

# Platinum International Fund



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## Overview

- Fund performance over the past year was affected by our defensive positioning at a time when markets shrugged off fears of recession and were instead buoyed by a boom in US AI and technology stocks. Our holdings in China also disappointed as a post-Covid recovery did not eventuate.
- Over the past quarter our holdings in companies that benefit from *spending* on AI capability did particularly well. **TSMC** and **Micron** were both up over 30%. Our travel holdings also delivered for investors. **Trip.com** rose around 25%. **Airbus** and low-cost Indian airline, **Interglobe**, both rose around 20%.
- Our strategy around AI revolves around investing in companies that should perform very well if AI spending continues to grow but who have strong non-AI businesses that can underpin their performance should the AI theme take longer to evolve.

## Performance

compound p.a.+ , to 31 March 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	7%	5%	5%	7%	11%
MSCI AC World Index^	13%	26%	13%	13%	8%

+ Excluding quarterly returns.

\* C Class – standard fee option. Inception date: 30 April 1995.

After fees and costs, before tax, and assuming reinvestment of distributions.

^ Index returns are those of the MSCI All Country World Net Index in AUD.

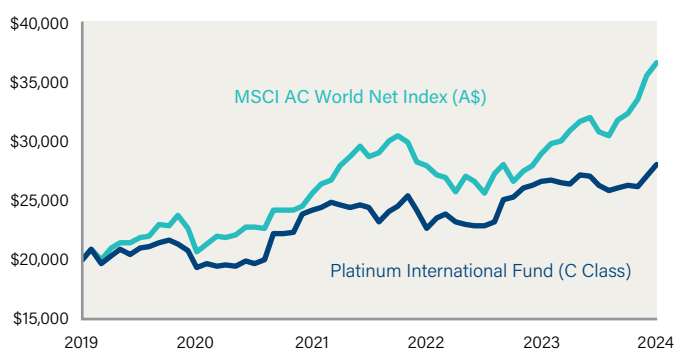
Source: Platinum Investment Management Limited, FactSet Research Systems.

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) was up 6.5% for the quarter and 5.3% for the past 12 months.

The performance of the Fund has been disappointing. This outcome was not down to a single driver, but the result of a collection of decisions that meant our market positioning turned out to be wrong.

Over the past 12 months, the most significant of these was our defensive positioning, including running a larger than normal short book. We were concerned that a combination of higher rates, tighter lending standards and the breaking of a stock market bubble would produce a recession. These factors led us to err on the side of caution and harmed our relative returns as the expected recession never came and markets pushed substantially higher.

The other factor that cost returns was our position on China. We thought China abandoning its zero Covid policy in January 2023 would see a strong economic recovery and aid stock prices. This did not happen, the economy remained weak and the bear market intensified.

Stock selection also played a role. Our largest detractor over both the year and quarter was **St James' Place**. It's a UK wealth advisory firm hit both by a regulatory requirement to change their fee structure and a need to refund fees after providing inadequate advice documentation to 2% of their clients. We are happy to take a long-term view on holding this stock.

In hindsight there was a significant opportunity in large cap US technology stocks that we bought too timidly (**Meta**, **Alphabet**) or missed (**Netflix**). This created a large opportunity cost.

## March quarter outcomes

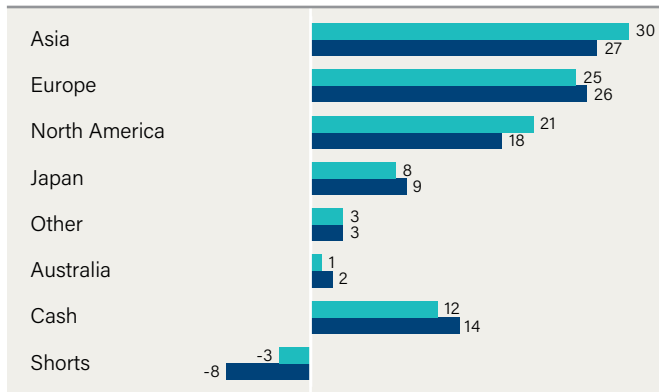
The performance over the quarter echoed this positioning. We saw strong returns from our US (+18%) and Japanese (+9%) holdings, but our returns in China (+4%) and Europe (+3%) were dull compared to their market indices. Our European holdings were down largely due to the aforementioned St James' Place (-32%), and a pullback in pulp producer **UPM** (-9%).

There were some bright spots. Our holdings in companies that benefit from investment in artificial intelligence (AI) did particularly well. **TSMC** (up around 30%) and **Micron** (up over 38%) were the standouts. Our travel holdings continued to do well. **Trip.com** – which holds leading positions in both the Chinese and Indian online travel markets – rose around 25%. European aviation giant **Airbus** – and low-cost Indian airline **Interglobe** – both rose around 20%.

**Toyota** (up over 46%) continues to reap the rewards of its long focus on fuel-efficient hybrid electric vehicles that continue to gain popularity. It also enjoyed a short-term boost to profitability from a weak yen. British Insurer **Beazley Plc** (up over 27%) delivered strong results due to an improving underwriting environment.

We dramatically reduced the size of our short book in November 2023. Our short holdings have been narrowed to companies where we see an imminent negative catalyst around the business (e.g. greater Chinese competition), or where the businesses are over-priced, lack sustainable business models and where bankruptcy is possible. Our short positions added 0.4% to total returns over the quarter.

## Disposition of Assets %



■ 31 MAR 2024 ■ 31 DEC 2023

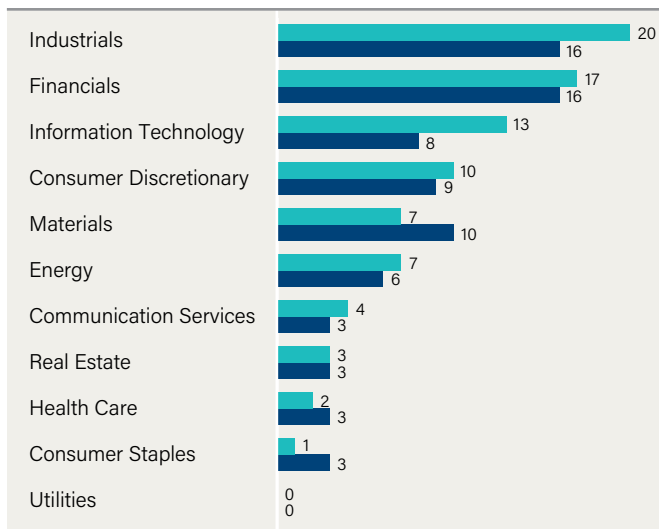
See note 3, page 5. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

## Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
ZTO Express Cayman Inc	China	Industrials	4.0%
Allfunds Group Plc	UK	Financials	3.6%
Samsung Electronics Co Ltd	South Korea	Info Technology	3.3%
UBS Group AG	Switzerland	Financials	3.3%
Taiwan Semiconductor	Taiwan	Info Technology	3.1%
UPM-Kymmene OYJ	Finland	Materials	2.8%
Airbus SE	France	Industrials	2.6%
Micron Technology Inc	US	Info Technology	2.6%
InterGlobe Aviation Ltd	India	Industrials	2.5%
Beazley PLC	UK	Financials	2.4%

As at 31 March 2024. See note 5, page 5.  
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.

## Commentary – the AI issue

We are often asked how we are thinking about AI as an investment theme and about the investments we hold in the space.

Like the personal computer, AI looks to be a classic multipurpose technology that will touch and even transform many industries. Its use cases can be viewed across two tracks:

- Companies operating at huge scale (such as Meta, Google and Amazon) are seeing high value use cases in advertising targeting and content creation – whether that be text, image, video, speech or coding.
- The use cases in the consumer or broader enterprise space are far less clear, with most still in experimentation phase.

We are mindful that the investment history of these type of technology advances shows a double edge sword. Fortunes can be made investing in the long-term winners, but picking those winners – especially in the early stages – is very difficult.<sup>1</sup>

Our approach is not to make bold forecasts about the potential size of the AI market or about who the ultimate winners from this technology revolution will be.

Instead we invest in reasonably-valued businesses who will perform very well if AI spending/applications continue to grow but who all have strong non-AI businesses that will underpin their performance should the AI theme take longer to play out.

<sup>1</sup> We recommend “Engines that move Markets” by Alasdair Nairn. It looks at the pivotal technological developments over the past century from an investment perspective. The key lesson: the ultimate losers from new technology are far easier to predict than the actual winners.

## Taiwan Semiconductor Manufacturing Company

TSMC is the world's best independent semiconductor foundry. The difficulty and cost of producing leading edge semiconductors has seen most of the industry switch to the 'fabless' model, with giants like Nvidia, Apple and AMD *designing* their chips, while outsourcing the *manufacturing* to TSMC. TSMC has three major advantages over their competitors Intel and Samsung:

- A process node lead – in simple terms TSMC has a miniaturisation advantage that means they produce chips with a price/performance/energy consumption advantage.
- A three decade ecosystem – TSMC customers have standardised around TSMC's production techniques.
- Independence – TSMC does not compete with its customers.

These advantages show up in TSMC's financial results, with the company routinely making 40% operating margins and post-tax returns on capital of 35%. The rise of AI represents a large new growth market for TSMC – whatever the winning technology.

## Broadcom

**Broadcom** is high quality semiconductor and enterprise infrastructure software provider. The jewel in Broadcom's crown is its dominant position in networking and custom AI chips.

In *networking* – there is a clear scaling relationship with AI models. The larger the dataset they are trained on, the better the capability. With the latest models trained on datasets of many *trillions* of parameters, it is no longer practical to do this on a single server with multiple GPUs. Instead it requires thousands of servers to be networked together, so the training can be spread across them in a synchronous manner.

This need for efficient networking is a key bottleneck for AI servers and Broadcom has the leading solution via their Tomahawk networking chips.

As the size and complexity of AI training models increase, we are starting to see the largest companies in the industry custom design chips for that singular purpose. Broadcom is a key player here.

Broadcom's biggest customer is Google. It produces their tensor processing unit chips and that will likely generate circa \$5 billion of revenue this year. Broadcom is also working on custom AI chips for Microsoft and Meta. It's likely Amazon will follow.

Over the past year Broadcom's AI related revenue has risen four-fold. It is set to account for roughly 30% of their sales in 2024.

## The memory manufacturers – Samsung and Micron

The common thread across AI model training is 'more' – huge datasets, huge computation power, huge energy consumption. Naturally there is an equally huge imperative to make these inputs more efficient.

'High bandwidth memory' (HBM) is a relatively new form of memory that achieves these goals, with the memory directly stacked on the AI processor chip. In addition to a significant higher price point, the amount of capacity required to produce HBM is 2-3x that of regular DRAM. This capacity being diverted to producing HBM has significantly tightened the supply/demand balance of the DRAM industry. The fact this is happening at the same time DRAM demand from traditional sources (PC's, phones etc) is bouncing back could produce some excellent profit outcomes for **Samsung** and Micron.

Overall, our exposure to companies who benefit from AI – but are not solely reliant on it – is roughly 14% of the portfolio.

## Outlook

The leading economic indicators are now looking more positive. The US/European unemployment picture is strong, activity in Japan is growing and there are early indicators of economic improvement in China (consumer spending, manufacturing Purchasing Managers' Index etc).

Globally, investor sentiment is strengthening. Recession concerns have faded and we are finding plenty of company-specific mispricings to take advantage of. We are also encouraged that the market gains are starting to broaden out. This bodes well for future returns from our truly-diversified portfolio.

## 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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