Platinum European Fund

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Overview

- The Fund returned -2.5% for the quarter with banks and energy stocks doing well. Semiconductor-related holdings ASML and Infineon fell during the quarter on concerns over semiconductor demand. Despite these falls we remain confident about their quality, their competitive position and their long-term outlook.
- The ECB tightened rates dramatically over the past 18 months and these moves are starting to bite in the real economy. We are avoiding segments where this tightening is yet to hit. A key focus is asset managers like Allfunds, St James's Place and UBS, which have suffered from the higher cost of money. Interest rates will not rise forever and their clients continue to add to the asset pools managed by these businesses.
- We are also investing in businesses helping Europe move away from its dependence on Russian-supplied oil and gas. This trend is likely to strengthen over time whatever the broader economic outlook.

Performance

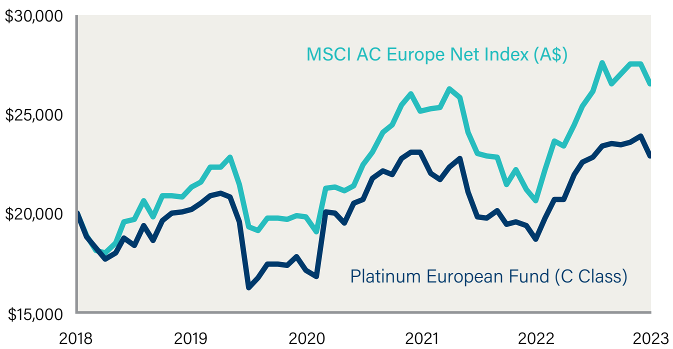
compound p.a.+, to 30 September 2023

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	-3%	22%	10%	3%	10%
MSCI AC Europe Index^	-2%	29%	10%	6%	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 5. Numerical figures have been subject to rounding.

Value of $20,000 invested over five years

30 September 2018 to 30 September 2023



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 5.

The Fund (C Class) returned -2.5% for the quarter.

Banks and Energy were among our best performing investments this quarter.

Rising interest rates allowed banks to expand net interest margins by revising the interest rate they charge on loans ahead of the interest rate they pay on deposits. This margin expansion more than made up for the drag from rising labour costs and weakening loan demand. European banking regulators have also become more amenable to share buybacks, which helped our holdings' performance. These encouraging developments notwithstanding, we decided to trim our holdings in **Banca Transilvania** and **Komercni Banca** and exit our position in **Raiffeisen Bank**. In our view, much of the current tightening cycle is behind us and margin pressure will return if economic activity continues to weaken.

Europe is currently working to re-engineer its energy supply chain. Where it has historically relied heavily on piped Russian oil and gas, the region is now investing heavily in infrastructure to allow them to import seaborne cargoes from a wide range of suppliers. This will improve energy security medium-term but leaves the region vulnerable to near-term supply disruptions. The recent threat of strikes at Australian LNG facilities reminded the market of this vulnerability and kickstarted a rally in European gas prices. Russia also moved to curb exports of refined products which pushed refining margins higher. Early in the quarter we added to our holding of **Torm**, a shipping company that owns refined product tankers.

Our non-bank financials struggled during the quarter. **St James's Place**, a financial advisory network in the United Kingdom (UK) fell -22% and was one of our biggest detractors this quarter. The company also caught investors by surprise when it announced a fee cut in response to a new set of rules for financial firms, known as the Consumer Duty, which was introduced in the UK this quarter.[1] We used the sell-off to add to our position.

German mortgage origination platform, **Hypoport**, was another of our poor performing non-bank financials. Higher interest rates have crimped demand for new mortgages in Germany and the deteriorating outlook caused the stock to fall 23%.

The other notable pocket of weakness in the portfolio was semiconductor stocks. Lithography equipment manufacturer, **ASML**, fell nearly 16% while power semiconductor manufacturer, Infineon fell 17%. These falls reflect concerns over semiconductor demand generally. In our view, the strong competitive position and favourable long-term outlook for these businesses is undiminished.

Commentary

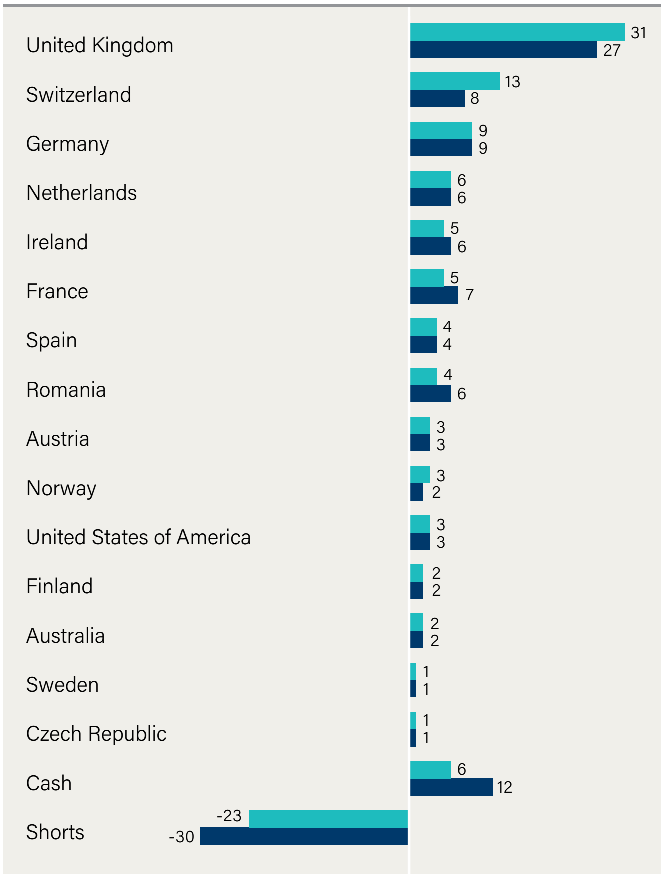
In Europe, investor concerns centre on:

- the current aggressive monetary tightening cycle
- a deteriorating economic outlook
- a weaker than anticipated recovery in China
- energy supply vulnerability.

The European Central Bank has hiked the policy rate by 4.5 percentage points over the past 18 months. Monetary policy tends to affect the real economy with a significant lag and we are now at the point where the brakes are starting to grip. Leading economic indicators rolled over around the middle of this year and are now in contractionary territory. Moreover, while central banks are signalling a desire to pause and assess the impact of their actions to date, there seems little appetite to cut rates. This reluctance to cut is reinforced by a rebound in energy prices, which risk spilling over into core inflation.

1 See St James's Place 2023 Half Year Results Presentation.

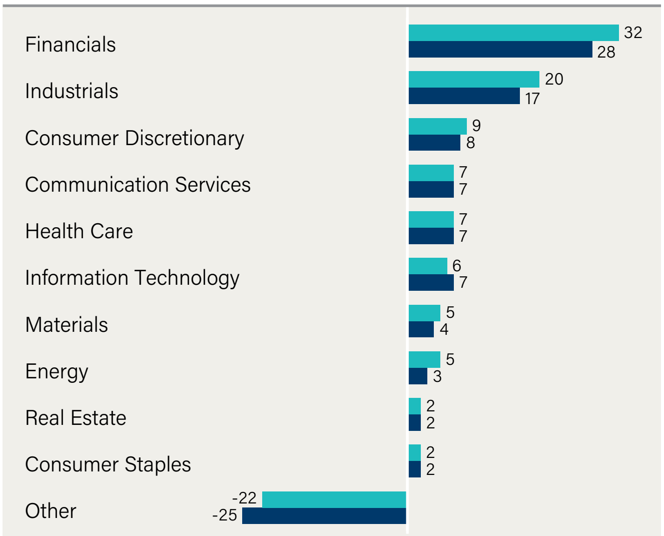
Disposition of Assets %



30 SEP 2023 30 JUN 2023

See note 3, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures %



30 SEP 2023 30 JUN 2023

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Informa PLC	UK	Comm Services	4.9%
Beazley PLC	UK	Financials	4.9%
Applus Services SA	Spain	Industrials	4.5%
Airbus SE	France	Industrials	4.2%
Banca Transilvania SA	Romania	Financials	4.2%
ASML Holding NV	Netherlands	Info Technology	3.8%
Ryanair Holdings PLC	Ireland	Industrials	3.7%
Barclays PLC	UK	Financials	3.6%
Allfunds Group Plc	UK	Financials	3.5%
UBS Group AG	Switzerland	Financials	3.4%

As at 30 September 2023. See note 5, page 5.
Source: Platinum Investment Management Limited.

Given the likely tightening of business conditions, we are avoiding segments of the market where conditions *appear* favourable and where monetary tightening has yet to have meaningful impact. Instead we are focussing our research efforts on those industries where demand tends to respond quickly to monetary tightening, where a downturn is already well underway and where stock prices reflect this.

One such segment is what we call 'Asset Gatherers'. These are business that earn fees based on the value of assets that they advise on, manage or administer. They include companies such as Allfunds, St James's Place and UBS. All three are now large holdings in the Fund.

Whereas monetary policy affects the economy with a significant lag, it affects asset prices almost immediately. Bond markets had a horrific 2022 and there has been no relief in 2023. Equities also had a nasty 2022 before rebounding this year. These asset price falls reduced the value of client portfolios and hence the fees earned by our Asset Gatherers.

Another source of pressure for Asset Gatherers arises from a rebalancing of client portfolios. Over the last decade, low interest rates pushed investors out of cash and into riskier assets. With decent yields available on cash, investors are increasing their cash holdings to more normal levels.

While unhelpful for Asset Gatherers in the short-term, these developments are cyclical. Interest rates will not rise indefinitely and clients' cash holdings will stabilise at some point. In the meantime, clients continue to save every month and contribute those savings to the pool of funds overseen by the Asset Gatherers.

St James's Place recently reported their results for the first half of 2023. Their funds under management stood at GBP 157 billion. This is a record high. Over this latest six-month period funds under management increased 6% or GBP 9 billion, of which GBP 3.4 billion was net new money contributed by clients.[2] Underlying cash profit for the period was 4% higher than the previous year. While growth has slowed, they are weathering the downturn well.

UBS is a new addition to our Asset Gatherers. It's the largest wealth management business in the world with a respected brand in an industry where trust is paramount. Furthermore, it was recently able to acquire its largest competitor, Credit Suisse, for a pittance. Ordinarily such a deal would not pass muster with regulators on competition grounds but this one was done at their urging. Investors are naturally apprehensive. Credit Suisse has a troubled history with risk (mis)management and we share these concerns. However, the improvement in UBS's competitive position and the extremely attractive price at which the deal was done leave a massive margin for error. We believe UBS will be a much more valuable company in the years to come.

Outlook

We are 18 months into an aggressive monetary tightening cycle which is only now starting to make itself felt. Energy prices are rising again. The anticipated recovery in China, an important source of external demand, has fallen short of expectations. While unemployment remains low and inflation is falling, the European economy is weakening. Leading indicators like the Purchasing Managers' Index (PMI) are in contractionary territory, consumer and business confidence measures have rolled over in recent months and bank lending is slowing.

Moreover, we are keeping a weather eye on political risks brewing below the surface. Long-established political equilibria are breaking down and parties that have never governed before are garnering considerable popular support. We note that Alternative for Deutschland is now polling second in Germany, well ahead of the Social Democrats. These new-to-government parties are in many respects unknown quantities and may behave in unpredictable ways. Experience suggests financial markets will not tolerate this well.

None of this is a cause for concern in and of itself. What is concerning is that this uncertain economic and political backdrop is not at all congruent with European equity markets trading just shy of their all-time highs.

The danger of this situation is well-illustrated by the sharp sell-offs we've seen in the shares of once-loved 'quality' companies that have fallen short of high expectations. One example is the leading global wind energy generator, Orsted, which fell 40% this quarter. Another is the digital payments darling, Adyen, which fell over 55%.

Our response to this situation is to avoid 'quality' businesses that are potentially overvalued. We also tend to be more cautious towards cyclical businesses where there is little evidence of a slowdown yet – such as banks and travel-related businesses. We have been trimming these stocks.

On the other hand, we are looking to build positions in companies that were among the first to feel the squeeze from monetary tightening, where expectations have already been reset and where share prices are more attractive. This has led us to build our positions in Asset Gatherers, as discussed. We are also investing in energy-related businesses that will play an important role in transitioning Europe away from Russian-supplied oil and gas. This is a trend we believe will continue to play out, regardless of the economic outlook.

Overall, the portfolio remains cautiously positioned. At quarter end the Fund had around 6% of its capital set aside in cash and a 23% short position.

2 See St James's Place 2023 Half Year Results Presentation.

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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "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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