MLC-Platinum Global Fund

QUARTERLY INVESTMENT MANAGER'S REPORT

PERFORMANCE

Fund Size: 655.9m	Last quarter	Last 12 months	5 years (compound pa)	Since inception (compound pa)
MLC-Platinum Global Fund	4.3%	-1.9%	4.2%	10.2%
MSCI All Country World Net Index (A$)	6.0%	4.1%	8.8%	7.1%

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 rose 4.3% 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 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 our short positions in US index futures. This protection in the backdrop of a rapidly rebounding market cost the Fund 2.2% during the quarter. In terms of specific stocks, weakness was seen in 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. In aggregate these two positions cost the Fund 0.7%.

1 References to returns and performance contributions (excluding individual stock returns) in this MLC-Platinum Global 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.

Platinum ASSET MANAGEMENT

MLC

DISPOSITION OF FUND ASSETS (NET INVESTED POSITIONS) ^

Region	30 Jun 2020	31 Mar 2020
Asia*	30.9%	29.1%
North America*	29.9%	28.2%
Europe	15.2%	13.4%
Japan*	10.0%	5.1%
Africa	0.5%	0.4%
Cash	13.5%	23.7%

^ 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. Numerical figures are subject to rounding adjustments.

* At 30 June 2020, the Fund had a -2.1% short position against the Russell Mini 2000 CME (nil at 31 March 2020) and a -2.0% short position against the S&P 500 Index (-1.0% at 31 March 2020). The Fund's -2.7% short position against the FTSE China A50 Index, -0.4% short position against the Nasdaq Index and -4.3% short position against the Nikkei Index (at 31 March 2020) were closed during the quarter.

Source: Platinum Investment Management Limited.

TOP 10 HOLDINGS ^

Company	Country	Industry	Weight
Samsung Electronics Co	Korea	Info Technology	5.2%
Sanofi SA	France	Health Care	3.8%
Micron Technology	US	Info Technology	3.6%
ZTO Express Inc ADR	China	Industrials	3.5%
Microchip Technology	US	Info Technology	3.5%
Facebook Inc	US	Comm Services	3.5%
Booking Holdings Inc	US	Cons Discretionary	3.2%
Alphabet Inc	US	Comm Services	3.1%
Takeda Pharma Co	Japan	Health Care	2.9%
Tencent Holdings	China	Comm Services	2.9%

^As at 30 June 2020. 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 ^

Region	30 Jun 2020	31 Mar 2020
Information Technology	20.5%	18.9%
Industrials	18.5%	13.8%
Financials	11.5%	11.6%
Communication Services	10.4%	11.9%
Health Care	9.8%	10.1%
Consumer Discretionary	8.6%	8.5%
Materials	7.5%	5.5%
Real Estate	2.0%	2.3%
Energy	1.9%	2.0%
Consumer Staples	0.0%	0.0%
Utilities	0.0%	0.0%
Other	-4.1%	-8.4%
TOTAL NET EXPOSURE	86.5%	76.3%

^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 ^

Currency	30 Jun 2020	31 Mar 2020
Chinese yuan (CNY)	19.5%	17.1%
Euro (EUR)	18.1%	14.5%
US dollar (USD)	15.9%	17.3%
Japanese yen (JPY)	13.6%	17.6%
Australian dollar (AUD)	11.6%	11.5%
Korean won (KRW)	7.9%	7.5%
Hong Kong dollar (HKD)	3.6%	2.5%
Canadian dollar (CAD)	2.7%	2.1%
Swiss franc (CHF)	2.3%	2.5%
Indian rupee (INR)	1.9%	3.2%
British pound (GBP)	1.5%	3.0%
Thai baht (THB)	0.9%	0.9%
Zambian kwacha (ZMK)	0.5%	0.4%

^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. 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. The table may not exhaustively list all of the Fund's currency exposures. Numerical figures are subject to rounding adjustments.

Source: Platinum Investment Management Limited.

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?

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.com** (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.

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.

6 For more information please see various articles, podcasts and videos by Platinum's 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.

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.

Clay Smolinski
Portfolio Manager
Platinum Asset Management

Macro Overview

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

Stimulus Fuels Breakdown Between Markets and Economic Reality

The global economy has only just commenced its recovery from the depths of the largest economic setback in modern history, yet stock markets have bounced strongly from their mid-March lows to be just 5%-15% below their pre-COVID-19 levels. This extraordinary recovery in stock markets stands in stark contrast to other periods of economic weakness, such as the global financial crisis (GFC), where even five years later, markets had not recovered to their previous highs.

The market's response can most likely be attributed to the enormous monetary and fiscal measures taken by governments and central banks around the world. This leads to the obvious question, what happens next?

While we can identify attractive opportunities in individual stocks as a result of the market collapse, **for the moment, significant uncertainty around future economic activity, together with high stock market valuations, are good arguments for investors to retain a cautious stance**.

As lockdowns are lifted, economies will experience a strong 're-opening bounce', but a full recovery is likely to be at least three to five years away. As we noted in our March 2020 quarterly report[9], the economy is "real" and labour is a key "factor of production". If people are restricted from going to work, then activity will fall. As such, we concluded, "economic activity will stop falling and start to recover when people can return to work".

It is not surprising that we are seeing signs of a strong initial recovery. The question is, how close does this initial recovery get us to where we were before? Again, as we noted last quarter, after the GFC, which was a mild downturn by comparison, the US took three years to return to prior peaks in activity, Japan took five years and Europe took seven years.

We expect the recovery to take some time to play out again for the following reasons:

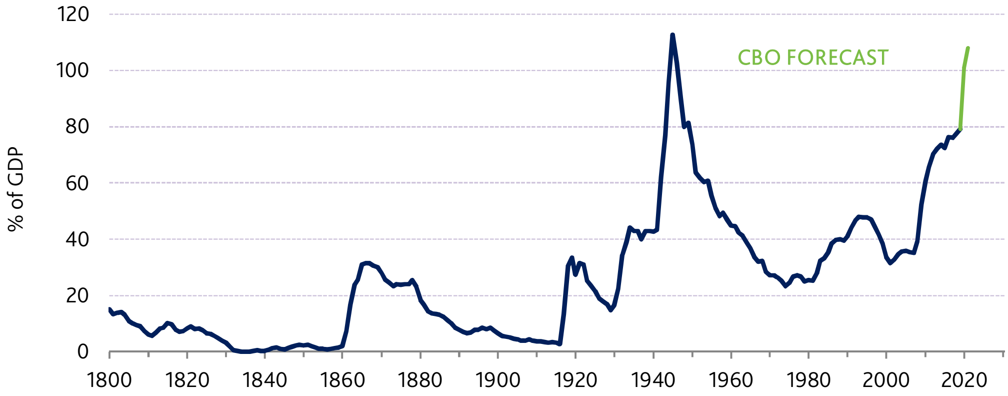
- Firstly, small- and medium-sized enterprises, by and large, tend to live on the edge of viability at the best of times. Many that have had to close their doors will struggle to return, especially if they have significant fixed costs, such as rent, that still need to be covered. To date, government programs in many countries (such as the JobKeeper Payment Scheme in Australia) have aimed to keep these businesses afloat and their employees paid. It is likely that, as the reopening proceeds, many of these businesses will fail, and while their employees are ready and able to return to work, they will not have jobs to return to.
- There are also some industries where the recovery will be slower, as government restrictions on the movement of people persist, or potentially changes in behaviour triggered by the lockdown, result in reduced demand for some services.
- Finally, the recent acceleration in COVID-19 cases in parts of the US and elsewhere, raises concerns about the impact of a second wave of infections. Whether this results in a return to lockdowns or not, it is likely to suppress consumer and business confidence. Further, the spread of the virus remains uncontained in much of the developing world, with significant expansion of cases in the important economies of India and Brazil.

Once the initial re-opening bounce has occurred, it is likely that unemployment levels will remain significantly elevated relative to the pre-COVID period. Market forces will see excess labour eventually absorbed by an ongoing recovery and new jobs will be created, but it will simply take time. While the development of a vaccine will accelerate the recovery, allowing certain industries to return more quickly, it is still likely that a return to prior peaks in economic activity will be measured in years.

It is almost certain that governments will continue to implement additional monetary and fiscal measures to support an economic recovery, but there are limits on what can be achieved.

9 https://www.platinum.com.au/PlatinumSite/media/Reports/mlcqtr_0320.pdf

Fig. 1: US Public Sector Debt/% GDP



Source: Minack Advisers and US Central Budget Office (CBO).

Ultimately, the potential of any economy is limited by the "real" resources of labour, capital (being the plant and equipment in our factories, data centres and offices) and land (not just shopping malls and office blocks but also agriculture and mining). The government cannot create new productive capacity, it can only redirect existing resources, but during periods when the resources of the economy are not fully employed, it may make sense for them to do so. In recent months, government benefits have allowed the newly unemployed to buy groceries and pay their bills, reducing the impact of their loss of income on the economy. However, government spending represents a transfer of wealth from another sector of the economy – as governments need to fund their spending.

Traditionally, governments have funded their expenditure by taxing the private sector (households and businesses) or by borrowing money from the private sector and then taxing that very same private sector in the future, to repay the loans. However, in recent years, either directly or indirectly, as a result of quantitative easing policies by central banks, governments have been effectively borrowing from the central bank. Without delving into a treatise on money and credit, in simple terms, the central bank is creating new money that ends up in the hands of governments, who use it to pay their bills[10].

Normally, economists would argue that this is inflationary, and that it represents a tax on anyone who holds cash. It hasn't quite unfolded that way though, with the consumer price index (CPI) in most economic systems remaining subdued over the past decade. You might observe, however, the loss of purchasing power in your savings by noting the inflation in assets, such as residential property, or the lack of a decent return on your term deposits.

On face value, the financial alchemy of quantitative easing has been an apparent success. Over the last decade, central banks, hand-in-hand with their governments, have been able to resolve problems in their financial system, see their economies recover and maintain low interest rate regimes, without even the slightest appearance of this money creation being inflationary (unless you have an eye on asset prices). This same financial alchemy has been front and centre in the funding of government spending in response to the current crisis. So far so good, with respect to placing spending power into the hands of many of those in need and the maintenance of low interest rates, again with no obvious signs of inflation (other than in asset prices).

Undoubtedly, governments will continue to push on with central banks funding their spending if economies do not recover quickly. Presumably though, there are limits on this approach. When considering the rapid increase in government debt around the world in recent months, it certainly gives rise to a question of sustainability. Fig. 1 illustrates the extraordinary increase in US federal government debt as a percentage of GDP. The US Central Budget Office (CBO) is forecasting the level of indebtedness to rise to near World War 2 levels by 2021.

10 This is a gross simplification of the underlying mechanics of money creation and quantitative easing, and the relationship with government spending over the last decade, but should suffice for the purpose of this discussion.

Assuming that limits do exist on this financial engineering, we need to understand at what point these limits will be reached and what will be the implications of exceeding them? These questions are not easily answered, but certainly, possibilities include a rise in goods and services inflation or conversely, the global economy enters a period of Japanese-style deflation, as governments crowd out the private sector.

The creation of new money that has arisen from recent monetary and fiscal policies is highly likely to have been a major contributor to the unprecedented rebound in stock prices from the March lows.

Well-known economist, Milton Friedman observed that, "Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output". Today, in the US, M2 (one measure of the amount of money in the financial system) is rising by a record annual rate of 25%[11] (see Fig. 2), while economic output has collapsed. Of course, we haven't been able to observe inflation in the traditional CPI that focuses on goods and services, as most are in excess supply in this downturn. Where we have been able to clearly observe inflation though, is in asset prices, particularly in bond markets (higher bond prices are the other side of falling interest rates) and parts of the stock market.

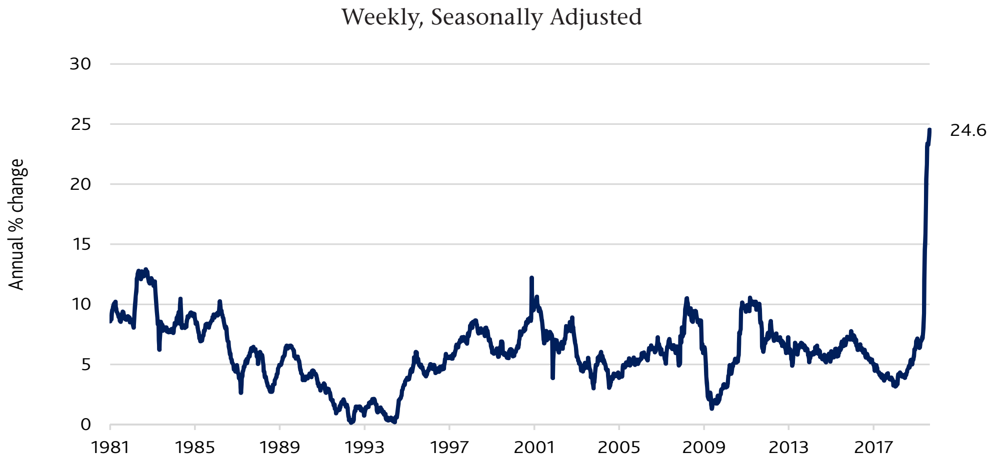
As this new money has washed around the system, it has found its way to the shares of companies that are perceived to be immune, or that have even benefited from the economic collapse. Many of these companies have stock prices near, even well above, their pre-COVID stock prices.

In some cases, companies have benefited from the lockdowns, notably, e-commerce players that have seen an increase in the use of online shopping and other services. Undoubtedly, the enthusiasm of investors for many of these companies is justified, in the sense that they have strong positions in their markets and look set to grow for many years to come. However, when this assessment of their prospects is then amplified by excessive money creation by central banks, **the outcome is that stock prices have moved well beyond what can be justified, given even the brightest assessment of their futures.**

If our analysis of the situation is correct, the risk for investors who own these popular names are two-fold. For any given company, a significant risk is they fail to deliver on their shareholders' high hopes, a very real possibility given the long timeframes over which they need to deliver high levels of growth. The other risk though, is that the money creation process that has driven these rising stock prices slows, or even possibly stops, or that the money migrates elsewhere. On the first point, as stated earlier, it seems likely that governments will want to continue spending to encourage a recovery and this should ensure the ongoing creation of new money, however, the current rate of growth may be hard to match. This assumes that potential limits on the levels of government debt discussed earlier do not occur at some point. As for the money migrating elsewhere, this is difficult to predict, but one possibility is that it flows into the real economy, as output steadily recovers over the coming years. None of this really helps with identifying the timing of any of these events, but to stay invested in these types of stocks is like being involved in the investment equivalent of a game of musical chairs.

11 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. Year-on-year, as at 22 June 2020. Source: https://fred.stlouisfed.org/series/M2#0.

Fig. 2: US M2 Money Stock, Percent Change from a Year Ago



Source: Federal Reserve Bank of St. Louis.

The rest of the stock market, outside of these popular sectors, is behaving much more like one might expect in a major economic collapse. That is, their stock prices have fallen significantly and although they have bounced from their March lows, they remain well below pre-COVID levels.

Many companies in these out-of-favour sectors, when assessed against a likely three-year recovery period, represent attractive investments. It is amongst these companies that we see the real opportunities arising from the current crisis.

Typically, these companies either have greater sensitivity to economic growth, or in some cases have been directly impacted (e.g. travel-related businesses) by the lockdowns.

It is worth noting, that as the world recovered from the GFC, it was precisely these types of companies that made the best investments over the following two to three years. What is unknown of course, is precisely when we will see these investments perform. Most likely, this will occur with some swings and roundabouts, in line with the broad recovery in economic activity that we expect to come through over the next three years or so. Potentially, as government spending moves toward longer-term projects, such as infrastructure or decarbonisation of the economy, this could well accelerate the recovery for many of these economically sensitive sectors.

MSCI REGIONAL INDEX NET RETURNS TO 30.6.2020 (USD)

Region	Quarter	1 Year
All Country World	19.2%	2.1%
Developed Markets	19.4%	2.8%
Emerging Markets	18.1%	-3.4%
United States	21.6%	7.8%
Europe	15.4%	-7.2%
Germany	26.5%	-2.6%
France	16.1%	-10.3%
United Kingdom	7.8%	-17.7%
Italy	16.1%	-11.4%
Spain	10.3%	-21.0%
Russia	18.7%	-13.0%
Japan	11.6%	3.1%
Asia ex-Japan	16.7%	1.7%
China	15.3%	13.1%
Hong Kong	9.2%	-14.7%
Korea	19.5%	0.4%
India	20.6%	-17.0%
Australia	28.9%	-11.5%
Brazil	9.2%	-32.1%

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 30.6.2020 (USD)

Sector	Quarter	1 Year
Information Technology	30.0%	31.8%
Consumer Discretionary	28.6%	9.3%
Materials	25.6%	-4.6%
Communication Services	19.8%	8.9%
Energy	17.8%	-34.0%
Industrials	17.4%	-7.9%
Health Care	15.3%	14.6%
Financials	12.0%	-17.7%
Consumer Staples	9.1%	-0.2%
Utilities	6.6%	-2.3%

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

132 652 from anywhere in Australia or
+61 3 8634 4721 from overseas

M153225-0720