

Platinum International Fund



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Overview

- The Fund underperformed significantly over the quarter and year, largely as a result of our cautious approach to markets. Against our expectations, in 2023 the US economy in particular shrugged off a historic rate tightening with technology and communications stocks doing exceptionally well.
- We continue to find attractive investment opportunities in companies that have already been marked down on rate rise fears. **TransUnion** – a US data bureau – is one such company, falling on the basis that rate rises will trim its mortgage-data revenue. However the company is finding new and rewarding uses for its data sets – in insurance and e-commerce for example. It has a strong market position and is now playing in growth markets like India.
- Japanese motor giant, **Toyota**, has done well for the Fund's investors over the medium term. Its focus on hybrids – rather than pure EVs – was rewarded by consumers keen on cost savings in a tough economic environment. Toyota is also benefiting from a strong balance sheet, is investing in new technologies and should also reap rewards from ongoing corporate governance reform in the Japanese stockmarket.

Performance

compound p.a.+ , to 31 December 2023

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	0%	4%	6%	7%	11%
MSCI AC World Index^	5%	21%	10%	12%	7%

+ Excluding quarterly returns.

* C Class – standard fee option. Inception date: 30 April 1995.

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.

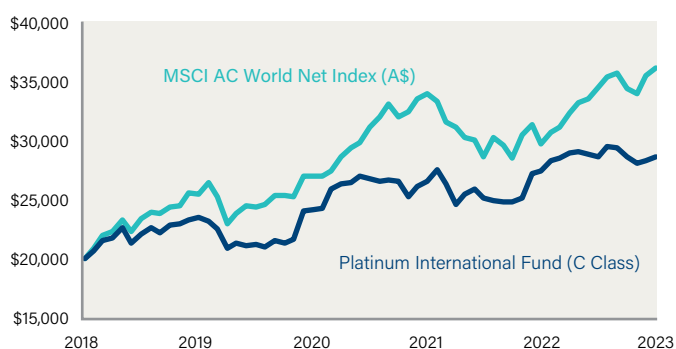
Source: Platinum Investment Management Limited, FactSet Research Systems.

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.

A review of the year

The Fund (C Class) was flat over the quarter and up 4.2% for the calendar year 2023. This significantly trailed the global equity market which rose on the back of exceptional performances from the technology and communications components of the index.

At moments like these it is therefore sensible to assess your investment approach. This time last year, the Platinum International Fund had **outperformed** the world market by 15% for 2022. Our investment philosophy and process are consistent, the divergence in relative performance over the past two years reflects changed market conditions – and our view of those conditions.

The 2023 backdrop

At the outset of 2023 markets faced tight financial conditions as Central Banks sought to dampen the pandemic-stimulus inflation outbreak. The US Federal Reserve enacted one of the most aggressive tightening cycles in history and US money supply was shrinking for the first time since the 1930s.

At this point the historical relationships between interest rates, earnings and stock prices advised a cautious approach. Meanwhile, China, which had suffered a severe bear market, was exiting its extreme COVID-19 lockdowns. It looked to many like it would enjoy the economic rebound experienced in other markets.

The reality of 2023 has been very different to the one many expected and our cautious approach has not been rewarded by the market. The US economy remained robust in spite of tight financial conditions. While corporate earnings declined marginally, the US equity market rallied. Meanwhile, China's recovery was tepid as residential property issues weighed on consumer and business confidence. Chinese stocks (SSE Composite) fell 16%.

The Fund's performance reflects a number of factors.

- A cautious net invested position averaging 72% over the course of the year.
- Poor performance in our short positions which were tilted toward highly valued growth stocks.
- Our 21% average weighting in Chinese stocks.

While our portfolio is still positioned relatively defensively we believe the stocks in the portfolio have the ability to outperform over the medium term.

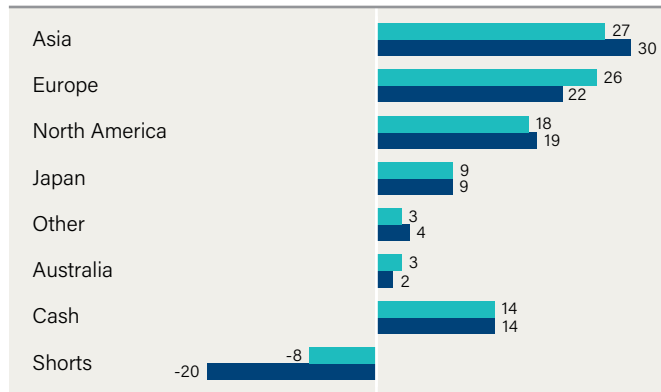
Quarterly performers

Over the quarter, Chinese e-commerce firm, **PDD Holdings** did well (up over 45%). Revenues were up 94% in the 3rd quarter of 2023 and the company continued to capture market share.

Infineon (semiconductors) and **Minebea** (industrial components) were both up around 20% as the prospect of lower interest rates increased the likelihood of better earnings ahead. **Allfunds**, a European investment fund platform, was up 22% as the market assessed that the firm's assets under management would benefit from lower interest rates.

The biggest detractors from performance were Chinese companies. **ZTO Express** (down around 12%) suffered due to revived price competition in its industry, slowing what had been rapid earnings growth. **China Overseas Land** (down around 15%) and **Ping An Insurance** (down around 20%) fell as a result of continuing weakness in residential property.

Disposition of Assets %



■ 31 DEC 2023 ■ 30 SEP 2023

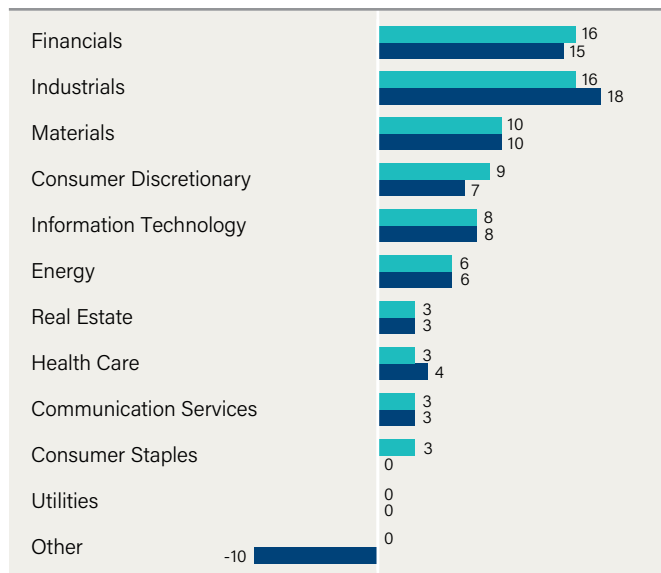
See note 3, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Allfunds Group Plc	UK	Financials	3.4%
UBS Group AG	Switzerland	Financials	3.2%
Samsung Electronics Co Ltd	South Korea	Info Technology	3.2%
ZTO Express Cayman Inc	China	Industrials	3.0%
UPM-Kymmene OYJ	Finland	Materials	2.9%
Minebea Co Ltd	Japan	Industrials	2.5%
Airbus SE	France	Industrials	2.2%
Suzano SA	Brazil	Materials	2.1%
Intercontinental Exchange Inc	US	Financials	2.1%
InterGlobe Aviation Ltd	India	Industrials	2.1%

As at 31 December 2023. See note 5, page 5.
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.

Commentary

As inflation continues to recede, investors have grown confident that interest rate cuts are on the way and as a result global stock markets have rallied. In the US, this has given rise to the view that a serious downturn – and significant earnings downgrades – are unlikely in the year ahead.

Much has been made of the contribution of artificial intelligence and the Magnificent Seven (Apple, Microsoft, Amazon, Google, Nvidia, Tesla, and Facebook) to the markets' performance this year. Yet in the final weeks of the year investors were drawn into buying the more speculative end of the market. Against the odds, unprofitable growth stocks and companies with dubious business models were back in vogue.

Where the opportunities really lie

It is always easy to be drawn into big debates around interest rates, market levels and popular themes like the revolutionary impact of AI. However this can distract from a clear-eyed view of the real opportunities.

There are many companies currently running under the radar because they have already faced setbacks from policy and economic tightening and suffered their own bear markets.

TransUnion is a US consumer credit bureau, providing data to help lenders assess mortgages, auto loans and credit cards. TransUnion has now expanded the data sets it offers, moving beyond lending to areas such as insurance, fraud detection and e-commerce. The company also has good positions in fast growing markets like India. It is a high-quality business with limited competition.

Today US mortgage applications have collapsed 90% from the highs of 2020, reducing demand for TransUnion's services. Our view is that the company's long-term prospects remain sound and the headwinds of higher rates will recede. We were able to acquire a stake in TransUnion at an attractive valuation.

EVs for the people

The Chinese economy remains sluggish and political concerns, both domestic and global, are front of mind for investors. In our view the focus should be not on the Chinese economy or Chinese market, but on individual Chinese businesses.

During the quarter, members of our investment team spent five days in Guangdong province visiting companies, with a particular focus on the electric vehicle (EV) supply chain. This included companies making capital equipment for battery manufacturing, producers of electrolytes and cathode materials and **BYD**, the new global leader in EVs.

We believe Chinese producers stole a march on global competitors by focussing on lower cost EVs. In our discussions with Chinese EV players, BYD – who manufacture their batteries inhouse – and China's leading battery maker, **Contemporary Amperex Technology Co Limited** (CATL), were seen as drivers of continuous improvement across the supply chain.

While politics may restrict Chinese companies' ability to export to the US (and potentially European) markets, their home market continues to grow strongly. Outside of EVs, battery technology has important end markets in energy storage and will benefit from global investment in renewable energy, an area where the politics are likely to be less fraught. This combination of factors explain why we saw CATL's recent 50% stock price fall as an opportunity. The stock fell on concerns over the sustainability of the EV boom and US/European protectionism. We believe this offered an attractive entry point.

When a car company is a banker

Toyota Motor Corp is a long-held position that has delivered solid 14% per annum returns over the past five years.

In recent years the company was criticised for not investing in pure EVs. Instead Toyota focussed on hybrid EVs and today are seen as a leader in fuel efficiency. In tough economic times that underpinned strong demand for their vehicles.

The company also focused on alternatives to current battery technology such as solid-state batteries which they expect to have in commercial production by 2028. The weakness in the Japanese Yen has recently provided a boost (albeit perhaps temporary) to the company's profitability.

For such a structurally well-positioned company, a valuation of eight times current year earnings is respectable, though certainly higher than many of its struggling global competitors. In addition, there is plenty of upside for investors in Toyota's balance sheet.

Like many Japanese companies, Toyota holds excess assets and runs a less than generous dividend payout ratio of 30%. As we noted last quarter, a significant part of the Japan story is that the corporate governance reforms of the past decade mean companies are placing greater focus on shareholder interests.

During the past year, the Toyota group started to unwind various cross shareholdings. While these changes are relatively small in nature, they add a potential source of incremental returns to a company that is already attractively priced and a leader in its core business.

Outlook

With the developed markets returned to or surpassing the highs of late 2021 and with expectations for interest rates having eased over the past quarter, many commentators believe a new equity bull market has begun.

This may be the case – but there are still reasons to be cautious. Firstly, it is worth remembering that shifts to a restrictive monetary policy historically take 18 to 24 months to hit the economy and company earnings. Why is that relevant? Because 18 months ago, the US Federal Funds target rate was just 1%. Today it's 5.5%.

So while employment and activity have certainly held up better than many expected, it may be most helpful to view the macro picture through a neutral lens.

Additionally, many of the growth stocks that powered the market this year are on full to generous valuations and so may be vulnerable to a pullback if rates don't fall as quickly as some anticipate in 2024.

By contrast there are many quality companies across many sectors and geographies that are trading at valuations that could produce good returns in the medium to long term. As always, we will focus on the latter group and avoid the former.

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. [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, 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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