Platinum International Brands Fund

Nik Dvornak
Portfolio Manager

Overview

- Our Fund is mandated to buy *consumer-centric* brands, which precludes us from owning stocks in market segments that did very well over the past year – including AI, pharma and defence. However performance was also affected by our high exposure to Chinese equities and a very low exposure to the US market.
- We have increased the portfolio's exposure to well-established, global brands – most readers should be able to easily recognise the brands owned by our Top 10 holdings.
- We have added a number of European stocks to the portfolio. Europe hosts many of the world's most valuable global brands and valuations are relatively attractive. We have also added some select US consumer technology stocks to the portfolio.

Nik Dvornak became Portfolio Manager of the Platinum International Brands Fund on 18 March 2024. He was previously Co-Portfolio Manager of the Platinum International and European Funds.

Performance

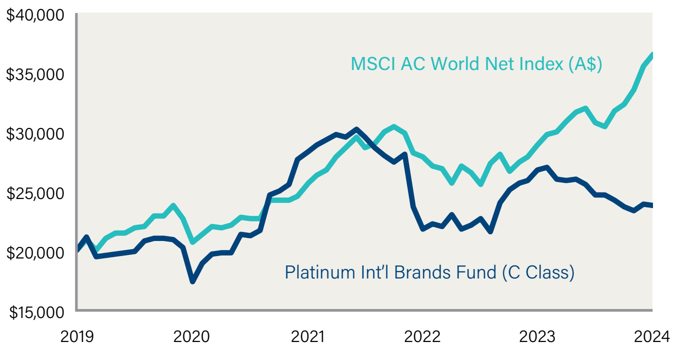
compound p.a.+, to 31 March 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	1%	-11%	-6%	3%	11%
MSCI AC World Index^	13%	26%	13%	13%	5%

+ Excludes quarterly returns.
* C Class – standard fee option. Inception date: 18 May 2000.
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 5. Numerical figures have been subject to rounding.

Value of $20,000 invested over five years

31 March 2019 to 31 March 2024



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 5.

The Fund returned 0.7% over the quarter in AUD terms, significantly trailing the MSCI AC World Index which appreciated by 13%. This level of underperformance is deeply disappointing. So, why has it occurred?

Part of the explanation is down to extraneous factors. Consider the themes that led the market over the past quarter and indeed the past year. Artificial Intelligence, weight-loss drugs and defence were the big winners. **NVIDIA** is up 82% over the past three months while **Eli Lilly** and **Novo Nordisk** have risen 33% and 26%. NVIDIA boasts a market capitalisation of over USD 2 trillion while Eli Lilly and Novo Nordisk now have a combined market capitalisation of over USD 1 trillion. These are large moves by large cap technology and pharma stocks. In the defence arena, the European rearmament play, **Rheinmetall**, appreciated 81% this quarter as the penny finally dropped and European governments recognised the fallacy of 'soft power'.

Our Fund is mandated to buy *consumer-centric* brands, which precludes us from owning these market segments. Hence, we sat out on some of the best performing themes. This is not a major cause for concern. Just as there are periods where consumer brands are left behind by technology or capital goods, there will be periods when consumer brands lead the market upwards.

However, the larger contributor to our underperformance relates to our asset allocation. We had a high exposure to Chinese equities and a very low exposure to the US market. Over the past year, Chinese and Hong Kong stocks fell 7% and 19% respectively while US equities soared 28%. Why were we positioned this way?

This time last year, the outlook for the US consumer was grim. While spending held up as people ran down their COVID lockdown savings, inflation had surged. Prices were increasing significantly faster than wages so consumer purchasing power was contracting. Even in the midst of a severe monetary tightening cycle, inflation was running at 7% per annum. It looked like the Fed would have to tip the economy into recession to bring inflation to heel.

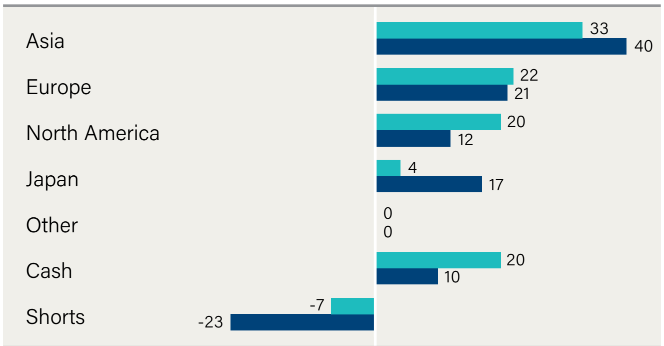
By contrast, in China, things were looking up. Chinese consumers had spent much of the prior three years in lockdowns far more draconian than those in the West. When the Government finally relented on its Zero-COVID policy at the end of 2022, we expected a strong rebound in consumer spending. This is what had happened in other economies as they emerged from lockdown. Indeed, it's what happened when China emerged from its first lockdown in 2020.

This then was the rationale behind our decision to overweight Chinese consumer stocks and underweight their US counterparts.

In hindsight, this was not the correct decision. US inflation rapidly decelerated, unemployment stayed very low, real wages started to rise and the risk of significant further monetary tightening faded. Meanwhile, Chinese consumer confidence had been crushed by (seemingly arbitrary) government intervention and a deflating property market.

We had misjudged consumers' post-Covid behaviour in China and did not adapt as data came through showing the US consumer outlook was less ominous than feared and that the Chinese consumer was more hesitant than anticipated. We maintained our exposure to China at nearly 30% as of December 2023 and we were net short US equities. We should have course-corrected more quickly.

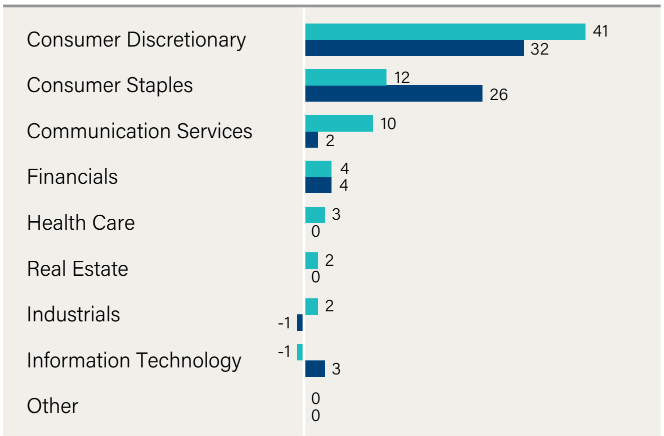
Disposition of Assets %



31 MAR 2024 31 DEC 2023

See note 3, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures %



31 MAR 2024 31 DEC 2023

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
JD.com Inc	China	Cons Discretionary	4.1%
Alphabet Inc	US	Comm Services	3.5%
Trip.com Group Ltd	China	Cons Discretionary	3.5%
Haleon PLC	US	Consumer Staples	3.4%
Meituan Dianping	China	Cons Discretionary	3.3%
Visa Inc	US	Financials	3.3%
Heineken NV	Netherlands	Consumer Staples	3.2%
Tencent Holdings Ltd	China	Comm Services	2.9%
Basic-Fit NV	Netherlands	Cons Discretionary	2.9%
Toyota Motor Corp	Japan	Cons Discretionary	2.7%

As at 31 March 2024. See note 5, page 5.
Source: Platinum Investment Management Limited.

Commentary – a core of great brands

We have made significant changes to the Fund.

The first change is to increase the portfolio's exposure to well-established, global brands. Most readers should be able to easily recognise the brands owned by our Top 10 holdings. Around this solid core of stable, growing, global businesses we will carefully deploy a limited amount of capital to more regional or local brands, to turnarounds or growth stories that can provide outsize returns. Businesses that do not fit into this strategic structure are being sold.

The second change we are making is to rebalance the portfolio geographically.

The US accounts for 25% of global GDP and 63% of our benchmark index. The US economy is unparalleled as a source of innovation, economic dynamism and as a magnet for the most valuable human capital from across the globe. So, while we have some sympathy for the argument that the US consumer is stretched and valuations on US consumer stocks are high, we have reduced our short positions and added selectively to US stocks, mostly in the consumer technology space.

Today Europe is home to many of the world's most well-recognised and valuable global brands and European valuations are more attractive than those in the US. We have added a number of European stocks to the portfolio recently, many of which we know well from the Platinum European Fund.

In China and Japan, we are avoiding – or selling out of – stocks where business fundamentals are weakening or where the risk-reward trade-off feels too tight. The companies we continue to hold – like **Toyota** and **Nintendo** in Japan – are brands most readers should recognise.

In China, we now own mainly consumer internet businesses. Should consumer sentiment recover from currently depressed levels, these holdings will benefit. In the meantime, we hold well-established enterprises that enjoy powerful network effects, have strong market positions and are demonstrating a newfound fervour for paying dividends and rewarding investors with share buybacks.

Outlook

The outlook for the global consumer has improved over the past year.

In the US, unemployment remains extremely low even as labour force participation recovers towards pre-COVID levels. This is supporting real wages which are growing again as inflation slows. Monetary tightening appears to have plateaued and loosening seems on the cards at some point in 2024. We note the slowing sales reported by Nike and Lululemon with interest. These may foreshadow a deterioration in consumer spending but it is also possible they reflect some re-energised competitors putting the squeeze on the industry giants.

European consumers experienced an even harsher contraction in real wages than US consumers, courtesy of energy and trade flow disruptions following the Russian invasion of Ukraine. While the European economy has stagnated for the better part of a year, real wages are growing once more as inflation eases faster than in the US. Consumer sentiment is recovering and consumer spending is holding up. As an example of this consumer resilience, we would point to the strong performance from Zara-owner, **Inditex**. This retailing giant was able to grow sales 10% and operating profit over 20% during the past year, despite generating around half their sales from supposedly moribund Europe and despite competition from digital champions like Shein.

China is still the greatest source of both risk and opportunity today. While consumer sentiment is undeniably weak, the potential for improvement is greater than in any other major economy. There have been a number of emerging bright spots. For example, both **Trip.com** and **Meituan** reported more than doubling the bookings in their Online Travel Agency businesses. Recent earnings reports from other companies we own also suggest stabilisation, although a broad-based recovery remains elusive.

Looking ahead, the portfolio is balanced geographically to reflect the spectrum of opportunities on offer. The Fund is less heavily skewed towards China, more heavily weighted towards established, world-class brands and we believe better placed to deliver returns across a broad range of possible future scenarios.

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 MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") 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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "Shorts" show the Fund'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.
4. The table shows the Fund'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 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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