Platinum European Fund

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Overview

- European markets had a mixed quarter. There are signs of life in some segments but the overall economic picture is still cloudy, with weakness in the major economies. However the start of an interest rate easing cycle may lift consumer and market sentiment in coming months.
- Geopolitical concerns influenced markets this quarter, particularly the result of EU Parliament elections and the subsequent decision by French President Macron to take his country to the polls early.

Performance

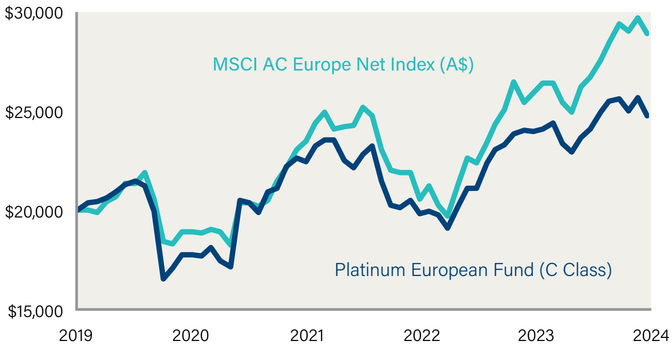
compound p.a.+, to 30 June 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	-3%	3%	3%	4%	10%
MSCI AC Europe Index^	-2%	12%	7%	8%	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 5. Numerical figures have been subject to rounding.

Value of $20,000 invested over five years

30 June 2019 to 30 June 2024



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 5.

The Fund (C Class) returned -3% for the quarter.

European markets had a mixed performance. For the Fund, stocks in the energy (+14%) and real estate (+21%) sectors were the standout performers, while consumer discretionary and industrial stocks underperformed. French stocks sold off (-19%) as French President Macron unexpectedly called an early general election, following the European Union Parliamentary elections which saw a significant increase in the number of seats for right-wing parties. Instability in the French political system creates economic uncertainty and may affect the longer-term trajectory of the Government's budget deficit and borrowing costs.

The strongest contributors to performance were our holdings in **Foxtons** (+20%), London's largest estate agent, which continues to improve under the new CEO. Our bank holdings **Barclays** (+13%) and **Banca Transilvania** (+15%), the largest bank in Romania, continued to deliver better than expected results.

Two of our weakest stocks were **Airbus** and **Allfunds** (both down over 20%). Airbus disappointed by cutting guidance for operating profits and free cash flow. They expect to deliver fewer planes due to supply chain challenges in engines, interiors, and structures. While these challenges might last 24 months, we believe Airbus has a bright future in a duopoly industry.

Allfunds retraced its gains over the past six months, when it scrapped talks for a potential sale of the business. At 8% free cash flow yield we believe the business is undervalued. We're glad management is now solely focused on growing the business.

We exited our long-held position in **Applus**, as the company was bought out by a private equity consortium. We sold some positions where the risk/reward equation was no longer as attractive and recycled the capital into new opportunities in oil and gas, pharma, business services and infrastructure type assets such as telecommunication towers and healthcare manufacturing.

In June, the ECB decided to lower official rates by 0.25% on the back of an improved inflation outlook. Yet, at the same meeting, the ECB's economic staff hiked their inflation forecast slightly. While there is more confidence in the path to lower inflation in the eurozone area, the journey to 2% inflation might be bumpier than expected. On the other hand, Switzerland's inflation rate is already at 1.4% and its central bank cut the policy rate for the second time this year by 0.25 percentage points to 1.25%.

European economic activity remains subdued, but there are signs of slight improvement after five quarters of stagnation. The services sector is expanding and manufacturing is showing signs of stabilising at lower levels. After a positive surprise in May, the June Eurozone manufacturing PMI (Purchasing Managers Index) fell. Consumer confidence continues to improve – albeit patchily – and Germany's business outlook worsened for the first time in five months.[1] The outlook is still uncertain.

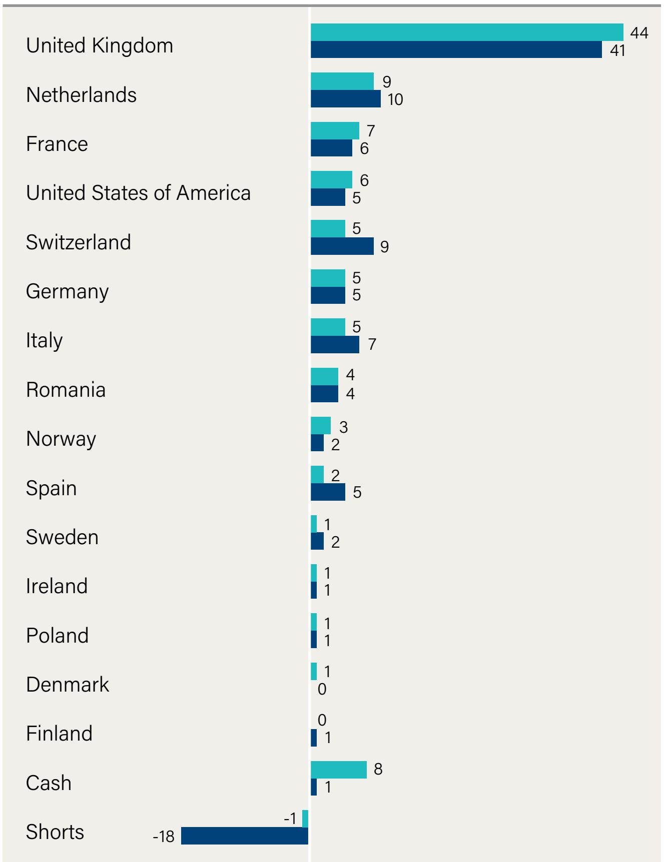
However, our job is to find company specific mispricings to take advantage of. Shipping is one area of interest.

Commentary – Shipping firms buoyed by capacity constraints

TORM Plc is one of world's largest owners and operators of tankers that transport refined oil products and chemicals. It has been a standout performer over the last year, returning around 100% (including dividends). TORM's story reflects a broader Platinum approach – taking advantage of a supply/demand imbalance driven by industry change.

1 Source: Ifo Institute

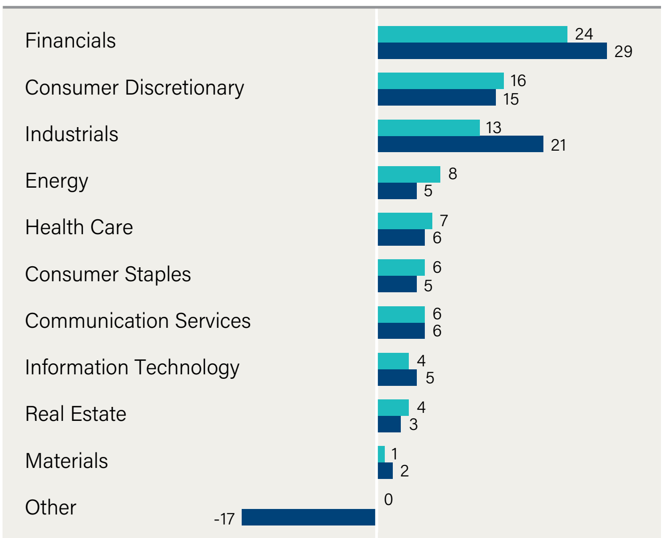
Disposition of Assets %



30 JUN 2024 31 MAR 2024

See note 3, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures %



30 JUN 2024 31 MAR 2024

See note 4, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
ASML Holding NV	Netherlands	Info Technology	4.9%
Barclays PLC	UK	Financials	4.9%
Beazley PLC	UK	Financials	4.5%
Foxtons Group PLC	UK	Real Estate	4.4%
Banca Transilvania SA	Romania	Financials	4.3%
Informa PLC	UK	Comm Services	4.0%
Airbus SE	France	Industrials	3.8%
Allfunds Group Plc	UK	Financials	3.8%
PUMA SE	Germany	Cons Discretionary	3.7%
London Stock Exchange	UK	Financials	3.5%

As at 30 June 2024. See note 5, page 5.
Source: Platinum Investment Management Limited.

Shipping is a notoriously cyclical industry and timing an earnings upswing can be very tricky given the fragmentation of the industry and the debt vessel owners typically carry.

Over the past few years, the capacity to transport refined products and chemicals has tightened. Firstly, war in Ukraine saw a wave of sanctions from Western governments that had profound effects on the tanker market – trade patterns had to change almost instantaneously.

Those changed trade patterns boosted revenue for the tanker industry. The EU, for example, typically imported diesel from Russia. A vessel would take around 10 days round trip to supply the EU, via the Baltic Sea. Now the EU needs the same volume of diesel but it comes from the Middle East or US – a round trip of over 25 days. This gradually tightens the capacity of the tanker industry – they have more vessels, at sea for longer, to carry the same volume.

Long-run changes in the petrochemical refinery network have also been positive for the tanker industry. As it became costlier to build and operate refineries in the US and Europe, companies shifted operations to the Middle East and China. This also avoided harsher permitting and environment regulations. When Covid-19 hit and governments chose to shut down the oil and gas industry and furlough workers, refineries representing nearly 1.5m barrels of refined product capacity ceased operation. This sudden, significant drop in refining capacity meant European and US buyers needed to ship even more petrochemicals by sea.

Thirdly, International Maritime Organisation (IMO) regulations have had a profound influence over the global shipping fleet in recent years. Firstly, IMO 2020 standards set vessel sulphur emissions to essentially zero. This required a wave of capex investment across the fleet, where newer engines were retrofitted with scrubbers to capture the sulphur. Older vessels were either scrapped or sold into the dark fleet (countries that don't recognise International Standards). The IMO 2023 changes mandated new measures of efficiency and carbon intensity. Essentially, the less efficient a vessel, the slower the maximum speed rating it could run. Typically, a 10% speed drop would save over 25% in fuel costs, but the trade-off for operators meant vessels were at sea for longer.

With these three forces now boosting revenue for shipping owners, we were looking for the highest quality player. TORM PLC stood out as an operator with strong corporate governance, an efficient cost structure and a relatively young fleet. Like many companies in this boom-and-bust industry, TORM had been burnt in the past, taking on too much debt to build new tankers and then running into a protracted shipping downturn.

In 2015 TORM restructured with the help of Oaktree in a deal that cut debt in half and injected $100m into the company. Since then TORM Plc has operated prudently – only adding to the fleet where it improves total operating costs and avoiding unnecessary leverage to buy new ships. They also refused to sign absurdly low term-contracts, when market conditions meant spot rates were more attractive.[2]

While the industry is profiting from the impact of sanctions it has vivid memories of over-adding capacity in the last cycle. Today's asset owners are extremely hesitant to order newbuilds except when replacing vessels due to be scrapped.

The green premium

While tanker owners are making good profits, tightening environmental standards make it difficult to invest in new tanker capacity.

This reinforces the supply/demand nexus discussed above. Without new build capacity, shipping day rates will stay high. The longer that situation stays in place, the higher the market will value tanker companies like TORM. Indeed, TORM Plc could continue to see its asset values pushing higher and continue to pay dividends of more than 15% per year. That's a good reason for us to hold this stock.

Outlook

The Fund is around 90% net invested. As recession concerns have faded we increased our net exposure by gradually taking off our index shorts. However, there are still reasons to be cautious: political instability, fiscal indiscipline, war in Ukraine and a sluggish economies in the biggest eurozone countries. On the other hand, we are at the beginning of an easing cycle, which should support consumer confidence.

Today the portfolio looks very different from the index and the return profile will likely be different. However, this portfolio shape is the outcome of our process. Our portfolio is built bottom up, stock-by-stock while avoiding excessive exposure to areas that are highly correlated. We are focused on finding business that are mispriced and will deliver higher earnings on a 3-to-5-year horizon. We remain confident in the long-term prospects for the businesses we own.

2 Typically the shipping market hires vessels on spot or term rates.

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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "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.

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