

# Platinum European Fund



**Nik Dvornak**  
Portfolio Manager

## Disposition of Assets

REGION	30 SEP 2017	30 JUN 2017	30 SEP 2016
Germany	24%	23%	24%
UK	12%	14%	18%
Austria	10%	9%	9%
Switzerland	9%	5%	2%
France	5%	6%	6%
Italy	4%	5%	7%
Spain	3%	3%	5%
Denmark	3%	2%	0%
Russia	3%	3%	4%
US *	3%	4%	4%
Hungary	2%	3%	3%
Netherlands	2%	2%	3%
Norway	2%	2%	2%
Sweden	0%	0%	1%
Cash	18%	19%	12%
Shorts	-6%	-1%	-2%

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

## Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank International	Austria	Financials	5.5%
Daimler AG	Germany	Consumer Disc	3.6%
Glencore PLC	Switzerland	Materials	3.3%
Hypoport AG	Germany	Financials	3.0%
TechnipFMC	UK	Energy	3.0%
Scout24 Holding	Germany	IT	3.0%
Pandora A/S	Denmark	Consumer Disc	2.9%
IHS Markit Ltd	USA	Industrials	2.8%
Erste Group Bank	Austria	Financials	2.7%
Mediobanca SpA	Italy	Financials	2.5%

As at 30 September 2017.

Source: Platinum Investment Management Limited. See note 4, page 3.

## Performance

(compound pa, to 30 September 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	6%	30%	14%	17%	12%
MSCI AC Europe Index	4%	19%	8%	14%	3%

\*C Class – standard fee option. Inception date: 30 June 1998.

Refer to note 1, page 3.

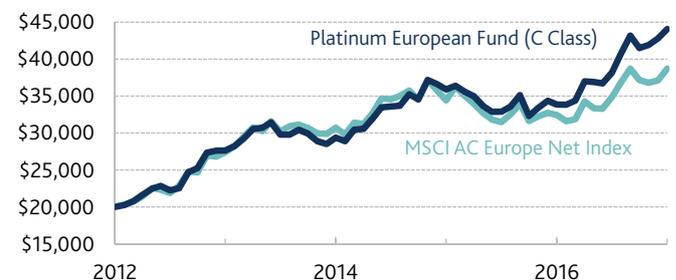
Source: Platinum Investment Management Limited, RIMES Technologies.  
Historical performance is not a reliable indicator of future performance.

European economies continue to recover. Eurozone Gross Domestic Product is growing 2.3% year on year. The unemployment rate has fallen by a full percentage point, to just over 9%. Consumer and business confidence is high. Credit is growing modestly. Inflation remains subdued.

Investors became less anxious about European politics following the outcome of the French presidential election. Also, now that the world has had nine months to experience the Trump presidency, Europe suddenly seems a lot less dysfunctional, at least in a relative sense.

## Value of \$20,000 Invested Over Five Years

30 September 2012 to 30 September 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 as well as currency exposure, updated monthly, please visit <https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds>.

The European Central Bank (ECB) is refusing to entertain the prospect of reducing stimulus until it is convinced that inflationary pressures are entrenched. However, central banks in faster growing European economies are starting to stir. The Czech National Bank raised rates in August, becoming the first European central bank to do so in this cycle while, across the Channel, the Bank of England is hinting at a rate rise by November.

Despite the ECB digging in its heels, financial conditions are tightening. The Euro has appreciated 11% against the US dollar since April. Long-term interest rates are also moving higher. Depending on the country, the yield on 10-year government bonds has increased by 0.5 to 0.7 percentage points from a year ago.

The Platinum European Fund (C Class) returned 6.2% for the quarter and 30.2% for the year. This compares to 4.2% and 19.4% respectively for the MSCI AC Europe Net Index (A\$).

Our performance was adversely affected by two positions in particular.

The shares of Russian payment platform, **QIWI**, fell by a third after a takeover offer failed to gain enough support from shareholders. The stock had almost doubled in the months leading up to this event, so the subsequent stock price fall was not surprising. What was surprising was that the offer was rejected in the first place, as the terms were quite generous.

The other company that weighed on our performance operates in an industry that is experiencing a time of tribulation. The company itself is a strong and well-managed enterprise. When industry conditions improve, we think this business will emerge bigger and more profitable than ever. We are adding to this position as we expect the stock price will be materially higher in a few years' time.

Our large cash holding and exposure to the US dollar also detracted from the Fund's performance.

## Changes to the Portfolio

In recent years, our portfolio has been heavily skewed to banks. During this time, European banks faced numerous perils, including weak economic conditions, negative interest rates, more onerous regulation and political instability. Many investors outright refused to consider them. It was therefore completely intuitive, albeit perhaps to some perversely so, that we should scour this segment of the market for investment opportunities and that our thorough, bottom-up research kept uncovering them.

Today, the above threats have receded, profitability has improved and prospects of growth seem less farfetched. Stock prices have appreciated markedly, and we have reduced some of these positions as a consequence.

We also sold out of **Adidas** and **Jimmy Choo**, at a pleasing profit in both cases.

The sale proceeds, along with new inflows, have been invested in new ideas. Unsurprisingly, these tend to lie in segments of the market that today appear imperiled, in much the same way that banks appeared imperiled a few years ago.

Automakers are one such segment. Investors fret that these dull metal-bashers will become roadkill on the path to an autonomous, all-electric future. Are we really to believe that they can compete against the likes of Google, Tesla and Apple?

Another neglected sector is oil & gas related services. In Europe these engineering firms tend to specialise in extracting oil in deep water environments. The abundant supply of (onshore) shale oil at current prices has called into question the need for this unique set of skills in the near term, while electric vehicles threaten to undermine their existence in the long-term.

Coal miners are similarly shunned by the market. Whether due to regulatory threats or competition from increasingly cheap renewables, new coal plants are unlikely to be built and old ones are likely to be closed down. This does not bode well for future coal demand and investors are understandably unnerved by this prospect.

In addition to the opportunities we have found among these pockets of neglect, we have also uncovered some interesting ideas in the Industrial, Healthcare and Telecom sectors.

## Outlook

We expect economic activity in Europe will continue to expand. Political risks have receded somewhat, although a strong showing by the right-wing Alternative für Deutschland in the recent German election and turbulence in Catalonia will continue to keep markets on their toes. Rate rises remain some way off while bond markets and the appreciating Euro have tightened financial conditions somewhat. Given the strong economy, the market should take this in its stride.

Many of our long-held positions have delivered exceptionally good returns over the years. While valuations are generally high, there are significant pockets of neglect within the market and we have been able to find some genuinely exciting new investment opportunities.

## Notes

1. The investment returns are calculated using the net asset value unit price of C Class (standard fee option) of the relevant Fund and represent the combined income and capital return of C Class for the specified period. Returns are net of fees and costs (excluding the buy/sell spread), 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.

The MSCI index returns have been sourced from RIMES Technologies. Index returns are in Australian dollars and include dividends, but, unlike the Fund's returns, do not reflect fees or expenses. The net MSCI index is used, except, where applicable, the gross MSCI index was used prior to 31 December 1998 as the net MSCI index did not exist then.

For the purposes of calculating the "since inception" returns of the MSCI index, the inception date of C Class of the Fund is used.

Platinum does not invest by reference to the weighting of the index. Underlying assets are chosen through Platinum's individual stock selection process and, as a result, the Fund's holdings may vary considerably to the make-up of the index. Index returns are provided as a reference only.

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

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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 (equity and corporate fixed income securities) 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 exposure (through physical holdings and long derivative positions) 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 any currency hedging.

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