MLC-Platinum Global Fund

QUARTERLY INVESTMENT MANAGER'S REPORT

PERFORMANCE

Fund Size: $747.8m	Last quarter	Last 12 months	5 years (compound pa)	Since inception (compound pa)
MLC-Platinum Global Fund	9.6%	31.7%	10.7%	10.9%
MSCI All Country World Net Index (A$)	5.9%	24.2%	13.4%	7.5%

Fund returns are after fees and expenses and assume the reinvestment of distributions. Portfolio inception date: 30 June 1994.
Source: MLC Investments Limited and Platinum Investment Management Limited for Fund returns, and FactSet Research Systems for MSCI index returns.
Past performance is not indicative of future performance. The value of an investment may rise or fall with changes in the market.

The Fund returned 9.6% over the quarter and 31.7% over the year.[1]

As we mentioned in our December 2020 quarterly report,[2] post COVID, the portfolio has had a tilt to companies that we expect will benefit from a broad economic recovery or directly benefit from an end to lockdowns, such as travel. The successful vaccine news in November 2020 was the trigger for investors to return to these names and this strong performance continued through to the end of March, as investor confidence in the broad economic recovery continued to build.

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

2 https://www.platinum.com.au/PlatinumSite/media/Reports/mlcqtr_1220.pdf

The most notable contributors to the Fund's performance are noted below.

- **Louisiana-Pacific** is a US building products manufacturer that is transitioning its business from producing OSB (oriented strand board) towards making SmartSide, its engineered wood siding product where it makes high-teen margins and circa 30% returns on capital. Continued strength in the US housing market, along with more evidence they are gaining market share in premium siding, saw the stock rise 49% over the quarter.
- **MinebeaMitsumi's** expertise lies in high-precision manufacturing of small components on a mass scale, with the company most famous for producing miniature ball bearings, where they have 60% global market share. Investors have been cautious on MinebeaMitsumi's ability to grow, as some of their legacy products face technology obsolescence (e.g. LED backlights and hard disk drive motors). In response, the company has executed a series of acquisitions in the analogue power semiconductor space, that has both filled the potential hole from a loss of products and given them a new profit driver. The stock rose 38% over the quarter, as sentiment around the business improved, with investors now focusing on a recovery in their end markets, as well as potential new applications for their products in high-end camera phones and electric vehicles.

Platinum ASSET MANAGEMENT

MLC

DISPOSITION OF FUND ASSETS (NET INVESTED POSITIONS) ˆ

Region	31 Mar 2021	31 Dec 2020
Asia	32.1%	34.0%
North America*	19.3%	27.8%
Europe	13.8%	15.4%
Japan	13.1%	11.3%
Australia	3.2%	3.6%
Other	1.0%	0.9%
Cash	17.5%	7.0%

ˆ 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.

* As at 31 March 2021, the Fund had a -8.2% short position against the Nasdaq E-Mini Future Jun 21. The Fund's -3.1% short position against the Nasdaq E-Mini Future Mar 21 was closed during the quarter.

Source: Platinum Investment Management Limited.

TOP 10 HOLDINGS ˆ

Company	Country	Industry	Weight
Samsung Electronics Co	South Korea	Info Technology	5.1%
Micron Technology Inc	US	Info Technology	4.7%
Microchip Technology Inc	US	Info Technology	3.9%
Ally Financial Inc	US	Financials	3.5%
Glencore PLC	Australia	Materials	3.1%
Lixil Group Corp	Japan	Industrials	3.0%
China Overseas Land & Inv	China	Real Estate	3.0%
UPM-Kymmene OYJ	Finland	Materials	2.9%
Minebea Co Ltd	Japan	Industrials	2.8%
General Electric Co	US	Industrials	2.8%

ˆ As at 31 March 2021. 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. Numerical figures are subject to rounding adjustments.

Source: Platinum Investment Management Limited.

NET SECTOR EXPOSURES ˆ

Region	31 Mar 2021	31 Dec 2020
Industrials	22.4%	21.8%
Financials	17.6%	16.5%
Materials	17.2%	15.8%
Information Technology	15.1%	18.8%
Consumer Discretionary	6.0%	7.2%
Health Care	5.3%	5.9%
Real Estate	3.6%	1.8%
Communication Services	3.6%	5.5%
Energy	0.0%	2.9%
Other	-8.2%	-3.1%
TOTAL NET EXPOSURE	82.5%	93.0%

ˆ The table shows the Fund's net 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". Numerical figures are subject to rounding adjustments.

Source: Platinum Investment Management Limited.

NET CURRENCY EXPOSURES ˆ

Currency	31 Mar 2021	31 Dec 2020
United States Dollar (USD)	27.2%	15.3%
Chinese Renminbi (CNY)	17.1%	15.0%
Euro (EUR)	16.8%	25.4%
Japanese Yen (JPY)	11.5%	9.3%
South Korean Won (KRW)	7.5%	10.0%
Indian Rupee (INR)	4.4%	4.3%
Canadian Dollar (CAD)	4.2%	2.7%
Australian Dollar (AUD)	4.1%	4.3%
UK Pound Sterling (GBP)	2.8%	2.6%
Hong Kong Dollar (HKD)	2.5%	3.2%
Thai Baht (THB)	1.0%	0.9%
Brazilian Real (BRL)	0.9%	0.0%
Zambia Kwacha (ZMK)	0.1%	0.9%
New Taiwan Dollar (TWD)	0.0%	1.2%
China Renminbi Offshore (CNH)	0.0%	4.8%

ˆ The table shows the Fund's net 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.

Source: Platinum Investment Management Limited.

- In **financials**, the banking sector is deeply out of favour with investors. The sector, already struggling with low interest rates and weak loan growth, experienced another setback during COVID, as investors were faced with higher loan losses as economies locked down. This resulted in the whole sector trading at incredibly low valuations. Our approach has been to seek out those banks with differentiated positions, that can grow despite the environment, such as Ally Financial, which is the leading online bank in the US, or Raiffeisen Bank International, which operates in Eastern Europe, where both loan growth and interest rates are rising. With the strengthening economy, our banking holdings in **Ally Financial** (+27%), **Bank of Ireland** (+28%), **Intesa Sanpaolo** (+21%) and **Raiffeisen Bank** (+12%) moved higher.

The strength across the portfolio was broad, with a limited number of detractors. A key detractor of note, was gold producer **Barrick Gold**, which largely tracked the gold price, falling 13% over the quarter.

CHANGES TO THE PORTFOLIO

After some strong price moves, a number of our holdings reached fair value and we rotated into more prospective names.

In terms of commodities, we reduced our position in **First Quantum Minerals** and exited **Nippon Steel**. Within our 'growth industrials' we exited our position in US air conditioning manufacturer **Carrier Global** and reduced our holding in **FedEx**. Finally, in terms of our travel-exposed businesses we exited **Amadeus** and **Booking Holdings**. These investments all made strong contributions to the Fund's performance over the past 12 months.

We established a new position in automaker **Subaru** over the quarter. Subaru is a brand well known to Australians, however, the real driver of the company is their success in the US market, which makes up 70% of the company's sales.

Subaru's collection of small and mid-sized all-wheel drive sports utility vehicles (SUVs) has allowed the company to build a unique position as an ethical, on-trend brand for educated, outdoor-loving consumers. Despite a limited model range, Subaru has gone from strength to strength in the US, with the brand breaking sales records every year since 2009, more than doubling their market share from 2% to 5% and winning the number one spot in resale value, safety and customer loyalty surveys.[3]

Investors' worries around Subaru have been on two fronts: weakness in the US dollar (Subaru's cost base is in Japanese yen); and electrification. News flow on both issues has improved recently. On electrification, Subaru benefits from its technology partnership with Toyota (which owns 20% of Subaru), with the pair to release a new fully-electric mid-sized SUV at the April Shanghai motor show. Success there can change the perception that both Toyota and Subaru are lagging on electric vehicle development.

With a stronger US dollar, good demand for their new large-sized Ascent SUV and a booming US auto market, there is scope for investor perception around Subaru to considerably improve.

3 Source: https://carsalesbase.com/us-subaru/ (market share); Kelley Blue Book (resale value); Insurance Institute for Highway Safety (IIHS) (safety); JD Powers 2020 Survey of Mass Market Brand Loyalty (loyalty).

OUTLOOK

The most popular question[4] we are receiving today, is whether the investor rotation into more economically sensitive stocks is 'done'.

In past reports, we have pointed out the extreme valuation difference that had formed in markets over the past three years. As the US/China trade war intensified and the US began cutting interest rates in late 2018, investor demand has focused on high-growth stocks or defensives. This trend was super-charged post COVID, with the valuation differences reaching historic levels (see Fig. 1).

While the share price rises in economically sensitive names (i.e. cyclicals) over the past five months feels dramatic, we would argue it is a rebound from very depressed levels and is supported by fundamentals, as the earnings power of these companies have the most to gain from the economic recovery.

That said, for us, the outlook for future returns is really about the quality and diversity of ideas we are finding. Whether it be **InterGlobe Aviation**, the corporate parent of IndiGo, India's dominant low-cost airline that can look forward to a decade of strong passenger growth, or **UPM-Kymmene Oyj**, a world-class producer of virgin pulp, that has seen demand for its renewable diesel and plastics products boom as companies move to meet their ESG goals, we are still finding reasonably priced companies with good prospects.

4 A close second, is our view on the direction of interest rates and inflation. For those interested in this topic please see Andrew Clifford's Macro Overview for a more extensive commentary.

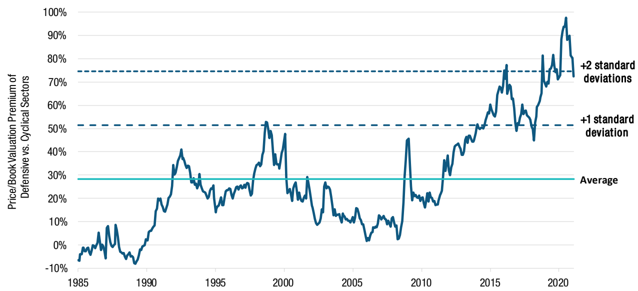
Clay Smolinski

Co-Chief Investment Officer & Portfolio Manager

Platinum Asset Management

Fig. 1: Current Markets are More Extreme than 2000

The global valuation premium of defensive vs. cyclical sectors



Source: FactSet Research Systems. Note: A standard deviation is a statistic that measures the dispersion of a dataset relative to its mean. If the data points are further from the mean, there is a higher deviation within the data set; thus, the more spread out the data, the higher the standard deviation. (Source: Investopedia)

Macro Overview

by Andrew Clifford, Co-Chief Investment Officer, Platinum Investment Management Limited

CHALLENGING TIMES FOR THE MARKET'S SPECULATIVE ELEMENTS

We are now one full year on from the COVID-19 outbreak and the subsequent initial lockdowns that resulted in a collapse in global economic activity and stock markets. While the pathway of the virus has been one of rolling waves in response to lockdowns, reopenings and now the rollout of vaccines, since the March 2020 lows, economic activity has experienced a strong and steady recovery, as have stock markets. Indeed, many of the world's major stock markets have comfortably surpassed their pre-COVID highs.[1] Fuelling this recovery in both economies and stock markets has been unprecedented (peace time) government deficit spending, funded through the printing of money.

The question is, where to now? **It is highly likely that the global economy will continue its strong recovery path over the course of the next two years. In concert with this recovery, government bond yields will likely head higher, which will prove challenging for the speculative elements within stock markets.**

ECONOMIC ACTIVITY WILL LIKELY CONTINUE TO RECOVER

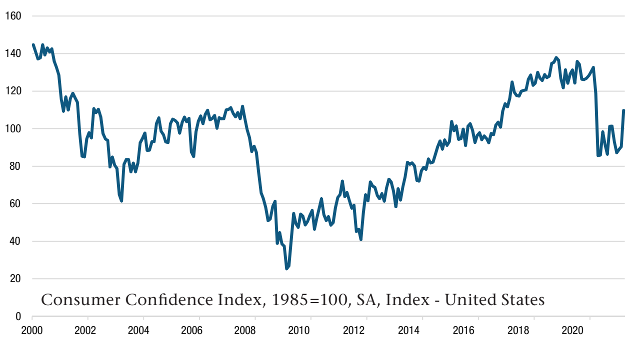
There are numerous reasons to expect that global economies will continue to recover. The most obvious is the ongoing reopening of economies, as vaccination programs take us toward the post-COVID era. With current headlines focused on the failure of vaccination rollouts and the outbreak of new variants of the virus, this may seem an overly optimistic statement to many. However, the success of the vaccination programs in the US and the UK, where 32% and 46% of each population respectively has received at least one vaccine dose, shows what can be achieved once health systems swing into gear.[2] Where vaccination programs have been slow to start in some locations, such as Europe, an acceleration is likely, especially as the availability of dosages continues to improve. Variants in the virus are an expected setback, but fortunately the vaccines are being refined to address the variants, as they normally would with the annual flu vaccine.

Over the course of 2021, it is highly likely that we will move toward a situation where we return to freedom of movement across the world's major economies. With this, we expect industries such as travel and leisure will continue their recovery, and with that, elevated levels of unemployment will continue to fall. With a light at the end of the tunnel on COVID and rising employment, consumer confidence has started to bounce back (see Fig. 1). As such, a release of pent-up consumer demand across a range of goods and services should be expected. Indeed, households are well-positioned to increase their spending, as large portions of government payments last year were saved and not spent, resulting in unprecedented increases in savings rates (see Fig. 2).

1 Source: FactSet Research Systems.

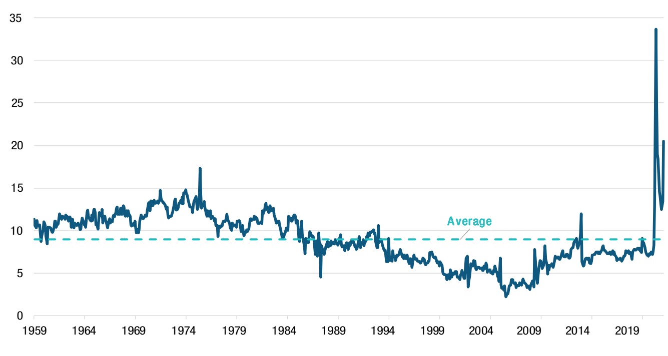
2 Source: https://ourworldindata.org/covid-vaccinations#what-share-of-the-population-has-received-at-least-one-dose-of-the-covid-19-vaccine as at 3 April 2021.

Fig. 1: US Consumer Confidence Bouncing Back
The Conference Board Consumer Confidence Index®



Source: FactSet Research Systems.

Fig. 2: US Households Well-Positioned to Spend
US household savings rate (% of disposable income)



Source: Federal Reserve Bank of St. Louis.

Additionally, in the US, consumers' bank accounts will be further inflated, with the recent passing of the US$1.9 trillion fiscal package. It is estimated that US consumers would need to spend an additional US$1.6 trillion dollars, or 7.5% of GDP,[3] just to return to trend savings levels. The recovery from the COVID-19 collapse is likely to be a very strong rebound that will play out over the next two to three years.

Given the levels of fiscal and monetary stimulus across the globe during 2020 and 2021 to date, the US will be at the epicentre of the recovery. The ongoing stimulus efforts in the US, including a potential additional US$3 trillion of spending on infrastructure and healthcare over the next decade, make the rest of the world's efforts pale into insignificance. Indeed, China appears to be stepping back from stimulus programs, having already achieved a strong economic recovery. Nevertheless, the US stimulus will help growth in Asia and Europe via the trade accounts, as is already apparent in the strong recovery in China's trade surplus (see Fig. 3).

3 https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/consumers-to-unleash-trillions-of-dollars-in-excess-savings-when-pandemic-ends-62511820

LONG-TERM INTEREST RATES WILL LIKELY MOVE HIGHER WITH THE RECOVERY

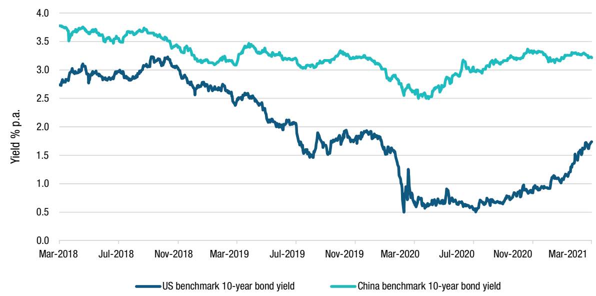
As a result of the strong rebound in economic activity, interest rates will likely rise and indeed, they already have. The reference here is to long-term interest rates, such as the yield on the US 10-year government bond, rather than short-term interest rates set by central banks (e.g. the Reserve Bank of Australia). In the fastest-recovering economies, US 10-year government bond yields have increased from 0.51% in August 2020 to 1.74% at the end of March, while Chinese 10-year government bond yields have risen from their April 2020 lows of 2.50% to 3.21% at the end of March (see Fig. 4). In both cases, these yields have returned to pre-COVID levels. It is not surprising that yields on government bonds are rising, as this is generally the case during a recovery. The issue is just how much further they may rise, given expectations for a very robust growth environment in 2021, the substantial amount of new bonds that will be issued in the months ahead and nascent signs of inflationary pressures.

Daily readings of consumer prices already show inflation heading back to levels last seen in mid-2019. As we discussed in our December 2020 quarterly report, markets in a broad range of commodities and manufactured goods are seeing shortages in supply, resulting in significant increases in prices. One high-profile example has been the auto industry having to cut production due to shortages in the supply of components. Given the complexity of supply chains and the various factors that have been impacting them in recent years, such as the trade war and then the sudden collapse and recovery in demand in 2020, predicting how long such shortages will persist is difficult. However, it is interesting that these price rises, usually associated with the end of an economic cycle, are occurring at the start of the cycle instead.

Fig. 3: China's Trade Surplus Expands

Source: FactSet Research Systems.

Fig. 4: US and China 10-Year Bond Yields on the Rise



Source: FactSet Research Systems.

Beyond the current supply shortages and associated price rises, the longer-term issue for inflation is how governments will finance their fiscal deficits. As we have discussed in past quarterly reports, when governments use the banking system (including their central banks) to finance deficits, it results in the creation of new money supply. The idea that the creation of money supply in excess of economic growth is inflationary, has lost credibility in recent years, as inflation didn't arrive with the quantitative easing (QE) policies of the last decade. However, the mechanisms by which banking systems are funding current fiscal and monetary policies of their governments are clearly different to what was applied during QE. Rather than delve into a deep explanation, we would simply point to the extraordinary growth in money supply aggregates, where in the US, M2[4] increased by a record annual rate of 25% almost overnight in mid-2020. These types of increases did not occur during the last decade of QE policies. Further growth in M2 awaits in the US, following the latest rounds of fiscal stimulus, though the percentage growth figures will at some point fall away as we pass the anniversary of last year's outsized increases.

So, we have a strong economic recovery from the ongoing reopening post COVID, fuelled by fiscal stimulus, already tight markets in commodities and manufactured goods, plus excessive money growth. Given that we also have central banks committed to keeping short-term interest rates low for the foreseeable future and allowing inflation to exceed prior target levels, it is hard to see how we can avoid a strong cyclical rise in inflation. It is an environment where there is likely to be ongoing upward pressure on long-term interest rates. To see US 10-year Treasury yields above 3%, a level last seen in only 2018, would not be a surprising outcome.

4 M2 includes M1 (currency and coins held by the non-bank public, checkable deposits, and travellers' cheques) plus savings deposits (including money market deposit accounts), small time deposits under $100,000, and shares in retail money market mutual funds.
Source: https://fred.stlouisfed.org/series/M2SL

RISING LONG-TERM INTEREST RATES WILL REPRESENT A CHALLENGE FOR THE BULL MARKET IN GROWTH STOCKS

In recent years, we have emphasised the two-speed nature of stock markets globally. As interest rates fell and investors searching for returns entered the market, their strong preference was for 'low-risk' assets. At different times they have found these qualities in defensive companies, such as consumer staples, real estate and infrastructure, and at other times, in fast-growing businesses in areas such as e-commerce, payments and software. At the same time, investors have been at pains to avoid businesses with any degree of uncertainty, whether that be natural cyclicality within their business or exposed to areas impacted by the trade war. Last year, this division was further emphasised along the lines of 'COVID winners', such as companies that benefited from pantry stocking or the move to working from home, and 'COVID losers', such as travel and leisure businesses.

Over the last three years, these trends within markets created unprecedented divergences in both price performance and valuations within markets. However, as we noted last quarter, this trend started to reverse at the end of 2020, as a combination of successful vaccine trials and the election of US President Biden pointed to a clearly improved economic outlook. The result was 'real world' businesses in areas such as semiconductors, autos and commodities started to see their stock prices perform strongly and this has continued into the opening months of 2021.

Meanwhile, the fast-growing favourites continued to perform into the new year, though these have since faded as the rise in bond yields accelerated. Many high-growth stocks have seen their share prices fall considerably from their recent highs, with bellwether growth stocks such as Tesla (down 27% from its highs), Zoom (down 45%) and Afterpay (down 35%).

Theoretically, rising interest rates have a much greater impact on the valuation of high-growth companies than their more pedestrian counterparts. As such, it is not surprising to see these stocks most impacted by recent moves in bond yields and concerns about inflation.[5] Many will question whether this is a buying opportunity in these types of companies. While they may well bounce from these recent falls, we would urge caution on this front, as for many (but not all) of the favourites of 2020 we would not be surprised to see them fall another 50% to 90% before the bear market in these stocks is over. If our concerns regarding long-term interest rates come to fruition, this will be a dangerous place to be invested, and as we concluded last quarter, "*when a collapse in growth stocks comes, it too should not come as a surprise*".

5 Growth companies tend to rely on earnings in the more distant future. When valuing a company, future earnings are discounted back to a present value using a required rate of return, which is related to bond yields. As bond yields rise, the discounting process leads to a lower value in today's dollars, for the same level of future earnings.

If there is a major bear market in the speculative end of the market, how will companies that investors have been at pains to avoid in recent years (i.e. the more cyclical businesses and those that have been impacted by COVID-19) perform? While these companies have seen good recoveries in their stock prices in recent months, generally they remain at valuations that by historical standards (outside of major economic collapses) are attractive. It should be remembered there are two elements to valuing companies: interest rates and earnings. Of these, the most important is earnings, and these formerly unloved companies have the most to gain from the strong economic recovery that lies ahead. As such, we would expect good returns to be earned from these businesses over the course of next two to three years.

For many, the idea that one part of the market can rise strongly while the other falls, seems contradictory, even though that is exactly what has happened over the last three years. In this case, for reasons outlined in this report, we are simply looking for the relative price moves of the last three years to unwind. We only need to look to the end of the tech bubble in 2000 to 2001 for an indication of how this may play out - when the much-loved 'new world' tech stocks collapsed in a savage bear market, while the out-of-favour 'old world' stocks rallied strongly. This was a period where our investment approach really came to the fore, delivering strong returns for our investors.

MSCI REGIONAL INDEX NET RETURNS TO 31.3.2021 (USD)

REGION	QUARTER	1 YEAR
All Country World	**4.6%**	**54.6%**
Developed Markets	**4.9%**	**54.0%**
Emerging Markets	**2.3%**	**58.4%**
United States	**5.4%**	**58.6%**
Europe	**4.0%**	**44.7%**
Germany	4.2%	59.3%
France	4.4%	50.0%
United Kingdom	6.2%	33.5%
Italy	6.3%	53.0%
Spain	1.0%	36.9%
Russia	4.9%	44.3%
Japan	**1.6%**	**39.7%**
Asia ex-Japan	**2.7%**	**57.3%**
China	-0.4%	43.6%
Hong Kong	7.3%	37.3%
Korea	1.6%	89.5%
India	5.1%	76.4%
Australia	3.4%	68.4%
Brazil	-10.0%	46.5%

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 31.3.2021 (USD)

SECTOR	QUARTER	1 YEAR
Energy	17.7%	49.9%
Financials	11.4%	56.9%
Industrials	7.5%	62.2%
Communication Services	6.6%	57.4%
Materials	6.4%	76.6%
Real Estate	6.0%	30.1%
Consumer Discretionary	2.3%	77.7%
Information Technology	1.8%	71.7%
Utilities	0.6%	22.8%
Health Care	0.4%	30.2%
Consumer Staples	-0.8%	24.6%

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.

If you have any questions about your investment in the MLC-Platinum Global Fund, please contact the MasterKey Service Centre on

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