Platinum European Fund

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Portfolio Manager

Performance

(compound pa, to 31 December 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	6%	26%	15%	17%	12%
MSCI AC Europe Index	3%	16%	8%	13%	3%

*C Class – standard fee option. Inception date: 30 June 1998.
Refer to note 1, page 3.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

Disposition of Assets

REGION	31 DEC 2017	30 SEP 2017	31 DEC 2016
Germany	24%	24%	24%
UK	12%	12%	16%
Switzerland	9%	9%	2%
Austria	9%	10%	9%
Spain	5%	3%	3%
Russia	5%	3%	4%
France	4%	5%	7%
Italy	3%	4%	6%
Denmark	3%	3%	0%
US *	2%	3%	4%
Hungary	2%	2%	3%
Norway	2%	2%	3%
Netherlands	1%	2%	3%
Sweden	0%	0%	1%
Cash	19%	18%	15%
Shorts	-3%	-6%	-1%

* Stocks listed in the US, but predominant business is conducted in Europe.
Source: Platinum Investment Management Limited. See note 3, page 3.

The European economy remains strong. GDP is growing 2.6% per annum, reminiscent of the pre-2008 era. The Eurozone unemployment rate has fallen to 8.8% with, on average, over 7,000 jobs added *daily* in 2017. Inflation remains low. Consumer and business confidence is high. And leading indicators suggest economic momentum continues to build.

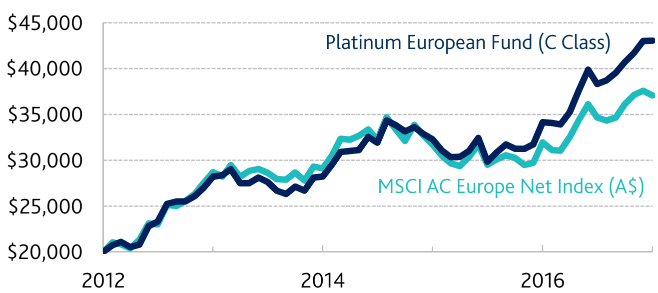
Political concerns have been cast aside. Britain and the European Union have agreed to a 'divorce settlement'. This one-off payment will settle Britain's outstanding obligations, unlocking the next round of negotiations focusing on trade. Evidence of progress is reducing fears of a disruptive schism between Britain and Europe.

Yet, the news is not all good. Political fragmentation remains a reality in most developed countries. Recent federal elections in Germany have demonstrated that even a strong economy isn't enough to shield a nation from this trend. Indeed, Europe's largest economy now faces the prospect of an unwieldy minority government or new elections, both unprecedented in the post-War era.

From January 2018, the European Central Bank (ECB) will halve its bond-buying program to €30 billion per month. However, interest rate rises remain a distant prospect. Indeed, government bond yields fell by 0.1-0.3 percentage points across the major European economies during the quarter.

Value of $20,000 Invested Over Five Years

31 December 2012 to 31 December 2017



Refer to note 2, page 3.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

On currency markets, the British Pound continues to recover from its Brexit-induced sell-off, supported by resilient economic data and progress in negotiations with the European Union. The Euro largely traded sideways against the US Dollar with changing expectations over interest rate differentials and the prospect of US tax cuts dictating the swings. The Czech Koruna continues to appreciate while the Norwegian Krone has weakened despite support from higher oil prices.

The Platinum European Fund (C Class) returned 5.8% for the quarter and 26.0% for the year. This compares to 2.6% and 16.0% respectively for the MSCI AC Europe Net Index (AUD).

Our performance boils down to many stock-specific success stories, rather than any overarching theme. Our best performing positions were a diverse mix of industrials, financials and consumer businesses. Encouragingly, our short positions featured among the small number of stocks in the portfolio that fell, adding to the Fund's performance.

Performance was dragged down by a handful of relatively new investments where business conditions are deteriorating. We are buying these companies because we believe their circumstances will improve in due course and expect patient investors will be richly rewarded. As long as our investment thesis remains intact, we welcome these share price falls as an opportunity to add to our holdings.

Solid stock-picking ensured that the Fund outperformed its benchmark index by a substantial margin over the last 12 months, notwithstanding an average 15-20% cash holding throughout the year.

Changes to the Portfolio

We continue to uncover interesting investment ideas like Munich-based **Siemens AG**, the largest industrial manufacturer in Europe. This 170 year old business has pursued a wide range of activities over the decades with 'electrification' being the common theme. Siemens facilitated the transition of manufacturing from the steam age to the electric age, enabled the electrification of our homes, businesses and streets, and developed machinery widely used in our factories, buildings, cities and hospitals. The company is a world leader in many of its end markets and, unlike many peers, has invested heavily in research and development, ensuring it has a rich pipeline of products for the future. Investors are reluctant to buy it because a sharp downturn in demand for gas turbines is hurting earnings and because it has a significant collection of mature businesses. Consequently, we are able to buy this remarkably successful enterprise for 14 times earnings, a significant discount to both the sector and the broader market.

We are also adding to some existing positions, including **Pandora** and **TechnipFMC**. These are relatively new positions which have cost us money to date, but which we believe can make a lot of money in coming years. Pandora is particularly interesting. Interesting for the amount of money people spend on their frivolous silver trinkets. But even more interesting for its ability to induce professional investors to confuse personal tastes with objective facts. They insist that people shouldn't spend so much on Pandora's products because they wouldn't. They expect demand will evaporate imminently, as they have been expecting for almost a decade! The confirmation bias at play, when it comes to this particular stock, is truly staggering. Rarely does one encounter a stock where investors have such a high proclivity to approach the analytical process armed with the answer, rather than with questions.

We continue to trim positions that have performed very well, namely **Kering** and **Hypoport**.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank	Austria	Financials	4.8%
TechnipFMC	UK	Energy	3.7%
Glencore PLC	Switzerland	Materials	3.5%
Pandora A/S	Denmark	Consumer Discretionary	3.2%
Daimler AG	Germany	Consumer Discretionary	3.1%
Siemens AG	Germany	Industrials	3.1%
Scout24 Holding	Germany	IT	2.4%
Landis+Gyr Group	Switzerland	IT	2.3%
Vodafone Group PLC	UK	Telecom Services	2.3%
IHS Markit Ltd	USA	Industrials	2.3%

As at 31 December 2017.
Source: Platinum Investment Management Limited. See note 4, page 3.

Outlook

The economic climate in Europe is favourable and higher interest rates remain some way off. While political risks continue to fester, the market seems willing to ignore them for now. This is a fairly constructive backdrop for equities.

However, we do note signs of exuberance, or perhaps desperation:

- The phenomenal ascent of Bitcoin.
- European *junk* bond yields falling to 2%, below the yield on 10-year US government bonds.
- Investors buying 100-year bonds yielding 7.9%, from Argentina, a notorious defaulter.
- A painting, *possibly* by Leonardo da Vinci, fetching US$450 million at auction.

While all this is somewhat disturbing, we are comforted by the fact that, on the whole, this exuberance is not being expressed widely in stock markets. True, there are some very expensive stocks in Europe. But there are also large pockets of neglect and we continue to find attractive investment ideas.

Notes

1. Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of the stated unit class of the fund and represent the combined income and capital returns of the stated unit class over the specified period. Returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

   Index returns are in Australian dollars and assume the reinvestment of dividends from constituent companies, but do not reflect fees and expenses. For the purpose of calculating the "since inception" returns of the MSCI index, the inception date of C Class of the fund is used. Where applicable, the gross MSCI indices were used prior to 31 December 1998 as the net MSCI indices did not exist then. Fund returns have been provided by Platinum Investment Management Limited; MSCI index returns have been sourced from RIMES Technologies.

   Platinum does not invest by reference to the weightings of any index or benchmark, and index returns are provided as a reference only. A fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the fund's holdings may vary considerably to the make-up of the index that is used as its reference benchmark.

   The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the fund over the specified five year period relative to the relevant net MSCI index in Australian dollars.

   Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of C Class of the fund and represent the combined income and capital returns of C Class over the specified period. Returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

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3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the fund's exposure to physical holdings and long derivatives (of stocks and indices) as a percentage of the fund's net asset value.
4. The table shows the fund's top 10 long stock positions (through physical holdings and long derivatives) as a percentage of the fund's net asset value.
5. Sector breakdown represents the fund's net exposure to physical holdings and both long and short derivatives (of stocks and indices) as a percentage of the fund's net asset value.
6. The table shows the fund's major currency exposure as a percentage of the fund's net asset value, taking into account currency hedging.

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Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock performance are in local currency terms, unless otherwise specified.

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