Platinum European Fund

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Performance

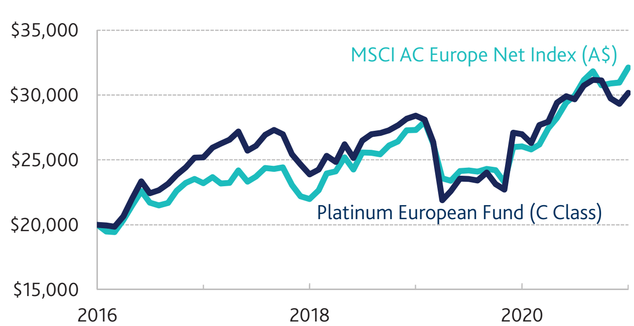
(compound p.a.+, to 31 December 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	-3%	12%	8%	9%	11%
MSCI AC Europe Index^	4%	23%	13%	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

31 December 2016 to 31 December 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 -3.1% for the quarter and 11.8% for the year.[1]

Notwithstanding the emergence of the Omicron COVID-19 variant, sharp energy price increases and widespread supply chain disruptions, European equities continued to rally throughout the quarter. The market's initial response upon the World Health Organization (WHO) declaring Omicron a "variant of concern" in late November was to punish travel stocks and beneficiaries of economies reopening, including some of the Fund's holdings (e.g. Airbus fell more than 10% on the day). While some stocks have since recovered part of their losses, they weighed on the Fund's relative performance.

More importantly, the Index's strong performance was driven primarily by investors' preference for a group of companies that could be labelled as 'growth compounders'. Typically, these stocks have a modest, but relatively 'predictable' revenue and earnings growth trajectory and are trading at eye-watering multiples of 50-70 times price-to-earnings (P/E), having re-rated from 30-40 times P/E only a couple of years ago. Stocks such as French luxury brand Hermès International, which grew sales at single-digit annual rates over the previous five years and trades at over 60x P/E, enjoyed 28% price appreciation over the quarter, as investors searched for certainty in a very uncertain world. We believe that their lofty valuations render these stocks highly risky propositions and made a conscious decision not to own them.

Beazley, a UK specialty insurance group, was our best-performing position during the quarter (+23%). With each passing quarter, the market is becoming more confident that the company has adequate capital to pay out claims while growing its insurance book and resuming dividend payments. Claim increases have been more than offset by Beazley's ability to raise premiums across all product lines, which should significantly enhance the company's profitability.

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.

Raiffeisen Bank International was another strong performer (+14%) on the back of better-than-expected third-quarter revenues, lower provisions and improved loan growth outlook, although its share price drifted a little lower in the second half of the quarter on rising Russia-related concerns.

Saras (-35%), an Italian oil refining company, was the notable detractor this quarter. The company faced significantly higher operating costs as a result of rising energy prices across Europe. The Italian wholesale reference price of electricity (a key input cost for Saras) has increased by more than fivefold in the last 12 months.[2] High energy prices are a problem faced by most of the continent, partially the result of a natural gas shortage. More than a third of Europe's natural gas supply is sourced from Russia. Given the renewed geopolitical tension over Ukraine, Gazprom, Russia's chief gas exporter, has provided very limited additional supply on top of its long-term contractual obligations to the European Union (EU).

Various small positions in healthcare stocks and retailers also detracted from performance.

2 Source: https://www.enel.it/en/supporto/faq/cos-e-il-pun

Disposition of Assets

REGION	31 DEC 2021	30 SEP 2021	31 DEC 2020
United Kingdom	26%	18%	13%
Germany	9%	10%	15%
Switzerland	8%	7%	9%
France	7%	9%	9%
Romania	7%	6%	7%
Ireland	6%	5%	7%
Netherlands	4%	2%	2%
United States	4%	3%	6%
Austria	4%	4%	4%
China	4%	3%	4%
Spain	3%	8%	10%
Italy	2%	3%	2%
Norway	2%	2%	6%
Finland	2%	3%	3%
Czech Republic	1%	1%	0%
Hungary	0%	1%	0%
Denmark	0%	0%	1%
Cash	12%	13%	3%
Shorts	-8%	-3%	-14%

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

Changes to the Portfolio

Earlier in the year, we deployed additional capital into Central and Eastern European (CEE) banks, raising our position from 7% of the Fund to 10% by adding **Komercní banka** (a major Czech bank), **Erste** (a leading Austrian bank) and **OTP Bank** (the largest bank in Hungary) to our existing holdings in Austrian-based **Raiffeisen** and Romanian bank **Banca Transilvania**. The Czech Republic, Hungary, Romania and Poland were among the first central banks to enter an interest rate hiking cycle, driven by inflationary pressures and tight labour markets. In addition to benefiting from higher interest rates and growing their loan books at a decent pace, we also expect these CEE banks to start returning excess capital via dividends and/or share buy-backs. These positions have indeed performed well and we trimmed some of our exposure (primarily in Raiffeisen) after a strong run, even though we continue to be excited about the region's prospects. As the market starts to appreciate the value of these banks, we will re-deploy capital into the more prospective opportunities.

We have sold our position in **Banco Santander** (+70% on average cost) while initiating a position in **Barclays**. Santander was a star performer for the Fund over the last year. Barclays, in our view, now offers a more attractive risk/reward profile, with an undemanding valuation of 0.6x price-to-tangible book value (TBV),[3] for a likely return on TBV of 9% p.a. or more for the next few years. Barclays is benefiting from buoyant capital market activities, lower credit costs in the UK and a potentially more benign competitive environment in the UK mortgage lending market. Given its high level of excess capital, we would not be surprised to see Barclays ramping up its share buy-back program.

3 Source: FactSet Research Systems.

Net Sector Exposures

SECTOR	31 DEC 2021	30 SEP 2021	31 DEC 2020
Financials	31%	30%	25%
Industrials	17%	17%	19%
Consumer Discretionary	14%	12%	11%
Communication Services	6%	5%	9%
Health Care	5%	5%	11%
Materials	3%	5%	5%
Energy	2%	3%	6%
Real Estate	2%	2%	2%
Information Technology	1%	4%	3%
Consumer Staples	0%	0%	0%
Other	0%	0%	-8%
TOTAL NET EXPOSURE	80%	83%	83%

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

Before the recent pullback following the Omicron outbreak, we had meaningfully reduced our exposure to travel-related names at a profit, exiting **Aéroports de Paris** (+35% on average cost) and **Amadeus IT Group** (+27% on average cost). The sell-off then gave us a small window of opportunity to add back positions, which we believe will enjoy favourable structural growth trends, such as **Wizz Air**, **Booking Holdings**, **Airbus**, **Ryanair**, **Safran** and **Compass Group** – businesses we'd like to own over the long term.

Wizz Air straddles two themes within our portfolio – travel recovery and secular growth in CEE consumer spending. Wizz is the leading low-cost carrier operating in the CEE region. It currently operates a fleet of 144 aircrafts (Airbus A320s and A321s) and has an order backlog of more than 400 single-aisle Airbus aircrafts (mostly A321neos), meaning that it plans to more than triple its fleet size over the next 10 years. Despite the COVID-19 setback, the Fund has made more than 2.5x on its initial investment in Wizz in early 2017, but we see a longer growth runway ahead.

Wizz continues to benefit from three structural tailwinds: the shift from full-service carriers to lower-cost carriers for short-haul travel in Europe; weak incumbents (mostly state-owned flag carriers with shrinking capacity); and under-penetration of air travel in CEE, where the number of per capita short-haul flights per year is 25% lower than that in Western Europe.[4] As income grows in CEE, people will likely fly more.

4 Source: Bernstein Research.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Beazley PLC	UK	Financials	4.5%
Airbus SE	France	Industrials	3.8%
Banca Transilvania SA	Romania	Financials	3.7%
Booking Holdings Inc	US	Cons Discretionary	3.6%
Prosus NV	China	Cons Discretionary	3.6%
Barclays PLC	UK	Financials	3.3%
Allfunds Group Plc	UK	Financials	3.3%
Bank of Ireland Group	Ireland	Financials	3.2%
SMCP SA	France	Cons Discretionary	3.1%
Fondul Proprietatea SA	Romania	Financials	3.1%

As at 31 December 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.

Wizz has an enduring cost advantage over its competitors who still rely on older and less-efficient aircrafts. Its unit economics of profit-per-passenger-flown is expected to improve even further in the coming years as its fleet utilises a greater number of the more fuel-efficient A321 model. The A321neo has a 15% lower fuel burn than the A320 while offering 33% greater seating capacity (239 vs. 180). Wizz also has a more defensive traffic mix than its competitors, with two-thirds of its passengers flying to visit friends and relatives and only single-digit exposure to business travel, which is more prone to COVID disruptions and economic slowdown.

Wizz's shares are trading on 17x pre-COVID earnings, and we expect its revenue to grow at 15-20% p.a. on a normalised basis. Given the latest COVID-19 resurgence, the ordeal is by no means over, and it feels uncomfortable to own an airline stock when the future of travel feels so uncertain. But the temporary uncertainty is what affords the longer-term opportunity. We are taking a three-year view to travel recovery, which we believe is achievable given the availability of highly effective vaccines and the recent approval of oral antiviral therapeutics.

Outlook

As European equity markets continued to march higher throughout the quarter, we have progressively reduced our net invested position and increased our shorts in those richly valued pockets of the market. Most of these companies have already benefited from a significant re-rating over the last year as they have been seen as bastions of stable growth. In our view, these stocks have priced in very high growth expectations and will likely be punished by the market if growth begins to slow down or if interest rates increase.

In the near term, Omicron-induced restrictions around the world are likely to further delay supply chain recovery, postpone normalisation of migration flows between countries, and potentially continue to put pressure on businesses to increase wages. Ongoing upward wage pressure could be a signpost of inflation becoming persistent, which may become the catalyst for broader market concerns and trigger further sell-offs in the coming months. If we are wrong in our assessment, we believe the downside from short positions is manageable and we will be quick to correct course.

In this ebullient environment, we believe it is prudent to position the portfolio cautiously and as such, cash represents 12% of the Fund's capital. We are acutely aware that our cash position may be a drag on performance under current market conditions, but it affords the Fund downside protection as well as the ammunition to act decisively in a correction.

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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