

**Platinum
International Fund**
(Quoted Managed Hedge Fund)[®]

(ARSN 620 895 301 | ASX Code: PIXX)

**Quarterly Investment
Manager's Report**

30 September 2021

Investment Update

Platinum International Fund (Quoted Managed Hedge Fund) (PIXX)



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Performance

(compound p.a.* to 30 September 2021)

	QUARTER	1 YR	2 YRS	3 YRS	SINCE INCEPTION
PIXX*	-0.6%	24.8%	8.2%	7.1%	7.4%
MSCI AC World Index^	2.8%	26.4%	14.6%	12.6%	14.8%

* Excluding quarterly returns.

* PIXX's returns are net of accrued fees and costs, are before tax, and assume the reinvestment of distributions. Inception date: 12 September 2017.

^ 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 11.

The Platinum International Fund (Quoted Managed Hedge Fund) (ASX code: PIXX) is a feeder fund that primarily invests into Platinum's flagship international equity fund, the Platinum International Fund ("PIF"), which was established on 4 April 1995.

The following is the 30 September 2021 Quarterly Investment Manager's Report prepared for PIF by its Portfolio Managers. Please note that in this report, the "Fund" refers to PIF and portfolio details, such as portfolio disposition, top 10 holdings and currency exposure, pertain to PIF's portfolio. Please be aware that PIXX and PIF (C Class - standard fee option) have different fee structures and therefore different returns. PIXX's returns may also vary from PIF's performance fee class (P Class) returns due to different cash holdings as well as gains and losses arising as a result of PIXX's market making activities.

In Brief:

- Key contributors to PIF's performance over the quarter included Glencore (+14%), Lixil (+13%), InterGlobe Aviation (+18%) and Raiffeisen Bank (+19%).
- Our Chinese holdings were key detractors, including Ping An Insurance (-25%), Alibaba (-35%) and Trip.com (-13%). Our semiconductor stocks also detracted, weakening on concerns about memory chip prices.
- We took advantage of the weakness in Chinese share prices to add to Alibaba, Trip.com and Ping An Insurance. We also added two new holdings, Tencent and Pigeon.
- The Fund continues to be cautiously positioned, with a net invested position of 68%. While this positioning has dented returns, we are of the view that such an approach has been (and continues to be) appropriate, given the risk that rising inflation represents to equity valuations. The case for being short the expensive growth stocks is compelling at this point.
- Many of the Fund's holdings are companies that are in the midst of supply shortages in semiconductors, industrial components, autos and commodities. We expect them to continue to experience robust profit growth and their relatively modest starting valuations should make them good investments over the medium term.

PIXX returned -0.6% for the quarter and 24.8% for the year.¹

This commentary relates to the underlying fund, the Platinum International Fund.

Throughout July and August, the continuing spread of the COVID-19 Delta variant raised concerns that the global economic recovery would falter. At the same time, China's regulatory reform program has created concerns around the country's economic prospects. As has been the case in recent years, when faced with uncertainty, investors reverted to favouring companies whose businesses have a high degree of certainty (growth and defensive businesses) and avoiding those that are sensitive to economic growth. As a result, while markets did grind higher in the first two months of the quarter, this was predominantly driven by large growth stocks (such as the 'FANMAGs'²), with more economically sensitive stocks left behind.

However, despite the concerns, the major economies by and large continued on a strong recovery pathway and inflationary pressures continued to emerge rather than recede as many had hoped. Most notable was the ongoing tightness in job markets in the major economies, leading to rising labour costs. Additionally, energy prices increased substantially with coal and gas prices reaching levels as much as two to five times higher than pre-COVID levels (depending on the location). These continuing signs of inflation resulted in rising yields on government bonds in the latter weeks of the quarter, a trend that was reinforced when the US Federal Reserve acknowledged that tapering in its purchases of bonds "may soon be warranted". This resulted in a rapid reversal of the trends in equity markets, as the more buoyant environment typically benefits economically sensitive companies, while higher bond yields have a greater impact on the valuations of growth and defensive stocks.

Usually we wouldn't focus on such short-term variations within the market over a three-month period. However, in this case, it provides an insight into not only the shorter-term performance of the Fund, which is currently weighted more toward economically sensitive businesses, but also provides a framework for thinking about markets in the months ahead. This will be covered later in the outlook section.

Over the last 12 months, the gross return on the invested (long) portion of the portfolio was 32%, which is a strong outcome, reflecting good underlying stock selection during this period. The difference between this result and the Fund's

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

² Facebook, Amazon, Netflix, Microsoft, Apple, and Google (now trading as Alphabet).

Disposition of Assets of PIF

REGION	30 SEP 2021	30 JUN 2021	30 SEP 2020
Asia	29%	25%	29%
Europe	21%	20%	18%
North America	19%	23%	27%
Japan	13%	12%	13%
Australia	3%	3%	3%
Other	1%	1%	1%
Cash	13%	15%	9%
Shorts	-18%	-6%	-16%

Numbers have been subject to rounding. See note 2, page 11. Source: Platinum Investment Management Limited.

Net Sector Exposures of PIF

SECTOR	30 SEP 2021	30 JUN 2021	30 SEP 2020
Industrials	19%	20%	19%
Financials	15%	16%	11%
Materials	14%	16%	13%
Consumer Discretionary	11%	8%	12%
Information Technology	9%	11%	17%
Health Care	6%	6%	8%
Communication Services	4%	1%	6%
Real Estate	3%	3%	2%
Energy	1%	0%	1%
Consumer Staples	1%	-1%	0%
Utilities	0%	0%	0%
Other	-14%	-2%	-13%
TOTAL NET EXPOSURE	68%	79%	75%

Numbers have been subject to rounding. Source: Platinum Investment Management Limited. See note 3, page 11.

Top 10 Holdings of PIF

COMPANY	COUNTRY	INDUSTRY	WEIGHT
ZTO Express Cayman Inc	China	Industrials	3.3%
Glencore PLC	Australia	Materials	3.0%
Samsung Electronics Co	South Korea	Info Technology	2.9%
Minebea Co Ltd	Japan	Industrials	2.9%
Microchip Technology Inc	US	Info Technology	2.8%
Tencent Holdings Ltd	China	Comm Services	2.6%
Weichai Power Co Ltd	China	Industrials	2.5%
Ping An Insurance Group	China	Financials	2.4%
UPM-Kymmene OYJ	Finland	Materials	2.3%
Micron Technology Inc	US	Info Technology	2.3%

As at 30 September 2021. See note 4, page 11. Source: Platinum Investment Management Limited.

24% return (after allowing for fees) is predominantly related to the cautious net invested position of the portfolio over the period, with cash holdings and short positions reducing the final return. As we have discussed over the last year, the extraordinary performance of stock markets and asset prices more generally, fuelled by excessive money printing by central banks, has led us to maintain a relatively cautious position. While this positioning has dented returns, we are of the view that such an approach has been (and continues to be) appropriate, given the risk that rising inflation represents to equity valuations.

Amongst the largest contributors to performance over the quarter were a diverse group of holdings. **Glencore** (+14%) rallied on ongoing strength in commodity prices. Japanese bathroom and housing products company **Lixil** (+13%) gained after reporting record quarterly earnings and indicating its full-year margin target may prove conservative. **InterGlobe Aviation** (+18%) strengthened on increasing optimism around the COVID situation with the Indian government lifting capacity restrictions on domestic flights, as well as rising hopes that international travel will start recovering from next year. **Raiffeisen Bank International** (+19%) benefited from the strong economic recovery and the prospect of higher interest rates. US fertiliser company **Mosaic** (+12%), a relatively new holding in the Fund, gained on signs of an up cycle in fertiliser prices.

The sell-off in China, due to concerns around regulatory reforms and the risk of default by property developer China Evergrande Group, saw our Chinese holdings detract from returns during the quarter. **Ping An Insurance** (-25%) fell due to concerns around its exposure to property developers in its investment book. E-commerce giant **Alibaba** (-35%) fell in response to regulatory changes in the sector. **Trip.com** (-13%), China's largest online travel agent, was impacted by a deferred recovery in international travel as a result of the COVID-19 Delta variant. Elsewhere, **LG Chem** (-9%), the global leader in batteries for electric vehicles, fell in response to a recall in General Motors' Chevrolet Volt that had seen a number of vehicle fires related to manufacturing faults in LG Chem's batteries. **Micron Technology** (-16%) and **Samsung Electronics** (-8%) were sold off on concerns around memory chip prices.

We remain confident in the investment case for each company. For the three Chinese companies mentioned, we took advantage of their share price weakness to add to our positions.

Changes to the Portfolio

The Fund's net invested position fell from 79% to 68% over the quarter. This was the result of an increase in short positions from 6% to 18% and a reduction in cash from 15%

to 13%.³ The short positions are a combination of index shorts (10%), baskets of expensive growth names (6%) in the technology, clean energy, and biotechnology sectors, in addition to some individual company shorts (2%).

The case for being short the expensive growth stocks is compelling at this point. If one is to examine the accounts of many of these much-loved growth companies, you would see not only revenues growing quickly, but losses growing almost as quickly! In a traditional business environment this is not possible, as companies would quickly run out of cash. However, this is typically achieved by paying employees a proportion of their compensation in the company's shares. The plan is generally not to do this forever, but to move slowly toward profitability as the business scales up, and often this will occur as growth prospects diminish. It is a clever piece of financial engineering, that has been used to build some very significant businesses over the last decade that are now profitable in a traditional sense. The risk is that if the company's share price falls, they need to progressively issue more and more shares to pay the bills. At some point, employees stop accepting this 'confetti' as payment, and without the oversized sales and R&D teams, revenue growth collapses. These 'fast-growing loss makers' face a serious risk, as their valuations are based on profits that are often five or more years away and hence their share prices are much more sensitive to long-term interest rates. So, higher long-term rates have the possibility of not only driving down their share prices, it has the secondary impact of putting their entire business at risk.

Tencent, the Chinese social media, e-commerce and online gaming company, was added to the portfolio. The company had long been a holding in the Fund but the last of the position was sold earlier in the year. The company's share price fell in response to new regulations that will potentially impact the profitability of a number of their business units. Our assessment is that Tencent's dominant position in the online landscape in China (with over 1.2 billion monthly active users on its WeChat platform alone⁴), will allow the company to continue to perform well in the new environment.

Another new holding in the Fund was **Pigeon**, a Japanese producer of baby and childcare products. The company has a leading position in both Japan and China. The pandemic has seen a significant drop in birth rates in China, its fastest growing market, impacting the company's short-term growth prospects. We expect that in time, birth rates will rebound as we move out of the pandemic, and with that, a rebound in the company's sales growth.

³ Numbers have been subject to rounding.

⁴ Source: <https://www.statista.com/statistics/255778/number-of-active-wechat-messenger-accounts/>

As mentioned earlier, we took advantage of the weakness in Chinese share prices to add to holdings in **Alibaba** (e-commerce), **Trip.com** (online travel agent) and **Ping An Insurance** (financial conglomerate). These purchases were funded by sales of US retailers **American Eagle Outfitters** (exited) and **Ulta Beauty, Ally Financial** (US auto lending) and **Bank of Ireland**.

Commentary and Outlook

There are two key issues for markets currently: regulatory reforms in China, particularly their impact on residential property markets; and rising inflationary pressures as a result of the dramatic increases in energy prices and emerging wage inflation.

The pace of regulatory reform in China picked up speed over the last quarter, covering a wide range of industries from e-commerce, to online gaming, property, and after-school tutoring. Our view is simply that China's economy has historically been very loosely regulated and in recent years there has been a steady trend of introducing appropriate safeguards, similar to what we see in developed markets. The idea that this will quash Chinese entrepreneurial zeal or China's access to capital is in our view far-fetched.⁵

One area worthy of further examination is the impact of regulation on the property development industry, as construction is a significant source of economic activity for China. Our concern is not that there is an impending bursting of a bubble in residential property that will lead to a collapse in the Chinese economy. Our view is that China's residential market has solid fundamentals. There remains strong underlying end-user demand for modern housing stock and property buyers have long required substantial deposits, which has limited speculative investment. While one can never discount the possibility of a setback in property prices, we feel this is an unlikely scenario.

However, there have been a raft of new regulations impacting the property sector, all aimed at capping the rate of price appreciation in residential apartments. The uncertainty caused by these changes, along with the widely reported financial troubles of Evergrande, has resulted in a sharp fall in the pre-sale of new apartments in recent months. If there is to be a period of subdued demand for apartments, this will likely have a broader impact on short-term economic growth. However, such impacts are likely to be relatively short-lived, as authorities have numerous tools at their disposal, such as easing the availability of mortgage finance, that will encourage the return of apartment buyers.

On inflation, we have been writing on this topic in our reports since June 2020. Simply, our view has been that inflation was a risk as a result of the extraordinary money printing by banking systems that accompanied the policy relief efforts for the pandemic. Subsequently, there has been a substantial increase in inflation, with many commentators attributing this to short-term supply shortages that will naturally resolve in time and that this period of rising prices will be temporary. Our concern is the underlying causes are more deep-seated and not so easily resolved. Either way, new sources of inflationary impulses continue to arise. Energy markets are now seeing extraordinary price rises across the globe as referenced earlier. Labour shortages are present in the major economies and wages are starting to rise strongly. This all gives weight to there being more momentum in inflation than generally accepted.

Policy makers are being challenged here. Central banks appear fearful of raising interest rates, presumably because of the high levels of indebtedness and lofty asset prices. Meanwhile, the longer inflation runs, the higher interest rates will eventually rise. If inflation is not attended to, the impact will be felt in household budgets as they are squeezed by higher prices, especially in food and energy. Alternatively, if wages outrun general price increases, the impact may be felt in corporate profits.

The impacts on markets are likely to be varied. If China experiences a slowdown as a result of the various regulatory reforms, the market impact may be subdued as stock prices of companies likely to be directly affected have already been sold off heavily, with many down 50% or more. As such, with much of the risk already priced into stocks in that market, we generally see this as a buying opportunity.

Otherwise, many of the Fund's holdings are companies that are in the midst of the supply shortages in semiconductors, industrial components, autos and commodities, and we expect them to continue to experience robust profit growth. Their relatively modest starting valuations should make them good investments over the medium term. We still expect a travel boom as we exit COVID-related restrictions across the globe, which is expected to benefit our investment in travel-related sectors, while our financial (banks and insurance) holdings should benefit from the trend toward higher interest rates.

However, the short-term picture around inflation and the potential for interest rates to move higher is concerning. This is especially so given the high levels of indebtedness and excessive valuations in not only parts of the share market, but in many unlisted assets as well. It is our view that a cautious approach is required for the moment. Either way, the months ahead are shaping up to be an interesting period for markets.

⁵ For a longer discussion please see our article <https://www.platinum.com.au/Insights-Tools/The-Journal/China-Societal-Change>

Macro Overview

by Andrew Clifford, Co-Chief Investment Officer

We have taken a different approach to our Macro Overview this quarter, adopting a 'Q&A' format, with investment specialist Douglas Isles asking CEO and co-CIO Andrew Clifford the key questions on many of our investors' minds, covering China regulation, income inequality/redistribution, rising inflation and what it all means for global markets. An edited transcript of the conversation is below and the full interview is available on The Journal page on our website.

DI: It's been a very eventful quarter, particularly in China. With your 30+ years of experience investing there, can you provide some context?

AC: I think one of the issues that people struggle the most with in regards to China is the idea of government interference in the economy. There's been a lot of discussion, not just in the last three months but over the last several years, about China returning to a command economy. This is in stark contrast to the China that I know and have invested in. From my experience, China is one of the most market-based economies in the world, and indeed, that is the reason for its enormous success.

Over the last decade we have seen a period of constant regulation coming into what is just a very fierce market environment. Probably the most important of these was the reform of the shadow banking system. Entrepreneurs and banks were finding loopholes in the regulations that had been introduced to restrict the funding of activities such as property development. In response, the government implemented new rules to clamp down on that behaviour, and slowly all those assets and liabilities have been brought back onto bank balance sheets.

In recent times, there's been a lot of focus on the regulation of the tech sector, but most of it is not that different to what we're seeing in the rest of the world. Europe, for example, introduced restrictions on the use of private data by e-commerce companies. The Chinese regulators are incredibly sophisticated in their approach to regulation, they study best practice around the world. Where they feel that free markets have gone too far, they introduce rules, which for the most part are very much modelled on the European approach.

DI: It seems that every time there is a reform program in China, the rest of the world reacts badly to it, why do you think that's the case?

AC: It's important to remember that in China there is a different process to enact change. For us to implement new rules around the use of data or controlling the behaviour of large e-commerce or social media companies, it would be a drawn-out process and there would be significant pushback, like what we saw in Australia with media for example. Similarly, in the US, the Federal Trade Commission case against big tech companies is likely to be a protracted affair. However, in China, it's quite the opposite, the rules appear to change 'overnight'. While the process may be different, the political motivation is not that different from ours. These changes are being made because people are unhappy with the behaviour of big tech in China, just as they are elsewhere.

DI: Property developer Evergrande received considerable media attention over the quarter. The property market in China has been an area of scrutiny for many years, what are your thoughts?

AC: We don't own Evergrande in any of the Platinum portfolios. Its issues were widely known, and while it is naturally unsettling for investors, we don't believe it will be a systemic event. At Platinum, we talk a lot about the role of cognitive biases in investing and the need to go beyond our intuitive responses, or our System One thinking as Daniel Kahneman would put it, and move to System Two thinking, where we really try to understand the realities of the situation. There has long been this story about the great Chinese property bubble, but let me share some numbers. Over the last decade, in the six largest cities, residential property prices increased in the order of 8-10% p.a. In the tier two and tier three cities it was much lower at around 4-5% p.a. Now, 8-10% p.a. is a big appreciation over that

timeframe, but this needs to be seen in the context that nominal GDP growth in China is around 9% p.a. Additionally, you need to consider who's buying property in China, it's not the average household, it's the wealthy households and their incomes are growing even faster than that.¹

There is also a lot of focus on the number of apartments that are being built, and yes, since private ownership of property was allowed in 1999, about 200 million apartments have been built. But you have to remember that's the entirety of the modern housing stock in China, because everything else prior to these newbuilds was pretty much communist-era housing. So, given there are around 300 million urban households and 900 million people living in urban areas, we haven't even built enough modern housing stock yet.²

We hear a lot of talk about the 20% of apartments that are sitting empty, but in China, investment properties typically aren't rented out because the laws are quite harsh against landlords. Interestingly, in Australia, at any point in time, around 10% of our homes are unoccupied and I'm not talking about home rental vacancy, these are properties owned by people who own more than one home and leave them unoccupied.³

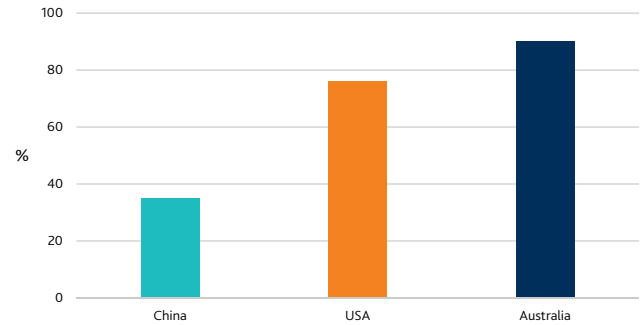
I would add that it's actually been difficult to get a property loan in China in recent years. A 30% deposit is required to buy a first property and 50% for a second. Mortgages have grown very quickly from being almost non-existent a decade ago, to be around 35% of GDP, which is well below what pure mortgage debt is in Australia or the US.

Property is a booming and important part of the Chinese economy, but if house prices get out of control, it becomes a political issue. It's a well-founded market, not a bubble by any standards that I can see.

DI: When the ultimate goal of the government is one of "common prosperity" is it fair to say that housing is front and centre for that?

AC: Absolutely. For the last decade there's been continued efforts to keep property prices down. The sentiment that "property should be an end-user asset not a speculative asset" is often attributed to President Xi Jinping, but this was around long before he was President. China has the same problem that the rest of the world has on that front. I think the real issue here for the world economy is that the latest regulations are trying to control not just the price that property is sold at, but also the price that developers pay to

Fig. 1: Pure Mortgage Debt as % of GDP, 2020



Source: PBOC (China); Federal Reserve Bank of St. Louis (USA); Business Insider Australia, OECD (Australia). As at Q4 2020.

acquire land to develop properties. It's a thoughtful approach to my mind, as it is essentially trying to regulate property development in a similar fashion to how utilities, such as electricity or gas businesses, have been regulated over the years. While there is a risk that this approach may not be successful in a market like property development, with developers already stepping back from buying land and property buyers now nervous, I think the concern of any great disaster is overstated. Past experience tells us that as soon as the Chinese authorities take their foot off the brakes, even in the slightest way, buyers come flooding back in, and if it gets to that stage, that's what I would expect here as well.

DI: Over the last decade there has been a clamp down on corruption, supply side reform, financial reform, and now "common prosperity". On balance, do you think they have done a reasonably good job for China over that period?

AC: When you look at the government's approach to introducing thoughtful, sensible regulation and rules in their economy, I think they've done an extraordinarily good job. As I said earlier, a lot of it is modelled on what the rest of the world does and I think there's nothing to be feared there. The recent event where they basically banned after-school tutoring due to cost concerns, is a bit more of an extreme measure, but again, they're very important social issues the government is reacting to, just like a democratically elected government would react to important popular issues.

DI: Let's now look at the rest of the world, particularly the other large economy, the US. Inequality is something that the Chinese and US governments are both trying to address, can you reflect on how it's being approached in the US and what the implications might be for investors?

AC: I think that income disparity is behind a great deal of discontent across much of the world. In the last decade or so, people keep referring to the world being in a low-growth environment, but that's actually not the case. The world economy grew pretty much the same rate in the decade from

¹ Source: CSLA; FactSet Research Systems.

² Source: CSLA; State Council of the People's Republic of China.

³ <https://www.abc.net.au/news/2021-04-14/house-prices-australia-climbing-not-for-the-reason-you-think/100065644>

2010-2020 as it did in the prior decade, but what has changed is the disparity of income, with lower-income groups clearly not doing as well as the top 20 or 40%.

Ultimately, everyone gets a vote and it then becomes an issue. I think one of the really interesting things the pandemic has shown politicians is that a lot of the payments, such as JobKeeper and JobSeeker in Australia, which have been introduced or increased during the pandemic, have clearly helped lower-income households far more than the average. And with that, I think politicians have seen the benefit of redistributing income toward lower-income groups. China faces the same issue. In fact, there are far more extremes between those who have benefited from China's prosperity than those who haven't. The call for "common prosperity" is thus one of redistributing income through the economy.

A number of years ago, we wrote about the huge benefit to economic growth of putting \$100 in the hands of lower-income households vs. high-income households through tax cuts. The latter group will most likely save it and buy another property or more shares. The lower-income households on the other hand, will most likely spend it on basic necessities. On that basis, I think it would be very good for global growth if we get some degree of income redistribution that is being discussed across the world.

DI: On the topic of economic growth, inflation is a hot topic right now for markets, what are your thoughts on that front and expectations for interest rates?

AC: As we've been talking about for some time, the creation of money through quantitative easing and funding government deficits this way is unquestionably inflationary. For a long time, inflation has mainly appeared in asset prices, the stock market, private equity infrastructure assets and house prices, which has been much more extreme in the past 18 months. But now we are seeing inflation in goods and services. There's always a lot of discussion of whether this bout of inflation is due to temporary shortages. As we mentioned in our June quarterly report, the market economy is good at dealing with temporary shortages. We have seen this in iron ore and lumber where there were huge price increases and then for one reason or another, supply adjusted and the prices retreated. But we're also seeing many 'sticky' prices. We can't get enough semiconductors to meet motor vehicle demand currently or a whole range of other projects that require semiconductors. The cost of shipping a container from Shanghai to Los Angeles is up six-fold or so. Gas prices are up four- or five-fold in Europe and thermal coal prices have pretty much doubled in recent months.⁴ So, there are

price increases coming through everywhere. Adding to the mix, is a shortage in labour at a time when the jobs market is as strong as we've ever seen, which is a bit odd given that we're still not fully out of the pandemic, but this is what all the numbers tell you. We are seeing companies raise prices at record rates. There is also anecdotal evidence, with UK gas bills, for example, doubling in the last couple of months. This is going to cause real pain in households, not to mention rising rents, so we have a real problem here and it's a question of how it unfolds.

While central banks are all saying they won't raise interest rates soon, we shouldn't pay too much heed to that, because their whole role is to set our expectations, and they will increase rates when they see fit. This poses a real dilemma though. People are going to start struggling to pay their bills following these price moves. How will governments respond? Will they spend even more money and announce yet another round of rescue packages, which are inflationary again? I think the end destination here, one way or the other, is interest rates are going up and there's a risk this happens earlier than many expect.

DI: How do you think this changing interest rate dynamic will play out in the markets? Will we see a reversal of fortunes in stocks?

AC: The beneficiaries of cheap money and inflation in asset prices have been the sectors that everyone is so excited about in the stock market, the so-called 'disruptors'. Consequently, there's been plentiful buyers of their shares and some crazy valuations of private companies that are raising capital at 20, 30 or 40 times their revenue. Yes, they are great companies and are growing fast, but many are losing money. The point is that they can only keep the game going while there are investors who are willing to fund them, and in many cases these investors are their own employees who are paid in stock. It's hard to go a day without hearing about a new start-up developing software to solve problems for companies or individuals. There's huge competition for the corporate IT budget or your personal budget to spend on all these things. That is the area, where the combination of valuations and the fact that they need money to keep going, that is a big risk for investors. It won't be a good place to be when the music stops.

On the other hand, there's a whole other part of the economy that people haven't wanted to fund, high-quality businesses at the centre of the future growth areas of the economy. Semiconductor companies like Microchip, for example, who makes microprocessor units used in electrical switches for a whole range of items, from microwaves to car windows. This is a very profitable business and it's growing because there's increasing demand for its products. Over

⁴ Source: <https://tradingeconomics.com/>; <https://www.cnbc.com/2021/10/05/gas-price-surges-to-a-record-high-in-europe-on-supply-concerns-.html>

time, as electronics usage increases, we will need more of their products. But here is a company that's unable to deliver enough product to meet the demand in the auto industry, due to under-investment. And this has been a theme across a range of sectors for the last decade. This includes commodities like copper, for example, a vital component for all manner of things, such as electric vehicles (EVs). The world's going to need an extraordinary amount of copper, but there hasn't been any significant investment in finding new reserves for seven or eight years.

So, to me, the other side of all this capital that has been invested in the new, exciting and innovative areas is that there's some really interesting, growing businesses that haven't been able to access capital, who now find themselves in a very nice position where their product is in demand and they're able to exercise good pricing power simply because of shortages.

DI: What do you think will ultimately make the 'music stop' so to speak?

AC: If you are looking for a catalyst, I think the most obvious is interest rates. While we are now seeing bond rates trending up again, we all struggle to ever be very precise in knowing when central banks will change official interest rates.

As an investor, I believe it's important to build a portfolio of stocks that are well positioned in terms of the markets they're in. I have given the example of Microchip, but in autos, we have BMW or Toyota, who are both very well positioned for the EV world. There are other themes too, such as travel, which is also a growth industry. Many travel stocks are very high-quality businesses, whether it's the online travel agents like Booking Holdings or Trip.com, which is the Chinese equivalent, or aerospace companies like General Electric, Safran and MTU Aero Engines, who are involved in the production of engines for aircraft - and again, based on the rate at which aircraft orders are coming in, we're potentially not going to have adequate capacity to produce enough engines. There's a whole array of opportunities out there and you need to buy each knowing what they can earn in a good period and assess against that.

MSCI Regional Index Net Returns to 30.9.2021 (USD)

REGION	QUARTER	1 YEAR
All Country World	-1.1%	27.4%
Developed Markets	0.0%	28.8%
Emerging Markets	-8.1%	18.2%
United States	0.3%	29.9%
Europe	-1.2%	28.0%
Germany	-4.3%	16.5%
France	-2.0%	34.3%
United Kingdom	-0.3%	31.2%
Italy	-1.1%	33.4%
Spain	-3.3%	31.4%
Russia	9.5%	59.4%
Japan	4.6%	22.1%
Asia ex-Japan	-9.3%	14.4%
China	-18.2%	-7.3%
Hong Kong	-9.4%	15.0%
Korea	-13.2%	27.8%
India	12.6%	53.1%
Australia	-3.0%	31.7%
Brazil	-20.2%	21.0%

Source: FactSet Research Systems.
 Total returns over time period, with net official dividends in USD.
 Historical performance is not a reliable indicator of future performance.

MSCI All Country World Sector Index Net Returns to 30.9.2021 (USD)

SECTOR	QUARTER	1 YEAR
Energy	2.8%	63.9%
Financials	1.9%	49.6%
Information Technology	0.5%	30.3%
Health Care	0.2%	18.3%
Utilities	-0.2%	10.1%
Real Estate	-1.8%	22.2%
Consumer Staples	-2.1%	10.2%
Industrials	-2.1%	27.3%
Communication Services	-2.6%	28.9%
Materials	-5.0%	26.8%
Consumer Discretionary	-5.2%	17.6%

Source: FactSet Research Systems.
 Total returns over time period, with net official dividends in USD.
 Historical performance is not a reliable indicator of future performance.

The Journal

Visit www.platinum.com.au/Our-Products/PIXX to find a repository of information about the Platinum International Fund (Quoted Managed Hedge Fund) (PIXX), including:

- NAV history and intra-day iNAV
- Distribution history and the Distribution Reinvestment Plan
- ASX releases and financial statements
- Monthly updates on performance, portfolio positioning and top 10 holdings.



You can also find a range of thought-provoking articles and videos on our website. For ad hoc commentary on the latest market trends and investment themes, look up **The Journal** under **Insights & Tools**. If you find yourself short on time to read our in-depth reports and articles, check out our brief market updates in **video** format, or have a listen to our **audio podcasts**.

Recent highlights include:

- **Article - Biotech: Driving Another Decade of Change in Healthcare.**¹ Record funding and the entry of a 'new breed' of players, thanks to the wonders of AI and computer power, is driving considerable transformation in the biotech industry. Portfolio manager Dr Bianca Ogden explains how this is changing drug discovery and what it means for the existing players in the sector.
- **Article – Market Update: 22 September 2021.**² CEO and co-CIO Andrew Clifford provides his thoughts on Chinese property developer Evergrande and why the issue is unlikely to be systemic.
- **Video – Platinum Market Update.**³ Co-CIO and co-portfolio manager for Platinum's global strategies, Clay Smolinski and co-portfolio manager for our Asia ex-Japan strategies, Cameron Robertson provide a market update, covering the ongoing economic recovery and evidence of inflation, recent Chinese regulatory activity, and the pockets of wild excess evident in specific markets.
- **Article – The History of Money and its Role in the Modern World.**⁴ Investment specialist Julian McCormack delves into the origins of money over many centuries. It's a fascinating look at history and makes one realise just how the form and function of money has shifted over time. With inflation creeping up and extraordinarily large budget deficits that need to be funded at some point, we suspect that change is afoot.
- **Article - China: Time to Run or Time to be Bold?**⁵ Recent activity from Chinese regulators and the response from markets is testing the resolve of investors. With over 30 years' experience in covering and investing in the country, our assessment is that this presents another opportunity to upgrade portfolios by retaining a longer-term outlook – and we are actively looking to do so.

1 <https://www.platinum.com.au/Insights-Tools/The-Journal/Biotech-Driving-Another-Decade-of-Change-in-Health>

2 <https://www.platinum.com.au/Insights-Tools/The-Journal/Market-Update-22-September-2021>

3 <https://www.platinum.com.au/Insights-Tools/The-Journal/Webinar-%E2%80%93-Platinum-Market-Update>

4 <https://www.platinum.com.au/Insights-Tools/The-Journal/The-History-of-Money-and-its-Role>

5 <https://www.platinum.com.au/Insights-Tools/The-Journal/China-Time-to-Run-or-Time-to-be-Bold>

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).

"PIXX" refers to the Platinum International Fund (Quoted Managed Hedge Fund) (ARSN 620 895 301, ASX Code: PIXX). "PIF" refers to the Platinum International Fund (ARSN 089 528 307), the unlisted underlying fund into which PIXX invests primarily.

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. PIXX's returns are calculated by Platinum using PIXX's net asset value unit price (i.e. excluding the buy/sell spread) and represent the combined income and capital returns over the specified period. PIXX's 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, PIXX's underlying 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 PIXX's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows PIF'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 PIF'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.
3. The table shows PIF'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".
4. The table shows PIF'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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