# Platinum European Fund

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## Performance

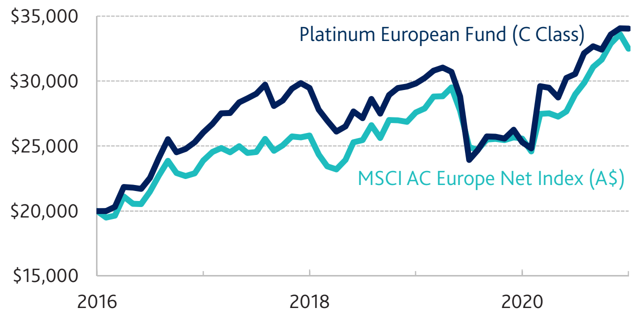
### (compound p.a.+, to 30 September 2021)

| | QUARTER | 1YR | 3YRS | 5YRS | SINCE INCEPTION |
|---|---|---|---|---|---|
| Platinum European Fund* | 5% | 35% | 5% | 11% | 11% |
| MSCI AC Europe Index^ | 3% | 27% | 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 September 2016 to 30 September 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 4.9% for the quarter and 34.6% for the year.[1]

The economic backdrop in Europe remains supportive. Tremendous progress has been made in advancing vaccination programs in recent months. Economies across the region are now reopening, people are returning to work, tourism flows are recovering and everyday life is normalising.

Business and consumer confidence remain at levels consistent with strong economic expansion. Sentiment remains buoyant, capacity utilisation is high and labour market conditions are tightening. Both the rate of unemployment (7.6%) and long-term unemployment (3.2%) are near historic lows. Competitiveness has been maintained with the Euro Area current account balance recording a healthy surplus of 3% of GDP.[2]

However, a number of concerns cloud the outlook. With winter approaching, the threat of another round of lockdowns looms. China, a key trading partner, continues to wrestle with localised COVID outbreaks, which are constraining economic growth and disrupting supply chains. Shortages are appearing in many markets including natural gas, semiconductors and container shipping. The shortage of skilled workers is acute.

With inflation running at 3% p.a., well above the European Central Bank's (ECB) 2% target, price pressures and interest rates will likely dominate the investment debate. The ECB is looking increasingly isolated in insisting that inflationary pressures are transitory. Their counterparts in Russia, Czechia, Hungary and Norway have already raised rates and signalled an intent to continue doing so. The US Federal Reserve is turning more hawkish, while the Chinese authorities are acting to slow credit growth and property price appreciation.

Our best-performing stocks over the quarter were **Hypoport** (+34%), together with a number of our bank holdings. Hypoport is a technology platform that links banks and mortgage brokers throughout Germany, creating a national mortgage market. Banks are benefiting from the strong economic recovery and the prospect of higher rates.

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/

The main detractors were **ASOS** (-39%) and **Prosus** (-16%). ASOS is an online fashion retailer that continues to grow rapidly in the UK and Europe, but weaker-than-expected growth in the US disappointed investors. Prosus continues to suffer from weakness in the stock price of Chinese internet giant Tencent, its largest investment.

## Changes to the Portfolio

Soon after I (Nik) joined Platinum, 15 years ago, a team of ours returned from a two-week trip meeting companies in Europe. The topic *du jour*? Decarbonisation and the clean energy revolution. Investors were particularly enraptured by the wind and solar power industries. Many of the companies our team met had tremendous growth prospects and were hungry for the capital required to fulfil these ambitions. As it turned out, the capital was raised, the productive capacity was built and European power generation was revolutionised. And most of the companies involved either failed or came close to it. Names that spring to mind from those days include Vestas Wind Systems, a current market darling. Their shares surged more than five-fold in under three years before crashing 95% in the subsequent five years. Another one is Norwegian polysilicon producer REC, which collapsed even more spectacularly.

### Disposition of Assets

| REGION | 30 SEP 2021 | 30 JUN 2021 | 30 SEP 2020 |
|---|---|---|---|
| United Kingdom | 18% | 18% | 12% |
| Germany | 10% | 13% | 18% |
| France | 9% | 10% | 8% |
| Spain | 8% | 9% | 9% |
| Switzerland | 7% | 6% | 8% |
| Romania | 6% | 8% | 8% |
| Ireland | 5% | 5% | 5% |
| Austria | 4% | 4% | 4% |
| Italy | 3% | 3% | 2% |
| China | 3% | 3% | 4% |
| United States | 3% | 3% | 6% |
| Finland | 3% | 3% | 0% |
| Netherlands | 2% | 2% | 1% |
| Norway | 2% | 3% | 7% |
| Czech Republic | 1% | 1% | 0% |
| Hungary | 1% | 1% | 0% |
| Denmark | 0% | 0% | 2% |
| Russia | 0% | 0% | 2% |
| Poland | 0% | 0% | 1% |
| Cash | 13% | 8% | 2% |
| Shorts | -3% | -1% | -4% |

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

Correctly picking a theme is not enough. Good stories attract capital. That capital is turned into the vast productive capacity needed to meet those ambitions. This commitment is irreversible, the capacity often cannot be applied to any other purpose and usually depreciates rapidly. Nor does end demand cooperate. It evolves in a volatile manner and when it falls short of expectations, even temporarily, the carnage can be devastating. Correctly characterising the underlying business is far more important than identifying the thematic.

In the years that followed, we persisted but were more circumspect. We even invested in wind turbine makers, **Siemens Gamesa** and **Nordex**, in 2018. Their growth prospects were as appealing as ever, but what convinced us was the dramatic rationalisation of the product assortment and consolidation of competition. Moreover, these businesses now earn lucrative and stable income servicing the installed fleet, leaving them less susceptible to demand fluctuations.

Hydroelectric power is a big beneficiary of renewables' growing share of power generation. Reduced investment in coal and gas should reduce supply and lead to higher prices. Carbon prices are also likely to rise over time as emission limits bind and credits are withdrawn. These factors will lead to higher power prices, benefiting hydroelectric producers who can produce baseload power at almost zero marginal cost. Secondly, as renewables' share grows, grid stability becomes a problem due to the intermittency of solar and wind. Hydroelectric reservoirs can provide a lot of power at very short notice. This is highly profitable because power prices can surge to extreme levels during imbalances. Our hydroelectric power investments included **Andritz**, one of three global manufacturers and servicers of hydroelectric turbines, and **Fondul Proprietatea**, which owns a share in Romania's extensive hydroelectric infrastructure.

### Net Sector Exposures

| SECTOR | 30 SEP 2021 | 30 JUN 2021 | 30 SEP 2020 |
|---|---|---|---|
| Financials | 30% | 31% | 22% |
| Industrials | 17% | 17% | 19% |
| Consumer Discretionary | 12% | 11% | 13% |
| Communication Services | 5% | 9% | 10% |
| Health Care | 5% | 7% | 17% |
| Materials | 5% | 5% | 2% |
| Information Technology | 4% | 4% | 6% |
| Energy | 3% | 3% | 4% |
| Real Estate | 2% | 2% | 2% |
| Consumer Staples | 0% | 1% | -1% |
| TOTAL NET EXPOSURE | 83% | 90% | 94% |

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

We also invested in the electrification of passenger cars, although our holdings were somewhat tangential. Rather than buying growth for growth's sake, we sought businesses with favourable economics. This led to a position in **Infineon**, the leading producer of power semiconductors. Infineon is highly profitable, favourably positioned and should enjoy a huge step up in demand as electric vehicles take share from conventional ones. We also owned **Glencore**, a miner of both copper and cobalt, materials essential to this transition.

Over the last year, we exited most of these holdings. Investor enthusiasm for the 'green revolution' is becoming feverish and we feel there are better opportunities elsewhere.

Plastic waste is a massive pain point for food and beverage companies, which are prolific users of plastic packaging. They are under tremendous pressure to address this and are turning to carton packaging as one alternative. Consumers are used to carton packaging. It was once common for milk and orange juice and the fact that fast-growing, trendy, products like milk alternatives (soy, almond, oat milks) and coconut water almost always come in cartons demonstrates that carton packaging resonates strongly with conscientious consumers. Carton packaging is growing steadily in various beverage categories and is even gaining ground in soup, yoghurt and certain foods (diced tomatoes).

There are only two global companies producing carton packing equipment and consumables for the food and beverage industry. They are highly profitable with high margins and high returns on capital. Their customers desperately want innovation and are willing to pay for it. We hold one of these companies in our portfolio.

## Top 10 Holdings

| COMPANY | COUNTRY | INDUSTRY | WEIGHT |
|---|---|---|---|
| Raiffeisen Bank Intl | Austria | Financials | 3.8% |
| Banca Transilvania SA | Romania | Financials | 3.7% |
| Airbus SE | France | Industrials | 3.6% |
| Beazley PLC | UK | Financials | 3.4% |
| Allfunds Group Plc | UK | Financials | 3.4% |
| Saras SpA | Italy | Energy | 3.4% |
| Prosus NV | China | Cons Discretionary | 3.2% |
| Bank of Ireland Group | Ireland | Financials | 3.2% |
| Banco Santander SA | Spain | Financials | 3.1% |
| Booking Holdings Inc | US | Cons Discretionary | 3.1% |

As at 30 September 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.

Carton is made from wood, which is a renewable and biodegradable raw material. However, carton packing still requires thin plastic films, like those used in disposable coffee cups. Using carton reduces plastic consumed but doesn't eliminate it. A different way to attack the problem is not to reduce plastic but to make it greener. **UPM-Kymmene Oyj**, a Finnish forest products company we hold, is scaling up production of plastics from wood. This solves the fossil fuel input problem although it's the same output so it's still not biodegradable. Other companies are developing new plastics that are biodegradable but these are still at an early stage.

Innovation is also desperately needed in aviation fuel. The current generation of jet engines is 15% more fuel efficient than the last. However, passenger growth is so high that it is simply overwhelming these improvements, making aviation one of the only sources of rising carbon emissions in Europe. This will not be allowed to stand.

Alternative fuels exist and can be seamlessly blended with conventional fuel. No engine modification is needed. Instead of being derived from crude oil, these fuels are derived from wastes and residues, such as used cooking oil and animal/fish fat waste. Collection is very expensive but the real shortcoming is that there is simply not enough raw material input for our needs. The most promising alternative is lignocellulosic-based aviation fuel, which will be derived from forest products. Once again, UPM is developing this product and building capacity to supply this potentially large market.

Overall, around 8% of our capital is invested in the 'green revolution' theme.

## Outlook

Equity markets have rallied well past their pre-COVID highs. Supporting this has been a synchronised economic recovery and extremely accommodative monetary and fiscal conditions across the globe.

It is difficult to see how conditions improve from here. Fiscal contraction seems inevitable. Rising inflation will press central banks to dial back the monetisation of government debt and raise interest rates. Meanwhile, ongoing supply disruptions makes planning difficult and the operating environment riskier for many enterprises. The labour market warrants particular attention. The suspension of fiscal transfers and reopening of borders seems inevitable. If this doesn't alleviate labour shortages, markets will face considerable challenges in coming quarters.

During the quarter we trimmed a broad range of holdings. Our cash position now amounts to around 13% of our capital. Our tendency is to increase this further.

## 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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