

Platinum European Fund



Nik Dvornak
Portfolio Manager



Adrian Cotiga
Portfolio Manager

Performance

(compound p.a.⁺, to 30 June 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	6%	26%	4%	11%	11%
MSCI AC Europe Index [^]	9%	24%	8%	10%	4%

⁺ 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.

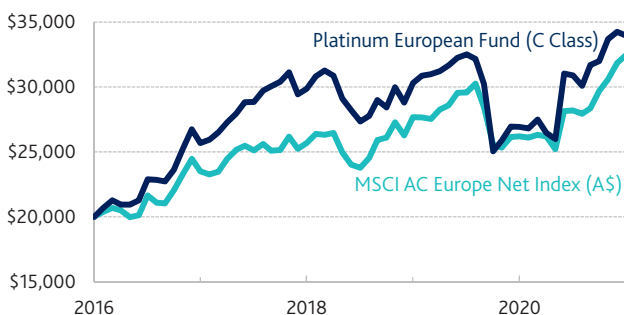
Source: Platinum Investment Management Limited, FactSet Research Systems.

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

30 June 2016 to 30 June 2021



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 6.2% for the quarter and 26.2% for the year.¹

Business sentiment is rebounding throughout Europe, with surveys of business confidence back at 20-year highs. This upbeat outlook is confirmed by leading economic indicators like the IHS Markit Purchasing Managers' Index (PMI). The Composite PMI for the Euro Area now registers 59.2, the highest reading since June 2006, with strength evident in both manufacturing and services.²

Consumer confidence is also recovering rapidly. Employment is just two per cent below its pre-COVID peak with wages growing 2-3% p.a., markedly faster than the average wage growth realised over the past decade. Rising house prices are also helping, with double-digit price appreciation observed in a number of countries.

Loose monetary policy and aggressive fiscal stimulus have clearly helped businesses and consumers weather waves of rolling lockdowns. However, much of the recent improvement in sentiment derives from rising vaccination rates. Continental Europe had a slow start, when compared to the United Kingdom and the United States, but is catching up quickly with around 30% of the population now fully vaccinated in the larger countries.³

In this context, it is unsurprising that European equity markets continued to rally during the quarter. Somewhat counterintuitively, it was typically defensive sectors that led the market higher with Real Estate, Consumer Staples and Healthcare the best-performing sectors. Cyclical stocks generally underperformed, following very strong performance earlier in the year. However, this underperformance was not uniform, with some notable pockets of strength, particularly among automotive and luxury goods producers.

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.

2 Source: All economic data is sourced from <https://tradingeconomics.com/>

3 Source: <https://ourworldindata.org/covid-vaccinations>

Our bank holdings performed particularly well during the quarter. As concerns around the possibility of sustained inflation build, investors are increasingly pricing in the possibility of higher interest rates. Investors are also becoming more comfortable with the improved outlook for future credit losses as the economic environment improves. Banks aside, there were few common threads to the performance of our portfolio with large moves tending to be stock specific.

BioNTech (+105% over the quarter) was the Fund's best-performing holding. Demand is extremely strong for the BioNTech/Pfizer COVID-19 vaccine, which remains effective against all currently known variants of the virus and has a relatively benign side-effect profile. The same cannot be said for many competing vaccines, making it increasingly likely that BioNTech and US-based Moderna will dominate this market for another year or two at least. Investors are also reappraising the possibility that the success of mRNA-based vaccines against COVID-19 can be replicated with various other infectious diseases.

Disposition of Assets

REGION	30 JUN 2021	31 MAR 2021	30 JUN 2020
United Kingdom	17%	14%	12%
Germany	14%	17%	19%
France	10%	9%	6%
Spain	9%	10%	9%
Romania	8%	8%	8%
Switzerland	6%	6%	6%
Ireland	5%	7%	4%
Austria	4%	4%	4%
Finland	3%	3%	0%
China	3%	4%	5%
Italy	3%	2%	2%
Norway	3%	6%	7%
United States	3%	4%	7%
Netherlands	2%	2%	1%
Czech Republic	1%	0%	0%
Hungary	1%	0%	0%
Denmark	0%	1%	3%
Poland	0%	0%	2%
Russia	0%	0%	2%
Cash	8%	4%	4%
Shorts	-1%	-7%	-21%

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

Prosus (-13%) was a notable detractor from our performance. While the company has reported significant operational improvement across its broad array of operating businesses, its stock price tends to track that of its largest investment, Chinese internet giant, Tencent. While Tencent's businesses are growing rapidly and profitably, the regulatory crackdown on dominant internet businesses by Chinese authorities is unsettling the market.

Our low exposure to the best-performing sectors was a key detractor from performance. With respect to Real Estate and Consumer Staples, our low exposure reflects the fact that these sectors were prime beneficiaries of 30 years of falling interest rates. We do not believe this trend can plausibly continue and, indeed, fear it may begin to reverse.

Changes to the Portfolio

Allfunds Group was the most significant addition to our portfolio during the quarter. Their story begins in 2003 when Spanish multinational financial services company Santander developed an internal distribution, clearing, settlement and custody platform. Its purpose was to enable advisors at Santander Private Bank to offer external, best-of-breed managed funds to their wealthy clients. In true Santander fashion they built a cutting-edge platform. This was subsequently marketed to third-party advisor groups who lacked the capability to build their own. Today, this network connects over 1,000 fund management houses from around the world with over 800 (mostly European) advisor networks.

Net Sector Exposures

SECTOR	30 JUN 2021	31 MAR 2021	30 JUN 2020
Financials	31%	25%	22%
Industrials	17%	18%	16%
Consumer Discretionary	11%	9%	17%
Communication Services	9%	8%	8%
Health Care	7%	12%	18%
Materials	5%	5%	0%
Information Technology	4%	4%	8%
Energy	3%	6%	5%
Real Estate	2%	3%	1%
Consumer Staples	1%	-1%	0%
Other	0%	0%	-21%
TOTAL NET EXPOSURE	90%	89%	76%

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

The appeal of this network is that it facilitates seamless transaction processing between counterparties. The crucial element to this is neither infrastructure nor technology, both of which can be quickly replicated. Rather, it is getting thousands of institutions to adopt a common set of protocols, which took almost 20 years.

Over the last decade, the business has grown around 25-30% p.a., although we expect this to slow in the years ahead. While the business is now quite large, the industry is still growing faster than the overall economy and the company has a number of interesting tangential growth options to exploit. With a highly favourable industry structure we expect this to be a significantly larger and more profitable business in five years' time.

The other significant change was a material reduction in our BioNTech holding. The value of this company has more than doubled in the last three months to US\$55 billion. This is explained by the tremendous commercial success of their mRNA-based COVID-19 vaccine, which is partly due to the shortcomings experienced by many competing vaccines. We are mindful, however, that there are still many competing products under development and with such a large prize at stake, these aspirants will be well-funded and highly motivated.

The challenge for BioNTech is to successfully turn the prodigious cashflow they are now receiving into new vaccines, both in the field of infectious diseases as well as oncology, their traditional area of focus. We have tremendous respect for the leadership team, who lack neither ambition nor vision. However, as investors, we are somewhat circumspect about the risk-reward trade-off at current valuations.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Fondul Proprietatea SA	Romania	Financials	4.0%
Banca Transilvania SA	Romania	Financials	3.6%
Airbus SE	France	Industrials	3.5%
Banco Santander SA	Spain	Financials	3.5%
Bank of Ireland Group	Ireland	Financials	3.4%
MTU Aero Engines AG	Germany	Industrials	3.4%
Raiffeisen Bank Intl	Austria	Financials	3.3%
UPM-Kymmene OYJ	Finland	Materials	3.2%
Allfunds Group Plc	UK	Financials	3.1%
Beazley PLC	UK	Financials	3.1%

As at 30 June 2021. 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>.

Outlook

Stock prices have appreciated significantly over the past 12 months. Many indices are at record highs, signs of speculative excess abound and truly attractive investment ideas are difficult to find. We are strongly inclined to adopt an additional measure of caution in this environment.

We have previously outlined the tectonic shifts in the economic and political landscape. These will create considerable challenges to profit optimisation by enterprises at both the global and national level. However, even if we ignore these and focus just on the near term, we struggle to envisage how financial and economic conditions can meaningfully improve from here.

Monetary conditions are extremely loose. Further easing cannot be plausibly expected. Indeed, policy makers are incrementally shifting to a tightening bias. This is clear in the messaging from the latest US Federal Reserve meeting, in the actions Chinese authorities are taking to slow credit growth and contain property prices, and in the numerous rate increases observed in Eastern Europe in the last three months.

Fiscal tightening is also on the cards. In 2020, the United States recorded its largest budget deficit of the post-war era by a considerable margin; amounting to 15% of GDP.⁴ This has been a tremendous boon to European companies that serve American consumers and businesses. However, to stimulate the economy further, this deficit needs to *increase*. Given the quantum of spending and its one-off emergency nature, this is unlikely, infrastructure spending bills notwithstanding. That said, a valid counterargument is that consumer spending may more than offset any fiscal contraction as a significant portion of the fiscal transfers were saved by the household sector.

While the business and financial environment is highly favourable, in our view, prevailing investor sentiment more than reflects this. Asset valuations are skewing toward optimistic rather than realistic. We are also sceptical that the current trajectory of improvement can be maintained. Hence, our predilection to trim positions that have performed well and increase our cash holding.

⁴ Source: Federal Reserve Bank of St. Louis.

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

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 European Fund (the "Fund"). 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 Platinum Trust® Product Disclosure Statement (including any Supplement(s) thereto) ("PDS") and consider your particular investment objectives, financial situation and needs before making any investment decision to invest in (or divest from) the 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 the Fund, 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.

© Platinum Investment Management Limited 2021. All rights reserved.

MSCI Disclaimer

The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).