Platinum European Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	MAR 2013	DEC 2012
Germany	39%	40%
UK	19%	18%
France	13%	13%
Netherlands	4%	1%
Italy	3%	3%
Spain	3%	3%
US *	2%	2%
Sweden	1%	1%
Belgium	1%	1%
Russia	1%	1%
Cash	14%	17%
Shorts	9%	9%

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

Source: Platinum

Performance

(compound pa, to 31 March 2013)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum European Fund	3%	12%	8%	7%	11%
MSCI AC Europe Index	2%	9%	0%	-5%	-1%

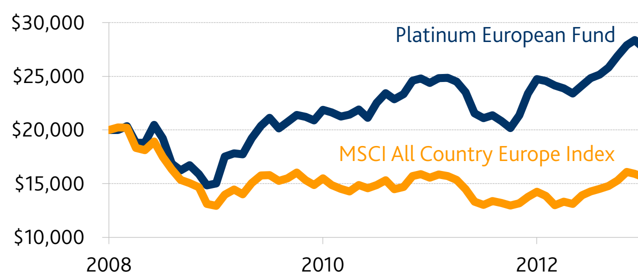
Source: Platinum and MSCI. Refer to Note 1, page 5.

After steady gains over the last six months, the performance of the European markets over the last quarter were mixed, with the UK FTSE Index +8%, the French CAC and German DAX Indices +2%, whilst the Spanish IBEX Index and Italian MIB Index fell -3% and -5% respectively. The Australian dollar performance of the Fund was 2.7% for the quarter, slightly outpacing the MSCI Europe Index which returned 2%.

In terms of specific performance, a number of the Fund's French holdings continued to make considerable gains over the quarter. **Eurofins** which is Europe's largest provider of laboratory food testing services rose 34%, buoyed by the recent horsemeat scandal where a number of supermarket 'beef burgers' were found to contain high levels of both horse and pig DNA. The implication is that regulatory requirements around food testing will be increased, creating a windfall of

Value of $20,000 Invested Over Five Years

31 March 2008 to 31 March 2013



Source: Platinum and MSCI. Refer to Note 2, page 5.

new business for Eurofins. Our holding in luxury goods player **Kering** (formally known as **PPR**) rose 22%, both on continued strength of luxury brands Gucci and Bottega Veneta and further progress by the company to sell-off the remainder of their non-luxury retail businesses.

Other stocks of note were **Adidas** and UK professional information provider **Reed Elsevier**, with both stocks up 21% for the quarter and up 38% over the last 12 months. Adidas are doing particularly well in China and Russia, having released an interesting example of innovation in their new 'boost' running sole and investors are starting to give management more credit around hitting their 2015 profit goals. In regard to Reed, the business has now returned to growth and the market is taking a favourable view on CEO Erik Engstrom's plan to focus the business solely on business information content (Scientific journal, Lexis Nexis legal content) and face-to-face marketing (branded trade exhibitions).

Changes to the Portfolio

The last three months have been productive in terms of finding opportunities to add to our current holdings or establish new holdings for the Fund. A number of these opportunities were created by 'one-off' events that caused an immediate big fall in the share price but where we think the ultimate negative effects to the company will fade in time.

Our new position in Italian oil services engineer **Saipem** fell into this category. The attraction of Saipem is its expertise in deep water offshore engineering and construction services, with the company having laid marquee projects like the Blue Stream and Nord Stream pipelines which are respectively some of the deepest (2.2 km) and longest (1,200 km) offshore pipelines in the world.

The stock price of Saipem dropped 47% (from a high of €38 to our entry price of €19.60) on the announcement that the company expected profits this year to be 50% below what they made in 2012. The cause is low profit contracts that are under construction now but which were signed during the crisis in 2009-2010, when many of the oil majors were deferring their projects and competition for available work was intense. Saipem, with a large construction workforce and billions of dollars worth of drill rigs, pipe-laying ships and construction yards, succumbed to the need to keep its assets utilised, at the expense of price and profit.

While the current book of projects creates a near term headwind, the future demand for offshore oil projects and Saipem looks bright. The search for new oil discoveries are increasingly pushing operators into ultra-deep water projects (West and East Africa, and Brazil), and this is creating a huge backlog of projects, which given their highly technical nature should limit competition and ensure handsome profit margins for experienced operators like Saipem.

Another technical event allowed us to re-establish a position in **TNT Express**. Avid readers will recall our investment case on TNT (detailed in the European Fund December 2011 quarterly report), with the company eventually being the subject of €9.50 per share takeout offer from US parcel giant UPS. After the offer was made we chose not to wait for the final approval of the merger and sold our entire holding for around €9 per share.

In January, the European Union (EU) competition commission officially blocked the merger on the grounds that a TNT/UPS combination would leave DHL and UPS as the only two providers of intra-European (i.e. UK to Germany) overnight express parcel services in a number of markets. In the wake of the deal falling through, the share price of TNT fell back to below €5, which was the original level we started acquiring the company during the heart of the Euro crisis sell-off and we decided to buy again.

TNT's current profits are suppressed by aggressive price competition in Europe and the under-utilisation of its air-fleet as customers trade down from using the overnight next day air service to the slower and cheaper 2-3 day delivery service via truck. However, longer term, given that TNT is essentially a road based express player, its strategic position is sound and there is considerable scope for profits to improve.

Finally, we added to our holding in **Carnival Cruise Lines** after the media fallout (and share price fall) surrounding the Carnival Triumph, which was left without power in the Mexican sea. At this stage we are willing to put the incident down to a string of bad luck (the coast guard investigation points to the fire taking place in the fuel line which meant the back-up engine could not be used) and the company is responding by upgrading the size of the back-up generators across the fleet to ensure no repeat of this incident in the future.

The thesis around Carnival is that they will be able to raise ticket prices back to levels last seen in 2008. In the short-term any price recovery will again be pushed out as the incident occurred during the peak season for cruise bookings and the company will need to discount to make up for the negative press. Given that prior to the Triumph incident the industry was seeing 5% price increases in the US and prices of leisure alternatives continue to move higher (prices of resort hotels etc), we still think Carnival can get back to those 2008 price levels going forward.

Commentary

After a period of relative calm, drama has returned to Europe, first in the inconclusive Italian elections where Beppe Grillo's anti-corruption Five Star Movement party went from nowhere to take 25% of the vote and secondly, around the conditions of the proposed bailout for Cyprus.

While Cyprus is a tiny country in the scheme of Europe, the precedent it has set with the restructuring of its banking system will have much wider ramifications. No further tax payer money will be used to recapitalise Cyprus's two largest banks and instead shareholders, large depositors and senior bondholders will take the loss. In the case of Cyprus's second largest bank Laiki, it is reported that losses for senior bondholders and large depositors with balances over €100,000 will likely be well-over 60% of their money. Only small depositors, with amounts below €100,000 will be protected.

The mathematics of why this has occurred is not complex. With a population of 1.1 million, the size of the Cypriot economy is a mere €18 billion. The government takes in €7.5 billion in tax revenue annually, but is currently spending roughly €8.7 billion pa, giving them a budget deficit of €1.2 billion. The government already has a high debt load of €15 billion or 83% of GDP, international bond investors will no longer lend the government money and it is relying on the European Central Bank (ECB) and EU as a lender of last resort.

The finances of the Cypriot government are clearly shaky and they are in no shape to provide further assistance to the banks. This is more obvious when you consider the size of the Cypriot banking system, which at €150 billion is a full eight times larger than the economy (if we only look at loans outstanding, the size of the banking system is still €92 billion, five times larger). The size of the banking system is heavily influenced by foreign capital (there are €34 billion of foreign deposits in Cyprus), in particular money belonging to Russian individuals and corporates taking advantage of tax loopholes generated by Cyprus's double tax treaty with Russia.

In essence, a large swathe of the €92 billion in loans (which included large exposures to Greek borrowers and Greek government debt) has gone into default with limited chance of recovery. An injection of at least €6 billion was required to stabilise the banking system. The government doesn't have the money and the EU, already providing €10 billion in aid to the government, was reluctant to be seen giving further taxpayer money to bailout Russian depositors. In the end the only choice was to hit large depositors and bondholders.

Unfortunately, the final decision of who should take the losses in the banking system was clumsily handled. The Cypriot governments first announced plan around the bank restructuring was to tax *all depositors (including small deposits below €100,000)* a minimum of 6.5% of their balance. While this was later revoked in favour of taxing large depositors, you can imagine that for most Cypriots having the government nearly confiscate 6.5% of your deposits is enough to lose confidence in the banking system and many are very keen to get their money out of the country.

The wider implications of this move is the effect it will have on confidence in lending to the banks of the other weaker peripheral nations. Depositors and lenders to banks in Portugal, Spain, Italy and Ireland seeing the losses and subsequent capital controls in Cyprus will surely ask themselves whether its 'worth the risk' to keep their funds there. At the least, in the short-term, these banks will need to pay up with higher rates to convince people to stay (with funding rates in the likes of Italy and Ireland spiking over the last week). The other knock-on effect is if people are trying to stash their money into 'safe havens' (offshore bank accounts etc), by definition this is money they are not spending which throws a wet blanket on any economic recovery as savings rates increase.

Outlook

There has been a growing sense of relaxation among investors that the worst of the sovereign crisis is now behind us and the European economy will begin to pull itself out of recession. The ECB has played its hand in offering unlimited support to the governments and the politicians are on-board to reduce their spending. In addition to the return in confidence, equity markets are now starting to get support from the record low interest rates. Investors faced with an opportunity-set of earning 2-3% on fixed income or owning a quality large capitalisation company which is paying a 5% dividend and offering some prospect of capital growth are, on the margin, shifting money into buying stocks.

Whilst we agree with the ‘Europe healing’ scenario, the wildcard remains the political will of the nations required to cut their spending. Given the strong run-up in European markets, the size of the budget adjustments in countries like Spain and the fickle nature of public opinion, we think it is highly unlikely it will be all smooth sailing from here and just like we have seen in Cyprus, there will be more events to test the nerve of markets. Based on this, since December we have kept the Fund roughly 77% net invested giving us the firepower to take advantage of lower prices should we see them.

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$20,000 invested in the relevant Fund over five years from 31 March 2008 to 31 March 2013 relative to their Index (in A$) 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.

3. Long invested position represents the exposure of physical holdings and long stock derivatives. The net invested position represents the exposure of physical holdings and both long and short derivatives.

Disclaimer

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum®). It contains general information only and is not intended to provide any person with financial advice or take into account any person's (or class of persons') investment objectives, financial situation or needs. Before making any investment decision you need to consider (with your financial adviser) whether the information is suitable in the circumstances.

Platinum is the responsible entity and issuer of units in the Platinum Trust Funds® (the Funds). You should consider the PDS and Supplementary PDS in deciding whether to acquire, or continue to hold, units in the Funds. You can obtain a copy from Platinum's website, www.platinum.com.au, or by phoning 1300 726 700 (within Australia), 02 9255 7500, or 0800 700 726 (within New Zealand), or by emailing to invest@platinum.com.au.

No company in the Platinum Group® guarantees the performance of any of the Funds, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum).

© Platinum Asset Management 2013. 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 Quarterly Report) 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.