Platinum Capital® Limited

ABN 51 063 975 431

Quarterly Investment Manager's Report

30 June 2024

Platinum Capital Limited

Investment Update

Platinum Capital Limited (ASX Code: PMC)

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Overview

- Our AI-related holdings did well with **TSMC** and **Broadcom** up around 20%. There are clear signs that AI-related functionality will be the new method of differentiation in the smartphone space and this is a positive for our DRAM[1] holdings.
- After a short period where the sources of market returns appeared to be broadening out, the tech sector returned to dominance. In AUD, the global technology index rose 9% this quarter. Eight of the remaining 10 sectors fell.
- Performance was affected by falls in our French holdings due to election uncertainty. More importantly, efforts to 'fix' Chinese property have yet to fully take hold. We believe that stabilisation of the property market, when it comes, could be highly beneficial for our portfolio. We also think some key holdings 'left-behind' by the market's big tech focus have plenty of room for growth and potential for strong returns.

1 Dynamic Random Access Memory – a type of memory used in PCs and smartphones.

Performance

compound p.a.*, to 30 June 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Capital Limited	-1.9%	3.7%	3.1%	5.6%	10.9%
MSCI AC World Index^	0.5%	19.0%	9.6%	11.9%	7.9%

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.
^ 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 March 2024	$1.5642	$1.5305
30 April 2024	$1.5541	$1.5239
31 May 2024	$1.5662	$1.5330
30 June 2024	$1.5337	$1.5108

Source: Platinum Investment Management Limited.

The Portfolio fell 1.9% over the quarter, while returning 3.7% over the financial year.

In the March quarter we saw hints that markets were starting to broaden out. These were reversed this quarter with technology stocks again blitzing all other sectors. Measured in Australian dollars, the global technology index rose 9%. Eight of the remaining 10 sectors posted declines.

This narrow market leadership can be seen in the MSCI All Countries Equal Weighted Index[2] (-3%), MSCI Value Index (-3%) and MSCI US Equal Weighted Index (-5%). While they all fell over the quarter, the MSCI AC Growth Index rose nearly 4%.

Standout performers during the quarter were some of our holdings in China and companies that benefit from investment in artificial intelligence (AI).

Gains in our Chinese positions such as **Tencent** and **China Overseas Land** (both up over 20%) were driven by a combination of strong results and early signs of support for the property market.

The major property development in April was new Politburo language emphasising the need to clear unsold housing inventory and a social housing plan, where the government buys excess inventory and rents it out as low-cost housing. This triggered a broad rally in April, however the gains were given back as the sums dedicated to this plan (300 billion Renminbi) were not large enough to draw a line under the sector.

Our AI-related companies enjoyed several positive developments over the quarter. **TSMC** announced it would raise the price of leading-edge nodes used to make AI chips, with major customer **Nvidia** taking the unusual step of publicly agreeing that TSMC's prices did not reflect the value they are providing! Elsewhere Apple highlighted the next competitive battleground for smartphones will be integration of AI functionality, unveiling a range of new tools to be offered in the iPhone 16. This boosted our DRAM producers, given new phones would likely need 10-12GB of RAM to handle AI tasks. TSMC (+25), **Broadcom** and **Alphabet** (both up around 20%) all performed strongly.

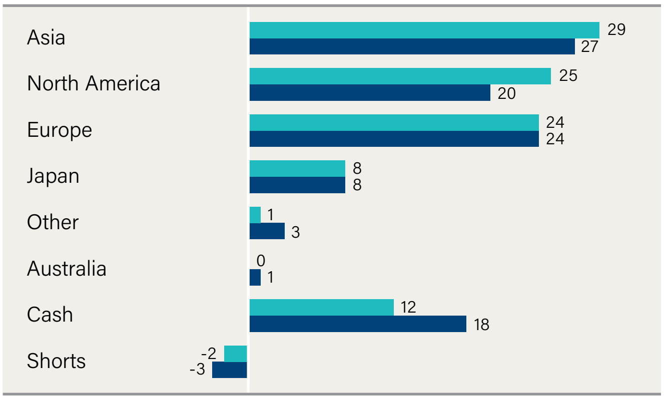
Our French listed positions, **LVMH** (down around 14%) and **Kering** (down around 5%) pulled back on the political instability following the European Parliament elections.

Our largest detractor was fund administration platform **Allfunds**. It was the subject of takeover speculation, with **Euronext**, Swiss exchange **SIX** and others announcing their interest. In late April the board and majority shareholder **Hellman & Friedman** called off sale talks, saying the bids did not adequately value the company. This saw short-term investors leave and the stock fell 21%.

Airbus (down around 20%) disappointed by cutting guidance for operating profits and free cash flow. They face supply chain challenges in engines, interiors and structures. However, we believe Airbus has a bright future in a duopoly industry.

2 Which measures market performance based on equal weightings for each share rather than by the relative size of each holding in the index.

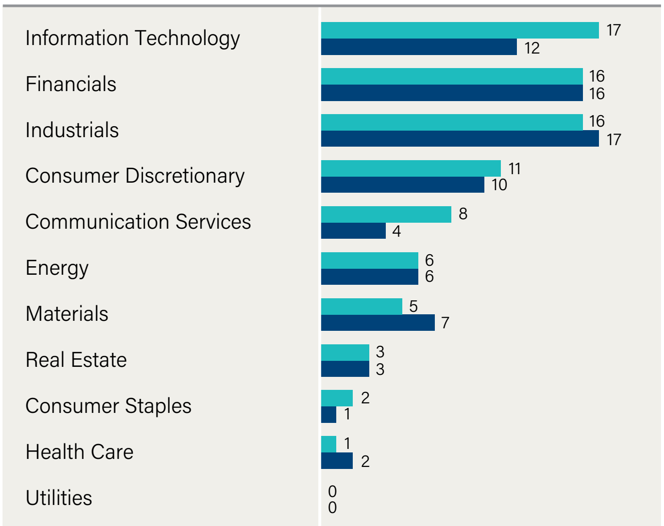
Disposition of Assets %



30 JUN 2024 31 MAR 2024

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

Net Sector Exposures %



30 JUN 2024 31 MAR 2024

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics Co Ltd	South Korea	Info Technology	4.7%
Taiwan Semiconductor	Taiwan	Info Technology	4.5%
ZTO Express Cayman Inc	China	Industrials	3.8%
Alphabet Inc	US	Comm Services	3.6%
UBS Group AG	Switzerland	Financials	3.0%
Tencent Holdings Ltd	China	Comm Services	3.0%
UPM-Kymmene OYJ	Finland	Materials	2.8%
Allfunds Group Plc	UK	Financials	2.7%
Broadcom Inc	US	Info Technology	2.5%
Itochu Corp	Japan	Industrials	2.4%

As at 30 June 2024. See note 4, page 11.
Source: Platinum Investment Management Limited.

Commentary – Time for the cat to spring?

During the quarter we added sportswear brand **PUMA** to our portfolio. The German company, founded in 1948, is the third largest sportswear brand globally, holding a 3% market share behind **Nike** (16% share) and **Adidas** (8%). PUMA can't go toe to toe with the big two on endorsements,[3] so need to pick their opportunities and play on consumers' desire for something different.

One key advantage for PUMA when it comes to competing with other smaller sports brands is its heritage across a number of sports. Its football boots were worn by Pele and Maradona, sprinters Tommie Smith and John Carlos wore PUMAs during their Black Panther salute at the 1968 Olympics and PUMA's low-cut basketball shoe worn by Walt Frazier became a staple of break-dance, hip hop and skate culture in the 1980s.

PUMA pushed too far into fashion in the mid-2000s and lost some performance credibility. This ultimately saw a reset in 2013. Since then PUMA's strategy has been to reinvest in performance sport by sport, with credibility there giving them the right to succeed in the lifestyle/fashion side of the business (which is the larger market for all sports brands). The strategy has been a success, with PUMA rebuilding strength in sports (most noticeably soccer) and increasing its market share every year since 2017. They also smartly rebuilt their 'cred' in the lifestyle market, partnering with musical/cultural influencers such as Rihanna, Jay Z and Dua Lipa.

3 Nike spends roughly $11bn pa on endorsements, Adidas $6.5bn, PUMA $2bn.

Why PUMA, why now?

Like many consumer goods categories, sportswear went through a boom-bust cycle during Covid, with the entire industry suffering from excess inventory, leading to discounting and lower sales while stock cleared. This adjustment has largely run its course, with inventory at PUMA and peers now close to historical norms.

Recently both Adidas and Nike were prioritising their direct-to-consumer sales channels, cutting off some of their smaller wholesale partners, thus giving PUMA and others 'white space' to grow into. With Adidas and Nike now looking to refocus on their wholesale partners, the question is what effect this has on PUMA. Overall, the key to keeping shelf space is having a product that sells and as long as PUMA's product is popular, gains should be held.

PUMA's share price has halved from its 2021 high, with its valuation now attractive both vs its history and peers. PUMA's financial results are now turning up and lead marketing indicators such as Google Trends are showing improvement. Its direct to consumer division is growing nicely and this tends to correlate to higher future sales to wholesale customers. Our research suggests this is an opportune time to take a stake.

In addition to PUMA, we initiated positions in US food manufacturer **Lamb Weston**, radio frequency semiconductor specialist **Skyworks** and Danish freight forwarder **DSV**. We also rotated some of our DRAM holdings, selling out of semiconductor stock **SK hynix** and switching funds into **Samsung Electronics** given the widening valuation difference between the two.

To fund these positions, we exited our holdings in Chinese truck engine manufacturer **Weichai Power**, German power semiconductor expert **Infineon**, and social networking giant **Meta**.

Outlook

In November last year we reduced our short book and upped our net invested position. It was clear higher interest rates were not slowing activity.

Eight months on, there are now signs of slowing economic growth. The US labour market is cooling, with traditional leading indicators – initial unemployment claims and the number of temporary workers employed – both weakening. There is also clear evidence that consumer spending is contracting – especially amongst lower income cohorts. We're not hearing alarm bells yet, but it bears watching.

Two key factors for future performance

We believe that increasing stability in the Chinese property market could be a large potential positive catalyst for *all* our Chinese holdings. The trend here is encouraging – but slow. While the market would prefer a single 'big bang stimulus' to frequent announcements of incremental policy support, it's clear the property market is now a political issue and if the current measures are not enough, more will come.

The other notable feature of the market is the narrow clustering into big tech. Many clients and advisers ask us: Why not own all these businesses? Over the past six months we have revisited all the mega cap technology stocks. We felt **Alphabet** was priced attractively in our favour (and we maintain a large holding), Meta was fine and **Amazon** was interesting if we factor in a large improvement to their core retail business. For the balance of the Magnificent Seven, each time we ran scenarios with generous assumptions we could get to no better than a market return (circa 8% pa) for these stocks. We don't believe these stocks are crazily priced, it's more that when viewed against a global opportunity set, the risk/reward equation is unappealing.

The flipside to an intense focus on a small group of US technology stocks is the *opportunity in companies the market has left behind*. Portfolio holdings such as PUMA, TSMC, **UBS** and **Transunion** had modest valuation multiples on purchase, there were clear reasons why they were mispriced and there was a strong case to expect they would deliver returns well ahead of the market. A portfolio of these types of ideas, diversified across many industries and countries should serve investors well. With the eyes of the investing world aimed at one place, now is a good time to be positioned differently.

Untrapped potential.

Why Asia still has room to grow.

After decades of growth, some worry Asian economies could fall into the 'middle-income' trap. There are good reasons to think it won't happen.

The rise of Asia is one of the seismic socioeconomic trends of the past 40 years. It changed – and extended – the lives of hundreds of millions of people.

It's also created real wealth for investors – the MSCI Asia ex Japan Index is up 8% pa. since launching in 1987.[1] PMC's 'sister' Fund, Platinum Asia Investments Limited (PAI) is up nearly 7% pa. since inception in 2015.

However, some economists and investment analysts worry Asia is in danger of falling into the "middle-income trap."

The theory of the middle income trap posits that after a long-period of above average, export-led growth driven by cheap labour, middle-income countries in Asia get trapped between new, even lower-cost competitors and technologically-advanced economies like the US and Europe.

Why Asia escapes

1. Asia is not a technology laggard

A key element of middle-income trap theory is that mid-income countries can't continue to grow their income in the same way as high-technology economies like the US and Europe. Asia's evolving technology capability should ease that worry.

Taiwan, for example, is home to perhaps the most sophisticated chip-making business in the world. After years of developing unique intellectual property, TSMC, (Taiwan Semiconductor) is now the foundry trusted by Nvidia, Apple and Google to make the super-complex chips required to churn through vast datasets and enable the AI revolution. It is a significant holding in PAI and PMC.

PAI also has a position in South Korea's SK hynix – the 6th largest semiconductor business in the world by sales. Samsung, a holding in PAI and PMC, is both a semiconductor player and one of the world's leading consumer electronics businesses.

When the US tightens, Asia slows.

According to Cameron Robertson, Portfolio Manager for Platinum's Asian Strategies, it's not the middle-income trap that's been limiting Asian sharemarket gains in recent years.

"Typically, when you see a tightening cycle in the US, emerging economies get hit," says Cameron. "When you can get 5% in US treasuries it's an easy option. But US treasuries don't give you diversification and access to the long-term growth we think is available in Asia."

Cameron says the move out of Asian markets and into US assets is partly a throwback to the days when developing Asian economies and their sharemarkets were both riskier due to large fiscal and trade deficits. Today many Asian economies are in a much healthier position with respect to their current account and their budgets are under control.

1 Source: Factset, in AUD, to 30/6/24.

Many of the world's largest e-commerce platforms are Asia based. The Temu platform is targeting $US60 billion in sales this year. It's owned by PDD Holdings, a holding in both PAI and PMC.

JD.com – another leading e-commerce brand from China and another PAI holding, is growing solidly and made a net profit of US$3 billion last year.

Asia is a centre for innovation. The World Intellectual Property Organisation ranks the world's most important 'Science and Technology hubs' – the areas where the highest density of inventors and scientific authors are located. In its 2023 ranking the leading hubs – Tokyo–Yokohama, Shenzhen–Hong Kong–Guangzhou, Seoul, Beijing and Shanghai-Suzhou – were in Asia. China now has highest number of these technology clusters.[1]

Perhaps most importantly, technology firms are expanding throughout Asia. TSMC is building a plant in Singapore. Thailand and Indonesia are building electric vehicles for Chinese, Japanese and Korean car companies.

2. Trade continues to boom

The growth in intra-regional trade is another reason to believe Asian growth can roll on. The Regional Comprehensive Economic Partnership (RCEP) is an Asian free trade agreement that first took effect on 1 January 2022. It's the largest trade bloc in history, linking a market of 2.2 billion people.[2]

3. An expanding middle-class can be healthy

According to the UN Development Program,[3] the rise of Asia lifted 1.5 billion people out of poverty, with China accounting for half that number. It also lifted millions into the middle class. Today, more than 50% of Asians are part of the middle class.

Serving that middle class is a core theme for Platinum. A prime example is Korea's Coway, which specialises in water and air purifiers. "That's a big issue in parts of Asia," says Cameron Robertson. "As people get wealthier they prioritise their family's health and lifestyle." Coway is well established in Korea and now increasing market share in Thailand and Malaysia.

In Indonesia, PAI are investing in a company called MAP Aktif, the dominant sports retailer in a demographically young country with an economy growing 5% a year. Map Aktif has around two thirds of the domestic sports market. Because of regulations around local partners and access to retail space, it's the partner-of-choice for global clothing companies wanting to capture Indonesian consumers.

"They've got very good corporate governance and top notch management information systems, so you know what's happening in the business," says Cameron. "Because they're so dominant, they can get great terms in major malls and that reinforces their bottom line."

One of the classic signs of a booming middle class is rising property prices. In India, Platinum invested in the Initial Public Offering of Macrotech, a Mumbai-based developer of high-end residential homes and apartment complexes. The Indian property market had been stagnant for five years and the IPO was attractively priced.

Macrotech's share price is up 35% pa. over the past five years and it's trading on a PE of 74x.[4] As a result we've started trimming our position in PAI and allocating our capital to better value opportunities – like Indonesian property.

1 www.wipo.int/global_innovation_index/en/2023/

2 Source: *How ASEAN Can Use Its Trade Advantage to Power Ahead*, BCG, May 2023.

3 See: www.undp.org/china/blog/rethinking-growth-asia-and-pacific

4 Source: Factset, local currency, June 30 2024.

Indeed, the Indonesian property market now looks similar to India five years ago. "There are retail and residential developers trading very cheaply," says Cameron Robertson. "That's an opportunity for us because their core customers – Indonesia's middle class – is getting larger and feeling more confident about the future."

The China story

Intriguingly, it is the great engine of Asian growth, China, that today looks closest to fulfilling the middle-income prophecy. Following 30 years of growth at close to 10% a year, its economy has slowed sharply.

China is struggling with the aftermath of a property crash. Long-run economic analysis suggests property slumps cut much deeper than their sharemarket cousins. They affect more people and do more damage to construction activity and consumer demand. And that's definitely visible in China today.

The Platinum view on China hinges on two interconnecting premises:

1. The overall economy should recover when Chinese property recovers and that will happen when the government puts a floor under that market. Despite numerous policy initiatives, that floor is still not in place.
2. However, China is still a massive and growing economy and there are companies in a variety of industries that are profitable, well-managed and growing. Thanks to the property hangover, you can buy them at compelling valuations.

In PMC we have holdings in big Chinese stocks that fit the above criteria – like ZTO (e-commerce delivery), Trip.com (online travel)[5] and CATL (batteries).

We're also finding opportunities in consumer digital businesses. PAI recently bought into Meitu, China's biggest photo editing app. "It has a user base of two hundred and fifty million. Plus an expanding business in photo, presentation and graphics editing for business that's like a Chinese Canva," says Cameron. "There are 10 million small businesses using that app already".

What all these Chinese businesses have in common is a distinct, profitable position in large business segments. We prefer these businesses over more export-oriented names as they could thrive even if geopolitical shifts place punitive tariffs on Chinese exports.[6]

Asia – why now?

Thanks to growing intra-regional trade, a rapidly growing middle class and ongoing investment in technology, Asia is likely to step over the middle-income trap – especially if government moves help China resolve its property issues.

The World Economic Forum says Asia will "remain the motor of the global economy" in 2024 and beyond.

Given share prices have stagnated over the past few years, that means there is still time for investors to capture the upside of Asian growth by investing in high quality but undervalued companies.

5 For an in-depth look at trip.com see our article: Passports to profit?

6 For more on how geopolitics is influencing markets see our video: Geopolitics and investing in 2024

Highlights from The Journal

Visit www.platinum.com.au/lics/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.

Want to know what's happening to equity markets and individual stocks – and get more in-depth insight into Platinum's investment strategies? There's a range of articles and videos in **The Journal** section of our website.

ARTICLE

Why Japan's challenges are good news for investors[1]

With a shrinking population, stagnant workforce, falling currency and geopolitical uncertainties, Japan has its share of challenges. But Japan's response to those challenges is making life better for investors.

VIDEO

Geopolitics and investing in 2024[2]

Co-CIO Andrew Clifford discusses what he believes is the biggest geopolitical issue of our times. Then talks about the complexity of investing decisions in times of change – and why that change creates opportunity as well as risk.

ARTICLE

Not your stock-standard stock exchange[3]

The London Stock Exchange Group is built on a fabled past, the latest trading technology and a killer business model. In this video/article we dive into all these elements and into our investment case for the stock.

VIDEO

Heineken: refreshing the parts[4]

Heineken's newish CEO is cutting costs and lifting productivity at the Dutch giant. But there's plenty of other reasons to invest in the world's second biggest brewer – as Platinum's Andrew Baud explains.

1 www.platinum.com.au/the-journal/japan-has-problems-that's-good-news-for-investors
2 www.platinum.com.au/the-journal/shifting-tectonic-plates-geopolitics-and-investing-in-2024
3 www.platinum.com.au/the-journal/not-your-stock-standard-stock-exchange
4 www.platinum.com.au/the-journal/heineken-refreshing-the-parts

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.
2. 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.
3. 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.
4. 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".
5. 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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