

# Platinum European Fund



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## Overview

- European equity markets rose over the quarter thanks to a shift in monetary policy expectations – from incremental tightening to a significant easing. Both short term and long-term interest rates came down and this generated significant upward momentum for interest-rate sensitive businesses – such as property stocks and various highly leveraged businesses whose interest expense is likely to drop sharply.
- During the quarter we took a significant position in Dutch payments business **Adyen**. Whilst the company was marked down sharply earlier in the year, its business is aligned to the growth in e-commerce and especially cross-border e-commerce. It also has the leading technology platform in its space. It bounced up sharply in the 3rd Quarter.
- We view the recent shift in monetary policy as a sign that European economies are weakening and thus we have a cautious view on European markets. That said, we see significant upside in high-quality businesses like Dutch brewer **Heineken** and semiconductor lithography leader **ASML**.

## Performance

compound p.a.+ , to 31 December 2023

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	3%	14%	6%	6%	10%
MSCI AC Europe Index^	5%	19%	9%	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.

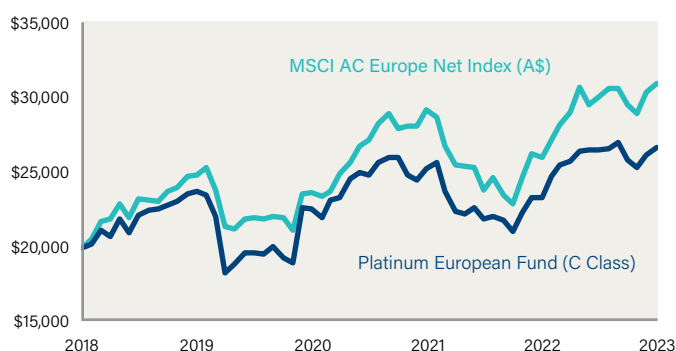
Source: Platinum Investment Management Limited, FactSet Research Systems.

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 December 2018 to 31 December 2023



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 3.2% for the quarter. Stocks in the Financials, Industrials and Technology sectors were our best performing investments over this period.

### The rate tide turns

Over the quarter European equity markets rose as expectations around monetary policy moved from incremental tightening to significant easing and both short term and long-term interest rates came down.

German 10-year bonds moved down from 2.88% to 2.0% and the market is now pricing in 6-7 rate cuts by December 2024. This pivot is driven by continuing disinflation in Eurozone economies, fuelled further by incrementally dovish rhetoric from the European Central Bank and US Federal Reserve. The dovish turn provided an incredible tailwind for interest-rate sensitive sectors and highly leveraged businesses such as **Real Estate Investment Trusts** which rallied 10-50%. As a result, our cash and index shorts detracted somewhat from performance.

**ASML**, the Dutch semiconductor lithography giant, returned 22% as excess inventories were worked through. There are now signs of a positive inflection in some key end markets such as smartphones and PCs. **Adyen**, the payments service provider, was another standout performer, up over 65% during the quarter (you can see more on this stock below).

**Bayer**, the German pharmaceutical and crop protection giant, was one of the biggest detractors to performance this quarter – down around 25%. One leg of our initial investment case was that Bayer would navigate their patent cliff<sup>1</sup> much better than the market expected. However, this did not occur and we exited our long-term holding at a loss as the company's turnaround was not progressing at the pace we expected. The recent failure of Bayer's much-anticipated blood thinner product puts the pharmaceutical business unit in a difficult position and might increase the urgency for Bayer to acquire other assets. This increases the risk that management is pressured to overpay as competition for biotech assets is fierce and other companies have deeper pockets.

## Commentary

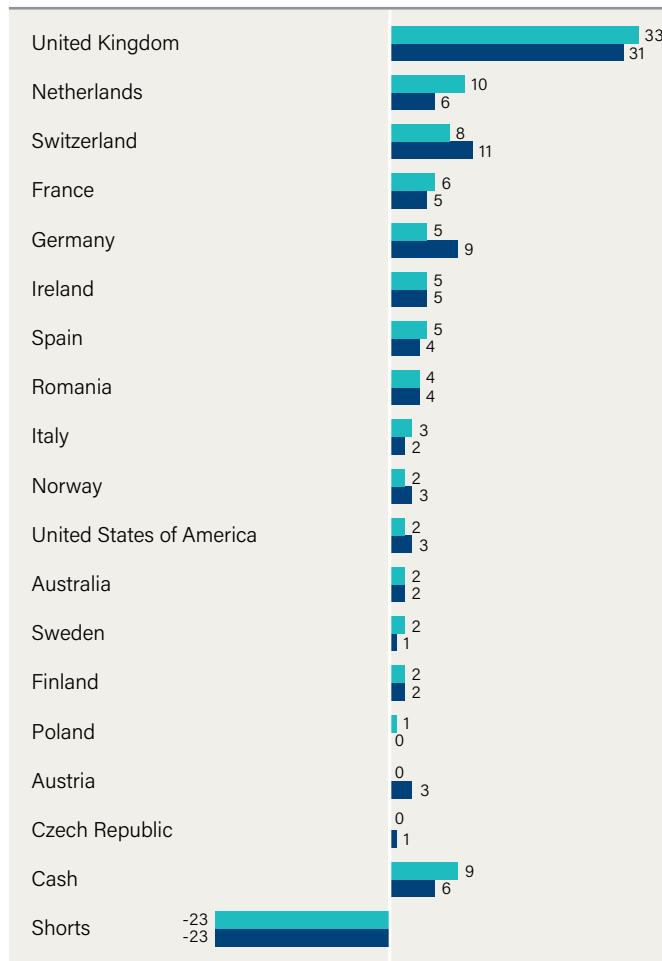
We continued to reduce our exposure to Central and Eastern European banks by completely exiting **Komerční Banca** (Czechia) and **Erste Group** (Austria). In December, the Czech Central Bank – one of the first Central Banks to raise rates during this tightening cycle – started its monetary easing cycle with a 25bps policy rate cut to 6.75%. Bank margins will likely suffer over the next 12-18 months if economic activity continues to weaken and money market expectations of nearly 400bps in cuts materialise. This issue is not confined to Czechia – it's likely to play out in most countries across the region.

### Making e-commerce pay

This quarter we initiated a new position in Adyen, an innovative Dutch payments service provider. The explosion of e-commerce transactions has created new challenges for merchants that were not easily solved by legacy payments providers: the buyer does not physically present the card, propensity for fraud is higher and there are more cross-border sales.

<sup>1</sup> Where pharma companies lose a source of predictable revenue as their drug patents expire

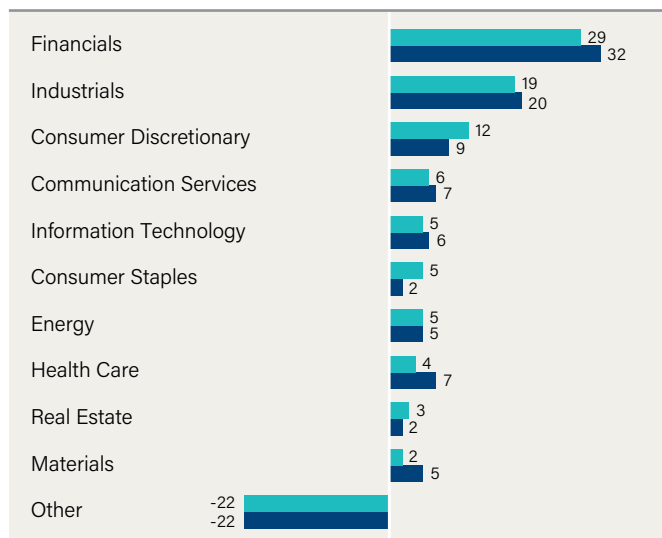
## Disposition of Assets %



■ 31 DEC 2023 ■ 30 SEP 2023

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

## Net Sector Exposures %



■ 31 DEC 2023 ■ 30 SEP 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	4.7%
ASML Holding NV	Netherlands	Info Technology	4.6%
Applus Services SA	Spain	Industrials	4.5%
Beazley PLC	UK	Financials	4.3%
Allfunds Group Plc	UK	Financials	4.3%
UBS Group AG	Switzerland	Financials	4.1%
Informa PLC	UK	Comm Services	3.8%
Banca Transilvania SA	Romania	Financials	3.7%
Ryanair Holdings PLC	Ireland	Industrials	3.6%
Wizz Air Holdings Plc	Italy	Industrials	3.0%

As at 31 December 2023. See note 5, page 5.  
Source: Platinum Investment Management Limited.

To take one example, H&M, a global business operating stores in 74 countries<sup>2</sup>, must accept payments both online and in-store across many currencies and many payments methods:

- credit card networks (e.g. Visa, Mastercard, Amex)
- digital wallets (e.g. PayPal, Apple Pay, Google Pay, Amazon Pay)
- popular buy-now-pay-later buttons (e.g. Afterpay, Affirm, Klarna)
- local cards and payment rails<sup>3</sup> (e.g. Cartes Bancaires in France, iDEAL in the Netherlands).

This complexity allowed a new generation of payments providers, such as Adyen, Stripe and PayPal to thrive using a modern technology stack.

Adyen's competitive advantage is that it has one of the best – if not *the* best – omnichannel or 'unified commerce' offer across online and in-app gateways as well as in-store point-of-sale terminals. Importantly, this is all integrated into a single system for the merchant, supported by rich data analytics, leading to higher authorisation rates. (The authorisation rate is the percentage of attempted transactions that are approved and is therefore important for merchants' profitability). These features make Adyen's platform a particularly compelling offer for large multinationals and for e-commerce merchants doing business across multiple countries.

<sup>2</sup> Source: The Retail Bulletin

<sup>3</sup> Rails are the infrastructure that moves money from one party to another

These strengths enabled Adyen to dramatically grow its payments processed volume and net revenue to almost €850bn and €1.5bn respectively over the year to 30 June 2023. In the 3rd quarter of 2023, both volume and revenue were up over 20%.<sup>4</sup> Crucially, the company expects to deliver 20-30% pa net revenue growth for the next three years.

Interestingly, this stock had suffered a dramatic share price fall in August of 2023 following a very weak first half result. Investors were concerned the US market, a key growth avenue for Adyen, is more commoditised than previously thought, resulting in a 'race to the bottom' in terms of pricing. Moreover, as e-commerce normalised post-COVID, investors were unsure about how much of the slowdown in top line growth was cyclical versus structural. Adyen margins also seemed under pressure due to their countercyclical hiring.

These concerns were largely alleviated by strong growth in the September 2023 reporting period, as well as management's introduction of specific three-year targets for net revenue growth, margin and capital expenditure.

Adyen's situation is a good example of our investment process in action: over short periods of time, stock prices are heavily influenced by cognitive biases, creating mispricing. Buying into a stock when these fears are prevalent – as we did with Adyen – is proof yet again that the best investment decisions are often uncomfortable to make.

### A refreshing beer?

During the quarter we started building a position in **Heineken**, the world's second largest global brewer. Founded in 1864, the Amsterdam-based company's premium brands represent around 40% of its total portfolio. Overall, the beer sector is neglected, partly because growth in global volume is relatively weak. However, aspirational consumers are still driving strong volume growth (and higher prices) via the 'premiumisation' trend in developing and emerging markets.

Heineken is the last remaining publicly listed major brewer still controlled by its founding family. The advantage of this ownership structure was their willingness to plan and act for the long-term (the three prior CEOs served terms over 12 years each). The disadvantage of this history is a relatively soft competitive culture compared to peers like the Belgian giant AB Inbev (ABI). We believe there is certainly scope for more rigour around performance and financial returns at Heineken.

### An opportunity for the number two brand

Following a decade of industry consolidation led by ABI, competitor dynamics have reached a sweet spot where industry players can now focus on rational pricing, more premiumisation and higher returns via increased productivity. ABI's aggressive M&A behaviour has consolidated their market positions and created what some could argue is excessive profitability. That can provide a wonderful pricing opportunity for the right number two brand – like Heineken.

Heineken's CEO has outlined a sensible multi-year strategic plan for the company to become more competitive. Peer benchmarking shows Heineken can use the operational levers under its control to reduce costs and drive higher productivity.

In the short term, we expect the stock to get a cyclical bounce from margin expansion and an improvement in sentiment about the company and its management. In the long term, we will monitor for financial signs that the underlying business is improving via increased productivity and profitability and is closing the gap on industry leader ABI.

### Outlook

European stockmarkets are now close to their historic highs as the dovish interest rate pivot is seen as bullish for equity markets. The key question remains whether disinflation will occur against a soft-landing backdrop or whether it's a precursor for a more severe economic slowdown.

Although inflation is falling, the European economy is weakening. German business sentiment unexpectedly fell in December<sup>5</sup>, signalling that Eurozone's largest economy will likely contract again in the fourth quarter. Germany is the weakest major Eurozone economy and the recent budget crisis has resulted in new austerity measures which could further dampen growth. In this context, profit growth in European businesses might negatively surprise investors over the next 12-18 months.

In response, we are reducing our exposure to stocks that have performed well and rotating capital into companies that have reset revenue and profit expectations. Overall, the portfolio remains cautiously positioned with around 9% of its capital in cash and a 23% short position at quarter end.

4 Source: Adyen Q3 2023 Business Update

5 Source: ifo Business survey December 2023

## 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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