Platinum European Fund

Adrian Cotiga
Portfolio Manager

Overview

- **ASML**, the Dutch semiconductor lithography giant, was again a top performer for the Fund this quarter, up around 30% on the back of strong booking numbers indicating an inflection point in the next cycle of semiconductor capital equipment spending.
- The portfolio currently has around a 40% exposure to the UK. However many of these UK businesses are in reality international business. Companies such as **Informa** and **London Stock Exchange** generate most of their revenue from outside the UK.
- During the quarter we initiated a position in **Haleon**, a global consumer healthcare company that owns leading brands like Sensodyne, Voltaren, Panadol and Centrum. While Haleon has a limited history as a listed company it has a proven ability to build brand value and is supported by trends such as ageing populations and a growing global middle-class that need more consumer healthcare products.

Adrian Cotiga became sole Portfolio Manager of the Platinum European Fund on 18 March 2024. He was previously Co-Portfolio Manager of the Platinum European Fund.

Performance

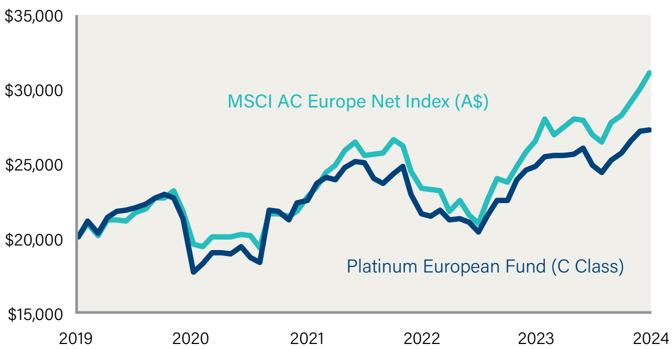
compound p.a.+, to 31 March 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	6%	10%	7%	6%	10%
MSCI AC Europe Index^	10%	17%	11%	9%	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 March 2019 to 31 March 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 6.2% for the quarter. Stocks in the consumer and real estate sectors were our best performers.

The European markets continued their upward march this quarter, driven by looser financial conditions and the perception amongst European corporate that the economic outlook was becoming clearer. A handful of stocks continue to drive a large portion of returns.

Inflation has been falling due to weak economic growth, lower energy costs and easing supply chain pressures. Against this backdrop, European companies are becoming more optimistic and focusing more on efficiency and cost-cutting.

ASML, the Dutch semiconductor lithography giant, was again a top performer, up near 30% on the back of strong booking numbers indicating an inflection point in the next cycle of semiconductor capital equipment spending and a positive data point on adoption of High NA – the next generation EUV system. ASML says this "represents a significant step forward for cutting-edge chip manufacturing."

While we are confident in ASML's prospects, we took the opportunity to take some profits and reduce our rather sizable exposure. **Beazley**, the global insurer, staged a nice recovery (+27%) with a strong quarterly result and a much larger than expected special capital distribution to shareholders. **Airbus**, the airplane manufacturer, continued its strong performance (+22%) benefiting from easing of supply chain pressures and from quality control issues at its main competitor, Boeing.

St. James' Place (SJP) and some of our short positions detracted from performance. During the quarter, SJP provisioned around GBP 425m for the rebate of ongoing advice fees. The market's reaction was understandably negative as this comes on the heels of the fee change largely forced upon financial services companies by the Financial Conduct Authority. The shape of their earnings trajectory points to more short-term pain, with earnings likely to trough in 2026 as the new fee structure takes effect. From that point it has the potential for ~20% p.a. growth.

We added to our UK homebuilders exposure to capture the rebound in home sale volumes and the potential increase in operating leverage that could follow. The UK housing sector is seeing green shoots and it might be at an inflection point driven by lower mortgage rates that allow latent housing demand to come through. As a result, new home sales rates are starting to normalise.

On a country basis, our exposure to the UK appears high at near 40%. However, UK domestic-focused businesses make up only ~9% of this allocation with the rest of this exposure being international business that are listed in the UK, such as **Informa** or **London Stock Exchange**, where most of the revenue comes from outside the UK.

Commentary – Easing aches and pains

During the quarter we initiated a position in **Haleon**, a global consumer healthcare company spun out of GSK in July 2022. It's largely unknown to the public, but its portfolio of leading brands – Sensodyne, Voltaren, Panadol and Centrum – are used by millions on a regular basis. Haleon was formed through GSK's consumer health joint ventures with Novartis in 2015 and Pfizer in 2019. This formed a company with a leading global market share in over-the-counter (OTC) medicines.

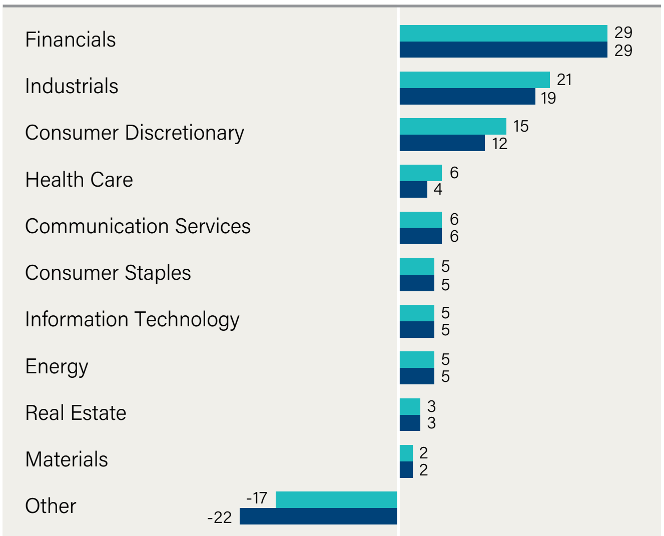
As an independent company, Haleon combines its inherited pharma capabilities (scientific skillsets, regulatory expertise and relationships with healthcare professionals) with the increased management focus and operations management skills better suited to a consumer goods company.

Disposition of Assets %

31 MAR 2024 31 DEC 2023

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

Net Sector Exposures %



31 MAR 2024 31 DEC 2023

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Airbus SE	France	Industrials	4.9%
Applus Services SA	Spain	Industrials	4.9%
Allfunds Group Plc	UK	Financials	4.5%
Beazley PLC	UK	Financials	4.5%
ASML Holding NV	Netherlands	Info Technology	4.3%
UBS Group AG	Switzerland	Financials	4.1%
Informa PLC	UK	Comm Services	3.8%
Ryanair Holdings PLC	Italy	Industrials	3.7%
Banca Transilvania SA	Romania	Financials	3.5%
Foxtons Group PLC	UK	Real Estate	3.4%

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

The competition is following the same playbook, with J&J listing their consumer healthcare business as a standalone entity and Sanofi preparing to separate it as well. The top three consumer healthcare companies have less than 20% market share combined, which suggests there is significant room for consolidation.

In addition, barriers to entry into this industry are generally higher and private label penetration lower than other categories due to the clinical expertise required and stringent regulatory requirements that dictate manufacturing standards, labelling, marketing and distribution on a country-by-country basis. This industry is not only harder to disrupt, but it's the most resilient category in economic downturns. The products are cheap to make and margins should be sustainably high, as customers have a strong emotional connection to the brands. When my joint pain is acute would I choose Voltaren – or an alternative that is 10% cheaper, but where I'm unsure if it's as good?

Consumer healthcare growth

Haleon expects the consumer healthcare market to grow ~3-4% over the medium term, due to:

- an aging global population with more healthcare needs
- the need to reduce healthcare spending by encouraging more preventative and non-prescription treatments
- the emerging global middle class
- increased consumer interest in health and wellness.

However, the company should grow faster than the underlying market, at 4-6% in organic revenue growth and with profit growth higher than revenue growth.

Oral health is their largest category, representing 28% of Haleon's revenues thanks to well-known brands such as Sensodyne, Polident and Parodontax. Haleon focuses on therapeutic oral care and is the leader in this niche with Sensodyne. Through effective brand positioning and ongoing engagement with dentists to spur recommendations, Haleon can charge roughly twice the price of an average toothpaste brand.

Management is confident they can continue increasing Sensodyne's penetration and they have expertise in exercising these strategies. In 2015, Haleon's Parodontax (a toothpaste for treating bleeding gums) had a re-set. It has since become one of the world's fastest growing toothpaste brands and is enjoying geographic expansion.

Why is the market not more excited about Haleon? Firstly, Pfizer and GSK own large parts of the company and are in the process of exiting their stakes. Also, Haleon has a limited history as a listed company and a relatively high level of debt, though it is paying this down quickly as it is a cash generative business. We bought into the company on around an 18x price to earnings multiple for a company likely to grow earnings at high single digit for some years to come. It also has the potential for multiple expansion as the company builds a track-record of delivering consistent results.

Outlook

As inflation continues to fall in 2024, we expect to see an interest rate cutting cycle begin. The Swiss National Bank was the first major central bank to cut interest rates – from 1.75% to 1.5% – and declare victory over inflation. The market is anticipating the ECB will cut rates by mid-year.

Economic activity in Europe remains subdued but a more severe economic slowdown seems less likely, though the two largest economies – France and Germany – continue to lag the rest of the Eurozone. The rally in European stocks over the past six months has been driven by multiple expansion, rather than earnings, which have been revised down 5% over this period. Although companies seem a touch more optimistic about the future, Europe has plenty of challenges ahead, from energy security to the war in Ukraine and increasingly fragmented domestic politics.

Our focus is on finding companies that can grow earnings and cashflows even when the economy is weak. We are looking for stocks that are mis-priced, either because of temporary uncertainty or because the market is under-appreciating the upside potential of long-term change. We own many businesses we believe are either world-class, with great market positions or fantastic regional champions with potentially long runways of growth.

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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