Platinum European Fund

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Portfolio Manager

Performance

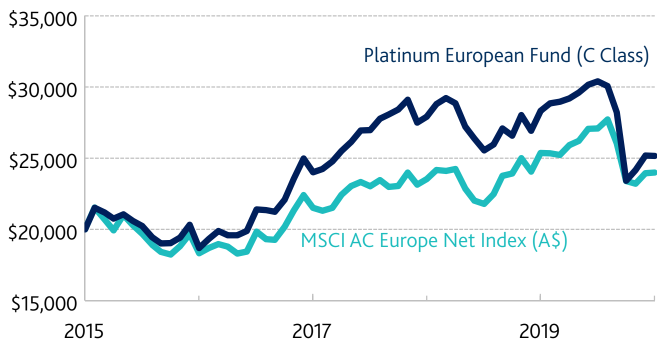
(compound p.a.+, to 30 June 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	7%	-11%	2%	5%	10%
MSCI AC Europe Index^	3%	-5%	4%	4%	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

30 June 2015 to 30 June 2020



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 7.5% for the quarter. Long positions made a strong contribution to performance, while shorts and currency positions detracted. The latter reflected a significant appreciation of the Australian dollar against most European currencies over the quarter.[1]

European equities rallied this quarter. Markets are responding to a couple of positive developments. Lockdowns successfully impeded contagion, progress is being made in the search for vaccines and restrictions on social contact are being eased. Leading indicators point to a sharp rebound in activity. These include restaurant bookings, mall foot traffic, credit card spending, confidence surveys and purchasing managers' indices.[2] Meanwhile, the deluge of fiscal and monetary stimulus continues unabated.

Cyclicals generally performed well, although we observed significant variation within the group. The market seems especially willing to adopt an optimistic assessment of businesses that are expected to benefit quickly from reopening but remains circumspect when it comes to businesses whose recovery is likely to be slower or more difficult. Our best-performing stocks included **retailers**, **semiconductor manufacturers** and **technology** companies. Our healthcare companies performed broadly in line with the wider market, while our financials and travel-related businesses generally lagged.

Changes to the Portfolio

Companies with strong growth prospects and attractive industry economics have been extremely expensive in recent years. This changed briefly in March and April. We were quick to capitalise on this window of opportunity, adding a number of companies to the portfolio, including **software vendors**, **digital media platforms** and various **healthcare-related businesses**. However, the most attractive opportunities were among **travel-related businesses**.

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: OpenTable; propertynews.pl (Poland), company calls; Bank of America Merrill Lynch; INSEE, ZEW, Ifo, GfK; IHS Markit.

Demand for travel tends to be discretionary, leading to a presumption that demand is fickle. This is not the case. Global air travel has grown from 310 million passengers in 1970 to 4.2 billion in 2018. During this 50-year period, passenger volumes only contracted on three occasions (1980-81, 1993 and 2001-02). The worst episode was a 2.8% fall in passenger numbers in 2001-02.[3]

Naturally, 2020 will be the ultimate exception with the industry deep in uncharted territory. Europe's largest carrier reported a 99.6% fall in passenger volumes in April.[4] Few are willing to buy a business in an industry undergoing such a violent contraction in demand, especially when they've never experienced a global pandemic and have no precedent for when or how it might be resolved.

Therein lies the opportunity. Travellers have disappeared but the innate human desire to travel has not. In early June, Ryanair reported that bookings for July/August were tracking 50% below the 2019 level. This was before any borders had reopened and without any prospect of a vaccine being ready, demonstrating just how fierce the desire to travel still is.

3 Source: World Bank.

4 Source: FactSet Research Systems.

Disposition of Assets^

REGION	30 JUN 2020	31 MAR 2020	30 JUN 2019
Germany	19%	20%	15%
United Kingdom	12%	9%	9%
Spain	9%	8%	7%
Romania	8%	8%	6%
United States*	7%	7%	7%
Norway	7%	9%	11%
Switzerland	6%	9%	10%
France	6%	5%	5%
China	5%	4%	0%
Ireland	4%	4%	3%
Austria	4%	4%	7%
Denmark	3%	2%	2%
Italy	2%	4%	2%
Russia	2%	1%	2%
Poland	2%	0%	3%
Netherlands	1%	1%	0%
Hungary	0%	0%	1%
Cash	4%	3%	9%
Shorts	-21%	-12%	-20%

^ With effect from 31 May 2020, our country classifications for securities were updated to reflect Bloomberg's "country of risk" designations. These changes have been backdated to prior periods.
* Stocks that are listed on US exchanges, but whose businesses are predominantly conducted in Europe.
See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

We added three travel-related businesses to our portfolio. Each has attractive industry economics, two or fewer competitors and strong growth prospects. One such company is Amadeus IT Group.

Type a couple of city names and dates into Booking.com and you'll be presented with a menu of airlines, routes, dates, times and prices. You can easily browse various options and book your trip right then and there. The whole process takes minutes and you needn't leave your couch.

Now think back to how it worked before computers. You'd start with a visit to a travel agent to discuss your plans. They would painstakingly call airline after airline, speak to representatives and cobble together a small subset of the options that Booking.com spits at you in under 10 seconds. This process consumed lots of expensive manhours at both travel agencies and airlines. As passenger numbers grew into the billions, automation was needed.

Enter the Global Distribution System (GDS). This is essentially an online marketplace where airlines upload their 'inventory' (number of seats, city pair, date, time, price) and travel agents essentially see what you see on Booking.com. Indeed Booking.com and other 'Online Travel Agencies' are really just portals through which you access a GDS.

Automating distribution was the only way to handle over four billion passengers and countless more enquiries and searches. It also allowed airlines to automate their interactions with travel agents, eliminating the need for an army of representatives. Millions in wage costs were replaced by a EUR 5 fee, per booking, paid to the GDS.

Net Sector Exposures

SECTOR	30 JUN 2020	31 MAR 2020	30 JUN 2019
Financials	18%	18%	18%
Health Care	18%	17%	14%
Consumer Discretionary	17%	14%	8%
Industrials	16%	17%	21%
Information Technology	8%	7%	5%
Communication Services	8%	7%	3%
Energy	5%	6%	9%
Real Estate	1%	1%	1%
Consumer Staples	0%	0%	-2%
Materials	0%	3%	5%
Other*	-17%	-6%	-11%
TOTAL NET EXPOSURE	76%	84%	71%

* Includes index shorts and other positions.
See note 4, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

GDS economics are wonderful. There are just three providers, barriers to entry are high and customers and suppliers are fragmented. Until recently there were no viable substitutes although, nowadays, e-commerce enables airlines to sell directly, circumventing both the travel agent and GDS.

From these roots, **Amadeus** developed software that airlines use to manage their operations. This software handles functions unique to airlines but also vital to their operation including reservation management (e.g. pricing), inventory (e.g. scheduling) and departure control (e.g. check-in).

Amadeus spends hundreds of millions of dollars developing and maintaining these software systems each year. They then sell them to many airlines, for a fraction of what it would cost each airline to do it for themselves. The airline business is also highly volatile so they prefer to pass these fixed costs to Amadeus and pay them EUR 1 per passenger boarded instead.

This software business also has wonderful economics, being relatively sheltered from competition. The software is specialised and the market is relatively small. Opportunities are few and far between, with contracts lasting 10-15 years and hurdle rates to switching being very high. Not only is switching expensive, it entails a small possibility of massive operational disruption, which any CEO or Board would strive to avoid. This makes it hard for new players to gain a foothold.

Reflecting the attractive industry economics of these two business segments, Amadeus made a 28% operating margin and 18% return on capital over the last decade. Profits tripled over the same period. Their growth is tied to passenger volumes, pricing power and expansion in new end-markets, like hotels. Given the current concern over passenger volumes we were able to buy this business for 16x 2019 earnings.

Outlook

Economic activity shows signs of rebounding as economies have reopened. However, investors remain concerned that financial markets are being too forgiving in their assessment of the economic outlook. It remains unclear how quickly or smoothly activity can recover from the economic havoc wrought. Nor is the coronavirus pandemic by any means over, with a second wave of lockdowns a non-trivial possibility. A viable vaccine is seen as the only source of salvation but debate remains around timing and effectiveness.

Europe has coped with the current crisis relatively well. Progress has been made to address macroeconomic vulnerabilities, with current accounts in surplus, government budgets balanced and relatively modest levels of debt across the economy. The economy is more resilient to shocks as a consequence. Moreover, the effectiveness and competence of civil administrations were on full display during this turbulent period. Domestic populism and nationalism remain significant risks, as do trade tensions with the United States and an increased willingness to stand up to China.

Overall, we believe the portfolio is well positioned to benefit from a reopening of the European economy. However, we would caution that our stock ideas will likely take time to work. Our exposure is now more balanced between cheap cyclical businesses and high-quality businesses on reasonable valuations and we have increased our shorts in recent weeks. This should provide some downside protection should the recovery prove more erratic than markets expect.

Net Currency Exposures+

CURRENCY	30 JUN 2020	31 MAR 2020	30 JUN 2019
Euro (EUR)	46%	46%	31%
British pound (GBP)	13%	9%	10%
US dollar (USD)	9%	5%	0%
Romanian leu (RON)	8%	8%	6%
Norwegian krone (NOK)	7%	-3%	15%
Swiss franc (CHF)	6%	9%	25%
Chinese yuan (CNY)	5%	4%	0%
Danish krone (DKK)	3%	2%	2%
Russian ruble (RUB)	2%	1%	2%
Polish zloty (PLN)	2%	0%	3%
Australian dollar (AUD)	0%	19%	4%
Hungarian forint (HUF)	0%	0%	1%

+ With effect from 31 May 2020, our currency risk exposure classifications for securities were updated to match the relevant local currencies of the relevant Bloomberg "country of risk" classifications. These changes have been backdated to prior periods.
See note 5, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Prosus NV	China	Cons Discretionary	4.7%
BioNTech	Germany	Health Care	4.6%
Hypoport SE	Germany	Financials	4.5%
Booking Holdings Inc	United States	Cons Discretionary	4.4%
Raiffeisen Bank	Austria	Financials	4.1%
Fondul GDR	Romania	Other	4.0%
Beazley PLC	UK	Financials	3.9%
Banca Transilvania	Romania	Financials	3.8%
Amadeus IT Holdings	Spain	Info Technology	3.4%
Roche Holding AG	Switzerland	Health Care	3.1%

As at 30 June 2020. See note 6, 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 net exposures to the relevant currencies through its long and short securities positions, cash at bank, cash payables and receivables, currency forwards and long and short securities/index derivative positions, as a percentage of its portfolio market value. Currency classifications for securities reflect the relevant local currencies of the relevant Bloomberg country classifications. 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 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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