Platinum International Fund

Andrew Clifford
Portfolio Manager

Clay Smolinski
Portfolio Manager

Nik Dvornak
Portfolio Manager

Performance

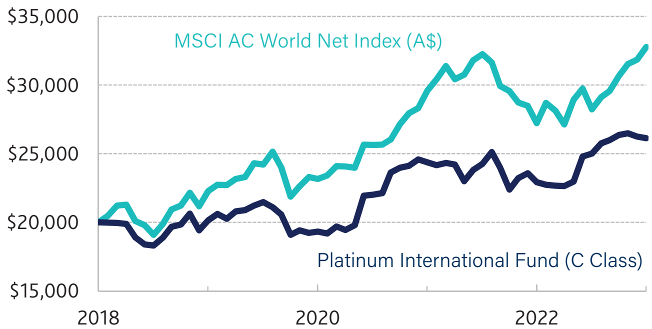
(compound p.a.+, to 30 June 2023)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	-1%	14%	11%	5%	11%
MSCI AC World Index^	7%	20%	12%	10%	7%

+ 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 5. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 June 2018 to 30 June 2023



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 5.

The Fund (C Class) returned -0.9% for the quarter compared with the market's return of 6.8%. Over the year, the Fund returned 13.9% compared with the market's return of 20.4%.[1]

Three main factors led to the Fund underperforming the market over the past quarter:

- The recovery in markets this year has been led by an extraordinary bounce in the technology sector, up 40% in the first six months of the year and 13% for the quarter.[2]
- China's stock markets performed poorly over the quarter due to concerns about the subdued nature of the country's economic rebound and ongoing political tensions with the US. As a result, the Fund's holdings in Chinese companies reduced returns by 1.5%.
- The Fund's positioning remained cautious, with an average net invested position of 71% and an average short position of 15%. Our short positions detracted 2.5% from performance over the quarter.

While this is a disappointing outcome in the short term, we remain of the view that the popular growth stocks that have driven the market this quarter remain unattractive and are best avoided, and better returns can be found in out-of-favour areas such as China. We will expand on this later in the report.

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum International 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 Nasdaq-100 Technology Sector Index, local currency. Source: FactSet Research Systems.

The largest contributors to performance included low-cost Indian airline **InterGlobe Aviation** (+37%), Japanese trading house **Itochu** (+32%) and US credit bureau **TransUnion** (+26%). Our semiconductor holdings also provided a positive contribution to performance (**Samsung Electronics** +13%, **Microchip Technology** +7%).

Our Chinese holdings were among the key detractors from performance, including express delivery operator **ZTO Express** (-12%), **Tencent** (-14%) and diesel-engine producer **Weichai Power** (-9%).

Changes to the Portfolio

A new holding in the Fund over the quarter was Chinese company **Contemporary Amperex Technology Co. Limited** (CATL), which has recently emerged as the global leader in electric vehicle (EV) batteries.[3] The company has experienced a sixfold increase in revenues over the last two years as the sale of EVs in China has exploded.[4] A differentiating factor for CATL relative to its Korean and Japanese competitors is that it has continued to develop LFP (lithium, iron and phosphate) chemistry for its EV batteries, which had historically been seen as uncompetitive due to its lower energy density (meaning a shorter driving range for the EV) despite the lower cost. CATL has substantially reduced the gap with the NCM (lithium, nickel, cobalt and manganese) chemistry favoured by competitors, such that LFP is now a genuine alternative. Endorsing this is Ford's announcement that they will use CATL's LFP chemistry in an expansion of their battery manufacturing capacity in the US, while Tesla is already using CATL's LFP batteries in its shorter-range EVs. While last year, Chinese sales of EVs increased by 82% from 3.4 million to 6.2 million,[5] there have been concerns that sales will fall heavily as government subsidies are reduced. This has seen CATL's stock price fall over 40% from its highs, providing an attractive entry point for the Fund.

Other new holdings in the Fund included **Baxter International**, a US medical equipment provider that has seen its stock price under pressure for a number of reasons, including a poorly timed acquisition and problems passing on cost increases. Our view is that the long-term profitability of the core business remains intact, and this setback provides an ideal entry point. **RH**, the owner of Restoration Hardware, has revolutionised the way high-end furniture and homewares are sold in the US. Furniture sales have collapsed post the pandemic spending boom by households, as has RH's stock price, which again provided an attractive buying opportunity for the Fund.

3 Source: https://www.bloomberg.com/news/articles/2023-01-04/china-s-catl-extends-lead-as-world-s-top-ev-battery-maker

4 Source: CATL company report.

5 Source: https://www.statista.com/statistics/1236625/electric-vehicle-global-sales-by-region/

Disposition of Assets

REGION	30 JUN 2023	31 MAR 2023	30 JUN 2022
Asia	30%	27%	24%
Europe	25%	26%	22%
North America	20%	19%	17%
Japan	9%	8%	8%
Other	3%	2%	2%
Australia	2%	2%	3%
Cash	11%	16%	24%
Shorts	-17%	-14%	-20%

See note 3, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 JUN 2023	31 MAR 2023	30 JUN 2022
Industrials	17%	19%	15%
Financials	15%	16%	12%
Information Technology	10%	9%	5%
Materials	8%	8%	11%
Energy	6%	8%	4%
Consumer Discretionary	5%	5%	8%
Health Care	5%	4%	3%
Communication Services	4%	3%	2%
Real Estate	2%	2%	3%
Utilities	0%	0%	0%
Consumer Staples	0%	0%	0%
Other	0%	-2%	-8%
TOTAL NET EXPOSURE	73%	70%	56%

See note 4, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
ZTO Express Cayman Inc	China	Industrials	3.5%
Microchip Technology Inc	US	Info Technology	3.5%
MinebeaMitsumi Co Ltd	Japan	Industrials	3.3%
Samsung Electronics Co Ltd	South Korea	Info Technology	3.1%
InterGlobe Aviation Ltd	India	Industrials	2.8%
Allfunds Group Plc	UK	Financials	2.6%
Ping An Insurance Group Co	China	Financials	2.6%
UPM-Kymmene OYJ	Finland	Materials	2.4%
Suzano SA	Brazil	Materials	2.3%
Airbus SE	France	Industrials	2.3%

As at 30 June 2023. See note 5, page 5.
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

We added to our existing positions in **Alphabet** and **Taiwan Semiconductor Manufacturing**, both of which we believe are long-term beneficiaries of developments in artificial intelligence (AI), but were trading at reasonable valuations due to cyclical slowdowns in their respective businesses.

On the other side of the ledger, we sold out of several holdings, including **General Electric** (aerospace engine manufacturer), **LGI Homes** (housing construction) and **Informa** (publishing, business intelligence and exhibitions), and trimmed a number of others, such as **Micron Technology** (semiconductor manufacturer), **Intesa Sanpaolo** (European bank) and **LG Chem** (EV battery maker), that had experienced strong share price gains in recent months. The net effect of the transactions was a reduction in the Fund's cash holdings from 16% to 11%. Over the period, short positions were increased from 14% to 17%, resulting in a slight increase in net exposure to 73% at quarter end.[6]

Commentary

The US stock market continued its strong recovery from last year's lows during the quarter as inflationary pressures receded and investors anticipated the end of rising interest rates. Investors have returned to the growth stocks that led the last bull market, with a particular focus on many large technology stocks that are perceived to be beneficiaries of an anticipated boom in AI.

With many commentators labelling the rally in US stocks as the beginning of the next bull market, we remain extremely wary of the ebullience in some sectors.

In past economic cycles, it has taken 18 months or more for the impact of higher interest rates to flow through to the economy and company earnings, and it's only been 15 months since the first interest rate increase in the US. The availability of credit remains tight on numerous measures, and money supply growth remains negative. While the US economy remains robust overall for the moment, many industries are struggling post the pandemic boom in demand for consumer goods. There are also early signs of a softer employment market, with initial unemployment claims on the rise.

Meanwhile, investors' expectations of a US recession have faded as stock prices moved higher. While hopes are pinned on the potential for interest rate cuts to send the markets higher, it is worth remembering that in the last 40 years, it was only after the peak in interest rates was reached that the bear market started in earnest. It can be argued that the current economic backdrop is very different from past cycles, most notably with higher levels of inflation, but it is hard to see why that should make things different this time.

6 Numbers have been subject to rounding.

The emergence of AI tools such as ChatGPT has captured the interest of many. When NVIDIA, whose semiconductors are used in developing AI models, announced it expected an extraordinary lift in next quarter's revenue of over 50%, this created a frenzy amongst investors searching for AI opportunities.[7]

While we are in firm agreement with those who see the extraordinary potential in AI (for more details, please see the interviews with portfolio managers Cameron Robertson and Dr Bianca Ogden on our website[8]), current investor enthusiasm for the theme, together with the valuations of the favoured names, leads us to be wary about the opportunity, at least in the obvious plays such as NVIDIA. It is interesting that many investors, having been badly hurt by the bursting of the growth stock bubble of 2020-21, are so willing to line up for another round of speculation. Having said that, during the tech wreck bear market of 2000-01, there were rallies of 40% and more in the Nasdaq as true believers searched for opportunities before the market continued its decline.

Chinese stock prices, having initially rallied strongly at the end of 2022 and early 2023, have subsequently faded away, with some of the more out-of-favour sectors, such as e-commerce, returning to the lows set last October after the announcement of the new Chinese Communist Party (CCP) Politburo. As a result, investor sentiment has returned to very pessimistic levels. At Platinum, our view is that the best opportunities in markets are found in those areas where investors are fearful, and as such, China is clearly a "potential" opportunity. We believe potential because we do need to assess the fears and concerns of the market and determine whether investors are over-emphasising recent events.

Undoubtedly, China's economic recovery has been subdued. After an initial surge in a wide range of economic indicators post-lockdown, there has since been a retracement. In the property market, various measures of apartment sales showed a strong recovery, then returned to the lows reached during the 2022 lockdowns. Export markets are also weak, as the COVID-19-inspired global boom in manufactured goods continues to recede. While the government continues to put in place stimulatory measures, they remain measured, with the reticence likely driven by a desire not to repeat the mistake of 2008-09 when government stimulus resulted in rapid growth in debt and an overbuild of capacity in a wide range of industries. Both business and consumer confidence remain low.

7 Source: https://NVIDIAnews.NVIDIA.com/news/NVIDIA-announces-financial-results-for-first-quarter-fiscal-2024

8 https://www.platinum.com.au/Insights-Tools/The-Journal/Finding-Value-in-the-Much-Hyped-AI-Space

Our base case remains that the Chinese economy will steadily gain momentum in the months ahead. Clearing the backlog of sold but unfinished apartments, for which funding has been made available, is likely to result in a recovery in this important sector of the economy.[9] It is also worth noting that for all the negative reports about the Chinese economy, underneath the surface, the country's private sector has continued to build leading positions in a range of industries at the centre of the global energy transition. China has established leading positions in electric vehicles (EVs), including battery technology and battery materials, solar panels and the supporting supply chain, and wind turbines.[10] The country is also the largest market for these industries, reflecting the pace of investment in decarbonising the global economy. For more detail, please read this quarter's 'Macro Overview'. Finally, the Chinese government, having been relatively subdued in its stimulatory measures over the last three years and with inflation non-existent, still has room to take further action.

Outside of the tepid economic environment in China, political risk around Taiwan remains at the forefront of investors' minds. We can observe that if investors are genuinely concerned about this risk, the way they are acting on it by avoiding Chinese and Taiwanese stocks displays an extraordinary bias. For example, Apple is highly dependent on Taiwan as the source of semiconductors for its products, 95% of its products are assembled in China, and China accounts for approximately 20% of the company's profits.[11] The company has plans to diversify its supply chain, however, it will carry significant China risk for a long time to come. We could provide a long list of large Western companies that are reliant on China in multiple ways, and yet there is little evidence of investors marking down their stock prices for the risk this represents.

We expect the US will continue in its attempts to contain China's rise and investors should be cognisant of how that can potentially impact share prices. However, the interdependence between the US and China will be a limiting factor in the US' ability to act, whether that is the US economy's reliance on China for the supply of critical inputs or as an end market for US goods and services. It is reflected in the oddity that while there are weekly announcements around restrictions on the supply of critical technologies to China, there are also visits by various US envoys to China in order to repair the deteriorating relationship.

Outlook

As we have noted in past reports, there continue to be significant divergences in stock price performance and valuations across different sectors and countries. The result is that many companies continue to trade at high valuations, while others trade at levels consistent with difficult economic and market conditions. The opportunity for us here is similar to that at the start of 2022, which is to avoid (or short) the former while buying the latter.

While we would not be surprised to see a significant setback in markets as the impact of higher interest rates flows through to earnings, we are not overly focused on such predictions. We believe the best approach is not to get caught up in the short term and instead focus on likely outcomes in different sectors over the next five years and beyond. As such, we continue to focus our search for opportunities amongst companies that will benefit from the decarbonisation of the global economy, diversification of supply chains and reshoring of production, ongoing higher levels of interest rates, and a recovering China.

9 For more on the Chinese property market, see: https://www.platinum.com.au/Insights-Tools/The-Journal/Chinese-Property-Market-Anti-Bubble

10 Source: International Energy Agency, Bloomberg.

11 Source: FactSet Research Systems.

Notes

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

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

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. [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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "Shorts" show the Fund's exposure to its short securities positions and short securities/index derivative positions, as a percentage of its portfolio market value. "Cash" in this table includes cash at bank, cash payables and receivables and cash exposures through derivative transactions.
4. The table shows the Fund's net exposures to the relevant sectors through its long and short securities positions and long and short securities/index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".
5. The table shows the Fund's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

Disclaimers

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