Platinum International Fund
Platinum Global Fund (Long Only)
Platinum Asia Fund
Platinum European Fund
Platinum Japan Fund
Platinum International Brands Fund
Platinum International Health Sciences Fund
Platinum International Technology Fund

Platinum® ASSET MANAGEMENT

Quarterly Report

31 MARCH 2024

FEATURE ARTICLE

SMALL GROUNDS, WORLD-CLASS PLAYERS

As our Portfolio Managers scour the world looking for investments they occasionally find world-class businesses in the world's smaller economies. Here's a look at some of the best.

ALSO INSIDE

Grappling with Korea

Reflections from Cameron Robertson, Portfolio Manager – Platinum Asia Strategies.

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Performance Returns

to 31 March 2024

FUND (C CLASS – STANDARD FEE OPTION) (P CLASS – PERFORMANCE FEE OPTION)	PORTFOLIO VALUE A$ MIL	QUARTER	1 YEAR	2 YEARS COMPOUND P.A.	3 YEARS COMPOUND P.A.	5 YEARS COMPOUND P.A.	SINCE INCEPTION COMPOUND P.A.	INCEPTION DATE
Platinum International Fund (C Class)	**5,919.0**	**6.5%**	**5.3%**	**11.3%**	**5.0%**	**6.9%**	**11.4%**	**30 Apr 1995**
Platinum International Fund (P Class)	26.2	6.6%	5.6%	11.6%	5.2%	7.2%	7.0%	03 Jul 2017
MSCI All Country World Net Index (A$)		13.2%	26.5%	14.6%	12.6%	12.8%	7.9%	30 Apr 1995
Platinum Global Fund (Long Only) (C Class)	**170.6**	**5.7%**	**10.2%**	**12.4%**	**4.6%**	**6.9%**	**10.0%**	**28 Jan 2005**
Platinum Global Fund (Long Only) (P Class)	2.9	5.7%	10.4%	12.6%	4.8%	7.2%	7.5%	03 Jul 2017
MSCI All Country World Net Index (A$)		13.2%	26.5%	14.6%	12.6%	12.8%	8.7%	28 Jan 2005
Platinum Asia Fund (C Class)	**2,218.8**	**7.2%**	**1.6%**	**4.1%**	**-3.3%**	**5.3%**	**12.2%**	**04 Mar 2003**
Platinum Asia Fund (P Class)	9.8	7.3%	1.8%	4.4%	-3.0%	5.3%	6.2%	03 Jul 2017
MSCI All Country Asia ex Japan Net Index (A$)		7.1%	6.8%	4.4%	-1.9%	3.7%	8.7%	04 Mar 2003
Platinum European Fund (C Class)	**309.2**	**6.2%**	**10.0%**	**12.5%**	**6.6%**	**6.4%**	**10.5%**	**30 Jun 1998**
Platinum European Fund (P Class)	4.0	6.3%	10.3%	12.7%	6.9%	6.7%	6.2%	03 Jul 2017
MSCI All Country Europe Net Index (A$)		10.1%	17.4%	15.5%	11.0%	9.3%	4.2%	30 Jun 1998
Platinum Japan Fund (C Class)	**348.9**	**2.9%**	**9.8%**	**8.4%**	**5.0%**	**6.6%**	**12.6%**	**30 Jun 1998**
Platinum Japan Fund (P Class)	11.4	2.9%	10.1%	8.7%	5.3%	6.8%	6.3%	03 Jul 2017
MSCI Japan Net Index (A$)		16.1%	29.1%	17.1%	9.2%	9.6%	4.1%	30 Jun 1998
Platinum International Brands Fund (C Class)	**325.6**	**0.7%**	**-11.1%**	**4.5%**	**-5.7%**	**3.5%**	**10.7%**	**18 May 2000**
Platinum International Brands Fund (P Class)	1.7	0.8%	-10.9%	4.7%	-5.4%	3.7%	5.3%	03 Jul 2017
MSCI All Country World Net Index (A$)		13.2%	26.5%	14.6%	12.6%	12.8%	5.1%	18 May 2000
Platinum International Health Sciences Fund (C Class)	**410.9**	**12.4%**	**27.4%**	**13.3%**	**-0.6%**	**8.6%**	**9.7%**	**10 Nov 2003**
Platinum International Health Sciences Fund (P Class)	11.3	12.5%	27.8%	13.6%	-0.3%	8.2%	9.7%	03 Jul 2017
MSCI All Country World Health Care Net Index (A$)		12.0%	15.8%	11.6%	12.4%	11.7%	9.8%	10 Nov 2003
Platinum International Technology Fund (C Class)	**130.1**	**15.2%**	**27.1%**	**14.4%**	**7.0%**	**13.3%**	**10.1%**	**18 May 2000**
Platinum International Technology Fund (P Class)	5.7	15.3%	27.5%	14.7%	7.3%	13.6%	12.3%	03 Jul 2017
MSCI All Country World IT Net Index (A$)		17.2%	44.3%	22.3%	19.4%	23.8%	5.6%	18 May 2000

Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. Historical performance is not a reliable indicator of future performance. Source: Platinum Investment Management Limited for Fund returns and FactSet Research Systems for MSCI index returns.
See note 1, page 40.

Small grounds, world-class players

Bradman, Ronaldo, Serena Williams – they all made it from quiet streets to global glory. It happens in the investment world too. As our Portfolio Managers scour the world looking for investments they occasionally find world-class businesses in the world's smaller economies. Here's a look at some of the best.

Fly the value skies

Ryanair, Ireland

ADRIAN COTIGA, PORTFOLIO MANAGER, PLATINUM EUROPEAN FUND

The Irish stockmarket – now Euronext Dublin – was established in 1793. Its long history includes booms in bicycle companies (the 1890s) and railroad and canal stocks (1830s). By global standards it's small – listing 35 companies worth just EUR122 billion at the end of 2023. But it's host to one of the world's truly great airlines.

> "In just three decades, Ireland has transformed from one of the poorest countries in Europe to having the third-highest GDP per capita in the world."

Source: *Small countries: The way to resilience* Credit Suisse Research Institute, 2023

Ryanair is an ultra low-cost carrier headquartered in Swords, Dublin. It's the third largest airline in the world by passenger volume and its 558 aircraft transport over 180 million people annually (in other words, it moves the whole population of Ireland 35 times a year).

Ryanair's business model is all about cost. They fly short-haul, point-to-point, offer a bare-bones service and operate primarily one aircraft type (737-800). The new Boeing MAX 10 planes they're moving into bring lower fuel burn and higher seat counts and so could deliver a 20% fuel saving. Ryanair's savings from the new planes – and their purchasing power with Boeing – are shared with the customers through lower prices.

Under Ryanair's business model, comfort and service are sacrificed to cost. But it's worked for them – excluding fuel cost, they can move a passenger a given distance at a lower cost than any airline on the planet. Their average fare is under EUR 60 per passenger. That's more than a competitive edge, it ***creates*** demand.

Cheap to fly, cheap to own

Europe's air market is comparatively fragmented. Ryanair has only 16% market share but is one of only two airlines growing meaningfully intra-Europe: Ryanair and Hungary's Wizz are both held in Platinum's European strategies.

We're happy to own Ryanair. While the market is concerned about higher fuel prices and a slowdown in European travel, the airline is inexpensive – trading on around a 10x PE (next 12 months). The Irish airline is now planning to pay 25% of net profit each year to its investors.

The obesity champion

Zealand Pharma, Denmark

DR BIANCA OGDEN, PORTFOLIO MANAGER, PLATINUM INTERNATIONAL HEALTH SCIENCES FUND

In 1922 August Krogh, a Nobel laureate, went on a lecture tour in the US, little knowing how this trip would change his home country of Denmark.

His scientist wife Marie, a diabetic, made him detour to Canada where scientists had successfully manufactured insulin. August Krogh saw the opportunity and brought back the technological knowhow to extract and purify insulin. This marked the start of Denmark's biotech industry and the ground work for what is today the largest charitable foundation in the world, Novo Nordisk Fonden – worth over USD120 billion and twice the size of the Bill and Melinda Gates Foundation.

Through its holding company Novo Holdings, the Foundation also controls:

- Novo Nordisk – a company which produces half the world's insulin
- Novonesis – a manufacturer of prebiotics, probiotics, enzymes, novel vitamins and other biosolutions for agriculture and food production.

Excellent in health

Professor Krogh's story is almost the origin story for Denmark's biotech sector. Today there are 15 health technology companies in the Copenhagen Stock Exchange – the second largest number in the index but worth a whopping 4.5 trillion Danish Krona.

> " Scandinavia in general has excellent science and family office investors that think long-term and give biotech companies the stable shareholder base they need when things get tough. "

One of the most intriguing stocks – and a holding in the Platinum International Health Sciences Fund – is Zealand Pharma. It's headquartered next door to Novo Nordisk and is a peptide specialist focused on diabetes and metabolic disease. It has always lived in the shadow of Novo Nordisk – until recently.

In September 2022 we visited Zealand and it became clear to us they were on the right path to take on obesity and metabolic diseases. Today the company has the leading amylin analog asset which could allow it to create a whole new class of anti-obesity drug – and the anti-obesity market could be worth $100 billion by 2030.[1] Today the company works with Boehringer Ingelheim on a Glucagon/GLP-1 dual receptor agonist that recently has shown its effectiveness.

Not long ago Zealand attempted to commercialise its products by itself, even listed in the US but ultimately gave up on that plan and refocused. We have always liked their peptide expertise but were wary of the US plans so the news of their abandonment got a big tick from us. While the science is crucial for biotech businesses, stability and clear decision making are just as important. Zealand's decision to take two steps back to move forward is a sign of a company prepared to focus on its strengths – a great attribute in the biotech sector.

Growth supplements

Mega Lifesciences, Thailand

CAMERON ROBERTSON, PORTFOLIO MANAGER, PLATINUM ASIA FUND

The Securities Exchange of Thailand (the SET) traces its history back to the opening of the Bangkok Stock Exchange in 1962. It trades 810 listed companies and is the most liquid market amongst ASEAN countries.[2]

The Thai economy was traditionally dominated by agriculture (31% of the country's workers are still employed there). Yet it has been working hard to link itself into the regional value chain in areas like technology, autos and electronics through higher-value manufacturing.

Mega Lifesciences is a company that's successfully gone down that path. It started life – 40 years ago – manufacturing for pharmaceutical companies. Over time its built its own generic brands and developed a big vitamin supplements business (think Australia's Blackmores).

When we assess the business today we see a company that owns trusted brands and is good at both pharmaceutical manufacturing and distribution – they're now well set throughout South-East Asia, Sub-Saharan Africa and the Middle East.

1 Source: Goldman Sachs https://www.goldmansachs.com/intelligence/pages/anti-obesity-drug-market.html

2 Source: SET Annual Report 2022.

Patience pays

They're a patient business – it's taken them four decades but Africa and other frontier markets now account for 13% of revenues. More recently (4 years ago) they bought a manufacturing facility in Indonesia where they're expanding their product range and upgrading manufacturing and warehousing. These moves could start adding significant revenue to the business over the next 3-5 years.

Mega is a classic Platinum stock. It's trading on just a 15x PE (2024e), has net cash on the balance sheet and earns strong returns on invested capital. At one point it was a market darling, but it's fallen out of favour and the share price has been flat for around seven years. That's despite the company almost doubling earnings per share and paying out most of those earnings in dividends.

Mega saw revenues surge during COVID and, like many companies, earnings dropped off once that surge was over. Add that to geopolitical and economic concerns about the region and you're part way to explaining its muted returns. Yet we believe these shorter-term issues are distracting people from the key issue – this Thai business is a high-quality, long-term growth story.

An Eastern Walmart?

Dino Polska, Poland

NIK DVORNAK, PORTFOLIO MANAGER, PLATINUM INTERNATIONAL BRANDS FUND

When the Wall came down it became even clearer to the world what 37 years of communism had done to the Polish economy. GDP per capita in Poland in 1990 was USD1,731. Across the Oder–Neisse line their German neighbours enjoyed all the consumer comforts you could then buy with an annual income of USD22,000.

Happily, Poland's catch-up has been extraordinary. While German per capita GDP doubled between 1990 and 2022, Poland's rose tenfold. It leapt from middle-income to high-income status in just 15 years.[3]

Dino Polska, a Polish supermarket chain we hold in the Platinum International Brands Fund, has surfed that growth.

Borrowing from Sam?

Dino Polska has a distinct strategy which echoes many features of the early Walmart. It's focused on towns and small cities where 80% of Poland's population lives, so rather than competing with well-resourced foreign competitors that target Warsaw, Krakow and Wroclaw, it's competing with local stores that can't match its range, modernity and size.

> "Give ordinary folks the chance to buy the same things as rich people."
>
> Sam Walton, founder of Walmart

Dino builds and owns its stores. They're highly standardised, making logistics and replenishment more efficient. Stores are carefully located so Dino becomes the location of choice for daily shopping.

Their shelves carry around 5000 different, mostly food products split roughly evenly between fresh and non-fresh. Dino are also vertically integrated into meat processing so they can offer fresh meat products that set them apart from competitors. That very specific freshness proposition has had a halo effect across all products.

Dino is an attractive growth story. It's a clear beneficiary of Poland's rising purchasing power – which is moving towards Western European levels. As a result it's achieved rapid growth in same-store sales and can earn and sustain comparatively high profit margins despite its very competitive pricing. In another Walmart echo[4], the founder, Tomasz Biernacki, still owns 51% of the business.

3 Source: World Bank.

4 Sam Walton's descendants still own over 50% of Walmart.

Platinum International Fund

Clay Smolinski
Portfolio Manager

Andrew Clifford
Portfolio Manager

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

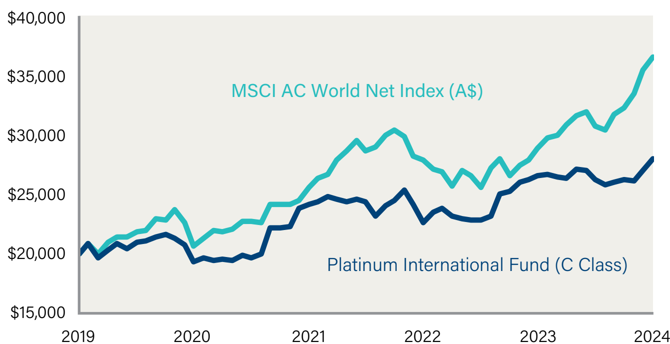
compound p.a.+, to 31 March 2024

	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 40. 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 40.

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

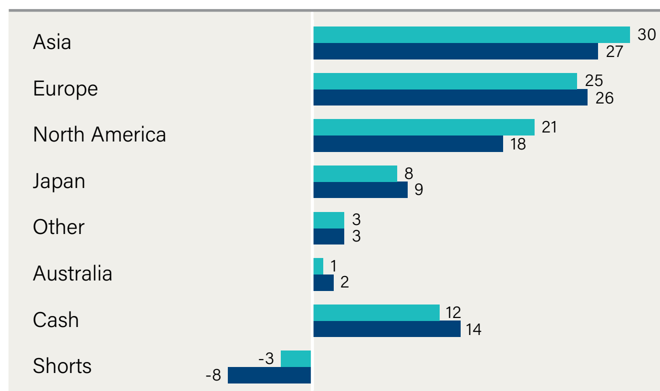
The performance over the quarter echoed this positioning. We saw strong returns from our US (+18%) and Japanese (+9%) holdings, but our returns in China (+4%) and Europe (+3%) were dull compared to their market indices. Our European holdings were down largely due to the aforementioned St James' Place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

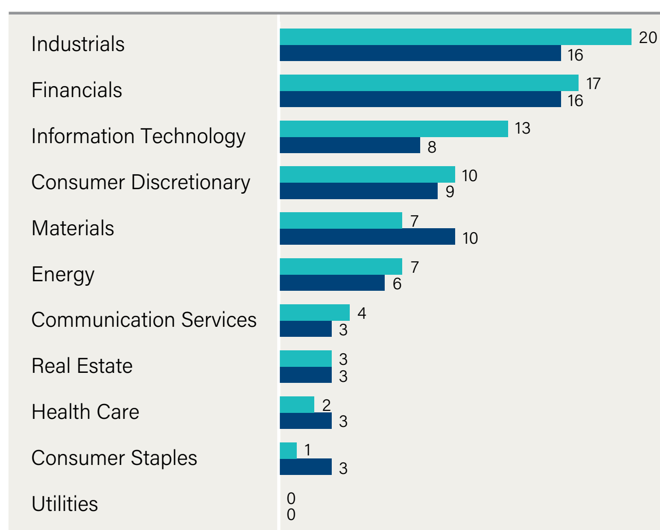
We dramatically reduced the size of our short book in November 2023. Our short holdings have been narrowed to companies where we see an imminent negative catalyst around the business (e.g. greater Chinese competition), or where the businesses are over-priced, lack sustainable business models and where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

Disposition of Assets %



See note 3, page 40. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures %



See note 4, page 40. 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 40.
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.[1]

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.

1 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.

Platinum Global Fund (Long Only)

Clay Smolinski
Portfolio Manager

Overview

- Returns for the quarter were boosted by our holdings in companies that benefit from investment in artificial intelligence. Taiwan's **TSMC** (+30%) and **Micron** (+38%) were up strongly. US technology giants **Meta** (up 37%) and **Alphabet** (+8%) also delivered healthy gains over the quarter.
- The main detractor was UK wealth manager, **St James' Place** (-32%) which was hit by new regulations that forced it to lower its fee schedule. It then announced the need to compensate some 2% of its customers who had not received adequate advice documentation.
- The global economic picture now looks more positive with low unemployment numbers in the US and Europe and a recovery in Japan. There are also some welcome indicators of economic improvement in China – both consumer spending and manufacturing PMIs have edged up.

Performance

compound p.a.+, to 31 March 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Global Fund (Long Only)*	6%	10%	5%	7%	10%
MSCI AC World Index^	13%	26%	13%	13%	9%

+ Excludes quarterly returns.
* C Class – standard fee option. Inception date: 28 January 2005.
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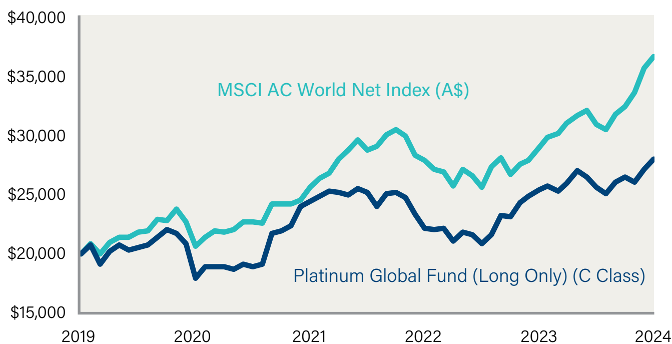


After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet Research Systems.
See notes 1 & 2, page 40.

The return of the Fund over the quarter was 5.7% and for the year 10%.

From a geographic perspective we saw good returns from our US (+19%) and Japanese positions (+7%), while our holdings in China (around 2%) and Europe (3%) were more muted.

In terms of positions, our holdings in companies that benefit from *investment* in artificial intelligence did well, with **TSMC** (+30%) and **Micron** (+38%) up strongly. US technology giants **Meta** (up 37%) and **Alphabet** (+8%) recorded healthy gains over the quarter.

Our travel holdings continued to perform. **Trip.com**, which owns leading online travel agencies in both the Chinese and Indian markets, rose around 25%, while European aircraft giant **Airbus** and low-cost Indian airline, **Interglobe** both rose around 20%.

The main detractors over the quarter were UK wealth manager **St James' Place** (-32%) and Finnish pulp producer **UPM** (-9%). UPM's problem is temporary (a timing delay on the full ramp up of their new pulp mill in Uruguay).

St James' Place has more enduring issues. The company, which was initially hit due to the need to lower its fee schedule, has announced that they had not adequately documented the provision of advice for some 2% of their customers since 2018, with fees to be refunded. While we are encouraged by the proactive approach the company is taking to righting this (for example, a full review of all records, actively reaching out to customers), it is a problem that will take some years to resolve. We are happy to take a long-term view on holding this stock.

Commentary – AI and its use cases

We are often asked to share our 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.

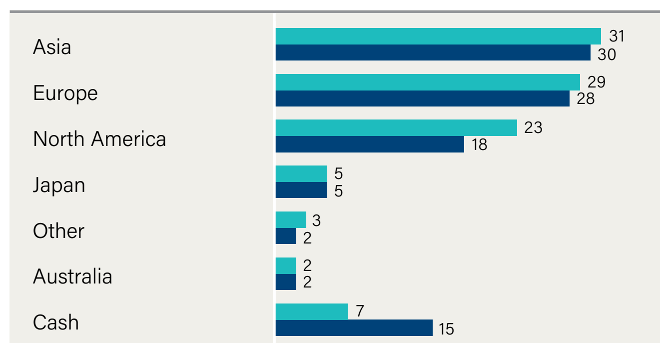
Investment history tells us that these type of technology advances are often a double edge sword. Fortunes can be made investing in the long-term winners, but picking those winners – especially in the early stages – is very difficult.[1]

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.

1 See "Engines that move Markets" by Alasdair Nairn. It's key lesson: the ultimate losers from new technology are far easier to predict than the actual winners.

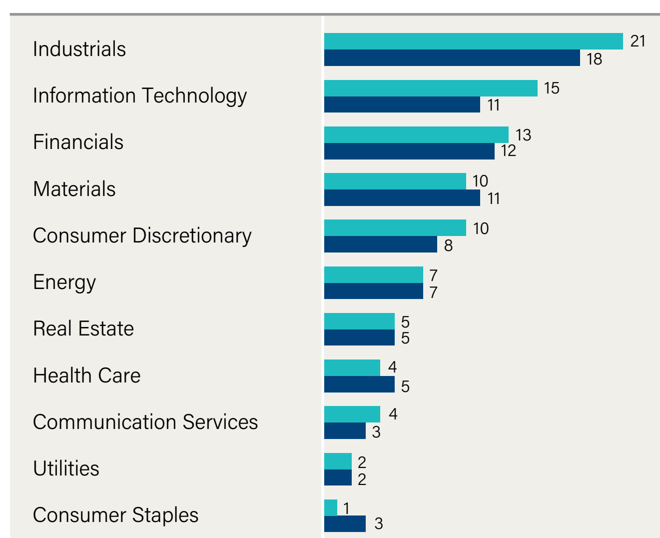
Disposition of Assets %



31 MAR 2024 31 DEC 2023

See note 3, page 40. 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 40. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics Co Ltd	South Korea	Info Technology	5.1%
ZTO Express Cayman Inc	China	Industrials	4.1%
Trip.com Group Ltd	China	Cons Discretionary	3.5%
Taiwan Semiconductor	Taiwan	Info Technology	3.4%
UBS Group AG	Switzerland	Financials	3.3%
Wizz Air Holdings Plc	Italy	Industrials	3.2%
Allfunds Group Plc	UK	Financials	3.1%
Broadcom Inc	US	Info Technology	3.1%
UPM-Kymmene OYJ	Finland	Materials	3.0%
TransUnion	US	Industrials	2.8%

As at 31 March 2024. See note 5, page 40.
Source: Platinum Investment Management Limited.

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 (PCs, 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

When we scan the global economy we see many leading indicators now pointing upwards. The unemployment numbers in the US and Europe are low, consumer and business activity in Japan is on the up. There are some welcome indicators of economic improvement in China (both consumer spending and manufacturing PMIs have edged up).

Today investor sentiment is quite positive, though the major geopolitical issues have not gone away (Ukraine, Taiwan, Gaza).

Concerns of recession have faded and in some pockets of the market speculation has returned in full force (particularly in crypto coins and in retail favourites like Super Micro). That said, we are still finding plenty of valuation dispersion and company specific mispricings to take advantage of. Market gains are starting to broaden out and that bodes well for future returns from the portfolio – which is well-diversified across the US, Asia and Europe.

Platinum Asia Fund

Cameron Robertson
Portfolio Manager

Overview

- Two new themes emerged this quarter. One was the strength in the Korean market, which was to some extent driven by AI, but also received a push from a new corporate governance initiative. The other change was the broad strength of our Chinese holdings. Amongst the banks, **China Merchants Bank** was up over 15% and **Ping An Bank** up 11%. Some Chinese industrial companies also did well, including **Weichai Power** (19%) and battery maker **CATL** (15%).
- One of our major holdings, **Taiwan Semiconductor Manufacturing Corporation**, was up around 30% over the quarter, thanks to its dominant position in the chip-making sector. Whilst **Nvidia** designs the chips powering the AI revolution, they send their designs to **TSMC** for manufacture.
- Given the rich opportunity set in the Asian markets, we now hold low levels of cash. Our holdings typically have healthy balance sheets, reasonable valuations and underlying businesses that are performing well.

Cameron Robertson became sole Portfolio Manager of the Platinum Asia Fund on 18 March 2024. He was previously Co-Portfolio Manager of the Platinum Asia Fund.

Performance

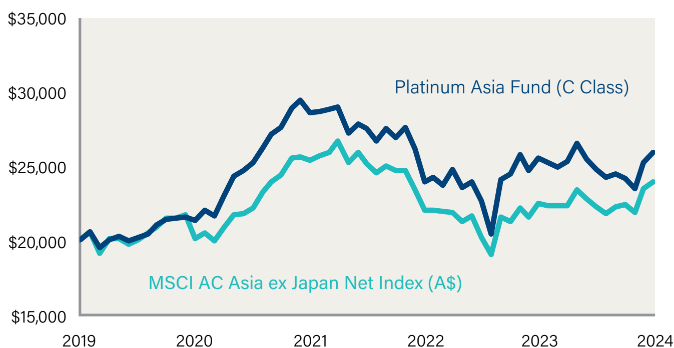
compound p.a.+, to 31 March 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	7%	2%	-3%	5%	12%
MSCI AC Asia ex Jp Index^	7%	7%	-2%	4%	9%

+ Excludes quarterly returns.
* C Class – standard fee option. Inception date: 4 March 2003.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country Asia ex Japan 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 40. 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 40.

The Fund rose 7.2% during the quarter.

The major themes largely continued on from last quarter. AI-related demand continued to be a hot topic across the tech supply chain, particularly driving the Taiwanese market. Our Indian holdings continued to deliver strong returns, although, interestingly, the broader Indian market was not especially strong. The Indonesian market was a touch weak and our holdings in that market were mixed although the sportswear retailer we own, **Map Aktif**, (up 27%) continued its healthy share price run. Chinese property holdings continued to languish.

There are two areas where the market moved differently to prior quarters. One was the Korean market, which was to some extent driven by AI, but also received a push from a new governance initiative (see below).[1] The other change was the broad strength of our Chinese bank holdings over the quarter. **China Merchants Bank** was up over 15% and **Ping An Bank** up 11%. Some Chinese industrial companies also did well, including **Weichai Power** (19%) and battery maker **CATL** (15%).

Commentary – The AI in TAIwan

In February, Sam Altman, the CEO of OpenAI, the company behind popular generative AI models like ChatGPT and Sora, was reportedly speaking to investors about the need for multi-trillion-dollar investments in industrial capacity surrounding the semiconductor industry.

These comments were a reminder of the growing demand in the market and the industry tightness that has emerged around some of these AI applications. One of the firms most directly exposed to this thematic is the US-based graphics chip producer **Nvidia**, whose products are used to handle the computation underpinning many AI products.

A year ago, analysts thought Nvidia would deliver ~$37bn in sales during the current fiscal year. Yet following the AI advances of the past 12 months, the consensus of sell-side analysts is that Nvidia sales could reach $110bn! (data from Factset). It is very rare to see such huge changes in the expected performance of such large companies. It underscores both the scale of the AI revolution – and how much it caught people by surprise.

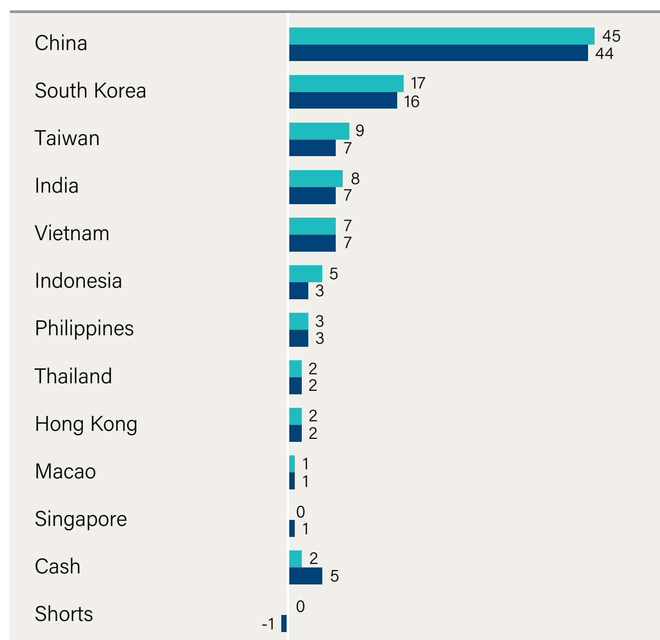
The company Nvidia relies on

Nvidia designs the chips, and then sends their designs to one of our major portfolio holdings, **Taiwan Semiconductor Manufacturing Corporation** (or TSMC – up around 30% over the quarter), to be manufactured. As part of the manufacturing process, Nvidia's graphics chips get packaged with other components to help make them work. Nvidia's top-of-the-line chips require the latest high bandwidth memory, provided by companies such as Korea's **SK Hynix** and **Samsung Electronics** (both of which we hold), to be packaged alongside their graphics processors.

With the AI industry at a nascent stage, it seems foolhardy to make precise forecasts. Nevertheless, these trends bode well for companies exposed to the theme. We are seeing signs of capacity ramping up to accommodate the surging demand in associated areas, such as advanced semiconductor packaging technologies. Even adjacent products, that may not be directly used in these applications, are being affected. For example, because manufacturing high bandwidth memory chips requires significantly more manufacturing capacity than a standard DRAM chip, we are seeing an industry-wide tightening of supply, with memory prices strengthening even across products not directly linked to AI use cases.

1 For more on the Korean market, see our *Grappling with Korea* article on page 38.

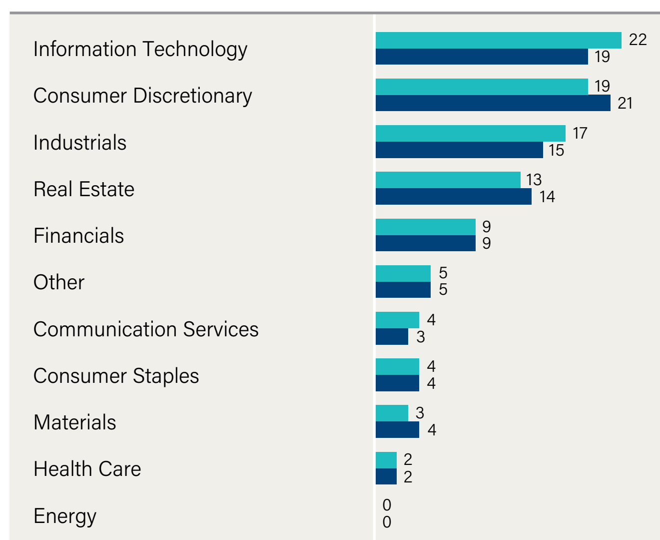
Disposition of Assets %



31 MAR 2024 31 DEC 2023

See note 3, page 40. 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 40. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Taiwan Semiconductor	Taiwan	Info Technology	8.0%
SK Hynix Inc	South Korea	Info Technology	6.5%
Samsung Electronics Co Ltd	South Korea	Info Technology	6.5%
Vietnam Enterprise Inv	Vietnam	Other	5.1%
InterGlobe Aviation Ltd	India	Industrials	5.0%
ZTO Express Cayman Inc	China	Industrials	4.4%
JD.com Inc	China	Cons Discretionary	3.6%
Tencent Holdings Ltd	China	Comm Services	3.6%
Trip.com Group Ltd	China	Cons Discretionary	3.2%
China Resources Land Ltd	China	Real Estate	3.1%

As at 31 March 2024. See note 5, page 40.
Source: Platinum Investment Management Limited.

The Fund also contains smaller holdings that have been peripheral beneficiaries of the AI enthusiasm gripping markets. For example, Korean semiconductor equipment manufacturer, **HPSP's** share price rose again this quarter. HPSP's product helps companies like TSMC, Samsung and SK Hynix improve yields in their latest chip manufacturing facilities. On our recent trip to Korea we again met with HPSP to discuss their portfolio expansion efforts, as well as the outlook for their core hydrogen annealing product.

With HPSP's shares having appreciated materially on our entry price 18 months ago and valuation multiples more fully reflecting the company's potential, we have reduced our stake in the business. Yet the prospects for HPSP's business remains promising and the company has been executing well. Their 2023 earnings were more than double 2021 levels. They're up almost 10x from 2019.

The low down on "value-up"

A handful of our holdings have benefited from this AI thematic, but it's worth remembering we were attracted to these businesses because we believed they were mispriced, and that their strong competitive positions would allow shareholders to benefit as demand inevitably grew.

As such, we would frame the current AI enthusiasm within the broader context of societies' long-term push towards technological advancement and the associated growth in demand for computation and digitisation. Investors now need to contemplate how durable the current wave of AI-driven demand is likely to be. Will it be a flash in the pan, or is this the start of a new age of technological innovation?

While AI is a fascinating topic, it's certainly not the only thing going on in the region. During the quarter there were elections in both Taiwan and Indonesia. With the upcoming election in South Korea, the incumbent party has been pushing the "value-up" initiative designed to address the low valuations besetting Korea's stock market. This follows in the footsteps of a similar successful policy effort in Japan.[2]

A key aspect of the "value up" initiative will be ensuring alignment with the families who control the chaebols (large conglomerates that dominate key industries). Inheritance tax reform that could moderate the tendency for chaebols to keep multiple diverse businesses within the family is likely to be another critical element. That reform – like the progress of the value-up initiative – will have to wait until after the election.

Our portfolio has tended to skew towards companies with better corporate governance, thus, at present at least, we are not hugely exposed to the "value up" trade. Nevertheless, it is an initiative we are watching with interest as greater alignment between controlling and minority shareholders could, in certain cases, lead to substantial value realisation.

China is another market where we feel valuations have been depressed. In some cases they have been fairly marked down, in others, however, we see opportunity.

The domestic Chinese economy has been mixed and the property sector continues to face challenges. Industrial policy remains focused on shifting manufacturing capacity to higher-technology sectors. However, global trading partners are increasingly wary of China's domestic manufacturing subsidies and anti-dumping investigations are becoming more common.

Yet even with that backdrop, we continue to find interesting new opportunities. One company we initiated a modest position in towards the end of last year is **Guangzhou Haoyang Electronic**. The company is the global leader in stage lighting, manufacturing for both in-house and third-party brands. This founder-owned and run business has carved out a lucrative niche in a fragmented global industry, receiving 90% of revenues from overseas markets.

The business is benefiting from the continued growth of the global entertainment industry. Having struggled to keep up with demand, a sizable capacity expansion has set them up to continue taking market share and delivering profitable growth. We were able to buy a position in this company at a very reasonable low-to-mid teens PE.

Outlook

The portfolio has been primed to deliver healthy performance for a little while now. After a strong quarter, it is tempting to believe this could be the start of a turnaround in sentiment towards the region but it is of course impossible to know what the coming months may hold. Ultimately though, outcomes for investors are driven by the performance of businesses in the Fund. If the underlying companies do well, and corporate governance is good, then shareholders should benefit.

Given the rich opportunity set we are now essentially fully invested. Across the portfolio our holdings typically have healthy balance sheets and valuations strike us as very reasonable. The underlying business performance of our holdings has, by-and-large, been respectable. We believe that, at least over longer time horizons, investors should be rewarded for staying the course.

2 For more on Japan's corporate governance changes see our article: Japan's reform. New dawn or same old story?

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

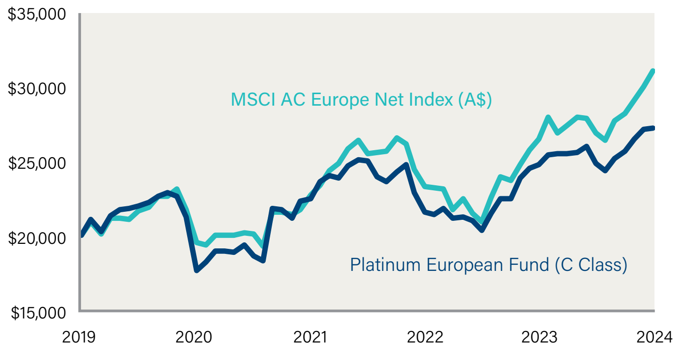
compound p.a.+, to 31 March 2024

	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 40. 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 40.

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.

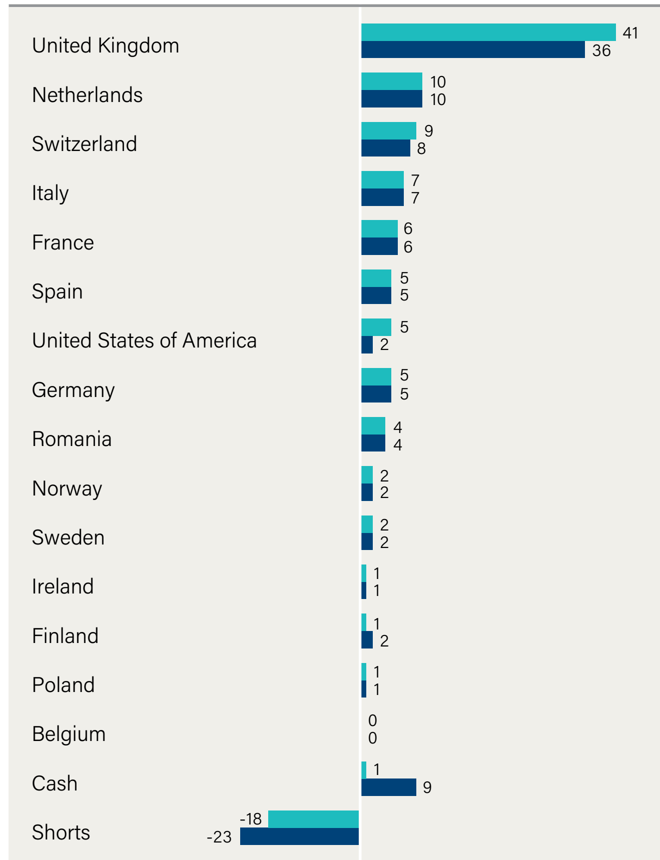
On a country basis, our exposure to the UK appears high at near 40%. However, UK domestic-focused businesses make up only ~9% of this allocation with the rest of this exposure being international business that are listed in the UK, such as **Informa** or **London Stock Exchange**, where most of the revenue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

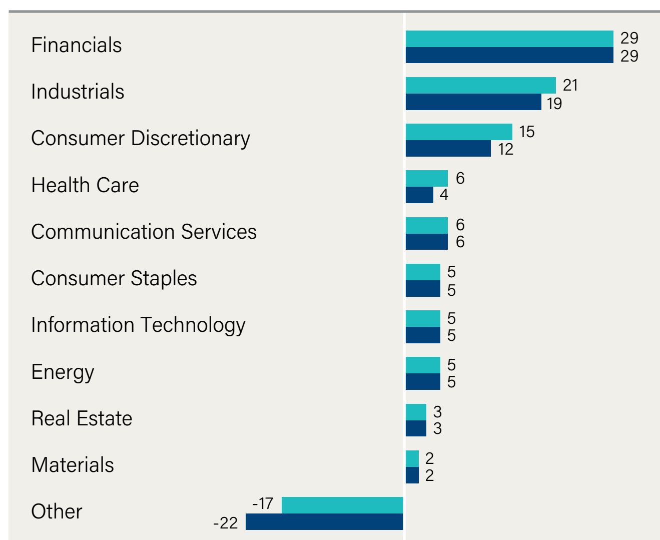
As an independent company, Haleon combines its inherited pharma capabilities (scientific skillsets, regulatory expertise and relationships with healthcare professionals) with the increased management focus and operations management skills better suited to a consumer goods company.

Disposition of Assets %



See note 3, page 40. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures %



See note 4, page 40. 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 40.
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.

Platinum Japan Fund

Leon Rapp
Portfolio Manager

Overview

- The first quarter of 2024 marked two important events for Japan investors. The first was the headline Nikkei 225 index surpassing its 1989 bubble high. The second was the BOJ's historic exit from a decade long experiment with ultra-loose monetary policy.
- The portfolio benefited from the excellent performance of holdings such as data company **SUNCORPORATION** (+50%), **MS&AD Insurance** (+44%) and **Toyota Motor** (+46%). We also captured healthy returns from newly initiated positions in real estate developers **Mitsui Fudosan** and **Mitsubishi Estate** (both up over 35%).
- We think a virtuous circle for Japan's economy – a clean break from the past three decades of low growth – is drawing near. As a result, the outlook for earnings growth – and for Japanese equities more generally – is particularly encouraging.

Leon Rapp became sole Portfolio Manager of the Platinum Japan Fund on 18 March 2024. He was previously Co-Portfolio Manager of the Platinum Japan Fund.

Performance

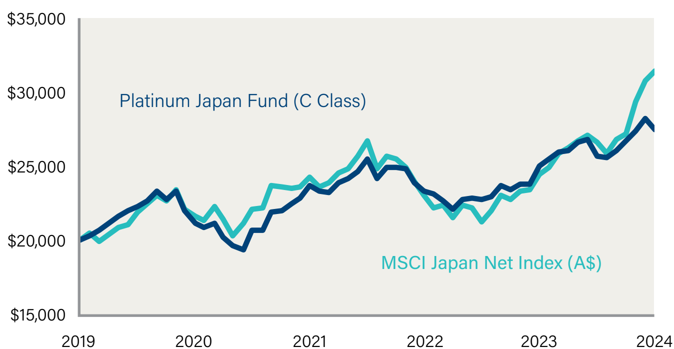
compound p.a.+, to 31 March 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	3%	10%	5%	7%	13%
MSCI Japan Index^	16%	29%	9%	10%	4%

+ Excludes quarterly performance.
* 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 Japan 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 40. 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 40.

Led by large caps, Japanese equities continued to perform strongly and were supported by continued inflows from global investors. Our portfolio lagged the market due to our higher exposure to smaller, domestically-focused firms. As we approached the end of the quarter we freed up some cash within the portfolio that we are looking to deploy in new opportunities.

During the quarter, technology stocks rallied further, driven by the AI thematic. Toward quarter-end the market rotated to stocks focused on the domestic economy, with strong performance from the real estate sector. The yen continued to steadily weaken versus the USD from the 140 to 150 level despite the long anticipated Bank of Japan (BOJ) exit from yield curve control (YCC) and negative interest rates.

Key contributors to the portfolio were **SUNCORPORATION** (+50%), **MS&AD Insurance** (+44%), **Toyota Motor** (+46%) as well as newly initiated positions in real estate developers **Mitsui Fudosan** and **Mitsubishi Estate** (both up over 35%).

Key detractors were **Shift** (-32%), which released disappointing Q4 earnings in January. **Toho Titanium** (-17%) and **Ship Healthcare** (-13%) also lagged.

Following recent research trips to Japan we continue to make changes to the portfolio to reflect an investing environment likely to be very different to the one seen in past decades in Japan.

During the quarter, we initiated positions in the two major real estate developers Mitsubishi Estate and Mitsui Fudosan, given still substantial Net Asset Value (NAV) discounts and improving outlook. We also initiated positions in **Mitsubishi Electric** and **Hitachi** which are well positioned for earnings growth and have been undertaking wide-reaching and meaningful reforms that should see higher returns on capital over time. Additionally, we bought **Daifuku**, a leading materials handling specialist, while raising our holdings in industrial automation specialist, **Keyence**. These companies are important enablers to the rebuilding of Japan's manufacturing footprint and should benefit from a potential multi-year boom in domestic capex. Following very strong performance, we lowered our exposure to semiconductor related businesses.

Commentary

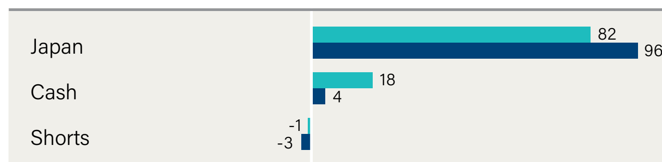
The first quarter of 2024 marked two important events for Japan investors. The first was the headline Nikkei 225 index surpassing its 1989 bubble high in February. The second was the BOJ's historic exit from the decade long experiment with ultra-accommodative monetary policy in March (albeit while still maintaining easy monetary conditions).

While both events are significant, we need to ask whether the recent strong gains in Japanese equities, up some 43% in local terms over the past 12 months (Nikkei 225), can be sustained. Is there a risk that higher inflation means the BOJ pulls away the punchbowl too quickly, leading to a sharp rise in the Yen and then a broad equity market selloff? Are we witnessing another false dawn for Japanese equities?

To answer these questions – and thinking about the Japanese equity market more broadly – there are a few key points to digest.

Firstly, after three decades of off and on deflation, inflation at both the consumer and producer level is now establishing itself across the Japanese economy and becoming embedded in expectations. This was initially partly the result of a weaker currency raising producer prices. However, passing through price increases is now becoming commonplace. At long last, this gives corporates the confidence to invest in their own economy and gives consumers a stronger expectation of the wage growth and job security that lead to higher consumption. This is the long-awaited virtuous circle of higher prices and higher wages that the BOJ needed to see before monetary policy settings could be normalised.

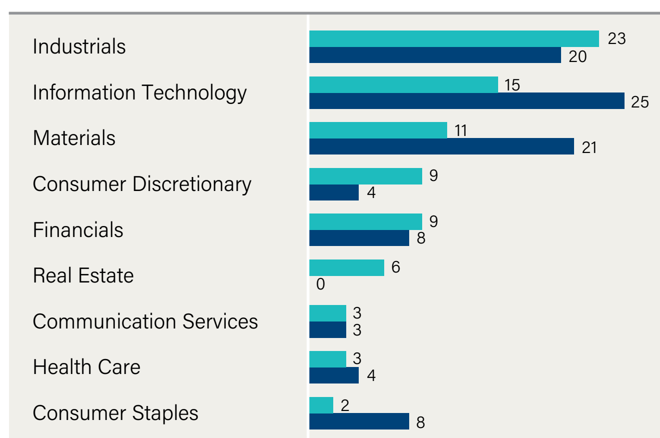
Disposition of Assets %



31 MAR 2024 31 DEC 2023

See note 3, page 40. 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 40. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Toyo Seikan Group	Japan	Materials	4.3%
GMO Payment Gateway Inc	Japan	Financials	4.1%
Toyota Industries Corp	Japan	Industrials	3.7%
Toyota Motor Corp	Japan	Cons Discretionary	3.6%
Taisei Corp	Japan	Industrials	3.6%
Hirano Tecseed Co Ltd	Japan	Industrials	3.4%
Mitsubishi Estate Co Ltd	Japan	Real Estate	3.2%
Mitsui Fudosan Co Ltd	Japan	Real Estate	3.2%
Keyence Corp	Japan	Info Technology	3.2%
Sony Corp	Japan	Cons Discretionary	3.2%

As at 31 March 2024. See note 5, page 40.
Source: Platinum Investment Management Limited.

The widely followed 2024 *Shunto* annual wage negotiations between labour unions and employers saw a headline rise in salaries of 5.3% YoY, the fastest rise for 33 years. While encouraging, real wages in Japan have been negative and real household spending still remains below pre-COVID levels. The BOJ knows Japan is a two-speed economy still emerging from a deflationary mindset. Thus any normalisation of policy is likely to be slow, which we believe is supportive of further economic expansion.

Secondly, we see a steady but profound shift in corporate mindsets away from the self-defeating battles for market share that historically undermined margins and entrenched deflation. Now there is a focus on prioritising profitability and returns on capital – and therefore protecting and rewarding shareholders.

Mid-term corporate growth strategies are widely used in Japan, detailing corporate priorities over a rolling 3~5 year horizon. Traditionally, these plans would be kept broad brush, with only basic quantitative targets such as sales growth and absolute profits. They were more talking points than deliverables and the *achievement* of these plans appeared a secondary priority.

Recently, however, we've seen much more granularity and realism in these plans. Capital efficiency targets have become commonplace with such metrics as ROE, ROIC and margin ratios being used as well as the introduction of quantifiable shareholder return policies. This is the new standard and is welcome news for investors who for too long have been low on the list of corporate priorities in Japan.

Embracing the spirit of reform

The outlook for meaningfully higher and growing shareholder returns stands in stark contrast to the poor returns of Japan's "lost decades". While much of the credit can go to the introductions of shareholder friendly policies such as the governance and stewardship codes begun during Abenomics and the more recent Tokyo Stock Exchange cost-of-capital initiatives, we think the real difference between corporate reform attempts of the past and now is the recognition that the limitations of traditional cost cutting has been reached and that the only way for Japan to thrive in the face of chronic labor shortages is to implement reforms that substantially raise firm productivity.

Tokyo property

Of the many themes we look at, we believe the return of inflation could see a Japanese real estate boom, led by the prime central Tokyo office leasing market. The traditional narrative is that real estate equities perform poorly during inflationary times, as credit is tight and higher rates raise debt servicing costs. Yet despite the BOJ raising rates, Japanese real estate developers have rallied strongly. This could be due to the market being less concerned about the pace of rising interest rates, but we think it is more likely due to strong property fundamentals such as limited supply of desirable office locations with high demand from strong corporate earnings leading to low single digit vacancy rates for well-located office space.

We think these conditions provides scope for Mitsui Fudosan and Mitsubishi Estate (who own and lease diversified prime properties in central Tokyo) to raise office rents while also benefitting from higher realised property values. This implies robust earnings ahead. Yet both stocks trade at discounts to their Net Asset Value, due to significant unrealised gains on their properties. A more proactive stance on capital efficiency and increasing shareholder returns is beginning to address this discount.

The quality of Japanese life

Japan has steadily deindustrialised over the past three decades. On a clear day in the late 80's and early 90's one could see Mount Fuji from central Tokyo only in the very early morning. By mid-morning it would disappear in smog, the result of air pollution from industry. Transport infrastructure in the Kanto region had not kept up with the economy, resulting in chronic traffic jams.

Today Mount Fuji, some 100kms from central Tokyo, can regularly be seen throughout the day and traffic through the capital flows (mostly) smoothly. While deflation and weak wage growth during the drift decades were negative, the quality of life steadily improved for most Japanese.

The return of value chains

We think conditions are also ripe for a sustained domestic capex boom thanks to a substantially weaker currency, policy support aimed at getting value chains moving back to Japan and a flurry of domestic capacity expansion announcements by leading tech firms.

In the recent quarterly Ministry of Finance (MoF) corporate survey, Japanese corporates raised spending on plant and equipment by a strong 16.4% YoY in Oct-Dec 2023. Notably, spending was up 20% YoY for manufacturing firms, with Information and Communication Electronics Equipment up 67% YoY.

The return of value chains should underpin higher levels of physical capex which we expect to be enhanced by productivity investments such as software spending and automation. With this, we should also expect a pickup in real wage growth that supports a stronger recovery in consumption.

We think a virtuous circle for Japan's economy – a clean break from the past three decades of low growth – is drawing near. Thus the outlook for earnings growth – and for Japanese equities more generally – remains particularly encouraging.

Platinum International Brands Fund

Nik Dvornak
Portfolio Manager

Overview

- Our Fund is mandated to buy *consumer-centric* brands, which precludes us from owning stocks in market segments that did very well over the past year – including AI, pharma and defence. However performance was also affected by our high exposure to Chinese equities and a very low exposure to the US market.
- We have increased the portfolio's exposure to well-established, global brands – most readers should be able to easily recognise the brands owned by our Top 10 holdings.
- We have added a number of European stocks to the portfolio. Europe hosts many of the world's most valuable global brands and valuations are relatively attractive. We have also added some select US consumer technology stocks to the portfolio.

Nik Dvornak became Portfolio Manager of the Platinum International Brands Fund on 18 March 2024. He was previously Co-Portfolio Manager of the Platinum International and European Funds.

Performance

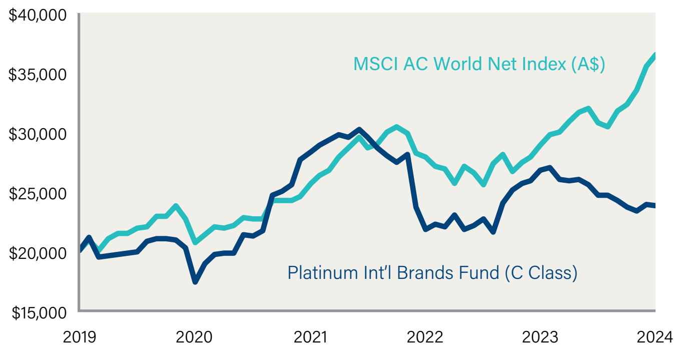
compound p.a.+, to 31 March 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	1%	-11%	-6%	3%	11%
MSCI AC World Index^	13%	26%	13%	13%	5%

+ Excludes quarterly returns.
* C Class – standard fee option. Inception date: 18 May 2000.
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 40. 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 40.

The Fund returned 0.7% over the quarter in AUD terms, significantly trailing the MSCI AC World Index which appreciated by 13%. This level of underperformance is deeply disappointing. So, why has it occurred?

Part of the explanation is down to extraneous factors. Consider the themes that led the market over the past quarter and indeed the past year. Artificial Intelligence, weight-loss drugs and defence were the big winners. **NVIDIA** is up 82% over the past three months while **Eli Lilly** and **Novo Nordisk** have risen 33% and 26%. NVIDIA boasts a market capitalisation of over USD 2 trillion while Eli Lilly and Novo Nordisk now have a combined market capitalisation of over USD 1 trillion. These are large moves by large cap technology and pharma stocks. In the defence arena, the European rearmament play, **Rheinmetall**, appreciated 81% this quarter as the penny finally dropped and European governments recognised the fallacy of 'soft power'.

Our Fund is mandated to buy *consumer-centric* brands, which precludes us from owning these market segments. Hence, we sat out on some of the best performing themes. This is not a major cause for concern. Just as there are periods where consumer brands are left behind by technology or capital goods, there will be periods when consumer brands lead the market upwards.

However, the larger contributor to our underperformance relates to our asset allocation. We had a high exposure to Chinese equities and a very low exposure to the US market. Over the past year, Chinese and Hong Kong stocks fell 7% and 19% respectively while US equities soared 28%. Why were we positioned this way?

This time last year, the outlook for the US consumer was grim. While spending held up as people ran down their COVID lockdown savings, inflation had surged. Prices were increasing significantly faster than wages so consumer purchasing power was contracting. Even in the midst of a severe monetary tightening cycle, inflation was running at 7% per annum. It looked like the Fed would have to tip the economy into recession to bring inflation to heel.

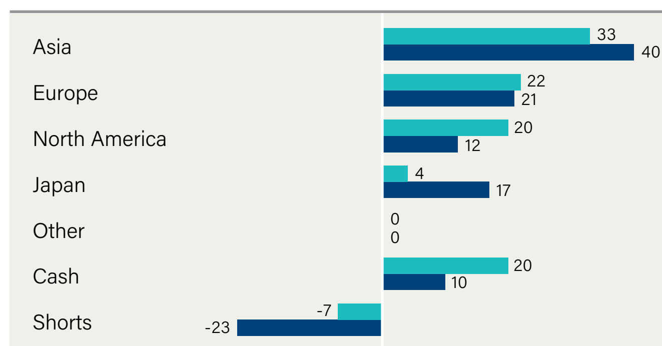
By contrast, in China, things were looking up. Chinese consumers had spent much of the prior three years in lockdowns far more draconian than those in the West. When the Government finally relented on its Zero-COVID policy at the end of 2022, we expected a strong rebound in consumer spending. This is what had happened in other economies as they emerged from lockdown. Indeed, it's what happened when China emerged from its first lockdown in 2020.

This then was the rationale behind our decision to overweight Chinese consumer stocks and underweight their US counterparts.

In hindsight, this was not the correct decision. US inflation rapidly decelerated, unemployment stayed very low, real wages started to rise and the risk of significant further monetary tightening faded. Meanwhile, Chinese consumer confidence had been crushed by (seemingly arbitrary) government intervention and a deflating property market.

We had misjudged consumers' post-Covid behaviour in China and did not adapt as data came through showing the US consumer outlook was less ominous than feared and that the Chinese consumer was more hesitant than anticipated. We maintained our exposure to China at nearly 30% as of December 2023 and we were net short US equities. We should have course-corrected more quickly.

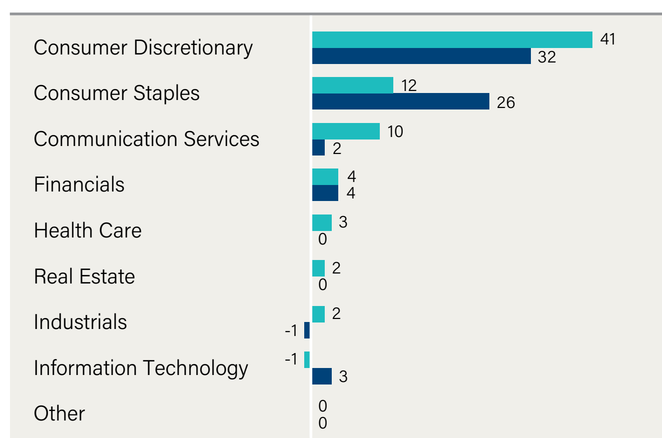
Disposition of Assets %



31 MAR 2024 31 DEC 2023

See note 3, page 40. 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 40. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
JD.com Inc	China	Cons Discretionary	4.1%
Alphabet Inc	US	Comm Services	3.5%
Trip.com Group Ltd	China	Cons Discretionary	3.5%
Haleon PLC	US	Consumer Staples	3.4%
Meituan Dianping	China	Cons Discretionary	3.3%
Visa Inc	US	Financials	3.3%
Heineken NV	Netherlands	Consumer Staples	3.2%
Tencent Holdings Ltd	China	Comm Services	2.9%
Basic-Fit NV	Netherlands	Cons Discretionary	2.9%
Toyota Motor Corp	Japan	Cons Discretionary	2.7%

As at 31 March 2024. See note 5, page 40.
Source: Platinum Investment Management Limited.

Commentary – a core of great brands

We have made significant changes to the Fund.

The first change is to increase the portfolio's exposure to well-established, global brands. Most readers should be able to easily recognise the brands owned by our Top 10 holdings. Around this solid core of stable, growing, global businesses we will carefully deploy a limited amount of capital to more regional or local brands, to turnarounds or growth stories that can provide outsize returns. Businesses that do not fit into this strategic structure are being sold.

The second change we are making is to rebalance the portfolio geographically.

The US accounts for 25% of global GDP and 63% of our benchmark index. The US economy is unparalleled as a source of innovation, economic dynamism and as a magnet for the most valuable human capital from across the globe. So, while we have some sympathy for the argument that the US consumer is stretched and valuations on US consumer stocks are high, we have reduced our short positions and added selectively to US stocks, mostly in the consumer technology space.

Today Europe is home to many of the world's most well-recognised and valuable global brands and European valuations are more attractive than those in the US. We have added a number of European stocks to the portfolio recently, many of which we know well from the Platinum European Fund.

In China and Japan, we are avoiding – or selling out of – stocks where business fundamentals are weakening or where the risk-reward trade-off feels too tight. The companies we continue to hold – like **Toyota** and **Nintendo** in Japan – are brands most readers should recognise.

In China, we now own mainly consumer internet businesses. Should consumer sentiment recover from currently depressed levels, these holdings will benefit. In the meantime, we hold well-established enterprises that enjoy powerful network effects, have strong market positions and are demonstrating a newfound fervour for paying dividends and rewarding investors with share buybacks.

Outlook

The outlook for the global consumer has improved over the past year.

In the US, unemployment remains extremely low even as labour force participation recovers towards pre-COVID levels. This is supporting real wages which are growing again as inflation slows. Monetary tightening appears to have plateaued and loosening seems on the cards at some point in 2024. We note the slowing sales reported by Nike and Lululemon with interest. These may foreshadow a deterioration in consumer spending but it is also possible they reflect some re-energised competitors putting the squeeze on the industry giants.

European consumers experienced an even harsher contraction in real wages than US consumers, courtesy of energy and trade flow disruptions following the Russian invasion of Ukraine. While the European economy has stagnated for the better part of a year, real wages are growing once more as inflation eases faster than in the US. Consumer sentiment is recovering and consumer spending is holding up. As an example of this consumer resilience, we would point to the strong performance from Zara-owner, **Inditex**. This retailing giant was able to grow sales 10% and operating profit over 20% during the past year, despite generating around half their sales from supposedly moribund Europe and despite competition from digital champions like Shein.

China is still the greatest source of both risk and opportunity today. While consumer sentiment is undeniably weak, the potential for improvement is greater than in any other major economy. There have been a number of emerging bright spots. For example, both **Trip.com** and **Meituan** reported more than doubling the bookings in their Online Travel Agency businesses. Recent earnings reports from other companies we own also suggest stabilisation, although a broad-based recovery remains elusive.

Looking ahead, the portfolio is balanced geographically to reflect the spectrum of opportunities on offer. The Fund is less heavily skewed towards China, more heavily weighted towards established, world-class brands and we believe better placed to deliver returns across a broad range of possible future scenarios.

Platinum International Health Sciences Fund

Dr Bianca Ogden
Portfolio Manager

Overview

- This quarter our holdings **Zealand Pharma** (up over 80%) and **Wave Life Sciences** (up 22%) reported progress with their next generation obesity assets. Their share prices responded positively.
- We added **Apogee** – a US biotech – to the portfolio last year. This company aims to reduce the injection burden for anti-inflammatory antibodies by extending the half-life of its antibodies. Both the early pre-clinical data and the team behind the company were appealing to us, hence we invested at the IPO. This quarter Apogee announced positive human data confirming 3-6 months dosing. Performance has been exceptional (it rose over 130% in the past quarter) and we trimmed our holding.
- Looking forward, the second quarter of the year will feature more medical meetings for the Platinum Health Sciences team and we will carefully watch some obesity outcome trials.
- We're in a much more positive funding environment today. We expect the move towards alliances, partnerships and M&A to continue as large companies look for nimbler partners to help them innovate.

Performance

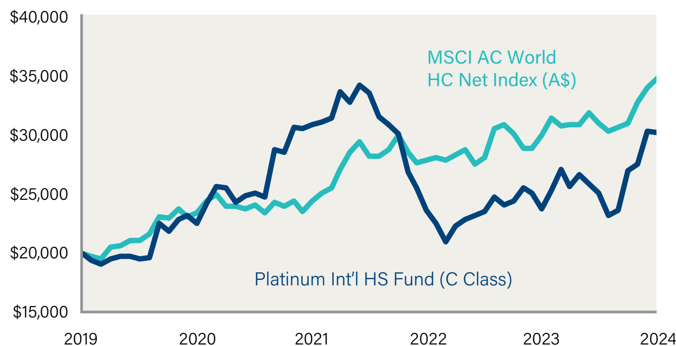
compound p.a.+, to 31 March 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HS Fund*	12%	27%	-1%	9%	10%
MSCI AC World HC Index^	12%	16%	12%	12%	10%

+ Excludes quarterly returns.
* C Class – standard fee option. Inception date: 10 November 2003.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World Health Care 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 40. 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 40.

During the quarter, publicly listed biotech companies raised significant capital via follow on offerings, IPOs and so called PIPEs (private investment in public equity), which are akin to private syndicated capital raises but for a listed company. Over $18 billion was raised – a stellar number. Similarly, private US biotech companies enjoyed a healthy funding environment (raising over $3 billion) therefore allowing companies to mature prior to listing. This is in stark contrast to a year ago when the Silicon Valley Bank collapse forced many biotechs to restructure and reassess their business models.

For biomanufacturing and tool companies, the US Government's desire to reduce the dependency on China and other countries (via the Biosecure Act) is causing uncertainty. It remains to be seen how this situation evolves but company executives may need to diversify their manufacturing base and are considering all outcomes.

Obesity and radioligand therapeutics remain a key focal point. As we anticipated, the obesity/metabolic disease treatment landscape is evolving with new entrants and combination therapies emerging. In the radiotherapy space consolidation continues with pharma companies looking to add modality technologies.

Movement in our portfolio

This quarter Novartis acquired **Morphosys** – a holding in the Fund. Morphosys is a German biotech founded in 1992 on the basis of its phage display technology. The company was one of the key antibody partners in the early days of biotech. It did have to pivot however, given antibody design became mainstream. Morphosys acquired Constellation Pharma in 2021 gaining pelabresib, a BET inhibitor for myelofibrosis. This drug, now close to approval, attracted us to re-invest last year and this quarter sealed the deal with Novartis.

Our holding **Inhibrx** is also being acquired. This is an interesting deal structure as Sanofi is acquiring the lead therapy, an AAT-Fc fusion protein[1] for the treatment of AATD (alpha-1 anritrypsin deficiency[2]), while spinning out the Inhibrix oncology portfolio into a new company. Sanofi will hold an 8% stake in the new entity. Our main investment objective was the AAT-Fc fusion protein given its superior efficacy and dosing schedule compared to the current standard of care.

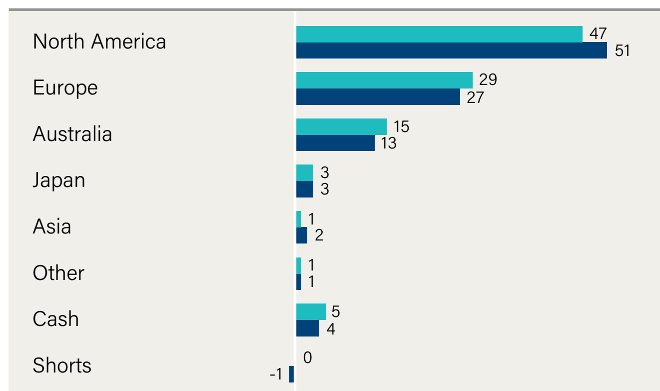
This quarter our holdings, **Zealand Pharma** (up over 80%) and **Wave Life Sciences** (up 22%) reported progress with their next generation obesity assets. Zealand Pharma, with its partner Boehringer Ingelheim, announced positive results for survotide (a Glucagon/GLP-1 dual receptor agonist) in patients with liver disease due to MASH.[3] This is an important dataset as it suggests the drug can differentiate itself from other first generation obesity drugs. Zealand Pharma is also garnering a lot more attention given its proprietary pipeline in metabolic disease and particularly Petrelintide, an amylin analog. We have trimmed our position this quarter given strong performance. The obesity field is evolving with next generation mechanisms emerging, including a focus on muscle mass as well as cardiovascular effects.

1 AAT-Fc fusion protein: Alpha-1-antitrypsin is a serine protease inhibitor that due to mutations is dysfunctional in AATD. Inhibrix recombinant AAT is fused to a human immunoglobulin (Ig) Fc fragment.

2 AAT deficiency: genetic disorder caused by mutations in the SERPINA1 gene leading to early onset emphysema and can also cause liver disease.

3 MASH: Metabolic dysfunction-associated steatohepatitis.

Disposition of Assets %



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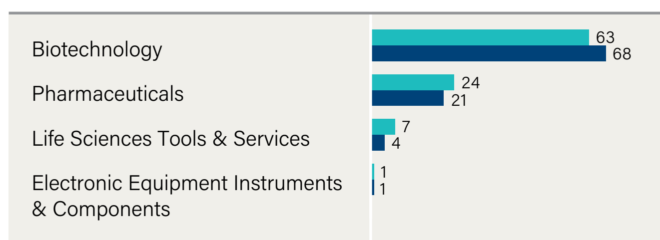
Source: Platinum Investment Management Limited.

Net Sector Exposures %



See note 4, page 40. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
SpeeDx Pty Ltd	Australia	Biotechnology	6.9%
Zealand Pharma A/S	Denmark	Biotechnology	3.8%
Apogee Therapeutics Inc	US	Biotechnology	3.6%
Exscientia Plc	UK	Biotechnology	3.2%
Sanofi SA	US	Pharmaceuticals	2.7%
Takeda Pharmaceutical Co	Japan	Pharmaceuticals	2.7%
Bicycle Therapeutics PLC	UK	Biotechnology	2.7%
Roche Holding AG	US	Pharmaceuticals	2.6%
Telix Pharmaceuticals Ltd	Australia	Biotechnology	2.6%
UCB SA	Belgium	Pharmaceuticals	2.5%

As at 31 March 2024. See note 5, page 40.
Source: Platinum Investment Management Limited.

Wave Life Sciences, a genomic medicine company we have owned for some time due to their expertise in antisense and RNAi technologies, has announced its clinical small interfering RNA (siRNA) targeting the Inhibin betaE (INHBE) protein. INHBE is a promising target given its genetic validation. People with a loss of function mutation in INHBE have reduced abdominal obesity and a lower risk of type 2 diabetes and coronary artery disease. The aim of an INHBE siRNA is to achieve healthy weight loss but be muscle sparing while at the same time allow for 1-2x a year dosing.

Apogee is a US biotech we added to the portfolio last year. This company has set out to reduce the injection burden for anti-inflammatory antibodies by extending the half-life of its antibodies. Both the early pre-clinical data and the team behind the company were appealing to us, hence we invested at the IPO. This quarter Apogee has announced positive human data confirming 3-6 months dosing. Performance has been exceptional (it rose over 130% in the past quarter) and we trimmed our holding.

Kidney disease is an area seeing progress, and IgAN (IgA nephropathy) is getting a lot of attention. **Vera Therapeutics**, one of our holdings, reported strong data for atacicept that showed disease modifying efficacy, stabilising a key marker for kidney function (eGFR). Given strong performance following the data we trimmed our holding.

UCB, our Belgium biotech holding, performed well (up over 40%) following the successful launch of bimekizumab in the US. We have long been believers in this product given its deep and fast effect in psoriasis as well as psoriatic arthritis.

Our Oxford based biotechs disappointed. **Oxford Nanopore** (down 40%) reduced guidance for its sequencing products, while **Exscientia** fired its CEO/Founder due to inappropriate behavior. We were pleased Exscientia dealt with the issue decisively. We feel the company has a deep bench and the business will be able to move on. We added to our position.

During the quarter we increased our weighting in **Roche** as we believe the company will be able to build a metabolic disease franchise.

Commentary – top guns in biotech?

In February we travelled to San Diego to visit biotech companies and join an investor bus trip – akin to a school excursion for adults talking science and biotech. Engaging with other investors adds valuable perspective. The mood was upbeat given the sector's healthy fundraising environment and the fact that corporate deals are getting done at solid valuations.

San Diego is a thriving biotech hub similar to Boston – but with a lot more space. For a Top Gun fan it has fighter jets flying above and at times interrupting meetings! Pharma companies like the area as it has strong academic research and well-known Institutes. Two recent Fund holdings that have been acquired at healthy premia – **Prometheus Biosciences** and **Rayzebio** – are from San Diego.

We visited private and public companies covering obesity, rare disease, oncology and kidney disease as well as different therapeutic modalities (RNAi, small molecules, radiotherapies, ADCs). Visiting private companies is essential for keeping abreast with the industry and gathering competitive intelligence.

Many private companies are at the forefront of next generation therapeutics and must be included in any due diligence. **Recludix** is an example. This company is of interest to us given its expertise in protein-protein interaction, its chemistry expertise and the fact that Recludix negotiated a deal with Sanofi whereby Sanofi parted with $125 million upfront for a preclinical asset. This company should be on anyone's radar when looking at inflammatory diseases. Its expertise in targeting the Src homology 2 (SH2) domain of signaling proteins is rare to find. The SH2 domain of a protein is crucial in mediating signals from the outside to the inside of a cell. It has long been classified as an undruggable target given many proteins share this domain and inhibitors need to be very specific.

Through assay development and new chemical approaches Recludix has identified potent SH2 inhibitors for STAT (Signal Transducer and Activator of Transcription) proteins. STATs are key molecules in the inflammatory process and hence ideal targets. Early preclinical data so far indicates that Recludix has molecules that are highly competitive – and pretty unique. We have seen large deals by pharma to access similar types of molecules that are less exciting.

Outlook

The Biosecure Act will remain a focus over the coming months, as will the upcoming elections. IPOs in the space remain mixed but are important to watch carefully. The second quarter of the year will feature more medical meetings for the Platinum Health Sciences team and we will see more obesity outcome trials read out. As always we expect alliances, partnerships and M&A to continue in this space given the need for large companies to embrace innovation.

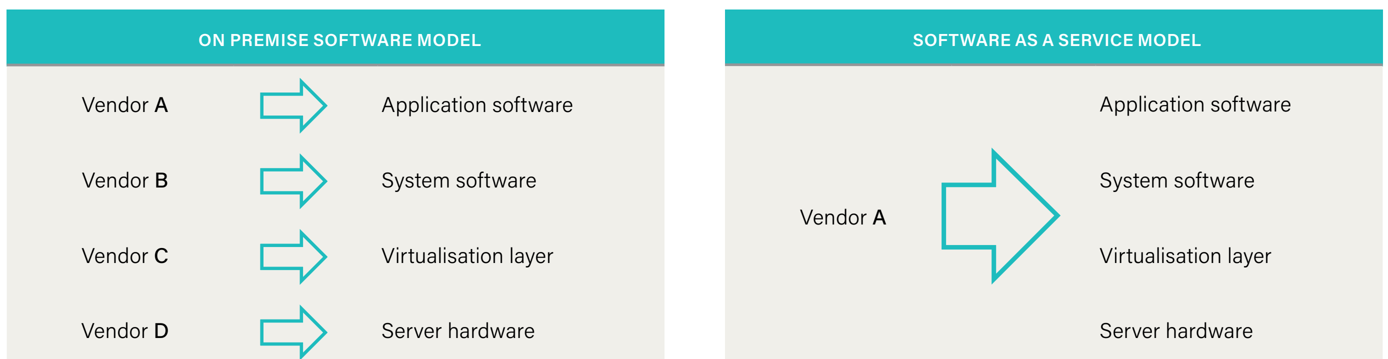
Platinum International Technology Fund

Jimmy Su
Portfolio Manager

Overview

- A range of our Fund holdings enjoyed strong returns off the back of good quarterly results – including **Meta** (+37%), **Netflix** (+24%) and **Amazon** (+18%). The strength of the AI capex cycle had follow-on effects for some other holdings - **ASML** (up around 30%), **TSMC** (+29%), **Applied Materials** (+27), **Advanced Micro Devices** (+22%) and **Lam Research** (+24%).
- We bought a position in **SAP**, the global leader in Enterprise Resource Planning systems. SAP is a company that's working to migrate customers to the cloud. This should enable them to capture more revenue from their customers whilst cutting consumer costs (See Figure 1).
- The team is working to find underappreciated, high-quality technology companies working in attractive segments and whose future growth trajectories are uncorrelated to the AI capex cycle. SAP and **Autodesk** are two examples.

Figure 1: Transition to Software-as-a-Service (SaaS) allows vendors to capture more of their customers' IT budget



Performance

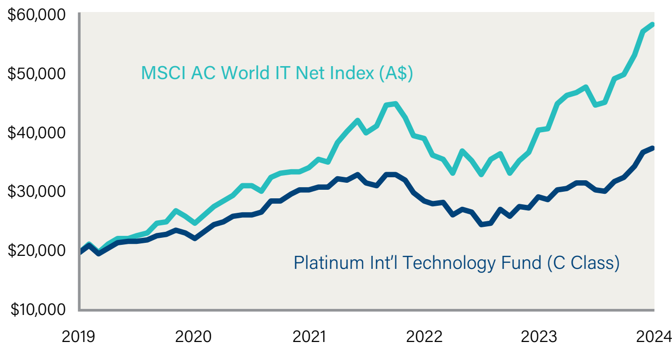
compound p.a.+, to 31 March 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	15%	27%	7%	13%	10%
MSCI AC World IT Index^	17%	44%	19%	24%	6%

+ Excludes quarterly returns.
* C Class – standard fee option. Inception date: 18 May 2000.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World IT 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 40. 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 40.

The Fund returned 15% during the quarter.

Fund holdings, **Meta** (+37%), **Netflix** (+24%), and **Amazon** (+18%) did well on strong quarterly results. **ASML** (up around 30%), **TSMC** (+29%), **Applied Materials** (+27), **Advanced Micro Devices** (+22%) and **Lam Research** (+24%) also performed well as enthusiasm for the AI capex cycle spread to other parts of the supply chain.

Mobileye – a driver technologies company – fell ~25% as the company guided down revenue due to excess customer inventory. **Adobe** fell ~15% as 1Q results were not as strong as expectations, and the launch of OpenAI's text-to-video model, Sora reignited concerns about competition.

We bought a position in **SAP**, the global leader in Enterprise Resource Planning systems. SAP is migrating its customers to the cloud where it can capture more of the IT value chain (see Figure 1) whilst cutting consumer costs. We also invested in **Autodesk**, the global leader in software for building design and pre-construction workflows. Autodesk is expanding into construction workflows where digital tool adoption is low – but growing quickly.

Commentary – the value in tech?

We are often asked how one implements value investing in tech. This usually assumes that it is near impossible because most attractive companies (and a lot of unattractive ones) trade at high-looking multiples. Yet simply comparing multiples is not an effective valuation framework because it assumes away differences in business models, earnings quality, growth prospects and the crucial ability to generate future cash flows. Good businesses making sustainably high returns above the cost of capital can be fairly valued – or undervalued – even if their multiples look high.

Figure 2 shows how fair value PEs generally increase as the future return on invested capital and earnings growth increases over time. For context, a supernormal growth period might be where a company's new technology is rapidly taking market share. And ROIC is Return on Invested Capital – a key measure of how effectively a business puts its money to work.

Figure 2: Price to earnings assuming 10 years of supernormal growth

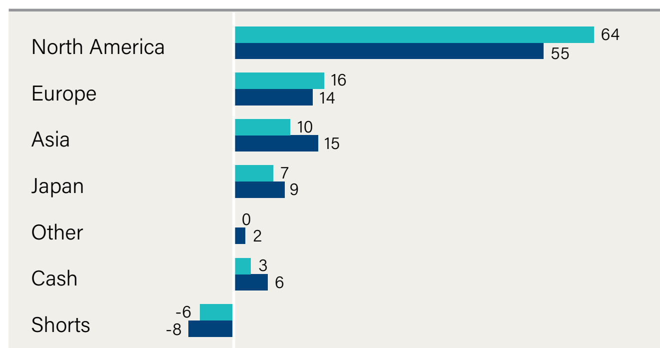
		EARNINGS GROWTH				
		5%	10%	15%	20%	25%
ROIC	30%	21x	31x	46x	68x	101x
	25%	21x	30x	44x	64x	95x
	20%	20x	28x	40x	59x	86x
	15%	18x	25x	34x	49x	70x
	10%	15x	19x	23x	30x	39x
	5%	6x	-1x	-11x	-29x	-54x

Assumes equity only funding, 8% cost of capital, 10-year supernormal growth period.

We can simplify this by comparing two hypothetical businesses each with $10 of earnings. CommodityCo sells a commodity widget with many competitors. Over the next five years, it could generate a 10% ROIC and grow earnings 10% p.a. before the business matures. By contrast, MonopolyCo has pricing power, enjoys high barriers to entry and is expected to generate a 25% ROIC and grow earnings ~15% p.a. before maturing. Figure 2 shows that MonopolyCo should be worth ~$440 (44x PE) vs CommodityCo at ~$170 (17x PE). Given an opportunity to buy MonopolyCo at 30x PE and CommodityCo at 20x PE, the counterintuitive conclusion is that MonopolyCo is undervalued, despite the higher multiple. CommodityCo is overvalued.

Instead of trying to buy companies at low PEs, value investing is about buying stocks at PEs *lower than what they are worth*. We execute this through a three-step process.

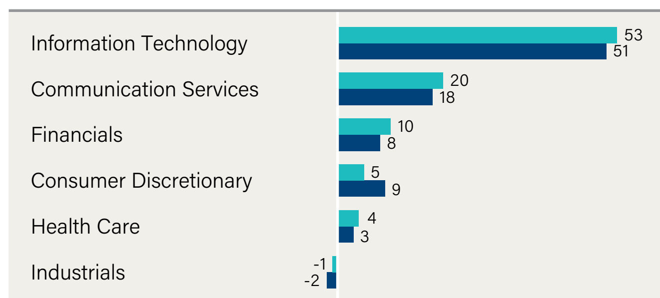
Disposition of Assets %



31 MAR 2024 31 DEC 2023

See note 3, page 40. 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 40. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	US	Comm Services	5.2%
Amazon.com Inc	US	Cons Discretionary	5.1%
ASML Holding NV	Netherlands	Info Technology	4.7%
Netflix Inc	US	Comm Services	4.5%
Taiwan Semiconductor	Taiwan	Info Technology	4.5%
Meta Platforms Inc	US	Comm Services	4.4%
Broadcom Inc	US	Info Technology	4.2%
Adobe Systems Inc	US	Info Technology	4.1%
Microsoft Corp	US	Info Technology	4.1%
Universal Music Group NV	Netherlands	Comm Services	4.1%

As at 31 March 2024. See note 5, page 40.
Source: Platinum Investment Management Limited.

First, we attempt to understand a business' future free cashflow generation potential. We ask what value they bring to customers, why they are preferred over competitors, their pricing power and whether management is trustworthy and executing the right strategy. Companies that rank favourably on these measure are *higher quality* and we expect they can sustain a high ROIC over a longer period of time relative to the average company. We then seek to understand the industry growth rate, where the business is in its lifecycle, their potential to take market share and whether they can expand into adjacent fields. Companies that rank favourably on these measures have *higher growth potential*.

Second, we classify the business for quality and growth and compare its valuations to peers with similar characteristics in our portfolio (see Figure 3 and 4). At this point valuation discrepancies may appear and further investigation will reveal whether we have made a mistake in our assessment or that this discrepancy is due to a – potentially attractive – mispricing.

Figure 3: Quality vs growth – PITF top 30

BUSINESS QUALITY	GROWTH POTENTIAL: LOW POTENTIAL	AVERAGE POTENTIAL	HIGH POTENTIAL
BEST IN CLASS	UMG, Visa, ICE	Google, Meta, Microsoft, Adobe, SAP, Oracle, ASML, Autodesk	–
ABOVE AVERAGE	Nintendo, Analog Devices, Qualcomm	Netflix, TSMC, AMAT, Broadcom, Lam Research, Keyence	Amazon, GMO, AMD, VEEV, Adyen
AVERAGE	Samsung, Micron, JD.com	NXP	Allfunds
BELOW AVERAGE	–	–	–

Figure 4: Average FY2 PEs – PITF top 30

BUSINESS QUALITY	GROWTH POTENTIAL: LOW POTENTIAL	AVERAGE POTENTIAL	HIGH POTENTIAL
BEST IN CLASS	27x	30x	–
ABOVE AVERAGE	25x	27x	44x
AVERAGE	13x	19x	31x
BELOW AVERAGE	–	–	–

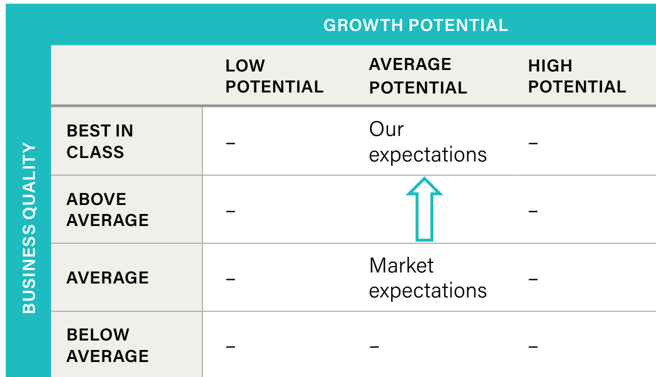
Source: Factset

Finally, if a mispricing has occurred we need to understand *why*. We believe this usually results from:

1. The company faces a *temporary setback* and the market loses faith in its durability or long-term growth potential.
2. The company is undergoing *structural change*.

Alphabet is a good example of mispricing due to a temporary setback. Investors currently price Alphabet as an "Average" business at ~20x FY2 PE as they are concerned genAI will disintermediate the search business. We believe Alphabet is a "Best in Class" business and should trade at ~30x in line with peers (see Figure 5). There is little market share data suggesting monestisable search (e.g. booking a holiday) is impacted by large language models. Over the medium term, it's hard to see how ChatGPT or Bing can attract a larger audience and offer advertisers a better ad product given Alphabet's distribution strengths via Android, Chrome and YouTube and superior targeting based on data from services like Gmail and Google Maps.

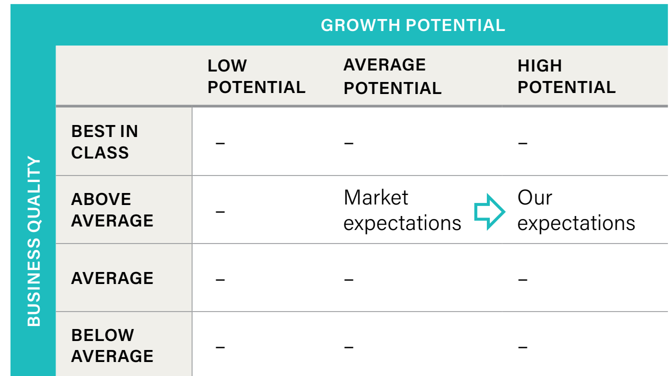
Figure 5: Alphabet – our expectations vs market expectations



BUSINESS QUALITY	GROWTH POTENTIAL		
	LOW POTENTIAL	AVERAGE POTENTIAL	HIGH POTENTIAL
BEST IN CLASS	–	Our expectations	–
ABOVE AVERAGE	–	↑	–
AVERAGE	–	Market expectations	–
BELOW AVERAGE	–	–	–

Amazon is an example of mispricing due to *structural* change. Investors currently price Amazon as an "Average Growth Potential" business and borderline "Above Average"/"Best in class" on quality at ~33x FY2 PE. We believe Amazon will rank as a "High Growth Potential" business if it can monetise advertisements in the streaming business (see our October webinar). We believe Amazon is uniquely positioned to capture a meaningful portion of the $60bn of linear TV ad spend shifting to digital given the size of its content library, its unique access to user purchasing data and the ability to directly track performance on platform. Doing so will meaningfully change the earnings growth and ROIC trajectory of the retail business.

Figure 6: Amazon – our expectations vs market expectations



BUSINESS QUALITY	GROWTH POTENTIAL		
	LOW POTENTIAL	AVERAGE POTENTIAL	HIGH POTENTIAL
BEST IN CLASS	–	–	–
ABOVE AVERAGE	–	Market expectations →	Our expectations
AVERAGE	–	–	–
BELOW AVERAGE	–	–	–

In conclusion, the real investment skill is to know when a stock on 30x is cheap and when a stock on 10x is expensive.

Outlook

We remain cautious on the sustainability of the AI capex cycle (see our October webinar for our thesis). We are still yet to see meaningful signs of demand for genAI products by consumers or enterprises. In fact, most software companies and two of the three hyperscalers are now talking down adoption and monetisation timelines. Meanwhile, investors are pricing in ever greater expectations about the amount of AI capacity the world will need, driving stocks like **Nvidia** (+90%), **SuperMicro** (+250%) and some semi and semi capex names ever higher.

We're avoiding bets on how big the genAI market could be in five years. Instead, we seek high quality companies where genAI could be a sustaining innovation (see Figure 7). If our scepticism is unfounded, genAI should still drive a new leg of profitable medium-term growth. If we are right, we are unlikely to suffer significantly as the base businesses underpin our valuations.

The team is working to find "Best in class" and "Above average" companies whose future growth trajectories are uncorrelated to the AI capex cycle and are underappreciated by the market. SAP and Autodesk are two examples.

Figure 7: Potential GenAI beneficiaries and PITF portfolio weights

BUSINESS MODELS	STOCKS	PORTFOLIO WEIGHTS
Semi capex	ASML, Lam Research, AMAT	12%
Semis	AMD, Broadcom, TSMC	10%
Hyperscalers	Google, Amazon, Microsoft, Oracle	17%
SaaS	Adobe, Salesforce, Cadence	6%

Grappling with Korea

Cameron Robertson – Portfolio Manager of the Platinum Asia Strategies – has been visiting Korea since high school. Here he reflects on how meeting Korean executives shines a light on changes in the Land of the Morning Calm.

I first visited South Korea as a schoolkid training in Taekwondo. I trained with an expert who'd run hand-to-hand combat training for the Korean forces in the Vietnam War. He trained us at schools and in Korean universities where you could major in Taekwondo. He took us to monasteries in the countryside so we could understand the wider culture.

The Seoul I remember then was a much more industrial city. It's now greener and cleaner and the nightlife moves to a work-hard, play-hard rhythm. South Korea is rich and getting richer. Some of their businesses – Samsung, SK Hynix and more – are absolutely world-class.

Talking to the heads of Korean companies – I met with 25 different companies on our recent trip – is intriguing. Firstly you need be aware of the hierarchies. Age differences – even a few months – can affect the honorifics Korean executives use amongst themselves.

Sometimes, a conversation with a Korean C-suite or Investor Relations executive trips along and then, if you keep asking questions, you'll see something that doesn't makes sense. Often it's a business trading at a discount to its real value. Press and you'll likely unearth intricate cross-shareholdings and complicated corporate governance.

Chaebols – national heroes or institutional villains?

Between the 1960s-and mid-80s Korea fought desperately to emerge from poverty. Their industrial policy fostered the rise of the Chaebols – massive, diverse conglomerates built by a small cadre of families.

Today South Koreans have a complex reaction to the Chaebols. They feature in Korean TV dramas – and TV romances. They're huge employers, large tax payers, their businesses have taken Korea to the world and played a big part in South Korea becoming a first world economy.[1]

Yet everyone also knows they're too closely connected with government and too powerful. They're frequently stung in corruption scandals. Understanding the Chaebols – and their tentacled influence in the Korean economy – is a huge part of investing there.

Today, we're seeing the latest steps in the long, complicated dance between Korean regulators and the Chaebols. The Government's recent "value-up" initiative is another bit of legislation designed to guard the interests of minority shareholders.

There's now exceptional protection for the directors who sign off on related party transactions. Effectively, audit directors have to be elected by minority shareholders so they're immune to the influence of the big cross-shareholding families. The fact that 30% of Koreans own shares is making cleaner governance more of an issue.

The return

Investing across Asia, you're always – sometimes subconsciously – comparing the business cultures and regulatory structures. Like every country, including Australia, Korea is grappling with how to become a fairer economy as well as a more successful one.

Corporate governance is an area we have to weigh up. But it doesn't blind us to the dynamism in Korea. On our recent trip I met with shipbuilders, skincare firms, innovative businesses up and down the semiconductor value chain. I met with companies that manufacture – and that is the right word – hugely successful pop bands.

It's a country where the surface is different to the depth. Speaking both as an investor and a visitor I find it fascinating – and rewarding. ■

1 Some context: GDP per capita in Korea grew from USD1700 in 1980 to USD33,000 in 2024 (Source IMF).

Highlights from The Journal

You can find a range of thought-provoking articles and videos on our website in **The Journal** under **Insights & Tools.**

VIDEO

The lure of large numbers[1]

Cars, beer, the global semiconductor market. Sometimes it pays to play in really big ponds. In this video our team look at some high-quality businesses doing just that – and at the opportunity that offers investors.

ARTICLE

Fear of Running Out[2]

After a long period of weakness, demand for uranium is on the up. In this article we look at the forces driving that demand and at some companies likely to benefit.

ARTICLE

Toyota: How the hybrid engine regeared the investment case[3]

How should car companies manage the EV megatrend? Toyota took their own path and it looks like it's paying off for their investors.

ARTICLE

China: Why stay the course?[4]

Since Covid, the Chinese sharemarket has been left behind by other regions – especially the US. Investment Specialist, Olivia Salmon looks at what went wrong in China and at the longer-term outlook for this severely beaten-down market.

Some light relief

CartoonStock.com

1 www.platinum.com.au/the-journal/video-the-lure-of-large-numbers
2 www.platinum.com.au/the-journal/fear-of-running-out
3 www.platinum.com.au/the-journal/toyota-how-the-hybrid-engine-regeared-the-investment-case
4 www.platinum.com.au/the-journal/china-why-stay-the-course

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 of the Fund 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. Where applicable, 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 graph includes cash at bank, cash payables and receivables and cash exposures through long derivative transactions.
4. The graph 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".

   The Platinum Global Fund (Long Only) does not undertake any short-selling of stocks or indices. As a result, its net sector exposures through its securities positions and securities/index derivatives positions are its sector exposures through its long securities and long securities/index derivatives positions.
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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About us

Platinum Asset Management is a Sydney-based manager founded in 1994 and specialising in international equities.

The investment team uses a thematic stock-picking approach that concentrates on identifying out-of-favour stocks with the objective of achieving superior returns for our clients. We pay no heed to recognised indices. We aim to protect against loss and will hedge stocks, indices and currencies in our endeavours to do so.

Platinum now manages around A$15 billion on behalf of its investors. Platinum's ultimate holding company, Platinum Asset Management Limited (ASX code: PTM), listed on the ASX in May 2007.

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