Platinum European Fund

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Performance and Commentary

(compound pa, to 31 December 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund	-3%	14%	17%	13%	12%
MSCI AC Europe Index	-1%	9%	17%	11%	2%

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

European equities ended the quarter slightly lower in AUD terms. They rallied through October and November, only to give it back in December as investors came to terms with falling commodity prices, profit warnings and a less dovish European Central Bank (ECB).

The Materials sector is being savaged, with investors continuously revising valuations to match falling commodity prices. Global miner, Anglo American, was listed in 1999 at an £8 share price. Today it trades under £3, despite commodity prices being far higher than they were in 1999.

Disposition of Assets

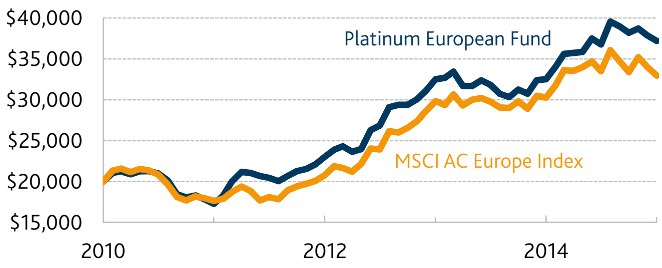
REGION	DEC 2015	SEP 2015
UK	21%	22%
Germany	16%	16%
Spain	5%	6%
Austria	5%	5%
Italy	4%	5%
Russia	4%	3%
France	4%	5%
US *	4%	4%
Switzerland	3%	5%
Hungary	2%	2%
Norway	1%	2%
Netherlands	1%	1%
Sweden	1%	1%
Turkey	<1%	1%
Cash	29%	22%

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

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

Value of $20,000 Invested Over Five Years

31 December 2010 to 31 December 2015



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

The company expects to lose US$1 billion next year, against a market capitalisation of US$6 billion and debts of US$13 billion. In a desperate bid to stanch the bleeding, management plan to sell or close over half of their operations. That half of their portfolio is losing money gives context to the recent retrenchment in commodity prices. The planned closures speak not to their willingness to withdraw capacity, but their lack of choice in the matter. This tempts one to think that an adequate degree of misery may now be priced into the sector.

The slowdown in China and emerging markets continues to dog the Industrials. Their vulnerability is becoming increasingly clear as downgrades fan out from the weaker cyclicals and begin to ensnare the much-loved stalwarts. Thus, the recent warning from German industrial gases giant, Linde AG, is perhaps a sign of things to come.

Buybacks and mergers, fuelled by cheap credit, continue to support equity valuations. The US$110 billion 'mega brew' merger of Anheuser-Busch InBev (ABI) and SABMiller in October was surpassed merely a month later by Pfizer's US$160 billion purchase of Allergan. Yet, cracks are now appearing in debt markets and these bear close scrutiny. While the stress is currently confined to high yield debt, particularly that issued by Energy companies, risk aversion can spread quickly and may undermine the capital structure of leveraged enterprises more generally.

Central banks remain a centre of attention. While the US Federal Reserve raised rates for the first time in a decade, the move was well telegraphed and easily digested by the market. The Euro ended the quarter a mere 2% lower, although this was partly due to the ECB undertaking a less aggressive expansion of quantitative easing than expected.

European equities ended the quarter up 5% in local currency. Materials (-4%) suffered most. Among the Banks (+1%), the pain was concentrated in investment banks and to a lesser extent in banks exposed to emerging markets. Among the best performing sectors were Software (+20%), boosted by a strong performance from SAP, and Staples (+8%) where beverages stocks benefited from the ABI-SABMiller merger news.

The Fund returned -2.6% for the quarter and +14.4% for the year in Australian dollar terms. This compares to -1.3% and +8.9% respectively for our benchmark. Our cash balance rose to 29%, compared to 22% at the start of the quarter. This dragged our performance during October and November, but benefited us during the December pull-back.

We have no exposure to Materials and minimal exposure to Energy and Industrials. While we own a number of banks, we own neither investment banks nor those exposed to Asia and Latin America, which performed worst. This positioning meant that we avoided the hardest hit companies. However, our limited exposure to Software and Staples meant that we missed out on some of the best performers too.

Looking through the portfolio, it's hard to pin down any themes to our performance. The biggest contributors were a handful of smaller companies where the investment case is playing out nicely, such as pharmaceutical equipment supplier, **Sartorius**. Equally, the biggest detractors were smaller companies where the story is not proceeding smoothly, such as hardware chain, **Hornbach**. Among the larger companies, developed market banks (**Lloyds**, **Intesa**), healthcare (**Sanofi**, **Novartis**) and energy-related companies (**Applus**) detracted from performance while our Eastern European and Russian companies (**Raiffeisen**, **Sberbank**) made sizeable contributions.

Changes to the Portfolio

We exited a number of positions during the quarter. This included **Richemont**, which we had only just introduced into the Fund. We bought Richemont for its branded jewellery business, despite having reservations about its high-end watch business. We have been closely monitoring the watch business and recent data led us to believe the deterioration there would exceed our initial estimates. With the facts having changed, we changed our minds and decided to sell this position. We see this as a successful investment, not for the small profit made, but for the potential losses averted. We continue to like the branded jewellery business and will return to this company should the prospects or valuation change.

Laboratory testing business, **Eurofins Scientific**, was one of the Fund's longest-held positions. The company has grown through acquisition, buying customers from competitors, and has been consolidating and centralising its lab network. The market tends to see this business in a very favourable light when things are going well. In 2008, it was trading on 60x earnings despite having a large and rising debt load, courtesy of its acquisitive past. In 2010, we added to our position when earnings had fallen 20%, the market was avoiding indebted companies like a plague and valuation had collapsed to a mere 10x forward earnings. Now we feel it is prudent to sell this position with valuations once again exceeding 40x earnings, debt ratios close to the 2008 level and debt markets once again experiencing indigestion.

We discussed Turkish mobile phone provider, **Turkcell**, in our March 2015 quarterly report. Our thesis leaned heavily on the idea that the long-running price war was hurting all participants and was becoming increasingly unsustainable, particularly for the prime aggressor, Turk Telecom. Since then, it appears that a tenuous cease-fire is holding, which is positive. What bothers us is a new development, namely, the government's creeping influence over the company. Earlier this year, the CEO was ousted in favour of a government appointee. Some months later, the company paid a much higher than anticipated sum to secure what was, admittedly, high-quality spectrum. Then there is a sudden urge to expand in Turkey's near abroad. We suspect political motives rather than purely economic ones in both instances. When one factors in the cost of the spectrum, the 4G build-out and the international expansion, what was a pristine balance sheet will deteriorate significantly and return on capital is likely to fall short of our expectations. Consequently, we sold this position, having essentially broken even once dividends are factored in.

We also sold our last shares in UK pub-owner, **Enterprise Inns**. New regulations have forced a change to their business model. While it's perhaps too soon to tell, we believe the new model will prove much less favourable to shareholders. We made decent returns from this investment, albeit not as good as we had expected when we first bought it.

When it came to buying companies, we were much less active. The main stumbling block is valuation. This is not to say that there aren't cheap companies. For those, one needs to look no further than the Materials sector. The trick is finding companies that can generate a suitable return on capital *and* not overpaying. The industrialisation of China has spawned many distortions. One that is not often mentioned is that it allowed average and inferior businesses to accumulate a much better track record of growth and returns than would otherwise have been the case, allowing them to masquerade as superior businesses. The market still insists on paying for history, even though the future may not be quite as kind.

Outlook

The outlook for European equities continues to be mixed. European economies continue to recover and the data is incrementally positive. Credit has stopped contracting and is now growing again, albeit slowly. Unemployment remains high, but is generally falling. Consumers appear increasingly willing to spend. Current accounts are mostly in surplus. And fiscal balance is slowly being restored.

That being said, risks are building. Emerging markets face mounting economic challenges and industrial China continues to slow. One should not underestimate the effect this will have on European companies' earnings. Cheap credit continues to contribute to speculation and increases the risk that companies will do silly things to engineer growth. And, of course, the European political landscape is increasingly fragmenting and drifting away from the centrist politics of yesteryear. Agitation against union is building, with the most immediate risk being a UK referendum, likely as early as 2016.

Equity valuations are high, with investors remaining surprisingly complacent about risk. In this environment we prefer to be defensively positioned. The Fund has 29% of its capital in cash and holds minimal exposure to global cyclicals. The portfolio is skewed to dividend payers, stable growers, self-help stories, Eastern Europe and companies that we expect to benefit from structural changes to their industries. We expect this combination to work well in a flat or falling market, but to lag, should cyclicals rally.

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$20,000 invested in the relevant Fund over five years from 31 December 2010 to 31 December 2015 relative to its benchmark index (in A$) 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.