Platinum European Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	DEC 2013	SEP 2013
Germany	26%	33%
UK	25%	22%
France	9%	12%
Italy	8%	6%
Spain	3%	3%
Switzerland	2%	2%
Russia	2%	2%
US *	2%	2%
Sweden	1%	2%
Netherlands	1%	2%
Turkey	1%	1%
Belgium	1%	1%
Cash	19%	12%
Shorts	3%	5%

* 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 December 2013)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum European Fund	11%	41%	18%	18%	13%
MSCI AC Europe Index	12%	44%	14%	8%	2%

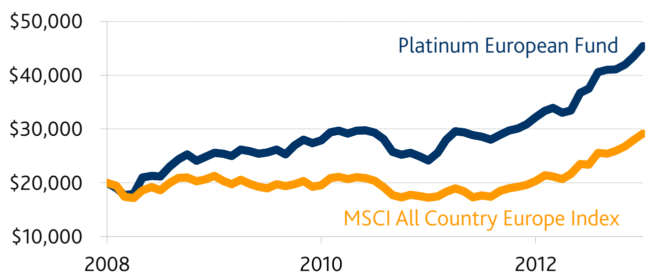
Source: Platinum and MSCI. Refer to Note 1, page 4.

Measured in their native currencies the major European markets have made solid returns over the past 12 months. The German market remained the outlier in terms of performance (+26%), followed by Spain (+22%), France (+21%), the UK (+18%) and Italy (+17%).

A major fillip to the returns of Australian investors has been the depreciation of the Australian dollar versus the European currencies, in particular the Euro which has appreciated +23% year-to-date. Unfortunately our currency management for the year has not been ideal. During the sovereign crisis in late 2011, we heavily reduced our exposure to the Euro, which gave

Value of $20,000 Invested Over Five Years

31 December 2008 to 31 December 2013



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

us a form of cheap insurance versus the risk of a partial break-up of the European Union. We started to gradually reverse this position in late 2012, post the European Central Bank's pledge to act as the backstop to all Euro government bond markets. However, in hindsight, given the strength of the Euro we did not move fast enough.

The above currency position, along with the Fund maintaining a more cautious equity position (we have been typically 77-80% net invested over the year), has led us to slightly underperform the benchmark in 2013. That said, the absolute performance for investors over the year is still sound, with the Fund returning 41.1% versus the MSCI Europe Index returning 43.5%.

Commentary

One sector that remains neglected and has large potential to see significantly higher profits are the European financials, with our holdings to date focusing on the stocks in the UK, Italy and Russia. Over the quarter we have added another Italian holding in the form of **Mediobanca**.

Mediobanca's business can be viewed in two parts. Half of the business is Italy's version of Goldman Sachs, a blue blood investment bank serving the top Italian corporates. The other half consists of Compass, a lender making unsecured personal loans to lower income borrowers, and CheBanca!, a highly successful low cost on-line retail bank in the same vein as ING DIRECT in Australia. In addition, Mediobanca own a large swathe of equity positions in other Italian corporates, the largest being a 13% stake in Italian insurance giant Generali (which alone is worth €3.3 billion).

There are several avenues for the company to grow profits going forward, particularly in their retail focused businesses. The first avenue is via lower funding costs for Compass. Compass makes small personal loans (average €2,000), to low income borrowers, charging an interest rate of 8-16% depending on the risk profile of the borrower. Compass has €9 billion of loans outstanding and this loan book is primarily funded via deposits collected at CheBanca!, costing roughly 3.3%.

Like the Italian government, the banks were forced to pay a high price for their funding during the debt crisis, with the government paying 4% for two year debt a mere 18 months ago. This pressure on funding costs has now reversed, with the rate on two year debt now just 1.2%. This is allowing the banks to reprice their deposits down and funding costs at CheBanca! should drop to 2% or below. We expect Italian rates to remain low for some time, with the lower funding costs providing a big boost to the net interest profits at Compass.

Secondly, we like the long-term positioning of CheBanca! in on-line banking. The Italian retail banking market is characterised by having a large number of small co-op (popolari) banks, a high number of bank branches per head of population, complemented by unionised staffing. In short, the branch networks are high cost, offer poor service and are very inflexible. This creates a great starting point for the likes of CheBanca!, unburdened by legacy costs, to attack the market by offering a solution that consists of a low cost on-line banking platform supported by a small number of modern branches offering late opening hours and high levels of service.

When started in 2008, CheBanca!'s strategy was similar to ING DIRECT and UBank on our shores; offer high rates of interest on on-line savings accounts and watch the deposits roll in. Whilst not particularly innovative, paying-up made sense as CheBanca! had an outlet for their high cost deposits – making high yielding loans at Compass. Having attracted half a million customers and €14.5 billion of deposits, the next stage of CheBanca!'s development is to broaden the product offering and make better use of the on-line bank as a distribution platform. There is huge potential to grow revenues via offering of zero-fee everyday transaction accounts, credit cards and simple funds management products.

The final area we can see some improvement is at the investment bank. Revenues are primarily linked to advisory services around mergers and acquisitions, or companies wishing to raise funds via listing on the Italian stock market. Given the recession, the activity in both these domains is weak, and while it is hard to predict the exact timing of the turn, a mix of cheap financing for deals and a recovering economy should drive a pick-up going forward.

Regarding valuation, we can buy all of Mediobanca for €5.2 billion today. For that we receive a bank with tangible capital of €7.6 billion and should the story play out as we expect, earnings power in the range of €650 million per annum. Paying 8 times earnings and 0.7 times book for an extremely well capitalised bank that can grow should make us money over time.

Outlook

After two years of rising markets, the investment landscape in Europe looks as such: the valuations of most industry sectors are now within their 'normal' historical ranges, with very fine companies often trading at the top end of that range. As the big gains from a 're-rating' of European stocks is now done, future performance will be mostly driven by earnings growth.

Given the above set-up, we are taking an approach of measured caution. With a 19% cash position we are well-placed to take advantage of any volatility in markets.

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

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