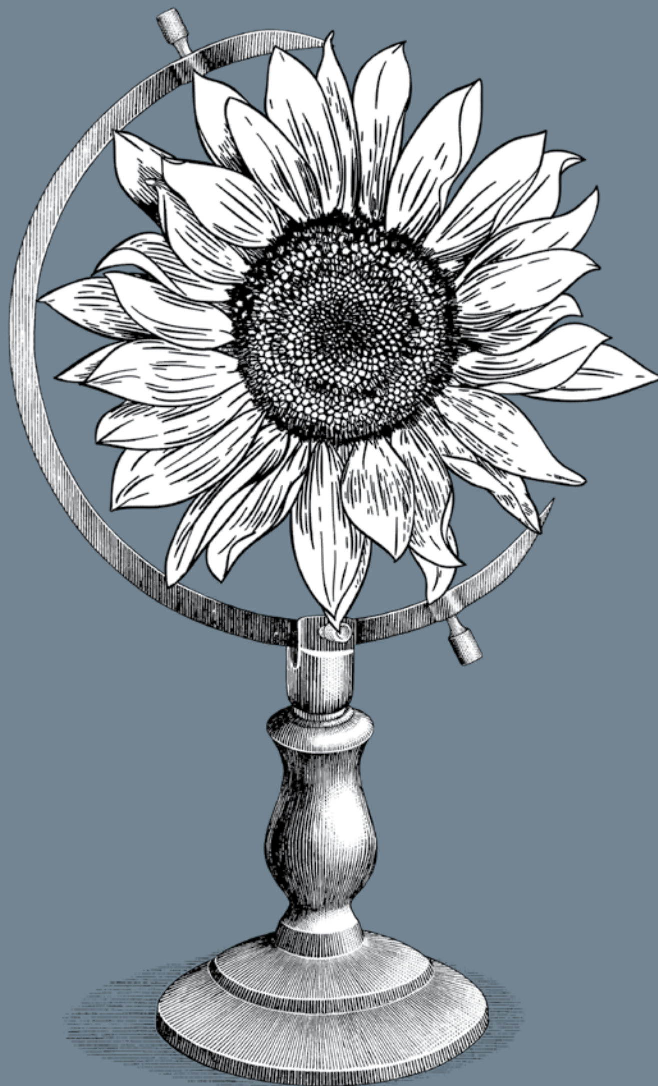
Platinum International Fund
Platinum Global Fund (Long Only)
Platinum Asia Fund
Platinum European Fund
Platinum Japan Fund
Platinum International Brands Fund
Platinum International Health Care Fund
Platinum International Technology Fund

Quarterly Report

30 SEPTEMBER 2021



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The Platinum Trust quarterly report is available on our website from approximately the 15th of the month following quarter end.
Visit www.platinum.com.au/Investing-with-Us/Investment-Updates

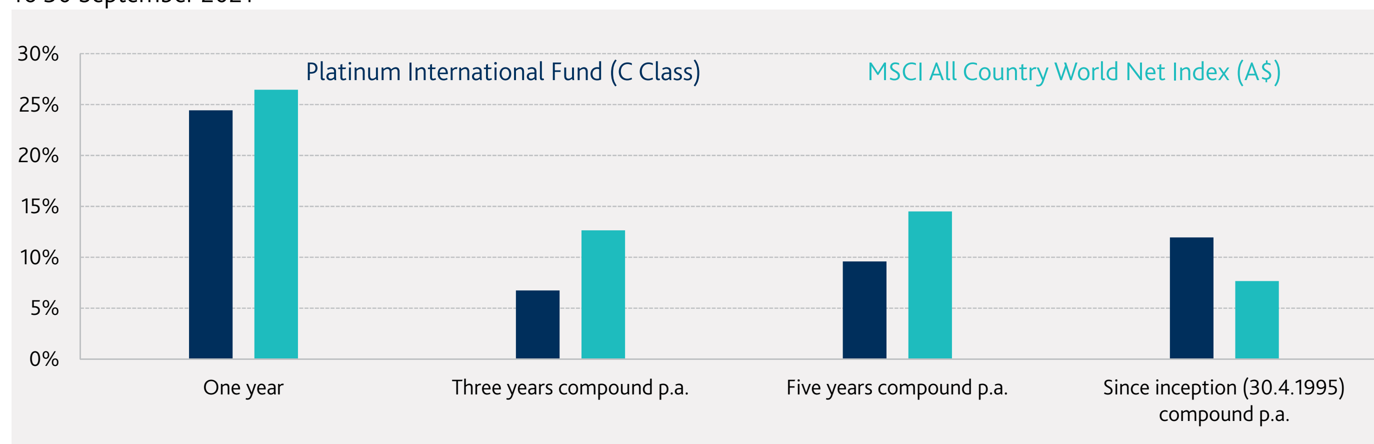
Performance Returns to 30 September 2021

FUND CLASS – STANDARD FEE OPTION) (P CLASS – PERFORMANCE FEE OPTION)	PORTFOLIO VALUE A$ MIL	QUARTER	1 YEAR	2 YEARS COMPOUND P.A.	3 YEARS COMPOUND P.A.	5 YEARS COMPOUND P.A.	SINCE INCEPTION COMPOUND P.A.	INCEPTION DATE
Platinum International Fund (C Class)	**8,161.0**	**-0.7%**	**24.4%**	**7.9%**	**6.7%**	**9.6%**	**11.9%**	**30 Apr 1995**
Platinum International Fund (P Class)	24.1	-0.6%	24.8%	8.1%	7.0%	-	7.7%	3 Jul 2017
MSCI All Country World Net Index (A$)		2.8%	26.4%	14.6%	12.6%	14.5%	7.7%	30 Apr 1995
Platinum Global Fund (Long Only) (C Class)	**222.3**	**-0.3%**	**32.9%**	**10.5%**	**7.0%**	**12.1%**	**10.9%**	**28 Jan 2005**
Platinum Global Fund (Long Only) (P Class)	2.1	-0.2%	33.2%	10.8%	7.3%	-	9.3%	3 Jul 2017
MSCI All Country World Net Index (A$)		2.8%	26.4%	14.6%	12.6%	14.5%	8.4%	28 Jan 2005
Platinum Asia Fund (C Class)	**4,144.1**	**-5.0%**	**9.2%**	**16.9%**	**12.4%**	**12.6%**	**14.3%**	**4 Mar 2003**
Platinum Asia Fund (P Class)	13.0	-5.0%	9.5%	16.6%	12.2%	-	11.4%	3 Jul 2017
MSCI All Country Asia ex Japan Net Index (A$)		-5.8%	13.5%	12.2%	9.3%	11.4%	10.2%	4 Mar 2003
Platinum European Fund (C Class)	**579.3**	**4.9%**	**34.6%**	**6.8%**	**4.9%**	**11.2%**	**11.2%**	**30 Jun 1998**
Platinum European Fund (P Class)	3.7	5.0%	34.9%	7.1%	5.2%	-	7.7%	3 Jul 2017
MSCI All Country Europe Net Index (A$)		2.7%	27.0%	8.5%	8.0%	10.2%	3.7%	30 Jun 1998
Platinum Japan Fund (C Class)	**628.2**	**6.6%**	**23.0%**	**6.9%**	**7.1%**	**9.4%**	**13.7%**	**30 Jun 1998**
Platinum Japan Fund (P Class)	3.3	6.6%	23.3%	7.2%	7.3%	-	8.0%	3 Jul 2017
MSCI Japan Net Index (A$)		8.7%	21.1%	10.4%	7.6%	10.6%	3.8%	30 Jun 1998
Platinum International Brands Fund (C Class)	**693.8**	**-0.9%**	**39.1%**	**21.9%**	**15.1%**	**16.2%**	**13.1%**	**18 May 2000**
Platinum International Brands Fund (P Class)	2.6	-0.8%	39.3%	22.1%	15.3%	-	14.1%	3 Jul 2017
MSCI All Country World Net Index (A$)		2.8%	26.4%	14.6%	12.6%	14.5%	4.6%	18 May 2000
Platinum International Health Care Fund (C Class)	**665.7**	**-0.2%**	**34.0%**	**31.3%**	**18.3%**	**18.7%**	**11.8%**	**10 Nov 2003**
Platinum International Health Care Fund (P Class)	15.6	-0.1%	31.6%	29.6%	17.4%	-	18.5%	3 Jul 2017
MSCI All Country World Health Care Net Index (A$)		4.2%	17.3%	15.9%	12.0%	13.7%	9.9%	10 Nov 2003
Platinum International Technology Fund (C Class)	**192.9**	**-2.2%**	**20.9%**	**20.4%**	**16.3%**	**16.1%**	**10.4%**	**18 May 2000**
Platinum International Technology Fund (P Class)	3.9	-2.2%	21.2%	20.7%	16.6%	-	15.4%	3 Jul 2017
MSCI All Country World IT Net Index (A$)		4.5%	29.3%	32.7%	26.2%	27.7%	4.5%	18 May 2000

Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. Historical performance is not a reliable indicator of future performance. Source: Platinum Investment Management Limited for Fund returns and FactSet Research Systems for MSCI index returns. See note 1, page 44.

Platinum International Fund vs. MSCI All Country World Net Index (A$)

To 30 September 2021



Fund returns are net of fees and costs, are pre-tax, and assume the reinvestment of distributions. Historical performance is not a reliable indicator of future performance. Source: Platinum Investment Management Limited for fund returns and FactSet Research Systems for MSCI index returns. See note 1, page 44.

In Brief

Platinum International Fund

- Throughout July and August, the continuing spread of the COVID-19 Delta variant raised concerns that the global economic recovery would falter. China's regulatory reform program also created concerns around its economic prospects. As has been the case in recent years, when faced with uncertainty, investors reverted to favouring companies whose businesses have a high degree of certainty (growth and defensive businesses) and avoiding those that are sensitive to economic growth.
- Continuing signs of inflation resulted in rising yields on government bonds in the latter weeks of the quarter, prompting a rapid reversal of this trend in equity markets, as the more buoyant environment typically benefits economically sensitive companies, while higher bond yields have a greater impact on the valuations of growth and defensive stocks.
- Key contributors to the Fund's performance over the quarter included Glencore (+14%), Lixil (+13%), InterGlobe Aviation (+18%) and Raiffeisen Bank (+19%). Our Chinese holdings were key detractors, including Ping An Insurance (-25%), Alibaba (-35%) and Trip.com (-13%). Our semiconductor stocks also detracted, weakening on concerns about memory chip prices.
- Over the last 12 months, the gross return on the invested (long) portion of the portfolio was a strong 32%, reflecting good underlying stock selection. The Fund's lower net (after fee) return is predominantly related to the cautious net invested position of the portfolio over the period, with cash holdings and short positions reducing the final return. We believe this approach has been and continues to be appropriate given the risk that rising inflation represents to equity valuations.
- Many of the Fund's holdings are companies that are in the midst of supply shortages in semiconductors, industrial components, autos and commodities. We expect them to continue to experience robust profit growth and their relatively modest starting valuations should make them good investments over the medium term.

Platinum Global Fund (Long Only)

- Over the quarter, we saw gains in our major holdings in Raiffeisen Bank (+19%), Mosaic (+12%), Lixil (+13%) and Glencore (+14%). Key detractors included TAL Education (-81%), Micron (-16%), Trip.com (-13%) and Showa Denko (-17%).
- We continued to rotate from our holdings that have benefited from the economic recovery into companies that we believe will benefit from new areas of growth. The heavy sell-down in China gave us the opportunity to establish a new position in Tencent and we continued to tilt the portfolio towards companies with structural growth, adding to our positions in Merck KGaA, a leader in consumables for the production of biotech drugs, and European wealth funds management platform Allfunds. We also established a new position in unique Japanese homebuilder Open House, a beneficiary of the WFH trend.
- We are at an important juncture in markets, as the acceptance that the current inflationary environment will be a transient blip is now increasingly being questioned. This is a time where we think it is paramount to stick to the discipline that price matters and to be wary of the 'hot' areas of the market. With that, we continue to position the portfolio into companies where relative valuations are on your side and you're likely to be more insulated if interest rates move higher.

Platinum Asia Fund

- Indian companies Macrotech Developers (+55%), InterGlobe Aviation (+18%) and IndiaMart (+20%) provided a positive contribution to performance. Key detractors were concentrated in our Chinese holdings. One small holding, TAL Education (-81%), suffered a sharp decline as the after-school tutoring market in China was banned. Chinese technology companies, Alibaba (-35%), Tencent (-21%) and Kingsoft (-33%), weakened as concerns grew around regulatory overhang.
- We took advantage of share price weakness to increase our holdings in Alibaba and Tencent, as we believe the headwinds are likely to be only modest drags on their businesses. We added a number of new stocks across a range of areas, including an innovative agricultural company, a software provider to the electrical grid, and one that applies cutting-edge AI to healthcare.
- There are many reasons to remain optimistic about the long-term opportunity, not just in China, but across Asia. This is a vibrant dynamic region, with well-educated and driven people, hungry to further improve their living standards. Recent fears have led to low relative valuations in parts of the region, creating a set-up which is attractive for those with a long-term view.

Platinum European Fund

- The Fund's best-performing stocks included Hypoport (+34%), a technology platform that links banks and mortgage brokers throughout Germany. A number of our bank holdings also provided a positive contribution, benefiting from the strong economic recovery and prospect of higher rates. The main detractors were ASOS (-39%) and Prosus (-16%).
- Equity markets have rallied well past their pre-COVID highs. It is difficult to see how conditions improve from here. Fiscal contraction seems inevitable. Rising inflation will press central banks to dial back the monetisation of government debt and raise interest rates. Meanwhile, ongoing supply disruptions makes planning difficult and the operating environment riskier for many enterprises. The suspension of fiscal transfers and reopening of borders seems inevitable. If this doesn't alleviate labour shortages, markets will face considerable challenges in coming quarters. During the quarter we trimmed a broad range of holdings. Our cash position now amounts to around 13% of our capital. Our tendency is to increase this further.

Platinum Japan Fund

- Japanese equities rallied strongly from the beginning of September as investors were reassured by the resignation of the unpopular Prime Minister Suga that the LDP was likely to remain in power and provide continued fiscal and monetary stimulus. The rally reversed sharply late in the quarter on fears of a slowdown in the Chinese economy, issues with shortages of freight capacity and essential components disrupting supply chains, and concerns over inflation and rising interest rates.
- Key contributors to performance were shipping owner Kawasaki Kisen Kaisha, a new position in the Fund, as well as residential real estate developer Open House (+27%) and Oracle Corp Japan (+16%). Detractors included SK Hynix (-19%), Showa Denko (-17%) and Doosan Bobcat (-17%).
- Improving profitability for Japan Inc as it increasingly becomes a focus for newly enlightened management teams should be an important driver for the Japanese market going forward and we aim to identify the stocks we believe are best placed to benefit from this trend.

Platinum International Brands Fund

- Subdued investor enthusiasm for consumer stocks impacted the Fund's performance, with ASOS (-39%) and Just Eat Takeaway (-20%) key detractors. Our exposure to a weak Chinese market, which was impacted by regulatory fears, was detrimental to performance, particularly in relation to internet stocks such as Alibaba (-35%) and Tencent (-21%).
- Performance was assisted by a profit guidance upgrade from Open House (+27%). Solid credit growth in Eastern European markets and rising global interest rates buoyed Raiffeisen Bank (+19%) and Russian champion Sberbank (+13%).
- We are cautious on the outlook for global markets amid the potential for ongoing shortages leading to continued elevated levels of inflation and the likely withdrawal of liquidity. We will maintain a nimble approach, building a core portfolio of stocks where we assess solid potential of doing well through time, balanced by the use of shorts where we see extremes in markets.

Platinum International Health Care Fund

- A number of our less-known oncology holdings provided strong performance following their release of interesting data (Innate Pharma +101%, Leap Therapeutics +145%, Redx Pharma +39%). Our Chinese biotechs had a difficult quarter (CStone Pharmaceutical -37%, Zai Lab -40%, Innovent Biologics -17%), weakening on regulatory uncertainty and pricing pressure.
- We trimmed some of our holdings that have performed very well for the year, such as Ideaya Biosciences (+103%) and Alkermes (+86%), and added a US biotech that has started clinical trials of its SARS-CoV-2 protease inhibitor.
- In the coming year, we expect to see more acquisitions, not only from pharma companies but also in the life science tool space. Within biotech, exuberance and neglect always coexist, allowing us to find good long-term investment opportunities.

Platinum International Technology Fund

- Semiconductor stocks (Micron -16%, SK Hynix -19%) were among the key detractors over the quarter, as the scarcity of various components in supply chains forced PC makers to cut back memory orders. Regulatory concerns weighed on our Chinese holdings (TAL Education -81%, Alibaba -35%, Tencent -21%). Positive contributors included Ambarella (+46%), Alphabet (+9%), Constellation Software (+11%) and Oracle (+12%).
- Despite the challenges posed by higher valuations in many sectors, we continue to find new and interesting opportunities across the technology investment universe, emerging from familiar and less-familiar areas that we are very keen to explore.

Macro Overview

by Andrew Clifford, Co-Chief Investment Officer

We have taken a different approach to our Macro Overview this quarter, adopting a 'Q&A' format, with investment specialist Douglas Isles asking CEO and co-CIO Andrew Clifford the key questions on many of our investors' minds, covering China regulation, income inequality/redistribution, rising inflation and what it all means for global markets. An edited transcript of the conversation is below and the full interview is available on The Journal page on our website.

DI: It's been a very eventful quarter, particularly in China. With your 30+ years of experience investing there, can you provide some context?

AC: I think one of the issues that people struggle the most with in regards to China is the idea of government interference in the economy. There's been a lot of discussion, not just in the last three months but over the last several years, about China returning to a command economy. This is in stark contrast to the China that I know and have invested in. From my experience, China is one of the most market-based economies in the world, and indeed, that is the reason for its enormous success.

Over the last decade we have seen a period of constant regulation coming into what is just a very fierce market environment. Probably the most important of these was the reform of the shadow banking system. Entrepreneurs and banks were finding loopholes in the regulations that had been introduced to restrict the funding of activities such as property development. In response, the government implemented new rules to clamp down on that behaviour, and slowly all those assets and liabilities have been brought back onto bank balance sheets.

In recent times, there's been a lot of focus on the regulation of the tech sector, but most of it is not that different to what we're seeing in the rest of the world. Europe, for example, introduced restrictions on the use of private data by e-commerce companies. The Chinese regulators are incredibly sophisticated in their approach to regulation, they study best practice around the world. Where they feel that free markets have gone too far, they introduce rules, which for the most part are very much modelled on the European approach.

DI: It seems that every time there is a reform program in China, the rest of the world reacts badly to it, why do you think that's the case?

AC: It's important to remember that in China there is a different process to enact change. For us to implement new rules around the use of data or controlling the behaviour of large e-commerce or social media companies, it would be a drawn-out process and there would be significant pushback, like what we saw in Australia with media for example. Similarly, in the US, the Federal Trade Commission case against big tech companies is likely to be a protracted affair. However, in China, it's quite the opposite, the rules appear to change 'overnight'. While the process may be different, the political motivation is not that different from ours. These changes are being made because people are unhappy with the behaviour of big tech in China, just as they are elsewhere.

DI: Property developer Evergrande received considerable media attention over the quarter. The property market in China has been an area of scrutiny for many years, what are your thoughts?

AC: We don't own Evergrande in any of the Platinum portfolios. Its issues were widely known, and while it is naturally unsettling for investors, we don't believe it will be a systemic event. At Platinum, we talk a lot about the role of cognitive biases in investing and the need to go beyond our intuitive responses, or our System One thinking as Daniel Kahneman would put it, and move to System Two thinking, where we really try to understand the realities of the situation. There has long been this story about the great Chinese property bubble, but let me share some numbers. Over the last decade, in the six largest cities, residential property prices increased in the order of 8-10% p.a. In the tier two and tier three cities it was much lower at around 4-5% p.a. Now, 8-10% p.a. is a big appreciation over that

timeframe, but this needs to be seen in the context that nominal GDP in China is around 9% p.a. Additionally, you need to consider who's buying property in China, it's not the average household, it's the wealthy households and their incomes are growing even faster than that.[1]

There is also a lot of focus on the number of apartments that are being built, and yes, since private ownership of property was allowed in 1999, about 200 million apartments have been built. But you have to remember that's the entirety of the modern housing stock in China, because everything else prior to these newbuilds was pretty much communist-era housing. So, given there are around 300 million urban households and 900 million people living in urban areas, we haven't even built enough modern housing stock yet.[2]

We hear a lot of talk about the 20% of apartments that are sitting empty, but in China, investment properties typically aren't rented out because the laws are quite harsh against landlords. Interestingly, in Australia, at any point in time, around 10% of our homes are unoccupied and I'm not talking about home rental vacancy, these are properties owned by people who own more than one home and leave them unoccupied.[3]

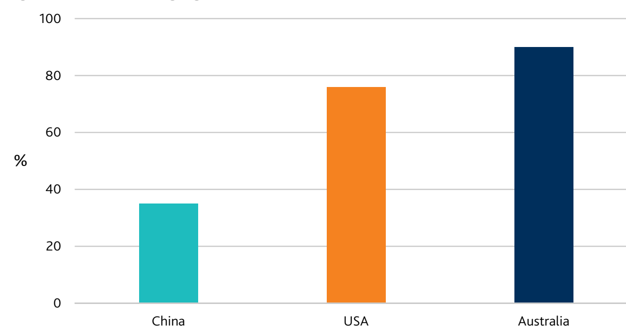
I would add that it's actually been difficult to get a property loan in China in recent years. A 30% deposit is required to buy a first property and 50% for a second. Mortgages have grown very quickly from being almost non-existent a decade ago, to be around 35% of GDP, which is well below what pure mortgage debt is in Australia or the US.

Property is a booming and important part of the Chinese economy, but if house prices get out of control, it becomes a political issue. It's a well-founded market, not a bubble by any standards that I can see.

DI: When the ultimate goal of the government is one of "common prosperity" is it fair to say that housing is front and centre for that?

AC: Absolutely. For the last decade there's been continued efforts to keep property prices down. The sentiment that "property should be an end-user asset not a speculative asset" is often attributed to President Xi Jinping, but this was around long before he was President. China has the same problem that the rest of the world has on that front. I think the real issue here for the world economy is that the latest regulations are trying to control not just the price that property is sold at, but also the price that developers pay to

Fig. 1: Pure Mortgage Debt as % of GDP, 2020



Source: PBOC (China); Federal Reserve Bank of St. Louis (USA); Business Insider Australia, OECD (Australia). As at Q4 2020.

acquire land to develop properties. It's a thoughtful approach to my mind, as it is essentially trying to regulate property development in a similar fashion to how utilities, such as electricity or gas businesses, have been regulated over the years. While there is a risk that this approach may not be successful in a market like property development, with developers already stepping back from buying land and property buyers now nervous, I think the concern of any great disaster is overstated. Past experience tells us that as soon as the Chinese authorities take their foot off the brakes, even in the slightest way, buyers come flooding back in, and if it gets to that stage, that's what I would expect here as well.

DI: Over the last decade there has been a clamp down on corruption, supply side reform, financial reform, and now "common prosperity". On balance, do you think they have done a reasonably good job for China over that period?

AC: When you look at the government's approach to introducing thoughtful, sensible regulation and rules in their economy, I think they've done an extraordinarily good job. As I said earlier, a lot of it is modelled on what the rest of the world does and I think there's nothing to be feared there. The recent event where they basically banned after-school tutoring due to cost concerns, is a bit more of an extreme measure, but again, they're very important social issues the government is reacting to, just like a democratically elected government would react to important popular issues.

DI: Let's now look at the rest of the world, particularly the other large economy, the US. Inequality is something that the Chinese and US governments are both trying to address, can you reflect on how it's being approached in the US and what the implications might be for investors?

AC: I think that income disparity is behind a great deal of discontent across much of the world. In the last decade or so, people keep referring to the world being in a low-growth environment, but that's actually not the case. The world economy grew pretty much the same rate in the decade from

1 Source: CSLA; FactSet Research Systems.

2 Source: CSLA; State Council of the People's Republic of China.

3 https://www.abc.net.au/news/2021-04-14/house-prices-australia-climbing-not-for-the-reason-you-think/100065644

2010-2020 as it did in the prior decade, but what has changed is the disparity of income, with lower-income groups clearly not doing as well as the top 20 or 40%.

Ultimately, everyone gets a vote and it then becomes an issue. I think one of the really interesting things the pandemic has shown politicians is that a lot of the payments, such as JobKeeper and JobSeeker in Australia, which have been introduced or increased during the pandemic, have clearly helped lower-income households far more than the average. And with that, I think politicians have seen the benefit of redistributing income toward lower-income groups. China faces the same issue. In fact, there are far more extremes between those who have benefited from China's prosperity than those who haven't. The call for "common prosperity" is thus one of redistributing income through the economy.

A number of years ago, we wrote about the huge benefit to economic growth of putting $100 in the hands of lower-income households vs. high-income households through tax cuts. The latter group will most likely save it and buy another property or more shares. The lower-income households on the other hand, will most likely spend it on basic necessities. On that basis, I think it would be very good for global growth if we get some degree of income redistribution that is being discussed across the world.

DI: On the topic of economic growth, inflation is a hot topic right now for markets, what are your thoughts on that front and expectations for interest rates?

AC: As we've been talking about for some time, the creation of money through quantitative easing and funding government deficits this way is unquestionably inflationary. For a long time, inflation has mainly appeared in asset prices, the stock market, private equity infrastructure assets and house prices, which has been much more extreme in the past 18 months. But now we are seeing inflation in goods and services. There's always a lot of discussion of whether this bout of inflation is due to temporary shortages. As we mentioned in our June quarterly report, the market economy is good at dealing with temporary shortages. We have seen this in iron ore and lumber where there were huge price increases and then for one reason or another, supply adjusted and the prices retreated. But we're also seeing many 'sticky' prices. We can't get enough semiconductors to meet motor vehicle demand currently or a whole range of other projects that require semiconductors. The cost of shipping a container from Shanghai to Los Angeles is up six-fold or so. Gas prices are up four- or five-fold in Europe and thermal coal prices have pretty much doubled in recent months.[4] So, there are price increases coming through everywhere. Adding to the mix, is a shortage in labour at a time when the jobs market is as strong as we've ever seen, which is a bit odd given that we're still not fully out of the pandemic, but this is what all the numbers tell you. We are seeing companies raise prices at record rates. There is also anecdotal evidence, with UK gas bills, for example, doubling in the last couple of months. This is going to cause real pain in households, not to mention rising rents, so we have a real problem here and it's a question of how it unfolds.

While central banks are all saying they won't raise interest rates soon, we shouldn't pay too much heed to that, because their whole role is to set our expectations, and they will increase rates when they see fit. This poses a real dilemma though. People are going to start struggling to pay their bills following these price moves. How will governments respond? Will they spend even more money and announce yet another round of rescue packages, which are inflationary again? I think the end destination here, one way or the other, is interest rates are going up and there's a risk this happens earlier than many expect.

DI: How do you think this changing interest rate dynamic will play out in the markets? Will we see a reversal of fortunes in stocks?

AC: The beneficiaries of cheap money and inflation in asset prices have been the sectors that everyone is so excited about in the stock market, the so-called 'disruptors'. Consequently, there's been plentiful buyers of their shares and some crazy valuations of private companies that are raising capital at 20, 30 or 40 times their revenue. Yes, they are great companies and are growing fast, but many are losing money. The point is that they can only keep the game going while there are investors who are willing to fund them, and in many cases these investors are their own employees who are paid in stock. It's hard to go a day without hearing about a new start-up developing software to solve problems for companies or individuals. There's huge competition for the corporate IT budget or your personal budget to spend on all these things. That is the area, where the combination of valuations and the fact that they need money to keep going, that is a big risk for investors. It won't be a good place to be when the music stops.

On the other hand, there's a whole other part of the economy that people haven't wanted to fund, high-quality businesses at the centre of the future growth areas of the economy. Semiconductor companies like Microchip, for example, who makes microprocessor units used in electrical switches for a whole range of items, from microwaves to car windows. This is a very profitable business and it's growing because there's increasing demand for its products. Over

4 Source: https://tradingeconomics.com/; https://www.cnbc.com/2021/10/05/gas-price-surges-to-a-record-high-in-europe-on-supply-concerns-.html

time, as electronics usage increases, we will need more of their products. But here is a company that's unable to deliver enough product to meet the demand in the auto industry, due to under-investment. And this has been a theme across a range of sectors for the last decade. This includes commodities like copper, for example, a vital component for all manner of things, such as electric vehicles (EVs). The world's going to need an extraordinary amount of copper, but there hasn't been any significant investment in finding new reserves for seven or eight years.

So, to me, the other side of all this capital that has been invested in the new, exciting and innovative areas is that there's some really interesting, growing businesses that haven't been able to access capital, who now find themselves in a very nice position where their product is in demand and they're able to exercise good pricing power simply because of shortages.

DI: What do you think will ultimately make the 'music stop' so to speak?

AC: If you are looking for a catalyst, I think the most obvious is interest rates. While we are now seeing bond rates trending up again, we all struggle to ever be very precise in knowing when central banks will change official interest rates.

As an investor, I believe it's important to build a portfolio of stocks that are well positioned in terms of the markets they're in. I have given the example of Microchip, but in autos, we have BMW or Toyota, who are both very well positioned for the EV world. There are other themes too, such as travel, which is also a growth industry. Many travel stocks are very high-quality businesses, whether it's the online travel agents like Booking Holdings or Trip.com, which is the Chinese equivalent, or aerospace companies like General Electric, Safran and MTU Aero Engines, who are involved in the production of engines for aircraft - and again, based on the rate at which aircraft orders are coming in, we're potentially not going to have adequate capacity to produce enough engines. There's a whole array of opportunities out there and you need to buy each knowing what they can earn in a good period and assess against that.

MSCI Regional Index Net Returns to 30.9.2021 (USD)

REGION	QUARTER	1 YEAR
All Country World	**-1.1%**	**27.4%**
Developed Markets	**0.0%**	**28.8%**
Emerging Markets	**-8.1%**	**18.2%**
United States	**0.3%**	**29.9%**
Europe	**-1.2%**	**28.0%**
Germany	-4.3%	16.5%
France	-2.0%	34.3%
United Kingdom	-0.3%	31.2%
Italy	-1.1%	33.4%
Spain	-3.3%	31.4%
Russia	9.5%	59.4%
Japan	**4.6%**	**22.1%**
Asia ex-Japan	**-9.3%**	**14.4%**
China	-18.2%	-7.3%
Hong Kong	-9.4%	15.0%
Korea	-13.2%	27.8%
India	12.6%	53.1%
Australia	-3.0%	31.7%
Brazil	-20.2%	21.0%

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

MSCI All Country World Sector Index Net Returns to 30.9.2021 (USD)

SECTOR	QUARTER	1 YEAR
Energy	2.8%	63.9%
Financials	1.9%	49.6%
Information Technology	0.5%	30.3%
Health Care	0.2%	18.3%
Utilities	-0.2%	10.1%
Real Estate	-1.8%	22.2%
Consumer Staples	-2.1%	10.2%
Industrials	-2.1%	27.3%
Communication Services	-2.6%	28.9%
Materials	-5.0%	26.8%
Consumer Discretionary	-5.2%	17.6%

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.

Biotech: Driving Another Decade of Change in Healthcare

by Dr Bianca Ogden

COVID-19 has placed the healthcare sector front and centre in all our minds. The development of a vaccine in record time was truly remarkable, showing what can be achieved when great minds and innovative technology come together. Once the 'poor cousin', the biotech sector is coming into its own and is now at a key inflection point. Record funding and the entry of a 'new breed' of players, thanks to the wonders of AI and computer power, is driving considerable transformation, especially in drug discovery. What does this mean for the existing players, particularly traditional pharma? How can they compete with this new breed?

The past 18 months has shown us how a virus with a diameter of just 110 nanometres can stop the world in its tracks and impact our daily lives. I studied virology in the 1990s because I was fascinated by HIV, a virus that can integrate its genetic information into the human genome using its own enzyme. Through this integration, the virus hides from the immune system. It is a remarkable, efficient engineering process. So far, a vaccine or cure for HIV remain elusive, but fortunately, therapeutics are available. It took about two years to identify what causes AIDS in the early 1980s, and another four years to release the first drug. Biotech was in its infancy back then and pharma stepped up to the task.

This time, during the COVID-19 pandemic, biotech has taken charge, and molecular engineering and computer sciences have moved to the forefront. Progress was made in weeks vs. years. This is science at its best - and that is what the future of biotech has in store for us.

The biotech industry is all about efficiency; focusing on transforming the drug discovery process, by tapping into biology, engineering and computer sciences. These three disciplines, when working in unison, will continue to have wide-ranging ramifications for the healthcare sector and other industries over the next decade and beyond.

Challenges will arise and hesitation will persist, but if history is any guide, they will gradually be overcome, with humanity the chief beneficiary.

"I think the biggest innovations of the 21st century will be at the intersection of biology and technology. A new era is beginning."
Steve Jobs (2011)[1]

New therapeutic modalities are successfully challenging the status quo

In the late 1970s, **Gen**etic **En**gineering **Tech**nologies - Genentech, a San Francisco-based biotech, set out to commercialise genetic engineering, a technology that was rapidly being adopted in research labs. The idea of making therapeutics in bacteria or cells was frowned upon by many, as it challenged the status quo, which in this case, was the small molecule pill, chemically synthesised by machines and sold in the primary care market. Despite all the hesitation, Genentech persisted. Fast-forward to today and genomics and molecular engineering are at the core of the biotech and pharmaceutical industry. In April this year, the United States Food and Drug Administration (FDA) approved the 100th monoclonal antibody, a therapeutic modality that had its debut in 1986.

1 Source: https://xconomy.com/national/2011/12/05/steve-jobss-dying-realization-about-biology-and-technology/

These gentlemen were responsible for the first cloning of insulin for Genentech. Source: Sally Smith Hughes, *"Genentech – The Beginnings of Biotech"*, The University of Chicago Press, April 2013.

The increase in diversity of therapeutic modalities has been a key theme over the past decade, and given molecular engineering advances, more expansion is expected, helping us to pair the right modality with the ideal drug target. Most recently, despite many naysayers, messenger RNA (mRNA) was added to the therapeutic armamentarium. Again, it showed how hard work, persistence, solid funding and exceptional teams can overcome negativity and resistance. On numerous occasions, a new approach is greeted with great hesitation, *but that is what science is about - testing a hypothesis, not reinventing an already validated concept.*

It is not just therapeutic modalities that have seen great advances; our understanding of the molecular profile of diseases has progressed immensely as well. We are big believers in precision medicine and are confident that neurology will similarly follow oncology's targeted therapy pathway. Oncology once had chemotherapy as its only weapon at its disposal. Today, we can classify cancer by its molecular profile rather than its location and treat it accordingly.

Neurological diseases are complex and they take years to manifest clinical symptoms. There are genes that when mutated can cause, or put you at risk of developing, neurodegenerative diseases. In the case of Alzheimer's disease, there are 35 known genetic associations and many are linked to the brain's immune system, while in the case of Parkinson's disease, there are over 95. The ability to identify and develop a targeted drug for each mutated gene is not beyond the realms of possibility in the future. We are already seeing success in this space.

In the coming decade, the speed of scientific progress will accelerate. With the standard of care for many diseases improving, disease prevention will take centre stage and biology will play a role in sectors outside of healthcare. It will not be without challenges, but nothing is in this industry. It is about embracing the unknown and carefully and factually considering "what if it works?".

Biotech is reaching a key inflection point

There is no doubt in our minds that the biotech industry is at a key juncture in its short history. Today, the two worlds of biology and technology are colliding. Both had a key moment in the 1950s. James Watson and Francis Crick provided us with the chemical structure of our genetic code; while Claude Shannon and Alan Turing gave us computer code. As Walter Isaacson wrote in his recent book "*The Code Breaker*":

"Now we have entered a third and even more momentous era, a life science revolution. Children who study digital coding will be joined by those who study genetic code."
Walter Isaacson[2]

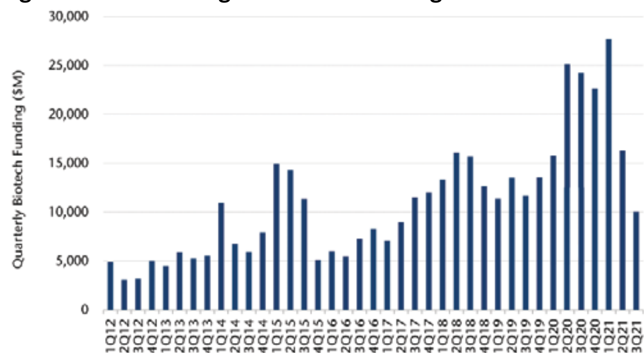
There is a mindset shift occurring in the biotech industry that is driven by the convergence between biotech, engineering and technology. This shift is particularly interesting in the drug development industry. Pharma is no longer the epitome of drug development; it is biotech that offers very attractive alternative business models.

Over the past 10 years, the drug discovery process has been changing, partly due to advanced drug discovery tools, but also due to a significant increase in funding. In 2020, biotech funding soared to a new record high of around US$90 billion, up c.60% from the previous annual record of US$55 billion (see Fig. 1).[3] 2021 is also shaping up to be another strong year, with funding reaching US$54 billion for the year to date as at July (+2% year-on-year vs. 2020).

2 Walter Isaacson, "*The Code Breaker Jennifer Doudna Gene Editing and the Future of the Human Race*", Simon & Schuster, March 2021.

3 Source: FactSet Research Systems and Jefferies LLC. As at July 2021.

Fig. 1: Biotech Funding Reached Record Highs in 2020



Source: FactSet Research Systems and Jefferies LLC.

The funding environment for biotech companies has changed immensely. The idea that pharma companies represent one of a few funding options for biotechs is history. Today, there are several dedicated healthcare funds, various cross-over funds and tech-oriented funds that have expanded the funding universe. With the understanding that this can be a long and sometimes 'bumpy' journey, companies will often only seek those investors/funds who have a similar long-term horizon.

The calibre of management teams has also changed. Many teams are no longer novices, they have runs on the board and often know the pitfalls of large organisations. Different business models are emerging and many senior executives are leaving big pharma/biotech companies and joining biotechs.

Drug discovery is undergoing a huge transformation

The most significant change, however, is occurring in drug discovery itself. Developing new drugs is a lengthy process, starting with target and lead drug identification, moving to clinical trials and finally, commercial manufacturing. It takes years and considerable investment. This longstanding, traditional process is, however, being challenged as new discovery and drug engineering tools, automation and machine learning come together. Today, scientists, thanks to advances in computer power, can collect more data than ever before, and analysing the data is cheaper than it has ever been. Over the past 10 years, new biotechs have emerged that are taking advantage of these computer advances and challenging different stages of the drug development and manufacturing process. The aim is to make it more efficient, reduce time and ultimately save significant money.

It all starts with a specific target (e.g. a protein) and the notion that it plays a significant role in causing a disease. Initially, literature review along with experimental validation occur to confirm the importance of the target. This is followed by understanding the composition of the target better and deciphering how a drug can best interfere with the pathological activity of the target. Drug engineers will then get together and design leads that will be tested in screens to determine if they have the desired effect. The engineers also have to consider how the drug will 'distribute' in humans.

A lot of analysis has to occur, which is ideal for machine learning and artificial intelligence (AI). Yes, AI is a buzzword these days, but companies are really making incredible progress in drug discovery using this approach. They have focused on combining a myriad of externally sourced datasets with their own datasets generated in their laboratories. This new breed of companies employs a combination of computer and data scientists, as well as 'drug hunters' and 'drug engineers'. These companies have managed to bring together different skillsets and merge cultures – which is a tremendous achievement.

UK company Exscientia is one such example of this new breed of biotech company. Their AI-driven approach can save years of drug discovery, while also generating more precise leads and chemical structures that often would not have been considered.

Exscientia CEO, Professor Andrew Hopkins believes computers will see molecules that traditional screens would not have been able to:

"You would never find these molecules by large-scale, high-throughput screening. It's not looking for a needle in a haystack. It's looking for a needle on the farm."

Professor Andrew Hopkins, CEO, Exscientia.[4]

Exscientia is not the only company working on 'drug discovery 2.0'. Others, like Recursion, a US-based biotech, focus on imaging cells that have been treated with drugs or harbour genetic changes. The company runs millions of experiments a week imaging the cells. It then uses machine learning to gain an insight into the cellular networks, which can translate into future treatment approaches. The naked eye is unable to see minute differences, while computers can.

To reiterate, the automation of experiments is providing the ability to collect considerably more data than ever before, with improved molecular lab tools along with computer science, making all this possible.

In the coming years, we expect the drug discovery process for small molecules and biologics will be transformed and AI will play a key role in the drug engineering and drug discovery process. It is not just drug discovery though; clinical development will also follow suit as these companies look to recruit patients and improve the design of clinical trials.

4 Source: https://www.nature.com/articles/d43747-021-00045-7

The AI drug discovery model is at an early stage; drug candidates are just starting to move into clinical development. There are signs, however, that new molecules are being developed more quickly, as is the number of quality leads, which all means faster and more cost-effective clinical development. This is very exciting, but for investors like us, the question is how will it affect the drug development landscape and the players within it?

An increasing role for new players

As always in this industry, there is deep ingrained hesitation about a ”new way of doing things”, but these new breeds of companies are not simple start-ups, they have the right ingredients, in terms of people, science and funding. Furthermore, they are making progress, gaining a foothold with biotech and pharma companies alike.

What is interesting, is that some of these next-generation drug-engineering companies are building their own drug pipelines and rapidly leapfrogging previous efforts by pharma companies. This begs the question: where does this leave the juggernaut pharma companies? For now, they have collaborated with the newcomers, making sure it does not disrupt their own internal drug discovery approach.

Some pharma companies have taken equity stakes to cement an alliance, but these biotechs will be cautious not to align themselves too closely with one partner. These ‘new’ companies have bigger ambitions and believe they can be more efficient than pharma. For pharma, the question will be how to rationalise research and development (R&D), but for now, running internal and external R&D in parallel continues.

Interestingly, some large drug developers, like Bayer, who struggled with internal R&D efficiency, have more gumption and are embracing drug discovery 2.0 a lot more.

Overall, today, there are now biotechs that resemble more efficient next-generation pharma companies. In many ways the cards are being reshuffled.

Investing in the science and the people

Returning to where we began - the efficient virus, which systematically takes advantage of the biological system and adapts over time. The next decade of drug discovery is also about systematically engineering a drug, by taking advantage of computer science and translational biology. Over time, the approach will create variations and efficiency should prevail.

To us, investing in biotechs is not about following the crowd, monitoring catalysts, quarterly earnings numbers or marginal improvement; it is about leaps in science, ongoing progress, the people behind the ideas, their unrelenting determination, independent thinking and their ability to step-up to the challenge.

My time in the pharmaceutical and biotech industry taught me that facts drive decisions and can overcome preconceived opinions and challenges. In this industry, you cannot be complacent or rely on a spreadsheet. Investing in this sector requires a deep understanding of the industry, an intense and dogged approach to research, an open mind, and importantly, a long-term perspective.

A patient approach can be very rewarding for those who are prepared to do the ground work, dial down the market noise and stay the course, as our investment in Moderna and BioNTech can attest to (see our case study on the following page).

Conclusion

As the industry evolves, the focus areas will change, but the process and thinking required to identify the next round of winners won't. Today, we have large pharma companies with some biotechs muscling in. However, in the future, there will be even more biotechs, and pharma companies will be forced to adapt and redefine themselves.

It is not just the advances in technology that are driving this incredible change, but also the funding environment for biotechs. Investors are happy to support new technology and starting a biotech is not as difficult as it once was, as the 'tools' can be outsourced.

We have the 'perfect storm'. It truly is a very exciting time to be investing in healthcare.

mRNA Case Study - Moderna and BioNTech

Science is about learning and testing a hypothesis, it is not about maintaining the status quo or looking at quarterly earnings announcements. That's how it felt when we first spoke to Stephane Bancel (CEO of Moderna) more than five years ago when Moderna was a private company. We had been interested in mRNA as a personalised cancer vaccine using neoantigens. Moderna had one such program in collaboration with Merck. Genentech was also working with BioNTech in this area and we noticed an uptick in coverage in various science publications. Moderna was intriguing because its focus was squarely on mRNA, it had a solid balance sheet and the company polarised people's opinion. Some may find that off-putting, but we viewed that as a signal to dig deeper and form our own opinion. We are blessed in many respects by our remoteness - Sydney is a world away when it comes to the chatter of Wall Street, Silicon Valley and the biotech hubs of Boston and San Francisco. It is an ideal environment to think independently.

During our conversations with Stephane, we gradually learned about Moderna's approach to mRNA, its manufacturing process and its ambitions for vaccines. We had been closely following the vaccine field for years and had invested in Dutch company Crucell (acquired by Johnson & Johnson) and UK company Acambis (acquired by Sanofi), hence we felt the vaccine market was very interesting. So, when Moderna prioritised vaccines in 2017, we did not share the market's confusion and thought it was a natural decision. Over the years, we continued our conversation with Stephane, learning about the vision of the company, along with the challenges that have been mastered or the ones that lie ahead.

Similarly, we reached out to BioNTech in 2018 and learned about the company's cancer vision and their mRNA R&D efforts. In this area, we don't view one company over the other, it is about a new therapeutic modality that, if successful, could have far-reaching ramifications.

In 2019, we visited the Moderna manufacturing site in Norwood and also met various members of the team. Their deep focus on mRNA, delivery technology and digital manufacturing was obvious to us and a rare occurrence in biotechs. Yes, there could be challenges along the way, but in the end, this was a biotech that ensured it had the money, the talent and a sound plan to make a success of it. So, when it came to the initial public offering (IPO), we did question the valuation, but again it was a healthy conversation with Stephane that put it into context of the ambitions and diligence of the company. The IPO came and went, the stock price barely moved with many people continuing to be very sceptical about the company. However, this was a long-term investment for us, so we continued to add to our position. Similarly, in 2019 we visited BioNTech (we invested pre-IPO) and experienced first-hand the dedication of the team and the vision to offer comprehensive cancer therapeutics. The IPO itself was also subdued, again offering us an opportunity to add to our investment.

Both investments have been tremendously successful for Platinum. At the time we invested COVID-19 didn't exist, but we believed in the mRNA technology and the respective teams behind the science and technology. We believed this technology was the way forward for vaccines of the future – not just for viruses but also cancer and other diseases.

Following exceptionally strong share price performance over the past 12-18 months, on the back of both companies' success with their mRNA-based COVID-19 vaccines, we have trimmed our exposure to these two stocks. We admire and respect the leadership teams of both companies, and continue to engage with each, but we must remain disciplined on price.

Fig. 2: Moderna and BioNTech Share Price Performance

Source: FactSet Research Systems. Chart shows company prices indexed to 100 as at IPO price. Data as at 8 June 2021. IPO dates are Moderna: 6 December 2018; BioNTech: 9 October 2019. Historical performance is not a reliable indicator of future performance.

Platinum International Fund

Andrew Clifford
Portfolio Manager

Clay Smolinski
Portfolio Manager

Nik Dvornak
Portfolio Manager

Performance

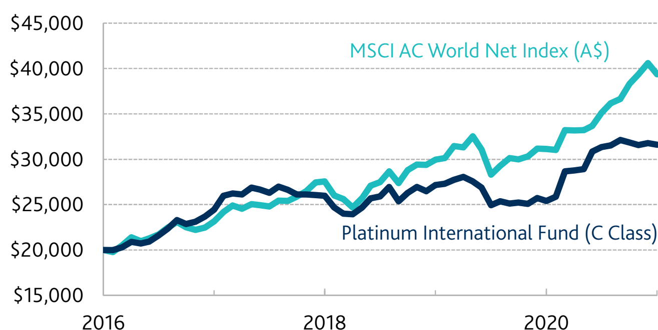
(compound p.a.+, to 30 September 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	-1%	24%	7%	10%	12%
MSCI AC World Index^	3%	26%	13%	15%	8%

+ Excluding quarterly returns.
* C Class – standard fee option. Inception date: 30 April 1995.
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 44. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 September 2016 to 30 September 2021



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 44.

The Fund (C Class) returned -0.7% for the quarter and 24.4% for the year.[1]

Throughout July and August, the continuing spread of the COVID-19 Delta variant raised concerns that the global economic recovery would falter. At the same time, China's regulatory reform program has created concerns around the country's economic prospects. As has been the case in recent years, when faced with uncertainty, investors reverted to favouring companies whose businesses have a high degree of certainty (growth and defensive businesses) and avoiding those that are sensitive to economic growth. As a result, while markets did grind higher in the first two months of the quarter, this was predominantly driven by large growth stocks (such as the 'FANMAGs'[2]), with more economically sensitive stocks left behind.

However, despite the concerns, the major economies by and large continued on a strong recovery pathway and inflationary pressures continued to emerge rather than recede as many had hoped. Most notable was the ongoing tightness in job markets in the major economies, leading to rising labour costs. Additionally, energy prices increased substantially with coal and gas prices reaching levels as much

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

2 Facebook, Amazon, Netflix, Microsoft, Apple, and Google (now trading as Alphabet).

as two to five times higher than pre-COVID levels (depending on the location). These continuing signs of inflation resulted in rising yields on government bonds in the latter weeks of the quarter, a trend that was reinforced when the US Federal Reserve acknowledged that tapering in its purchases of bonds "may soon be warranted". This resulted in a rapid reversal of the trends in equity markets, as the more buoyant environment typically benefits economically sensitive companies, while higher bond yields have a greater impact on the valuations of growth and defensive stocks.

Usually we wouldn't focus on such short-term variations within the market over a three-month period. However, in this case, it provides an insight into not only the shorter-term performance of the Fund, which is currently weighted more toward economically sensitive businesses, but also provides a framework for thinking about markets in the months ahead. This will be covered later in the outlook section.

Over the last 12 months, the gross return on the invested (long) portion of the portfolio was 32%, which is a strong outcome, reflecting good underlying stock selection during this period. The difference between this result and the Fund's 24% return (after allowing for fees) is predominantly related to the cautious net invested position of the portfolio over the period, with cash holdings and short positions reducing the final return. As we have discussed over the last year, the extraordinary performance of stock markets and asset prices more generally, fuelled by excessive money printing by central banks, has led us to maintain a relatively cautious position. While this positioning has dented returns, we are of the view that such an approach has been (and continues to be) appropriate, given the risk that rising inflation represents to equity valuations.

Amongst the largest contributors to performance over the quarter were a diverse group of holdings. **Glencore** (+14%) rallied on ongoing strength in commodity prices. Japanese bathroom and housing products company **Lixil** (+13%) gained after reporting record quarterly earnings and indicating its full-year margin target may prove conservative. **InterGlobe Aviation** (+18%) strengthened on increasing optimism around the COVID situation with the Indian government lifting capacity restrictions on domestic flights, as well as rising hopes that international travel will start recovering from next year. **Raiffeisen Bank International** (+19%) benefited from the strong economic recovery and the prospect of higher interest rates. US fertiliser company **Mosaic** (+12%), a relatively new holding in the Fund, gained on signs of an up cycle in fertiliser prices.

Disposition of Assets

REGION	30 SEP 2021	30 JUN 2021	30 SEP 2020
Asia	29%	25%	29%
Europe	21%	20%	18%
North America	19%	23%	27%
Japan	13%	12%	13%
Australia	3%	3%	3%
Other	1%	1%	1%
Cash	13%	15%	9%
Shorts	-18%	-6%	-16%

See note 3, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 SEP 2021	30 JUN 2021	30 SEP 2020
Industrials	19%	20%	19%
Financials	15%	16%	11%
Materials	14%	16%	13%
Consumer Discretionary	11%	8%	12%
Information Technology	9%	11%	17%
Health Care	6%	6%	8%
Communication Services	4%	1%	6%
Real Estate	3%	3%	2%
Energy	1%	0%	1%
Consumer Staples	1%	-1%	0%
Utilities	0%	0%	0%
Other	-14%	-2%	-13%
TOTAL NET EXPOSURE	68%	79%	75%

See note 4, page 44. Numerical figures have been subject to rounding.
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/pif.

The sell-off in China, due to concerns around regulatory reforms and the risk of default by property developer China Evergrande Group, saw our Chinese holdings detract from returns during the quarter. **Ping An Insurance** (-25%) fell due to concerns around its exposure to property developers in its investment book. E-commerce giant **Alibaba** (-35%) fell in response to regulatory changes in the sector. **Trip.com** (-13%), China's largest online travel agent, was impacted by a deferred recovery in international travel as a result of the COVID-19 Delta variant.

Elsewhere, **LG Chem** (-9%), the global leader in batteries for electric vehicles, fell in response to a recall in General Motors' Chevrolet Volt that had seen a number of vehicle fires related to manufacturing faults in LG Chem's batteries. **Micron Technology** (-16%) and **Samsung Electronics** (-8%) were sold off on concerns around memory chip prices.

We remain confident in the investment case for each company. For the three Chinese companies mentioned, we took advantage of their share price weakness to add to our positions.

Changes to the Portfolio

The Fund's net invested position fell from 79% to 68% over the quarter. This was the result of an increase in short positions from 6% to 18% and a reduction in cash from 15% to 13%.[3] The short positions are a combination of index shorts (10%), baskets of expensive growth names (6%) in the technology, clean energy, and biotechnology sectors, in addition to some individual company shorts (2%).

The case for being short the expensive growth stocks is compelling at this point. If one is to examine the accounts of many of these much-loved growth companies, you would see not only revenues growing quickly, but losses growing almost as quickly! In a traditional business environment this is not possible, as companies would quickly run out of cash. However, this is typically achieved by paying employees a proportion of their compensation in the company's shares. The plan is generally not to do this forever, but to move slowly toward profitability as the business scales up, and often this will occur as growth prospects diminish. It is a clever piece of financial engineering, that has been used to build some very significant businesses over the last decade that are now profitable in a traditional sense. The risk is that if the company's share price falls, they need to progressively issue more and more shares to pay the bills. At some point, employees stop accepting this 'confetti' as payment, and without the oversized sales and R&D teams, revenue growth collapses. These 'fast-growing loss makers' face a serious risk, as their valuations are based on profits that are often five or more years away and hence their share prices are much more sensitive to long-term interest rates. So, higher long-term rates have the possibility of not only driving down their share prices, it has the secondary impact of putting their entire business at risk.

3 Numbers have been subject to rounding.

Tencent, the Chinese social media, e-commerce and online gaming company, was added to the portfolio. The company had long been a holding in the Fund but the last of the position was sold earlier in the year. The company's share price fell in response to new regulations that will potentially impact the profitability of a number of their business units. Our assessment is that Tencent's dominant position in the online landscape in China (with over 1.2 billion monthly active users on its WeChat platform alone[4]), will allow the company to continue to perform well in the new environment.

Another new holding in the Fund was **Pigeon**, a Japanese producer of baby and childcare products. The company has a leading position in both Japan and China. The pandemic has seen a significant drop in birth rates in China, its fastest growing market, impacting the company's short-term growth prospects. We expect that in time, birth rates will rebound as we move out of the pandemic, and with that, a rebound in the company's sales growth.

As mentioned earlier, we took advantage of the weakness in Chinese share prices to add to holdings in **Alibaba** (e-commerce), **Trip.com** (online travel agent) and **Ping An Insurance** (financial conglomerate). These purchases were funded by sales of US retailers **American Eagle Outfitters** (exited) and **Ulta Beauty**, **Ally Financial** (US auto lending) and **Bank of Ireland**.

4 Source: https://www.statista.com/statistics/255778/number-of-active-wechat-messenger-accounts/

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
ZTO Express Cayman Inc	China	Industrials	3.3%
Glencore PLC	Australia	Materials	3.0%
Samsung Electronics Co	South Korea	Info Technology	2.9%
Minebea Co Ltd	Japan	Industrials	2.9%
Microchip Technology Inc	US	Info Technology	2.8%
Tencent Holdings Ltd	China	Comm Services	2.6%
Weichai Power Co Ltd	China	Industrials	2.5%
Ping An Insurance Group	China	Financials	2.4%
UPM-Kymmene OYJ	Finland	Materials	2.3%
Micron Technology Inc	US	Info Technology	2.3%

As at 30 September 2021. See note 5, page 44.
Source: Platinum Investment Management Limited.

Commentary and Outlook

There are two key issues for markets currently: regulatory reforms in China, particularly their impact on residential property markets; and rising inflationary pressures as a result of the dramatic increases in energy prices and emerging wage inflation.

The pace of regulatory reform in China picked up speed over the last quarter, covering a wide range of industries from e-commerce, to online gaming, property, and after-school tutoring. Our view is simply that China's economy has historically been very loosely regulated and in recent years there has been a steady trend of introducing appropriate safeguards, similar to what we see in developed markets. The idea that this will quash Chinese entrepreneurial zeal or China's access to capital is in our view far-fetched.[5]

One area worthy of further examination is the impact of regulation on the property development industry, as construction is a significant source of economic activity for China. Our concern is not that there is an impending bursting of a bubble in residential property that will lead to a collapse in the Chinese economy. Our view is that China's residential market has solid fundamentals. There remains strong underlying end-user demand for modern housing stock and property buyers have long required substantial deposits, which has limited speculative investment. While one can never discount the possibility of a setback in property prices, we feel this is an unlikely scenario. For a more in-depth outline of our case, please read this quarter's Macro Overview.

However, there have been a raft of new regulations impacting the property sector, all aimed at capping the rate of price appreciation in residential apartments. The uncertainty caused by these changes, along with the widely reported financial troubles of Evergrande, has resulted in a sharp fall in the pre-sale of new apartments in recent months. If there is to be a period of subdued demand for apartments, this will likely have a broader impact on short-term economic growth. However, such impacts are likely to be relatively short-lived, as authorities have numerous tools at their disposal, such as easing the availability of mortgage finance, that will encourage the return of apartment buyers.

On inflation, we have been writing on this topic in our reports since June 2020. Simply, our view has been that inflation was a risk as a result of the extraordinary money printing by banking systems that accompanied the policy relief efforts for the pandemic. Subsequently, there has been a substantial increase in inflation, with many commentators attributing this to short-term supply shortages that will naturally resolve in time and that this period of rising prices will be temporary. Our concern is the underlying causes are more deep-seated and not so easily resolved. Either way, new sources of inflationary impulses continue to arise. Energy markets are now seeing extraordinary price rises across the globe as referenced earlier. Labour shortages are present in the major economies and wages are starting to rise strongly. This all gives weight to there being more momentum in inflation than generally accepted.

Policy makers are being challenged here. Central banks appear fearful of raising interest rates, presumably because of the high levels of indebtedness and lofty asset prices. Meanwhile, the longer inflation runs, the higher interest rates will eventually rise. If inflation is not attended to, the impact will be felt in household budgets as they are squeezed by higher prices, especially in food and energy. Alternatively, if wages outrun general price increases, the impact may be felt in corporate profits.

The impacts on markets are likely to be varied. If China experiences a slowdown as a result of the various regulatory reforms, the market impact may be subdued as stock prices of companies likely to be directly affected have already been sold off heavily, with many down 50% or more. As such, with much of the risk already priced into stocks in that market, we generally see this as a buying opportunity.

Otherwise, many of the Fund's holdings are companies that are in the midst of the supply shortages in semiconductors, industrial components, autos and commodities, and we expect them to continue to experience robust profit growth. Their relatively modest starting valuations should make them good investments over the medium term. We still expect a travel boom as we exit COVID-related restrictions across the globe, which is expected to benefit our investment in travel-related sectors, while our financial (banks and insurance) holdings should benefit from the trend toward higher interest rates.

However, the short-term picture around inflation and the potential for interest rates to move higher is concerning. This is especially so given the high levels of indebtedness and excessive valuations in not only parts of the share market, but in many unlisted assets as well. It is our view that a cautious approach is required for the moment. Either way, the months ahead are shaping up to be an interesting period ahead for markets.

5 For a longer discussion please see our article https://www.platinum.com.au/Insights-Tools/The-Journal/China-Societal-Change

Platinum Global Fund (Long Only)

Clay Smolinski
Portfolio Manager

Performance

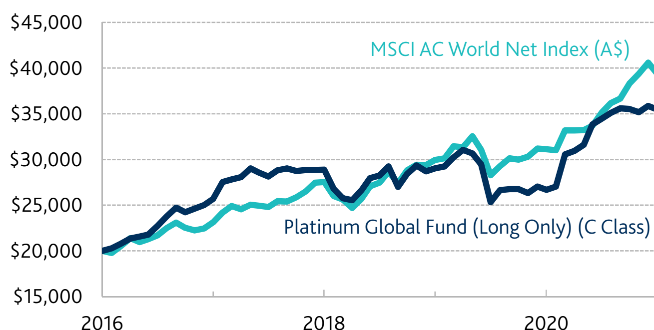
(compound p.a.⁺, to 30 September 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Global Fund (Long Only)*	0%	33%	7%	12%	11%
MSCI AC World Index^	3%	26%	13%	15%	8%

⁺ Excludes quarterly returns
* C Class – standard fee option. Inception date: 28 January 2005.
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 44. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 September 2016 to 30 September 2021



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 44.

The Fund (C Class) returned -0.3% for the quarter and 32.9% for the year.[1]

Over the past six months the value of the Fund has effectively tracked sideways, rising close to 3%, whilst the broader market has pushed higher. There are two main factors behind this:

1. The first is, since late May, a number of our companies with cyclical exposure have seen their stock prices fall 5-15%, as the delta variant spread rapidly around the world and investors began questioning whether the economy will begin to weaken from here. These pullbacks have offset gains elsewhere in the portfolio.

2. The second is the market reaction to the regulatory wave in China, which resulted in a blanket market sell-down. Roughly 20% of the Fund is invested in China, and in aggregate those stocks fell 10%, representing a drag of 2% on performance. Whilst a 2% drag is not large in absolute terms, it meant that 20% of the portfolio did not participate in the rally seen elsewhere.

Breaking down the main contributors to performance for the quarter, on the positive side, we saw gains across our major holdings in **Raiffeisen Bank International** (+19%), **Mosaic** (+12%), **Lixil** (+13%) and **Glencore** (+14%).

Of these holdings, our position in US fertiliser company **Mosaic** was recently acquired in March and will be less familiar to readers. Mosaic is a one of the world's largest and lowest-cost producers of phosphate and potash fertilisers. The company has weathered a decade-long down cycle in fertiliser prices, however, there are now signs we are in an up cycle. China's grain stocks have been wiped out post the flooding of the Yangtze River basin and there is a need to rebuild China's pig herd (and feed them) after the swine flu cull in 2020. This has seen China's corn imports rise from 3 million to 10 million tonnes, pushing up corn and soy prices

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

and increasing the number of acres planted and fertiliser application rates. China's recent move to ban fertiliser exports until mid-2022 will further tighten the market and Mosaic's share price has started to rise in response.

The detractors of performance followed a similar pattern to our contributors, with a group of holdings, such as **Micron Technology** (-16%), **Trip.com** (-13%) and **Showa Denko** (-17%), suffering mid-teen falls in their share prices. However, there is one standout, being our investment in **TAL Education** which fell 81%, costing the Fund 0.75% in performance.

TAL is a provider of educational tutoring services in China, a service used by millions of Chinese parents trying give their children the best chance of navigating China's notoriously competitive school system. We purchased our stake in TAL post the stock having already fallen 80%, in response to the uncertainty around the new regulatory controls the government was going to introduce around the industry.

While we fully expected considerable regulatory changes to the business, our assessment was TAL was one of the highest-quality operators in the sector, and given the foundational value of education to the country and the clear demand from parents, there would still be a place for quality independent providers in the system. As is now well known, this last assumption proved incorrect, with the government taking the surprise move to convert the tutoring industry to a not-for-profit enterprise.

The outcome from the TAL investment is very disappointing, however, the approach to the investment in TAL was not unlike investing in a promising biotech awaiting phase 3 data. There was risk of a worse outcome on the regulatory front, but there were also many scenarios that provided considerable upside, and the position was sized accordingly to ensure a manageable impact to the Fund, should the negative outcome occur.

Changes to the Portfolio

Similar to last quarter, we continued the pattern of rotating our holdings that have benefited from the economic recovery into companies that we believe will benefit from new areas of growth.

We completely exited our holding in Indian truck manufacturer **Ashok Leyland**, and heavily trimmed our holding in US online bank and auto lender **Ally Financial**, with both companies previously being top-10 positions and fantastic performers for the Fund. We also continued to trim our positions in **Bank of Ireland** and **Louisiana-Pacific**.

Disposition of Assets

REGION	30 SEP 2021	30 JUN 2021	30 SEP 2020
Asia	31%	27%	27%
Europe	24%	22%	22%
North America	21%	26%	30%
Japan	12%	10%	9%
Australia	3%	3%	2%
Other	1%	1%	0%
Cash	7%	11%	9%

See note 3, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 SEP 2021	30 JUN 2021	30 SEP 2020
Industrials	22%	23%	25%
Financials	16%	19%	13%
Materials	16%	18%	11%
Information Technology	14%	13%	17%
Health Care	7%	5%	9%
Communication Services	7%	3%	4%
Consumer Discretionary	7%	5%	7%
Real Estate	4%	3%	4%
Consumer Staples	1%	0%	0%
Energy	1%	0%	1%
TOTAL NET EXPOSURE	93%	89%	91%

See note 4, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Microchip Technology Inc	US	Info Technology	4.6%
Raiffeisen Bank Intl	Austria	Financials	4.2%
Applus Services SA	Spain	Industrials	3.8%
ZTO Express Cayman Inc	China	Industrials	3.8%
Weichai Power Co Ltd	China	Industrials	3.5%
Micron Technology Inc	US	Info Technology	3.5%
Minebea Co Ltd	Japan	Industrials	3.3%
Samsung Electronics Co	South Korea	Info Technology	3.3%
Glencore PLC	Australia	Materials	3.3%
UPM-Kymmene OYJ	Finland	Materials	3.1%

As at 30 September 2021. See note 5, page 44.
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 http://www.platinum.com.au/our-products/pgflo

The heavy sell-down in China, gave us the opportunity to establish a new position in **Tencent** and we continued to tilt the portfolio towards companies with structural growth, adding to our positions in **Merck KGaA**, a leader in consumables for the production of biotech drugs, and European funds management distribution platform **Allfunds Group**.

In our June quarterly report,[2] we mentioned some of the areas of great change we were focusing on in order to find investment opportunities. One of those areas is the work from home (WFH) trend, that will have a lasting effect on our life choices. A new holding that is directly benefiting from the WFH trend is **Open House**.

Open House is a very unique Japanese homebuilder. The company is different in two ways:

1. The first is their **sales culture**. The company was founded by Masaaki Arai. Arai started out running a Century 21 real estate office, where he won the award for being the best-performing sales office in the country for 12 consecutive years. Arai took his sales philosophy and built a process-driven sales culture, based on high levels of training and meritocracy-based pay, to the point where Open House offers the highest-paying graduate jobs in Japan outside of the tech sector.
2. The second is their **housing product**. In an urban landscape dominated by apartments, Open House builds detached single-family homes in the major cities, giving Japanese families space at an affordable price. The genesis of this, was the change in zoning laws across Japan in the early 2000s, which allowed far more flexibility in build height and the ability to subdivide residential land. This allows Open House to buy small/irregular-sized land lots (roughly 140 square metres) that the other developers tend to shun and build two custom family homes that offer a parking space, home office and a roof garden, for the same price as an apartment.

Prior to WFH, this model produced fantastic financial success, with Open House consistently growing sales and profits at 30% p.a., making returns on equity in the high 20% range. WFH has accelerated this demand for Open House's style of homes even further.

This change in what is a desirable living space in the WFH era should be a multi-year trend and we were able to buy this impressive operator for a mere 10x earnings.

2 https://www.platinum.com.au/PlatinumSite/media/Reports/pgfloqtr_0621.pdf

Outlook

We are at an important juncture in markets, as the acceptance that the current inflationary environment will be a transient blip is now increasingly being questioned.

The economic picture on the ground has changed out of sight and the signs of inflation are both stark and everywhere you look. Most will be aware of the strong inflation in energy, goods and transport prices, but importantly, inflation is strong in categories that tend to be more structural, namely labour and rent/housing.

Nominal wage increases in the US are now running at over 5% p.a., and there are over 10 million open job positions vs. an unemployed population of 8 million. Labour shortages and wage hikes are a constant theme in discussions with the companies we follow. This activity is flowing through to housing and rental costs, with US national rents up 16% for the year to date, and 10% higher than the pre-COVID price trend. When we combine this with the trend towards more populist governments, there is mounting evidence we are not returning to the low inflation world of the past decade.[3]

Central banks around the world are now starting to take action. Rate increases are already occurring across emerging markets and the US Federal Reserve announced they are likely to reduce their bond purchases in November, which will effectively reduce the amount of interest rate manipulation that has kept rates low.

Making macro predictions is fraught with error, but here we feel the risk is asymmetric because the market is still largely pricing in a continuation of the low interest rate environment.

Hence, this is a time where we think it is paramount to stick to the discipline that price matters and to be wary of the ‘hot' areas of the market. With that, we continue to position the portfolio into companies where relative valuations are on your side and you're likely to be more insulated if interest rates move higher.

3 Source: Evercore ISI Research (wages), FactSet Research Systems (labour force), October Apartment List National Rent Report (rents).

Platinum Asia Fund

Andrew Clifford
Portfolio Manager

Cameron Robertson
Portfolio Manager

Performance

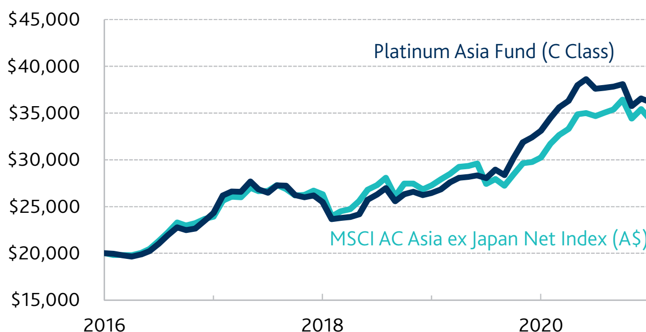
(compound p.a.+, to 30 September 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	-5%	9%	12%	13%	14%
MSCI AC Asia ex Jp Index^	-6%	14%	9%	11%	10%

+ Excludes quarterly returns
* C Class – standard fee option. Inception date: 4 March 2003.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country Asia ex Japan 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 44. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 September 2016 to 30 September 2021



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 44.

The Fund (C Class) returned -5.0% for the quarter and 9.2% for the year.[1]

Asian markets sold off sharply early in the quarter, driven by weakness in China, with the MSCI China Index falling -15% in Australian dollar (AUD) terms over the quarter. Markets appear to have stabilised, although investor sentiment towards China has been fluctuating week by week.

The biggest detractors from the Fund's performance during the quarter were concentrated in our Chinese holdings. One small holding, **TAL Education**, suffered a sharp decline (-81% over the quarter) as the after-school tutoring market in China was banned. Chinese technology companies, like **Alibaba** (-35%), **Tencent** (-21%) and **Kingsoft** (-33%), also saw their share prices fall, as investor sentiment towards the country soured and concerns grew around regulatory overhang. **Ping An Insurance** was also marked down (-25%) during the quarter, with some investors selling the stock due to fears around the health of their investment portfolio.

There were a number of bright spots during the quarter though, even within our Chinese holdings. One of these was **Yuan Longping High-Tech Agriculture** (+20% from first entry point during the quarter), a company that is playing a key role in improving agricultural efficiency in China through their portfolio of rice and corn seeds. **AK Medical** (+36% from first entry point) also rose nicely, shortly after our initial purchase, as the results from the public procurement process for hip and knee joints confirmed they had secured a healthy market share at prices that were better than some had expected.

Outside of China, a number of our holdings posted positive results. Indian companies such as **Macrotech Developers** (+55%), **InterGlobe Aviation** (+18%), **ICICI Bank** (+11%) and **IndiaMart** (+20%) all performed strongly, as did Vietnamese retailer **Mobile World Investment** (+26%).

We had two small short positions during the quarter, both of which made a modest positive contribution to performance. The AUD weakened during the quarter, providing a slight tailwind to AUD reported results.

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

Changes to the Portfolio

During the quarter we took advantage of the sell-off in **Tencent** and **Alibaba**, adding back to our positions in both of these Chinese internet powerhouses. While the market frets about regulation, we believe these headwinds are likely only modest drags on their respective businesses, and are more than priced in at this point, presenting an attractive opportunity to increase our exposure to their exciting emerging business areas, such as enterprise software as a service (SaaS), among others.

We also modestly increased our exposure to existing holdings **Noah** and **InterGlobe Aviation**. Noah is a leading domestic wealth management company in China, which provides first-class service for their clients. Over the long term, Noah should benefit as China's demand for financial advice and asset management continues to grow. The firm is led by an entrepreneurial group of founders who built the business into what it is today, and they retain a meaningful ownership position. InterGlobe Aviation is India's dominant low-cost airline, and we added to our holdings during the quarter as we believe investors still weren't fully appreciating how strong the company's position would prove to be once they emerged from the pandemic headwinds.

We continued to introduce new names into the portfolio across a range of areas. These have generally been businesses which we believe are well run and positioned to generate strong shareholder returns over the coming years. Many of these have tended to be medium-sized companies, and as such, our position sizing has tended to be more modest, reflecting the liquidity constraints inherent in such positions. While individually they are smaller holdings, the intention is to build up a collection of such ideas, to provide a meaningful contribution to the overall portfolio.

One example that fits in this category is **Yuan Longping**. Yuan Longping has a leading global position in hybrid rice seeds, as well as a strong position in the Chinese market for a range of other seeds, one of the most promising of which is their position in the fragmented domestic corn seed market. These seed varieties are critical to improving agricultural efficiency and protecting the crops against threats, such as insect infestations. Food security is a topic the government is acutely aware of, and as such, this is an area where foreign players have been somewhat restricted, while Yuan Longping benefits from research and development (R&D) support and collaboration with domestic universities. The company is also competitive internationally, with a footprint throughout Asia and South America. We believe the Chinese seed market is likely to continue evolving and consolidating, while Yuan Longping's strong portfolio of seed genetics should see them emerge as a winner throughout this process.

Disposition of Assets

REGION	30 SEP 2021	30 JUN 2021	30 SEP 2020
China	48%	43%	45%
India	10%	7%	9%
South Korea	9%	10%	13%
Hong Kong	7%	7%	8%
Taiwan	6%	5%	9%
Vietnam	5%	4%	3%
Philippines	2%	1%	1%
Singapore	1%	1%	0%
Macao	1%	1%	1%
Thailand	0%	1%	2%
Cash	11%	18%	9%
Shorts	0%	-9%	-4%

See note 3, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 SEP 2021	30 JUN 2021	30 SEP 2020
Consumer Discretionary	20%	19%	26%
Financials	15%	13%	11%
Information Technology	14%	17%	23%
Industrials	14%	12%	3%
Real Estate	10%	9%	5%
Materials	4%	3%	3%
Communication Services	4%	2%	10%
Consumer Staples	2%	2%	3%
Health Care	2%	1%	1%
Energy	0%	0%	3%
Other	4%	-6%	-2%
TOTAL NET EXPOSURE	89%	72%	86%

See note 4, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Another promising mid-sized company we introduced to the portfolio during the quarter was a firm which, among other things, provides software to the electrical grid. Their software helps the grid adapt to the increasingly variable supply and demand dynamics arising from intermittent renewable sources of energy, and a growing electric vehicle fleet.

Other new additions to the portfolio are exposed to thematics such as: tertiary education; aging populations; and a company which is applying cutting-edge artificial intelligence to healthcare.

To fund these purchases, we reduced the size of a number of positions that had performed relatively well, such as **Yum China**, **Samsung Electronics**, **Taiwan Semiconductor Manufacturing**, **Li Ning**, **Sunny Optical Technology** and **AIA**.

We also sold our holding in Thai retailing group **CP All** and completed the switch from Indian bank HDFC into **ICICI**, as discussed last quarter, in response to what we believe was an unwarranted large valuation differential.

Finally, we also introduced two new small short positions.

Commentary

China clearly spooked foreign investors last quarter. While a degree of caution is warranted, it is important to remember that the overall market in China has already sold off sharply and currently reflects a fair degree of negativity. In many parts of the market that are out of favour, it's not uncommon to see share prices already down 50%. We note this primarily to say, that in our minds, the opportunity to profit by panicking early has likely passed. At this point, on the balance of probabilities, we feel fears being priced into parts of the market are excessive and there is probably more money to be made on the long side than on the short. The media and pundits love playing on investors' emotions with charged commentary, posing questions like "is this China's Lehman moment?", or "is China uninvestable?". Such drama seems particularly unhelpful and largely serves to stoke what we suspect is unnecessary fear and confusion.

The primary issue hanging over the Chinese market for the past few months has been concern around the changing regulatory environment and a seemingly more interventionist government approach to the economy. Signs of the changing regulatory environment have been emerging over the past few years, with events such as restrictions on computer games, the halted initial public offering (IPO) of Jack Ma's Ant Financial, and anti-monopoly e-commerce investigations. These regulatory concerns reached a fever-pitch when, in July, the entire for-profit school tutoring sector was essentially told their businesses would have to cease. Then, as if to really drive the message home for investors, just days later, it became clear that China's dominant ride-hailing firm Didi was in trouble with regulators immediately following its IPO on the US market. Following these actions, investors started offloading Chinese shares and the market went into a tailspin.

Then Western media's concerns around property developer China Evergrande Group reared its head, and while that has driven a decline in certain property-related sectors, so far, the impact on the broader market from these concerns seems more contained – despite the occasional apocalyptic headline in the media. It's perhaps worth noting that Evergrande's challenges have been well known for a long time, this hasn't just come out of the blue. Their difficulties in making bond payments and rolling over financing has caused the current heightened scrutiny on the firm and likely signals that a resolution will be forced sooner rather than later.

On the regulatory side, it is clear that the environment has been changing and getting tougher. However, it is important to remember this is a business environment where, frankly, regulation was sorely lacking. While there has been the occasional more extreme or surprising regulatory action, we would contend the bulk of regulations have been fairly sensible and in line with what we are familiar with elsewhere. If you consider many of the anti-monopoly cases for example, the activities under scrutiny would never have been allowed to happen in most developed markets in the first place. Rather than the direction of regulation being particularly unusual, the biggest differences compared to Western markets is the speed with which regulators move and perhaps the more absolute nature of such edicts. Overall, the transition from minimal regulatory oversight to corporates having to behave and comply with laws, could be a bumpy transition, but we don't think the destination is necessarily one to fear.

Turning specifically to Evergrande, our expectation is that some banks and investors could well lose money here and some suppliers may end up taking a haircut on receivables as well. However, that said, it strikes us as unlikely this will prove to be an event that sparks mass contagion. It's worth remembering that the end consumer in China's property market still has a strong appetite for modern housing, and while mortgage debt has been increasing in the country, large down payments have been required for many years, so consumer leverage ratios are not excessively high. Providing assets can be liquidated in an orderly manner, from a system-wide perspective at this point, the event appears very manageable, although of course, only time will tell.

Given all the focus and fears around China, it is worth highlighting that major Chinese property and financial holdings account for around 15% of the Fund's assets. These are primarily in large companies, where our holdings could be liquidated quickly, should we decide that's the best course of action. At this point in time, however, our view is that market fears are overblown and we expect these holdings will likely deliver positive outcomes for investors. We would add that most of the Fund's assets are invested in other prospective opportunities around the region, and are not directly exposed to these more turbulent sectors.

Outlook

While China has recently been a source of concern for many and the economic environment there is softening in places, its shares have already been marked down sharply. As such, barring some extreme and unlikely scenario, we think it is reasonable for long-term investors to expect healthy investment returns from current levels.

It is important to remember that the stock market is a predictive machine, so as investors, we should benefit when people start to feel slightly more positive about the prospects for that country. And let's not forget, there are actually many reasons to remain optimistic about the long-term opportunity, not just in China, but across Asia more generally.

This remains a vibrant dynamic region, with well-educated and driven people, hungry to further improve their living standards. The opportunity for investors in Asia remains bright, and recent fears have led to correspondingly low relative valuations in parts of the region, creating a set-up which is looking increasingly attractive for those able to take the longer-term view.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Taiwan Semiconductor	Taiwan	Info Technology	5.1%
Samsung Electronics Co	South Korea	Info Technology	4.6%
Tencent Holdings Ltd	China	Comm Services	3.9%
ZTO Express Cayman	China	Industrials	3.8%
Vietnam Ent Investments	Vietnam	Other	3.7%
AIA Group Ltd	Hong Kong	Financials	3.5%
InterGlobe Aviation Ltd	India	Industrials	3.4%
Alibaba Group Holding	China	Cons Discretionary	3.4%
Weichai Power Co Ltd	China	Industrials	3.3%
Ping An Insurance Group	China	Financials	3.0%

As at 30 September 2021. See note 5, page 44.
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/paf.

Platinum European Fund

Nik Dvornak
Portfolio Manager

Adrian Cotiga
Portfolio Manager

Performance

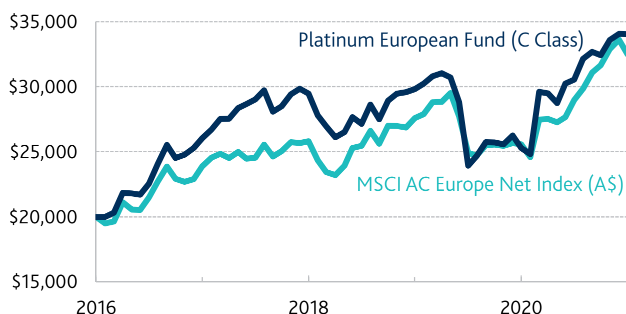
(compound p.a.⁺, to 30 September 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	5%	35%	5%	11%	11%
MSCI AC Europe Index^	3%	27%	8%	10%	4%

⁺ Excludes quarterly returns.
* C Class – standard fee option. Inception date: 30 June 1998.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country Europe 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 44. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 September 2016 to 30 September 2021



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 44.

The Fund (C Class) returned 4.9% for the quarter and 34.6% for the year.[1]

The economic backdrop in Europe remains supportive. Tremendous progress has been made in advancing vaccination programs in recent months. Economies across the region are now reopening, people are returning to work, tourism flows are recovering and everyday life is normalising.

Business and consumer confidence remain at levels consistent with strong economic expansion. Sentiment remains buoyant, capacity utilisation is high and labour market conditions are tightening. Both the rate of unemployment (7.6%) and long-term unemployment (3.2%) are near historic lows. Competitiveness has been maintained with the Euro Area current account balance recording a healthy surplus of 3% of GDP.[2]

However, a number of concerns cloud the outlook. With winter approaching, the threat of another round of lockdowns looms. China, a key trading partner, continues to wrestle with localised COVID outbreaks, which are constraining economic growth and disrupting supply chains. Shortages are appearing in many markets including natural gas, semiconductors and container shipping. The shortage of skilled workers is acute.

With inflation running at 3% p.a., well above the European Central Bank's (ECB) 2% target, price pressures and interest rates will likely dominate the investment debate. The ECB is looking increasingly isolated in insisting that inflationary pressures are transitory. Their counterparts in Russia, Czechia, Hungary and Norway have already raised rates and signalled an intent to continue doing so. The US Federal Reserve is turning more hawkish, while the Chinese authorities are acting to slow credit growth and property price appreciation.

Our best-performing stocks over the quarter were **Hypoport** (+34%), together with a number of our bank holdings. Hypoport is a technology platform that links banks and mortgage brokers throughout Germany, creating a national mortgage market. Banks are benefiting from the strong economic recovery and the prospect of higher rates.

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum European 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 Source: All economic data is sourced from https://tradingeconomics.com/

The main detractors were **ASOS** (-39%) and **Prosus** (-16%). ASOS is an online fashion retailer that continues to grow rapidly in the UK and Europe, but weaker-than-expected growth in the US disappointed investors. Prosus continues to suffer from weakness in the stock price of Chinese internet giant Tencent, its largest investment.

Changes to the Portfolio

Soon after I (Nik) joined Platinum, 15 years ago, a team of ours returned from a two-week trip meeting companies in Europe. The topic *du jour*? Decarbonisation and the clean energy revolution. Investors were particularly enraptured by the wind and solar power industries. Many of the companies our team met had tremendous growth prospects and were hungry for the capital required to fulfil these ambitions. As it turned out, the capital was raised, the productive capacity was built and European power generation was revolutionised. And most of the companies involved either failed or came close to it. Names that spring to mind from those days include Vestas Wind Systems, a current market darling. Their shares surged more than five-fold in under three years before crashing 95% in the subsequent five years. Another one is Norwegian polysilicon producer REC, which collapsed even more spectacularly.

Disposition of Assets

REGION	30 SEP 2021	30 JUN 2021	30 SEP 2020
United Kingdom	18%	18%	12%
Germany	10%	13%	18%
France	9%	10%	8%
Spain	8%	9%	9%
Switzerland	7%	6%	8%
Romania	6%	8%	8%
Ireland	5%	5%	5%
Austria	4%	4%	4%
Italy	3%	3%	2%
China	3%	3%	4%
United States	3%	3%	6%
Finland	3%	3%	0%
Netherlands	2%	2%	1%
Norway	2%	3%	7%
Czech Republic	1%	1%	0%
Hungary	1%	1%	0%
Denmark	0%	0%	2%
Russia	0%	0%	2%
Poland	0%	0%	1%
Cash	13%	8%	2%
Shorts	-3%	-1%	-4%

See note 3, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Correctly picking a theme is not enough. Good stories attract capital. That capital is turned into the vast productive capacity needed to meet those ambitions. This commitment is irreversible, the capacity often cannot be applied to any other purpose and usually depreciates rapidly. Nor does end demand cooperate. It evolves in a volatile manner and when it falls short of expectations, even temporarily, the carnage can be devastating. Correctly characterising the underlying business is far more important than identifying the thematic.

In the years that followed, we persisted but were more circumspect. We even invested in wind turbine makers, **Siemens Gamesa** and **Nordex**, in 2018. Their growth prospects were as appealing as ever, but what convinced us was the dramatic rationalisation of the product assortment and consolidation of competition. Moreover, these businesses now earn lucrative and stable income servicing the installed fleet, leaving them less susceptible to demand fluctuations.

Hydroelectric power is a big beneficiary of renewables' growing share of power generation. Reduced investment in coal and gas should reduce supply and lead to higher prices. Carbon prices are also likely to rise over time as emission limits bind and credits are withdrawn. These factors will lead to higher power prices, benefiting hydroelectric producers who can produce baseload power at almost zero marginal cost. Secondly, as renewables' share grows, grid stability becomes a problem due to the intermittency of solar and wind. Hydroelectric reservoirs can provide a lot of power at very short notice. This is highly profitable because power prices can surge to extreme levels during imbalances. Our hydroelectric power investments included **Andritz**, one of three global manufacturers and servicers of hydroelectric turbines, and **Fondul Proprietatea**, which owns a share in Romania's extensive hydroelectric infrastructure.

Net Sector Exposures

SECTOR	30 SEP 2021	30 JUN 2021	30 SEP 2020
Financials	30%	31%	22%
Industrials	17%	17%	19%
Consumer Discretionary	12%	11%	13%
Communication Services	5%	9%	10%
Health Care	5%	7%	17%
Materials	5%	5%	2%
Information Technology	4%	4%	6%
Energy	3%	3%	4%
Real Estate	2%	2%	2%
Consumer Staples	0%	1%	-1%
TOTAL NET EXPOSURE	83%	90%	94%

See note 4, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

We also invested in the electrification of passenger cars, although our holdings were somewhat tangential. Rather than buying growth for growth's sake, we sought businesses with favourable economics. This led to a position in **Infineon**, the leading producer of power semiconductors. Infineon is highly profitable, favourably positioned and should enjoy a huge step up in demand as electric vehicles take share from conventional ones. We also owned **Glencore**, a miner of both copper and cobalt, materials essential to this transition.

Over the last year, we exited most of these holdings. Investor enthusiasm for the 'green revolution' is becoming feverish and we feel there are better opportunities elsewhere.

Plastic waste is a massive pain point for food and beverage companies, which are prolific users of plastic packaging. They are under tremendous pressure to address this and are turning to carton packaging as one alternative. Consumers are used to carton packaging. It was once common for milk and orange juice and the fact that fast-growing, trendy, products like milk alternatives (soy, almond, oat milks) and coconut water almost always come in cartons demonstrates that carton packaging resonates strongly with conscientious consumers. Carton packaging is growing steadily in various beverage categories and is even gaining ground in soup, yoghurt and certain foods (diced tomatoes).

There are only two global companies producing carton packing equipment and consumables for the food and beverage industry. They are highly profitable with high margins and high returns on capital. Their customers desperately want innovation and are willing to pay for it. We hold one of these companies in our portfolio.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank Intl	Austria	Financials	3.8%
Banca Transilvania SA	Romania	Financials	3.7%
Airbus SE	France	Industrials	3.6%
Beazley PLC	UK	Financials	3.4%
Allfunds Group Plc	UK	Financials	3.4%
Saras SpA	Italy	Energy	3.4%
Prosus NV	China	Cons Discretionary	3.2%
Bank of Ireland Group	Ireland	Financials	3.2%
Banco Santander SA	Spain	Financials	3.1%
Booking Holdings Inc	US	Cons Discretionary	3.1%

As at 30 September 2021. See note 5, page 44.
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/pef.

Carton is made from wood, which is a renewable and biodegradable raw material. However, carton packing still requires thin plastic films, like those used in disposable coffee cups. Using carton reduces plastic consumed but doesn't eliminate it. A different way to attack the problem is not to reduce plastic but to make it greener. **UPM-Kymmene Oyj**, a Finnish forest products company we hold, is scaling up production of plastics from wood. This solves the fossil fuel input problem although it's the same output so it's still not biodegradable. Other companies are developing new plastics that are biodegradable but these are still at an early stage.

Innovation is also desperately needed in aviation fuel. The current generation of jet engines is 15% more fuel efficient than the last. However, passenger growth is so high that it is simply overwhelming these improvements, making aviation one of the only sources of rising carbon emissions in Europe. This will not be allowed to stand.

Alternative fuels exist and can be seamlessly blended with conventional fuel. No engine modification is needed. Instead of being derived from crude oil, these fuels are derived from wastes and residues, such as used cooking oil and animal/fish fat waste. Collection is very expensive but the real shortcoming is that there is simply not enough raw material input for our needs. The most promising alternative is lignocellulosic-based aviation fuel, which will be derived from forest products. Once again, UPM is developing this product and building capacity to supply this potentially large market.

Overall, around 8% of our capital is invested in the 'green revolution' theme.

Outlook

Equity markets have rallied well past their pre-COVID highs. Supporting this has been a synchronised economic recovery and extremely accommodative monetary and fiscal conditions across the globe.

It is difficult to see how conditions improve from here. Fiscal contraction seems inevitable. Rising inflation will press central banks to dial back the monetisation of government debt and raise interest rates. Meanwhile, ongoing supply disruptions makes planning difficult and the operating environment riskier for many enterprises. The labour market warrants particular attention. The suspension of fiscal transfers and reopening of borders seems inevitable. If this doesn't alleviate labour shortages, markets will face considerable challenges in coming quarters.

During the quarter we trimmed a broad range of holdings. Our cash position now amounts to around 13% of our capital. Our tendency is to increase this further.

Platinum Japan Fund

James Halse
Portfolio Manager

Performance

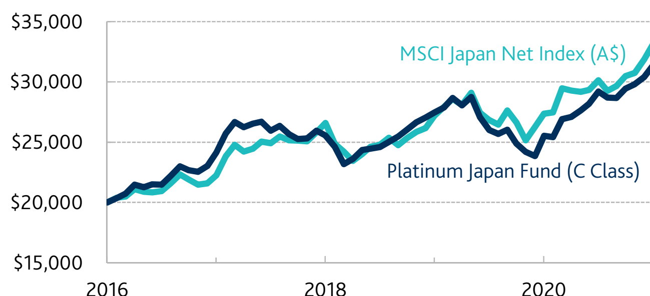
(compound p.a.+, to 30 September 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	7%	23%	7%	9%	14%
MSCI Japan Index^	9%	21%	8%	11%	4%

+ Excludes quarterly performance.
* C Class – standard fee option. Inception date: 30 June 1998.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI Japan 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 44. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 September 2016 to 30 September 2021



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 44.

The Fund (C Class) returned 6.6% for the quarter and 23.0% for the year.[1]

After oscillating through July and August, Japanese equities rallied strongly from the beginning of September, as investors were reassured by the resignation of the unpopular Prime Minister Suga, that the Liberal Democratic Party (LDP) was likely to remain in power and provide continued fiscal stimulus and monetary easing. The rally, however, suffered a large reversal in the last few days of the quarter, as fears of a slowdown in the Chinese economy, issues with shortages of freight capacity and essential components disrupting supply chains, and concerns over inflation and rising interest rates, overwhelmed the positive political sentiment. Investors also preferred Taro Kono to the eventual leadership vote winner Fumio Kishida. Despite the disenchantment, Kishida's policy platform appears to imply a continuation of the "Abenomics" status quo, albeit with more focus on measures to reduce inequality.

The likely default and restructuring of China Evergrande with its US$300 billion of liabilities, along with a number of other smaller indebted developers, seems to already be having flow-on effects in the Chinese economy.[2] While we do not envisage broader financial contagion,[3] the heavy reliance on real estate as a driver of the Chinese, and thus global economy, means we may see a general slowdown in demand for commodities and other inputs used in that industry with impacts to global prices, similar to that which has hit the iron ore price from the end of August (though environmental policies that curb steel production may also be a factor in that market). The slowdown may also extend to Chinese consumer spending, as people become concerned with their job security and investments in the property sector.

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

2 https://www.cnbc.com/2021/09/30/china-sept-factory-activity-unexpectedly-contracts-shows-official-pmi.html (although COVID outbreaks and associated restrictions are likely also having an impact).

3 See Andrew Clifford's Macro Overview and our market update on 22 September https://www.platinum.com.au/Insights-Tools/The-Journal/Market-Update-22-September-2021 for more detail.

Disposition of Assets

REGION	30 SEP 2021	30 JUN 2021	30 SEP 2020
Japan	80%	84%	88%
South Korea	6%	7%	9%
Cash	13%	9%	3%
Shorts	-5%	-3%	-3%

See note 3, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 SEP 2021	30 JUN 2021	30 SEP 2020
Information Technology	20%	24%	21%
Industrials	19%	21%	11%
Materials	13%	8%	4%
Communication Services	9%	7%	26%
Consumer Discretionary	8%	12%	11%
Consumer Staples	6%	3%	1%
Health Care	5%	9%	18%
Financials	2%	3%	3%
Real Estate	1%	1%	0%
TOTAL NET EXPOSURE	82%	88%	94%

See note 4, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Minebea Co Ltd	Japan	Industrials	4.7%
Open House Co Ltd	Japan	Cons Discretionary	4.2%
Lixil Group Corp	Japan	Industrials	4.1%
DeNA Co Ltd	Japan	Comm Services	3.6%
CyberAgent Inc	Japan	Comm Services	3.5%
Showa Denko KK	Japan	Materials	3.2%
Toyota Motor Corp	Japan	Cons Discretionary	3.1%
Asahi Group Holdings	Japan	Consumer Staples	3.1%
Toyo Seikan Group	Japan	Materials	2.9%
Pigeon Corp	Japan	Consumer Staples	2.9%

As at 30 September 2021. See note 5, page 44.
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/pjf.

The Japanese market's rapid appreciation amidst a likely slowdown in its large neighbour's economy, coupled with rising global interest rates, led us to take measures to reduce our net invested position in the second-to-last week of the quarter, both via sales of those companies more exposed to commodity demand and Chinese consumer spending, as well as taking short positions against very expensive Japanese quality/growth favourites that are especially exposed to higher bond rates. This assisted our performance toward the end of the quarter as the market sold off.

From a single stock perspective, the largest contributor to performance in the quarter was shipping owner **Kawasaki Kisen Kaisha** (providing a 1.8% contribution to performance). We bought a 3.2% position in August on the basis of skyrocketing freight rates owing to shortages of capacity, as well as an ongoing restructuring story and improved corporate governance (around 39% of the company is owned by an activist investor). Despite extensive appreciation prior to our purchase, the market was sceptical of the duration of buoyant freight rates, allowing us to buy the stock on only 2x its expected earnings for the current year, and below its book value. We accumulated our position at an average price of JPY 4366, then sold the majority a little over a month later at an average price of JPY 7225 due to the rapid share price appreciation and our concerns over the China slowdown. The stock has since pulled back to JPY 6080 and we maintained a 1.6% position at the time of writing.

Other major contributors included highly profitable and fast-growing specialised residential real estate developer **Open House** (+27% over the quarter), which gained following an upgrade to earnings guidance due to the strong performance of its recently acquired condominium business, and its US operations. Database and ERP software distributor **Oracle Corporation Japan** (+16%) also benefited from better-than-expected earnings and a reaffirmation of full-year guidance. **Renesas Electronics** (+16%) gained on excitement around its announcement of its new combination offerings that marry Renesas chips and sensors with the products of its recently acquired subsidiary, Dialog Semiconductor.

Detractors from performance included dynamic random-access memory (DRAM) producer **SK Hynix** (-19%) as memory prices retraced some of their gains, graphite electrode and chemicals producer **Showa Denko** (-17%) as it announced an equity raising to deleverage its balance sheet following its acquisition of Hitachi Chemical, and **Doosan Bobcat** (-17%), the Korean owner of the Bobcat small excavator brand globally, as market concerns grew over input cost increases.

When confronted with declining stock prices, it is important to remind oneself why positions are held to ensure the real-time market feedback does not precipitate rash action. SK Hynix is part of a three-player oligopolistic market in DRAM that while remaining cyclical, has demonstrated a large reduction in the depth of its troughs owing to its now consolidated structure. The stock is trading at around book value, a level that has proven to be good buying historically. Showa Denko's legacy business is well positioned for a transition in steel production away from carbon-heavy blast furnaces toward more environmentally friendly electric arc furnaces, and its Hitachi Chemical acquisition positions it well for growth in specialty chemicals used in semiconductor production. It is trading on 7.5x consensus earnings expectations for next year. Doosan Bobcat has a credible North American expansion story as it leverages new products to drive growth in its dealership locations across the country while benefiting from strength in the US housing market. The business earns very strong returns on capital and can be bought for 10x current year earnings.

Changes to the Portfolio

We continued to evolve the Fund's positioning as we worked through existing positions and uncovered new ideas. Positions sold included **NEC Corp** (+83% from its March 2020 COVID lows), **Horiba** (+81% from its March 2020 COVID lows) and **Sapporo Holdings** (+48% from its March 2020 COVID lows) following strong periods of appreciation.

NEC should exhibit steady growth as customers invest in their digital transitions, but this seems priced in. Horiba faces a secular decline in its engine emissions testing business that overwhelms the attractions of its growth business. Sapporo looks unlikely to return significant value to shareholders from its real estate holdings anytime soon, and is not well positioned as a third player in a declining beer market.

New significant additions to the Fund included the abovementioned **Kawasaki Kisen Kaisha** and **Pigeon Corp**. Pigeon is a leading brand in baby and childcare products, with a strong position in China. Worries over a severe reduction in the birth rate due to COVID have given us the opportunity to purchase the stock well below usual trading levels.

We also added significantly to existing positions in **Showa Denko**, cash-rich game developer **DeNA**, **Open House** and **SK Hynix**, among others.

Outlook

Market worries around a China slowdown and disorderly deleveraging in the property sector, supply chain issues leading to product shortages, and inflation and the path of interest rates, seem likely to foment further volatility in markets in the coming months. We will continue to employ our flexible approach to attempt to benefit from the opportunities that such volatility can present to us.

As we continue to reshape the portfolio, we expect to increase our exposure to well-positioned, attractively valued companies exhibiting improving corporate governance and capital allocation. Improving profitability for Japan Inc as it increasingly becomes a focus for newly enlightened management teams should be an important driver for the Japanese market going forward, and we aim to identify the stocks we believe are best placed to benefit from this trend.

Platinum International Brands Fund

James Halse
Portfolio Manager

Performance

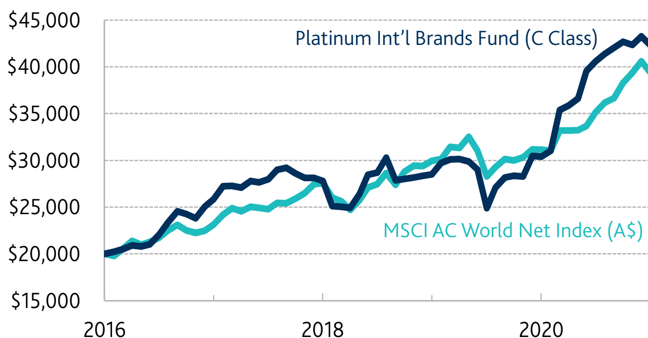
(compound p.a.+, to 30 September 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	-1%	39%	15%	16%	13%
MSCI AC World Index^	3%	26%	13%	15%	5%

+ 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 44. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 September 2016 to 30 September 2021



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 44.

The Fund (C Class) returned -0.9% for the quarter and 39.1% for the year.[1]

Global markets were subdued in the September quarter relative to recent history, but the calmness on the surface belied multiple large disturbances at the geographic and sector levels.

Prominent in the headlines has been China's regulatory crackdown, particularly on the education and technology sectors, as well as likely defaults in the real estate sector, with these problems now being compounded by factory shutdowns due to energy shortages.[2] However, equally impactful in the global consumer sector, are the major supply chain disturbances caused by COVID-driven production halts and shortages of workers at ports and trucking companies, leading to ships lying idle at anchor waiting to be unloaded. Consequently, we can observe extended transit times for goods, shortages of container capacity and skyrocketing freight rates. This compounds the lack of air freight capacity that has impacted cross-border e-commerce retailers as a result of the ongoing hiatus in international passenger flights.

Additionally, investors are concerned about a spending hangover associated with the withdrawal of monetary and fiscal stimulus in the USA, while sales may be further impacted by an inability to get products to shelves, and profit margins crimped by input cost inflation as a result of the shortages through the supply chain. Finally, bond yields have resumed their upward march, as inflation rears its head and central banks become moderately more hawkish in their policy stances,[3] which impacts the attractiveness of the cash flows associated with 'growth' and 'defensive' stocks.

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 and commodity prices are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

2 See Andrew Clifford's Macro Overview.

3 'Hawks' and 'doves' are terms used in the financial markets to describe likely voting preferences of board members of central banks. Hawks are willing to allow interest rates to rise in order to keep inflation under control; while doves prefer to focus on other issues, such as employment, and thus prefer to keep interest rates low.

The environment described above suppressed investor enthusiasm for consumer stocks, impacting the Fund's performance, with both US and global consumer staples and discretionary sectors returning negative performance for the quarter in US dollar terms,[4] and indeed, lacklustre moves since the end of March. Stocks such as fashion e-commerce player **ASOS** (-39%) were hurt by the freight issues, while food delivery operator **Just Eat Takeaway** (-20%) fell on negative regulatory developments. Our exposure to a weak Chinese market was detrimental, particularly in relation to internet stocks, such as **Alibaba** (-35%) and **Tencent** (-21%), but also casino operator **Melco International Development** (-36%) and burial provider **Fu Shou Yuan** (-14%). All these stocks are suffering from fears over regulatory attention to a greater or lesser degree.

Performance was assisted by a profit guidance upgrade at niche Japanese residential property developer **Open House** (+27%). Solid credit growth in Eastern European markets and rising global interest rates buoyed **Raiffeisen Bank International** (+19%) and Russian champion **Sberbank** (+13%). Improving market share performance and increased appreciation of the likelihood of capital being returned to shareholders saw UK supermarket leader **Tesco** perform well (+8% since first entry point).

4 MSCI AC Consumer Staples Index (-2.1%) and MSCI AC Consumer Discretionary Index (-5.2%). Source: MSCI

Changes to the Portfolio

We took advantage of the weakness in parts of the Chinese market and relative strength elsewhere, to undertake significant portfolio rebalancing in the quarter. We added to several existing positions that are now much more attractively valued, including WeChat owner **Tencent** and its major shareholder **Prosus**, online travel agent **Trip.com** and **Melco International**. We also re-established sizable positions in food delivery and super app **Meituan-Dianping** and e-commerce giant **Alibaba**, and bought a new position in dairy leader **Inner Mongolia Yili**.

Another related purchase was Japanese baby bottle maker **Pigeon**, which has been sold off on concerns of a considerable decline in Chinese births due to the pandemic. We view much of this to be temporary. As is often the case with the execution of our contrarian approach, these moves have so far proven to be too early, as market sentiment and the economic outlook has continued to sour in China.

We funded much of our Chinese purchases with the sale of our remaining holdings in several strong-performing North American discretionary retailers at or near their recent share price peaks. These included **Signet Jewelers**, which returned almost seven-fold from our initial purchase less than 18 months ago to our last sale, teen apparel brand **American Eagle Outfitters** for an 83% return from our first purchase in December 2018 and a more than four-fold increase from where we bought in May 2020, and women's apparel retailer **Aritzia**, which has almost tripled from our first purchase in February 2018.

Disposition of Assets

REGION	30 SEP 2021	30 JUN 2021	30 SEP 2020
Asia	42%	26%	21%
Europe	25%	32%	24%
Japan	13%	8%	5%
North America	12%	25%	42%
Other	0%	0%	0%
Cash	7%	8%	8%
Shorts	-14%	-11%	-7%

See note 3, page 44. Numerical figures have been subject to rounding.
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.

Net Sector Exposures

SECTOR	30 SEP 2021	30 JUN 2021	30 SEP 2020
Consumer Discretionary	41%	37%	48%
Consumer Staples	15%	5%	0%
Communication Services	12%	18%	18%
Financials	7%	18%	12%
Industrials	3%	3%	3%
Real Estate	1%	1%	1%
Materials	0%	-1%	0%
Other	0%	0%	2%
TOTAL NET EXPOSURE	78%	81%	85%

See note 4, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

We also exited **Bank of Ireland** and **Ally Financial**, with both more than doubling in price from our initial investments in March 2020 and September 2017 respectively. Our position in **Banco Santander** was also closed for an 83% return since October 2020.

Other sources of funds included significant trimming of Russian online bank **TCS Group** (up five-fold from first purchase to most recent sale), and the sale of our position in digital classifieds operator **Schibsted SA**, which more than doubled in price from where we added to the position in March and April 2020.

Outlook

As previously mentioned, US consumer spending likely faces a significant hangover from the extensive stimulus injected through 2020 and 2021. We can see the distortions when looking at the wild swings in the year-on-year growth rate of US monthly average hourly earnings, based on the timing of stimulus payments (see Fig. 1).

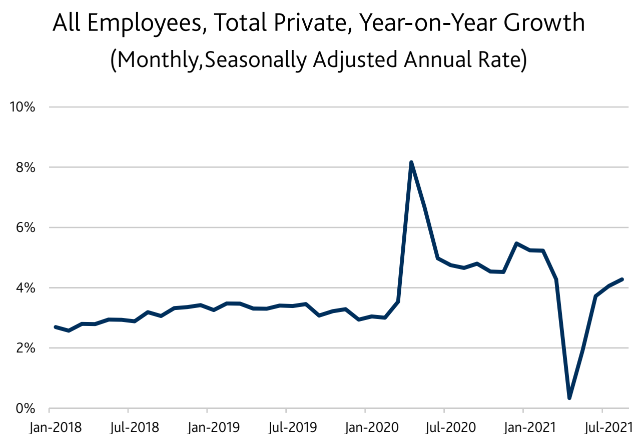
The important point to note, is that even in the unlikely event that Congress decides to continue the fiscal largesse at the unprecedented level of 2020-2021, that will not drive further growth in incomes and thus consumer spending, but merely assist in keeping incomes at the same level.

The transmission of stimulus through to consumer spending is observable in the US data on personal consumption expenditures (PCE), where extreme spending growth on durable goods through 2020 has continued into 2021, compounding on the 2020 figures. With reopening, spending has also moved into non-durable goods, as well as services, with growth now trending at 3-4x pre-pandemic levels (see Fig. 2.). Note that spending on services is typically 70% of PCE, and on durables 10%, so a 1% shift in spending away from services frees up capacity equivalent to 7% of durables, in short: people can buy a lot more couches when they are not allowed to visit restaurants.

While retail executives tout the success of their strategies, strength of their people and brands, and precision in their execution of business plans, no amount of managerial finesse can substitute for 'free' money in consumer wallets. If (when) that money dries up, we are likely to be left with significantly dented earnings across purveyors of discretionary consumer goods. This effect is likely to be compounded by a reversion in the share of spending back toward services as the economy fully reopens, and the front-loading effect of stimulus-driven demand (one does not need to replace one's couch every year or two). For a historical precedent on the impact of the withdrawal, we can look to our own backyard in Australia and the weak performance of retailers, such as Harvey Norman in 2010 following the consumer stimulus payments of late 2008 and early 2009.

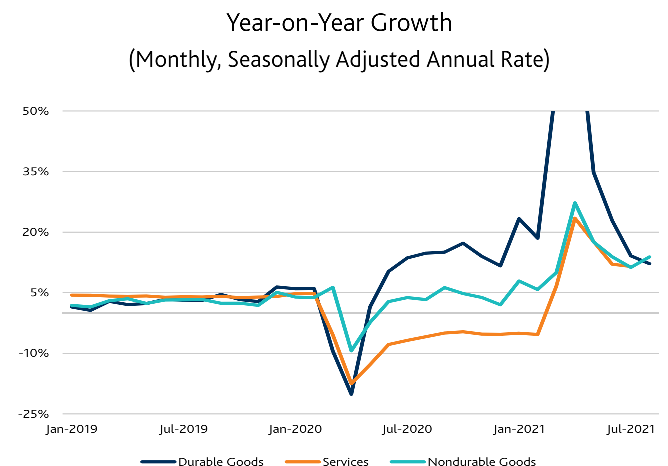
Fig. 1: US Average Hourly Earnings

All Employees, Total Private, Year-on-Year Growth
(Monthly,Seasonally Adjusted Annual Rate)



Source: Federal Reserve Bank of St. Louis.

Fig. 2: US Personal Consumption Expenditures



Source: Federal Reserve Bank of St. Louis.
Note: The extreme growth rate at the top of the chart was 80% in April 2021.

It is with these factors in mind that we are very cautious (and hold short positions in a number of cases) on stocks exposed to US discretionary spending on products. Many are trading at elevated valuations on the basis of stimulus-driven expansion in sales and margins, with the market implying only a slowdown as stimulus fades, rather than the sizeable reversion we expect. The opposite phenomenon has occurred in China, where investors currently seem unwilling to look through what could well be temporary setbacks to corporate growth, whether that is in relation to regulatory issues, a downturn in the property market or energy shortages. Consequently, we see much better opportunities in that market and are limiting our direct long US exposure to consumer services that we expect will benefit from rising vaccination rates (e.g. Planet Fitness) and reasonably valued and structurally growing digital platforms (e.g. Facebook and Alphabet).

Overall, we are cautious on the outlook for global markets amid the potential for ongoing shortages leading to continued elevated levels of inflation and increasingly hawkish central bank policies that are likely to withdraw liquidity. We would argue that richly valued fashionable growth stocks are particularly at risk. The other side of that coin, however, is the potential for demand shocks emanating from the Chinese property market and the withdrawal of US stimulus that would hurt the earnings of more cyclical businesses.

We will seek to remain nimble in our approach, building a core portfolio of stocks where we assess solid potential of doing well through time, balanced by the use of shorts where we see extremes in markets.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Meituan-Dianping	China	Cons Discretionary	4.8%
Tencent Holdings Ltd	China	Comm Services	4.6%
Trip.com Group Ltd	China	Cons Discretionary	4.4%
Alibaba Group Holding	China	Cons Discretionary	4.4%
Facebook Inc	US	Comm Services	4.0%
Alphabet Inc	US	Comm Services	4.0%
ASOS PLC	UK	Cons Discretionary	3.9%
Lixil Group Corp	Japan	Industrials	3.9%
Open House Co Ltd	Japan	Cons Discretionary	3.6%
Nien Made Enterprise Co	Taiwan	Cons Discretionary	3.4%

As at 30 September 2021. See note 5, page 44.
Source: Platinum Investment Management Limited.

Platinum International Health Care Fund

Dr Bianca Ogden
Portfolio Manager

Performance

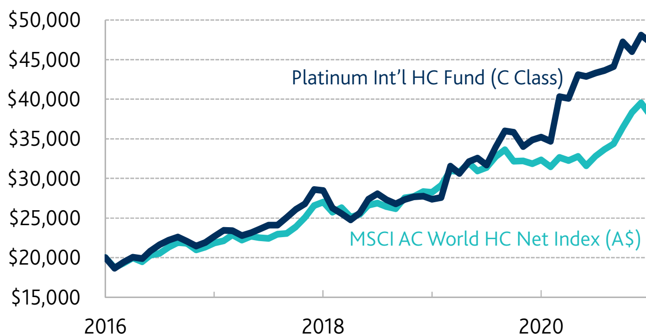
(compound p.a.+, to 30 September 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund*	0%	34%	18%	19%	12%
MSCI AC World HC Index^	4%	17%	12%	14%	10%

+ Excludes quarterly returns.
* C Class – standard fee option. Inception date: 10 November 2003.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World Health Care 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 44. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 September 2016 to 30 September 2021



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 44.

The Fund (C Class) returned -0.2% for the quarter and 34.0% for the year.[1]

It was a much quieter quarter, with Northern Hemisphere residents taking a well-earned summer holiday, which traditionally means limited medical meetings.

Acquisition announcements in healthcare were limited as well, adding to subdued sentiment, particularly in the biotech sector.

The valuations of many biotechs have gradually declined and a number of companies are increasingly very close, or even below, cash balances. The obsession with catalysts or 'following the herd' often results in stark imbalances in the sector, which offer some very interesting investment opportunities for long-term investors like ourselves.

Oncology is an interesting example of the dichotomy that exists in biotech. During the quarter, a number of our less-known oncology holdings (**Innate Pharma** +101% over the quarter, **Leap Therapeutics** +145%, **Redx Pharma** +39%, **Arcus Biosciences** +27%) released some interesting data, quickly propelling them into the spotlight. This reinforced our belief that investing in biotech requires a lot of patience, persistence, long-term thinking and independent thought (more on that below). It is not about the next fad that everyone talks about, it is more about what is not being talked about, but is scientifically sound.

Our Chinese biotech investments had a difficult quarter (**CStone Pharmaceutical** -37%, **Zai Lab** -40%, **Innovent Biologics** -17%, **Genetron** -31%), not due to pipeline or product setbacks, on the contrary, all are making great progress. Uncertainty about government regulation and pricing pressure has been the culprit, making rational thinking challenging. China is a significant therapeutic market that has made tremendous regulatory progress and is experiencing immense investment in its biotech industry. As a result, while we see long-term opportunities in that market, we expect it will be a bumpy ride.

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

During the quarter, we trimmed some of our holdings that have performed very well for the year, such as **Ideaya Biosciences** (+103%) and **Alkermes** (+86%). We also added a less-known US biotech that started clinical trials of its SARS-CoV-2 protease inhibitor, as well as a German biotech that specialises in enzyme and organism engineering.

Commentary

Getting carried away by short-term delays or setbacks in biotech can distract the mind from keeping a firm eye on the long term. Roche's 125-year anniversary on 1 October was a reminder that pharma companies have been around for a long time. In fact, Roche is more 'middle-aged' than 'old'. Johnson & Johnson has been in existence for 135 years, US Merck 130 years, Eli Lilly 145 years, Bayer 158 years, Pfizer 171 years, Takeda 240 years, while Merck KGaA is the grand dame at 353 years.

Sure, acquisitions have been part of their growth journey, as have setbacks (mistakes), but over time, these companies have evolved and shaped the future of therapies, as much as the future has shaped them. These companies have learned to adapt and embrace biotechs. As investors in the healthcare sector we are not so dissimilar to these companies. We pay attention to how a particular field or sector evolves over time and focus on what is needed to really make an impact. We learn a lot from the companies we invest in.

So, when it comes to something like immuno-oncology we have learned quickly that it is fascinatingly complex. Sadly, there are many patients who do not achieve a durable response when treated with current approved checkpoint inhibitors (drugs that help your immune system recognise and mount a defence against the tumour). Immuno-oncology is a treatment paradigm that has many layers, but ultimately, it will transform the way cancer is diagnosed and treated. As a consequence, it requires many different approaches, as well as different companies.

Tumours essentially modify (manipulate) their surroundings (called the tumour microenvironment or TME) to suit their needs and most importantly, make sure the immune system does not recognise them properly. The TME is fascinating and unsurprisingly, is the focus of many scientists. Understanding what is happening in the TME is crucial to progressing to the next chapter in immuno-oncology beyond current approved checkpoint inhibitors. Hence, we have (and will be) investing in companies that are razor-focused on this area. It is not an easy space to succeed in and there are many challenges, but during the quarter it was gratifying to see real advances taking place.

Disposition of Assets

REGION	30 SEP 2021	30 JUN 2021	30 SEP 2020
North America	42%	36%	35%
Europe	20%	21%	29%
Australia	10%	10%	12%
Asia	8%	12%	8%
Japan	4%	4%	6%
Other	1%	1%	1%
Cash	15%	16%	10%
Shorts	-1%	-1%	-7%

See note 3, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 SEP 2021	30 JUN 2021	30 SEP 2020
Biotechnology	54%	53%	49%
Pharmaceuticals	21%	22%	26%
Life Sciences Tools & Services	6%	7%	9%
Chemicals	1%	0%	0%
Electronic Equip Instruments	1%	0%	0%
Machinery	0%	0%	1%
Health Care Technology	0%	0%	-1%
Health Care Equip & Supplies	0%	0%	-1%
Health Care Providers & Serv	0%	0%	1%
Other	1%	0%	-1%
TOTAL NET EXPOSURE	84%	83%	83%

See note 4, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
SpeeDx Pty Ltd	Australia	Biotechnology	4.5%
Takeda Pharmaceutical	Japan	Pharmaceuticals	3.7%
Sanofi SA	France	Pharmaceuticals	3.0%
Bayer AG	Germany	Pharmaceuticals	2.5%
Telix Pharmaceuticals Ltd	Australia	Biotechnology	2.3%
Ideaya Biosciences Inc	US	Biotechnology	2.2%
Centogene NV	Germany	Biotechnology	2.1%
Icosavax Inc	US	Biotechnology	2.1%
Gilead Sciences Inc	US	Biotechnology	1.9%
Coherus Biosciences Inc	US	Biotechnology	1.9%

As at 30 September 2021. See note 5, page 44.
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/pihcf.

The TME is made up of varying levels of different immune cells - their signalling molecules along with molecules coming from the tumour itself. The goal for drug developers is simple: turn off the immune inhibitory signals coming from the tumour, while strengthening the immune response against the tumour. The latter goal can be achieved in various ways, in the long term resulting in more efficacies in achieving longer-lasting immune cells in the TME.

French biotech **Innate Pharma** has been working for years on harnessing the power of Natural Killer (NK) cells, which are essentially the front-line of defence for our immune system. These cells recognise a foreign body, attack it, release cytokines (small proteins important in cell signalling), that attract the next more-specific layer of the immune system's so-called T cells, who then turn the first response into a long-lasting (adaptive) immune response. A lot of investors have been focusing on genetically engineered NK cell transplants, whereby the NK cells are provided by a donor or derived from induced pluripotent stem cells (iPSCs). The steps required to make the engineered NK cells are cumbersome and require very careful characterisation of the NK cells, particularly when they are derived from iPSCs. In contrast, Innate Pharma focuses on how to leverage the patient's own NK cells, hence no cell transplants are needed. It focuses on the molecules that sit on the surface of NK cells. They orchestrate the signalling. Innate develops biologics that target these molecules, so-called NK cell engagers.

At the ESMO[2] 2021 Congress, held in September, Innate's Monalizumab, a monoclonal antibody (licensed to AstraZeneca) showed promising data in lung cancer when combined with AstraZeneca's Durvalumab antibody. Besides Monalizumab, Innate is also working on biologics that engage several NK cell surface molecules simultaneously, highlighting the progress of molecular and protein engineering in the field (see Fig. 1 for an illustration).

As investors, while we can see the promise of NK cell transplants, we struggle with valuations of the leading biotechs in this field (e.g. Fate Therapeutics' current valuation of US$5.6 billion). Whereas we feel that Innate is an expert in NK cells and with a valuation of US$460 million, represents much better value.

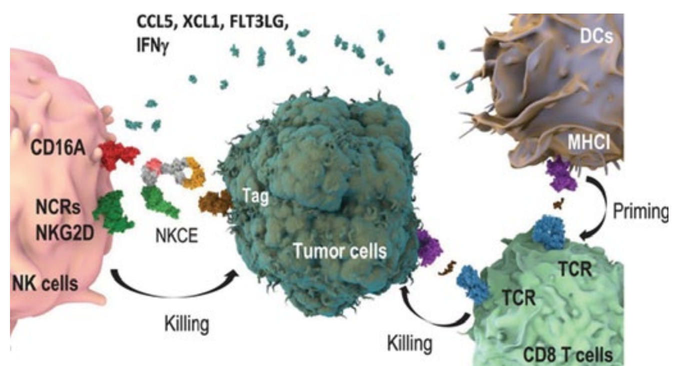
2 The European Society for Medical Oncology is the leading professional organisation for medical oncology. It comprises 25,000 members representing oncology professionals from over 160 countries worldwide. ESMO is the society of reference for oncology education and information. Source: ESMO.

Outlook

On the last day of the quarter, US Merck announced it will acquire **Acceleron** (a holding in the Fund) for US$11.5 billion in cash. Merck will gain access to royalties from Luspatercept (used to treat anaemia) and Sotatercept, a drug in phase 3 trials for pulmonary hypertension. In the coming year, we expect to see more such acquisitions, not only from pharma companies but also in the life science tool space.

Private biotechs continue to flourish, albeit we are getting lost in the many CRISPR enzyme companies that are emerging, but overall, innovation continues unabated. New listings on the stock market continue as well, however, the premiums to cross-over rounds (i.e. the final pre-IPO price) are not as significant as they have been. In addition, new listings no longer show stellar performance either. Within biotech, exuberance and neglect always coexist, allowing us to find good investment opportunities for the long term.

Fig. 1: Innate's Antibody-Based Natural Killer Cell Engager, NKCE



Source: https://onlinelibrary.wiley.com/doi/10.1002/eji.202048953

Platinum International Technology Fund

Alex Barbi
Portfolio Manager

Performance

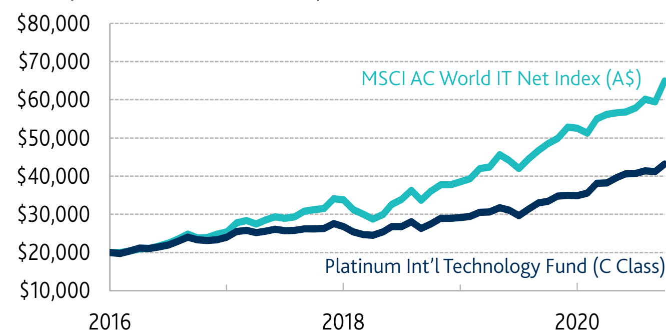
(compound p.a.+, to 30 September 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	-2%	21%	16%	16%	10%
MSCI AC World IT Index^	4%	29%	26%	28%	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 IT 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 44. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 September 2016 to 30 September 2021



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 44.

The Fund (C Class) returned -2.2% for the quarter and 20.9% for the year.[1]

Technology stocks were unable to replicate the strong performance of the first-half of the year in the third quarter. The Nasdaq 100 Technology Sector Index, which is representative of the largest US-listed technology stocks, fell -1% for the quarter compared to the strong 15% advance recorded in the first-half of the year. The PHLX Semiconductor Sector Index fell -3% for the quarter compared to an impressive 20% increase for the first-half. The software sector was, however, more resilient than other (more) cyclical sectors exposed to the uncertainties of the economic recovery. Some high growth/highly valued cloud/software as a service (SaaS) companies fared better. Market highlights included cloud data warehousing software specialist Snowflake (+25%), local darling Atlassian (+52%) and digital workflow specialist ServiceNow (+13%).

While an increasingly larger portion of the population in many developed countries has now been vaccinated, the rapid spread of the highly infectious COVID Delta variant has once again disrupted many governments' plans for a return to a more 'normal' life. Supply chain disruptions persist across several geographies and industries, as the emergence of COVID hotspots in many key industrial/logistic hubs force local authorities to lockdown cities and shut down factories and ports. That creates a domino effect, where even countries with low or minimal COVID cases cannot receive finished goods, components or raw materials because of bottlenecks elsewhere. Shipping and air freight channels have also slowed compared to the pre-COVID era, as scarcity of shipping containers and low air cargo capacity create frictions for 'just-in-time' assembly lines of industrial operations worldwide.

These disruptions have particularly impacted the semiconductor industry. As we previously described in the March 2021 quarterly report,[2] semiconductor makers have not been able to supply enough product to their customers

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

2 https://www.platinum.com.au/PlatinumSite/media/Reports/pitfqtr_0321.pdf

across several industries (automotive, smartphones, power management, industrial applications). These conditions persist with many industry executives recently indicating that:

1. Purchase order lead times are being extended.
2. Inventories at semiconductor factories are at extremely low levels.
3. Semiconductor prices are likely to increase in the future to reflect the higher costs incurred by semiconductor makers for materials, assembly, shipping etc.

The Fund's semiconductor holdings were negatively impacted by these dynamics. **Micron Technology** (-16% for the quarter), **SK Hynix** (-19%) and **Samsung Electronics** (-6%) all weakened, as the scarcity of various components in supply chains forced PC makers to cut back DRAM and NAND memory orders.

In China, we underestimated local regulators' impetus to implement President Xi Jinping's new "common prosperity" policies. Government intentions in relation to the after-school tutoring industry turned out to be much more draconian than we expected. **TAL Education** (-81%) suffered a large fall as the government effectively shut down the industry altogether, preventing private companies to run for-profit operations.

Similarly, **Alibaba** (-35%) and **Tencent** (-21%) detracted from the Fund's performance, as many Chinese internet platforms continued to suffer from concerns about regulatory scrutiny and newly introduced policies. We believe, however, that those risks are manageable and the government doesn't want these businesses to shut down permanently. While these changes are likely to temporarily slow down their growth trajectories, we believe the quality of their businesses should ensure sustainable long-term growth.

On the positive side, **Alphabet** (+9%) reported another strong set of results for the June quarter, with revenues +59% and net profit +86% compared to the corresponding period in 2019 i.e. pre COVID.

Software was an area of strong performance with **Constellation Software** (+11%) and its recently spun-out European business **Topicus.com** (+48%), **Oracle** (+12%) and **Microsoft** (+4%) all contributing positively to the Fund's performance.

In the semiconductor space, we were pleased to see **Ambarella** (+46%) record stronger-than-expected revenues, driven by orders for their computer vision chips. **ASML** (+11%) reported strong adoption of its dominant extreme ultra-violet (EUV) lithography technologies.

Changes to the Portfolio

During the quarter, we introduced a new position in **Longshine Technology**, a leading Chinese provider of software systems for the utility sector. At a time of transformation and modernisation for the Chinese electricity grid, Longshine is very well placed to offer multiple software solutions addressing grid interconnection, utility fees billing and electric vehicle (EV) charging payments. We found its revenue growth profile (+25%) and valuation (18x 2022 earnings) very attractive.

We increased our position in HK-listed **China Communication Services** (CCS), a SOE (state-owned enterprise) provider of telecom infrastructure services, software applications and business process outsourcing to the domestic telecom operators. Trading at a very attractive 6x earnings and 0.7x book value for 2021 (with a very large net cash position) and an improving outlook post the COVID slowdown, the company has slowly but successfully diversified its customer base away from low-margin traditional domestic telecoms. CCS is benefiting from digitalisation trends in the domestic market, thanks to the expertise developed with decades of work in telecoms, and they are now leveraging into several adjacent verticals (smart cities, data centres, business parks, intelligent buildings, utilities, Internet of Things, big data platforms, emergency management, airports, and highway operators, just to name a few).

We also added to Chinese Internet platforms **Alibaba** and **Trip.com**, taking advantage of their recent price weakness, as they now represent attractive value, despite the temporary headwinds of regulation and COVID slowdown.

In Japan, we increased our position in **DTS Corp**, a beneficiary of the Ministry of Economy, Trade and Industry (METI) campaign launched in 2018 to modernise information technology (IT) at Japanese companies before 2025. DTS is part IT systems integrator and part data management solutions/software engineering provider and it has an excellent track record, despite its relatively small scale. DTS revenues have grown twice as fast as the enterprise software market since the 2003 financial year (FY), rising +150% vs. +75%, and its operating profit margin has doubled from 6% in FY2009 (i.e. during the global financial crisis) to 12% in FY2020. It is a high-quality company that we were able to buy at a valuation of 6.5x March 2022 earnings.

In semiconductors, we added to our positions in **Infineon Technologies** and **Rohm Co.**, two leading suppliers of components for the automotive industry and EVs in particular.

Disposition of Assets

REGION	30 SEP 2021	30 JUN 2021	30 SEP 2020
North America	47%	48%	48%
Asia	24%	22%	20%
Europe	10%	8%	9%
Japan	4%	3%	1%
Australia	0%	0%	0%
Cash	15%	19%	22%
Shorts	-3%	-1%	-4%

See note 3, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 SEP 2021	30 JUN 2021	30 SEP 2020
Information Technology	50%	46%	44%
Communication Services	19%	21%	22%
Consumer Discretionary	9%	9%	5%
Industrials	5%	3%	4%
Health Care	0%	0%	0%
Other	-1%	0%	0%
TOTAL NET EXPOSURE	82%	80%	74%

See note 4, page 44. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	US	Comm Services	6.3%
Facebook Inc	US	Comm Services	4.1%
Taiwan Semiconductor	Taiwan	Info Technology	4.0%
Samsung Electronics	South Korea	Info Technology	3.7%
Constellation Software	Canada	Info Technology	3.1%
Ciena Corp	US	Info Technology	3.0%
Microchip Technology	US	Info Technology	2.9%
Tencent Holdings	China	Comm Services	2.7%
Medallia Inc	US	Info Technology	2.6%
JD.com Inc	China	Cons Discretionary	2.5%

As at 30 September 2021. See note 5, page 44.
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/pitf.

We also added to our positions in **Ciena** (optical networking) and **Ericsson** (5G wireless telecom) following minor revisions in their short-term outlook. As we believe nothing has changed in their medium-term prospects we were happy to add to our positions at lower prices and more attractive valuations.

We reduced (**Carvana**, **IHS Markit**) or exited (**Roku**) some of the recent strong performers where we considered valuations now to be full. We also reduced our position in **Alphabet** following its impressive performance over the last 12 months (+82%) and regulatory headwinds may put more pressure on the stock.

We have introduced some short positions targeting unprofitable technology stocks trading at extreme valuations, as the risk of downward valuation adjustments for these stocks increases in a scenario of a return to monetary policy normalisation (i.e. higher interest rates).

Outlook

Disruptions persisting across global supply chains, resurgent (and perhaps resilient) inflation emerging in several countries and China's recent slowdown in economic activity are some of the main headwinds on the path to a sustained global economic recovery. More recently, surging energy costs were added to the list of worries, as the oil price climbed to three-year highs.

Despite the US Federal Reserve's continual reassurances, uncertainty about the future direction of inflation and interest rates remains elevated, and that will continue to impact the direction of technology stocks in the medium term. A scenario where interest rates rise too rapidly in response to tapering[3] too early would negatively impact high-valuation tech stocks, particularly SaaS and unprofitable ones.

On the other hand, a demand-driven strong economic recovery, would support more cyclical sectors such as hardware, semiconductors, e-commerce, digital advertising, gaming, and media.

Despite the challenges posed by higher valuations in many sectors we nevertheless continue to find new and interesting opportunities across the technology investment universe, emerging from familiar and less-familiar areas that we are very keen to explore.

3 Tapering refers to the reduction in the rate at which a central bank accumulates new assets (i.e. buying bonds) on its balance sheet under a policy of quantitative easing (QE). Tapering is the first step in the process of either winding down - or completely withdrawing from - a monetary stimulus program.

Glossary

Dividend yield

A ratio that indicates how much a company pays out in dividends each year relative to its share price.

Earnings yield

A company's earnings per share over a 12-month period divided by its share price and expressed as a percentage, the earnings yield is the reciprocal of the price-to-earnings (P/E) ratio and is a measure of the rate of return on an equity investment.

Earnings before interest and tax (EBIT)

A measure of a company's profitability, EBIT is all profits before deducting interest payments and income tax expenses. It is calculated as revenue minus cost of goods sold and operating expenses.

Price-to-book ratio (P/B)

The ratio of a company's current share price to its book value (total assets minus intangible assets and liabilities). It is an indicator of the value of a company by comparing its share price to the amount of the company's assets that each share is entitled to.

Price-to-earnings ratio (P/E)

The ratio of a company's current share price to its per-share earnings, P/E is used as an indicator of the value of a company by comparing its share price to the amount of per-share earnings the company generates. A high P/E ratio suggests that the company's share price is expensive relative to the company's profits, which usually implies that investors are expecting the company's future profits to grow quickly.

Price-to-sales ratio (P/S)

The ratio that compares a company's current share price to its revenue, P/S is an indicator of the value placed on each dollar of a company's sales and is typically calculated by dividing the company's market capitalisation by its total sales over a 12-month period.

Purchasing Managers' Index (PMI)

An indicator of the economic health of the manufacturing sector. It is derived from monthly surveys of purchasing executives at private sector companies and is based on five major indicators: new orders, inventory levels, production, supplier deliveries and employment environment. A reading of greater than 50 indicates expansion of the manufacturing sector when compared to the previous month, while a reading of under 50 represents a contraction.

Quantitative easing (QE)

A monetary policy used by central banks to increase the supply of money by buying government bonds (and, to a lesser extent, other assets such as corporate bonds and shares) from the market. The intended outcome is to lower the yield on those assets, increase the total money supply in the financial system, and encourage more lending by banks and thus greater economic activity. Central banks use QE to stimulate the economy when interest rates are already at or close to zero.

Shorting

Short-selling or "shorting" is a transaction aimed at generating a profit from a fall in the price of a particular security, index, commodity or other asset. To enter into a short sale, an investor sells securities that are borrowed from another. To close the position, the investor needs to buy back the same number of the same securities and return them to the lender. If the price of the securities has fallen at the time of the repurchase, the investor has made a profit. Conversely, if the price of the securities has risen at the time of the repurchase, the investor has incurred a loss.

Yield

Yield refers to the income generated from an investment (such as interest from cash deposits, dividends from a shareholding, or rent from property), usually expressed as an annual percentage rate based on the cost of the investment (known as cost yield) or its market price (known as current yield). For bonds, the yield is the same as the coupon rate (assuming the bond is purchased at par or is trading at par). Any increase or decrease of the yield relative to the coupon rate is approximately inversely proportional to any change in the bond price (yields fall as prices rise, and vice-versa).

Yield curve

A yield curve plots the interest rates (or yields) of comparable debt instruments with different maturities. Starting on the left with the yields of shorter-term instruments, the curve typically slopes upwards to the right, reflecting investors' desire to be compensated for the uncertainty associated with locking their money away for longer periods of time. An inverted yield curve occurs when longer-term debt instruments have a lower yield than shorter-term debt instruments, reflecting expectations of weaker economic conditions – and hence lower interest rates – in the future.

The Journal

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 Quarterly Reports in **audio podcasts** or watch brief market updates in **video** format.

Recent highlights include:

- **Article – Market Update: 22 September 2021.**[1] CEO and co-CIO Andrew Clifford provides his thoughts on Chinese property developer Evergrande and why the issue is unlikely to be systemic.
- **Video – Platinum Market Update.**[2] Co-CIO and co-portfolio manager for Platinum's global strategies, Clay Smolinski and co-portfolio manager for our Asia ex-Japan strategies, Cameron Robertson provide a market update, covering the ongoing economic recovery and evidence of inflation, recent Chinese regulatory activity, and the pockets of wild excess evident in specific markets.
- **Article – Market Powers on Despite Uncertain Times.**[3] Investment performance is a critical driver of the performance of our business. Over the last 12 months, many of our funds produced returns in the mid-20% range or better. This was achieved in an investment environment that remains highly uncertain. Andrew Clifford provides a market update and outlook for the markets.
- **Article – The History of Money and its Role in the Modern World.**[4] Investment specialist Julian McCormack delves into the origins of money over many centuries. It's a fascinating look at history and makes one realise just how the form and function of money has shifted over time. With inflation creeping up and extraordinarily large budget deficits that need to be funded at some point, we suspect that change is afoot.
- **Webinar – Platinum Product Update.**[5] Investment specialist Douglas Isles touches on a number of key product initiatives, including listed access to our funds, performance fees, our new fixed cash distribution option, ESG, and the Platinum Investment Bond.
- **Article - China: Time to Run or Time to be Bold?**[6] Recent activity from Chinese regulators and the response from markets is testing the resolve of investors. With over 30 years' experience in covering and investing in the country, our assessment is that this presents another opportunity to upgrade portfolios by retaining a longer-term outlook – and we are actively looking to do so.
- **Article - Solving the Retirement Riddle.**[7] The risk of running out of money in retirement is one of our greatest investment concerns. In this paper, Douglas Isles seeks to address the retirement challenge by considering contemporary Australian data on employment income, longevity and superannuation rules, and testing the outcomes of a lifelong investment strategy against 150 years of real US market data, to provide a range of possible scenarios.

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1 https://www.platinum.com.au/Insights-Tools/The-Journal/Market-Update-22-September-2021

2 https://www.platinum.com.au/Insights-Tools/The-Journal/Webinar-%E2%80%93-Platinum-Market-Update

3 https://www.platinum.com.au/Insights-Tools/The-Journal/Market-Powers-on-Despite-Uncertain-Times

4 https://www.platinum.com.au/Insights-Tools/The-Journal/The-History-of-Money-and-its-Role

5 https://www.platinum.com.au/Insights-Tools/The-Journal/Webinar-Platinum-Product-Update

6 https://www.platinum.com.au/Insights-Tools/The-Journal/China-Time-to-Run-or-Time-to-be-Bold

7 https://www.platinum.com.au/Insights-Tools/Investment-Fundamentals/Curious-Investor-Behaviour/Article/Solving-the-Retirement-Riddle

Some Light Relief

"It stands for, 'Rock, Paper, Scissors'."

"I SEE SUSTAINED ECONOMIC GROWTH. YOU SEE A PROLONGED DOWNTURN. SAME OLD, SAME OLD."

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 of the Fund 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. Where applicable, 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, 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".

   The Platinum Global Fund (Long Only) does not undertake any short-selling of stocks or indices. As a result, its net sector exposures through its securities positions and securities/index derivatives positions are its sector exposures through its long securities and long securities/index derivatives positions.
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.

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Investor services numbers

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Platinum Asset Management is a Sydney-based manager specialising in international equities. The investment team uses a thematic stock-picking approach that concentrates on identifying out-of-favour stocks with the objective of achieving superior returns for our clients. We pay no heed to recognised indices. We aim to protect against loss and will hedge stocks, indices and currencies in our endeavours to do so.

The firm was founded in February 1994 by a group of professionals who had built an enviable reputation. The investment team has grown steadily and Platinum now manages around A$23 billion. Platinum's ultimate holding company, Platinum Asset Management Limited (ASX code: PTM), listed on the ASX in May 2007. Directors, officers and employees of the Platinum group of companies have relevant interests in approximately 50% of Platinum Asset Management Limited's issued shares.

Since inception, the Platinum International Fund has achieved superior returns to those of the MSCI AC World Net Index (A$)* and considerably more than interest rates on cash.

* Please refer to page 2.

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