Platinum Unhedged Fund

Clay Smolinski
Portfolio Manager

Performance

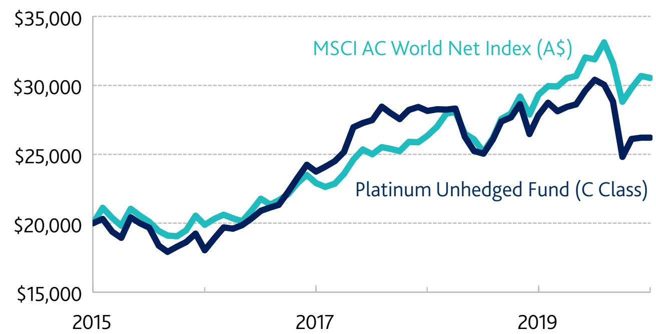
(compound p.a.+, to 30 June 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	6%	-6%	3%	6%	10%
MSCI AC World Index^	6%	4%	10%	9%	7%

+ 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 4. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 June 2015 to 30 June 2020



After fees and costs, before tax, and assuming reinvestment of distributions. Historical performance is not a reliable indicator of future performance. Source: Platinum Investment Management Limited, FactSet Research Systems. See notes 1 & 2, page 4.

The Fund (C Class) rose 5.7% over the quarter, as global markets continued to climb from their recent March lows.[1]

A number of our larger holdings were the major contributors to this performance, notably:

- **LG Chem:** LG Chem is one of four major battery suppliers for electric vehicles globally. Post COVID, a number of European countries have enacted stimulus plans that include generous subsidies for electric vehicles aimed at speeding up the transition to electric.[2] LG Chem, with 50% market share for European electric models, is well placed to benefit from this initiative, with the stock rising 61% over the quarter in response.
- **ZTO Express:** ZTO is China's largest e-commerce parcel express network, delivering 12 billion packages in 2019. ZTO benefited from both faster parcel volume growth,[3] as a whole new cohort of consumers was introduced to ordering online during the lockdown, and continued evidence it is widening its lead versus competitors in terms of service quality and cost structure. The stock rose 39% over the quarter.
- **Skyworks Solutions**: Skyworks specialises in making radio frequency (RF) chips for smartphones, with the RF chip being a central input into how fast phones can handle data. The evolution of wireless standards (e.g. 3G to 4G to 5G) is a tailwind for Skyworks, as it both increases the complexity of the RF chips required (therefore increasing the dollar content value Skyworks sells into each phone) and fuels a reason to upgrade your phone. As the global roll-out of 5G approaches, investors have again focused on this growth opportunity for Skyworks, with the stock rising 43% over the quarter.

These three holdings are good examples of our investment approach. Whilst electric vehicles, e-commerce growth and 5G are themes exciting investors today, when we invested in

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum Unhedged 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 The subsidies along with tighter CO_2 regulations have the potential to push electric vehicle sales in Europe from 2% of cars sold in 2019, to over 10% by 2022. Source: Platinum Investment Management Limited.

3 Total Chinese e-commerce parcel volume was growing 25% pre COVID vs.40% today. Source: Chinese State Postal Bureau.

each of these businesses, this attractive future was being ignored with investors instead focused on problems of the day.

The main detractors from performance were Chinese live streaming and dating app **Momo,** which saw its price fall 19% over the quarter as investors questioned whether revenue falls in its live streaming business during COVID could be the start of a more persistent downtrend, and **General Electric**, which fell 14% on general fears of how long a recovery in air travel will take.

Changes to the Portfolio

When a growth industry has a major setback, it can be a very profitable source of ideas[4] and over the past four months we have used the dislocation in the travel market to add a select group of travel businesses to the portfolio.

Given the shock to the industry, there are considerable concerns about the future size and growth of the travel market. In assessing these concerns and the likely shape of the future we can refer to the:

- Base rate (what does history tell us about future outcome probabilities?)
- Recent drivers/trends
- Inside view (how the world may have permanently changed vs. history).

Base Rate - Historical trends point to travel being one of the world's most consistent growth industries, with the annual number of air passengers having grown at 5.6% p.a. ***compound for 50 years***. More recently, it has grown 6% p.a. over the last decade.[5] Notably, this track record of growth occurred over a period that contained recessions, wars, oil shocks and the introduction of multiple technologies (e.g. the internet, live streaming) that would theoretically reduce the need for travel.

Recent trends – Recent drivers of travel growth have included booming demand from emerging markets as disposable incomes rise, a trend in the West of consumers allocating more spending towards 'experiences' and the continued reduction in the cost and accessibility of travel thanks to low-cost carriers and platforms such as Airbnb. These drivers are unlikely to have gone away.

Inside view - So, the past points to a powerful growth pulse in travel, but how may have COVID specifically changed this?

4 Good examples include the semiconductor industry during the trade war, the bond ratings agencies post the global financial crisis, or the payments industry during the 2010 regulatory wave.

5 Source: International Civil Aviation Organisation.

Disposition of Assets^

REGION	30 JUN 2020	31 MAR 2020	30 JUN 2019
North America	41%	36%	30%
Asia	27%	26%	34%
Europe	22%	19%	17%
Japan	7%	6%	4%
Cash	3%	13%	16%

^ With effect from 31 May 2020, our country classifications for securities were updated to reflect Bloomberg's "country of risk" designations. These changes have been backdated to prior periods.
See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 JUN 2020	31 MAR 2020	30 JUN 2019
Industrials	26%	20%	18%
Information Technology	20%	17%	10%
Communication Services	13%	13%	13%
Financials	11%	10%	16%
Health Care	10%	10%	3%
Materials	7%	5%	2%
Consumer Discretionary	6%	5%	3%
Real Estate	4%	4%	4%
Energy	2%	3%	8%
Consumer Staples	0%	0%	6%
TOTAL NET EXPOSURE	97%	87%	84%

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

Net Currency Exposures+

CURRENCY	30 JUN 2020	31 MAR 2020	30 JUN 2019
US dollar (USD)	40%	38%	30%
Euro (EUR)	18%	14%	12%
Chinese yuan (CNY)	17%	17%	23%
Japanese yen (JPY)	7%	10%	9%
Korean won (KRW)	5%	5%	4%
Indian rupee (INR)	4%	8%	6%
British pound (GBP)	3%	3%	4%
Swiss franc (CHF)	2%	2%	1%
Canadian dollar (CAD)	2%	1%	2%
Hong Kong dollar (HKD)	2%	2%	4%
Australian dollar (AUD)	0%	0%	4%
Norwegian krone (NOK)	0%	0%	1%
Russian ruble (RUB)	0%	0%	1%

+ With effect from 31 May 2020, our currency risk exposure classifications for securities were updated to match the relevant local currencies of the relevant Bloomberg "country of risk" classifications. These changes have been backdated to prior periods.
See note 5, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

There are two major issues:

1. COVID has impacted *confidence* (whether that be individuals, corporates or governments) in travelling safely.
2. For corporate travel the universal *adoption of video calls* during COVID may reveal that a portion of corporate travel was unnecessary.

On the issue of confidence, while this will repair in time, clearly a vaccine/therapeutic is required for more rapid improvement. The advances in drug discovery technology, along with the fact that the resources of the world are focused on this task, gives us confidence a treatment will be found faster than many expect.[6]

On video calls, we have no doubt they will reduce certain categories of business travel, the question is by how much? This comes down to a judgement call about the value of face-to-face contact in a business setting. The observation is that video calls work best when you know the participants well and have an established relationship (e.g. a board meeting). There is also a competitive element, if your competitors' sales staff are meeting customers in person, a heavy reliance on virtual contact may be wishful thinking. All up, once we segment corporate travel by purpose, it's prudent to assume video calls will displace 20-25% of corporate travel, which given corporate travel is roughly 30% of total travel by passengers, would result in the total market shrinking by 8%.[7]

Overall, while the industry will rebase lower, there are good reasons to believe it will return to growth and if it is anything like what occurred in the past decade, lost ground would be made up relatively swiftly once confidence returns.[8]

Stepping from the industry view to the fortunes of specific companies, it's important to remember the travel industry is incredibly diverse and we can be very selective in the types of businesses in which we invest. Here, the majority of our holdings are in the capital-light internet booking platforms and software providers to the industry. Take our positions in online travel agents **Booking.com** and **TRIP** (formerly called Ctrip) for example. Both companies have significant cash buffers to weather the storm, primarily serve leisure customers where there are no disintermediation concerns, help hotels fill unsold rooms (where they will never have better access to inventory) and in many cases have seen their competitive positions improve as smaller peers have exited.

Outlook

The juxtaposition is despite facing one of the largest contractions in economic activity in history, most global equity markets are within 5-15% of their pre-COVID highs. This is very different to the experience post 2000 and 2008, where markets took over five years to regain such levels.

Looking within the markets, the contrast is further extended. Investors are flocking into large tech companies and companies perceived to be economically immune, with many of these stocks hitting all-time highs, while the rest of the market is behaving in line with what one would expect during a recession, with prices still well below pre-COVID levels. The narrative explaining this trend, is the unprecedented fiscal and monetary stimulus occurring around the world. As the yields available in fixed income continue to be driven down and new money is created, a portion of this money is flowing into equities, particularly equities that are "comfortable to own".

Given our investment philosophy, we need to be mindful of what's working in markets, without being lured into speculation. In that regard, in line with the examples of LG Chem, ZTO Express and Skyworks, we continue to focus on what will be the interesting investment areas of tomorrow, that are not being priced as such today. With valuation spreads within markets at historical extremes, we are still finding ample opportunity to do so.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Skyworks Solutions	US	Info Technology	4.5%
ZTO Express Inc ADR	China	Industrials	4.2%
Sanofi SA	France	Health Care	3.8%
Microchip Technology	US	Info Technology	3.8%
Facebook Inc	US	Comm Services	3.8%
Applus Services	Spain	Industrials	3.6%
IHS Markit Ltd	US	Industrials	3.4%
Alphabet Inc	US	Comm Services	3.3%
Raiffeisen Bank	Austria	Financials	3.3%
Booking Holdings Inc	US	Cons Discretionary	3.2%

As at 30 June 2020. See note 6, page 4.
Source: Platinum Investment Management Limited.

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

6 For more information please see various articles, podcasts and videos by our inhouse virologist and portfolio manager, Dr Bianca Ogden on The Journal section of our website https://www.platinum.com.au/Insights-Tools/The-Journal/.

7 Source: Platinum Investment Management Limited.

8 We can also ponder more positive future situations. Air travel has proven to be incredibly price elastic, with low prices stimulating demand. Post COVID, planes, pilots, fuel and capital are all cheap. It would not be surprising to see this flow through to low ticket prices, which could be very positive in stimulating leisure demand.

Notes

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

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

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, the Fund's holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The investment returns depicted in the graph are cumulative on A$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified net MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash") 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. "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 exposures to the relevant sectors through its long securities positions and long 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 exposures to the relevant currencies through its long securities positions, cash at bank, cash payables and receivables, currency forwards and long securities/index derivative positions, as a percentage of its portfolio market value. Currency classifications for securities reflect the relevant local currencies of the relevant Bloomberg country classifications. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
6. 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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