it is essentially another tool for the ECB to increase the supply of money to ensure those who badly need it (Italian/Spanish governments) can get it cheaply.

Value of $20,000 Invested Over Five Years

31 March 2007 to 31 March 2012



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

Returning to stocks and industries, unsurprisingly given the aforementioned relief provided by the LTRO, the banks did well with the Germans (Commerzbank +44%, Deutsche Bank +30%), British (RBS +38%, Barclay's +36%) and French (Soc Gen +36%) leading the gains. Elsewhere strength was seen broadly across the cyclicals, especially in Autos (Renault +46%, Continental +45%), Chemicals (Lanxess +52%, Solvay +33%) and Construction Materials (Heidelberg Cement +35%, Lafarge +27%).

In respect to the holdings of the Fund, the largest contributor to performance was TNT Express NV. Part of our investment case for TNT (detailed in our December 2011 quarterly report) was given the immense difficulty of building an express parcel network from scratch; the value of TNT's European network would be far greater when viewed from the perspective of an industry buyer. Over the quarter, US parcel logistics giant UPS emerged as such a buyer, making an €9.5 per share offer for TNT, roughly 80% above our average acquisition price. Elsewhere notable gains came from a number of our large German and UK stocks (BMW, Infineon, Daimler and Lloyds Bank all appreciating between 25-35%).

In Australian dollar terms, the Fund returned 22.6% for the quarter compared to 9.9% for the MSCI Europe Index. The returns of the Fund for the six and 12 month periods were 17.2% and 1.4% respectively, outperforming the Index which returned 9.6% and -8.3% over the same period.

Changes to the Portfolio and Commentary

Given the sharp rally over the past five months, the recent changes in the portfolio have largely been about trimming holdings where price increases had made the position sizes larger than desired. On this basis we reduced our holdings in **Allianz, BMW, Infineon, Henkel and Adidas**.

One new investment established over the quarter is our holding in the UK listing of **Carnival Cruise Lines**. Carnival was founded and is still operated today by the Arison family, who starting with one ship in 1972, built Carnival into the world's largest cruise line, today carrying 9.5 million passengers per year across a fleet of 100 ships. Carnival is interesting in the sense that it is the only cruise operator that has true brand and product segmentation, controlling nine brands that differentiate themselves not only based on aspects such as product luxury and age groups, but also through being tailored to cultural and regional tastes. For example, on Carnival's German brand AIDA, the language, food, entertainment and custom (no tipping) are all German. This has given Carnival the advantage in pioneering new markets and has allowed them to expand outside of the US to the extent that 50% of profits now come from Europe, Latin America and Australia.

From a broad industry perspective, the cruise lines hold a number of unique advantages when compared to other leisure/transport alternatives, namely:

- Due to registering their vessels in tax free locales (the so-called 'flag of convenience' states such as Panama or Liberia) or under 'tonnage tax'[1] agreements, cruise lines pay almost no tax.
- Their mobility and operation in international waters allow them to source a great deal of their staff from low labor cost countries (i.e. serving Western customers with emerging world costs).
- The cruise industry is unusually concentrated. 75% of capacity is controlled by two firms, Carnival and Royal Caribbean who control 50% and 25% respectively.

These cost advantages aided by technological advances in ship building (vastly increasing the scale and range of activities that can be offered on the ships) have allowed the cruise lines to offer very attractively priced holidays. For instance, for $150 per person/per day, over a seven day cruise you will get transported to four different ports, with accommodation, all meals and entertainment included. In regions with a wealth of interesting coastal destinations (i.e. the Mediterranean) that is a fairly compelling offer.

The desire to exploit this privileged position has seen both Carnival and Royal Caribbean go through a massive expansion in capacity over the last decade. The two combined on average brought 7 to 8 new ships (equivalent to >23,000

[1] A system where a ship owner pays tax based on the size of the vessel (gross tonnage) rather than the actual profit made by the vessel, with the end result usually being an extremely low level of tax is paid. Tonnage tax regimes are common in developed markets like the UK and Italy.

passenger capacity) into service each year, which based on an average seven day cruise length meant in order to have these ships sail full all year round[2], they needed to find between 800k–1 million new cruisers per annum. While this strategy has been great for revenue growth and broadening the profile of cruising worldwide, it has come at the cost of profitability - Carnival's revenue and passengers carried are up fourfold since 2000, while Earnings Before Interest and Tax (EBIT) has only doubled. Simply, the need to attract passengers to fill so many new ships hampered Carnival's ability to raise ticket prices, while the cost of oil has quadrupled since 2002 – the end result being that Carnival's profit per passenger/per day has fallen from $54 in 2005 to an all time low of $32 today.

So why are we interested in Carnival now? The key is that both Carnival and Royal Caribbean have stepped back from their growth-at-all-costs strategy, and are now concentrating on recapturing the profitability that was lost during the building boom. From 2013 onward, capacity growth for the global cruise industry will be 2-3% versus the 10% seen over the last decade and the number of new passengers that need to be sourced globally will be closer to 350,000 rather than the 800k-1 million previously. Given the pricing convention of the industry (i.e. you discount to ensure every ship sails full), and the fact that those new to cruising are naturally the most price sensitive given their unfamiliarity with the product, this change in the supply dynamic should have a significant effect on the ability to raise prices.

In 2011, Carnival earned revenue of $179 (made up of a $139 ticket price and $40 of onboard spending) per passenger/per day, still well below the $195 made in 2008 prior to the price cuts during the GFC. If Carnival can return prices close to the $195 level, they should be on track to make upwards of $3 billion of net profit, putting the company on an eight times earnings multiple. The added benefit is that with the far lower rate of ship building, in this scenario almost all of that $3 billion can be returned to shareholders in the form of higher dividends, share buybacks or debt reduction. Predicting the exact timing of how long it will take management to reposition for higher pricing is difficult. However, with Carnival's valuation sitting at historic lows post the Concordia tragedy and the recent oil price spike, we feel it is an investment that has minimal downside should the pricing story not play-out as hoped, but considerable upside if it does.

Outlook

Our mid-term view on how the broad European economy will progress remains largely as we wrote in September 2011, namely:

1. The restoration of confidence in the creditworthiness of Spain and Italy can only be done through implementation of measures that will take many years.
2. At least in the mid-term, the ECB will keep funding the troubled governments and will ensure the functioning of the banking system.
3. In exchange for this support, the affected governments will make a serious effort to cut spending, increase taxation and implement economic reform – which will hamper economic growth as they are implemented.

Can one make money with such a backdrop?

We are in the affirmative and would firstly point to the rapid recovery in European markets over the last six months as a clear example of the importance of focusing on valuation, not macro predictions, when projecting future investment returns. It is also important to remember that we invest in companies, not countries or broad markets. There are a number of our holdings (BMW, MTU Aero engines, Johnson Matthey and PPR to name a few) that whether it be via expansion into offshore markets, success in product design, and research and development, or the power of their brands, continue to have **sales, profits and share prices well in excess of the last market peak in 2008**. The simple fact is the majority of our holdings are truly global businesses that have a number of important drivers outside of their domestic economies.

Overall valuations and market expectations of many stocks in the portfolio remain modest, and we are encouraged by the fact we are still finding companies not priced for their full potential. The current position of the European Fund is 92% long, 8% cash and 6% short, for a net 86% invested position.

[2] The cruise industry tends to book to 100% occupancy, the example being that it is better to aggressively discount any unsold tickets close to sail date as you will still capture the customers lucrative onboard spending.

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: 30 April 1995
   Platinum Unhedged Fund: 31 January 2005
   Platinum Asia Fund: 4 March 2003
   Platinum European Fund: 30 June 1998
   Platinum Japan Fund: 30 June 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$20,000 invested in the relevant Fund over five years from 31 March 2007 to 31 March 2012 relative to their Index (in A$) 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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