

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

(ARSN 620 895 301 | ASX Code: PIXX)

**Quarterly Investment
Manager's Report**

31 December 2021

 **Platinum**[®]
INTERNATIONAL FUND
(QUOTED MANAGED HEDGE FUND)

Investment Update

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



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Performance

(compound p.a.* to 31 December 2021)

	QUARTER	1 YR	2 YRS	3 YRS	SINCE INCEPTION
PIXX*	0.3%	10.4%	6.6%	10.2%	7.0%
MSCI AC World Index^	6.0%	25.8%	15.4%	19.1%	15.4%

* 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 31 December 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:

- Our semiconductor stocks performed well, reflecting a strong business environment. Our travel-related stocks were negatively impacted by Omicron and our Chinese stocks were weighed down by economic uncertainty.
- The Fund continues to maintain a conservative position, with a net invested position of 67% (10% cash, 23% shorts), reflecting our concerns about inflation and interest rates, and the level of speculative activity in markets.
- The last three years have seen a huge divergence in the performance and valuation between the much-loved growth and defensive names and the rest of the market. It is amongst these out-of-favour names where we continue to find opportunities.
- One new holding was Barclays, which is benefiting from buoyant capital market activities, lower credit costs and a potentially more benign competitive environment in the UK mortgage lending market. We also added to our positions in China Resources Land, Suzano and InterGlobe Aviation.
- The average P/E of the Fund's (long) investments is 13x, and for each company we hold, we believe their earnings will grow over the next three to five years and the portfolio will be able to produce good absolute returns over that period.

PIXX returned 0.3% for the quarter and 10.4% for the year.¹

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

During the quarter, inflation continued to rise across the globe, most notably in the US where the Consumer Price Index (CPI) recorded annual increases not seen since the early 1980s. As a result, interest rate rises in the US will likely occur much earlier than previously expected. Elsewhere, concerns continued to rise that the Chinese recovery would stall as a result of falling sales of new residential apartments due to reforms in the property sector. The appearance of the Omicron COVID-19 variant in the final weeks of the year added further uncertainty to the economic outlook.

As has been the case in recent years, when faced with uncertainty, investors have favoured companies that have a high degree of certainty (growth and defensive businesses) and avoided those that are sensitive to economic growth. Indeed, this pattern was highly evident during the December quarter and over the last 12 months.

This is not where the Fund's portfolio is positioned. From our experience, to follow the crowd into these growth and defensive companies could risk a considerable loss of our clients' capital.

When one looks more closely at the numbers, positive returns over the quarter in the US (+9% in AUD terms) were again driven by an ever-smaller number of large-capitalisation growth stocks that are both highly valued and extremely hyped. Europe rose a strong 5% and was also propelled by a re-rating of its already expensive growth stocks. Meanwhile, the major Asian markets fell, led by China (-7%), Japan (-5%) and Korea (-2%).²

Strong stock performers included our semiconductor stocks (**Micron Technology** +31% over the quarter, **Microchip Technology** +13%, **Lam Research** +26%) and **MinebeaMitsumi** (Japanese manufacturer of industrial components, +14%), with gains reflecting a strong business environment for these companies.

Detractors included **LG Chem** (-21%), electric vehicle battery maker, weakening on manufacturing quality issues (which appear to have been resolved), as well as general industry headwinds arising from lower car production volumes due to semiconductor shortages. **Trip.com** (-20%), China's largest

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 MSCI USA Net Index (A\$), MSCI AC Europe Net Index (A\$), MSCI China Net Index (A\$), MSCI Japan Net Index (A\$), MSCI Korea Net Index (A\$), respectively. Source: FactSet Research Systems.

Disposition of Assets of PIF

REGION	31 DEC 2021	30 SEP 2021	31 DEC 2020
Asia	28%	29%	30%
Europe	21%	21%	19%
North America	21%	19%	28%
Japan	14%	13%	12%
Australia	3%	3%	4%
Other	2%	1%	2%
Cash	10%	13%	5%
Shorts	-23%	-18%	-7%

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

Net Sector Exposures of PIF

SECTOR	31 DEC 2021	30 SEP 2021	31 DEC 2020
Industrials	20%	19%	21%
Financials	15%	15%	14%
Materials	14%	14%	17%
Information Technology	12%	9%	17%
Consumer Discretionary	10%	11%	11%
Health Care	5%	6%	6%
Communication Services	5%	4%	4%
Real Estate	3%	3%	2%
Consumer Staples	1%	1%	-1%
Energy	1%	1%	2%
Utilities	0%	0%	0%
Other	-18%	-14%	-6%
TOTAL NET EXPOSURE	67%	68%	87%

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
MinebeaMitsumi Co Ltd	Japan	Industrials	3.6%
Microchip Technology Inc	US	Info Technology	3.3%
Micron Technology Inc	US	Info Technology	3.1%
Samsung Electronics Co	South Korea	Info Technology	3.1%
ZTO Express Cayman Inc	China	Industrials	2.9%
Glencore PLC	Australia	Materials	2.7%
Tencent Holdings Ltd	China	Comm Services	2.6%
Ping An Insurance Group	China	Financials	2.5%
UPM-Kymmene OYJ	Finland	Materials	2.5%
Weichai Power Co Ltd	China	Industrials	2.4%

As at 31 December 2021. See note 4, page 11. Source: Platinum Investment Management Limited.

online travel agent, was impacted by Omicron further delaying the full reopening of Chinese overseas travel.

Alibaba (-16%), e-commerce giant, was weighed down by increasing competition and ongoing regulatory concerns.

Saras (-35%), an Italian oil refining company, faced significantly higher operating costs as a result of rising energy prices across Europe. The Fund's short positions slightly detracted from performance over the quarter (-0.4% contribution overall), primarily reflecting losses on our index shorts (Russell 2000, Nasdaq, S&P 500).

Changes to the Portfolio

The Fund's net invested position remains relatively unchanged at 67%. The net invested position reflects cash holdings (10%) and shorts (23%). The short positions consist of indices (13%), baskets of expensive growth stocks in the clean energy and technology sector (6%), and individual stocks (4%). Within the short positions, the main change was a substantial reduction in the biotech sector, which has already experienced significant stock price declines. The cautious overall positioning of the Fund reflects our concerns about inflation and interest rates, and the level of speculative activity in markets, as we outline in the commentary and outlook section below.

Otherwise, it has been a relatively quiet period with respect to changes in our investments. One new holding was **Barclays** (UK bank), which is benefiting from buoyant capital market activities, lower credit costs in the UK and a potentially more benign competitive environment in the UK mortgage lending market. Given its high level of excess capital, we would not be surprised to see Barclays ramp up its share buy-back program. The stock is trading on an undemanding 60% of tangible book value.³ This position was more than funded by sales of other European bank holdings, **Bank of Ireland**, **Banco Santander** and **Raiffeisen Bank International**, following strong performance.

We added to our position in property developer **China Resources Land**, funded by the sale (exit) of our position in **China Vanke**. China Resources Land has more attractive assets, a stronger balance sheet and lower valuation. We added to existing positions in **Suzano** (South American pulp producer) and **InterGlobe Aviation** (Indian low-cost airline), where share price falls gave us the opportunity to add at attractive prices. We sold out of **Louisiana-Pacific** (US building materials), which had performed strongly, and trimmed our holdings in **Glencore**.

Finally, we hedged 5% of our Japanese yen position into US dollars. The case is simply that Japan is likely to be the last of the major economies to increase interest rates, given a more benign inflationary environment.

Commentary and Outlook

As we enter 2022, it is worth summarising the key issues that are likely to impact equity markets in the year ahead.

- 1. The global economy is likely to continue on its strong recovery path.** Nearly any economic indicator you look at in the major economies, with the exception of China, shows economic growth continues to be robust. There are, however, a number of issues that cause some hesitancy that this will continue. One is the cut back in government spending that is occurring as the recovery unfolds. However, as often happens when government spending recedes, the resources of the economy are taken up by the private sector, which is clearly underway, as evidenced by strong employment markets around the world. The emergence of Omicron has delayed the full reopening of the service sector that was being anticipated. To date, there is little evidence of it impacting consumer spending. However, with large numbers of people impacted by the disease, creating shortages of labour, it may well result in a short-term slowing in the early months of 2022. As the Omicron wave recedes and the reopening of economies gets back on track, this will provide further impetus for growth. This leaves China as the most significant concern. The Chinese government is taking measures to boost growth, including cutting interest rates, reducing banking system reserve requirements and easing mortgage requirements for apartment buyers. Additionally, there are some early signs that activity, both in the property market and more broadly, is finding a base. China, having been restrained in its fiscal and monetary policy support for the economy over the last two years, is in a good position to continue to roll out supportive policy measures as needed.
- 2. Inflation is back!** Broad price rises are being experienced across the globe, though to varying degrees. Most notable, and of greatest importance, is the US, where the CPI rose to almost 7% over the 12 months to November 2021, a level last seen in the early 1980s.⁴ One school of thought is that the price rises are simply a function of supply shortages created by the events of the last two years, and as the shortages are resolved prices will recede. An alternate view, and the one we favour, is that the inflationary impulse is the result of a 41% increase in money supply (M2) in the US, created by various policy

³ Source: FactSet Research Systems.

⁴ Source: Federal Reserve Bank of St. Louis.

responses to the pandemic.⁵ While we do accept that some prices will retrace as shortages are resolved, tight labour markets and wage demands are likely to underpin ongoing levels of inflation. Further, businesses that two years ago would not have countenanced increasing prices to cover cost increases are showing no hesitation today.

3. **Either way, interest rates will likely rise earlier and quite possibly by much more than expected.** Economic growth in the US, as previously noted, is already quite robust with significant tightness in labour markets. Even if inflation recedes well below the current 7% level, it would still warrant a higher Federal Funds rate than the current 0.25%. If inflation remains persistently at these levels, the impact on low-income households will create a political imperative to act. Often it is assumed that because of high levels of debt outstanding, a small interest rate increase will be enough to slow the economy. However, inflation often creates an incentive to borrow and buy ahead of future price rises, especially when the interest rate is well below the rate of inflation. The next stage in money growth and inflation could well be created by increasing private borrowings, which is already starting to occur in the US. To discourage such activity would probably require much higher interest rates.

4. **This is all occurring at a time when there is significant evidence of speculative behaviour in equity markets.** High valuations in favoured sectors, record holdings of equities by US households, high concentration of stock market indices in the largest companies, and a rapid increase in the use of margin debt, are indicative of speculative activity.⁶ Historically, similar statements could have been made prior to major market peaks of the last 50 years. Add to this, the systematic ramping up of stock prices of companies such as GameStop and AMC Entertainment well beyond levels that can be justified by their underlying business, the billions of dollars raised by Special Purpose Acquisition Companies (SPACs), and the endless creation of new cryptocurrencies.

This is a backdrop that should give investors reason to be cautious. For 40 years, equity markets have benefited from falling interest rates and accommodating monetary policy, particularly post any of the big sell-offs that have been experienced in that timeframe. If we were to suffer a significant sell-off as a result of the need for higher interest rates to combat inflation, it may not be as straightforward for central banks to cut rates to rescue the market as it has been in the past.

The obvious question to address is, when will such an adjustment likely take place? In past interest rate cycles, it has usually taken numerous increases in interest rates before the market has been significantly impacted. So, it is possible the strong run may continue for some time yet. Still, we would caution against trying to time the market here. Most of the stocks that led the market higher in the last half of 2021 have high expectations for what they will achieve in the decade ahead and valuations that assume continuing low interest rates, as well as a significant number of cheerleaders looking for their stock prices to continue higher. Any disappointment on their business outcomes in an environment of increasing interest rates is likely to result in substantial adjustments in their stock prices.

The other question to address is where to invest one's savings in this environment. A wide range of assets from bonds to property and infrastructure are probably best avoided in a rising interest rate environment. Cash is doubly unattractive, as not only do rates remain close to zero for the moment, inflation is now also degrading the value of cash. The opportunity we see is in those parts of the market that are deeply out of favour with investors. The last three years have seen a huge divergence in the performance and valuation between the much-loved growth and defensive names and the rest of the market. It is amongst these out-of-favour names where we continue to find opportunities to make investments in attractively valued businesses. The average price-to-earnings (P/E) ratio of the Fund's (long) investments is 13x, and for each company we hold we are of the view that their earnings will grow over the next three to five years. It is our view that the portfolio will be able to produce good absolute returns over such a period. We will also hold cash, despite the limitations mentioned earlier, as it allows one to take advantage of opportunities as they arise in volatile markets. It is this optionality of cash holdings that is often underrated by investors. Finally, we will aim to protect the downside through the use of short positions, in both market indices and selected individual stocks.

2022 is likely to be an interesting year for investors. Markets are likely to be very volatile as we work our way through the end of the pandemic and possibly exit the era of ever-lower interest rates and end of one of the longest-running bull markets in stock market history.

⁵ Source: Federal Reserve Bank of St. Louis, over the period 2 March 2020 - 6 December 2021.

⁶ Source: Federal Reserve Bank of St. Louis; NDR; FINRA.

Macro Overview: A Case of Catch-22 for Policymakers in 2022?

by Andrew Clifford, Co-Chief Investment Officer

In late December, CEO and co-CIO Andrew Clifford sat down with Investment Specialist Douglas Isles to discuss inflation, labour market pressures, interest rates, China, decarbonisation, and Omicron - and the challenges these pose for policymakers and markets in 2022. An edited transcript of the conversation is below.*

DI: Andrew you've been talking about the risks of inflation since June 2020 and now everyone's talking about it. Can you give us an update on your thoughts?

AC: The way the inflation story has progressed is really quite interesting. A few months ago, many still regarded it as being 'transitory' – citing the lumber price, and a whole series of prices for that matter, moving up, down and back up again. We've always maintained that the underlying cause of inflation is the amount of money that's been printed. As a result, you're not going to be able to track it by looking at used car prices, copper prices or the like. What's happening in labour markets is a much more important indicator to focus on now, particularly in the US.

The US economy is booming and currently there are about 10 million job vacancies, give or take. There are around seven million people who identify as being unemployed, so we have more jobs than people who are unemployed. Small, medium and large companies are all finding it hard to fill jobs and there's anecdotal evidence of companies needing to increase wage rates to attract staff. I would also add that in our discussions with companies, many have commented that in the past, when copper prices and steel prices rose, pressuring margins for those companies that use these as inputs, they couldn't really increase prices and needed to find cost savings elsewhere. Today, there's a very relaxed attitude from corporates - they're just putting up prices. I think these factors will create a potentially self-perpetuating cycle of inflation.

DI: Would you say these labour shortages are emboldening workers' sense of self?

AC: Lower-income households have really struggled over the past few decades, their real living standards have not improved, particularly in places like the US. Their real living standards have actually worsened over the last couple of years, because they suffered the most from the COVID lockdowns and subsequent job losses. They may have been given some financial assistance along the way with the various government benefit schemes around the world, but as always, it's these groups that are impacted the most by inflation. They don't have the big stock or property portfolios, which is where the money has been made.

So, this divide is getting wider, but interestingly, they now have the upper hand with labour being in such short supply. As a result, we are seeing labour strikes, such as the well-publicised ones at Deere and Kellogg's that have gone on for some time. In the case of Deere, the workforce has been awarded some pretty healthy wage increases.

Perhaps symbolically, large parts of the US labour force have not been unionised, but now the first Starbucks store (out of around 9,000) has been unionised – and that's just one store in New York. Amazon workers at different warehouses are trying to unionise, and we also have teacher strikes. Things are changing, which again, links back to the potential for a self-perpetuating inflation cycle.

*The full interview is available in audio format on The Journal page of our website <https://www.platinum.com.au/Insights-Tools/The-Journal>

DI: Is there a deep social problem emerging? How does this factor into your thinking?

AC: Well, there is an issue here and I think one of the most interesting social phenomena's is on the Reddit discussion platform, where 'anti-work' is the fastest-trending thread. Rather than during the 1970s, 1980s or communism era, where people were agitating for everyone to be paid the same, the anti-work thread is that none of us should have to work. Now, that might sound appealing, but we shouldn't underestimate the strength of this movement and it poses a real problem for governments to solve. I believe it actually points the way to some very fundamental changes, one of which I think is going to be interest rates.

DI: The US Federal Reserve is now talking about rate rises in 2022 of around three-quarters of a percent, how does that impact things and what is the outcome from that?

AC: The first thing to note is that we're now talking about rate hikes in 2022 - previously, they were meant to be somewhere far off, in 2023 or 2024. I don't think this should surprise anyone though, and we've been focused on this for quite some time. The issue again, comes back to the impact of inflation across the economy. The higher-income groups will probably be relatively immune to it if their grocery bill goes up 10%-15%, but for others it's very damaging. Of course, in terms of politicians who fundamentally want to be re-elected, solving inflation is more important. Ultimately, what history showed through the 1960s, 1970s and 1980s, is that governments need to deal with inflation or they will lose the next election.

I think we're on the cusp of changing the way we think about interest rates. It's really interesting that the market had predicted this change in interest rates, with yields on the US two-year Treasury edging higher in the closing weeks of 2021. If you think about it though, if interest rates increase to 1% or 2% and inflation is 6%, with a strong economy, 1% or 2% is not going to make a whole lot of difference. Indeed, there's a huge incentive for the private sector to continue to borrow money at still very low rates and essentially, in one way or another, speculate on inflation. That's how these cycles really take hold - it just creates more monetary growth when we already have too much money. These are the things investors need to be thinking about.

Monetary policy changes, whether it's interest rates or quantitative easing, impact the economy with long lags – traditionally 12-18 months. So, regardless of whether inflation moves beyond 6% or not, we should expect that it's going to be at elevated levels for some time to come, and the ultimate end to deal with that, will be much higher interest rates than people are expecting.

Fig. 1: US Inflation Soars to Highest Level Since the Early 1980s



Source: Federal Reserve Bank of St. Louis, US Consumer Price Index, annual rate, as at November 2021.

DI: Is this a pattern that is starting to emerge in other economies as well, or is it still primarily a US phenomenon?

AC: If you look at the monetary expansions we had in Europe, money supply is up roughly 30% on two years ago, while in the US, it's closer to around 40-45% and the monthly rates continue to be quite strong. In China, it's less so, let's call it in the mid-20s.¹ This is very clearly US led, but we are seeing inflation numbers at the highest levels in decades in many economies and rate increases in much of the emerging world already. So, I think the US is the centrepiece, but it is something that we're seeing pretty much everywhere.

DI: Last time we spoke, we talked a lot about China's reform program. Perhaps you could give us an update on what's happening on the ground there?

AC: As we discussed last time, what's most important in China, in terms of downside risk, are the reforms in the property sector. It's not about Evergrande and the indebted developers, it is about the fall-off we've seen in the sale of new apartments, which will then flow through to much lower construction activity in the months ahead. This is the one clear negative for global economic growth. The property sector is a very important part of the Chinese economy and thus the global economy. We haven't seen any improvement there yet, but we have clearly seen a change in approach from the government. For instance, there has been a change in rules for how the better-managed developers, the ones who have strong balance sheets, can access money and potentially acquire the good projects from those in trouble. We have also seen better mortgage terms for buyers, as well as cuts in the reserve requirement ratio for the banking system to ease liquidity. The Chinese policymakers are aware that there's an issue here, and they are starting to act, as one would expect.

¹ Source: FactSet Research Systems, Federal Reserve Bank of St. Louis.

The market's response? By and large, stocks in the areas that have been the most impacted by these reforms bottomed in July/August, with stock prices for the good property developers up roughly 15-20% by year end. That's not to say that it's all over, but the market is indicating that we've probably seen the worst of it in China.

DI: The Chinese government has a pattern of going hard, the market reacts and then the government eases off a little through a number of years of reform, do you agree?

AC: Absolutely. China is the one government that actually does implement reform - they do it aggressively and there's always the chance of policy mistakes and overreach. We saw exactly the same thing occur at the end of 2018 with the banking system, and they had to step back and relax their measures. I think we have a similar situation here, they've recognised the issue and are talking about measures to help regain some momentum in the economy.

DI: You touched on stock price reactions, let's turn to markets more broadly. Are you seeing any parallels with the technology boom in 2000, where everyone wanted to own a narrow collection of stocks?

AC: I think the tech boom in 2000 is a very good model to look at. There are a number of measures we look at. There's a very high concentration of big companies in the indices now. On the Nasdaq for example, the big 10 names, including the FANGs, Microsoft, Nvidia and Tesla, account for roughly over half of the market, which is very substantial - and most of them are trading on very high valuations of 40, 50, or 70 times earnings. Here's the other thing though, if you look at Nasdaq's performance for 2021, it's up around 17% in US dollar terms for the year to date, but if you exclude the best five of those big 10, the market is actually down c. 20%.²

Interestingly, a lot of the speculative, very highly valued growth names have been selling off, but not in a straight line up and down. Another measure we look at is 'advance decline', which measures the number of companies that are going up on any day versus the number going down, and steadily over time, less and less stocks are going up. There's also been a fall-off in the number of stocks making new highs versus those making new lows. These are classic patterns that have historically pre-empted a bear market. It is all very similar to 2000, so yes, it's a very interesting parallel.

DI: So, this might not have much longer to run then?

AC: Well, I think we have to go back to interest rates. We've been in an environment of falling inflation and interest rates for three or four decades. Particularly during the last decade,

it has been the predominant financial variable propelling stock markets and driving investors into high-growth stocks and these big tech names. It looks like the end of that era is fast approaching and we're already seeing many of the companies that benefited from that, falling. It's not the first interest rate increase that really knocks a stock market down though, and it looks like we're going to have numerous ones. On that basis, I would say that there's very little value in these big-favoured names. We are looking elsewhere in the market and finding that all those other stocks people didn't want to know about are actually pretty good value, and we expect them to be beneficiaries of this stronger growth environment we're in.

DI: During the December quarter, we had COP26 and there was a lot of talk about net zero emissions, how are you thinking about that from an investment perspective?

AC: The move to decarbonise the world is a key thematic that we've been researching and investing in for a long time. A good example is LG Chem, one of the leading providers of electric vehicle (EV) batteries, which has delivered us strong returns over the last couple of years. A lot of the obvious themes are very expensive and there are plenty of other more interesting ways to play it. Let's look at EVs for example, we have Tesla obviously, but there's also Rivian, an electric truck maker that has barely sold a truck and can scarcely make trucks yet. It recently peaked with a market capitalisation of around US\$120 billion. Now, even when Tesla was in its exciting days and everyone thought it was expensive, its market cap was US\$20 billion not US\$120 billion, and it was actually making quite a lot of cars back then.³

But let's think about how we're really going to decarbonise our transportation fleet, it's a big task and we have lots of companies out there that have invested heavily in the electrification of vehicles, Toyota is the leader and BMW is right up there. These companies have been investing in this area for a long time, but everything can't just go electric, that's not a feasible outcome. Even if the developed markets are fully electrified in a decade from now, there'll still be large parts of the world that don't have the infrastructure or the generation capacity for that. Companies like BMW and Toyota are thus very focused on reducing the carbon emissions from their traditional internal combustion engines and hence we believe these companies are a very good play. Companies like Valeo, who have a lot of componentry in the exciting areas in auto, but most notably the electric drive train, is another potential play. They're not the obvious "buy" on the electric vehicle theme, but we're buying companies that stand to benefit from that very same trend. Another one is copper, a material that's seen very little investment of

² Source: <https://realmoney.thestreet.com/markets/just-5-stocks-are-the-difference-between-a-bull-market-and-a-bear-market-15854516>.

³ Source: FactSet Research Systems.

substance for years now. We need it for EVs, renewable energy and charging stations. We've had big investments there and done well, but again, it's not always the obvious "buy the wind farm" or "buy the wind turbine maker", there are other ways of playing this theme and that's very much our focus.

DI: You mentioned some successes; another big success was the vaccine producers. How is COVID factoring into your thinking as we enter 2022?

AC: It's been such an uncertain environment for the last couple of years and we now have the Omicron variant. What does that mean exactly? There are as many different opinions, as there are articles written about it. I think the thing for investors, and answering in that context, is that when we're buying companies, we're buying them for the next 10 and 20 years of their earnings, not the next six months. Now, the market might fluctuate around those concerns, but we are of the view that we will move beyond COVID - simply because you can see how populations just

want to do that, even with the risk that entails. While there will be short-term fluctuations around concerns and stocks will go up and down depending on what investors think is going on, the way to navigate through this, again as an investor, is to look at the longer-term potential of your investments.

DI: Is there any final comment you would like to share?

AC: I think we're in an interesting market, and we've talked about this many times over recent years, where we have some parts that are extraordinarily expensive and we have focused on that here. However, there is the other side of the market, the real companies that have been ignored that are valued sensibly, that are in a position to benefit from the economic environment we're in. Again, going back to 2000, that's exactly what we had back then, where people at that time, only had eyes for the tech sector. It's very similar and the lesson from that time, was not to just avoid the over-hyped and expensive stocks, but to buy the other stocks that people wanted to ignore.

MSCI Regional Index Net Returns to 31.12.2021 (USD)

REGION	QUARTER	1 YEAR
All Country World	6.7%	18.5%
Developed Markets	7.8%	21.8%
Emerging Markets	-1.3%	-2.5%
United States	10.0%	26.5%
Europe	5.1%	16.2%
Germany	0.8%	5.3%
France	7.1%	19.5%
United Kingdom	5.6%	18.5%
Italy	5.6%	15.0%
Spain	-1.4%	1.4%
Russia	-9.2%	19.0%
Japan	-4.0%	1.7%
Asia ex-Japan	-1.2%	-4.7%
China	-6.1%	-21.7%
Hong Kong	-3.5%	-3.9%
Korea	-0.9%	-8.4%
India	-0.2%	26.2%
Australia	2.1%	9.4%
Brazil	-6.5%	-17.4%

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 31.12.2021 (USD)

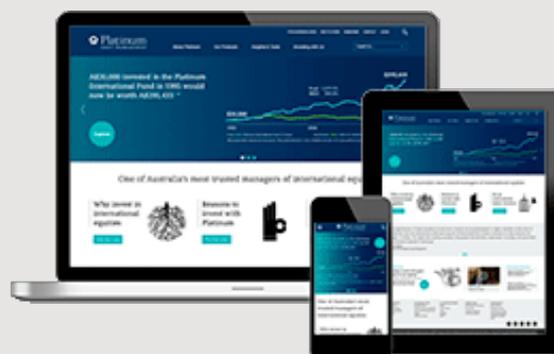
SECTOR	QUARTER	1 YEAR
Information Technology	12.6%	27.4%
Utilities	10.2%	10.1%
Real Estate	8.9%	22.8%
Consumer Staples	8.3%	11.1%
Materials	7.1%	14.8%
Health Care	6.7%	17.5%
Consumer Discretionary	6.1%	9.0%
Industrials	5.5%	16.1%
Financials	3.1%	24.4%
Energy	2.8%	36.0%
Communication Services	-1.6%	10.4%

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:

- **Video – Pandemic-Hit Travel Sector Gives Rise to Opportunity.**¹ Investing in the travel sector at the beginning of the pandemic may have seemed a crazy idea for some, but not for long-term investors like Platinum. Before taking the plunge, however, there were three questions that needed to be answered. Portfolio manager Nik Dvornak explains.
- **Video – Don't Stay too Long at the Party.**² After a 12-year bull market, valuations are high and there are many signs of speculative activity. Bull markets always run their course and it often ends badly for those who remain at the party for too long. CEO and co-CIO Andrew Clifford explains why a conservative strategy is appropriate at this time.
- **Article – Why 'Negative Screens' are Bad ESG.**³ The solution on climate change is not as simple as pivoting (overnight?) to renewable energy and shuttering coal mines and petroleum installations: the lights would go out. ESG investment specialist Jan van der Schalk shares his thoughts on what is 'good ESG'.
- **Webinar – Market Update.**⁴ CEO and co-CIO Andrew Clifford and senior investment analysts Kirit Hira and Jack Cao delve into portfolio positioning, drivers of recent returns and the exciting opportunities we are seeing, especially in Asia.
- **Video – Sustainable Investing Requires a Sustainable Approach.**⁵ While wind turbines and solar companies may be popular thematics in the ESG space today, just because they are beneficiaries of growth and change, doesn't automatically make them good investments. Co-CIO Clay Smolinski talks with our ESG investment specialist Jan van der Schalk on Platinum's approach to sustainable investing.
- **Podcast Series – Investing for Life.**⁶ Douglas Isles interviews a wide variety of successful business people, drawing on Platinum's investment principles to unpack their respective stories, focusing on how temporary setbacks shaped their lives, the long-term steps they took to ensure they were on the right path, and how they stand out from the crowd.

1 <https://www.platinum.com.au/Insights-Tools/The-Journal/Pandemic-Hit-Travel-Sector>

2 <https://www.platinum.com.au/Insights-Tools/The-Journal/Video-Dont-Stay-too-Long-at-the-Party>

3 <https://www.platinum.com.au/Insights-Tools/The-Journal/Why-negative-screens-are-bad-ESG>

4 <https://www.platinum.com.au/Insights-Tools/The-Journal/Platinum-Market-Update>

5 <https://www.platinum.com.au/Insights-Tools/The-Journal/Sustainable-Investing-Requires-a-Sustainable-Appro>

6 <https://www.platinum.com.au/Insights-Tools/The-Journal/Investing-for-Life-Podcast-02>

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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