Platinum International Brands Fund

James Halse
Portfolio Manager

Performance

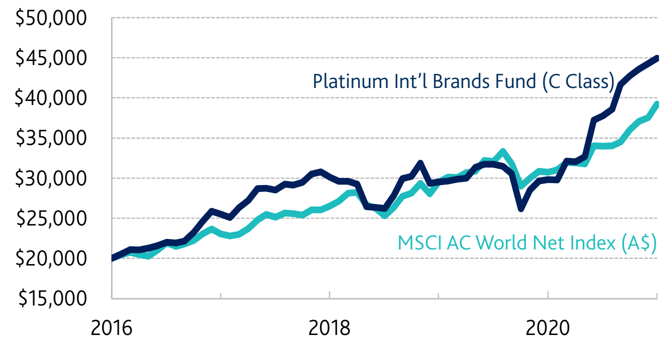
(compound p.a.+, to 30 June 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	5%	51%	14%	18%	13%
MSCI AC World Index^	9%	28%	14%	14%	4%

+ 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 4. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 June 2016 to 30 June 2021



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 4.

Global stock markets extended their upward trajectory over the June quarter, buoying the Fund (C Class) to a 5.1% return.[1] Unfortunately, we did not fully participate in the market upside, as we maintained a relatively low net invested position due to our view that many pockets of the market are heavily overvalued.

We observed interesting changes in stock correlations, with returns on individual stocks beginning to diverge greatly from their typical peer groups, as investors reappraised differences in business quality and growth outlook. This contrasts with recent times, where stocks that have similar high-level characteristics have often moved in lockstep. This dynamic was particularly pronounced in the 'hot' or speculative areas, but extended to previous beneficiaries of the 'reopening' trade, as it has become clearer which companies are benefiting the most from government stimulus spending and a return of customers to stores.

The number of initial public offerings (IPOs) receded somewhat from the inundation of the March quarter, but that did not stop a few notable new listings in the broader consumer universe.

One would be hard pressed to imagine a business more firmly placed in the centre of the current consumer zeitgeist than **Oatly Group**. This Swedish company, which produces dairy replacement products using oats as a base substance using a proprietary enzymatic process, has obtained commanding market share positions in not only its home market, but also in Germany and the UK, while its US market position is on a steep upward trajectory.[2] Its rapid growth is supported by incredible irreverent marketing, that highlights the core propositions of the brand and the product.

Plant-based 'dairy' has taken market share from traditional dairy in developed markets for many years, with Oatly representing a continuation of this trend. Consumer reasons for switching to plant-based dairy products traditionally include cow's milk allergies, other perceived health benefits and animal welfare beliefs. Increasingly though, the core

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum International Brands Fund report are in AUD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

2 Source: Oatly IPO Prospectus (Form F-1).

reason for switching has become environmental – particularly concerns around global warming. Oat milk offers a superior environmental profile to other plant-based milks, such as soy and almond. Almonds are primarily grown in California, a desert, and are large consumers of precious fresh water resources. Soy is perceived as a monoculture crop that is partly responsible for Amazon deforestation. Oats on the other hand, can be grown anywhere and in rotation, which benefits the soil. Oat milk has thus taken considerable market share from the almond and soy incumbents over the last few years.[3]

Within the Oat milk category, Oatly's manufacturing formula produced a product that not only consistently tops the reviews in the category in terms of taste and mouthfeel, but is also favoured by baristas in terms of its frothing performance and the ability to hold latte art. This latter aspect was a core part of the distribution and brand-building strategy in newer markets, as Oatly sought to initially penetrate high-end cafés to build a following before entering mass retail. This is all supported by brilliantly quirky marketing (all done in-house) and product packaging that serve to differentiate the brand and promote its premium positioning.[4] As is often the case, consumers, if aware, seem willing to overlook the potential health implications of the high glycaemic index maltose sugar content and highly processed rapeseed oil that assist in giving the product its taste and creamy texture. Sales more than doubled in 2020 to US$425.6 million and continued the growth into 2021, up 66% in the first quarter.[5]

We viewed this IPO as an interesting opportunity to acquire a stake in a company with the leading brand in the oat-based sub-category of plant-based dairy. The sub-category is likely

An example of Oatly's irreverent marketing

Source: Oatly investor presentation.

to continue its market share expansion within the plant-based category, which in turn, is expected to further increase its share of the total dairy market. We believed that Oatly would likely continue to gain market share of oat-based dairy and thus drive strong growth for an extended period. Our caution, as is often the case, was around the valuation of this story. The mooted price tag for the business was around US$10 billion, or 23.5x Oatly's 2020 sales (the business is loss-making, so does not have an earnings multiple).[6] This is a valuation level more typically associated with virtual products, such as cloud software, whereas Oatly requires real infrastructure to support its growth, making rapid scaling significantly more difficult.

Oatly listed in May this year at the top end of its price range and traded as much as 70% above the IPO price over the following month, implying a valuation of up to US$17 billion.[7] We thought US$10 billion was potentially justifiable, but US$17 billion required perfect execution for the next decade, including gaining dominant positions in not only the US and

3 Source: Oatly IPO Prospectus (Form F-1).

4 See for example, Oatly's 2021 Superbowl advertisement: https://www.youtube.com/watch?v=r2-f-qBcQFs

5 Source: Oatly IPO Prospectus (Form F-1).

6 Source: https://www.bloomberg.com/news/articles/2021-02-05/oprah-backed-oatly-said-to-weigh-10-billion-value-in-u-s-ipo

7 Source: https://www.bloomberg.com/news/articles/2021-05-19/oatly-is-said-to-price-ipo-at-top-of-range-with-markets-slumping

Disposition of Assets

REGION	30 JUN 2021	31 MAR 2021	30 JUN 2020
Europe	32%	29%	26%
Asia	26%	27%	21%
North America	25%	25%	40%
Japan	8%	5%	4%
Cash	8%	15%	8%
Shorts	-11%	-13%	-9%

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pibf.

Net Sector Exposures

SECTOR	30 JUN 2021	31 MAR 2021	30 JUN 2020
Consumer Discretionary	37%	34%	48%
Financials	18%	17%	11%
Communication Services	18%	19%	18%
Consumer Staples	5%	3%	2%
Industrials	3%	4%	2%
Real Estate	1%	1%	1%
Other	0%	-4%	2%
Materials	-1%	-1%	0%
TOTAL NET EXPOSURE	81%	72%	84%

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

EU, but also China, where soy is already much more accepted as a dairy alternative, and does not have the negative connotations it has in the West. The stock has since traded down somewhat, but this is a good example of how froth in the market has not entirely dissipated, despite examples of investor losses from IPOs, such as Deliveroo and various special-purpose acquisition companies (SPAC) issues. As ever, the market loves a good story and Oatly has one of the best in our view.

Performance

TCS Group is another business with a great story, that is rapidly gaining traction with investors. When we first bought TCS, it was priced as a high-risk lender facing potential credit losses. Now, investors are increasingly seeing it as a fintech leader, with the potential to become a true super-app. The stock has rerated from around 6x consensus current-year earnings expectations at the time of our first purchase in April 2019, to 21x currently. Meanwhile, quarterly earnings have grown 97% (from March 2019 to March 2021) in local currency terms. The stock appreciated 51% during the quarter and has returned close to five-fold (including dividends) to investors from our initial purchase, and more than six-fold from our best entry point during the COVID downturn. We love a good story, but we much prefer to buy a stock before it is reflected in the price!

Other key contributors to performance during the quarter included the Fund's large positions in **Facebook** (+18%) and **Alphabet** (+18%), as investors seem to increasingly appreciate the quality of these businesses. Our discretionary retail exposures, though now reduced in size, also continued to drive returns with **Signet Jewelers** (+39%), **Pandora** (+24%), **American Eagle Outfitters** (+28%) and **Aritzia** (+27%), all benefiting from strength in consumer spending and positive news on vaccine rollouts.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Facebook Inc	US	Comm Services	6.0%
TCS Group Holding PLC	Russia	Financials	5.6%
Alphabet Inc	US	Comm Services	5.3%
Tencent Holdings Ltd	China	Comm Services	4.3%
ASOS PLC	UK	Cons Discretionary	4.0%
Nien Made Enterprise Co	Taiwan	Cons Discretionary	3.3%
Sberbank of Russia PJSC	Russia	Financials	3.2%
Lixil Group Corp	Japan	Industrials	3.1%
Aritzia Inc	Canada	Cons Discretionary	2.9%
Planet Fitness Inc	US	Cons Discretionary	2.7%

As at 30 June 2021. See note 5, page 4.
Source: Platinum Investment Management Limited.

Detractors included our short positions, which cost the Fund 1.2% in performance over the quarter, as the market generally appreciated and many of the highly speculative names staged rebounds. We also experienced declines in our positions in **Alibaba** (-7% to exit point), **ASOS** (-10%) and vertical farming company **Kalera** (-23%), which combined, cost the Fund around 1% in performance.

Changes to the Portfolio

During the quarter we sold the final portion of a number of our 'reopening' plays where we felt the valuations had run ahead of the stock's prospects. This included stocks such as theme park operators **Six Flags Entertainment** (+84% from first purchase to exit) and **Cedar Fair** (+51% from first purchase to exit), mid-tier department store owner **Kohl's Corp** (+218% from first purchase to exit) and UK convenience food player **Greggs** (+81% from first purchase to exit). We sold **Alibaba** as the business seems to be slowing faster than we expected on heightened competition in the space. We also trimmed a number of our stronger-performing positions, including **American Eagle Outfitters**, **Ally Financial**, **Bank of Ireland**, **Tencent** and **TCS Group**.

Several new positions were established in the Fund, including food delivery player **Just Eat Takeaway.com**, which holds some strong geographic positions in this growth sector and has strategic options for its less well-positioned operations, combined with the most attractive valuation in the space. We also re-established a position in brewer **Asahi Group**, as we feel the market is underestimating the potential upside from its acquisition of Carlton United Breweries in Australia.

Outlook

Much of the market outlook depends on whether current inflation proves transitory or is sustained, forcing central banks to raise rates (please see our Macro Overview for more detail). Currently, there are shortages across a range of finished goods and commodities and many businesses are experiencing labour shortages. As consumers are again allowed to spend on services as economies reopen, it is difficult to envisage labour cost pressures not impacting inflation. The Fund is well positioned for this latter scenario, with exposure to financials, value plays and highly cash-generative reasonably priced growth stocks.

The contrary scenario, however, does not worry us too much, as the businesses we own, by and large, enjoy solid growth outlooks, operational restructuring or other investment angles. We believe these factors, coupled with attractive valuations, should drive solid returns over the medium term, almost regardless of the interest rate outlook.

Notes

Unless otherwise specified, all references to "Platinum" in this report are references to Platinum Investment Management Limited (ABN 25 063 565 006, AFSL 221935).

Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. 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. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "Shorts" show the Fund's exposure to its short securities positions and short securities/index derivative positions, as a percentage of its portfolio market value. "Cash" in this table includes cash at bank, cash payables and receivables and cash exposures through derivative transactions.
4. The table shows the Fund's net exposures to the relevant sectors through its long and short securities positions and long and short securities/index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".
5. The table shows the Fund's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

Disclaimers

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