Platinum
CAPITAL LIMITED

19 April 2024

The Manager
ASX Market Announcements
Australian Securities Exchange Limited
Sydney NSW 2000

Quarterly Investment Manager's Report

The 31 March 2024 quarterly investment manager's report is attached to this announcement. For more information in relation to Platinum Capital Limited please refer to the website at:

https://www.platinum.com.au/Our-Products/All-Products/Platinum-Capital-Limited

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Platinum Capital® Limited

ABN 51 063 975 431

Quarterly Investment Manager's Report

31 March 2024

Platinum®
CAPITAL LIMITED

Investment Update

Platinum Capital Limited (ASX Code: PMC)

Clay Smolinski
Portfolio Manager

Andrew Clifford
Portfolio Manager

Overview

- Performance over the past year was affected by our defensive positioning at a time when markets shrugged off fears of recession and were instead buoyed by a boom in US AI and technology stocks. Our holdings in China also disappointed as a post-Covid recovery did not eventuate.
- Over the past quarter our holdings in companies that benefit from *spending* on AI capability did particularly well. **TSMC** and **Micron** were both up around 30%. Our travel holdings also delivered for investors. **Trip.com** rose around 25%. Aviation giant **Airbus** rose 22% and was helped by weakness at its main competitor, Boeing.
- Our strategy around AI revolves around investing in companies that should perform very well if AI spending continues to grow but who have strong non-AI businesses that can underpin their performance should the AI theme take longer to evolve.

Andrew Clifford and Clay Smolinski remain as Co-Portfolio Managers of Platinum Capital Limited. The Portfolio was previously co-managed with Nik Dvornak.

Performance

compound p.a.*, to 31 March 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Capital Limited	5.5%	5.0%	4.3%	6.3%	11.0%
MSCI AC World Index^	13.2%	26.5%	12.6%	12.8%	8.0%

PMC's returns are calculated using PMC's pre-tax net tangible asset (NTA) backing per share as released to the ASX monthly. PMC's returns are calculated after the deduction of fees and expenses, have been adjusted for taxes paid and any capital flows, and assume the reinvestment of dividends. **PMC's returns are not calculated using PMC's share price.**
Portfolio inception date: 29 June 1994.
* Excluding quarterly returns.
^ Index returns are those of the MSCI All Country World Net Index in AUD.
Historical performance is not a reliable indicator of future performance. Source: Platinum Investment Management Limited for PMC's returns; FactSet Research Systems for MSCI Index returns. See note 1, page 7.

Net Tangible Assets

The following net tangible asset backing per share (NTA) figures of Platinum Capital Limited (PMC) are, respectively, before and after provision for tax on both realised and unrealised income and capital gains.

	PRE-TAX NTA	POST-TAX NTA
31 December 2023	$1.5130	$1.5011
31 January 2024	$1.4976	$1.4910
29 February 2024*	$1.5518	$1.5303
31 March 2024	$1.5642	$1.5305

Source: Platinum Investment Management Limited.
* Ex-dividend. Adjusted for the 31 December 2023 interim dividend of 3 cents per share, declared on 22 February 2024 and paid on 28 March 2024.

The performance of the Portfolio has been disappointing. This outcome was not down to a single driver, but the result of a collection of decisions that meant our market positioning turned out to be wrong.

Over the past 12 months, the most significant of these was our defensive positioning, including running a larger than normal short book. We were concerned that a combination of higher rates, tighter lending standards and the breaking of a stock market bubble would produce a recession. These factors led us to err on the side of caution and harmed our relative returns as the expected recession never came and markets pushed substantially higher.

The other factor that cost returns was our position on China. We thought China abandoning its zero Covid policy in January 2023 would see a strong economic recovery and aid stock prices. This did not happen, the economy remained weak and the bear market intensified.

Stock selection also played a role. Our largest detractor over both the year and quarter was **St James' Place**. It's a UK wealth advisory firm hit both by a regulatory requirement to change their fee structure and a need to refund fees after providing inadequate advice documentation to 2% of their clients. We are happy to take a long-term view on holding this stock.

In hindsight there was a significant opportunity in large cap US technology stocks that we bought too timidly (**Meta**, **Alphabet**) or missed (**Netflix**).

March quarter outcomes

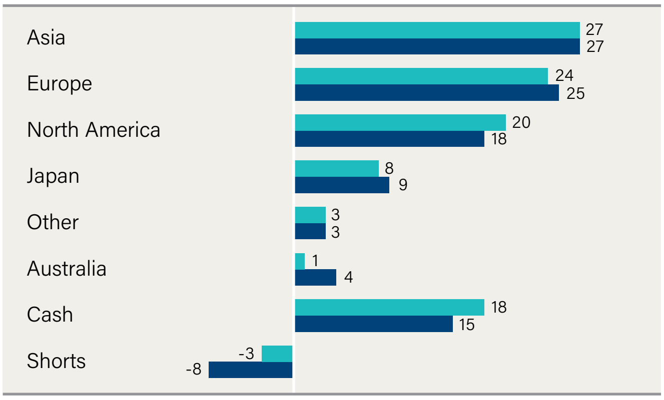
The performance over the quarter echoed this positioning. We saw strong returns from our US (+18%) and Japanese (+9%) holdings, but our returns in China (+4%) and Europe (+2%) were dull compared to their market indices. Our European holdings were down largely due to the aforementioned St James' Place (-32%), and a pullback in pulp producer **UPM** (-9%).

There were some bright spots. Our holdings in companies that benefit from investment in artificial intelligence (AI) did particularly well. **TSMC** (up around 30%) and **Micron** (up over 38%) were the standouts. Our travel holdings continued to do well. **Trip.com** – which holds leading positions in both the Chinese and Indian online travel markets – rose around 25%. European aviation giant **Airbus** rose 22%.

Toyota (up over 46%) continues to reap the rewards of its long focus on fuel-efficient hybrid electric vehicles that continue to gain popularity. It also enjoyed a short-term boost to profitability from a weak yen. British Insurer **Beazley Plc** (up 30%) delivered strong results due to an improving underwriting environment.

We have significantly reduced the size of our short book. Our short holdings have been narrowed to companies where we see an imminent negative catalyst around the business (e.g. greater Chinese competition), or where the businesses are over-priced, lack sustainable business models and where bankruptcy is possible. Our short positions added 0.4% to total returns over the quarter.

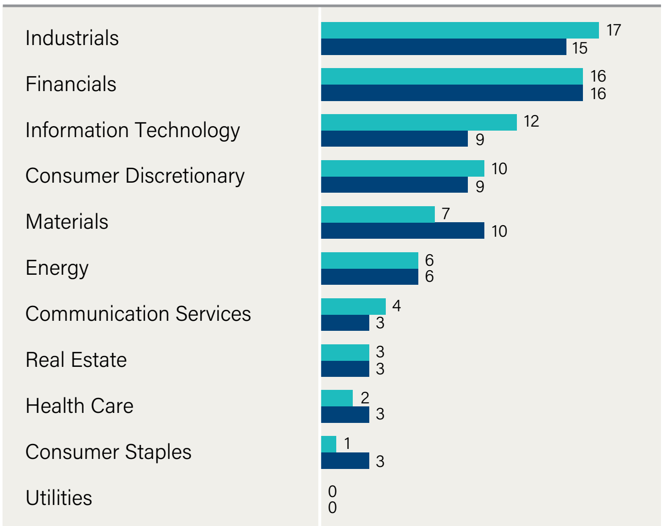
Disposition of Assets %



31 MAR 2024 31 DEC 2023

See note 2, page 7. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures %



31 MAR 2024 31 DEC 2023

See note 3, page 7. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
ZTO Express Cayman Inc	China	Industrials	3.8%
Allfunds Group Plc	UK	Financials	3.4%
UBS Group AG	Switzerland	Financials	3.2%
Taiwan Semiconductor	Taiwan	Info Technology	3.1%
Samsung Electronics Co	South Korea	Info Technology	3.1%
UPM-Kymmene OYJ	Finland	Materials	2.7%
Airbus SE	France	Industrials	2.6%
Micron Technology Inc	US	Info Technology	2.4%
TransUnion	US	Industrials	2.3%
Minebea Co Ltd	Japan	Industrials	2.3%

As at 31 March 2024. See note 4, page 7.
Source: Platinum Investment Management Limited.

Commentary – the AI issue

We are often asked how we are thinking about AI as an investment theme and about the investments we hold in the space.

Like the personal computer, AI looks to be a classic multipurpose technology that will touch and even transform many industries. Its use cases can be viewed across two tracks:

- Companies operating at huge scale (such as Meta, Google and Amazon) are seeing high value use cases in advertising targeting and content creation – whether that be text, image, video, speech or coding.
- The use cases in the consumer or broader enterprise space are far less clear, with most still in experimentation phase.

We are mindful that the investment history of these type of technology advances shows a double edge sword. Fortunes can be made investing in the long-term winners, but picking those winners – especially in the early stages – is very difficult.[1]

Our approach is not to make bold forecasts about the potential size of the AI market or about who the ultimate winners from this technology revolution will be.

Instead we invest in reasonably-valued businesses who will perform very well if AI spending/applications continue to grow but who all have strong non-AI businesses that will underpin their performance should the AI theme take longer to play out.

1 We recommend "Engines that move Markets" by Alasdair Nairn. It looks at the pivotal technological developments over the past century from an investment perspective. The key lesson: the ultimate losers from new technology are far easier to predict than the actual winners.

Taiwan Semiconductor Manufacturing Company

TSMC is the world's best independent semiconductor foundry. The difficulty and cost of producing leading edge semiconductors has seen most of the industry switch to the 'fabless' model, with giants like Nvidia, Apple and AMD *designing* their chips, while outsourcing the *manufacturing* to TSMC. TSMC has three major advantages over their competitors Intel and Samsung:

- A process node lead – in simple terms TSMC has a miniaturisation advantage that means they produce chips with a price/performance/energy consumption advantage.
- A three decade ecosystem – TSMC customers have standardised around TSMC's production techniques.
- Independence – TSMC does not compete with its customers.

These advantages show up in TSMC's financial results, with the company routinely making 40% operating margins and post-tax returns on capital of 35%. The rise of AI represents a large new growth market for TSMC – whatever the winning technology.

Broadcom

Broadcom is high quality semiconductor and enterprise infrastructure software provider. The jewel in Broadcom's crown is its dominant position in networking and custom AI chips.

In *networking* – there is a clear scaling relationship with AI models. The larger the dataset they are trained on, the better the capability. With the latest models trained on datasets of many *trillions* of parameters, it is no longer practical to do this on a single server with multiple GPUs. Instead it requires thousands of servers to be networked together, so the training can be spread across them in a synchronous manner.

This need for efficient networking is a key bottleneck for AI servers and Broadcom has the leading solution via their Tomahawk networking chips.

As the size and complexity of AI training models increase, we are starting to see the largest companies in the industry custom design chips for that singular purpose. Broadcom is a key player here.

Broadcom's biggest customer is Google. It produces their tensor processing unit chips and that will likely generate circa $5 billion of revenue this year. Broadcom is also working on custom AI chips for Microsoft and Meta. It's likely Amazon will follow.

Over the past year Broadcom's AI related revenue has risen four-fold. It is set to account for roughly 30% of their sales in 2024.

The memory manufacturers – Samsung and Micron

The common thread across AI model training is 'more' – huge datasets, huge computation power, huge energy consumption. Naturally there is an equally huge imperative to make these inputs more efficient.

'High bandwidth memory' (HBM) is a relatively new form of memory that achieves these goals, with the memory directly stacked on the AI processor chip. In addition to a significant higher price point, the amount of capacity required to produce HBM is 2-3x that of regular DRAM. This capacity being diverted to producing HBM has significantly tightened the supply/demand balance of the DRAM industry. The fact this is happening at the same time DRAM demand from traditional sources (PC's, phones etc) is bouncing back could produce some excellent profit outcomes for **Samsung** and Micron.

Overall, our exposure to companies who benefit from AI – but are not solely reliant on it – is roughly 14% of the portfolio.

Outlook

The leading economic indicators are now looking more positive. The US/European unemployment picture is strong, activity in Japan is growing and there are early indicators of economic improvement in China (consumer spending, manufacturing Purchasing Managers' Index etc).

Globally, investor sentiment is strengthening. Recession concerns have faded and we are finding plenty of company-specific mispricings to take advantage of. We are also encouraged that the market gains are starting to broaden out. This bodes well for future returns from our truly-diversified portfolio.

Highlights from The Journal

Visit www.platinum.com.au/lics/pmc to find a repository of information about Platinum Capital Limited (PMC) including:

- Performance and NTA history
- Dividend history and the Dividend Reinvestment Plan
- ASX releases and financial statements
- Monthly updates on performance, portfolio positioning and top 10 holdings.

You can find a range of thought-provoking articles and videos on our website in **The Journal** under **Insights & Tools.**

VIDEO

The lure of large numbers[1]

Cars, beer, the global semiconductor market. Sometimes it pays to play in really big ponds. In this video our team look at some high-quality businesses doing just that – and at the opportunity that offers investors.

ARTICLE

Fear of Running Out[2]

After a long period of weakness, demand for uranium is on the up. In this article we look at the forces driving that demand and at some companies likely to benefit.

ARTICLE

Toyota: How the hybrid engine regeared the investment case[3]

How should car companies manage the EV megatrend? Toyota took their own path and it looks like it's paying off for their investors.

ARTICLE

China: Why stay the course?[4]

Since Covid, the Chinese sharemarket has been left behind by other regions – especially the US. Investment Specialist, Olivia Salmon looks at what went wrong in China and at the longer-term outlook for this severely beaten-down market.

1 www.platinum.com.au/the-journal/video-the-lure-of-large-numbers
2 www.platinum.com.au/the-journal/fear-of-running-out
3 www.platinum.com.au/the-journal/toyota-how-the-hybrid-engine-regeared-the-investment-case
4 www.platinum.com.au/the-journal/china-why-stay-the-course

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). "PMC" refers to Platinum Capital Limited (ABN 51 063 975 431) (ASX code: PMC)

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. PMC's returns are calculated by Platinum using PMC's pre-tax net tangible asset (NTA) backing per share (as released to the ASX monthly). PMC's returns are calculated after the deduction of fees and expenses, have been adjusted for taxes paid and any capital flows, and assume the reinvestment of dividends. PMC's returns have not been calculated using PMC's share price.
2. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. The gross MSCI index was used prior to 31/12/98. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, PMC'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 PMC's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows PMC'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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "Shorts" show PMC'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 long derivative transactions.
4. The table shows PMC's net exposures to the relevant sectors through its long and short securities positions and long and short securities/ index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".
5. The table shows PMC'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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