Platinum European Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	MAR 2014	DEC 2013
Germany	24%	26%
UK	23%	25%
France	8%	9%
Italy	7%	8%
Russia	4%	2%
Spain	3%	3%
Austria	3%	0%
Switzerland	2%	2%
Sweden	1%	1%
US *	1%	2%
Netherlands	1%	1%
Turkey	1%	1%
Belgium	1%	1%
Cash	21%	19%
Shorts	2%	3%

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

Source: Platinum

Performance and Changes to the Portfolio

(compound pa, to 31 March 2014)

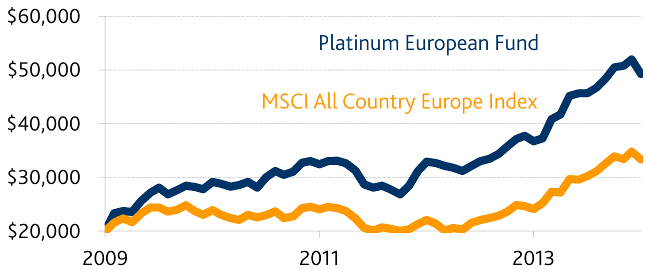
	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum European Fund	-3%	34%	15%	20%	12%
MSCI AC Europe Index	-2%	38%	11%	11%	2%

Source: Platinum and MSCI. Refer to Note 1, page 4.

Macro trends over the quarter were supportive to Europe's peripheral nations. The economic data continues to indicate a gradual recovery is underway and the borrowing cost of the respective governments continues to tumble – the yield on Italian 10 year debt was 4.2% at the end of December versus 3.3% at quarter end. In response, investors pushed the peripheral markets higher, with Italy +13%, Portugal +15% and Greece +14% the standout performers, with the core markets fairly weak in comparison (France +3%, Germany flat, UK -1%).

Value of $20,000 Invested Over Five Years

31 March 2009 to 31 March 2014



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

The standout performers for the Fund were our Italian holdings, in particular our Italian banks with Intesa Sanpaolo SpA and Mediobanca up 34% and 25% respectively. The major detractors for the quarter had the common theme of emerging market exposure, with consumer stocks Adidas (-15%) and Henkel (-7%) falling back from recent highs and Sberbank of Russia down -26% as investors fled the region.

Overall the performance of the Fund measured in Australian dollars was -2.5% versus -1.8% for the MSCI Europe Index.

Commentary

In the September 2013 quarterly we wrote that despite having a number of worthy ideas to pursue post our trip to Russia "*the pace of which these ideas will translate into new holdings for the Fund will be tempered by the need for us to continue to build our knowledge base around the Russian market and of course, the individual valuations of the stocks on offer*". Post the overthrow of the Ukrainian government and the annexation of Crimea by Russia, the go-slow approach has proved prudent, with the Russian stock market having fallen 20% since October.

The Fund currently has 3.8% invested in Russian companies. Russia's action in the Crimea creates a lot of uncertainty and investors may question whether it is worth having *any* investments in Russia at a time like this. In this case we need to separate the political uncertainty which is unknowable (i.e. whether Russia escalates further by attempting to control territory in Eastern Ukraine) from the business uncertainty - namely how these events will likely affect the day-to-day operations of our companies in Russia.

In assessing business uncertainty, if we have a company that:

- serves a need that is important to the day-to-day life of Russians;
- 95% of the business is serving the domestic Russian market;
- has no debt, is growing fast and does not directly rely on imports and exports in-and-out of Russia; and
- has been founded by independent entrepreneurs without deep ties to the government;

we can make a reasonable prediction that this business is going to continue to operate and do quite well in spite of what happens with western sanctions and Russia's movements in Ukraine. **Qiwi** is a Russian stock that meets the above criteria and given the share price has fallen 50% over the past three months, we feel it is a company that is worth owning today.

What is Qiwi? Qiwi is a payments network that combines an on-line 'virtual wallet' that a customer loads money into to make on-line purchases, along with a physical network of 170,000 cash accepting terminals, where users can top-up their on-line wallet with cash, pay bills and buy credit for their mobile phone. Today, 65 million Russians use the terminals at least once a month, with a further 15 million using the on-line Visa-Qiwi[1] virtual wallet. The most comparable business in the West is **PayPal**, with the key difference being PayPal can only be funded electronically, lacking the presence of the physical terminals.

The evolution of Qiwi as a popular method of payment must be seen within the quirks of the Russian system. Firstly, there is still a lingering distrust in banks, a product of the 1998 banking crisis, which results in people holding a large percentage of their savings in cash. This has led to Russia remaining a cash-based economy, with greater than 80% of retail payments made in cash. Secondly, Russia lacks a direct debit system to conveniently pay recurring bills. The combination of these factors meant that paying your electricity bill in cash involved travelling to a branch, carefully filling out a paper-based form and lots of queuing up.

The Qiwi terminal, linked into the payment systems of the utilities, government and telcos offered a more convenient option – you could now just go to a convenience store, punch your bill number into the terminal, feed in your cash and get instant confirmation your bill was paid. Usage took off and more merchants wanted to be able to accept payments via Qiwi.

[1] Product of a co-operation agreement between Visa and Qiwi, in late 2012 the Qiwi on-line wallet was rebranded Visa-Qiwi wallet. This is a rare occasion when Visa has co-branded a payment tool that does not go over the Visa network, a move that speaks to the integrity of Qiwi's proprietary network in Russia. The agreement with Visa also increased the reach of the wallet, allowing users to pay wherever Visa is accepted globally via the issuance of a Visa-Qiwi credit card number.

From its origins in bill payment, the development of the on-line wallet has allowed Qiwi to evolve into a far broader payment tool. The wallet can be used to now pay 70,000 participating merchants directly, with wallet transaction volume growing at 50% pa. The shift in the utility of the service can be illustrated via activity at the terminals – four years ago 90% of transactions were bill payment, whereas today 50% of transactions are users topping-up their wallets.

Today the bulk of wallet transactions are for non-physical goods and services, e-commerce such as on-line games, iTunes, Skype and apps. This is a large and growing retail category, but the real prize for Qiwi is to crack the e-commerce market for physical goods. On-line retail in Russia is impeded by poor transport infrastructure, along with suspicious consumers who insist on paying cash-on-delivery to ensure they are not duped. Qiwi is working with merchants to solve the trust issue. Merchants will offer discounts for customers who pre-pay before delivery and Qiwi will hold the cash in trust until the goods are delivered. If the goods don't arrive, the money is returned.

What should Qiwi be worth? Payment systems are true network businesses. Communication links and settlement protocols are easy to replicate; the problem for new competitors is always how to sign-up accepting merchants when you don't have customers and vice versa. Qiwi's 70,000 merchants make it valuable to customers and Qiwi's 65 million users make it valuable to merchants. Similarly, once users have one on-line wallet, there is little incentive to start using another. Overall while not a natural monopoly, entry barriers limit competition and allow firms to make handsome profits.

Qiwi is currently priced at 22x 2014 earnings, growing revenue at 30% pa – at face value an attractive valuation given the quality of the business, but not mouth-watering. A more prospective way to look at it is that we are paying $1.6 billion for Qiwi, which can be viewed as a business that takes a clip on the consumer spending of a nation of some 150 million people, where incomes should rise over time. A $1.6 billion market cap is modest versus comparable businesses globally. PayPal is mooted to be worth $40 billion, whilst payment networks that facilitate a far narrower niche of spending like Edenred (spending in cafés and restaurants in France and Brazil) and WEX (US and Australian fuel cards) are valued at $7 billion and $4 billion respectively. Given the potential, it is reasonable to expect both Qiwi's business and market capitalisation to be significantly larger a few years out.

Outlook

Investors continue to view Europe in a favourable light. The current picture is that investors want to avoid emerging markets, but the US market is seen as expensive. Europe, which is cheaper than the US on a relative basis, is viewed as a good alternative. Furthermore, with European interest rates expected to remain low and the countries emerging from a five year recession, earnings can surprise on the upside.

Given the proximity to Ukraine, we are taking an approach of measured caution, maintaining a cash balance of 21%. As always there are good reasons behind the current enthusiasm, but given investor preference can be fickle and European markets have already risen considerably, we prefer to have cash available should better buying opportunities arise.

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$20,000 invested in the relevant Fund over five years from 31 March 2009 to 31 March 2014 relative to their Index (in A$) 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).

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.