Platinum European Fund

Nik Dvornak
Portfolio Manager

Performance

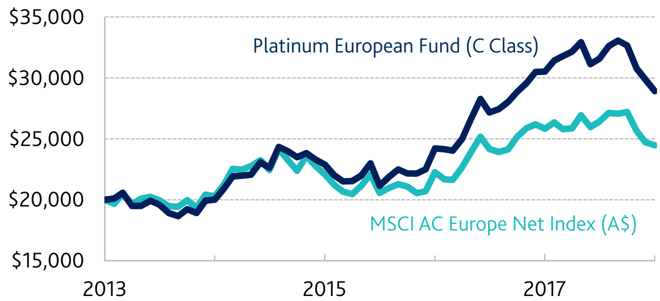
(compound pa, to 31 December 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	-11%	-5%	8%	8%	11%
MSCI AC Europe Index^	-10%	-5%	3%	4%	3%

* C Class – standard fee option. Inception date: 30 June 1998.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country Europe Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.
See note 1, page 4. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 December 2013 to 31 December 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
See notes 1 & 2, page 4.

The Fund (C Class) lost 11.4% of its value over the past three months. Our holdings include a considerable number of companies that are sensitive to the economic cycle. As evidence of a global economic slowdown mounted, the stocks of such companies have suffered disproportionately in recent months.

To balance the cyclical exposure in our portfolio, we held a sizeable cash position. This helped to offset the underperformance of our cyclical stocks, but was insufficient to allow us to outperform a falling market. While we added to our short positions in early October, our moves were not bold enough, in hindsight.

The European economy continues to grow, but has slowed over the course of 2018. The causes of this slowdown have been visible for some time: rising interest rates in the US; a slowing Chinese economy; increasingly belligerent rhetoric on trade tariffs.

We think slower growth in China is the principal cause of the loss of momentum in Europe. However, tougher automotive emission standards, lack of progress on Brexit, Italy's budget stand-off, and concerns over the United States' trade policy also played a role.

The price of crude oil fell over 30% during the quarter. Demand growth is expected to be weaker as the global economy slows. At the same time, supply growth, driven by the prolific Permian Basin in the US, exceeded expectations.

Towards year-end, concerns grew that the US economy, too, was beginning to slow. This is to be expected. Growth was particularly strong in 2018 and the stimulus from recent tax cuts will inevitably wear off in 2019. These concerns amplified the selling pressure on cyclical stocks globally.

Our worst performing stocks were those exposed to weaker auto demand (Valeo -32%), lower oil prices (TechnipFMC -35%, TGS NOPEC -37%), and interest rates (Bank of Ireland -26%). Investors also lost appetite for struggling businesses (Pandora -34%).

Our best performing stocks were those with predictable businesses (Roche +2%) and those where the underlying business is performing particularly well (OTP Bank +9%).

Changes to the Portfolio

Equity markets have fallen considerably over the last three months with many stocks in our portfolio down more than 20% over this period. These businesses are sensitive to the economic cycle and we cannot rule out the possibility that the economy will slow further. What we can do, though, is reassess our investment thesis and the circumstances of each business, examining whether the company has the wherewithal to see it through a recession. Where this is the case, we may choose to add to our position, and have done so in many cases. Markets are skittish and investors are reluctant to buy these cyclical companies today, leaving them to trade on extremely low valuations.

Rather than being aggressive, we have added to those existing positions in a measured way. We continue to retain a significant amount of cash so that we can take advantage of further falls in stock prices, should these occur. Purchases were often funded by the sale of successful investments where the original thesis has largely played out. These include **Sartorius**, **Carnival** and **Provident Financial**. We have also sold all or part of our holdings in **OTP Bank**, **Erste Bank** and **Sberbank**, which have been especially resilient.

Disposition of Assets

REGION	31 DEC 2018	30 SEP 2018	31 DEC 2017
Germany	19%	21%	24%
Switzerland	11%	11%	9%
UK	9%	12%	12%
Norway	9%	10%	2%
Austria	8%	8%	9%
Spain	7%	7%	5%
France	4%	3%	4%
Romania	4%	2%	0%
Poland	3%	0%	0%
US*	3%	3%	2%
Italy	2%	3%	3%
Russia	2%	3%	5%
Ireland	2%	2%	0%
Denmark	2%	2%	3%
Hungary	1%	2%	2%
Netherlands	0%	0%	1%
Cash	13%	13%	19%
Shorts	-8%	-1%	-3%

* Stocks that are listed on US exchanges, but whose businesses are predominantly conducted in Europe.

See note 3, page 4. Numbers have been subject to rounding adjustments.

Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pef.

Commentary & Outlook

For now, the European economy remains robust. Growth has slowed in the second half of 2018, but most leading indicators continue to point to expansion, albeit less convincingly so than a few months ago. The sharp retracement in both business and consumer confidence remains the most worrying sign, although both measures remain at elevated levels.

Europe has done much to address the erosion in competitiveness and rising indebtedness that it experienced in the lead-up to the Global Financial Crisis of 2008. Those countries with the highest imbalances and vulnerabilities have done the most to address them. This leaves the European economy better prepared to cope in an environment of higher interest rates and slower growth than many other parts of the world where indebtedness has continued to grow unabated.

In our view, the greatest risks remain political rather than economic.

Europe is vulnerable to rising trade tensions. To the extent that these tensions undermine global economic growth, Europe will suffer. European multinationals have benefited from the globalisation of supply chains which allowed them to harness the benefits of scale and low-cost labour. They stand to lose these benefits as trade barriers rise. Moreover, if the US and China reach an accommodation, this may only serve to focus US attention on Europe, which runs a larger trade surplus than China these days.

'Brexit' is back in the spotlight. We continue to expect the near-term economic impact to be the deferral of

Net Sector Exposures ^

SECTOR	31 DEC 2018	30 SEP 2018	31 DEC 2017
Industrials	21%	22%	17%
Financials	18%	20%	21%
Health Care	10%	10%	8%
Energy	8%	8%	6%
Communication Services	7%	7%	6%
Consumer Discretionary	7%	9%	11%
Materials	4%	7%	5%
Information Technology	4%	4%	4%
Other	2%	0%	0%
Consumer Staples	-1%	-1%	<1%
TOTAL NET EXPOSURE	79%	86%	79%

^ A major GICS reclassification was implemented during the quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.

See note 4, page 4. Numbers have been subject to rounding adjustments.

Source: Platinum Investment Management Limited.

consumption and investment decisions in response to increased uncertainty. This has been a fact of life for over two years now and should be largely reflected in Britain's economic performance already. When withdrawal is formalised, disruptions are possible in the absence of an organised transition process. However, these should, in our view, be very short-lived as both Britain and the EU stand to lose. For all the talk, the European Union is ultimately a peace project and ostracising Britain is counter to its interest and core principles.

The more interesting debate revolves around Britain's long-term prospects outside the European Union. Britain will have more flexibility and autonomy in government outside the confines of treaty obligations. Its future prosperity will depend on how good a job its political leaders do at making the tough decisions and putting long-term interests above short-term popularity. While the current leadership class may not inspire much confidence, Britain has a centuries-long track record of success without guidance from Europe. It will pay to judge Britain's prospects on the merits of its policy choices, not its membership or otherwise of any economic or political bloc.

The Italian budget dispute temporarily revived fears of a breakdown of the Euro Area and the European Union. At issue was the desire of the governing populist coalition to increase spending, widening the budget deficit to 2.4% of GDP in the process. The economic logic of doing so was tenuous at best. Politically, the payoff would be asymmetric and highly favourable, so it was unsurprising that the Italians were pushing for it.

Brussels pushed back. The initial proposed deficit was not large and a number of Euro Area countries run larger ones. The problem was that Italy has much more debt than other Euro Area states (except Greece), so the starting point is worse. More importantly, Brussels was wary of setting a precedent that might cost them their credibility and encourage others (or indeed the Italians themselves) to keep pushing the envelope. However, compromise was always likely with Brussels acutely aware of the need to tread lightly amidst complaints from segments of the population who feel marginalised by globalisation and resentful towards unelected bureaucrats. This indeed appears to be the case with Italy's parliament passing in the eleventh hour a revised budget with a lower deficit of 2.0% of GDP.

While the economy is slowing and political risk is rising, stock prices have fallen significantly in recent months. As investors, we do not control future outcomes or even the decisions a company makes. The only thing we control is our decision to buy a stock at a given price, or not. The primary risk we take is that we overpay for the prospects of the company we buy.

Our intuition tells us that buying stocks when prices are falling all around us is very risky. But precisely the opposite is true. **As prices fall, it is risk that is evaporating all around us.** Buying shares today is far less risky than it was a few months ago, on average. Not many people can reconcile this logic with their intuition and that creates opportunities. What some of the Fund's most successful investments – Sartorius, Eurofins Scientific, MTU Aero Engines – have in common is that we bought them when markets were collapsing. The current sell-off has been mild by comparison, but the principle at work is very much the same.

We see plenty of opportunities in the market today and we have a significant cash balance to take advantage of them. This is precisely what we have been doing and will continue to do. The sound earnings prospects of the companies we are buying today, and the prices we are paying for them, give us confidence in their ability to generate good returns for the Fund over the long-term.

Net Currency Exposures

CURRENCY	31 DEC 2018	30 SEP 2018	31 DEC 2017
Euro (EUR)	36%	37%	35%
Czech koruna (CZK)	13%	11%	13%
Norwegian krone (NOK)	13%	14%	7%
British pound (GBP)	13%	13%	12%
Swiss franc (CHF)	11%	11%	5%
US dollar (USD)	5%	7%	12%
Polish złoty (PLN)	3%	0%	0%
Hungarian forint (HUF)	3%	2%	4%
Romanian leu (RON)	2%	2%	6%
Danish krone (DKK)	2%	2%	3%
Australian dollar (AUD)	<1%	<1%	3%

See note 5, page 4. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank	Austria	Financials	4.5%
Schibsted ASA	Norway	Comm Services	4.2%
Roche Holding AG	Switzerland	Health Care	3.9%
Glencore PLC	Switzerland	Materials	3.8%
Siemens AG	Germany	Industrials	3.5%
Scout24 Holding	Germany	Comm Services	3.2%
RELX PLC	UK	Industrials	3.2%
TechnipFMC	UK	Energy	3.1%
Siemens Gamesa Renewable	Spain	Industrials	2.7%
IHS Markit	USA	Industrials	2.6%

As at 31 December 2018. See note 6, page 4.
Source: Platinum Investment Management Limited.

Notes

1. Fund returns are calculated using the net asset value (NAV) unit price (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. Fund returns are net of fees and costs, are pre-tax, and assume the reinvestment of distributions. Returns for P Class are net of any accrued investment performance fee.

   The MSCI Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or 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 Index was used prior to 31 December 1998 as the net MSCI Index did not exist then. Fund returns are provided by Platinum Investment Management Limited; MSCI index returns are sourced from FactSet.

   Platinum does not invest by reference to the weightings of the Index. 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. Index returns are provided as a reference only.

   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.

   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 specified Fund over the specified period relative to the specified net MSCI Index in Australian Dollars.
3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices.
4. The table shows, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices. In the case of the Platinum Unhedged Fund, the Fund does not undertake any short-selling. Its net exposures are therefore the same as its long exposures.
5. The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards, and derivatives. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
6. The table shows the Fund's top 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

Disclaimers

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935, trading as Platinum Asset Management (Platinum®). Platinum is the responsible entity and issuer of units in the Platinum Trust® Funds (the "Funds"). This publication contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons') investment objectives, financial situation or needs, and should not be used as the basis for making investment, financial or other decisions. You should read the entire Product Disclosure Statement (including any Supplement(s) thereto) for the Platinum Trust® Funds ("PDS") and consider your particular investment objectives, financial situation and needs before making any investment decision to invest in (or divest from) a Fund. You can obtain a copy of the current PDS from Platinum's website, www.platinum.com.au or by phoning 1300 726 700 (within Australia), 0800 700 726 (within New Zealand) or +61 2 9255 7500, or by emailing to invest@platinum.com.au. You should also obtain professional advice before making an investment decision.

Neither Platinum nor any company in the Platinum Group®, including any of their directors, officers or employees (collectively, "Platinum Persons"), guarantee the performance of any of the Funds, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum). To the extent permitted by law, no liability is accepted by any Platinum Person for any loss or damage as a result of any reliance on this information. This publication reflects Platinum's views and beliefs at the time of preparation, which are subject to change without notice. No representations or warranties are made by any Platinum Person as to their accuracy or reliability. This publication may contain forward-looking statements regarding Platinum's intent, beliefs or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. No Platinum Person undertakes any obligation to revise any such forward-looking statements to reflect events and circumstances after the date hereof.

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

MSCI Inc Disclaimer

All data where MSCI is referenced is the property of MSCI Inc. No use or distribution of this data is permitted without the written consent of MSCI Inc. This data is provided "as is" without any warranties by MSCI Inc. MSCI Inc assumes no liability for or in connection with this data. Please see full MSCI Inc disclaimer at www.platinum.com.au/Terms-Conditions.