Platinum European Fund

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Overview

- Europe's markets were to some extent hostage to global events during the September quarter as weaker US data and a sharp rise in the yen shook up global markets.
- Slowing growth in Europe means rates are likely to come down further.
- Denmark's **DSV** was a standout performer during the quarter. DSV is a global freight forwarder with a long history of growth by acquisition. In recent times the market had over-reacted to some negative news about the stock, allowing us to invest at attractive prices. In September it announced its largest and most important acquisition, buying Germany's DB Schenker for some 14 billion Euros.

Performance

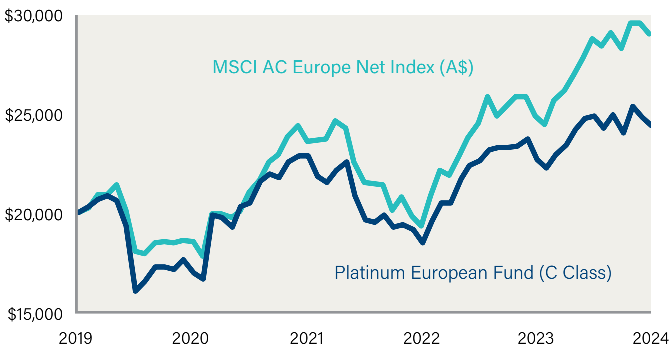
compound p.a.+, to 30 September 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	2%	8%	2%	4%	10%
MSCI AC Europe Index^	2%	17%	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 September 2019 to 30 September 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.

Global events meant European markets had a choppy quarter with strong performance in July, followed by a sharp drawdown at the beginning of August on the back of weaker economic data in the US. This coincided with an unwind of the Yen carry trade as the Bank of Japan hiked interest rates by 0.25%. (The Yen carry trade is where investors borrow in a cheap yen to invest in higher-yielding global assets).

European economic activity is still weak. In September, the ECB decided to reduce the deposit facility rate by 25 basis points as inflation continued a downward trend. In this backdrop, financial services performed well, while energy and information technology were significant underperformers.

The strongest contributor to performance was **DSV A/S**, a global freight forwarder and a relatively new position in the Fund. It rose around 25% during the quarter. Flutter Entertainment was up over 20% on positive results and the announcement of better than expected long-term financial targets.

ASML, the Dutch lithography equipment giant, was the main detractor to performance (-22%). There were concerns about the macroeconomic backdrop, about restrictions on exporting to China and about Intel's plans to reduce capex (Intel is a key customer). We have taken profits on ASML – at much higher prices – but see the current weakness as an opportunity to buy.

Commentary – DSV – a mispriced global freight forwarder

In April we initiated a position in DSV. The incredible story of this business started in 1976 in Denmark when nine independent trucking companies came together to offer a cartage department for the owners, handling contract haulage and deliveries. From these humble beginnings, it has grown to become the 3rd largest global freight forwarder. Its share price has compounded at 20% per year for the past 20 years.

What does a freight forwarder do? Simply put, they buy transportation capacity from carriers – such as shipping companies – and sell it to customers who have goods to ship. Forwarders also provide value-added services: planning routes and organising shipments, managing shipping documentation and customs requirements, arranging the transport of goods to and from ports or beyond to terminals and over the 'last mile' to the customer.

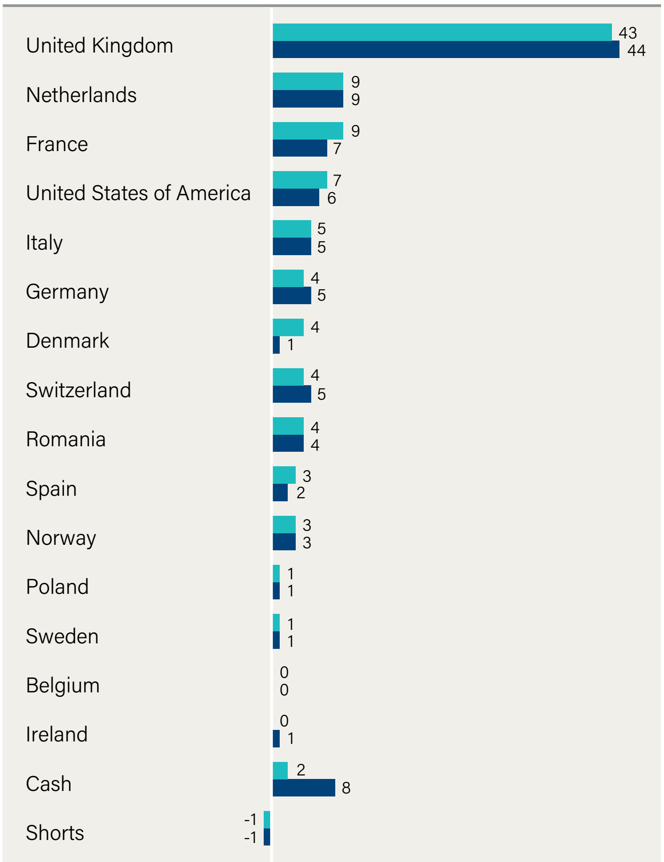
Large multi-nationals with global supply chains use forwarders to manage the complexity and risk in their global supply chain. Smaller customers use them to gain access to global transportation capacity at rates they normally couldn't afford. Businesses use forwarders to buy logistics functions that would be too costly to execute themselves.

Over the past 10-15 years, DSV was seen as a predictable, stable and high-quality business as it went about buying out competitors, rolled up a fragmented forwarding industry and expanded its margins. Their M&A playbook became highly refined through various deals such as UTI (2015), Panalpina (2019) and GIL (2021).

In 2023, this predictable and positive story changed, with management turnover, an ill-communicated Joint Venture announcement on a project in Saudi Arabia and a strategic shift towards organic growth (growing the business through operational improvement rather than acquisition).

The market was also concerned that DSV was enjoying above average returns due to one-off factors and that a fall in earnings – and share price – was in prospect. We took a different view, seeing DSV as a quality business that was mispriced.

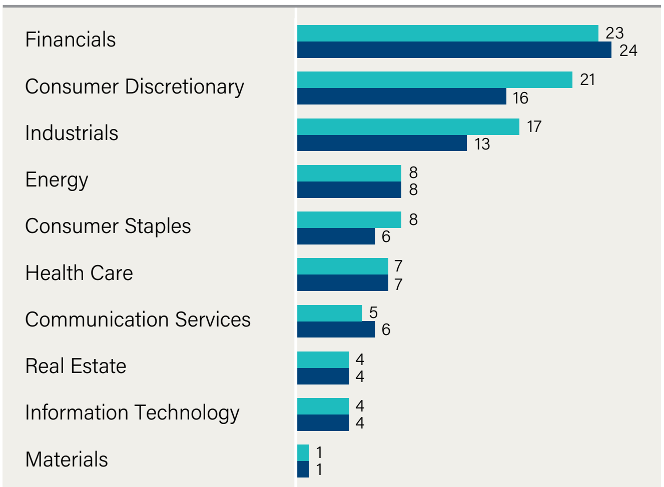
Disposition of Assets %



30 SEP 2024 30 JUN 2024

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

Net Sector Exposures %



30 SEP 2024 30 JUN 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	4.2%
Allfunds Group Plc	UK	Financials	4.2%
DSV A/S	Denmark	Industrials	4.1%
Barclays PLC	UK	Financials	4.1%
Foxtons Group PLC	UK	Real Estate	3.9%
London Stock Exchange	UK	Financials	3.9%
Beazley PLC	UK	Financials	3.7%
Puma SE	Germany	Cons Discretionary	3.5%
Banca Transilvania SA	Romania	Financials	3.5%
Flutter Entertainment PLC	UK	Cons Discretionary	3.5%

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

Many ways to grow

Firstly, we believe the market misunderstood DSV's new level of base earnings. Freight forwarders benefited from the supply chain tightness during Covid that saw ocean and sea carrier rates rise rapidly.

A forwarder's gross profit can be thought of as a mark-up on the rate charged by the carrier as well as a value-added component. During Covid both these components increased and the market worried that a return to pre-Covid levels would have an outsized impact on DSV's earnings. We view these fears as misplaced because the Panalpina deal has changed the services and verticals DSV works in. This makes a pre-Covid comparison misleading.

Secondly, the response to the management changes were excessive. Over the past 12 months, DSV changed the Group CEO, CFO and COO as well as the head of the largest division, Air & Sea. Whilst this sounds negative, the new leaders average 23 years with DSV. New CEO, Jens Lund is the man who successfully drove the integration of acquired businesses – that's a clear positive.

Finally, the focus on organic growth has not stopped DSV pursuing acquisitions. CEO Lund had outlined an organic growth strategy focused on growing wallet-share of its top 50 customers from 10% to 15% within three years and to 20% within five years. The market viewed this as a signal that M&A was off the table.

We disagreed with this conclusion and liked the idea of DSV having multiple avenues to growth. We thought the management team *would* buy businesses if they met their hurdle – a 20% pre-tax Return on Invested Capital.

Late in the quarter our thesis was proved correct when DSV bought DB Schenker. DB Schenker (DBS) is the 4th largest freight forwarder in the world and is owned by the German government's Deutsche Bahn. This transaction will be the largest in DSV's history and the combined entity will be the largest global forwarder with ~7% market share. If DSV management can take DBS' margins up to its own levels, it implies 80-100 Danish Krone in earnings-per-share by 2028 and a total shareholder return in the mid-teens. That's attractive.

Outlook

Our European strategies are around 97% net invested. We're carefully watching trends in the global economy to see how they influence Europe. With a stagnating economy and potential disinflation, we expect the ECB to continue to reduce Eurozone rates.

However, Mario Draghi's[1], recent report on European competitiveness is a reminder that Europe faces significant challenges:

- energy prices 2-3 times higher than the United States and China
- overdependence on a handful of suppliers for critical raw materials and digital technology.

To tackle these challenges, Europe needs to aggregate procurement across a whole range of areas – energy (in particular LNG), defence procurement and R&D spending. Europe must improve its productivity and that requires investing in innovation and expanding R&D beyond autos and pharma. It means integrating the Single Market and Europe's capital market to enable private savings to fund the energy transition. The Russo/Ukraine war is reminder of the need to reduce supply chain dependencies.

Cynics may argue Draghi's recommendations are a justification for more EU – for more integration and more bureaucracy. However, to compete in today's world, scale is needed across many industries. Europe needs more global champions like Airbus.

What does this mean for Platinum investors? An incredible amount of change is ahead. This creates stock picking opportunities for the Platinum European Fund, as our experience suggests investors typically mis-price securities during periods of long term change.

1 (former President of the ECB)

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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