Platinum European Fund

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Portfolio Manager

Performance

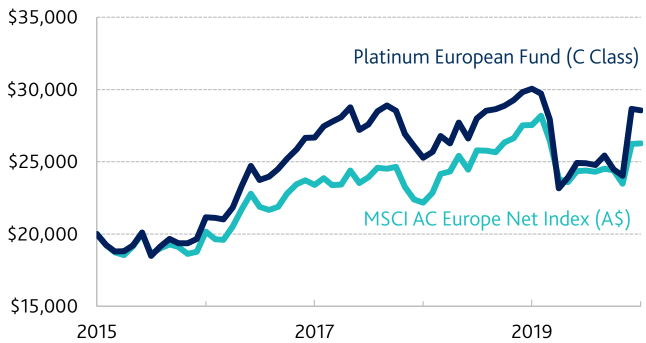
(compound p.a.+, to 31 December 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	17%	-5%	2%	7%	11%
MSCI AC Europe Index^	8%	-5%	4%	6%	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

31 December 2015 to 31 December 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 16.6% for the quarter and -5.0% over the year.[1]

European equity markets rallied significantly over the quarter. The mood was initially grim, with investors anxious about rising COVID-19 infection rates. However, sentiment turned sharply following the announcement of Phase 3 trial results for BNT162b2, a leading COVID-19 vaccine candidate developed by BioNTech and Pfizer.

This vaccine demonstrated 95% efficacy. While the data are only preliminary, the market had been expecting efficacy in the 70-75% range typical for flu vaccines. A very similar vaccine developed by US-based Moderna, reported almost identical efficacy soon after.

The availability of multiple, highly effective vaccines is crucial because no single vaccine can be produced in enough quantity to suppress the pandemic. While the COVID-19 ordeal is by no means over, the availability of highly effective vaccines significantly truncates the distribution of adverse outcomes. This is what markets are reacting so positively to.

The Energy, Financials and Consumer Discretionary sectors led the market higher, while Healthcare and Consumer Staples lagged. Export-facing sectors remain in favour, reflecting the strong economic recovery in China and the absence of a second wave of infections in that country.

The best-performing stocks in the Fund over the quarter were banks (**Bank of Ireland** +109%, **Banco Santander** +55% from entry point during the quarter) and travel-related industrials (**MTU Aero Engines** +50%, **Airbus** +45%). Positions that detracted from the Fund's performance were mostly healthcare stocks (**MorphoSys** -13%, **Roche** -2%) and internet stocks (**ASOS** -7%, **Schibsted** -11%).

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.

Changes to the Portfolio

Banco Santander was added to the portfolio early in the quarter, significantly increasing our exposure to European banks.

The negative narrative surrounding European banks is simple. There is a strong, prevailing belief that interest rates in Europe will not rise. Not this year, not next year and perhaps not even this decade. Negative interest rates are a tax; one that banks can pass on to customers or retain for shareholders. Currently shareholders are taking the hit. The other grievance is that the regulatory agenda is one-sided. Shareholders' ability to earn fair compensation for risking their capital is relentlessly undermined by overzealous regulators.

Such strongly held views are typically painfully instilled over many years and can numb some investors to positive developments or counterevidence. Consider the absence of discussion about the following.

- European banks entered this crisis well capitalised. No major European bank raised capital or had difficulty accessing funding this year.
- Governments reacted quickly to support the household and business sector during the pandemic, ***effectively nationalising credit risk***.
- Banks with overlapping footprints are merging with the blessing of regulators.
- Costs are being cut aggressively.
- Negative interest rates are increasingly being passed on to both business and household depositors, while monthly account fees are rising sharply.
- Prior to the pandemic, regulators had allowed increasing dividend payouts and eased some capital requirements.

European banks were extremely unloved and we felt the case for owning them was compelling, albeit highly uncomfortable.

Banco Santander is a multinational banking group. Its main operations are in Spain, UK, USA, Brazil and Mexico. The highly profitable operations in Brazil and Mexico are the jewels in the crown. The US business skews to the riskier end of consumer lending which, properly managed, can be highly profitable. On the other hand, the UK and Spain are highly competitive markets with weak credit demand and low interest rates. Earning an adequate return there will require improvement in the external environment and management action.

Disposition of Assets

REGION	31 DEC 2020	30 SEP 2020	31 DEC 2019
Germany	15%	18%	17%
United Kingdom	13%	12%	7%
Spain	10%	9%	6%
France	9%	8%	4%
Switzerland	9%	8%	8%
Romania	7%	8%	7%
Ireland	7%	5%	6%
Norway	6%	7%	11%
United States	6%	6%	11%
Austria	4%	4%	6%
China	4%	4%	3%
Finland	3%	0%	0%
Italy	2%	2%	3%
Netherlands	2%	1%	0%
Denmark	1%	2%	1%
Australia	0%	0%	3%
Poland	0%	1%	2%
Russia	0%	2%	1%
Cash	3%	2%	2%
Shorts	-14%	-4%	-5%

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

Net Sector Exposures

SECTOR	31 DEC 2020	30 SEP 2020	31 DEC 2019
Financials	25%	22%	24%
Industrials	19%	19%	19%
Consumer Discretionary	11%	13%	13%
Health Care	11%	17%	17%
Communication Services	9%	10%	5%
Energy	6%	4%	8%
Materials	5%	2%	5%
Information Technology	3%	6%	3%
Real Estate	2%	2%	2%
Consumer Staples	0%	-1%	-3%
Other	-8%	0%	0%
TOTAL NET EXPOSURE	83%	94%	92%

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

We paid 1.5x earnings before tax and loan loss provisions for this business. Thinking back to the Global Financial Crisis (2008-09) and the European Sovereign Debt Crisis (2012-13) banks rarely traded below 2.5x on this measure. Yet those were true existential crises. In 2009, the fear was not that some banks would fail but that ***all*** banks would fail. In 2013, the fear was that the financial order in some large developed economies would collapse entirely. By contrast, in 2020 the concern is simply that banks face reduced profitability. The share price action of European banks in 2020 was essentially an almighty dummy-spit by investors, aggravated by years of successive disappointment, which gave us a rare buying opportunity.

The other major change to the portfolio was that we trimmed a number of our larger positions. For context, earlier in the year, we used the sharp fall in equity prices to set the portfolio on an aggressive footing. We reduced our cash to a minimal amount, using it to buy what we considered to be superior businesses that had been abandoned by panicked investors. We also largely eliminated our short positions.

Over the last six months, equity markets rallied significantly and a number of individual holdings had come to account for a large share of our capital. We are mindful that individual businesses are subject to idiosyncratic shocks and felt it prudent to trim these positions. The companies we trimmed included **BioNTech**, **Hypoport**, **Amadeus** and **Bank of Ireland**.

We have also added an index short position to provide some downside protection as many segments of the market have surged to new highs.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Booking Holdings Inc	US	Cons Discretionary	4.1%
Fondul GDR	Romania	Financials	3.9%
Raiffeisen Bank	Austria	Financials	3.8%
Prosus NV	China	Cons Discretionary	3.7%
Bank of Ireland	Ireland	Financials	3.7%
Hypoport SE	Germany	Financials	3.6%
MTU Aero Engines	Germany	Industrials	3.6%
Applus Services	Spain	Industrials	3.6%
Informa PLC	UK	Comm Services	3.5%
Beazley PLC	UK	Financials	3.4%

As at 31 December 2020. 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.

Outlook

The approval of two highly effective vaccines holds out the prospect that 'normalisation' is tantalisingly close and markets have responded enthusiastically. This is particularly relevant for many of the companies we own, which were badly affected by the lockdowns.

That being said, we are conscious that COVID-19 will remain an overhang for some time and that the damage wrought to balance sheets will take years to repair. This is particularly relevant for the government sector where large fiscal deficits are now commonplace.

A key challenge for investors will be to understand the evolving role of the government in the economy. To what extent can stimulus be wound back and deficits reduced without disrupting the recovery? Will citizens demand governments similarly nationalise losses in future downturns? Can central banks ensure the availability of low-cost funding for governments in future years and what will be the repercussions? What role will free markets play, not least in relation to capital allocation, credit risk and moral hazard?

While much is uncertain at this point, two things seem fairly clear. First, the government will play a much larger role in the economy in coming decades than was the case in prior decades. Second, central banks have now abandoned even the pretence of being independent institutional guardians of the purchasing power of money, reassuming their traditional role as flunkies of their respective finance ministries. These changes will have major ramifications for stock, bond, real estate and currency markets alike.

Markets have now rallied significantly from their March lows. While the news on the vaccine front is unambiguously positive, in our judgement, building up a cash position to enable us to take advantage of future market turbulence is worth the opportunity cost of forgoing some additional upside today. However, we are well aware that our bias will be to underestimate that size and duration of the resulting rally. Therefore, we are actively working to temper our instincts and reduce our exposure only gradually.

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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