Platinum Unhedged Fund

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Portfolio Manager

Performance

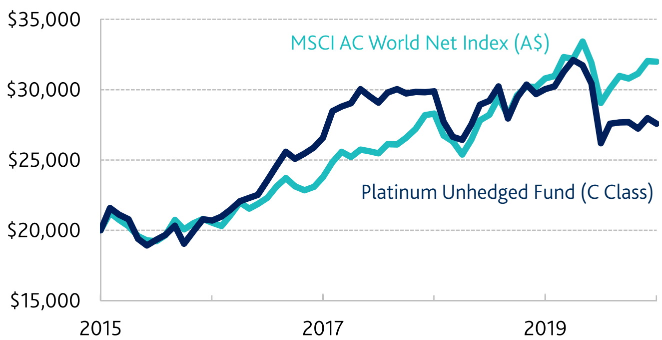
(compound p.a.+, to 30 September 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	0%	-8%	1%	7%	10%
MSCI AC World Index^	4%	4%	10%	10%	7%

+ Excludes quarterly returns
* C Class – standard fee option. Inception date: 28 January 2005.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet Research Systems.
Historical performance is not a reliable indicator of future performance.
See note 1, page 4. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 September 2015 to 30 September 2020



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.

Over the quarter there was little change in the value of the Fund (C Class), with a return of -0.3%.[1] Despite some strong gains in a number of our positions, these were offset by the strength in the Australian dollar and falls elsewhere. The major positive contributors during the quarter included investments in:

- **FedEx** – Still run by its founder Fred Smith, FedEx has a long history of willingness to prioritise long-term investment and success over chasing short-term results. In late 2018, the company embarked on a heavy investment phase in its US ground division (its most profitable business), both to significantly increase its capacity to deliver e-commerce packages, and lower their all-in delivery cost. In the short run, the cost of these investments had lowered profits, with the stock falling 40% as investors remained sceptical of the strategy. The boom in parcel demand post COVID now makes these investments look like a masterstroke, with FedEx well positioned to handle the extra volumes. Following the release of strong profit results, FedEx rose 79% over the quarter.

- **LG Chem** - Highlighted in our June quarterly report, LG Chem is one of four major battery suppliers for electric vehicles globally. With consumer demand for electric vehicles gaining pace post COVID (aided by generous green initiative subsidies), there is a global shortage of electric vehicle battery capacity, which will aid the bargaining position and profitability of the battery makers. LG Chem's reported results in August confirmed this thesis, with the stock price rising 33% as the battery division grew 41% while delivering record levels of profitability.

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

Offsetting these gains were falls primarily in a number of our Chinese holdings. Our investment in Chinese property owner and developer **China Overseas Land & Investment** fell 17% as the government introduced new restrictions around debt financing for property development, while our holding in Chinese parcel express leader **ZTO Express** fell 18% as fierce price competition between the major players looks set to drag on, post several competitors raising additional capital to fund the fight.

Commentary

When assessing potential investment opportunities, we would argue that there are two stock markets at the moment.

The 'growth' and 'safety' stocks, generally typified by technology companies and the Nasdaq Composite Index, are in a **huge bull market**. Here, there are many stocks at record high prices and valuations, well above their pre-COVID levels. The rationalisation for the high valuations usually comes back to the theory that low interest rates justify higher prices for equities.[2] Other signs of enthusiasm include the rapid pace of new initial public offerings (IPOs) in the space (along with swathes of listed companies raising extra cash via secondary issues) and rampant participation by retail investors using options.

The picture in the rest of the market looks very different. Here, stocks often with a cyclical edge to their business look much like you would expect six months after a worldwide recession, with many stock prices down 20-40% due to the uncertainty around the recovery. The valuation-boosting effects of low interest rates are seemingly not being applied to these companies, resulting in a valuation difference between these two camps at historical extremes.

With this backdrop, the key question is how should one invest in this environment?

One scenario is that the low interest rate environment could last for a long time. This is the consensus scenario held by investors today, but not without good reason. Central banks around the world are holding rates low as economies are weak, and they want to both facilitate and encourage governments to spend and create employment and activity.

2 We have no issue with the theory that long-term lower interest rates (and hence discount rates) should justify higher valuations. The issue is that markets rarely behave in a perfectly rational manner and stock prices are heavily influenced by human psychology. The current market conditions are a great example of this, theoretically low interest rates should boost the value of all equities, not just a select group, but this is clearly not happening today.

Disposition of Assets

REGION	30 SEP 2020	30 JUN 2020	30 SEP 2019
North America	30%	41%	32%
Asia	27%	27%	27%
Europe	22%	20%	19%
Japan	9%	7%	4%
Oceania	2%	2%	2%
Cash	9%	3%	16%

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

Net Sector Exposures

SECTOR	30 SEP 2020	30 JUN 2020	30 SEP 2019
Industrials	25%	26%	20%
Information Technology	17%	20%	12%
Financials	13%	11%	14%
Materials	11%	7%	3%
Health Care	9%	10%	4%
Consumer Discretionary	7%	6%	3%
Communication Services	4%	13%	14%
Real Estate	4%	4%	4%
Energy	1%	2%	8%
Consumer Staples	0%	0%	3%
TOTAL NET EXPOSURE	91%	97%	84%

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

Net Currency Exposures

CURRENCY	30 SEP 2020	30 JUN 2020	30 SEP 2019
US dollar (USD)	36%	40%	30%
Euro (EUR)	19%	18%	14%
Chinese yuan (CNY)	13%	17%	17%
Japanese yen (JPY)	10%	7%	10%
Korean won (KRW)	6%	5%	4%
Indian rupee (INR)	4%	4%	7%
British pound (GBP)	3%	3%	4%
Hong Kong dollar (HKD)	3%	2%	7%
Canadian dollar (CAD)	3%	2%	3%
Australian dollar (AUD)	2%	2%	2%
Taiwan dollar (TWD)	2%	0%	0%

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

The clear winners from the low interest rate environment have been the 'quality growth' stocks, with huge investor demand for businesses that can steadily grow, earn high returns on capital and have strong barriers to entry. The task for us, is not to buy the current batch of loved growth stocks, but to identify companies that will be the growth stocks of tomorrow, and are not priced for it today.

A good example of this, is our investment in **Trip.com Group** (formerly called Ctrip). Trip.com is China's largest online travel agency, with the business making the bulk of its money via commissions from selling hotel rooms and flights. A simple illustration of the growth potential for Trip.com is the trend in Chinese outbound travel. Today, China is the largest outbound tourist market in the world, which if we exclude Hong Kong and Macau, recorded 75 million outbound flights in 2019, growing at 15% p.a.[3] The potential for growth becomes apparent when you realise China has achieved this growth despite less than 15% of Chinese nationals holding a passport.[4]

With the tailwind of market growth, it is clear Trip.com has the potential to grow strongly for many years to come, but due to the COVID crisis we were able to buy this stock at a valuation of 13x 2019 earnings.

Another scenario is to consider the end goal of all the fiscal stimulus and central bank action. It's clear the mandate of the US Federal Reserve and European Central Bank has moved away from inflation control, towards restoring full employment and activity. Governments are embracing higher fiscal spending, with even the fiscally disciplined Germans opening the purse strings and actively encouraging other European Union nations to join them in spending more.

The end goal of full employment clearly helps more cyclical businesses, and when the valuation difference between these stocks is at historical extremes we feel it makes sense to have a decent portion of the portfolio invested in these areas.

An example of an investment that fits this mould is **Carrier Global**. Carrier is a predominately US-based manufacturer of air-conditioning and transport refrigeration equipment, with its Carrier (air-conditioning) and Transicold (truck refrigeration) brands being the leader in their respective markets.

Carrier is a classic quality industrial business. The US market is consolidated and the major players have locked up the distribution and after-sales service networks, which are key to winning market share. The difficulty of entry is evident in the failure of the Japanese and Chinese manufacturers to make inroads into the market despite 20 years of trying. The business also has a nice regulatory driver in the form of tighter standards around the use of chlorofluorocarbons (CFCs) and energy efficiency, which provides a persistent technology upgrade cycle and the ability to charge for it. These industry characteristics allow Carrier to make high-teen returns on capital and operating margins of around 15%.

The uncertainty around the pace of residential and commercial construction during the lockdowns gave us the opportunity to buy Carrier on 11x earnings, which was a deep discount to businesses of similar quality.

3 Source: Morgan Stanley.

4 Chinese National Immigration Administration and JP Morgan.

Outlook

As at October, the economic data has recovered far faster than the post-global financial crisis period, particularly in China and the US. The strength of the data is broad based, with both the Chinese and US services and manufacturing purchasing managers' indices (PMIs) in firm expansion territory, with a very strong recovery seen in retail sales, auto demand and rail and trucking freight.[5] The strength in some industries is surprising, with no better example than the US housing market, which is currently booming.

Aided by governments' willingness to spend, we feel there are enough positive drivers to ensure the recovery continues. While the cyclical tilt in the portfolio reflects the relative value on offer rather than a macro view, we believe these holdings should perform well if investor confidence in the environment grows.

5 Source: FactSet Research Systems, Evercore ISI.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Microchip Technology	US	Info Technology	3.8%
Ally Financial Inc	US	Financials	3.8%
Applus Services	Spain	Industrials	3.7%
Samsung Electronics Co	Korea	Info Technology	3.5%
Takeda Pharma Co	Japan	Health Care	3.2%
Weichai Power	China	Industrials	3.1%
Raiffeisen Bank	Austria	Financials	3.1%
Amadeus IT Holdings	Spain	Info Technology	3.0%
Sanofi SA	France	Health Care	2.9%
Micron Technology Inc	US	Info Technology	2.9%

As at 30 September 2020. See note 6, 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.

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 exposures to the relevant currencies through its long securities positions, cash at bank, cash payables and receivables, currency forwards and long securities/index derivative positions, as a percentage of its portfolio market value. Currency classifications for securities reflect the relevant local currencies of the relevant Bloomberg country classifications. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
6. 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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