Platinum International Brands Fund

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Portfolio Manager

Performance

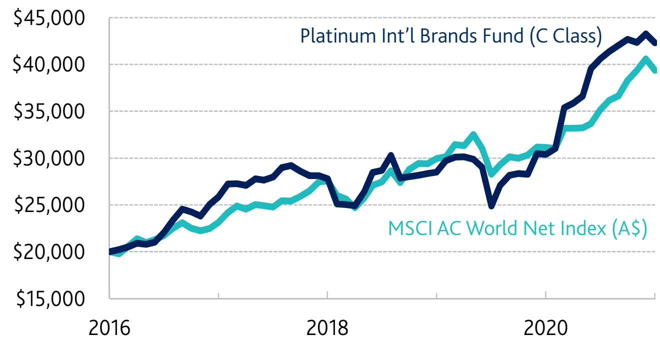
(compound p.a.+, to 30 September 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	-1%	39%	15%	16%	13%
MSCI AC World Index^	3%	26%	13%	15%	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 5. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 September 2016 to 30 September 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 5.

The Fund (C Class) returned -0.9% for the quarter and 39.1% for the year.[1]

Global markets were subdued in the September quarter relative to recent history, but the calmness on the surface belied multiple large disturbances at the geographic and sector levels.

Prominent in the headlines has been China's regulatory crackdown, particularly on the education and technology sectors, as well as likely defaults in the real estate sector, with these problems now being compounded by factory shutdowns due to energy shortages.[2] However, equally impactful in the global consumer sector, are the major supply chain disturbances caused by COVID-driven production halts and shortages of workers at ports and trucking companies, leading to ships lying idle at anchor waiting to be unloaded. Consequently, we can observe extended transit times for goods, shortages of container capacity and skyrocketing freight rates. This compounds the lack of air freight capacity that has impacted cross-border e-commerce retailers as a result of the ongoing hiatus in international passenger flights.

Additionally, investors are concerned about a spending hangover associated with the withdrawal of monetary and fiscal stimulus in the USA, while sales may be further impacted by an inability to get products to shelves, and profit margins crimped by input cost inflation as a result of the shortages through the supply chain. Finally, bond yields have resumed their upward march, as inflation rears its head and central banks become moderately more hawkish in their policy stances,[3] which impacts the attractiveness of the cash flows associated with 'growth' and 'defensive' stocks.

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 and commodity prices are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

2 See Andrew Clifford's Macro Overview.

3 'Hawks' and 'doves' are terms used in the financial markets to describe likely voting preferences of board members of central banks. Hawks are willing to allow interest rates to rise in order to keep inflation under control; while doves prefer to focus on other issues, such as employment, and thus prefer to keep interest rates low.

The environment described above suppressed investor enthusiasm for consumer stocks, impacting the Fund's performance, with both US and global consumer staples and discretionary sectors returning negative performance for the quarter in US dollar terms,[4] and indeed, lacklustre moves since the end of March. Stocks such as fashion e-commerce player **ASOS** (-39%) were hurt by the freight issues, while food delivery operator **Just Eat Takeaway** (-20%) fell on negative regulatory developments. Our exposure to a weak Chinese market was detrimental, particularly in relation to internet stocks, such as **Alibaba** (-35%) and **Tencent** (-21%), but also casino operator **Melco International Development** (-36%) and burial provider **Fu Shou Yuan** (-14%). All these stocks are suffering from fears over regulatory attention to a greater or lesser degree.

Performance was assisted by a profit guidance upgrade at niche Japanese residential property developer **Open House** (+27%). Solid credit growth in Eastern European markets and rising global interest rates buoyed **Raiffeisen Bank International** (+19%) and Russian champion **Sberbank** (+13%). Improving market share performance and increased appreciation of the likelihood of capital being returned to shareholders saw UK supermarket leader **Tesco** perform well (+8% since first entry point).

4 MSCI AC Consumer Staples Index (-2.1%) and MSCI AC Consumer Discretionary Index (-5.2%). Source: MSCI

Changes to the Portfolio

We took advantage of the weakness in parts of the Chinese market and relative strength elsewhere, to undertake significant portfolio rebalancing in the quarter. We added to several existing positions that are now much more attractively valued, including WeChat owner **Tencent** and its major shareholder **Prosus**, online travel agent **Trip.com** and **Melco International**. We also re-established sizable positions in food delivery and super app **Meituan-Dianping** and e-commerce giant **Alibaba**, and bought a new position in dairy leader **Inner Mongolia Yili**.

Another related purchase was Japanese baby bottle maker **Pigeon**, which has been sold off on concerns of a considerable decline in Chinese births due to the pandemic. We view much of this to be temporary. As is often the case with the execution of our contrarian approach, these moves have so far proven to be too early, as market sentiment and the economic outlook has continued to sour in China.

We funded much of our Chinese purchases with the sale of our remaining holdings in several strong-performing North American discretionary retailers at or near their recent share price peaks. These included **Signet Jewelers**, which returned almost seven-fold from our initial purchase less than 18 months ago to our last sale, teen apparel brand **American Eagle Outfitters** for an 83% return from our first purchase in December 2018 and a more than four-fold increase from where we bought in May 2020, and women's apparel retailer **Aritzia**, which has almost tripled from our first purchase in February 2018.

Disposition of Assets

REGION	30 SEP 2021	30 JUN 2021	30 SEP 2020
Asia	42%	26%	21%
Europe	25%	32%	24%
Japan	13%	8%	5%
North America	12%	25%	42%
Other	0%	0%	0%
Cash	7%	8%	8%
Shorts	-14%	-11%	-7%

See note 3, page 5. 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 SEP 2021	30 JUN 2021	30 SEP 2020
Consumer Discretionary	41%	37%	48%
Consumer Staples	15%	5%	0%
Communication Services	12%	18%	18%
Financials	7%	18%	12%
Industrials	3%	3%	3%
Real Estate	1%	1%	1%
Materials	0%	-1%	0%
Other	0%	0%	2%
TOTAL NET EXPOSURE	78%	81%	85%

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

We also exited **Bank of Ireland** and **Ally Financial**, with both more than doubling in price from our initial investments in March 2020 and September 2017 respectively. Our position in **Banco Santander** was also closed for an 83% return since October 2020.

Other sources of funds included significant trimming of Russian online bank **TCS Group** (up five-fold from first purchase to most recent sale), and the sale of our position in digital classifieds operator **Schibsted SA**, which more than doubled in price from where we added to the position in March and April 2020.

Outlook

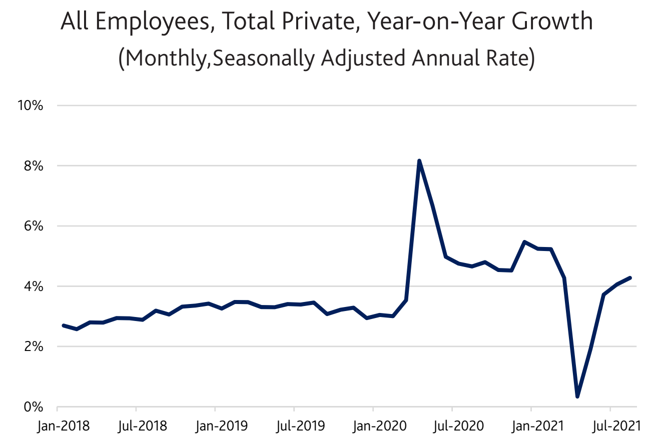
As previously mentioned, US consumer spending likely faces a significant hangover from the extensive stimulus injected through 2020 and 2021. We can see the distortions when looking at the wild swings in the year-on-year growth rate of US monthly average hourly earnings, based on the timing of stimulus payments (see Fig. 1).

The important point to note, is that even in the unlikely event that Congress decides to continue the fiscal largesse at the unprecedented level of 2020-2021, that will not drive further growth in incomes and thus consumer spending, but merely assist in keeping incomes at the same level.

The transmission of stimulus through to consumer spending is observable in the US data on personal consumption expenditures (PCE), where extreme spending growth on durable goods through 2020 has continued into 2021, compounding on the 2020 figures. With reopening, spending has also moved into non-durable goods, as well as services, with growth now trending at 3-4x pre-pandemic levels (see Fig. 2.). Note that spending on services is typically 70% of PCE, and on durables 10%, so a 1% shift in spending away from services frees up capacity equivalent to 7% of durables, in short: people can buy a lot more couches when they are not allowed to visit restaurants.

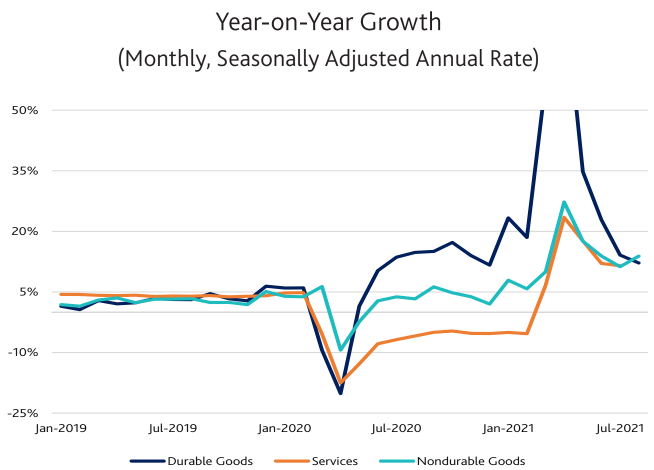
While retail executives tout the success of their strategies, strength of their people and brands, and precision in their execution of business plans, no amount of managerial finesse can substitute for 'free' money in consumer wallets. If (when) that money dries up, we are likely to be left with significantly dented earnings across purveyors of discretionary consumer goods. This effect is likely to be compounded by a reversion in the share of spending back toward services as the economy fully reopens, and the front-loading effect of stimulus-driven demand (one does not need to replace one's couch every year or two). For a historical precedent on the impact of the withdrawal, we can look to our own backyard in Australia and the weak performance of retailers, such as Harvey Norman in 2010 following the consumer stimulus payments of late 2008 and early 2009.

Fig. 1: US Average Hourly Earnings



Source: Federal Reserve Bank of St. Louis.

Fig. 2: US Personal Consumption Expenditures



Source: Federal Reserve Bank of St. Louis.
Note: The extreme growth rate at the top of the chart was 80% in April 2021.

It is with these factors in mind that we are very cautious (and hold short positions in a number of cases) on stocks exposed to US discretionary spending on products. Many are trading at elevated valuations on the basis of stimulus-driven expansion in sales and margins, with the market implying only a slowdown as stimulus fades, rather than the sizeable reversion we expect. The opposite phenomenon has occurred in China, where investors currently seem unwilling to look through what could well be temporary setbacks to corporate growth, whether that is in relation to regulatory issues, a downturn in the property market or energy shortages. Consequently, we see much better opportunities in that market and are limiting our direct long US exposure to consumer services that we expect will benefit from rising vaccination rates (e.g. Planet Fitness) and reasonably valued and structurally growing digital platforms (e.g. Facebook and Alphabet).

Overall, we are cautious on the outlook for global markets amid the potential for ongoing shortages leading to continued elevated levels of inflation and increasingly hawkish central bank policies that are likely to withdraw liquidity. We would argue that richly valued fashionable growth stocks are particularly at risk. The other side of that coin, however, is the potential for demand shocks emanating from the Chinese property market and the withdrawal of US stimulus that would hurt the earnings of more cyclical businesses.

We will seek to remain nimble in our approach, building a core portfolio of stocks where we assess solid potential of doing well through time, balanced by the use of shorts where we see extremes in markets.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Meituan-Dianping	China	Cons Discretionary	4.8%
Tencent Holdings Ltd	China	Comm Services	4.6%
Trip.com Group Ltd	China	Cons Discretionary	4.4%
Alibaba Group Holding	China	Cons Discretionary	4.4%
Facebook Inc	US	Comm Services	4.0%
Alphabet Inc	US	Comm Services	4.0%
ASOS PLC	UK	Cons Discretionary	3.9%
Lixil Group Corp	Japan	Industrials	3.9%
Open House Co Ltd	Japan	Cons Discretionary	3.6%
Nien Made Enterprise Co	Taiwan	Cons Discretionary	3.4%

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

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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