Platinum European Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	JUN 2011	MAR 2011
Australia	1%	1%
Belgium	3%	3%
Finland	1%	2%
France	17%	22%
Germany	46%	45%
Italy	4%	4%
Netherlands	2%	2%
Spain	1%	0%
Sweden	2%	2%
Switzerland	1%	1%
UK	11%	10%
US	2%	3%
Cash	9%	5%
Shorts	2%	0%

Source: Platinum

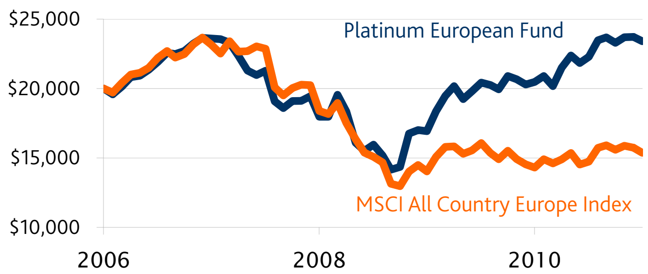
Performance

Markets trended down throughout much of the quarter, the initial slide in response to weaker employment figures out of the US alluding to a fading economic recovery, while the re-emergence of fears over a Greek government debt default kept markets selling off into June. With no signs of its economy slowing, Germany again was the area of relative strength with the DAX Index flat for the quarter, the FTSE (UK) and CAC (France) indices were down -6%, while Europe's periphery were again the target of heavy selling pressure with the Spanish, Italian and Greek markets down -8%, -13% and -20% respectively.

The recent stuttering of commitment to the bailout by both EU members and the Greek government has brought the potential timing of a default back into question and the fears around the unintended (or unknowable) consequences are being expressed in Europe's financials with the major banks (Société Générale -27%, Lloyds Bank -28%, Danske Bank -22%) and insurers (Zurich -20%, Generalli -11%, Munich Re -8%) all falling in unison. Elsewhere, the resource and energy stocks followed the price trend of their underlying commodities (BG Group -17%, Statoil -17%, Xstrata -11%)

Value of $20,000 Invested Over Five Years

30 June 2006 to 30 June 2011



Source: Platinum and MSCI. Refer to Note 2, page4.

while profit warnings at Dutch telecoms group KPN and regulatory changes around nuclear power generation prompted a wide sell-off in the European telecommunications and utility sectors (Telecom Italia -18%, KPN -15%, Fortum -16%, RWE -16%). While the declines were fairly broad, there were a few bright sectors with the consumer staples names strong as investors fled to defensives (Danone +15%, Reckitt Benckiser +9%) and the European civil aerospace suppliers rode the wave of positive sentiment after seeing booming orders at the Paris air-show (Safran +13%, EADS +11%).

Measured in A$, the Fund was up 0.5% for the quarter versus -1.4% fall in the MSCI All Country European Index. Over the past six and 12 months, the Fund has returned 5% and 14.3% respectively, outpacing the Index which has returned 4.4% and 7.5% over the same period.

Changes to the Portfolio

We recently returned from Europe where we met roughly 30 companies throughout Germany, France, Spain and the UK. The trip saw us visit the full gamut of players within the equities and derivatives exchange sector (please refer to our March 2011 quarterly report, www.platinum.com.au/images/ptqtr_0311.pdf for more background), alongside a number of companies within the civil aerospace and banking industries.

One new addition to the Fund stemming from our visit was **Lloyds Banking Group**. The company today is the dominant UK retail bank, controlling 30% of the UK banking market - a position it gained through its merger with Halifax-Bank of Scotland (HBOS), where Lloyds stepped into rescue HBOS from being fully nationalised during the global financial crisis. The merger has brought with it many problems; HBOS was one of the most aggressive lenders leading up to the crisis and the subsequent performance of its loan book has been terrible (leading to cumulative write downs of £70 billion to date). Lloyds is still heavily reliant on wholesale funding (loan to deposit ratio of 160%) which will pressure income as it is rebalanced and the company is being forced by the European Commission to sell 600 of its branches to foster another competitor in the UK market.

Looking past these concerns, three years post-the-crisis it must be said that Lloyd's position in the industry has improved tremendously. We are past the bulk of the write-downs in the loan book, our capital base has rebuilt, and with £14 billion of pre-provision profits being earned annually, the company is in a strong position to withstand any further shocks. Lloyds new CEO, Antonio Horta-Osorio hails from the UK operations of Santander, which were built through the acquisitions of Abbey National and Alliance & Leicester, and focused on simple low-cost retail and SME (small and medium enterprises) banking. We think this strategy is the right one for Lloyds and with a combined workforce of 110,000 there is plenty of scope to be surprised by the cost savings going forward. The UK banking sector is certainly not going to be an exciting growth market, but Lloyds given a starting valuation of 6x normalised earnings, 0.7x tangible book and with no direct exposure to peripheral sovereign debt, should prove to be a good investment.

Elsewhere we took a position in travel IT provider **Amadeus** after meeting management in Spain. Amadeus has a stellar history within its industry; founded in 1987 by Lufthansa, Air France and Iberia it has grown from being the smallest air-ticket global distribution system (GDS) to now being the world leader with dominant market share in every country outside of the US. The most interesting part of its business is its Altea software suite which allows airlines to outsource their IT functions around ticketing, inventory control and departure management to Amadeus. The IT complexity driven by airline alliances and the unbundling of airline ticket prices to include ancillary fees (checked bags etc), have stretched the capability of the airlines legacy in-house IT systems and fuelled the impetus to outsource. Spotting this trend early, Amadeus has spent the last 15 years developing their Altea software, slowly building reference customers with British Airways, the first to convert in 1999, and Qantas following suit a few years later. The trickle of customers has now turned into a flood. Amadeus has signed up 110 airlines to implement Altea and the steady migration of customers onto the system over the next couple of years will ensure strong growth going forward.

Continuing on the topic of air travel, the Fund has held a number of investments in the civil aerospace manufacturers over the last couple of years and we met with all the major European suppliers during our trip. The underlying industry trends are good; the engine suppliers are both benefiting from a pick-up in spare parts demand after airlines postponed nonessential maintenance during the crisis and booming new engine orders as air travel in the emerging markets grows. While we cannot fault the long-term story, we get the sense the market is now up to speed on events around these stocks and after such strong outperformance, we exited our holdings in **Safran** and **EADS**. Similarly, after a good run we sold our full position in UK insurer **Prudential** and exited French retailer **Carrefour** after our recent discussions revealed that little progress is being made on the company's operational turnaround.

Commentary

Over a year has passed since Greece first received its €110 billion bailout package. At the time we discussed our concern that many of the debt reduction plans were based on optimistic projections of GDP growth that merely perpetuated a return to past trends, despite the past driver to growth now being gone (debt increases) and also that sooner or later the differences between the strong recovery in the north and the mire in the south would result in tensions around euro zone interest rates. This is no better illustrated by the fact that while the economies of Greece and Ireland continue to deteriorate, Mr Trichet, President of the European Central Bank (ECB), citing growing inflation risks, is signalling a further interest rate hike in July!

The rising political resistance around commitment to the bailout plan on behalf of both the Greeks and the European Union is a signal that we are drawing closer to a decision around a full debt restructuring for Greece, Ireland and Portugal. As the hopes of a sharp economic recovery in Greece and Ireland fade, the plan now is very much geared towards reducing the risk of contagion upon default, by buying more time for the Spanish and Italian governments to bring down their budget deficits, while allowing the European banking sector to recapitalise their balance sheets. The latest proposal for private debt holders to 'voluntarily' roll their Greek debt into either 30 year or five year bonds is another step in this direction – while it does not reduce the debt outstanding or the interest cost, it does ensure the funds from the original €110 billion bailout package will last out to 2013. Even if political stability can be maintained, ultimately the ability to defer a restructuring will be brought unstuck by the clear fact that Greece's economy continues to shrink – and hence over the next year, it is highly likely a formal restructuring plan will be announced for Greece that will also serve as a template for Ireland and Portugal.

The longer term question is post-restructuring whether Greece and company will remain within the euro currency? The benefits of a currency devaluation to act as a shock absorber to rebalance the economy in a crisis is well-documented; post the initial inflation spike that is driven by the devaluation, Mexico (after the 1994 peso crisis) and Thailand (after the 1997 Asian crisis) went on to recover steadily as export competitiveness was restored. Given all of the peripheral nations, private and public debt is denominated in euros; any exit from the currency bloc is massively complicated – as we have seen in the past, countries in this predicament tend to carry on with the peg despite huge economic pain. From the onset of their recession in 1998, Argentina (who was saddled with significant dollar based debt) struggled to maintain its peg to the US$ for three years before finally collapsing in 2001, while the Baltic states (Estonia, Latvia and Lithuania) whom have 60%+ of their debt in euros have so far held their peg to the euro despite a 20% drop in GDP and wages! Given the precedents, certainly in the mid-term, we would expect the periphery to remain in the currency bloc, especially under a situation where a debt restructuring is orchestrated by the ECB.

Outlook

As the events described above play out over the next 12-18 months, it would be foolish not to expect unintended consequences and bouts of volatility in markets. That said, the overall risk to the *companies* in the portfolio must be put in perspective; we hold no direct exposure to Greece, Ireland or Portugal, have few holdings in the financials and the majority of the companies in the portfolio are global, diversified businesses.

Since emerging from the crisis in 2009 there has been an almost constant stream of new macro economic uncertainty to test investors. We have stressed in the past that the best indicator of future returns is not the macro outlook but the pricing of the stocks on offer and whether we are still finding new investment ideas that excite us. Based on this measure, we are confident the holdings in the Fund will earn us good returns over the medium-term.

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$20,000 invested in the relevant Fund over five years from 30 June 2006 to 30 June 2011 relative to their Index (in A$) 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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