Platinum European Fund

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Performance

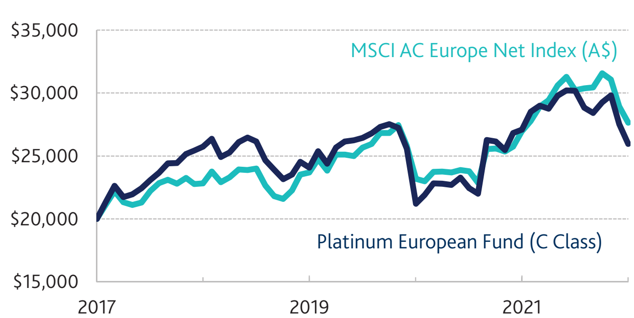
(compound p.a.+, to 31 March 2022)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	-11%	-4%	3%	5%	10%
MSCI AC Europe Index^	-12%	3%	5%	7%	3%

+ Excludes quarterly returns.
* 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 Research Systems.
Historical performance is not a reliable indicator of future performance.
See note 1, page 4. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

31 March 2017 to 31 March 2022



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 Research Systems. See notes 1 & 2, page 4.

The Fund (C Class) returned -11.3% for the quarter and -4.2% for the year.[1]

It was a roller-coaster quarter threaded together by two distinct storms. For the first half of the quarter to mid-February, the market was concerned about rising inflation and higher interest rates, which resulted in expensive companies being sold off. In our previous quarterly report, we mentioned that the 'growth compounder' companies trading on lofty valuations, such as Hermès International, represented high-risk propositions, in our view. Indeed, these stocks fell 20-30% early in the quarter, as it became evident that inflation was here to stay and both the European Central Bank (ECB) and the US Federal Reserve (Fed) were likely to tighten monetary policy faster and more aggressively than the market had priced in. As much as we recognised that some of these companies were quality businesses, their unfavourable risk/reward profile led us to a conscious decision to avoid owning them. Indeed, we opportunistically shorted a dozen or so of such excessively valued stocks and the Fund benefited from their recent derating.

The second half of the quarter was dominated by concerns over Russia's invasion of Ukraine, the related sanctions and disruptions to global trade and money movement, and all the potential ramifications of these events. As at the outbreak of the war, the Platinum European Fund did not (and does not at the time of writing) hold positions in any company that is listed or predominantly operates in Russia or Ukraine. However, we were not entirely immune to the broad market sell-off triggered by the Russian invasion. Our holdings in travel companies, banks and other businesses with Central and Eastern European (CEE) exposures suffered the most, such as **Wizz Air** (-31%) and **Raiffeisen Bank International** (-50%). **Allfunds Group** (-40%), the Madrid-headquartered leading fund distribution platform with more than €1.3 trillion in assets under distribution, was another detractor due to its exposure to softer equity and bond markets and a weaker-than-expected quarterly result.

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum European Fund report are in AUD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

Saras (+27%), an Italian-based oil refinery, was a top performer during the quarter, benefiting from significantly higher diesel prices as sanctions against Russia roiled the energy markets. **Bayer** (+32%), the German pharmaceutical and crop science giant, was another strong contributor to performance as the market became more positive on its agriculture business due to rising prices of grains and other soft commodities.

Politically, Putin's aggression towards Ukraine inspired solidarity and resilience among NATO members, particularly across European nations. It will likely bring countries that are not currently part of the European Union (EU) or NATO (such as the Balkan states, but also formerly neutral states like Finland and Sweden) more closely aligned with these organisations. We also expect to see this shift weaken the populist and nationalist movements that have sprung up in countries such as Hungry and Poland in recent years, and hopefully, will bring these countries closer to the democratic and liberal values represented by the EU. Despite the current situation in Ukraine, we remain optimistic about the investment prospects in the CEE region. The favourable structural characteristics that differentiate these countries from most emerging markets in other parts of the world – an educated workforce, low indebtedness and increasingly robust institutions – have not changed as a result of the war.

Disposition of Assets

REGION	31 MAR 2022	31 DEC 2021	31 MAR 2021
United Kingdom	25%	26%	14%
France	9%	7%	9%
Germany	8%	9%	17%
Switzerland	8%	8%	6%
Romania	7%	7%	8%
Ireland	6%	6%	7%
United States	4%	4%	4%
Netherlands	4%	4%	2%
Italy	3%	2%	2%
Spain	3%	3%	10%
Austria	3%	4%	4%
China	3%	4%	4%
Czech Republic	2%	1%	0%
Finland	2%	2%	3%
Norway	1%	2%	6%
Denmark	0%	0%	1%
Cash	10%	12%	4%
Shorts	-16%	-8%	-7%

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Changes to the Portfolio

As European equity markets panicked following the outbreak of the war in Ukraine, we took the opportunity to add to the names we liked, including some of the CEE-exposed companies in the eye of the storm, such as **Erste Bank**, as well as some high-quality but less-impacted companies, such as **SIG Combibloc**, a Swiss-based industrial company specialising in aseptic (sterilised) packaging solutions.

We re-initiated a position in **Infineon Technologies**, the leading German manufacturer of discrete power semiconductor chips. High-voltage power semiconductors is an interesting sector as the transition to electric vehicles (EV) will accelerate demand for these chips over the coming decade (high-voltage power semiconductor content in EVs is greater than 6x that in an internal combustion engine vehicle). Moreover, Infineon also benefits from the proliferation of EV charging stations, renewable generators and battery storage facilities. Power semiconductors are an attractive 'picks and shovels' trade in the decarbonisation gold rush.

At present, the key themes in the portfolio include post-COVID travel recovery (~20%), banks that we expect to benefit from higher interest rates but are also supported by structural tailwinds (~13%, around two-thirds of which are in the CEE), as well as software and digital media (~8%), clean energy (~7%) and healthcare (~7%), all of which represent favourable long-term growth opportunities in our view.

During the last few weeks of the quarter, we increased our index short positions as protection against potential further market downturns in the event of an escalation of the Russian-Ukrainian war, which would raise the odds for a recession in Europe.

Net Sector Exposures

SECTOR	31 MAR 2022	31 DEC 2021	31 MAR 2021
Financials	29%	31%	25%
Industrials	17%	17%	18%
Consumer Discretionary	15%	14%	9%
Communication Services	7%	6%	8%
Health Care	6%	5%	12%
Energy	3%	2%	6%
Real Estate	2%	2%	3%
Materials	2%	3%	5%
Consumer Staples	1%	0%	-1%
Information Technology	0%	1%	4%
Other	-8%	0%	0%
TOTAL NET EXPOSURE	73%	80%	89%

See note 4, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Outlook

Russia's invasion of Ukraine is the most consequential event in Europe since the fall of the Berlin Wall in 1989. The breadth and severity of the sanctions imposed by Western governments on Russia are far greater than what most people expected, and the level of self-sanctioning by Western companies has been unprecedented. While it will take time to uncover the extent of their impact, we can already anticipate a number of significant ***secular*** changes.

- **Firstly, Europe will need to substantially increase its defence spending.** Germany has already announced a €100 billion fund to equip its army and an ongoing spend of at least 2% of its GDP, which will make Germany the third-largest spender on defence, behind US and China. If all Euro area countries spend 2% of GDP on defence, that would mean an additional budget of €100-120 billion from 2023.[2]
- **Secondly, Europe is facing an urgent need to accelerate the change in its energy supply, away from Russian gas and oil and towards renewable energy sources, liquified natural gas (LNG) from the US,[3] and other sources of natural gas such as Qatar and Africa.** To prevent demand destruction, the vulnerable industrial sectors and households will be subsidised in various forms, such as through tax reductions or fuel rebates, as we have already seen in Sweden, Italy and France. Europe is not alone in having to face higher energy bills; many emerging markets that rely on imported oil and gas will also be significantly impacted. The pain resulting from higher energy prices will be felt throughout the global economy.
- **Thirdly, Europe also needs to focus on reshoring its supply chains back to the EU or neighbouring countries that are part of NATO.** The Russia-Ukraine conflict is an accelerant of this trend which is already in play. Reshoring of production has become a topical issue over the past couple of years as a result of the acute supply chain disruptions experienced during the COVID-19 pandemic, as well as the secular escalation in the geopolitical rivalry between the US and China. It will be important to closely follow any change in the West's trade relationship with China. Many European companies have extensive ties with China in trade and manufacturing, which may now be regarded by investors as carrying a higher risk than they did over the past few decades.

2 Source: Bank of America Global Research.

3 https://ec.europa.eu/commission/presscorner/detail/en/statement_22_2041.

Clearly, Europe is trading off efficiency and low cost for reliability and security of supply chains. This transition will be made at a not insignificant cost: input costs will certainly go up and resource allocation may be less efficient than before, at least initially, all of which will contribute to a reduction in living standards. The role of the EU and the national governments of its member states will increase, both in terms of the allocation of resources as well as the financing of expenditures required to complete the transition. Significant spending on defence and energy infrastructure, coupled with rising inflation, which looks to be more entrenched than previously expected, may provide the ECB with a way out of negative rates.

At the end of the quarter, given the fast-moving situation in Ukraine and the elevated uncertainty in global economies and markets, the Platinum European Fund was positioned cautiously, with a 73% net invested position (10% in cash and 16% in shorts).[4] Despite the immediate challenges facing the region, we are very bullish on the long-term prospects of a re-energised Europe.

4 Numbers have been subject to rounding.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Booking Holdings Inc	US	Cons Discretionary	4.1%
Beazley PLC	UK	Financials	4.0%
Bayer AG	Germany	Health Care	4.0%
Informa PLC	UK	Comm Services	3.8%
Fondul Proprietatea SA	Romania	Financials	3.7%
Banca Transilvania SA	Romania	Financials	3.6%
Airbus SE	France	Industrials	3.6%
SMCP SA	France	Cons Discretionary	3.3%
Saras SpA	Italy	Energy	3.3%
Applus Services SA	Spain	Industrials	3.1%

As at 31 March 2022. See note 5, page 4.
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.

Notes

Unless otherwise specified, all references to "Platinum" in this report are references to Platinum Investment Management Limited (ABN 25 063 565 006, AFSL 221935).

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.

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. [The gross MSCI index was used prior to 31/12/98]. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, the Fund's holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is 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.
2. The investment returns depicted in the graph are cumulative on A$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows the Fund's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "Shorts" show the Fund's exposure to its short securities positions and short securities/index derivative positions, as a percentage of its portfolio market value. "Cash" in this table includes cash at bank, cash payables and receivables and cash exposures through derivative transactions.
4. The table shows the Fund's net exposures to the relevant sectors through its long and short securities positions and long and short securities/index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".
5. The table shows the Fund's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

Disclaimers

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