# Platinum International Brands Fund

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Portfolio Manager

## Overview

- The Fund had a difficult quarter and year as markets shrugged off tighter policy. Our defensive approach cost us returns.
- The recent rally (outside China) reflects the US Federal Reserve's dovish monetary policy outlook. Our view is that the US economy is weakening due to the historic tightening of monetary conditions and the outlook for consumer spending and company earnings is not positive. This view is reflected in our overall positioning, which is relatively conservative.
- There's little sign of a post-COVID recovery in the Chinese consumer space and this raises question about the value of holding Chinese stocks, especially given ongoing geopolitical issues. In our view, these holdings are now even more attractive from a valuation perspective and investor sentiment is so weak any good news could trigger a sizeable rally. Chinese funeral services business **Fu Shou Yuan** is one example of this issue. It's priced far more cheaply than similar businesses in the US and Australia even though its growth profile is much more attractive.

## Performance

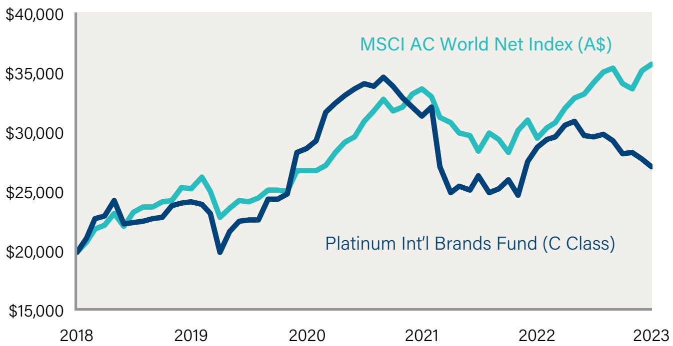
compound p.a.+, to 31 December 2023

| | QUARTER | 1YR | 3YRS | 5YRS | SINCE INCEPTION |
|---|---|---|---|---|---|
| Platinum Int'l Brands Fund* | -4% | -6% | -2% | 6% | 11% |
| MSCI AC World Index^ | 5% | 21% | 10% | 12% | 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 December 2018 to 31 December 2023




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 had a difficult quarter and year as markets rose despite tighter monetary policies in most major economies. Our defensive approach cost us returns.

The Fund had begun the quarter well, maintaining positive performance even as global markets, led by the US, continued the sell-off that began in September.

However, from the end of October, our short positions in over-earning US discretionary stocks, overpriced EV stocks and "meme" stocks that had done well through September and October became a significant burden on performance as the market bounced into a "Santa rally".

Performance was further hampered by what is now a severe slump in Chinese stocks in the face of ongoing issues in the real estate sector and a sluggish economy. Chinese Fund holdings: **China Mengniu Dairy**, **Meituan Dianping** (a food delivery and local services platform) and **DingDong Cayman** (grocery e-commerce) were down over 20% in the quarter.

### An unlikely rally?

The rally in non-Chinese markets reflects the view that the US Federal Reserve's monetary policy outlook is turning dovish as inflation eases. We take the view that the economy is weakening due to restrictive monetary conditions, therefore the outlook for consumer spending and thus company earnings is not positive. With that in mind, it makes little sense for the S&P500 to be closing within a hair's breadth of a record high and for many consumer discretionary stocks to have staged large rallies. This view is reflected in our overall positioning at the end of the quarter, which is relatively conservative at 67% net exposed to markets.

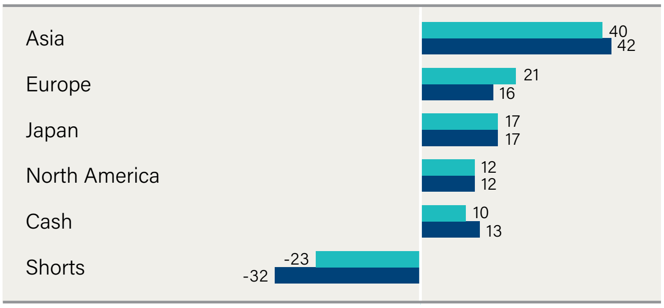
Cushioning our performance somewhat this quarter was our relatively low exposure to a weakening US dollar and a large position in the appreciating Japanese Yen. We made an active decision to increase our Yen exposure during the quarter, as Japanese monetary policy continues to normalise, and the US looks to have reached the peak of its tightening cycle. One only need visit Japan and monitor the cost of everyday activities to understand that the Yen remains very cheap on a fundamental basis, so has much room to run if longer-term interest rates continue to converge. Overall, currency added to performance in the quarter.

In terms of individual stocks, low-cost gym franchisor **Planet Fitness** (+48%) bounced from depressed levels. The company announced various measures designed to improve franchisee economics, which the market viewed positively. It is also a beneficiary of lower long-term interest rates. Austria's **Raiffeisen Bank** (+40%) jumped midway through the quarter due to a strong earnings result, then later in the quarter as it announced a transaction designed to reduce the capital invested in its Russian subsidiary.

Jeweller **Pandora** (+27%) surged in early October in response to aggressive growth targets announced at its capital markets day. It followed that up in early November with a strong earnings result that caused that stock to rise even further. Likewise, video game platform owner **Nintendo** defied the strong yen to rise 18% in the quarter as a result of continued strong earnings. Our thesis – that changes in Nintendo's underlying business model should result in higher profitability and less cyclicality of earnings through the console cycle – is playing out well.

Our holdings in **Meta**, and to a lesser extent Google-parent **Alphabet**, have been strong contributors to the Fund's performance over the past year, rising 190% and 58% respectively. That said, their relative attractiveness has declined considerably as their valuations have expanded. We have therefore trimmed our holdings, to the point where they are now each sub 1% positions.

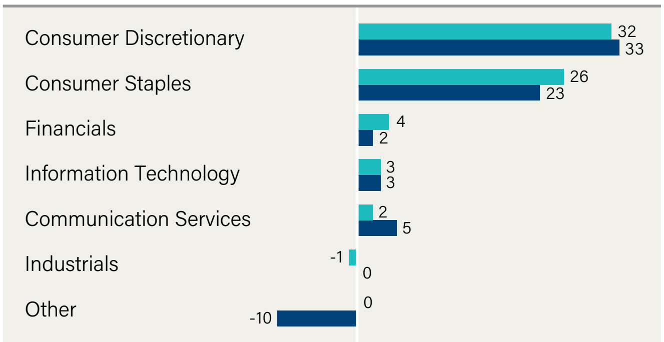
## Disposition of Assets %




31 DEC 2023 30 SEP 2023

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

## Net Sector Exposures %




31 DEC 2023 30 SEP 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 |
|---|---|---|---|
| Ezaki Glico Co Ltd | Japan | Consumer Staples | 5.0% |
| Prosus NV | China | Cons Discretionary | 3.6% |
| Digital Garage Inc | Japan | Info Technology | 3.5% |
| Basic-Fit NV | Netherlands | Cons Discretionary | 3.5% |
| JD.com Inc | China | Cons Discretionary | 3.4% |
| Nien Made Enterprise Co Ltd | Taiwan | Cons Discretionary | 3.3% |
| Fu Shou Yuan Int Group Ltd | China | Cons Discretionary | 3.3% |
| Melco Int Development Ltd | Hong Kong | Cons Discretionary | 3.1% |
| China Feihe Ltd | China | Consumer Staples | 3.1% |
| Pernod Ricard SA | France | Consumer Staples | 3.1% |

As at 31 December 2023. See note 5, page 5.
Source: Platinum Investment Management Limited.

## Commentary

One of the most interesting trends in global markets for investors in consumer-focused companies is the ongoing relative and absolute de-rating of consumer staples[1] companies. We have had very little exposure to consumer staples names in developed markets as we viewed much of the space as low-growth and interest-rate sensitive.

More recently we have seen opportunities beginning to emerge in this area, and to that end in December we established a position in global brewer Heineken. Our recent purchases of this stock took place at some of the cheapest valuations relative to expected earnings seen in the past decade.

Heineken has faced headwinds from rising input costs and a strong US dollar which has hurt profitability in its emerging market strongholds. These trends appear set to reverse, so the stock appeared well positioned for the double whammy effect of a resumption of earnings growth and valuation re-rating. Additionally, management has announced plans to reduce costs via better integrating its very decentralised operations and reducing its brewery footprint to improve capacity utilisation. It has the opportunity to improve significantly in both areas.

### Consumer opportunities in China

The opportunity in Chinese consumer stocks can be effectively illustrated by looking at the funeral services sector. This sector has long been recognised by investors globally as highly attractive, with strong pricing power (especially for the cemetery business) and with the opportunity for strong players to grow via acquisition. Category champions in various markets include players such as **Service Corp** in the US, and **Invocare** in Australia (recently taken private by TPG).

The Fund owns a position in Chinese leader **Fu Shou Yuan**. Fu Shou Yuan holds around 1% of the Chinese market and the vast majority of earnings are derived from its cemetery business, which has exhibited strong pricing power. The company has shown solid execution in growing via effective acquisitions, buying under-managed cemeteries, improving them and raising prices for new plots.

With only 1% share, there is considerable scope for ongoing growth via acquisition. Compare this to Invocare and Service Corp, where each company holds more than 20% of its respective market, making new acquisitions difficult and where a significantly greater portion of earnings derive from less attractive funeral home operations. Service Corp has grown net income at 0.7%pa over the last five years, compared with Fu Shou Yuan's 9.7%. Invocare was acquired for 37x price/earnings, while Service Corp trades on 20x.

1 Essential products like food and beverages, household and hygeine products.

After the recent sell-off, Fu Shou Yuan can be bought for 14x 2023 expectations, or 11x 2024. It seems clear which stock represents the better opportunity for investors.

## Outlook

We expect the recent weakening trends in US consumer spending to pressure the earnings of many consumer discretionary[2] stocks – particularly in areas such as furniture & home, and sporting goods. We have seen recent declines in these categories. There may be further moves to the downside if consumers do not replenish or repeat COVID-era purchases (we are already seeing this in some categories when we adjust for inflation).

Despite large sales declines, several companies have opted to maintain high pricing in the hope of maintaining gross margins. It is likely this strategy will ultimately fail.

The situation in Chinese markets remains uncertain but given the strengths of the underlying businesses and their very attractive valuations it may be that not much needs to go right for our Chinese holdings to outperform.

The absence of a post-COVID recovery in the Chinese consumer space may raise questions about continuing to hold stocks in this market – especially in light of broader economic weakness and ongoing geopolitical issues.

Our view is that our holdings now look much more attractive from a valuation perspective and that investor sentiment is so poor that any good news could trigger a sizeable rally.

It is at the core of our investment philosophy that we seek out opportunities in areas of the market that are unpopular. What is popular is unlikely to be undervalued. Our Chinese holdings continue to represent great value, in large part because of their current unpopularity.

2 Non-essential goods and services - for example luxury and leisure goods.

## 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.

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