MLC-Platinum Global Fund

QUARTERLY INVESTMENT MANAGER'S REPORT

Performance

Fund Size: $609.2m	Last quarter	Last 12 months	5 years (compound pa)	Since inception (compound pa)
MLC-Platinum Global Fund	0.0%	22.1%	5.6%	10.1%
MSCI All Country World Net Index (A$)	-0.4%	20.3%	8.9%	7.5%

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's value was almost flat over the quarter.[1] Over the calendar year-to-date the Fund has returned nearly 11%.

The strongest contributors were our energy holdings. Oil field services companies Schlumberger and Valaris were up nearly 20% over the quarter. Nuclear/uranium stocks such as Cameco also did well (up 29%). Both these energy sectors are emerging from deep recessions. Indeed, it is arguable that the nuclear industry in the West is only just emerging from a 40-year hibernation. Now however, both sectors are enjoying a resurgence of demand.

We also saw decent returns from our holdings in China e-commerce player PDD as that stock rose over 40% on market over the quarter. Pulp producers UPM (+19%) and Suzano (22%) also did well.

Offsetting these gains we saw a fall in a number of our travel holdings (Wizz Air -31%, Interglobe down 9% and Airbus -4%) due to the higher oil price and the recall of the Pratt and Whitney geared turbofan engine. This recall will ground a total of 1500 planes over the next three years.

We also saw a retracement in the share price of a number of our semiconductor holdings over the quarter – (Infineon -17%, Microchip -12%, TSMC -9%). Electric vehicle battery manufacturer LG Chem fell 25% due to concerns around slowing momentum in global electric vehicle sales.

After a strong run in markets, we trimmed a number of our holdings and fully exited our positions in Erste Bank, Intesa and Shell.

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.

Commentary

During the quarter we built a substantial position in Swiss wealth management and banking player UBS. The investment is very much a special situation arising from the UBS acquisition of Credit Suisse.

A factor in any good investment is the price you pay and in the case of Credit Suisse, UBS was able to acquire nearly 54bn CHF (Swiss Franc) of net assets for less than 3.4bn CHF. Given UBS's book value was 52bn CHF prior to the deal, this is a very meaningful acquisition and, in our view, the sixteen-fold difference between price paid and assets received firmly tilts the odds of a positive outcome in UBS's favour.

A tale of two Swiss banks

The two businesses are very similar in structure – they own the #1 and #2 retail banks in Switzerland, they are the #1 and #2 global wealth managers outside the US, they both have sizable asset management businesses and they are both global investment banking players.

UBS ran into trouble during the financial crisis of 2008/09 and substantially de-risked its investment bank, whereas Credit Suisse emerged from that period relatively unscathed and did not de-risk to nearly the extent that UBS did.

Following a series of poor business decisions – including significant losses from Greensill and Archegos – Credit Suisse was in the midst of executing a restructuring program to de-risk the investment bank. Credit Suisse faced the classic project management dilemma: you often have to choose to focus on only two of cost, quality and speed of delivery.

After digesting the losses from its investment banking misadventures, Credit Suisse didn't have enough excess capital to execute the de-risking as fast as it needed.

Confidence in the bank was shaken and customers were already withdrawing funds from Credit Suisse when the shock bankruptcy of Silicon Valley Bank in the USA triggered a bank run that led to the Swiss Central Bank brokering a deal for UBS to acquire Credit Suisse for just cents on the dollar.

In normal times, the merger between the #1 and #2 retail banks would not have been approved on competition grounds. The upside for UBS investors is that the cost savings from merging two banks that are operating in the same business lines (and headquartered in the same city) may be very material.

About $16bn of Credit Suisse AT1 debt was converted to equity as part of the acquisition deal, leaving the consolidated bank in a much stronger capital position. We expect this capital buffer will allow UBS to restructure the combined bank much quicker than Credit Suisse could have.

UBS has also taken a number of asset write-downs and provisions and some of these are likely to be reversed if things go smoothly from here, further bolstering earnings.

Looking ahead, we expect the Fund will be holding a bank with significantly higher earning power and enough excess capital to buy back a material number of shares.

Chinese property

During the quarter there was a significant policy change around residential property in China.

For the past decade the Chinese authorities have imposed a series of regulatory measures designed to control property speculation. In the major cities, a 70% down payment was required if you wanted to buy a second home. Buying a third home was largely outlawed and from 2017 the government started experimenting with price caps on new homes. The constant narrative run by the government was one of support for owner occupiers ("housing is for living!"). Property investors were much less welcome.

On the 31st of August there was a complete U-turn on these measures. The down payment on a second home was cut to 30% (the down payment for first home buyers was reduced to 20%). The mortgage rate for second homes was cut by 40bps, and the individual provinces were given freedom to set property policy how they wish. Suddenly the narrative had changed and being a property investor was okay. This is a very substantial change and such a large reduction in the down payment opens the door to a large amount of new mortgage financing entering the sector.

This dramatic change is similar to the abrupt reversal of China's zero-COVID policy. Yet again, when the pressure grew, the government parked its ideals and reverted to pragmatism so as to support the economy. The government has been fairly explicit that it would like to support domestic consumption and given the precedents we discuss above it is likely more will be done to achieve this.

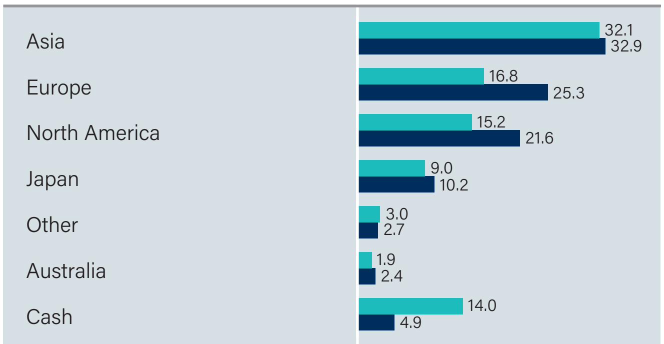
Outlook

The major global stock markets are now not far off their 2021 highs, despite global interest rates rising considerably and US real (after-inflation) rates reaching levels not seen for 20 years. The outlier is China, where the market is down 50%.

Economic growth has come in significantly better than expected in the US and EU, pushing up long-term risk-free rates. Theoretically a period of stronger growth combined with high long rates would see cyclicals/value perform better than higher priced long-duration tech stocks, but that has not happened. A great illustration of this is the year to date performance of the tech-heavy Nasdaq which is up 33%. The more cyclically exposed, equal-weighted S&P index and the broad Russell 2000 are broadly flat.

The end result is that the difference between stock prices and valuations has widened. In our view there is now more risk in holding the 'loved' stocks in the market. As a result, the Fund is positioned very differently to the market.

Disposition of Assets (Net Invested Positions) %^



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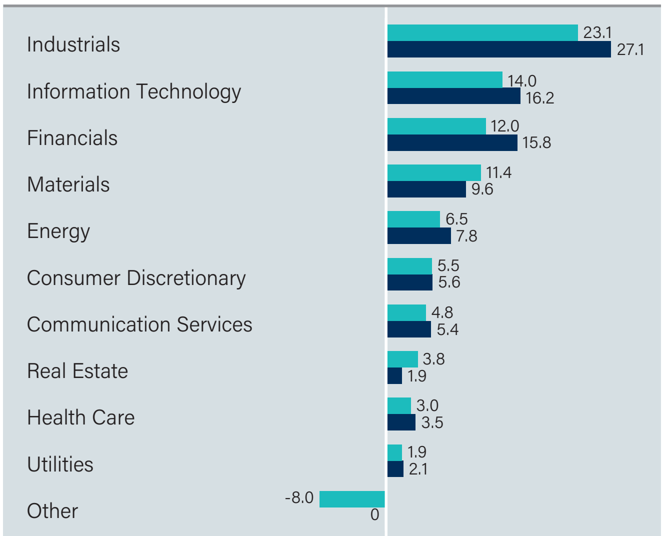
^ The geographic disposition of assets (i.e. other than "cash") shows the Fund's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value.
Source: Platinum Investment Management Limited.

Net Sector Exposures %^



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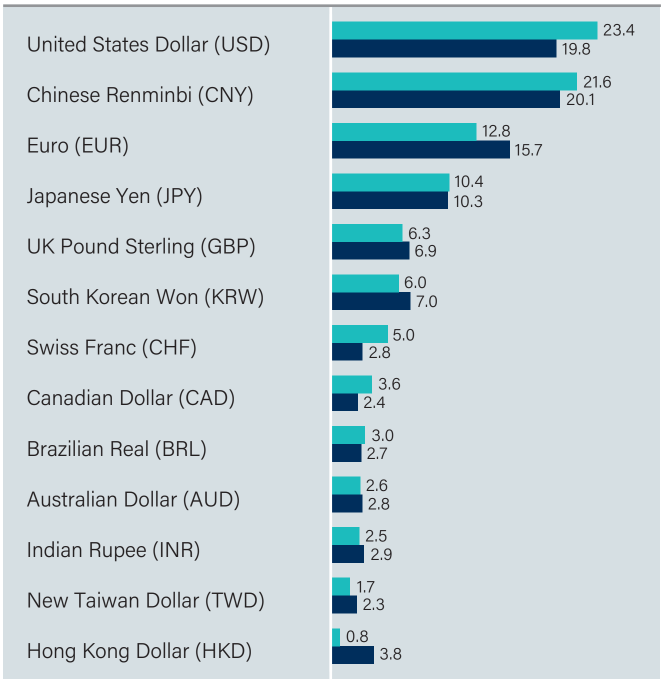
^ The table shows the Fund's net exposures to the relevant sectors through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other". Numerical figures are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings^

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics Co Ltd	South Korea	Info Technology	4.3%
Microchip Technology Inc	US	Info Technology	3.9%
UPM-Kymmene OYJ	Finland	Materials	3.6%
Itochu Corp	Japan	Industrials	3.3%
Tencent Holdings Ltd	China	Comm Services	3.2%
ZTO Express Cayman Inc	China	Industrials	3.2%
Minebea Co Ltd	Japan	Industrials	3.1%
Suzano SA	Brazil	Materials	3.0%
Trip.com Group Ltd	China	Cons Discretionary	2.8%
UBS Group AG	Switzerland	Financials	2.8%

^ As at 30 September 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 Currency Exposures^



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^ 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.

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