

# Platinum Unhedged Fund



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Portfolio Manager

## Performance

(compound p.a.<sup>+</sup>, to 31 March 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	11%	36%	7%	13%	11%
MSCI AC World Index <sup>^</sup>	6%	24%	12%	13%	8%

<sup>+</sup> Excludes quarterly returns

\* C Class – standard fee option. Inception date: 28 January 2005.

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 4. Numerical figures have been subject to rounding.

## Value of \$20,000 Invested Over Five Years

31 March 2016 to 31 March 2021



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

Historical performance is not a reliable indicator of future performance.

Source: Platinum Investment Management Limited, FactSet Research Systems. See notes 1 & 2, page 4.

The Fund (C Class) returned 11.3% over the quarter and 36.1% over the year.<sup>1</sup>

As we mentioned in our December 2020 quarterly report,<sup>2</sup> post COVID, the portfolio has had a tilt to companies that we expect will benefit from a broad economic recovery or directly benefit from an end to lockdowns, such as travel. The successful vaccine news in November 2020 was the trigger for investors to return to these names and this strong performance continued through to the end of March, as investor confidence in the broad economic recovery continued to build.

The most notable contributors to the Fund's performance are noted below.

- Louisiana-Pacific** is a US building products manufacturer that is transitioning its business from producing OSB (oriented strand board) towards making SmartSide, its engineered wood siding product where it makes high-teen margins and circa 30% returns on capital. Continued strength in the US housing market, along with more evidence they are gaining market share in premium siding, saw the stock rise 49% over the quarter.
- MinebeaMitsumi's** expertise lies in high-precision manufacturing of small components on a mass scale, with the company most famous for producing miniature ball bearings, where they have 60% global market share. Investors have been cautious on MinebeaMitsumi's ability to grow, as some of their legacy products face technology obsolescence (e.g. LED backlights and hard disk drive motors). In response, the company has executed a series of acquisitions in the analogue power semiconductor space, that has both filled the potential hole from a loss of products and given them a new profit driver. The stock rose 38% over the quarter, as sentiment around the business improved, with investors now focusing on a recovery in their end markets, as well as potential new applications for their products in high-end camera phones and electric vehicles.

<sup>1</sup> References to returns and performance contributions (excluding individual stock returns) in this Platinum Unhedged Fund 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.

<sup>2</sup> [https://www.platinum.com.au/PlatinumSite/media/Reports/pufqtr\\_1220.pdf](https://www.platinum.com.au/PlatinumSite/media/Reports/pufqtr_1220.pdf)

- In **financials**, the banking sector is deeply out of favour with investors. The sector, already struggling with low interest rates and weak loan growth, experienced another setback during COVID, as investors were faced with higher loan losses as economies locked down. This resulted in the whole sector trading at incredibly low valuations. Our approach has been to seek out those banks with differentiated positions, that can grow despite the environment, such as Ally Financial, which is the leading online bank in the US, or Raiffeisen Bank International, which operates in Eastern Europe, where both loan growth and interest rates are rising. With the strengthening economy, our banking holdings in **Ally Financial** (+27%), **Bank of Ireland** (+28%), **Intesa Sanpaolo** (+21%) and **Raiffeisen Bank** (+12%) moved higher.

The strength across the portfolio was broad, with a limited number of detractors. A key detractor of note, was gold producer **Barrick Gold**, which largely tracked the gold price, falling 13% over the quarter.

## Changes to the Portfolio

After some strong price moves, a number of our holdings reached fair value and we rotated into more prospective names.

In terms of commodities, we sold completely out of copper producer **MMG** and **United States Steel**. Within our 'growth industrials' we exited our position in US air conditioning manufacturer **Carrier Global** and dramatically reduced our holding in **FedEx**. Finally, in terms of our travel-exposed businesses we exited **Amadeus** and **Booking.com**. These investments all made strong contributions to the Fund's performance over the past 12 months.

We established a new position in automaker **Subaru** over the quarter. Subaru is a brand well known to Australians, however, the real driver of the company is their success in the US market, which makes up 70% of the company's sales.

Subaru's collection of small and mid-sized all-wheel drive sports utility vehicles (SUVs) has allowed the company to build a unique position as an ethical, on-trend brand for educated, outdoor-loving consumers. Despite a limited model range, Subaru has gone from strength to strength in the US, with the brand breaking sales records every year since 2009, more than doubling their market share from 2% to 5% and winning the number one spot in resale value, safety and customer loyalty surveys.<sup>3</sup>

<sup>3</sup> Source: <https://carsalesbase.com/us-subaru/> (market share); Kelley Blue Book (resale value); Insurance Institute for Highway Safety (IIHS) (safety); JD Powers 2020 Survey of Mass Market Brand Loyalty (loyalty).

## Disposition of Assets

REGION	31 MAR 2021	31 DEC 2020	31 MAR 2020
North America	28%	32%	36%
Asia	27%	28%	26%
Europe	21%	23%	17%
Japan	10%	8%	6%
Australia	3%	4%	2%
Other	1%	0%	0%
Cash	10%	5%	13%

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

## Net Sector Exposures

SECTOR	31 MAR 2021	31 DEC 2020	31 MAR 2020
Industrials	25%	26%	20%
Financials	17%	16%	10%
Materials	17%	15%	5%
Information Technology	13%	17%	17%
Real Estate	6%	4%	4%
Health Care	5%	6%	10%
Consumer Discretionary	4%	5%	5%
Communication Services	3%	3%	13%
Energy	0%	2%	3%
TOTAL NET EXPOSURE	90%	95%	87%

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

## Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Ally Financial Inc	US	Financials	4.6%
Microchip Technology Inc	US	Info Technology	4.3%
Micron Technology Inc	US	Info Technology	4.0%
Weichai Power	China	Industrials	3.8%
Applus Services	Spain	Industrials	3.8%
Samsung Electronics Co	South Korea	Info Technology	3.5%
Raiffeisen Bank	Austria	Financials	3.2%
Glencore PLC	Australia	Materials	3.1%
Minebea Co Ltd	Japan	Industrials	3.0%
China Overseas Land & Inv	China	Real Estate	2.9%

As at 31 March 2021. See note 5, page 4.  
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/puf>.

Investors' worries around Subaru have been on two fronts: weakness in the US dollar (Subaru's cost base is in Japanese yen); and electrification. News flow on both issues has improved recently. On electrification, Subaru benefits from its technology partnership with Toyota (which owns 20% of Subaru), with the pair to release a new fully-electric mid-sized SUV at the April Shanghai motor show. Success there can change the perception that both Toyota and Subaru are lagging on electric vehicle development.

With a stronger US dollar, good demand for their new large-sized Ascent SUV and a booming US auto market, there is scope for investor perception around Subaru to considerably improve.

## Outlook

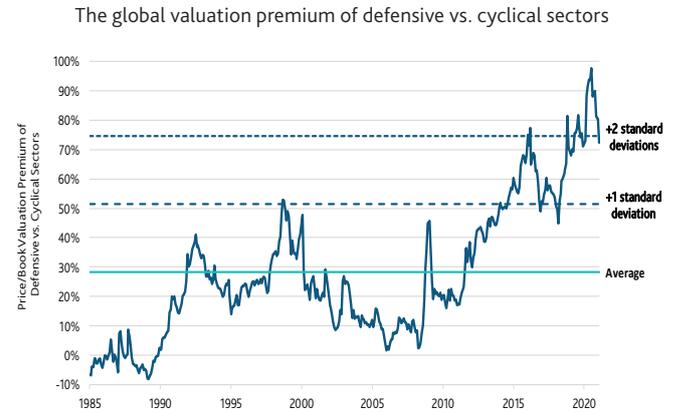
The most popular question<sup>4</sup> we are receiving today, is whether the investor rotation into more economically sensitive stocks is 'done'.

In past reports, we have pointed out the extreme valuation difference that had formed in markets over the past three years. As the US/China trade war intensified and the US began cutting interest rates in late 2018, investor demand has focused on high-growth stocks or defensives. This trend was super-charged post COVID, with the valuation differences reaching historic levels (see Fig. 1). While the share price rises in economically sensitive names (i.e. cyclicals) over the past five months feels dramatic, we would argue it is a rebound from very depressed levels and is supported by fundamentals, as the earnings power of these companies have the most to gain from the economic recovery.

That said, for us, the outlook for future returns is really about the quality and diversity of ideas we are finding. Whether it be **IndiGo**, India's dominant low-cost airline that can look forward to a decade of strong passenger growth, or **UPM-Kymmene Oyj**, a world-class producer of virgin pulp, that has seen demand for its renewable diesel and plastics products boom as companies move to meet their ESG goals, we are still finding reasonably priced companies with good prospects.

<sup>4</sup> A close second, is our view on the direction of interest rates and inflation. For those interested in this topic please see Andrew Clifford's Macro Overview for a more extensive commentary.

**Fig. 1: Current Markets are More Extreme than 2000**



Source: FactSet Research Systems. Note: A standard deviation is a statistic that measures the dispersion of a dataset relative to its mean. If the data points are further from the mean, there is a higher deviation within the data set; thus, the more spread out the data, the higher the standard deviation. (Source: Investopedia)

## Notes

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

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

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

## Disclaimers

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