Platinum European Fund

Clay Smolinski Portfolio Manager

Nik Dvornak Portfolio Manager

Disposition of Assets

REGION	JUN 2015	MAR 2015
UK	19%	19%
Germany	18%	20%
Spain	6%	7%
France	6%	8%
Italy	5%	7%
Austria	5%	3%
Russia	4%	3%
Switzerland	4%	3%
US *	3%	3%
Hungary	2%	0%
Norway	2%	2%
Netherlands	1%	2%
Turkey	1%	1%
Sweden	1%	1%
Cash	23%	21%
Shorts	1%	1%

* Stocks listed in the US, but predominant business is conducted in Europe.

Source: Platinum. Refer to Note 3, page 4.

Performance

(compound pa, to 30 June 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund	3%	15%	22%	15%	12%
MSCI AC Europe Index	0%	12%	23%	12%	3%

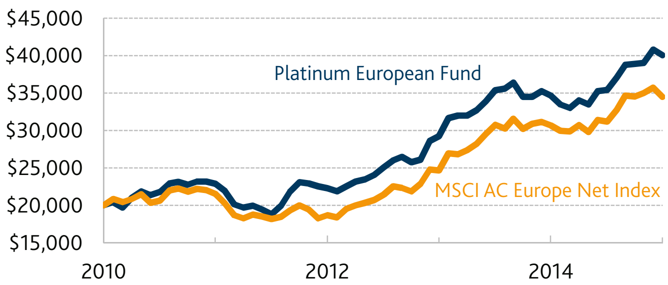
Source: Platinum and MSCI. Refer to Note 1, page 4.

Supported by better economic data and plentiful liquidity, Western European equities ended the quarter flat, following an extraordinarily strong first quarter. An element of sector rotation was evident, with Banks being the best performing sector while Insurance, Healthcare and Industrials lagged. Russia was the best performing market with the widely anticipated recession proving less severe than feared.

The European Central Bank's (ECB) pledge to buy large quantities of government bonds, coupled with the purported 'shortage' of these bonds, made the downward trajectory of

Value of $20,000 Invested Over Five Years

30 June 2010 to 30 June 2015



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

bond yields seem inexorable. As often happens, it proved to be anything but. The yields on the 10-Year German Bund **quadrupled** from 0.2% to 0.8%. Nor were peripheral markets spared, with the 10-year yield on Portuguese debt doubling to 3.0%. These violent moves in bond yields provide a timely reminder of the fallacy of chasing the crowd.

The Euro appreciated 6% against the US dollar, responding to weak economic data from the US which contrasted with early signs of recovery in the Eurozone. We have a 24% position in the US dollar and are retaining it in the belief that the recent economic weakness in the US will prove transitory.

The ongoing 'will they, won't they' Greek default saga continues to dominate headlines. This is distracting attention from neighbouring Turkey where the electorate emphatically rejected the trend to authoritarian rule and cronyism by stripping the Justice and Development Party (AKP) of its decade-long parliamentary majority. The result was taken negatively by financial markets, fearful of a return to an era of unwieldy and unstable coalition governments. Yet, it also holds the prospect of a return to a more liberal political system where the rule of law is paramount and those in power are subjected to appropriate checks and balances. Time will tell what this means for the economy, but it might not be all bad.

Changes to the Portfolio and Commentary

Emerging Markets are out of favour globally. Corruption, poor governance, misallocation of resources and the difficulty of enacting reform are typical concerns. Eastern Europe is no exception. The region is also plagued by a more assertive Russia and investors fretting that these small, illiquid markets are not the ideal place to be in with a Greek default threatening to upset the financial and political order in Europe.

Despite these concerns, approximately 7.5% of the Fund's capital is invested in Eastern Europe. What appeals to us is the robust structural growth story and the process of European Union (EU) accession that lies at the heart of it. There are three legs to it.

First, incomes are lower than in Western Europe, despite the region having a highly educated labour force. As these economies meld into the common market, this labour cost difference will be arbitraged away, either because production shifts east or because labour migrates west. The result: higher incomes for Eastern Europeans.

Second, the EU will fund massive investments to modernise infrastructure in accession countries. The investment spending itself will drive economic growth, but it will also pay ongoing dividends. Better infrastructure *physically* enables integration into the common market, makes these countries more appealing destinations for foreign investment and improves labour productivity.

Finally, the accession process allows these countries to 'import' strong, independent civil institutions to uphold the rule of law, facilitate effective civil administration and protect society from those in power. Building strong institutions is possibly the single greatest challenge for developing economies and the process is almost invariably thwarted by vested interests. Eastern Europe is different, because institution building is the bedrock of the accession process and the EU provides an influential outside force to nurture the process and guide it along. *This is unique to Eastern Europe* and is an indispensable advantage in the development process.

The region comprises a diverse mix of countries which started the accession process at different times and are at different stages of development. The more developed ones have incomes at 70-80% of the EU average and rank favourably on measures of institutional effectiveness: ease of doing business, contract enforcement, corruption prevention, etc. The less developed ones have incomes at 30-50% the EU average and rank much less favourably on these measures.

One common thread is that debt levels are low across the region. Government debt sits at around half the EU average while private sector debt is extremely low – mortgage debt is typically 10-20% of GDP, for example. While significant economic imbalances were present across the region before 2008, these have been corrected through recession, deleveraging and currency devaluation, not deferred by bailout.

Russia's increasingly abrasive attitude also has a silver lining. The people of Eastern Europe now plainly see what the alternative to joining Europe is. This will surely cement their resolve to stay the course and bear the pain that reform entails. On the other hand, Western Europeans can now fully appreciate what all their money and effort is buying: strong, stable states between themselves and Russia. The Eastern European 'story' remains intact, perhaps more so than ever.

Erste Bank, one of our largest holdings, is an Austrian bank that derives half of its income and most of its growth from Eastern Europe where its principal markets are the Czech Republic, Slovakia, Hungary and Romania. It is either the market leader or a close second in these markets. Its borrowers have low debt burdens. The bank is well funded by local deposits. Industry concentration is high. Government involvement is low. And competitors are typically other big European banks.

There are a number of growth avenues open to Erste. Its Hungarian and Romanian businesses are losing money as a fierce credit cycle works its way through these economies. With this cycle now over, both operations will return to profit. Erste also has plenty of room to grow lending as economic growth picks up, because its customers have so little debt. Fee generating services like financial planning, investment management and insurance are relatively underdeveloped and demand for them will grow as incomes rise. Finally, interest margins are compressed by low interest rates and will expand as rates begin to normalise.

The bank is in a strong financial position. Having written off almost 9% of its loans since 2008, it has effectively stripped the weakest borrowers from its books while still boasting a healthy 11% Core Tier 1 capital ratio.

We paid book value or around 8 times normalised earnings for this bank. By way of contrast, Australian banks trade at almost double this valuation, have significantly less capital, have largely exhausted their growth avenues and haven't experienced a credit cycle in two decades.

Outlook

We continue to find interesting investment opportunities. These mostly replace existing investments when valuations reach levels at which we feel compelled to sell. As a consequence, our cash balance remains high at around 23%.

A large cash balance will not only protect us in a market correction, but will also give us the capacity to capitalise on any opportunities that such a correction brings. The cost of this protection is that we can expect to underperform when equity prices are appreciating strongly, as they have done in recent quarters. With the market becoming increasingly complacent and valuations pushing ever higher, we think prudence is warranted.

Notes

1. The investment returns are calculated using the relevant 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: 28 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

   (NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist.)

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 30 June 2010 to 30 June 2015 relative to its benchmark index (in A$) 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

   The investment returns are calculated using the relevant 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 benchmark 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. Invested position represents the exposure of physical holdings and long stock derivatives.

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