# Platinum European Fund

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Portfolio Manager

## Overview

- The Fund was up nearly 5% in the quarter, benefiting from the falling dollar and the performance of a diverse mix of British companies such as **Flutter Entertainment**, **Barclays Bank** and the **London Stock Exchange**.
- We have been adjusting the portfolio to match some of the key themes for 2025. We have boosted our exposure to defence stocks, added exposure to companies that generate USD revenue and trimmed our exposure to companies that could be affected by a global tariff war or the weakness in Europe's auto segment.

## Performance

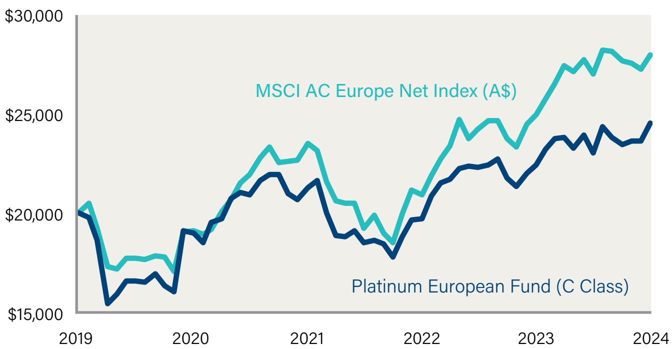
compound p.a.+, to 31 December 2024

| | QUARTER | 1YR | 3YRS | 5YRS | SINCE INCEPTION |
|---|---|---|---|---|---|
| Platinum European Fund* | 5% | 9% | 5% | 4% | 10% |
| MSCI AC Europe Index^ | 1% | 12% | 6% | 7% | 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

31 December 2019 to 31 December 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 +4.8% for the quarter in AUD terms.

European markets were down over 2% in local currency terms (Stoxx Europe 600). However the AUD's fall against the Euro pushed up European performance in AUD terms.

In contrast to US markets, which rallied hard after President Trump's election victory, European markets weakened on Trump-inspired concerns over trade uncertainty and the need for higher defence spending. Any tariff and non-tariff measures from the US will likely elicit a response from the EU, making it difficult to assess the full impact of US policies.

Meanwhile France and Germany, the EU's largest economies, face political and economic challenges unrelated to what's happening in the US. Fragmented politics have resulted in fragile coalitions that can't agree on how to tackle voters' concerns regarding cost of living, immigration, higher taxes and government spending. This instability is obvious in France, which has had five Prime Ministers in three years. The current German government lost a confidence vote in Parliament and is heading for elections in late February.

The European Central Bank continued easing with two more rate cuts, as inflation is now on track towards the 2% target. Their wage tracker, based on thousands of collective bargaining agreements, indicates a further easing of wage growth in 2025. However, services inflation remains more persistent as the unemployment rate is still at its historical low, which is putting a high floor under labour costs. Other European countries are further along the easing cycle. The Swiss National Bank (SNB) surprised the markets with a 50-bps rate cut in December. The SNB have cut rates a total of 125bp since the peak in 2023 and their key policy rate is now just 0.5%.

## UK stock picks key to quarterly outperformance

Our portfolio performed relatively well in this environment. Returns were driven by good contributions from gaming/betting company **Flutter Entertainment** (up over 15%), Britain's **Barclays Bank** (up around 20%) and by the **London Stock Exchange** (+10%), a business which now earns the vast majority of its revenue from data services rather than trading floor activities.

Detractors include **Cellnex Telecom** (-16%), an owner of cellular towers which was sold off as the market re-assessed the interest rate outlook. We used this opportunity to add to our position. Youth retailer **JD Sports** (down around 35%) also underperformed, largely as a result of the continued weakness at Nike. Sports retailers like JD suffer when flagship brands like Nike underperform but we expect major product launches from Nike in 2025/26 and this should support JD Sports.

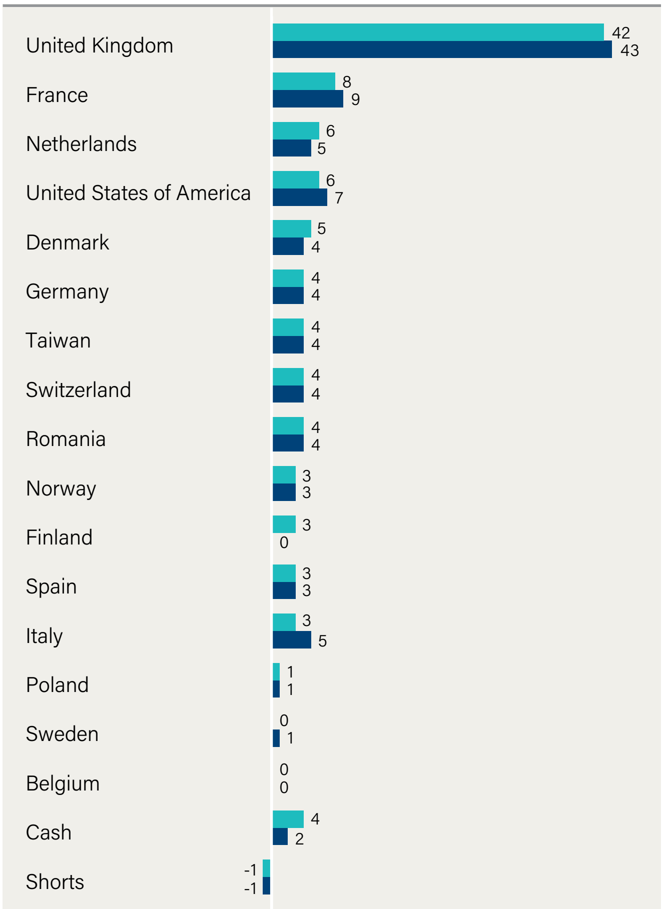
## Shifting the pieces

During the past quarter we fine-tuned our portfolio in response to some emerging themes.

- We minimised exposure to companies that could be caught in a potential tariff war as we wait to see whether President Trump's avowedly protectionist policies are fully implemented.
- We rearranged our portfolio to minimise the effect of weakness in the European auto sector. According to the European Parliament, EU car registrations fell 18% in the year to September 2024, with registrations of battery-electric cars falling over 43%.[1]
- We increased exposure to the defence industry. Europe's concerns about conflict in the East (and less support from the US) increases the need for more locally made military materiel.

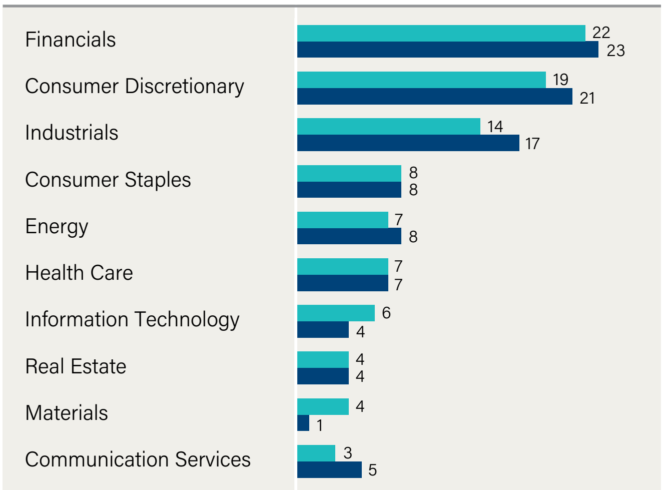
1 *The crisis facing the EU's automotive industry*, European Parliamentary Research Service, October 2024.

## Disposition of Assets %




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

## Net Sector Exposures %




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

## Top 10 Holdings

| COMPANY | COUNTRY | INDUSTRY | WEIGHT |
|---|---|---|---|
| London Stock Exchange | UK | Financials | 4.8% |
| DSV A/S | Denmark | Industrials | 4.6% |
| Foxtons Group PLC | UK | Real Estate | 4.4% |
| ASML Holding NV | Taiwan | Info Technology | 4.3% |
| Compass Group PLC | UK | Cons Discretionary | 3.9% |
| Allfunds Group Plc | UK | Financials | 3.9% |
| Beazley PLC | UK | Financials | 3.8% |
| Banca Transilvania SA | Romania | Financials | 3.8% |
| Rentokil Initial PLC | UK | Industrials | 3.6% |
| Flutter Entertainment PLC | UK | Cons Discretionary | 3.5% |

As at 31 December 2024. See note 5, page 5.
Source: Platinum Investment Management Limited.

- We moved capital into companies that make substantial earnings in US dollars. The stronger prospects for the US economy are a tailwind for the USD.

During the quarter we exited positions where the investment case has played out, such as UK exhibitions and events provider **Informa** and Swedish biotechnology business **BioArctic**. We also trimmed high performing holdings like online travel agent **Booking Holdings**. We rotated this capital into stocks with better risk/reward profiles.

We built a substantial position in Finnish paper business **UPM**, a stock we previously owned, after its price dropped ~30% from its peak. Pulp prices are likely near bottom and some Chinese integrated producers, with higher cash costs, are slowing production and starting to source pulp from the market. More capacity shutdowns in the industry or an increase in demand could move the UPM stock price higher.

We initiated a position in **Rheinmetall**, a German defence company. Trump's election should create greater pressure on European NATO-partners to increase defence spending towards 3% of GDP or even higher. While the story of European re-arming is well understood, the extent might not be fully priced in. After the German elections in late February the debate on higher defence spending will gain more traction and leading political figures are already advocating increased military investment. Latest surveys also indicate broad support from German voters.

Given this reawakened focus on defence, demand for Rheinmetall products is unlikely to fall. A bottom-up analysis estimates that restocking Europe's munitions stockpile will take ~6 years and Rheinmetall will have 50% of total European ammunition capacity by 2026.

**Rentokil**, the global pest control leader, is another position we built up over the past six months. Most of its revenue is earned in USD. For us, Rentokil combines a stable underlying business with idiosyncratic upside drivers.

Rentokil operates in pest control (~80% or revenue) and hygiene businesses globally and has a workwear business in France. The common thread across these businesses is that they provide services at the customer location and rely on establishing dense networks of customers to drive scale and efficiency. The pest control industry is still fragmented and acquiring local competitors improves margins through increased route density.

Rentokil has a long global pedigree of managing pest control and hygiene and is the #1 player across the majority of the developed world. Its 2022 acquisition of Terminix made it the pest control leader in the US.

Since completing the acquisition, Rentokil's shares have twice fallen 20% on concerns about Rentokil's ability to speed up growth at Terminix. We think the market is too focused on short-term integration success rather than longer-term prospects. It's highly likely Rentokil can fix Terminix, though it might take longer than expected. Moreover, Rentokil is likely to become a pure-play pest control company by divesting the Hygiene & Wellbeing and French Workwear businesses. With an activist like Trian Partners on the register, this move is likely to accelerate. Rentokil's valuation is very attractive, below both its historical trading range and where private transactions typically price it.

One group of stocks that underperformed our expectations this quarter is UK homebuilders. We own the largest UK homebuilder, **Barratt Redrow** and two other smaller players, **Taylor Wimpey** and **Persimmon**. In the December quarter the market reacted negatively to rising yields and concerns that build cost will rise significantly more than house price inflation.

Customer sensitivity to mortgage rates is high, but affordability will improve significantly later this year as interest rates decrease and wage growth continues. Our conversations with UK banks indicate latent demand for housing, which is likely to translate to an increase in mortgage applications over the next two years.

Longer term, the new Labour government looks serious about cutting the red and green tape that stifles new housing developments. Valuations are attractive and we continue to see significant upside in UK homebuilding.

## Outlook

Given the dominance of the AI/US tech narrative, Europe is not exciting investors at the moment. Economic uncertainty and geopolitical concerns make it less attractive but experience tells us that neglected areas are fertile hunting ground for bottom-up stock pickers.

It is difficult for investors to imagine a world in which the US underperforms and Europe becomes the more desirable investment destination. So how could Europe do better?

The ECB could cut rates even further and domestic demand should benefit from rising real wages and an ongoing recovery in the global economy. Moreover, funds from the Next Generation EU programme will support investment in the next two years. Germany also seems more open to the idea that the 3% of GDP debt brake should be lifted to increase spending on defence and re-ignite growth across the region.

Global trade friction and EU political uncertainty are valid concerns but pessimism is largely priced in. So even if sentiment shifts merely from very bad to less bad it could create outsized returns, especially given European stocks' extreme underperformance relative to the US. We continue to look for mispriced stocks that can grow profits well into the future and improve their return on invested capital.

## 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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