Platinum European Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	SEP 2010	JUN 2010
Belgium	3%	2%
Finland	4%	3%
France	25%	25%
Germany	41%	41%
Italy	2%	3%
Netherlands	2%	2%
Norway	0%	1%
Sweden	3%	3%
Switzerland	4%	3%
UK	11%	8%
US	1%	1%
Cash	4%	8%
Shorts	6%	8%

Source: Platinum

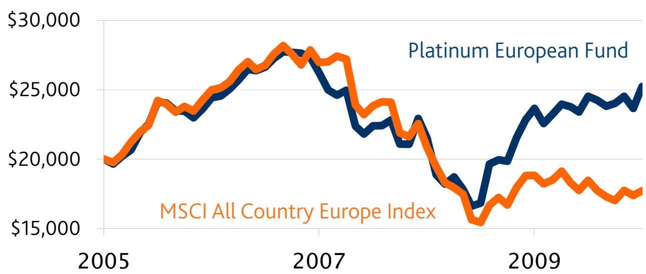
Performance and Changes to the Portfolio

We concluded our last quarterly report with the observation that whilst the European markets were gripped with fear over sovereign debt levels and US led deflation, the companies themselves were far more sanguine about the business conditions they were seeing. This optimism was later reflected in strong second quarter results reported out of Europe and this, together with some better than expected economic figures, gave the markets reason to rally with the DAX (Germany +7%), CAC (France +11%), FTSE (UK +13%) and IBEX (Spain +17%) all finishing well-above their July lows.

The standout sectors for the quarter were the miners (copper producer Antofagasta +61%, Xstrata +44%), the auto and truck manufacturers (Fiat +38%, BMW +34%, Scania +28%) with the German luxury brands doing particularly well as Chinese demand for high-end vehicles continues to boom. The most notable area of weakness were the building material stocks (CRH -27%, Heidelberg Cement -10%), where expectations of a recovery in US construction related spending failed to materialise.

Value of $20,000 Invested Over Five Years

30 September 2005 to 30 September 2010



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

CFAO (+34%) was one of the better performing holdings for the Fund over the quarter. We added to our holding in June after the price collapsed amongst fears that the weaker Euro would hurt profits (CFAO is an importer of mostly Japanese and US brand autos, whose price would rise in the African states which peg their currency to the Euro). The stock has since rebounded sharply on the strengthening Euro and a pick-up of auto sales in its African markets. Other highlights include PPR (French retailer +21%) and Dutch listed vaccine producer Crucell (+68%) which received a takeover bid from Johnson and Johnson.

As sovereign debt fears have slowly calmed, the Euro has continued to strengthen from its June lows, appreciating 11% versus the US dollar and 5% versus both the Yen and British pound. The Fund was not well-positioned against the Australian dollar, which again strengthened versus the Euro, up +3% for the quarter.

In Australian dollar terms, the Platinum European Fund returned 5% for the quarter compared to 4% for the MSCI All Country Europe Index. The returns of the Fund for the six and 12 month period were 3% and 7% respectively, versus -4% and -6% for the Index.

Commentary

We entered the quarter with the Fund holding a reasonably full gross invested position and have only had to make minor adjustments to our holdings as market conditions changed.

One new position we have taken is our holding in Vodafone. With origins dating back to UK defence electronics manufacturer Racal, Vodafone was one of the infamous players in the late nineties drunken TMT frenzy, consummating the mega mergers with US based Airtouch (now Verizon wireless) and Germany's Mannesmann for a jaw dropping US$250 billion combined. A decade on, Vodafone remains a pure mobile network operator and whilst still largely pan-European focused, has meaningful positions in the US, Africa, Middle East and India.

As many of our readers will know, the post-bubble experience of the European mobile operators did not live up to the pro-bubble hype. The auctioning of new mobile licenses brought new competitors, whom after building out their networks, had few tools other than discounting to attract subscribers.

Pricing pressure was further compounded by regulatory change around mobile termination rates (MTRs – the fee one operator charges to another to end a call on their network). The European commission noted that mobile operators (especially the incumbents with high market shares) held a monopoly over call traffic directed from other networks to their mobile subscribers. The solution was to first set asymmetrical MTRs between the incumbent mobile operators and new mobile entrants (ie. the new entrants were paid a higher rate, increasing their ability to compete) and then enforce annual MTR price cuts for all operators. The above factors led to a situation where growth in voice minutes was largely offset with price declines. As mobile phone penetration/voice usage in Europe is now mature, continued falls in price have seen total mobile service revenues start to shrink, with the market now pricing these stocks for terminal decline.

Given the bleak past, why get interested now? Certainly there are a few areas that are getting better for the operators. MTRs have now fallen to a level where they will cease to be a material drag in a couple of years and we are seeing more signs of consolidation between the weaker players (most notably Deutsche Telekom and France Telecom merging their UK operations). However, the real opportunity for change is the growth in mobile data consumption. Certainly anyone who owns an iPhone or iPad can attest that the functionality of hardware has finally reached a level where the concept of mobile internet is ***worth using and paying for.***

Despite the growth, mobile internet use is still nascent in Europe, only 15% of users have an internet enabled 'smartphone' and data accounts for 12% of total revenue. A useful case study on how the mobile data experience may evolve is Japan, where 70% of mobile users carry an internet enabled 'smartphone' and data use now accounts for 45% of mobile revenues. Critically for the operators, growth in data revenues is now eclipsing the decline in voice revenue to the point where total revenue per user should begin to grow again in 2012 for the likes of Docomo (Japan's largest mobile phone operator).

Before extrapolating the Japanese experience to Europe, the question remains whether the data opportunity will simply be competed away as players discount to win market share. There are some reasons to be optimistic. Firstly, unlike a phone call, download speed does give you some scope for service and price differentiation. The quality of your network should begin to matter again. Network and spectrum quality will also influence the cost of adding new capacity to handle the data explosion. Whilst installation of new LTE (4G) technology and re-farming of old spectrum will allow all operators to increase capacity to meet demand, the third and fourth players with a weaker network will have fewer options and face higher costs. We are certain the smaller players will compete for their share of data customers but given their poor profitability as a whole and the fact extra data capacity will incur at least some incremental cost, there are signs that data pricing can remain stable.

Vodafone looks well-positioned to capitalise on this trend. The company has invested heavily in its network and is typically the number one or two in each of its markets. The days of wild merger and acquisitions are coming to a close under new CEO Vittorio Colao who is now simplifying the group and selling off minority assets (non-controlling stakes in China Mobile and French telco SFR). Priced at nine times earnings, Vodafone not only trades at a massive discount to other utility/infrastructure businesses (UK water utilities/toll roads) but is cheaper than many of its telecom peers who have large exposure to decaying fixed line operations.

Elsewhere in the portfolio we have seen progress on a number of ideas we have detailed in past reports, notably at UPM (Finnish pulp and paper company) which we last wrote about in March. You may recall we took our position in UPM during a time when European paper producers were enduring a massive profit squeeze, with large portions of the industry making cash losses as the price of feedstock (pulp, recycled paper) raced ahead of fine paper grades. Whilst the scenario has improved over the past six months (demand for graphic paper has picked up and the producers have been successful in pushing through price increases), the more interesting development was UPM's bid for Finnish producer Myllykoski, evidence that the much hoped consolidation between the European producers are finally taking place. A successful bid would take UPM's market share in European magazine grades from 26% to 40% and while it's early days yet, it is a decent first step to address the overcapacity that still plagues the European market.

Outlook

The mix of opposing policy interventions are being expressed through wild swings in market sentiment. A mere three months ago the front cover of US Newsweek magazine boasted the "end of the Euro" with the currency dropping to 1.20 versus the US dollar as investors fled the region. As we write today, the Euro sits at 1.39 versus the US dollar as investors now flee the greenback on concerns of competitive devaluations!

Such a quick reversal in the value of the Euro is painful news for Europe's Mediterranean periphery and their hopes of an export led recovery. If a Chinese appreciation of the Renminbi is not forthcoming and Japan and the US press on with plans to devalue their currencies, the difficulty for the European Central Bank (ECB), given the imbalances between Euro members, is how they will coordinate their response. Either way, under this scenario the ECB will undoubtedly be the last of the majors to devalue. (We would refer you to the International Fund's report around the currency actions of the four superpowers in the 1920s and 1930s which provides a useful parallel to today).

Our last two quarterly reports were primarily devoted to exploring the macro environment in Europe, however, the direction of future returns is generally better illustrated by the valuations of stocks on offer. Encouragingly we are still finding new ideas for the Fund and our current holdings are sensibly priced. However, it is of note that valuations in Europe are starting to noticeably cluster at opposite poles; the traditional high quality growth businesses trading at high teen PEs while the perceived low/no growth stories like utilities, pharma or insurance sit at 10 times or below. On this basis, the 'market' is not as cheap as it may first seem, and whilst not pessimistic on the medium-term prospects for our holdings in the Fund, given the strong rally since June, a near-term set back to markets would not come as a surprise.

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$20,000 invested in the relevant Fund over five years from 30 September 2005 to 30 September 2010 relative to their Index (in A$) 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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