MLC-Platinum Global Fund

QUARTERLY INVESTMENT MANAGER'S REPORT

PERFORMANCE

Fund Size: $630.3m	Last quarter	Last 12 months	5 years (compound pa)	Since inception (compound pa)
MLC-Platinum Global Fund	2.8%	18.5%	5.5%	10.2%
MSCI All Country World Net Index (A$)	6.8%	20.4%	10.4%	7.6%

Fund returns are after fees and expenses and assume the reinvestment of distributions. Portfolio inception date: 30 June 1994.
Source: MLC Investments Limited and Platinum Investment Management Limited for Fund returns, and FactSet Research Systems for MSCI index returns.
Past performance is not indicative of future performance. The value of an investment may rise or fall with changes in the market.

The Fund returned 2.8% for the quarter.[1]

In terms of major positions, notable contributors to performance included Indian low-cost air carrier **InterGlobe Aviation** (+37%), Australian energy utility **AGL Energy** (+34%), social media giant **Meta Platforms** (+35%) and US luxury furniture retailer **RH** (+32% from our first entry point during the quarter).

With regards to InterGlobe Aviation, the investment case is playing out. With its competition largely eliminated post-COVID, we are now seeing price discipline return to the Indian airfare market, which can drive very large increases in profitability. The move in Meta was driven by the continued change in perception around the company, going from being secularly challenged by TikTok and a loss of advertising effectiveness to now successfully solving these problems. Finally, RH is a rare story of a retailer successfully moving upmarket with a unique founder and a mentality of experimentation. The stock fell 65% post the COVID sugar rush of goods spending, giving us a good entry for the long term, and the stock has started to rise as the market is beginning to look through the weakness in the luxury housing market.[2]

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

2 For more on RH and the US luxury furniture market, see: https://www.platinum.com.au/Insights-Tools/The-Journal/Boom-Bust-Disruption-in-the-Furniture-Industry

The main detractors from performance were our Chinese positions, with every holding except PICC giving up ground. Four of our top six detractors were Chinese stocks (**AK Medical** -26%, **Tencent** -14%, **ZTO Express** -12% and **Weichai Power** -9%).

AK Medical is China's largest domestic manufacturer of orthopaedic products (mainly hip and knee). It has been the most R&D-focused of the domestic players, building a 20% market share and being the first to gain approvals for a number of its 3D-printed/more innovative implants.[3] Its share price fall during the quarter looks to have been influenced by the founders pledging 3.5% of their shareholding as collateral for a loan (not an uncommon transaction in Asia), after which they will still own roughly 48% of the company. Outside of this, the incremental news is positive, with early indications the second round of volume-based procurement (centralised buying for the Chinese medical system) will be a net positive for AK and they could achieve a net price increase.

The other stock price falls were driven by macroeconomic factors, namely disappointment over the pace of recovery in the Chinese economy post its reopening. Outside of the Chinese positions, there was reasonably broad strength, with the only other falls of note being pulp and biochemicals player **UPM-Kymmene** (-12%) and financial products sales/administration platform **Allfunds** (-8%).

3 Source: Company reports, Bloomberg. For more details on AK Medical and the investment opportunity we believe it presents, see: https://www.platinum.com.au/Insights-Tools/The-Journal/The-Times-are-Changing

DISPOSITION OF FUND ASSETS (NET INVESTED POSITIONS) ^

Region	30 Jun 2023	31 Mar 2023
Asia	32.9%	30.4%
Europe	25.3%	28.2%
North America	21.6%	20.9%
Japan	10.2%	9.3%
Other	2.7%	1.0%
Australia	2.4%	1.7%
Cash	4.9%	8.5%

^ 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.

Source: Platinum Investment Management Limited.

TOP 10 HOLDINGS ^

Company	Country	Industry	Weight
Samsung Electronics Co Ltd	South Korea	Info Technology	4.9%
Microchip Technology Inc	US	Info Technology	4.7%
Itochu Corp	Japan	Industrials	3.8%
MinebeaMitsumi Co Ltd	Japan	Industrials	3.7%
ZTO Express Cayman Inc	China	Industrials	3.4%
UPM-Kymmene OYJ	Finland	Materials	3.3%
Tencent Holdings Ltd	China	Comm Services	3.2%
Trip.com Group Ltd	China	Consumer Disc	3.0%
InterGlobe Aviation Ltd	India	Industrials	2.9%
Wizz Air Holdings Plc	Switzerland	Industrials	2.8%

^ As at 30 June 2023. 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. Numerical figures are subject to rounding adjustments.

Source: Platinum Investment Management Limited.

NET SECTOR EXPOSURES ^

Sector	30 Jun 2023	31 Mar 2023
Industrials	27.1%	25.3%
Information Technology	16.2%	13.3%
Financials	15.8%	16.3%
Materials	9.6%	8.0%
Energy	7.8%	12.1%
Consumer Discretionary	5.6%	5.8%
Communication Services	5.4%	4.9%
Health Care	3.5%	2.2%
Utilities	2.1%	1.5%
Real Estate	1.9%	2.1%
TOTAL NET EXPOSURE	95.1%	91.5%

^ The table shows the Fund's net 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". Numerical figures are subject to rounding adjustments.

Source: Platinum Investment Management Limited.

NET CURRENCY EXPOSURES ^

Currency	30 Jun 2023	31 Mar 2023
Chinese Renminbi (CNY)	20.1%	22.3%
United States Dollar (USD)	19.8%	14.2%
Euro (EUR)	15.7%	18.3%
Japanese Yen (JPY)	10.3%	14.3%
South Korean Won (KRW)	7.0%	5.2%
UK Pound Sterling (GBP)	6.9%	8.2%
Hong Kong Dollar (HKD)	3.8%	3.4%
Indian Rupee (INR)	2.9%	2.1%
Swiss Franc (CHF)	2.8%	2.9%
Australian Dollar (AUD)	2.8%	1.9%
Brazilian Real (BRL)	2.7%	1.0%
Canadian Dollar (CAD)	2.4%	4.2%
New Taiwan Dollar (TWD)	2.3%	0.0%
Norwegian Krone (NOK)	0.0%	0.9%

^ The table shows the Fund's net 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.

Source: Platinum Investment Management Limited.

Commentary and Changes to the Portfolio

A theme in a number of our recent purchases over the quarter has been looking for companies that have already had their recession and are in a position to grow earnings over the next couple of years, even if there is a more difficult economic environment.

An example of this is US healthcare company **Baxter International**. While Baxter has a broad portfolio of medical products, the business essentially has two major areas of focus: delivery of medical fluids (infusion pumps and medications via intravenous and peritoneal dialysis) and patient monitoring (smart beds, diagnostic equipment used by general practitioners, etc.).

As we all know, the global economy has just experienced a large inflationary impulse, with most businesses able to pass on the higher labour/logistics/input costs to customers. But what if a company is contractually unable to do so? This was the position Baxter found itself in, with a meaningful amount of its US revenue sold through multi-year contracts with large group-buying organisations, where pricing can only be changed upon contract renewal. This hurdle to passing on cost inflation, together with semiconductor shortages limiting the ability to meet demand, saw Baxter's earnings fall considerably over the past two years and its stock price halve.

Looking forward, the picture should improve for Baxter. The majority of its contracts come up for renewal over the next two years (which should allow some cost recovery), component shortages and input cost pressure will likely ease, and sales revenue should be boosted by the approval of its new large-volume infusion pump and new range of smart beds. The Baxter story is not perfect; the company has given itself a full plate, planning to spin off its renal division and reorganise its manufacturing footprint in order to do so. These changes can always bring unforeseen problems, but overall, we feel the risk-reward looks favourable for a mid-sized position in the Fund.

In a similar vein, we continued to build a position in Australian utility **AGL Energy.** AGL has had an eventful past two years that saw its share price fall from $15 to $5. Events included an activist campaign and board/management changes led by Grok/Brookfield. On top of that, AGL's earnings were temporarily depressed, a product of lower electricity prices under the new direct market offer pricing system and the fact that AGL had to buy expensive electricity in the spot market due to unforeseen outages at its power plants.

Over the next two years, we believe these issues should reverse as the price AGL will receive for electricity under the pricing system increases and plant reliability is restored. The new management team at AGL is attuned to the realities of Australia's energy transition away from coal, and by controlling 40% of east coast electricity generation it is in a good position to lead it. The recent capital markets day held by AGL affirmed the more positive outlook, and the stock has provided us with strong immediate returns.

In terms of other new positions, we added Japanese construction firm **Taisei** and Japanese packaging company **Toyo Seikan**. Both companies have a large percentage of their market capitalisation in cash and excess assets/securities and are reacting to the shareholder reform push driven by the Japanese Ministry of Finance.[4]

To fund these positions, we sold out of US housing construction company **LGI Homes**, reduced our position in European bank **Intesa Sanpaolo**, and have nearly exited our position in Chinese insurer **PICC**. We also heavily reduced our positions in energy production, selling out of **Suncor Energy** and **Equinor** and halving our position in **Shell**.

4 For more on the regulatory reform and increased focus on corporate governance occurring in Japan, see our video: https://www.platinum.com.au/Insights-Tools/The-Journal/Exciting-Times-for-Japanese-Equities

Outlook

Of the four largest global markets by size, Europe and Japan have powered through their 2021 highs, the US market has recovered to within 5% of its high, and China remains down 30-50%, depending if you look at the A-share index or the Hong Kong-listed mainland names.

In relation to the US and Europe, it’s clear investors had begun to price in a recession in mid-2022, and as that has not come to pass, they have re-entered the market, pushing up stock prices. Japan is a special case, with the market boosted by the weak yen and the corporate reaction to the shareholder reform plan. China is a mirror image, with investors returning on expectations of a massive economic recovery post the end of the zero-COVID policy, only to lose enthusiasm as the pace of recovery has been weaker than hoped.

Where to now? The economy and stock markets are large, complex systems; forecasting errors will always be high, and you can only work with probabilities. We are likely nearing the end of the interest rate tightening cycle in the US. While it’s difficult to predict the timing and duration of interest rate tightening cycles, one thing we do know with any degree of accuracy is the end state, namely that eventually higher rates lead to a contraction in activity, falling profits and higher unemployment.

Against this backdrop, we need to "move forward with caution", and continue to buy mispriced opportunities as they arise.

Clay Smolinski
Co-Chief Investment Officer & Portfolio Manager
Platinum Asset Management

Macro Overview: Lots of Excitement in Markets, But Price Always Matters

by Andrew Clifford, Co-Chief Investment Officer

2023 is certainly not playing out as expected in the markets. CEO and Co-CIO Andrew Clifford sat down with investment specialist Henry Polkinghorne in late June to share his thoughts on the extraordinary rally in AI stocks, interest rates, China's lacklustre reopening, why this time might be different for Japan, and the state of play in Europe - and what they all mean for the markets and Platinum's portfolios for the second half of 2023. An edited transcript of the conversation is below.*

HP: Andrew, it's been an extraordinary year so far in markets, especially in the US, where little has played out as expected, with a huge rally in the S&P 500 and an even bigger rally in the Nasdaq. Are we in the early stages of a new bull market?

AC: I suspect not. When you look at the roadmap, particularly around interest rates, we have had one of the sharpest and largest interest rate tightening cycles in 40-50 years, which only started 15 months ago. The rule of thumb is that it takes 18 to 24 months for it to significantly impact the economy. The yield curve inverted around eight months ago, and again, there is typically an 18-month delay for the impact to be felt. There was a lot of momentum in the economy, and I think we will see how the economy is tested in the months ahead as the impact of tighter monetary conditions flows through. When talking about the broad market, though, the focus is really on earnings; there are very clear relationships between interest rates, earnings and markets. Some people are declaring the 20% rise in the S&P from its lows in October last year as the new bull market as if there's something magical about that number. However, if you go back to the tech wreck of 2000-2001, we saw the Nasdaq rally 40%-50% before markets moved substantially lower. You'll find similarly strong rallies during the global financial crisis (GFC) bear market, so I would remain cautious. The other thing about this rally is that it's been very narrowly focused on artificial intelligence (AI) stories. While AI is very exciting, ultimately, the stocks that are leading the rally, like NVIDIA, were very enthusiastically valued before this started, and are even more so today. For the moment, I would say that the jury's still out on whether this is the beginning of a great new share market run.

HP: AI is now being thought of as a "winner takes most" environment and the large incumbents have the advantage of huge barriers to entry. Do you feel that's justifying investors' reasons to hold these stocks, or do you think they're concerned about a possible recession and prefer pristine balance sheet-type businesses rather than the more cyclical businesses?

AC: When you look at the AI landscape, NVIDIA is clearly a big winner, but you also have to remember that the AI story has been around for a long time, and it was one of the reasons the stock was already owned by investors. The rally in AI stocks has been quite extraordinary, and there were a couple of reasons for that. ChatGPT, an AI chatbot, came into the public arena in November 2022, and it grew to 100 million users faster than we've seen any other platform do before.[1] Twenty years ago, it took Facebook five years to reach that number. It's quite a remarkable tool when you use it. On top of that, we had NVIDIA's announcement in May that they're going to increase their sales from US$7 billion in the first quarter of fiscal 2024 to US$11 billion in the second quarter,[2] and

1 Source: UBS.

2 Source: https://nvidianews.nvidia.com/news/nvidia-announces-financial-results-for-first-quarter-fiscal-2024

* The full interview is available in audio format on The Journal page of our website https://www.platinum.com.au/Insights-Tools/The-Journal Interview was recorded on 29 June 2023.

this was a company whose earnings were under quite significant pressure at the time they made that announcement, but there's a long game to be had here. When you look at other possibilities, companies like Microsoft and Google are mentioned. I think Google is very clearly the AI leader, but to a large extent, the question is really about the revenues that it can generate. I think also the advertising-driven players, such as Facebook and Google, are looking and behaving much more like cyclical businesses than this steady growth story, so we're layering on a little bit of excitement for AI. That's probably justified in the case of Alphabet/Google and maybe Microsoft, but a lot of other companies where this is occurring look fairly spurious to me.

HP: We've had numerous bank failures in the US, and the market seems to have taken that very much in its stride. Where do you see the path of interest rates and tightening potential moving forward?

AC: These things are hard to predict. We've been saying for quite a while that we will get to the end of this rate cycle, and inflation is clearly easing off. What I'd be looking for is what might upset that story rather than the well-accepted view that there won't be many more rate hikes from here. What worries me is the way government spending is ratcheting back up. It pulled back slightly after the pandemic, but nowhere near trend levels and tax receipts are now falling, in line with weakness in earnings, down around 10% year on year.[3] So, we have a situation in the US where the tightening efforts by the Federal Reserve (Fed) are being offset by government spending, and that is a concern. It leads me to the conclusion that while rates may peak at current levels, I don't think we will get any huge relief in terms of rate cuts.

HP: Shifting to China, clearly its reopening has not met expectations. Is the Chinese economy tracking as badly as the media is reporting?

AC: I think the reopening has been disappointing, largely reflecting business and consumer confidence not returning as they did in the West. The property market is still challenged. While the government has provided enough funding to allow uncompleted developments to be completed, buyers have not returned in an enthusiastic fashion to the property market. What I would say, though, is that there are a lot of really interesting things going on in China underneath the surface that are not being particularly picked up by the media. The US government has set aside US$500 billion in new spending and tax breaks under the Inflation Reduction Act of 2022 (IRA), with the majority (US$400 billion) going towards climate change-type investments.[4] But when you look at who's leading the world in that area, it's China. Last year, China sold 6.2 million electric vehicles, compared with 2.7 million in Europe and 1.1 million in the US (see Fig. 1).[5] Interestingly, China became the second-largest exporter of motor vehicles last year, and in the first quarter of this year, it was the largest exporter of motor vehicles.[6] This is another example of China taking on a very mature industry where it was never expected to play outside of its borders. It exported around 3.5 million cars last year, which is about 5% of the car market outside of China, and it has momentum. I think that's going to become a tough market for the marginal players. In solar panels, eight out of ten are made in China, and five of those eight are installed in China.[7] In wind turbines, China represents around 65% of the market.[8] In terms of batteries, China's Contemporary Amperex Technology Co. Limited (CATL) is the clear global leader in batteries, surpassing the Korean and Japanese companies.[9] CATL's revenues were up sixfold in two years.[10] These examples highlight that just in one area of this very dynamic economy, there are some really exciting things going on, presenting some interesting opportunities for investors.

HP: If China is leading the charge on the electrification and decarbonisation of the world, which is expected to be one of, if not the biggest, infrastructure spending programs globally ever, what is holding investors back?

AC: There are clearly multiple concerns about China. There have been issues in the property sector and concerns around the regulatory environment, which have caused difficulties for many companies that foreigners are invested in. However, foremost is the political environment that's on the front page of the newspapers every day, but I don't think investors are looking at this in an even-handed way. We hear that China Is uninvestable and there remain concerns around a potential invasion of Taiwan, which in our view seems a very unlikely event given the importance of Taiwan to China. When I say the markets are being

3 Source: Federal Reserve Bank of St. Louis.

4 Source: https://www.mckinsey.com/industries/public-sector/our-insights/the-inflation-reduction-act-heres-whats-in-it

5 Source: Statista.

6 Source: https://www.marketresearchfuture.com/news/china-is-the-largest-exporter-of-cars-in-2023

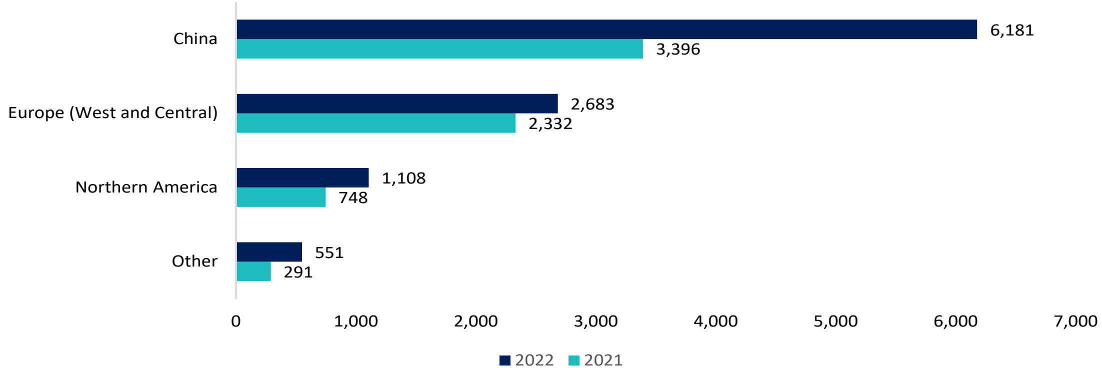
7 Source: https://www.iea.org/news/the-world-needs-more-diverse-solar-panel-supply-chains-to-ensure-a-secure-transition-to-net-zero-emissions

8 Source: https://www.iea.org/reports/wind-electricity

9 Source: https://www.bloomberg.com/news/articles/2023-01-04/china-s-catl-extends-lead-as-world-s-top-ev-battery-maker

10 Source: CATL company report.

Fig. 1: China dominates electric vehicle sales
Plug-in electric vehicle sales worldwide: 2021 and 2022 by main market (in 1,000s)



Source: Statista.

uneven about it, let's look at a stock like Apple. It is reliant on Taiwan for the manufacture of most of its semiconductor content; it relies on China for the assembly of its products; and China accounts for 20% of its earnings.[11] This is a company that has a very significant China risk. Today, Apple is reaching new highs on a daily basis. That says to me that no one's really worrying about the potential invasion of Taiwan when they're buying Apple. The same thing can be seen for the other great market favourite of the moment, NVIDIA, which again relies on Taiwan for the supply of its leading-edge chips. I'm not saying that the risks are not real; the US will likely continue to attempt to contain China. However, the economic reality is that the world is heavily reliant on China in so many critical areas. You can see that in the other dialogue that goes on, with envoys from various countries regularly sent to try and mend the relationship with China, while on the other hand, announcements are made each day restricting China's access to US technology.

HP: There has been a lot of regulatory change in China, particularly in the technology, education and property sectors. Do you think that's finished?

AC: There's obviously been a lot of regulatory change in industries that foreigners have been exposed to. It's been a long pattern over the last decade for China to reform and regulate, and I don't think there's anything particularly untoward; the possibility of reform is something that investors need to be aware of. I think in areas such as e-commerce, which have seen big changes, particularly anti-monopoly provisions, I suspect most of that is done. However, you would expect China to continue to reform and regulate.

HP: Japan seems to be the flavour of the month. There's been quite a lot of talk about reform and corporate governance over the last decade, is now the time for Japan?

AC: The walls seem to be breaking down now in Japan. It has been a decade of talk about corporate governance, but really what we're talking about in Japan are companies with extraordinary valuations. Stocks are priced this way because investors don't have access to the underlying earnings in the form of dividends or buybacks. Instead, they get invested, often in very marginal projects. However, we are now really seeing a great deal of success from investors in terms of changing boards that are not responsive. There have been many steps along this journey, but most recently, the Tokyo Stock Exchange said in a 'name and shame' approach that companies that are trading below book value, which is a little under half of the market, are expected to have a plan of how to get their stock price above book value.[12] It's a very awkward way of saying, how are you going to get your return on equity? How are you going to actually make money for your shareholders? Companies that don't have plans or don't have adequate plans are going to be highlighted. We're definitely seeing change there now. We're certainly engaging with the companies that we own, and the responses are different. They're clearly being communicated to boards, and we are seeing board members voted out, even in extreme cases where the proxy advisors have sided with the company. We've had a big run-up in Japanese stocks, and while these things don't always go in a straight line, in terms of the opportunity with corporate reform in Japan over the next three to five years, I'd say there's still a significant way to go there.

11 Source: FactSet Research Systems.

12Source: https://www.cnbc.com/2023/06/13/investing-is-japan-inc-finally-serious-about-corporate-governance-.html

HP: Europe had a great year last year, and there's just been a failed Russian coup. What are your views on Europe?

AC: I think Europe is similar, if not slightly further advanced, to the US in terms of its economic activity, which is clearly weak. Germany has had two consecutive quarters of negative GDP growth, which is technically a recession. However, the stock market has been strong. Again, it's this same narrowness in the market, with a small number of stocks holding the market up while the broader market is responding to weaker earnings. There have been plenty of stocks over the last year in Europe that have come back into our price range, so that makes it very firmly an opportunity set, but it probably has a little way to play out yet.

HP: Any closing remarks?

AC: The key point I would like to reiterate is the divergence that is occurring across markets, not just in the US but also in Europe and the way that China is being left out. There are huge opportunity sets here for us to play in. We will remain completely focused on the value of what we're buying. Meanwhile, I think what we're seeing with the stocks that are leading the market is an echo of the speculative bubble we've just lived through. It's not to deny the excitement of some of the stories in the companies that are doing well, but it's what we said throughout 2020 and 2021, and that is that price does matter. Maybe some of the companies will live up to these extraordinary valuations, but it's unlikely all of them will, and we've just recently had a pretty good lesson on what can happen if you ignore the question of valuation.

MSCI Regional Index Net Returns to 30.6.2023 (USD)

REGION	QUARTER	1 YEAR
All Country World	**6.2%**	**16.5%**
Developed Markets	**6.8%**	**18.5%**
Emerging Markets	**0.9%**	**1.7%**
United States	**8.6%**	**19.0%**
Europe	**2.9%**	**22.0%**
Germany	2.8%	28.4%
France	3.2%	31.7%
United Kingdom	2.2%	13.2%
Italy	8.2%	43.4%
Spain	5.6%	29.0%
Japan	**6.4%**	**18.1%**
Asia ex-Japan	**-1.3%**	**-1.1%**
China	-9.7%	-16.8%
Hong Kong	-5.0%	-9.0%
Korea	4.4%	13.0%
India	12.2%	14.2%
Australia	0.3%	11.2%
Brazil	**20.7%**	**29.8%**

Source: FactSet Research Systems.
Total returns over time period, with net official dividends in USD.
Historical performance is not a reliable indicator of future performance.

MSCI All Country World Sector Index Net Returns to 30.6.2023 (USD)

SECTOR	QUARTER	1 YEAR
Information Technology	13.7%	34.3%
Consumer Discretionary	8.2%	19.2%
Communication Services	7.1%	10.5%
Industrials	6.3%	25.2%
Financials	5.2%	11.5%
Health Care	2.3%	5.7%
Energy	0.8%	13.2%
Consumer Staples	0.3%	7.7%
Utilities	-0.1%	0.7%
Real Estate	-0.1%	-6.9%
Materials	-0.8%	12.1%

Source: FactSet Research Systems.
Total returns over time period, with net official dividends in USD.
Historical performance is not a reliable indicator of future performance.

PLA-26156 (56283) 0723