Platinum European Fund

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Disposition of Assets

REGION	DEC 2014	SEP 2014
Germany	24%	22%
UK	24%	22%
France	8%	8%
Italy	7%	7%
Spain	5%	2%
US *	4%	3%
Switzerland	3%	4%
Austria	3%	3%
Russia	3%	5%
Netherlands	2%	2%
Norway	2%	0%
Sweden	1%	1%
Turkey	1%	1%
Belgium	0%	1%
Cash	13%	19%
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 31 December 2014)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund	4%	0%	23%	12%	12%
MSCI AC Europe Index	2%	1%	20%	7%	2%

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

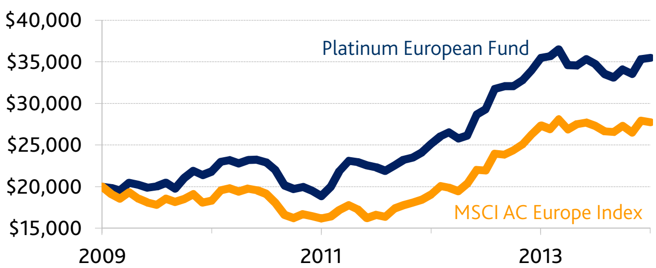
The two year rally in European equities lost some of its momentum during the second half of 2014. Eroding economic growth, increasingly evident in leading economic indicators, was the prime culprit.

Notably, this weakness is not confined to the periphery, but is widespread. Italy, France and even the indefatigable Germany are showing signs of slowing. Only the countries that experienced the most wrenching adjustments during the recent crisis, namely, Spain and Ireland, display some economic vitality.

The European Central Bank (ECB) once again finds itself in the spotlight with expectations of further monetary easing.

Value of $20,000 Invested Over Five Years

31 December 2009 to 31 December 2014



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

Readers may wonder why the ECB has been hesitant to act when quantitative easing (QE) proved so successful elsewhere. The trouble is that, in Europe's case, the assets being debased are owned by fellow Europeans, whereas in the US and the UK a significant portion of the borrowing was funded by foreigners (who do not vote). The lender nations within the Eurozone are reluctant to see their citizens pay the price of QE without the "sinner" nations first committing to the painful reforms necessary to remedy the vulnerabilities that caused their crises in the first place.

Prying the necessary concessions from both sides takes time and this is frustrating for many. Yet, there is cause for optimism in that, instead of a quick fix, we may see a lasting solution that addresses the root causes of the problem.

The Fund appreciated by 4.1% during the quarter, compared to 1.6% for the MSCI AC Europe Index, though much of the action happened away from equity markets. Thus, the Euro depreciated from 1.36 to 1.22 against the US dollar and the price of Brent Crude Oil fell from US$96 to US$60 per barrel.

Our large cash balance is entirely denominated in US dollars, so the drag from holding a large cash position in a rising market was reduced by the depreciating Euro. The Fund also had no exposure to the energy sector until after the collapse in oil prices, allowing us to avoid the carnage there. The primary detractors from our performance were our **Russian positions**, Swiss solar company, **Meyer Burger** and UK pub chain, **Enterprise Inns**. Cruise operator, **Carnival**, was the strongest contributor to our performance, benefitting from both lower oil prices and increasing evidence that the business is turning the corner on pricing.

Changes to the Portfolio

When the price of a commodity falls almost 40% in the space of a few weeks, investors have a tendency to indiscriminately reduce their holdings of exposed companies. This knee-jerk reaction can open opportunities and in this instance led us to initiate investments in two businesses caught up in the oil-related rout: **Applus** and **Subsea 7**. In addition to this, we added to our positions in **Meyer Burger** and **Erste Bank**. These actions were funded from our cash balance.

Finally, we increased our holdings of the **Norwegian krone**, another casualty of lower oil prices, which is being treated as a petro-currency, rather than the legal tender of a stable, law-abiding democracy that has been a bastion of fiscal rectitude for six decades and counting.

Commentary

Introducing Applus

Barcelona-based Applus is a reputable, independent, third-party auditor that assesses whether equipment and products comply with government regulations. Their main end-markets are automotive, and oil and gas, with each contributing half their profit. Clients are *compelled* to undergo these audits by the government, so demand for Applus' services is steady and recurring.

The automotive segment comprises a network of testing stations in Europe and the Americas that perform statutory roadworthiness tests on passenger cars (like the NSW Pink Slip). To renew your registration, you have to pay Applus to certify your car's roadworthiness. Applus has concessions in most of its markets, so competition is limited and pricing fixed. This provides a safe, recurring annuity stream, with their average concession having nine years to run.

They also operate a test-track where they assess new car models and prototypes against European Union (EU) standards and provide outsourced R&D services to automakers, especially around vehicle safety. This business is also very stable with strong demands from Asian automakers looking to break into EU markets.

In the oil and gas segment, Applus is the leading provider of non-destructive testing globally. Their technicians test pipelines, storage tanks and other facilities for vulnerabilities like fractures or corrosion, without damaging the parts or interrupting their operation.

Half of Applus' revenue comes from testing existing kit. Their client base is a "Who's who" list of the oil world and is very sticky; seven of their top 10 clients have been with Applus for a decade. Moreover, demand is likely to grow as governments clamp down on safety following a number of high profile accidents and push the industry to use third-party assessors.

The other half of this segment's revenue comes from testing new build. This will suffer as oil and gas companies cut back on capital spending at the US$60 per barrel oil price. The market is very concerned by this possibility and has cut the company's stock price in half on the back of it.

We are less concerned. Oil prices may rebound, for a start. Even if they do not, the industry is not going to cut new build to zero. Some new build is required to maintain output or to continue to exploit existing fields where the sunk cost is large and marginal cost low. This business has a great market position and a strong reputation with oil and gas producers. The world will likely need more oil and gas in future and getting it will require new pipes and other infrastructure, all of which will need to be inspected. Thus, while profits may be squeezed in the near-term, the longer-term future of this business seems quite promising.

On 10x earnings, Applus is trading at half the valuation of industry peers, implying a catastrophic pullback in oil and gas capital spending. Where the oil price goes next is anyone's guess. But at this valuation, we are being offered an attractive business earning a steady, annuity-like revenue stream with a hefty margin of safety built-in. This valuation ascribes almost no possibility of oil prices rebounding and makes no allowance for the possibility that a larger competitor may use this opportunity to acquire a leading position in the oil and gas end-market by buying Applus outright. Overall, a lot of value is being left on the table as panicked investors run for the exit. We are heading the other way, having invested 2% of the Fund's capital in Applus.

Outlook

As the year closes, European equities may seem an increasingly unattractive proposition. The underlying economies show signs of slowing while disinflation continues to pressure the indebted. The ECB stands poised to pursue a program of QE, which may support asset prices, but will no doubt create numerous distortions and exacerbate asset price volatility. Some are even drawing parallels with the Japanese experience of the last two decades.

Yet, we see a number of reasons for optimism.

What superficially appears to be institutional ineffectiveness belies the strong underlying pressure to find a real and lasting solution to Europe's problems, in contrast to the Anglo-American "quick fix". The political heft of Germany within the EU is at an all-time high and the country is a driving force for tough, but necessary reform, which will reduce vulnerabilities and lay a strong foundation for *sustainable* economic growth.

Secondly, the recovery of European corporate earnings has significantly lagged that in the US since the 2008 financial crisis. There is substantial latent potential for earnings to rebound, should the economic cycle turn in Europe. This is not reflected in current stock market valuations.

Finally, we continue to find opportunities to deploy our clients' funds. During the last six months, we added to many existing holdings and initiated a number of new investments. We have little doubt that such opportunities will continue to present themselves and our sizeable cash holdings leave us well-placed to seize them.

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

Disclaimer

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