Platinum International Brands Fund

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Portfolio Manager

Performance

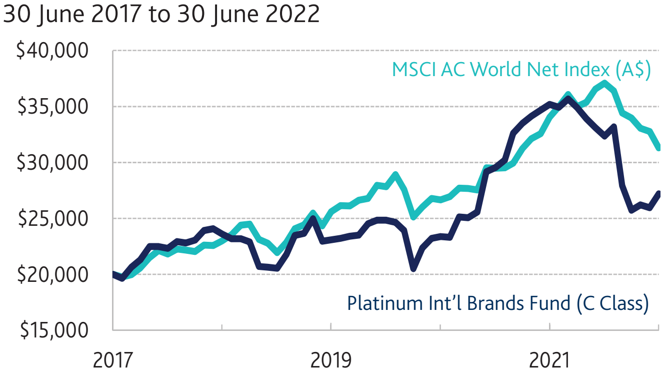
(compound p.a.+, to 30 June 2022)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	6%	-23%	6%	6%	11%
MSCI AC World Index^	-8%	-8%	7%	9%	4%

+ Excludes quarterly returns.
* C Class – standard fee option. Inception date: 18 May 2000.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet Research Systems.
Historical performance is not a reliable indicator of future performance.
See note 1, page 4. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 June 2017 to 30 June 2022



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 4.

Global markets experienced a great deal of turmoil in the quarter as rampant inflation inspired new levels of central bank hawkishness, which withdrew liquidity from markets, compressed valuation multiples, and raised fears of a forthcoming recession and thus deterioration in corporate earnings. In this context, it is pleasing that the Fund (C Class) returned a positive 5.6% for the quarter.[1]

The US bore the brunt of the selling in local currency terms. Especially hard hit were the more speculative growth stocks, as well as major beneficiaries of the pandemic and/or related stimulus. European markets fared somewhat better, but consumer businesses exposed to discretionary spending were sold off aggressively as their customers faced surging energy prices as a result of the ongoing Russian invasion of Ukraine, leaving less money for discretionary purchases. In stark contrast to recent experience, our Chinese holdings boosted returns significantly (+5.1% contribution), as major cities emerged from harsh lockdowns and the government acted to stimulate the economy while delivering more favourable messaging around the policy outlook in relation to digital platforms.

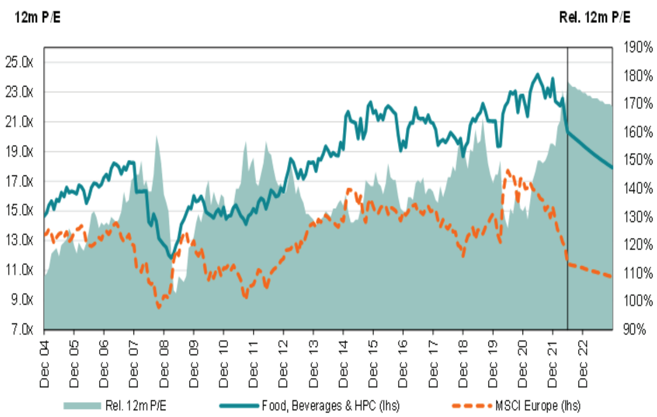
The hangover from consumer stimulus in the US and risks to valuations from inflation and rising rates are factors we have been discussing for some time,[2] particularly in relation to spending on consumer durables that was pulled forward due to pandemic lockdowns. Our short positions against individual stocks exposed to these dynamics, as well as broader indices, contributed 8.6% to the Fund's return for the quarter.

The significant earnings downgrades from stalwart grocery and general merchandise players Walmart and Target in mid-May were trigger points for a large sell-off in the retail sector. Both stocks realised their largest single-day declines since the crash of 1987 after reporting sales growth well below general inflation levels, declining earnings, weak guidance and huge inventory builds. Stock was over-ordered due to supply-chain constraints, and by the time it arrived, demand had evaporated. A large increase in balance sheet

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum International Brands 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 See for example our June and September 2021 quarterly reports.

Fig. 1: European Staples Trading on Record Premiums



Source: Exane.

inventory relative to sales generally implies higher costs in future periods and/or a need for intense promotions to clear the excess stock. In this case, both seemed likely, and this was soon reflected in Target further downgrading its earnings guidance less than three weeks later.

Until its result, investors had viewed Walmart as 'defensive' and it had avoided much of the market decline to that point while retaining a premium valuation. Its announcement triggered similar sell-offs in other high-quality retailers. One such retailer was Costco, which as recently as April, had traded at its highest valuation in at least 30 years, 46x estimates of 2022 earnings. These examples illustrate the dangers of investor crowding into defensive businesses in the hope of avoiding market turmoil. A business may be defensive, but its stock ceases to be when its valuation becomes stretched.

Investors price stocks according to their relative characteristics and perceived prospects, so it is almost inevitable that defensive stocks will join their riskier peers in a downward march in a general market sell-off. What likely determines the aggression with which investors ultimately sell defensives in such a move is the extent to which the valuation premium to riskier stocks has widened. Currently, we can observe that the immediate prospects for defensive consumer stocks do not look healthy, and we have initiated several short positions as a result. To illustrate the point, we can see that European staples now trade at a record premium to the market (see Fig. 1).

As mentioned, China was a source of solid returns during the quarter, with our holdings in digital platforms **Dingdong** (+2% from our average entry price during the quarter), **Prosus** (+29% over the quarter, listed in Europe, but the vast majority of value is from China), **Meituan** (+25%), **Trip.com** (+19%) and **JD.com** (+19% from our average entry price during the quarter) all delivering meaningfully positive results. Restaurant operator **Yum China** (+26% from our average entry price during the quarter), and dairy companies **Yashili** (+11%) and **Inner Mongolia Yili Industrial** (+6%) also contributed.

Similarly, several of our Japanese positions performed well, aided by a weak yen, which boosts the translation of overseas business results, as well as an improved outlook for input cost increases as commodity prices collapsed. Bathroom fixture manufacturer **Lixil** (+11%) and disposable hygiene player **Unicharm** (+4% from purchase) were in this category. Our currency management largely shielded us from the decline in the value of the yen during the quarter.

Detractors from performance were mostly US and European companies, particularly digital platforms and stocks that require growth to justify their valuations. Included in this basket were apparel e-commerce retailers **ASOS** (-46% to final exit) and **Zalando** (-45% to exit), which suffered from the crunch on the wallets of European consumers alluded to above. **Meta Platforms** (formerly Facebook, -27%) and Google parent **Alphabet** (-22%) suffered as investors

Disposition of Assets

REGION	30 JUN 2022	31 MAR 2022	30 JUN 2021
Asia	50%	43%	26%
Japan	17%	17%	8%
North America	16%	10%	25%
Europe	10%	21%	32%
Cash	6%	8%	8%
Shorts	-43%	-15%	-11%

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 JUN 2022	31 MAR 2022	30 JUN 2021
Consumer Discretionary	56%	49%	37%
Consumer Staples	14%	11%	5%
Communication Services	10%	11%	18%
Industrials	4%	3%	3%
Financials	2%	3%	18%
Real Estate	0%	1%	1%
Information Technology	0%	-1%	0%
Materials	0%	0%	-1%
Other	-35%	0%	0%
TOTAL NET EXPOSURE	52%	76%	81%

See note 4, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

withdrew from tech. More generally, gym chains **Planet Fitness** (-19%) and **F45** (-63%) declined with a general sell-off in growth stocks, and our small position in out-of-favour used car digital retailer **Carvana** (-83%) proved nonetheless costly as its results disappointed and it was forced to raise capital.

Changes to the Portfolio

During the quarter, we exited our positions in **ASOS** and **Zalando**. ASOS' operational missteps have now been compounded by end consumer weakness and rising competition. Our initial investment thesis was proven incorrect, and we exited for a sizeable loss. We re-entered Zalando in March following a considerable sell-off after the Russian invasion of Ukraine. We did not appropriately weight the impact on consumer sentiment and discretionary spending capacity that would result from this action, which drove further deterioration in Zalando's (and ASOS') expected operating results. We will continue to follow these stocks and assess developments as they arise.

We added a new position in **Yum China**, which owns and operates the KFC and Pizza Hut chains in China. We have long followed this business, and the negative sentiment in relation to the stock due to the recent lockdowns in major cities provided us with the opportunity to enter at an attractive price. KFC is the dominant quick-service restaurant chain in China, with more than double the store count of the next largest competitor McDonald's, but also a long growth runway remaining. The pandemic has suppressed its earnings, but it should recover much of the lost ground when China normalises.

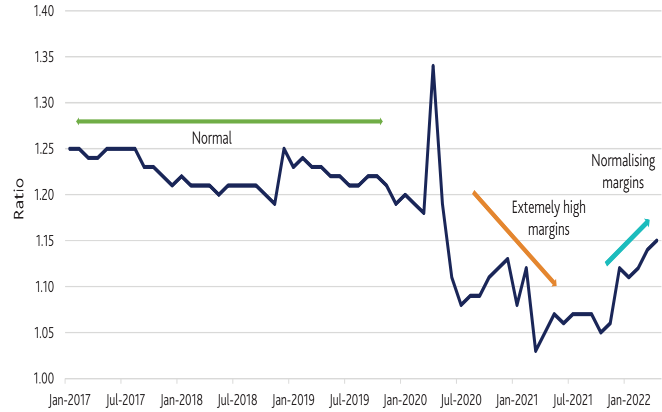
Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Prosus NV	China	Cons Discretionary	5.3%
Trip.com Group Ltd	China	Cons Discretionary	5.1%
Yum China Holdings Inc	China	Cons Discretionary	4.2%
Meituan Dianping	China	Cons Discretionary	4.1%
Lixil Group Corp	Japan	Industrials	3.9%
Meta Platforms Inc	US	Comm Services	3.8%
Fu Shou Yuan Intl	China	Cons Discretionary	3.7%
Nien Made Enterprise Co	Taiwan	Cons Discretionary	3.6%
Alphabet Inc	US	Comm Services	3.5%
JD.com Inc	China	Cons Discretionary	3.4%

As at 30 June 2022. See note 5, page 4.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pibf.

Fig. 2: US Retail Inventories/Sales Ratio:
Retail trade, excluding motor vehicles and parts dealers



Source: Federal Reserve Bank of St. Louis.

Outlook

We continue to maintain a low net market exposure as we remain cautious on the health of consumers globally in light of rampant inflation in non-discretionary categories, negative real wage growth and rising interest rates. While commodity prices are generally now in decline, food and energy costs are likely to remain elevated for some time, and the decline in commodities seems to be signalling declining demand, implying a recession in our future rather than increased supply. At the same time as demand is falling, retailers are taking delivery of stock ordered during more buoyant times, leading to a correction in the inventory to sales ratio (see Fig. 2), and a likely normalisation from a period of extreme profitability.

Where we are more confident on the outlook is in Asia, driven by a reopening from lockdowns alongside a loosening of monetary and regulatory policy in China, as well as continued aggressively loose monetary policy in Japan. A weak yen should assist Japanese stocks as it enhances their export competitiveness as well as benefiting the translation of the earnings of foreign subsidiaries. Japanese stocks are cheap, with generally strong balance sheets and increasing cash payouts, driven partly by the rise of effective shareholder activism.

The massive extent of the sell-off in pockets of the market is giving rise to opportunities to buy companies with exciting growth prospects at very low valuations relative to their potential. While this potential may run into the hard realities that capital is now expensive and execution in achieving profitability has become key, for those that can deliver, the return opportunity is enormous. We will, of course, endeavour to maximise our risk/return equation via building our understanding of business fundamentals and managing our position sizing, but we are potentially arriving at a point in the market cycle where 'growth' is becoming attractively valued.

Notes

Unless otherwise specified, all references to "Platinum" in this report are references to Platinum Investment Management Limited (ABN 25 063 565 006, AFSL 221935).

Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, the Fund's holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The investment returns depicted in the graph are cumulative on A$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows the Fund's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "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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