

Platinum European Fund



Adrian Cotiga
Portfolio Manager



Nik Dvornak
Portfolio Manager

Performance

(compound p.a.⁺, to 30 September 2022)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	-4%	-19%	-3%	1%	10%
MSCI AC Europe Index^	-4%	-18%	-1%	2%	3%

⁺ Excludes quarterly returns.

* C Class – standard fee option. Inception date: 30 September 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.

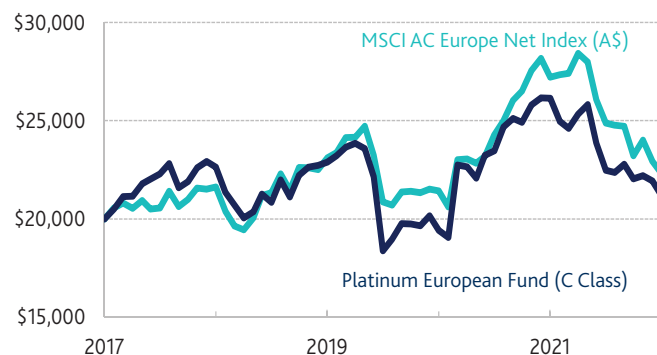
Source: Platinum Investment Management Limited, FactSet Research Systems.

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 2017 to 30 September 2022



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 -3.9% for the quarter.¹

European equity markets ended the quarter moderately lower. Higher-than-anticipated US inflation data was released in September. In response, the US Federal Reserve (Fed) raised its expected path for interest rates to 4.5-5.0% by the end of 2023 and many other central banks echoed this anti-inflation rhetoric. Investors are increasingly concerned that central banks will overreact, triggering a deeper-than-necessary recession. This ignited further appreciation in the US dollar and a sell-off in bonds and equities.

In late September, the Truss government delivered a mini-budget which featured significant tax cuts targeted at high-income earners in the UK. Wanton fiscal stimulus risks undermining efforts to control inflation leading to even higher inflation and interest rates. In this case, it may simply pile economic pain on average households while boosting discretionary income for the wealthy. The currency and bond markets were not amused, with longer-term interest rates spiking and the British pound collapsing to its lowest level against the US dollar since the Revolutionary War.²

For Europe, inflation remains a key challenge. While inflation rates are similar to those in the US, core inflation is lower in Europe. Europe avoided the frenzied US fiscal spending that followed the COVID outbreak. European inflation is driven more by the depreciating euro and the decision to end reliance on Russian energy fuels. Thus, the outlook for inflation and interest rates is more benign in Europe, although the disruption to energy supplies renders it more economically vulnerable in the near term.

Unemployment remains very low in the euro area, with even youth unemployment at record lows. However, concerns around energy availability have devastated consumer confidence, which is now well below its 2009 and 2020 lows. Consumers are battening down the hatches and holding back on spending. This is now being noted in companies' earnings guidance.

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 <https://www.exchangerates.org.uk/articles/1325/the-200-year-pound-to-dollar-exchange-rate-history-from-5-in-1800s-to-todays.html>

Energy, Utilities, and Financials were the best-performing sectors over the quarter, while Healthcare and Technology fared the worst.

Our best-performing stocks were Financials: **Beazley** (+13%), **Bank of Ireland** (+9%), and **Raiffeisen Bank International** (+18%). Financials benefit initially from higher interest rates, although there are diminishing returns at play and the threat of windfall taxes looms large.

Our worst-performing stocks were German fintech **Hypoport** (-52%) and Italian oil refiner **Saras** (-29%).

Hypoport owns the largest independent mortgage broker network in Germany. They noted that profits will fall short of expectations because consumers are delaying buying property. Fortunately, the company will continue to harvest trailing income from its interbank mortgage network, which will see them through this lean period. This company has been a very successful investment for us over many years. While we had sold much of our holdings in recent years, it looks to be an interesting proposition once more at current prices.

Saras is an oil refiner that is dependent on domestic refining margins. Having risen to unprecedented levels, these margins contracted somewhat this quarter, although they remain incredibly high. Concerns over windfall taxes and additional diesel exports from China also weighed on the stock.

Disposition of Assets

REGION	30 SEP 2022	30 JUN 2022	30 SEP 2021
United Kingdom	23%	22%	18%
France	8%	7%	9%
Romania	8%	8%	6%
Switzerland	7%	8%	7%
Germany	7%	7%	10%
Ireland	6%	6%	5%
Austria	5%	4%	4%
Netherlands	4%	4%	2%
United States	4%	3%	3%
Spain	3%	3%	8%
Italy	2%	4%	3%
China	2%	2%	3%
Finland	2%	2%	3%
Czech Republic	2%	2%	1%
Sweden	1%	1%	0%
Norway	1%	1%	2%
Belgium	1%	1%	0%
Cash	13%	16%	13%
Shorts	-25%	-26%	-3%

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

Changes to the Portfolio

Major European equity indices have fallen roughly 20% over the last year. The euro has also depreciated around 18% against the US dollar over this period. One should be mindful that large multinationals, which earn a significant portion of their income in US dollars, feature heavily among European-listed companies. Thus, the de-rating of European stocks has actually been much more significant than it appears at face value.

During the quarter, we closed the remainder of our 'valuation' shorts. These were mostly high-quality businesses that traded on very high valuations. We have just three individual stock shorts, all targeting businesses that benefited temporarily from COVID-related disruptions and now face an increasingly challenging environment.

We also trimmed some of our better-performing holdings like **Saras** and **Beazley**. Note that Saras has performed extremely well this year (+78%), the recent pullback notwithstanding.

In recent reports, we highlighted how difficult it was to find attractive investment ideas that were sufficiently different from those we already owned. The September sell-off has induced us to dip our toes in the water and initiate positions in two global-branded goods companies. We have tracked both companies for many years, observing how their strategies and market positions were evolving and assessing management's operational capability and capital discipline. Our initial positions are small, but we hope to add to them if valuations fall further. Once the positions are established, we look forward to describing them in more detail.

Following these changes, the portfolio is 62% net invested with shorts and cash amounting to 25% and 13% of our capital, respectively.

Net Sector Exposures

SECTOR	30 SEP 2022	30 JUN 2022	30 SEP 2021
Financials	30%	29%	30%
Industrials	13%	15%	17%
Consumer Discretionary	13%	10%	12%
Health Care	8%	7%	5%
Communication Services	6%	6%	5%
Information Technology	5%	1%	4%
Materials	4%	3%	5%
Real Estate	2%	2%	2%
Energy	2%	4%	3%
Consumer Staples	2%	2%	0%
Other	-22%	-22%	0%
TOTAL NET EXPOSURE	62%	58%	83%

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

Outlook

European investors have plenty to fret over. On the eastern frontier, fierce Ukrainian resistance has ground Russia's invasion to a halt. Russia's military capability is almost irreparably eroded, while successful counter-offensives have liberated territory and left Russia's army precariously exposed. Not only has this laid bare the fallacy that Russian victory is inevitable, it has also raised the possibility, however slight, of regime change in Russia.

Ukrainian grit and strength of character have greatly improved the base case outcome for the region. Europe feared having a powerful, aggressive Russia sniping at its eastern flank. Now it is more likely to face a defanged Russia and incorporate a strong, free, and potentially prosperous Ukraine into its community of nations. However, if the base case has improved, the tail risks have dangerously deteriorated. Russia is escalating. Gas supply to Europe has largely ceased. Up to 1.2 million men are being mobilised to fight the war. Threats of nuclear war are being brandished about. Investors are unlikely to sleep easily for some time yet.

With winter approaching, the sufficiency of energy supplies is another huge concern. This problem has many moving parts. How cold will the winter be? How much gas can be stored? To what extent can households be induced to reduce indoor temperatures? To what extent can industrial users switch from gas to oil?

Energy rationing may be likely, but it is also likely to be manageable. Governments are already announcing plans to shield households and small enterprises from the effects of higher energy prices. Thanks to COVID, bureaucrats now have experience in implementing furlough schemes to manage temporary shocks to the factors of production.

However, government support entails additional spending and borrowing, fuelling concerns of another sovereign debt crisis. We do not think this is likely when real interest rates are deeply negative; government debt is being inflated away, not spiralling out of control. However, if recession and disinflation take hold, this will be a serious concern.

What appeals to us about environments of elevated uncertainty is that they compress time frames. Investors tend to obsess over the here and now, working to decipher the minutiae of current issues. This can lead to tunnel vision, where the more they focus on understanding a particular outcome, the more they believe it will happen and extrapolate things, losing sight of other possible outcomes.

Our approach to investing requires us not to pontificate on *what is*, but rather to think broadly and independently about what *may be*. In doing this, we are not necessarily seeking to identify the outcomes that are most likely, but rather those that are most mispriced.

Almost invariably, what agitates investors the most today will be a distant memory a few years hence. Think back two and a half years ago to the early days of the COVID pandemic. People were ordered to stay home. Labour was removed from the economy. Would we catch the virus? Would we lose our livelihoods? Would we be able to source food and essentials? Would we be able to pay the mortgage? Would there ever be toilet paper in supermarkets again?! Two years on, and most people no longer harbour these anxieties. New ones have taken their place: Russia, gas, sovereign debt, recession.

We are mindful that it is in **bear markets** that an investor lays the foundation of their future performance. We are managing the Fund accordingly. We are moving slowly in anticipation of even better opportunities as the recession hits, but we are increasingly optimistic that we will soon be in a target-rich environment.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Beazley PLC	UK	Financials	4.1%
Fondul Proprietatea SA	Romania	Financials	4.1%
Booking Holdings Inc	US	Cons Discretionary	3.9%
Airbus SE	France	Industrials	3.6%
Banca Transilvania SA	Romania	Financials	3.6%
Bayer AG	Germany	Health Care	3.5%
Informa PLC	UK	Comm Services	3.4%
Raiffeisen Bank Intl	Austria	Financials	3.1%
Barclays PLC	UK	Financials	2.8%
ASML Holding NV	Netherlands	Info Technology	2.8%

As at 30 September 2022. 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>.

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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