

# Platinum International Fund



**Andrew Clifford**  
Portfolio Manager



**Clay Smolinski**  
Portfolio Manager



**Nik Dvornak**  
Portfolio Manager

## Performance

(compound p.a.<sup>+</sup>, to 30 June 2022)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	2%	-6%	4%	6%	11%
MSCI AC World Index <sup>^</sup>	-8%	-8%	7%	9%	7%

\* Excluding quarterly returns.

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

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

<sup>^</sup> Index returns are those of the MSCI All Country World Net Index in AUD.

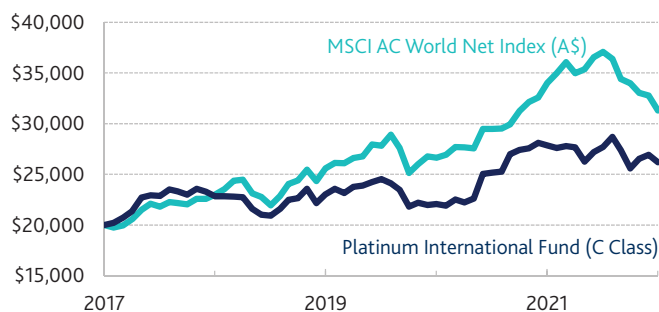
Source: Platinum Investment Management Limited, FactSet Research Systems.

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 June 2017 to 30 June 2022



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 2.5% for the quarter, well ahead of the market's 7.9% decline.<sup>1</sup>

The key factor driving markets was the decision by the US Federal Reserve (Fed) to sharply increase interest rates from 0.5% to 1.75% over the course of the quarter in response to the accelerating rate of inflation. This resulted in a significant setback for the popular growth stocks that have led the bull market over the last three years. Notably, the US market was the weakest of the developed markets over the period (-17% in local currency terms), reflecting its heavy weighting to such companies. Asia (-6%), particularly China (+5%), was the notable outperformer for the quarter.<sup>2</sup>

Our short positions were the strongest contributor to the Fund's performance, adding 7% to returns. On the long side, many of our Chinese investments provided a positive return, a good outcome given market circumstances. Online travel agent **Trip.com** (+19% over the quarter), parcel delivery giant **ZTO Express** (+10%) and property developer **China Overseas Land & Investment** (+6%) were key contributors to performance. Contributors outside of China included energy companies **Saras** (+99%) and **Suncor Energy** (+11%), global insurance player **Beazley** (+19%) and Japanese bathroom fixtures manufacturer **Lixil** (+11%).

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum International 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 MSCI USA Index, MSCI Asia ex Japan Index and MSCI China Index, respectively, in local currency. Source: MSCI.

Detractors from performance included **Allfunds** (European fund platform, -30%) and **St. James's Place** (UK wealth management, -24%). Both businesses have revenue streams based on assets under management, and as such, falling stock markets reduce short-term earnings. **MinbeaMitsumi** (industrial and electronic components, -14%) and **Microchip Technology** (semiconductors, -23%) saw share price declines due to concerns around slowing global growth prospects.

## Changes to the Portfolio

The Fund's net invested position was reduced from 62% to 56% over the quarter. The make-up of that position changed substantially, with short positions reduced from 28% to 20%, and cash increased from 10% to 24%. This cautious positioning continues to reflect our concerns regarding the impact of rising interest rates on what has been a very speculative stock market.

The reduction in the short positions simply reflects that many positions were closed for significant gains. Indeed, the closure of short positions was greater than it appears, as a number of new short opportunities were identified and added during the period.

The increase in cash reflects both the banking of profits on shorts and the trimming of existing long positions that had performed well. These included **Mosaic** (fertilisers), **China Overseas Land & Investment** (Chinese residential property developer) and **Glencore** (mining, commodities trading).

We have been relatively cautious about putting funds to work in this environment, as we expect the market to provide a range of new opportunities in the months ahead. Having said that, we did add to existing positions in **JD.com**, **Allfunds** and **Infineon Technologies** (German semiconductor manufacturer).

## Disposition of Assets

REGION	30 JUN 2022	31 MAR 2022	30 JUN 2021
Asia	24%	25%	25%
Europe	23%	24%	20%
North America	16%	21%	23%
Japan	8%	13%	12%
Australia	3%	5%	3%
Other	2%	3%	1%
Cash	24%	10%	15%
Shorts	-20%	-28%	-6%

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

## Net Sector Exposures

SECTOR	30 JUN 2022	31 MAR 2022	30 JUN 2021
Industrials	15%	18%	20%
Financials	12%	13%	16%
Materials	11%	16%	16%
Consumer Discretionary	8%	7%	8%
Information Technology	5%	6%	11%
Energy	4%	4%	0%
Health Care	3%	5%	6%
Real Estate	3%	3%	3%
Communication Services	2%	4%	1%
Consumer Staples	0%	1%	-1%
Other	-8%	-16%	-2%
TOTAL NET EXPOSURE	56%	62%	79%

See note 4, 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/pif>.

## Commentary

The focus of markets over the last quarter has returned to inflation and interest rates. While there is much debate around how many interest rate rises will be needed to suppress inflationary pressures and whether this pushes economies into recession, this misses the critical point for investors. The mechanism that created inflation is precisely the same one that created the extraordinary speculative bubble in stock prices. As discussed over the last two years in our reports, that mechanism was the rapid growth in money supply that resulted from the funding of government spending that occurred throughout 2020 and 2021 in response to the COVID-19 pandemic. As has been experienced in the past, this excessive growth in money supply found its way into rising asset prices over the course of the next two years.

Now, as government spending has receded over the last 12 months, money supply growth has fallen. In the US, M2 growth, having peaked at an annual rate of around 25% in 2020, then falling back to mid-teen levels during 2021, is now running at only 6%.<sup>3</sup> In addition, interest rate rises will further suppress any potential bounce in money growth by discouraging private sector borrowing. Not only can one expect inflation to recede over the course of the next two years, but asset prices will also come under pressure. Additionally, we have the Fed starting to unwind its quantitative easing (QE) policy of the last decade. While QE had little discernible impact on the consumer price index (CPI) over the last decade, it almost certainly resulted in lower long-term interest rates. In doing so, it created a strong tailwind for not only stock markets but across a range of asset prices, including property, infrastructure and private equity.

Of course, this is already apparent with stock markets falling this year, particularly in the more speculative end of the market. The question is how much further is there to go. Many commentators will observe that valuations already look far more reasonable, particularly for many of the large market cap favourites of recent years, such as the FANGs and Microsoft. While certainly, this is the case, we would debate whether they are at attractive levels. More importantly, though, once monetary conditions change and bear markets take hold, what becomes more significant are the real-world effects on company earnings.

We can already see that funding has dried up for start-ups and private companies, particularly in high-growth technology and e-commerce sectors. One can observe high-profile venture capital firms directing their investee companies to conserve cash and move toward profitability. Similarly, companies that have already listed and seen their stock price collapse will likely struggle to raise additional funds and will be under similar pressures to achieve profitability. Cost-cutting measures will see fewer software engineers writing code, cuts to advertising and promotional expenditures, and smaller sales teams. This will impact the sales and profits of a range of providers of software tools, cloud services and digital advertising. Additionally, the companies making the cuts will see their own growth rates slow, further impacting the price investors are willing to pay for their shares. Similar dynamics will play out across the broader economy, not just the technology sector, with impacts on profits across the board. Weakening profits will likely drive the next leg down in share prices.

At some point, we will see inflation subside and the central banks reverse their course on interest rates. The unanswered question is where will interest rates settle beyond this inflationary spike. We think it is unlikely they will return to near-zero levels, as investors, having suffered the inflationary consequences of very low rates, are likely to demand a positive real return on their funds. This means that even if inflation returns to pre-Covid levels of approximately 2%, interest rates of at least 2% to 3% should be expected. This would mean the strong tailwind of falling interest rates that have helped drive asset prices over the last decade will no longer be present. In this new environment, what has worked well for investors over the last 10 years, is unlikely to work in the years ahead.

## Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
ZTO Express Cayman Inc	China	Industrials	3.5%
Glencore PLC	Australia	Materials	2.9%
Ping An Insurance Group	China	Financials	2.8%
Microchip Technology Inc	US	Info Technology	2.6%
MinebeaMitsumi Co Ltd	Japan	Industrials	2.4%
UPM-Kymmene OYJ	Finland	Materials	2.3%
Trip.com Group Ltd	China	Cons Discretionary	2.2%
Shell PLC	Netherlands	Energy	2.0%
Beazley PLC	UK	Financials	2.0%
Samsung Electronics Co	South Korea	Info Technology	1.9%

As at 30 June 2022. See note 5, page 5.

Source: Platinum Investment Management Limited.

<sup>3</sup> Source: Federal Reserve Bank of St. Louis. M2 includes cash, checking deposits, and easily-convertible near money.

## Outlook

The backdrop of rising interest rates points to a difficult environment for stock market investors. However, despite the headwinds of rising rates, there are parts of the market that are attractively priced and offer the prospect of good returns in the medium term, as outlined below.

- **Assets that have been priced in a completely different economic and interest rate environment.** China is the most significant opportunity in this set. Today, as a result of the collapse in residential property sales last year, the country has experienced its most significant economic slowdown since the opening of its economy in the 1980s. This slowdown has been exacerbated in recent months by the Covid-19 lockdowns in Shanghai and other major cities. However, prior to this slowdown, policymakers' intent to deleverage the economy in recent years has meant that there has been little in the way of monetary or fiscal measures to support the economy. Not only does this give the government leeway to now stimulate the economy as it moves beyond the Covid-19 lockdowns, but it also means that Chinese assets have been priced in a much less-supportive environment than in developed markets. Additionally, geopolitical concerns have weighed further on Chinese share prices. Today, investors can acquire a wide range of high-quality Chinese assets at very attractive valuations.
- **Businesses that have been harmed by low interest rates.** Most notably here are banks, particularly those that have strong deposit franchises. Before the era of low rates, these banks were very profitable as their branch networks provided a low-cost source of funding for their business. However, when interest rates approach zero, this advantage is lost. Rising rates should boost the profitability of such banks, particularly in Europe, where many banks are trading at heavily discounted valuations.

- **Businesses that are yet to fully recover from the pandemic.** Travel-related businesses remain in the early stages of recovering from the travel restrictions of the last two years. Many have forgotten that travel has been a long-term secular growth story. We expect there will be a long period of "catch up" in leisure travel and a steady recovery in business travel, even in a subdued economic environment. The auto market has also been suppressed due to supply-chain issues throughout the pandemic. Once these are resolved, the sector should see a period of strong demand, buoyed by a combination of replacement demand and the move to electric vehicles.
- **Other sectors that have been and remain deeply out of favour with investors.** We have frequently noted that in recent years, investors' risk aversion has led them to avoid businesses that display any degree of variability or cyclicity in their earnings. While these companies may not have the steady and reliable earnings streams that investors crave, they nevertheless can grow from one cycle to the next while displaying highly desirable characteristics, such as high returns on capital. We would include industrial and electronic components suppliers such as MinebeaMitsumi and Microchip Technology in this category. Again, with the setback in markets, many of these companies are trading at highly attractive valuations, even in a weakening economic environment.

The months ahead are likely to remain volatile as markets transition away from the near-zero interest rate environment. The Fund is positioned for this environment with its investments predominantly comprising profitable businesses trading at attractive valuations. Short positions continue to be held in the popular growth stocks and market indices to reduce the Fund's exposure to further market declines. Ample cash reserves will allow the Fund to take advantage of new opportunities as they arise.

## Notes

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

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

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. [The gross MSCI index was used prior to 31/12/98]. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, the Fund's holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The investment returns depicted in the graph are cumulative on A\$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows the Fund's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. 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.

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