



Platinum Capital<sup>®</sup> Limited

ABN 51 063 975 431

Quarterly Investment  
Manager's Report

31 March 2023



Platinum<sup>®</sup>  
CAPITAL LIMITED

# Investment Update

by Andrew Clifford, Clay Smolinski and Nik Dvornak, Portfolio Managers

## Performance

(compound p.a.\* to 31 March 2023)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Capital Limited	5.6%	13.6%	9.9%	5.0%	11.3%
MSCI AC World Index <sup>^</sup>	8.7%	3.8%	11.9%	9.9%	7.4%

PMC's returns are calculated using PMC's pre-tax net tangible asset (NTA) backing per share as released to the ASX monthly. PMC's returns are calculated after the deduction of fees and expenses, have been adjusted for taxes paid and any capital flows, and assume the reinvestment of dividends. **PMC's returns are not calculated using PMC's share price.**

Portfolio inception date: 29 June 1994.

\* Excluding quarterly returns.

<sup>^</sup> Index returns are those of the MSCI All Country World Net Index in AUD. Historical performance is not a reliable indicator of future performance. Source: Platinum Investment Management Limited for PMC's returns; FactSet Research Systems for MSCI Index returns. See note 1, page 11.

## Net Tangible Assets

The following net tangible asset backing per share (NTA) figures of Platinum Capital Limited (PMC) are, respectively, before and after provision for tax on both realised and unrealised income and capital gains.

	PRE-TAX NTA	POST-TAX NTA
31 December 2022	\$1.5171	\$1.5049
31 January 2023	\$1.5611	\$1.5370
28 February 2023*	\$1.5492	\$1.5208
31 March 2023	\$1.5673	\$1.5335

\* Ex-dividend. Adjusted for the 31 December 2022 interim dividend of 3 cents per share, declared on 16 February 2023 and paid on 17 March 2023.

Source: Platinum Investment Management Limited.

## In Brief:

- Market returns were similar across regions, however, there were significant divergences by sector, as investors responded to the failures of Silicon Valley Bank and Credit Suisse by seeking out perceived safe havens in growth stocks and selling economically sensitive sectors.
- Key contributors to PMC's performance over the quarter included travel-related stocks (Wizz Air, Booking Holdings), semiconductors (Microchip, Infineon Technologies, Micron) and MinbeaMitsumi.
- PMC's net invested position increased from 63% to 70% over the quarter, reflecting a reduction in both cash and short positions.
- On the long side, we added to our existing holdings in financials (Allfunds, St. James's Place). We also added a new position in TransUnion.
- In our search for opportunities, we continue to focus on companies that will benefit from the decarbonisation of the global economy, the diversification of supply chains and reshoring of production, higher interest rates, and a resurgent China.

### PMC returned 13.6% for the year, a 9.8%

**outperformance of the market**, which returned 3.8%.<sup>1</sup> The long portfolio performed well, returning 6.8% (for an overall contribution to performance of 5.0%), which was supplemented by a strong 8.3% contribution from our short positions.<sup>2</sup>

The year was characterised by the deflating of the speculative bubble in growth stocks and illustrates the benefit of Platinum's investment approach of seeking out opportunities in areas that are 'out of favour' with investors and avoiding the 'much-loved' investment ideas of the day. We believe the past year represents a strong start to the portfolio's performance in the current bear market in global equities.

<sup>1</sup> References to returns and performance contributions (excluding individual stock returns) in this Platinum Capital Limited report are in AUD terms. Individual stock and sector returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

<sup>2</sup> Contribution numbers are based on the total return of individual positions and are gross as they do not take into account PMC's fees and costs (other than brokerage).

**PMC returned 5.6% for the quarter, compared with the market's return of 8.7%.**

Market returns in local currency terms were similar across regions, with Europe up 8.5%, North America up 7.4% and Japan up 7.1%, with Asia ex-Japan being the exception, up only 4.5%.<sup>1</sup> However, there were significant divergences by sector, as investors responded to the failures of Silicon Valley Bank and Credit Suisse by seeking out perceived safe havens in growth stocks and selling economically sensitive sectors. Information Technology was up 20.3% while Energy fell 3.5%. Those sectors in the eye of the storm also performed poorly, with Financials down 1.8% and Real Estate up 0.5%.

Within our portfolio, key contributors to performance included travel-related investments **Wizz Air** (+56% over the quarter) and **Booking Holdings** (+32%), as the travel sector continued its post-COVID boom. Semiconductor stocks **Microchip Technology** (+19%), **Infineon Technologies** (+33%) and **Micron Technology** (+21%) were also strong contributors, benefiting from commentary from various management teams that the current downturn in the cycle may be coming to an end and conditions could progressively improve throughout the rest of the year. Precision components manufacturer **MinebeaMitsumi** (+27%) was another strong performer, gaining on indications demand may have bottomed in several of its businesses.

Key detractors included global insurance player **Beazley** (-12%), weakening after releasing disappointing results, **Allfunds** (-7%), weakening on general concerns in the financials sector, and commodities (**Glencore** -14%, **UPM-Kymmene** -11%, **Schlumberger** -8%), falling on growth concerns. Short positions in aggregate reduced performance for the quarter by 1.8%.

## Changes to the Portfolio

The portfolio's net invested position increased from 63% to 70% over the quarter.

Falling share prices in the financial sector provided an opportunity to add to existing holdings in **Allfunds** (European investment fund platform), **St. James's Place** (UK wealth manager) and **Intercontinental Exchange** (financial exchanges and data services). We initiated a new position in **TransUnion**, a US provider of consumer credit ratings and other data services. TransUnion had been sold off on concerns that the collapse in US mortgage applications, as a result of higher interest rates, would impact their earnings in the short term, providing an opportunity to acquire shares in this high-quality growth company at an attractive price.

## Disposition of Assets

REGION	31 MAR 2023	31 DEC 2022
Asia	27%	26%
Europe	26%	26%
North America	19%	15%
Japan	8%	8%
Australia	2%	2%
Other	2%	2%
Cash	17%	21%
Shorts	-13%	-16%

See note 2, page 11. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

## Net Sector Exposures

SECTOR	31 MAR 2023	31 DEC 2022
Industrials	18%	16%
Financials	16%	14%
Information Technology	9%	4%
Materials	8%	9%
Energy	8%	6%
Consumer Discretionary	5%	8%
Health Care	4%	4%
Communication Services	3%	3%
Real Estate	2%	3%
Consumer Staples	0%	0%
Other	-2%	-4%
TOTAL NET EXPOSURE	70%	63%

See note 3, page 11. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

## Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
ZTO Express Cayman Inc	China	Industrials	3.9%
MinebeaMitsumi Co Ltd	Japan	Industrials	3.3%
Microchip Technology Inc	US	Info Technology	3.2%
Ping An Insurance Group	China	Financials	2.7%
UPM-Kymmene OYJ	Finland	Materials	2.6%
Allfunds Group Plc	UK	Financials	2.6%
Samsung Electronics Co Ltd	South Korea	Info Technology	2.2%
Weichai Power Co Ltd	China	Industrials	2.2%
LG Chem Ltd	South Korea	Materials	2.2%
St. James's Place PLC	UK	Financials	2.1%

As at 31 March 2023. See note 4, page 11. Source: Platinum Investment Management Limited.

For further details of PMC's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit [www.platinumcapital.com.au](http://www.platinumcapital.com.au).

<sup>1</sup> MSCI AC Europe, MSCI North America, MSCI Japan and MSCI Asia ex-Japan, respectively, in local currency. Source: MSCI.

Early in the quarter, we trimmed positions in our European banks **Erste, Raiffeisen Bank International** and **Intesa Sanpaolo** after strong share price gains in recent months. Similarly, we substantially reduced our position in online travel agent **Booking Holdings**. We also exited our position in **BMW** due to a combination of strong stock price performance and rising concerns over the increasingly competitive nature of the electric vehicle market in China. The net result was that the portfolio's cash position fell from 21% to 17% over the quarter.

The focus of the short portfolio continues to be on companies that have weak earnings outlooks as interest rates start to impact the growth outlook. We continued to reduce our short positions on the growth stocks that have already fallen heavily over the last year. In aggregate, short positions were reduced from 16% to 13% over the quarter.

## Commentary

In recent quarters, we have stressed how the investment environment has fundamentally changed from that of the prior decade. The period from the global financial crisis (GFC) until early 2022 was marked by easy monetary policy and low interest rates, initially with quantitative easing and then the extraordinary fiscal and monetary policy response to the COVID pandemic. The cumulative effects of these policies have been the primary cause behind the sharp increase in inflation experienced across much of the global economy. The current interest rate tightening cycle that began in March 2022 has been dramatic, most notably in the US, where official interest rates have risen from virtually zero to close to 5% in the space of a year.<sup>2</sup> This is the most rapid increase in rates versus prior tightening cycles in the last 40 years (see the Macro Overview for further details). The monetary environment has changed from being a tailwind for economic growth and markets to a very strong headwind.

The failures of Silicon Valley Bank and Credit Suisse are a symptom of this environment. It should be remembered that these events come on the back of other recent financial accidents, such as the forced liquidation of assets by UK pension funds last October as a result of losses in leveraged bond portfolios and the collapse of cryptocurrency exchanges such as FTX. For the moment, banking regulators, by guaranteeing deposits, have calmed the situation both in the US and Switzerland. While there are lingering doubts about whether we will see further bank runs in the US, it is quite possible that the worst may be over. However, this does not mean there are no further ramifications for investors as a result of these events.

At the centre of the failure of Silicon Valley Bank and the broader troubles that have been faced by second-tier banks in the US in recent weeks are losses on bond and mortgage portfolios that resulted from the rise in interest rates. While these losses impacted bank capital, they did not cause Silicon Valley Bank to become insolvent. Rather, it was the loss of confidence of depositors, due to the weakened balance sheet, that resulted in a run on the bank and its ultimate demise. As such, the guarantee on deposits is an effective short-term solution. This doesn't solve the problem for the remaining banks that have accumulated losses in their bond and mortgage portfolios, reducing their capital base and thus their ability and willingness to make new loans at a time when banks were already becoming increasingly cautious.

It's important to note that these second-tier banks in the US are important lenders to small and medium-sized businesses, accounting for 28% of bank lending to this sector, and similarly to commercial real estate, providing 67% of bank lending.<sup>3</sup> This reduction in the availability of new loans is likely to exacerbate the impact of higher interest rates at a time when corporate defaults are rising at an alarming pace. The precariousness of the situation is why many are now predicting that the US Federal Reserve (Fed) will stop raising interest rates and start cutting rates before the end of this year. Given that there are also signs that inflation has peaked, this is not an unreasonable conclusion to draw. The one dilemma the Fed faces at this time, though, is that the US economy remains quite robust. While we noted last quarter that employee layoff announcements had picked up sharply, employment markets remain tight, with people readily finding new jobs, and annual wage growth, while softening, remains historically strong, growing by 7.3% for the twelve months to February 2023.<sup>4</sup> There remains the risk that a significant cut in interest rates too early could reignite inflationary forces.

There have been concerns about possible contagion from the US to other banking systems, with the failure of Credit Suisse emphasising these concerns. While higher rates may yet impact other banking systems, the transmission mechanism will be different. In the US, residential mortgages are primarily done on a fixed-rate basis for 30 years, which means when rates go up, the lender loses out. In banking systems in other countries, where variable-rate (or short-term fixed-rate) mortgages are standard, it is the borrower that suffers when rates rise. Ultimately, that may result in banks incurring higher credit costs if increasing numbers of households are unable to service their mortgages. For the moment, there is little evidence of this in markets such as Europe or Australia, but of course, one

<sup>2</sup> Federal Funds Effective Rate. Source: Federal Reserve Bank of St. Louis.

<sup>3</sup> Source: BofA.

<sup>4</sup> Source: <https://tradingeconomics.com/united-states/wage-growth>

cannot discount that it may yet happen in time. As for Credit Suisse, it was simply an accident-prone institution that was vulnerable to a bank run in a time of significant uncertainty. It is worth mentioning that none of the Platinum funds hold any US banks or Credit Suisse.

Europe's economy has been remarkably resilient in the face of numerous negative factors. Interest rates have risen sharply in response to inflation, as we have seen elsewhere. The war in Ukraine has severely impacted consumer and business confidence, not to mention the disruption to energy and other commodity markets. Yet the European economy still grew in real terms over the course of 2022 by 3.5%, and likewise, employment grew by 1.2%.<sup>5</sup> This has occurred in a period where rapidly escalating energy prices in the first half of 2022 resulted in an outright loss of competitiveness for European industries, with energy-intensive sectors such as petrochemicals and fertilisers experiencing significant capacity closures. Offsetting this set of unfortunate circumstances was that energy prices only remained elevated for a relatively short period, with key markets returning to levels before the Ukraine war, partly as a result of the good fortune of a warmer-than-normal winter and a sluggish Chinese economy reducing overall energy demand. While the outcomes in Europe have been surprisingly good, there remains a degree of uncertainty. Firstly, history would suggest there is a significant lag between interest rate increases and their impact on activity, in which case we are yet to see the full impact of last year's interest rate rises. Further, it is far from clear that Europe has fully resolved its energy supply issues, particularly as there is a significant degree of good fortune in escaping the worst-case scenarios in the second half of last year.

In China, the country has moved beyond the damaging economic effects of last year's COVID lockdowns in a similar fashion to the rest of the world, with indicators of mobility suggesting life is returning to normal. Most importantly, there has been a pickup in sales of residential apartments in the major cities, suggesting that the government's move to ensure adequate funding for property developers to complete projects has resulted in a lift in confidence in the sector. We would expect the economy to continue to build momentum as the year unfolds. With respect to tensions between the US and China, it is worth noting the announcement from Ford that for its new electric vehicle plant, it will be using battery technology provided by the Chinese company Contemporary Amperex Technology Co. Limited (CATL), while there are reports that Tesla will also sign a deal with the company. The Ford deal has been signed even though it could potentially exclude the company from US subsidies. CATL is the global leader in providing electric vehicle batteries, having mastered making batteries

using a lower-cost lithium iron phosphate (LFP) chemistry. This is mentioned simply to note that while the war of words continues between the US and China, the reality is that the economies of the West and China are highly interdependent.

## Outlook

Since the collapse in the stock price of Silicon Valley Bank on 9 March, it is interesting that the US market (S&P 500) has rallied 5% in local currency terms while other major stock markets have generally weakened.<sup>6</sup> The strong short-term performance in the US is generally attributed to the increased likelihood of earlier-than-expected interest rate cuts. While cuts are probably closer than we had thought, this is probably not a good explanation for the market's reaction. After the last two speculative stock market bubbles that ended in 2001 (the tech wreck) and 2008 (the GFC), the first interest rate cuts presaged a collapse in US corporate earnings and the stock market. As already noted, given that over the last 12 months we have experienced the sharpest rise in rates in the US in over four decades, along with quantitative tightening, followed now by a banking crisis that will further tighten the availability of credit, to suggest that the market is celebrating future rate cuts that will usher in the beginning of a new economic cycle does not seem credible.

The answer is partly found by looking at sector performance within the US market. The market has been led higher by a select group of technology stocks (many of the old favourites of the bull market, such as the FANGs, Microsoft and Nvidia) and consumer staples (up 4.7% since 9 March), while interest-rate sensitive stocks that tend to benefit from falling interest rates, such as financials (down 3.6%) were sold off. This is a stock market that is factoring in a much more uncertain future. This is consistent with the softer performance of markets outside of the US, as they are typically more sensitive to economic growth.

As events unfold, the idea that US corporate earnings will remain resilient looks increasingly unrealistic, and the probability of further significant falls in US stock indices is high. However, investors are not generally well served by focusing on such predictions. The best approach at such times is to not get caught up in the short term and instead focus on likely outcomes in different sectors and economies over the next five years and beyond, and be ready to take advantage of opportunities presented by the markets. Companies that will benefit from the decarbonisation of the global economy, the diversification of supply chains and reshoring of production, higher interest rates, and a resurgent China are some of the themes that we will continue to focus on in our search for opportunities.

<sup>5</sup> Source: FactSet Research Systems.

<sup>6</sup> Source: FactSet Research Systems.



# Macro Overview: The 'Out of Favour' and Areas of Significant Change Offer Opportunity

by Andrew Clifford, Co-Chief Investment Officer

CEO and Co-CIO Andrew Clifford sat down with Head of Investment Specialists Dean McLelland in late March to share his thoughts on the stability of the global banking system, interest rates, the state of play in Europe and China's reopening - and what they all mean for the markets in 2023 and Platinum's portfolios. An edited transcript of the conversation is below.\*

**DM: Banks were the biggest news during the quarter and while many people have heard of Credit Suisse, Silicon Valley Bank in the US was probably not a household name until quite recently. How are you thinking about the stability of the financial system and the likely economic impacts?**

**AC:** I'd like to start by revisiting what we've been saying about the investment environment that we're in. Interest rates have been going up for a year now, and the US Federal Reserve (Fed) has been unwinding its quantitative easing, so this is a completely different investment environment from the one that we've been in for the last decade.

When you have tight monetary policy, this is when financial accidents occur, and Silicon Valley Bank (SVB) and Credit Suisse are not the first of those. We have to remember that last year there was a big scare around UK pension funds, which was thankfully averted, and there was also the collapse of the crypto exchanges. Ultimately, when money is tight, whether that's through higher interest rates or less availability of credit, that's when things become exposed. That's what occurred with SVB, and it reflects the way the US banking system operates.

I think the important thing to take away from this is that people are worried about whether there are going to be further bank collapses and how this will flow through to the economy. While SVB's depositors have been rescued, we can't confidently say that the problems in the US banking sector have been resolved. However, the US is experienced in handling bank failures, they have lots of small bank collapses all the time, and the formula they've rolled out for SVB is a standard approach.

However, even if we do move beyond this, it has made the tight money situation even worse. Regional banks in the US have made lots of investments in 30-year fixed interest securities at 1.5% or 2%, and now their cost of money, which they pay on much shorter time frames, has risen substantially and is much higher than that, so they're losing money on an ongoing basis. When banks are in this situation, whether they survive it or not, and I think they will largely survive it, they will be even more restrictive in their lending. We're already seeing that in the loan surveys from the regional banks in the US. Regional banks are a really important part of business lending; they represent more than half of commercial real estate loans, and they play a large part in small business lending. The outcome of the collapse of SVB reinforces the very difficult environment the economy and markets are in.

\* 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 March 2023.

**DM: Do you think central banks will reverse course and start cutting rates from here?**

**AC:** This current banking crisis is predominantly a US phenomenon, and the Fed is in a really difficult position. While there are plenty of signs that inflation is peaking and that the economy is on the cusp of slowing down, it hasn't actually happened yet. The labour market is still strong, wages continue to grow quickly and used car prices, which was a crazy market through COVID where used cars became incredibly expensive, then the prices rolled over, are now rising again. I think that the difficulty here is if the Fed cuts rates in response to the banking crisis but inflation doesn't settle down, all sorts of unexpected consequences can play out, like yields on 30-year or 10-year bonds rising rather than falling. Ultimately, when we are thinking about the investment environment, even if rates do peak at current levels and central banks start to cut, that difficulty in obtaining credit is going to be with us for some time. It takes 12-18 months for rate increases to flow through to the economy, and it's only been a year since the first interest rate increase. We still have all the rate increases over the course of 2022 and the first quarter of this year to really take effect. Yes, central banks may reverse course but I'm not sure that will bring the economy or investors any immediate joy.

**DM: Moving to Europe, Credit Suisse aside, perhaps the financial system appears more resilient than what we see in the US and perhaps here in Australia as well, but there is still a war going on, and the energy crisis, while it wasn't as bad as many feared, certainly hasn't been resolved. How are you thinking about Europe?**

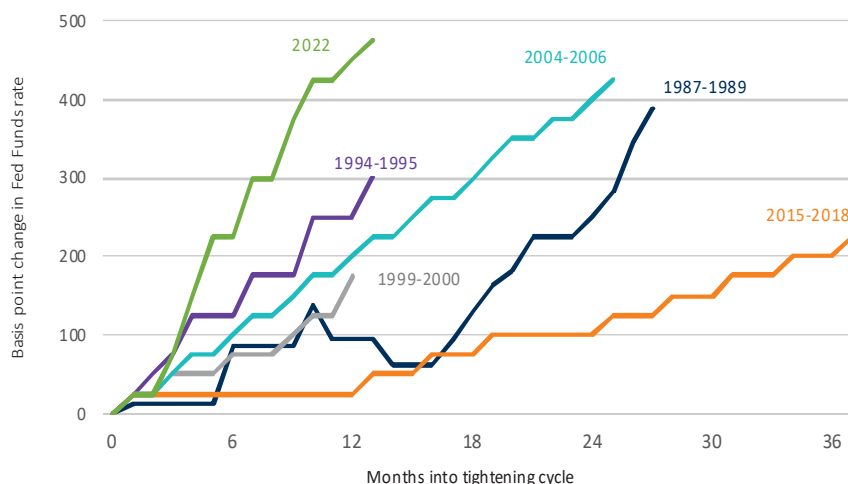
**AC:** The banking systems in Europe and elsewhere are different to the US, with the latter dominated by fixed 30-year mortgages. By and large, most other countries are dominated by variable-rate mortgages, even if they're fixed for two or three years. This means the banking systems elsewhere, and certainly in Europe, don't take on that interest rate risk. The transmission mechanism will therefore be different because it will be the homeowners with a mortgage and businesses that have borrowed money who will be hurt rather than in the US, where it's the banks that will pay the price for taking that risk. The potentially worrying thing is if there is a significant downturn, where the banks will be hurt elsewhere in the world as borrowers start to struggle to pay off their loans. I think the remarkable thing about Europe is that we've had a war there for over a year now and a huge increase in energy prices at the start of 2022, but yet that economy has remained incredibly robust. There has been no major pickup in unemployment, and economic growth is still positive, even though some industries that rely on gas have had to close down. There was a bit of luck involved, with large parts of the northern

hemisphere experiencing a warmer-than-normal winter and China's economy being very slow, which allowed Europe to source alternative gas much more easily than expected. Europeans have responded to the higher energy prices by cutting consumption. At the moment, gas storage is filling up very quickly, so we're partway through resolving that, but we are also in the hands of the weather. In summary, despite what they experienced with soaring energy prices early in 2022, the economy still managed to perform remarkably well.

**DM: With the Chinese economy reopening and the market recovering remarkably at the end of last year, China has been largely out of the spotlight in the first quarter of this year. How are you seeing the Chinese economy and market at the moment?**

**AC:** There were a lot of negatives that lined up against China in recent years. First of all, there were a number of economic reforms that caused significant uncertainty in the business community. Some people will talk about the crackdown on the technology sector, but it was really a regulatory reform of that sector. We also saw policy mistakes in trying to control property prices that led to the property market crashing. There were the COVID lockdowns, and of course, the US was also imposing sanctions and tariffs on the country. So, it's been a very difficult environment, and from there, we only have one way to go. The easiest one to tackle was the end of the lockdowns, and data on people's mobility shows a return to normal levels. Overseas travel hasn't returned to pre-COVID levels, as there are apparently shortages in approving visas, but all of the reopening activities that we've seen elsewhere are starting to happen in China.

Financing has been provided to the property sector to ensure developments get completed, and we have seen a strong rebound in property sales in the larger cities - not back to the levels they were, but a very substantial bounce from the bottom, and there has even been a slight uptick in property prices. That all bodes well for the economy. Some shorter-term observations are that consumer spending is not yet experiencing the same bounce back in ferocity that we saw in other places after they reopened from COVID lockdowns, so it would seem there's still some degree of caution amongst consumers at the moment, but I think that is simply a question of time. Lastly, the government has signalled very clearly that their work on regulatory reform around e-commerce is now complete, so we expect confidence to start to build. After a period of absence, Jack Ma recently returned to China, and symbolically, I think that's a very positive development for the business community. There was also the announcement about Alibaba splitting up its business into six different units.

**Fig. 1: US Interest Rate Tightening Cycles**

Source: Evercore ISI Research.

**DM: So, there has been a lot of improvement in economic fundamentals, but it still feels like the sentiment towards investing in China has not rebounded in the same way, would that be fair?**

**AC:** I think that's right. It's very clear that people are still cautious about China. You can't go from many commentators calling this market uninvestable to a bull market, so undoubtedly, there's a lot of caution, and I think the pattern of coming out of any bear market is that it takes time before the concerns that drove share prices lower are peeled away. I would expect that as we go through the year and we see companies reporting better sales and profits, people will gradually come back to the market, and ultimately, what will bring people back is if China has a good year this year. I have no doubt that those who were calling it uninvestable will, by and large, return and invest in that market.

**DM: There are a lot of different economic and geopolitical concerns still at play, can you bring them together in terms of your outlook for major markets?**

**AC:** What's been interesting in the last couple of quarters is the relatively poor performance of the US market; meanwhile, many European markets are not far from their all-time highs, and China has had a very good bounce off the bottom. The question that is debated on the front pages in the US is whether the bear market has finished. While we've had a good bounce from the lows of 2022, I believe it's likely there is more downside to come. This has been the biggest increase in interest rates we have experienced in the last 40-odd years, and it's the fastest increase in interest rates we've seen by a very long way (see Fig. 1). The reason I would be worried about the general level of the US market is that interest rates have a very clear relationship with

corporate earnings, and when we have rate increases like these, corporate earnings will be very weak, and invariably, that leads to a weak US stock market. Whereas I think China is in a completely different cycle, and Europe, again, is in its own cycle. Having said that, I think that for investors to overly focus on the headline levels of markets really misses the point. There are huge divergences within countries and sectors, and there are companies or industries that have already been sold down heavily, and that's where opportunities lie. While I do think there's more to go in this bear market, I continue to see 2023 as a year of opportunity for investors.

**DM: Where are you seeing these opportunities?**

**AC:** We focus our search for opportunities in two key areas. One area is in those companies, industries and countries that are out of favour, where investors' cognitive biases tend to lead them to be too focused on recent events. The other set of opportunities is where there's a lot of change going on, whether it's regulatory, technological or in the competitive environment. There are some really big changes going on in the world today, most notably that the global economy needs to undergo a massive investment cycle to decarbonise, and that is presenting a huge array of opportunities. The opportunity set here is much broader than many people think. Electric cars, wind turbines, solar panels and wind farms are often what most people think of, but really, there's a huge number of companies that will benefit, for example, companies that make semiconductors for electric vehicles or solar panels. There will be opportunities in commodities in a range of areas, and again, people think of lithium and copper, but something like pulp, traditionally just used to make paper, is going to be needed to replace plastics, and there are some really interesting



activities that come out of making pulp that present opportunities from decarbonisation.<sup>1</sup>

Since COVID, there have been concerns about the reliance on China and the desire for companies to reshore their production or diversify their production bases. That gives rise to opportunities in a lot of different ways, such as relocating those factories to developed markets, which will need high levels of automation on account of the higher labour costs, so companies that provide that sort of equipment stand to benefit. In the developing markets, countries like Thailand and Vietnam are already benefiting from the huge move of production to their shores, creating investment opportunities.

There is also China, which we've already discussed at length; it is still deeply unloved but also fits into this idea of change. China is a leader in so many areas around leading-edge technology. The whole decarbonisation effort will heavily rely on China.

<sup>1</sup> Portfolio manager Jodie Bannan discusses how wood pulp is being used to produce sustainable packaging alternatives to plastic and also lower CO2-emitting biofuels and bioplastics in this short video: <https://www.platinum.com.au/Insights-Tools/The-Journal/Video-Investing-for-Net-Zero>

Finally, the shift in interest rates will have long-term impacts on particular types of businesses or companies that go beyond just the first-order effect. Banks that have strong deposit franchises, for example, should do much better in a higher interest rate environment because previously they were gaining no benefit from their deposit franchises, while insurance companies will get better returns on the investment of their floats (the money they hold onto from the time customers pay their insurance premium until they make an insurance claim). Alternatively, in areas where there is significant competition from start-ups, a lot of venture capital money will be withdrawn, and these start-ups are going to have to become profitable. In the banking sector, lots of neobanks (online banks with no physical branch networks) are falling by the wayside, and e-commerce businesses now need to break even. They're not going to get more money for many ventures. Many will fail, and those who are left standing will potentially have won the land grab and developed very valuable businesses.

In summary, while it's easy to get caught up in the doom and gloom printed in the headlines, there are a lot of opportunities for investors in this market, and that is what we are focusing on.

**MSCI Regional Index  
Net Returns to 31.3.2023 (USD)**

REGION	QUARTER	1 YEAR
All Country World	7.3%	-7.4%
Developed Markets	7.7%	-7.0%
Emerging Markets	4.0%	-10.7%
United States	7.6%	-8.9%
Europe	10.4%	1.4%
Germany	14.7%	2.2%
France	14.6%	8.8%
United Kingdom	6.1%	-0.8%
Italy	14.7%	9.1%
Spain	15.7%	11.9%
Japan	6.2%	-5.2%
Asia ex-Japan	4.3%	-8.9%
China	4.7%	-4.7%
Hong Kong	-2.4%	-5.3%
Korea	9.6%	-14.4%
India	-6.4%	-12.2%
Australia	2.8%	-9.2%
Brazil	-3.2%	-18.7%

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 31.3.2023 (USD)**

SECTOR	QUARTER	1 YEAR
Information Technology	20.4%	-7.5%
Communication Services	17.2%	-15.5%
Consumer Discretionary	14.2%	-12.1%
Industrials	6.7%	-1.3%
Materials	5.3%	-9.4%
Consumer Staples	3.4%	0.6%
Real Estate	0.5%	-19.8%
Utilities	-0.7%	-6.4%
Financials	-1.5%	-10.8%
Health Care	-1.7%	-4.1%
Energy	-3.1%	6.5%

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.

# The Journal

Visit [www.platinum.com.au/Our-Products/PMC](https://www.platinum.com.au/Our-Products/PMC) to find a repository of information about Platinum Capital Limited (PMC) including:

- Performance and NTA history
- Dividend history and the Dividend Reinvestment Plan
- ASX releases and financial statements
- Monthly updates on performance, portfolio positioning and top 10 holdings.



You can find a range of thought-provoking articles and videos on our website. For ad hoc commentary on the latest market trends and investment themes, look up **The Journal** under **Insights & Tools**. If you find yourself short on time to read our in-depth reports and articles, have a listen to our **audio podcasts** or watch brief market updates in **video** format.

## Recent highlights include:

- **2023 Investor Presentation: Thinking Differently - What the Market has Overlooked and how 2023 is the Year of Opportunities.**<sup>1</sup> A video of Platinum's recent 2023 investor and adviser presentation is now available for viewing. Co-CIO Andrew Clifford provides an update on Platinum's performance and positioning, and our panel of portfolio managers Nik Dvornak, Cameron Robertson and Jodie Bannan discuss four key opportunities Platinum is investing in.
- **Article - Why Today's Headwinds Have Accelerated a Multi-Generational Shift.**<sup>2</sup> The energy transition is rapidly accelerating. Portfolio managers Jodie Bannan and Liam Farlow outline why the opportunity is too good to ignore and compelling investments they are currently seeing.
- **Video - Impressive Opportunities Abound Across Asia.**<sup>3</sup> The Chinese equity market has bounced strongly in recent months, and while we continue to find plenty of investment opportunities there, we are also discovering other exciting companies to invest in across the region. Portfolio managers Kirit Hira and Cameron Robertson discuss two such companies they visited during recent research trips to Vietnam and South Korea - Mobile World Investment and Coway.
- **Video - A Reality Check for Tech?**<sup>4</sup> After two years of excess and bubble-like valuations, the tech sector suffered a significant setback in 2022. While valuations are looking more attractive, will we finally see a return to investors valuing tech companies based on the strength of their business models and long-term potential earnings power rather than hype? Portfolio managers Alex Barbi and Jimmy Su share their insights and where Platinum is finding opportunities in tech.
- **Article - Off-Price but On-Trend: Discount Retailers Taking Market Share.**<sup>5</sup> The reversal of pandemic spending trends was a common challenge for retailers planning inventory throughout 2022. Off-Price (discount) retailers can benefit from this inventory miscalculation, and they appear to have the advantage in 2023, as investment analyst Joshua Pettman explains.
- **Article - Sportswear: Fashionable On and Off the Field.**<sup>6</sup> The trend towards casualisation, athleisure, health and wellness, and hybrid working has spurred strong growth in the sportswear industry over the last decade. But it's not just a comfortable fashion choice, the sportswear sector also offers some interesting investment opportunities, as investment analyst James Foreman explains.

1 <https://www.platinum.com.au/Insights-Tools/The-Journal/2023-Investor-Presentation>

2 <https://www.platinum.com.au/Insights-Tools/The-Journal/Why-Today-s-Headwinds-Have-Accelerated-a-Multi-Gen>

3 <https://www.platinum.com.au/Insights-Tools/The-Journal/Impressive-Opportunities-Abound-Across-Asia>

4 <https://www.platinum.com.au/Insights-Tools/The-Journal/A-Reality-Check-for-Tech>

5 <https://www.platinum.com.au/Insights-Tools/The-Journal/Off-price-but-On-Trend-Discount-Retailers>

6 <https://www.platinum.com.au/Insights-Tools/The-Journal/Sportswear-Fashionable-On-and-Off-the-Field>

**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). "PMC" refers to Platinum Capital Limited (ABN 51 063 975 431) (ASX code: PMC)

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. PMC's returns are calculated by Platinum using PMC's pre-tax net tangible asset (NTA) backing per share (as released to the ASX monthly). PMC's returns are calculated after the deduction of fees and expenses, have been adjusted for taxes paid and any capital flows, and assume the reinvestment of dividends. **PMC's returns have not been calculated using PMC's share price.**

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, PMC'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 PMC's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.

2. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows PMC'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 PMC'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 long derivative transactions.
3. The table shows PMC'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".
4. The table shows PMC'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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