MLC-Platinum Global Fund

QUARTERLY INVESTMENT MANAGER'S REPORT

PERFORMANCE

Fund Size: $700.5m	Last quarter	Last 12 months	5 years (compound pa)	Since inception (compound pa)
MLC-Platinum Global Fund	12.9%	5.6%	7.6%	10.6%
MSCI All Country World Net Index (A$)	6.5%	5.9%	10.9%	7.3%

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 12.9% over the quarter and 5.6% over the calendar year.[1]

The major reason for the strong returns during the quarter were the successful Phase 3 trials of the messenger RNA (mRNA)-based vaccines for COVID-19 announced in November by BioNTech/Pfizer and Moderna respectively.

Over the past six months, we have discussed the bull market underway in growth and safety stocks (the perceived COVID-19 winners), and the historically extreme valuation divergence that has emerged, with the cyclical stocks being left behind. The news of multiple successful vaccines has been a trigger for investors to reassess the outlook and this positioning. We have subsequently seen a sharp rotation back into the more cyclical (and attractively valued) areas of the market.

Along these lines, the major clusters of performance of the Fund were our holdings in areas that would directly benefit from a successful vaccine or would indirectly benefit from a broader economic recovery. The most notable were:

- **Travel:** We discussed the rationale for our travel holdings in the June 2020 quarterly report. The vaccine has allowed investors to begin looking past the current lockdowns and focus more on the long-term growth potential of these businesses, with **General Electric** (+73% over the quarter), **MTU Aero Engines** (+50%) and **Booking Holdings** (+30%) all rising in response.
- **Financials:** In a similar fashion, the change in outlook has seen investors take a more positive view on the size of probable loan losses and timing of when the banks will return to paying dividends. This triggered a strong price response in a number of our bank holdings, including **Bank of Ireland** (+109%), **Ally Financial** (+42%) and **Raiffeisen Bank International** (+28%).
- **Semiconductors:** We saw strong gains in our semiconductor holdings, with **Micron Technology** and **Samsung Electronics** rising 60% and 39% respectively as the DRAM demand/price outlook looks favourable (with solid demand from cloud infrastructure and 5G phones) and the major players remain disciplined around adding new capacity.

Given the broad strength, the detractors in the portfolio were modest. **China Overseas Land & Investment** fell 13% under the cloud of the Trump administration placing restrictions on US citizens owning some Chinese firms. **Barrick Gold** fell 22% as it gyrated with movements in the gold price.

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.

Platinum ASSET MANAGEMENT

MLC

DISPOSITION OF FUND ASSETS (NET INVESTED POSITIONS)^

Region	31 Dec 2020	30 Sep 2020
Asia	34.0%	32.9%
North America*	27.8%	13.2%
Europe	15.4%	14.4%
Japan	11.3%	12.2%
Australia	3.6%	2.3%
Africa	0.9%	0.6%
Cash	7.0%	24.5%

^ 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 December 2020, the Fund had a -3.1% short position against the Nasdaq E-Mini Future Mar 21. The Fund's -16.3% short position against the Nasdaq E-Mini Future Dec 20 was closed during the quarter.

Source: Platinum Investment Management Limited.

TOP 10 HOLDINGS^

Company	Country	Industry	Weight
Samsung Electronics Co Ltd	Korea	Info Technology	6.5%
Micron Technology In	US	Info Technology	4.4%
Microchip Technology	US	Info Technology	3.8%
LG Chem Ltd	Korea	Materials	3.5%
Glencore Plc	Australia	Materials	3.5%
Ally Financial Inc	US	Financials	3.3%
General Electric Co	US	Industrials	3.1%
Ping An Insurance	China	Financials	2.7%
Lixil Group	Japan	Industrials	2.6%
AIA Group Ltd	Hong Kong	Financials	2.5%

^ As at 31 December 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	31 Dec 2020	30 Sep 2020
Industrials	21.8%	21.1%
Information Technology	18.8%	18.1%
Financials	16.5%	12.9%
Materials	15.8%	11.2%
Consumer Discretionary	7.2%	9.1%
Health Care	5.9%	8.8%
Communication Services	5.5%	7.1%
Energy	2.9%	2.0%
Real Estate	1.8%	1.6%
Consumer Staples	0.0%	0.0%
Utilities	0.0%	0.0%
Other	-3.1%	-16.3%
TOTAL NET EXPOSURE	93.0%	75.5%

^ 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	31 Dec 2020	30 Sep 2020
Euro (EUR)	25.4%	20.2%
US dollar (USD)	15.3%	20.8%
Chinese yuan (CNY)	15.0%	17.2%
Korean won (KRW)	10.0%	7.8%
Japanese yen (JPY)	9.3%	9.4%
Chinese yuan offshore (CNH)	4.8%	0.0%
Indian rupee (INR)	4.3%	3.5%
Australian dollar (AUD)	4.3%	10.3%
Hong Kong dollar (HKD)	3.2%	2.9%
Canadian dollar (CAD)	2.7%	2.8%
British pound (GBP)	2.6%	2.1%
Taiwan dollar (TWD)	1.2%	1.8%
Zambian kwacha (ZMK)	0.9%	0.6%
Thai baht (THB)	0.9%	0.7%

^ 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.

CHANGES TO THE PORTFOLIO

Over the quarter we continued to build our position in **UPM-Kymmene Oyj (UPM)**. UPM is a Finnish pulp/paper/forestry company that over the past 15 years has migrated its business into differentiated and higher return on capital areas, such as wood-based specialty chemicals and speciality packaging and adhesives. The company has several projects to drive earnings over the coming years. The first project is the full ramp up of their 2.1 million tonne per annum low-cost Paso de los Toros pulp mill in Uruguay. This is UPM's second mill in that country, having been in the making for 10 years with UPM securing 424,000 hectares of low-cost wood fibre feedstock and rail and port facilities to enable export.

The second project is UPM's expansion of its existing biochemicals and renewable fuels capacity. Here UPM is making high-quality renewable diesel and bio-based glycols, with the latter used to make, for example, low C02 emission PET bottles. UPM's advantage is its unique ability to use wood-based waste products as the feedstock, rather than more common sources such as used cooking oil and soy/palm oil. This reduces the problem of feedstock price pressure experienced in other markets, as several players fight to obtain waste cooking oil or animal fats.

From the demand side, there is a clear push within governments and corporates to move to more environmentally sustainable solutions, whether it be for transport fuels or plastics. However, supply chains for these products often move slower than corporate goals, and UPM is receiving huge interest from consumer good companies to buy their new supply. A recent quote from PepsiCo captures the sentiment:

"*PepsiCo is already one of the largest customers of food-grade recycled PET in the world … if there was more available, we would buy it, and if there were more markets where it could be used, we'd utilize it. Currently demand outpaces supply, especially for food-grade recycled PET*".[2]

Overall, with the environmental movement providing high demand for its products, capacity expansion and the first signs of a rising pulp price, we believe UPM is in a good position to deliver a substantial increase in profits over the coming years.

2 Source: PepsiCo 2020 Green Bond Report, October 2020.

OUTLOOK

Looking forward we are mindful of two scenarios:

1. The first scenario is the ***status quo*** i.e. more of the same. Since the intensification of the US/China trade war in 2018 we have seen a bias to slowing growth, low inflation, and the rate hiking cycle of 2017 paused and moved to cuts. The COVID-induced recession has supported a view that this scenario will persist far into the future. This created huge investor demand for growth stocks. This has been the dominant trend in markets and we have to be open to the fact that this could persist.

2. The second scenario is to acknowledge that we have had a major shock and are now in an ***economic recovery***. As our economies re-open with a flood of stimulus behind us, this recovery could be quite powerful. Historically, from this point in the cycle, the best returns would be expected to come from cyclicals and the companies directly benefiting from that recovery. It is also clear that these types of stocks are where the relative value lies in markets today. As mentioned above, since November 2020 we have seen the market take small steps to embracing this view.

In constructing the portfolio, we are essentially weaving these two scenarios together. What this means in practice is, while we want to own stocks where there is value and a direct benefit from recovery, we are favouring companies where there are additional legs to the case – e.g. there must be a growth driver that will generate earnings, should the recovery take longer or be weaker than expected. Effectively there must be more than mean reversion.

In a similar fashion, we are happy to own businesses in the quality growth mould that are benefiting from long-term changes, but are focused on identifying tomorrow's growth companies that are not being priced as such today.

To illustrate, some examples of key groupings across the portfolio include:

- **20% in growth industrials.** These stocks are recovery beneficiaries but also have strong long-term stories e.g. UPM, Carrier and Indian truck-maker Ashok Leyland.
- **15% in semiconductors.** These holdings are powered by three major themes – investment in cloud infrastructure, internet of things (IoT) and 5G.

- **12% in travel-related stocks.** Acquired during the peak of the COVID-19 lockdowns, our holdings have begun to perform strongly post the positive vaccine data. We believe many of these businesses will likely go back to being viewed as 'quality growth'. Examples include on-line travel agents like Booking Holdings or the Chinese leader Trip.com.
- **12% in Chinese consumer-exposed companies.** These include our Chinese insurance holdings which are benefiting from long-term growth, such as AIA, along with names like Li Ning (sporting goods) and ZTO Express (parcel delivery).
- **10% in Western financials.** These are targeted at companies that have differentiated positions such as Ally Financial and Raiffeisen Bank International.

Last quarter we pointed out that economic data had recovered far faster than the post-global financial crisis (GFC) period, particularly in China and the US. Today, this picture of a broad economic recovery continues. In the US, the housing sector is booming, US auto sales have made a V-shaped recovery and retail sales, are above pre-COVID levels.[3]

Importantly, this activity is flowing through to jobs, with the US unemployment rate now 6.7%. For context, during the GFC, US unemployment roughly doubled from 4.5% to 10%, then took four years to fall back below 7%. 2020 saw it rise from 3.5% to 15% to below 7% in the space of six months.[4]

A similar picture is being seen in China, where the major data points show its economy is in good health. Chinese retail sales and industrial activity have rebounded, auto sales over the last six months are 12% higher vs. 2019 and domestic air traffic volumes have fully recovered.[5]

Overall, given the picture of economic recovery and the return of investor interest in cyclicals since November, there is growing evidence we may be on the cusp of a change in market leadership. The portfolio is well-positioned should these trends continue.

Clay Smolinski
Portfolio Manager
Platinum Asset Management

3 Source: FactSet Research Systems. Housing starts: Seasonally adjusted annual rate (November 2020); Auto sales: Seasonally adjusted annual rate (December 2020); Retail sales: Seasonally adjusted (November 2020).

4 Source: FactSet Research Systems, seasonally adjusted (November 2020).

5 Source: FactSet Research Systems for retail sales and travel (November 2020). Evercore ISI for auto sales (November 2020).

Macro Overview

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

REGULATION, RATES AND INFLATION – RISKS TO WATCH IN 2021?

While stock markets continued their strong run over the last quarter, from early November it was notable that many companies with economically sensitive (cyclical) businesses experienced strong stock price performance. Similarly, there were strong price moves across a broad range of commodities (particularly iron ore and copper) over this same period. These moves in markets are consistent with investors pricing in continuing improvement in the global economic outlook for the year ahead. The commencement of these stock and commodity price moves aligned with the US election and the announcement of successful COVID-19 vaccine trials.

While the high-flying growth stocks continued to perform well, the continued economic recovery potentially poses a threat via higher inflation and interest rates. Similarly, the 'anti-monopoly' movement is gaining momentum, not only in the US and Europe, but also in China, which represents a potential risk to the business models of many of the popular growth names. It is certainly too early to make such bold predictions about either interest rates or changes in regulatory regimes, but the unfolding of events over recent weeks lead us to restate our conclusion from last quarter that: ***We believe extreme caution is warranted in regards to the market's current 'high flyers', while opportunities abound elsewhere.***

The election of Joe Biden as the next US President is likely to reduce the uncertainty around the US-China relationship generally and trade and tariffs in particular. While the complaints around China's behaviour on various fronts, from the South China Sea to unfair trade practices, had strong bipartisan support in Washington and within the US government, it appeals to us that President-elect Biden is a far more conventional politician than his predecessor. As such, we would expect a more traditional negotiated approach to the various issues rather than random decrees issued via Twitter.

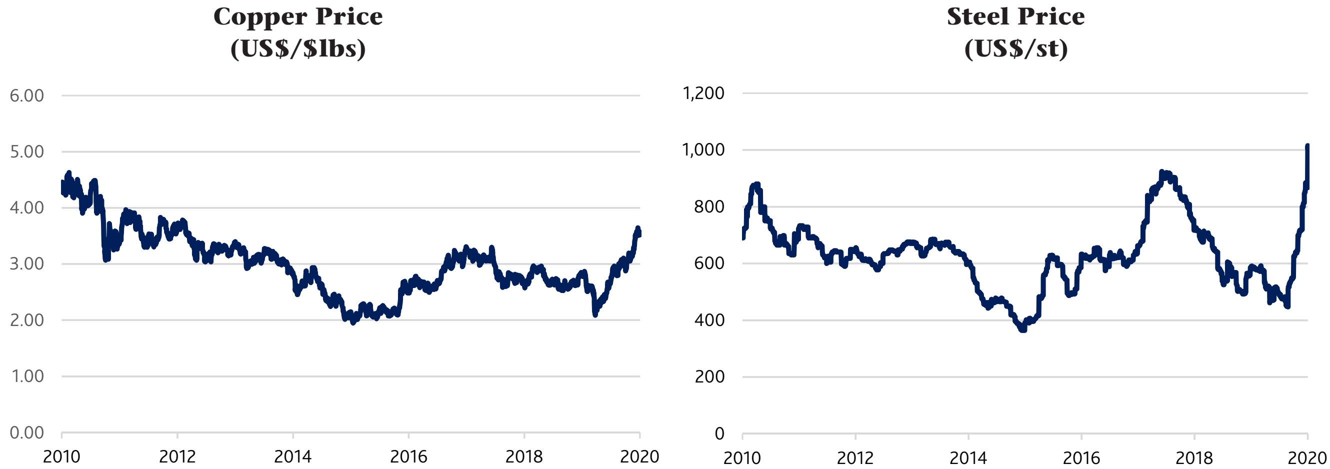
Such a considered approach is likely to recognise the deep interdependence of the US and China economies, especially in industries such as semiconductors and electronics, where neither side can operate without the other in the medium term. From a political point of view, we acknowledge that it would be difficult for President-elect Biden to outright reverse the bans on Huawei or lift recent sanctions on Chinese companies linked to the People's Liberation Army (PLA), potentially these measures can be quietly diluted over time. However, even if they stand, a more reasoned approach to trade and tariffs is likely. The importance of this, is the certainty that it brings both to businesses in making long-term investment decisions and for investors in assessing the long-term potential of companies.

At the time of writing, the Georgia Senate run-off elections were about to take place. Success in both seats would result in Democrats having effective control of the Senate and the potential for Biden's policies on infrastructure spending (including green initiatives), expansion of the Affordable Care Act (designed to provide affordable health insurance coverage for all Americans), funded by a reversal of some of Trump's tax cuts, to be put into place. Whether this result unfolds (the polls and betting markets suggest a very tight race), it is highly likely that substantial ongoing fiscal stimulus will occur. In the final days of 2020, the US Congress passed a stimulus bill valued at US$900 billion, or 4.4% of GDP. By any standard this is a significant fiscal spend, particularly when considered in light of the previous US$2 trillion of stimulus that is still flowing through the system and an economy that by all measures is recovering very quickly.[1]

The news of successful COVID-19 vaccine trials and subsequent regulatory approvals reduces uncertainty on the pathway out of the pandemic. The day-to-day news regarding new COVID-related lockdowns in Europe (as well as locally), together with rising infections in the US make for sombre reading. However, the beginning of vaccination programs in the US and Europe offer a very clear light at the end of the tunnel. While there remain unanswered questions around the longevity of the immune response, new variants of the virus are developing, and there are significant logistical issues in dealing with the vast numbers involved, it is highly likely that substantial portions of the US and European populations will be immunised by the end of 2021. China has also approved a locally developed vaccine for use in the general population, which is likely to be used broadly in the developing world. It should also be noted that there are numerous other vaccines in late stages of development and through time, individual vaccines will be refined in response to outcomes of current programs.

1 Source: Congressional Budget Office, EY.

Fig. 1: Strong Recovery in Commodity Prices Post COVID-19 Lockdowns



Source: Copper: High Grade Copper (NYM $/lbs) from FactSet Research Systems (to 31 December 2020), Steel: US Midwest Domestic Hot-Rolled Coil Steel (CRU) Index (NYM $/st) from FactSet Research Systems (to 31 December 2020).

While we have been of the view that the development of an effective vaccine was highly likely (as discussed by our portfolio manager and resident virologist, Dr Bianca Ogden in the article "*COVID-19: Demystifying this Frightening Disease*"[2]), the start of the vaccination programs significantly reduces the risk of shutdowns and travel restrictions continuing beyond the end of 2021. Again, this reduces the long-term uncertainty faced by businesses, particularly those impacted directly, such as travel-related industries. Of course, the year ahead remains difficult, but in the context of the stock market, the value of companies is determined by at least a decade of future profits, not just the next six to 12 months.

The 'anti-monopoly' movement has also continued to gain momentum not only in the US but also China. In the US, the Federal Trade Commission and 48 states filed two antitrust lawsuits against Facebook, focused on acquisitions and the impact on competition. The Department of Justice filed a case against Google claiming they used anti-competitive tactics to protect its monopoly over search. These cases join various actions in the European Union and Australia's move to make the likes of Facebook and Google pay other media outlets for the use of their content. In China, regulators outlined restrictions on how consumer data can be used in relation to anti-competitive practices. Investigations have also commenced into suspected anti-competitive practices at Alibaba, financial regulators having earlier suspended the initial public offering (IPO) of their financial arm, Ant Group.

2 https://www.platinum.com.au/Insights-Tools/The-Journal/COVID-19-Demystifying-this-Frightening-Disease

The dominant e-commerce and technology giants have amassed huge user numbers over the last decade, providing them with enormous market power and highly profitable business models. Indeed, social media platforms have been seen as responsible for swaying elections and enabling uprisings. Our key point is that governments the world over will attempt to rein in this power, and as such there is a genuine risk of additional regulation for dominant players in e-commerce, payments and social media.

One interesting development has been shortages in a range of commodity products from steel to electronic components and silicon wafers, despite the global economy remaining at pre-COVID levels. The explanation behind these shortages is likely multifaceted. The demand for goods (electronics, autos, home furnishings and renovations) has been strong while services (travel, eating out and entertainment) has been weak. Thus, there has been a short-term boost in demand while suppliers of inputs potentially cut output on initial expectations of reduced demand or COVID-enforced closures. Potentially, these shortages and the associated higher prices may be relatively short-lived, however, a lack of significant investment in new capacity for a period of time in many of these industries may see longer-term shortages developing.

This has all occurred before any economic benefit that may accrue from the continued post-pandemic opening or improving business optimism following the US election. With governments around the world likely to continue spending to accelerate the economic recovery, this could potentially exacerbate the shortages over the course of 2021. While there is no evidence of a rise in inflation in goods and services in the major economies yet, it is easy to see an inflation scare unfolding as the year progresses.

The stock market bull run has continued, though the better performance of economically sensitive stocks is an interesting development. In most respects, the stock price recovery of these 'real world' businesses is hardly surprising. Economic activity continues to recover and vaccinations provide a pathway to full recovery over the course of 2021. The potential for better trade relations between the US and China under a Biden presidency point to less risk of the world slipping back into tariff-inspired manufacturing recessions, as experienced in 2018–19.

Governments continue to promise more spending, focused on real world activities, such as infrastructure and 'decarbonising' projects (i.e. renewable energy and electric vehicles). Additionally, valuations were generally deeply depressed, as investors avoided companies facing any uncertainty in their future earnings.

On the other hand, the speculative mania in growth stocks has continued to a large extent unabated. The market for new listings has remained excitable with many stocks continuing to debut at prices of 50% or more above their issue price. Issuance of special purpose acquisition companies (SPACs)[3] continue, as have elevated levels of retail participation in the market. Valuations have moved from extraordinary to even higher. The one area that has slowed somewhat are the 'megacap' FAANG stocks (Facebook, Amazon, Apple, Netflix and Google owner Alphabet), perhaps in response to the various antitrust initiatives, or possibly reflecting the beginnings of a loss of momentum for growth stocks more generally.

As we have stated in previous reports, manias tend to end abruptly. The significant bull markets of the last 40 years have come to an end when monetary conditions tighten. While it is hard to imagine a traditional central bank tightening cycle currently, potentially a slowing of the printing presses may be enough. Alternatively, an inflation scare could push long-term interest rates higher with ramifications for stocks whose valuations are based on the premise of near-zero interest rates.

When a collapse in the stock prices of growth stocks comes, it too should not come as a surprise. When companies are valued on multiples of sales (not profits) of 20 times or more, the probability that their business will meet investor expectations on growth rates and profitability, to justify the valuation, is simply remote. A select few may achieve what is needed to provide investors with a reasonable return, but in aggregate one should ultimately expect substantial losses on the holding of a portfolio of such stocks.

2020 was certainly a most unusual year and perhaps doubly so in the stock market. However, the two bedrocks of our investment approach remain. Firstly, **investors' cognitive biases will cause them to overemphasise recent events and news.** This means the best investment opportunities can often be found in areas the crowd is avoiding; while those investments the crowd is embracing are best avoided. There is nothing to suggest that 2020 has changed basic human psychology. Indeed, the evidence shows quite the contrary, with significant returns achieved in unpopular areas, such as semiconductors and commodities.

Our second fundamental investment principle is that **the price you pay for an asset will determine your return.** While you may buy overvalued stocks that move higher, over time this approach is unlikely to yield good returns, as ultimately the stock price will reflect assessments of future profits and cashflows from the business.

Of course, we know that speculative bull markets can run for a long time, but the pain for those investors who don't exit the party in time can be significant.

3 SPACs raise funds from investors and use those funds to acquire existing, privately held companies with the intention of taking them public via an IPO.

MSCI REGIONAL INDEX NET RETURNS TO 31.12.2020 (USD)

REGION	Quarter	1 Year
All Country World	**14.7%**	**16.3%**
Developed Markets	**14.0%**	**15.9%**
Emerging Markets	**19.7%**	**18.3%**
United States	**13.0%**	**20.7%**
Europe	**15.8%**	**4.7%**
Germany	11.5%	11.5%
France	20.4%	4.1%
United Kingdom	16.9%	-10.5%
Italy	22.4%	1.8%
Spain	27.7%	-4.8%
Russia	21.6%	-12.5%
Japan	**15.3%**	**14.5%**
Asia ex-Japan	**18.6%**	**25.0%**
China	11.2%	29.5%
Hong Kong	15.5%	5.8%
Korea	38.3%	44.6%
India	21.0%	15.6%
Australia	22.9%	8.7%
Brazil	37.0%	-19.0%

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

MSCI ALL COUNTRY WORLD SECTOR INDEX NET RETURNS TO 31.12.2020 (USD)

SECTOR	Quarter	1 Year
Financials	24.1%	-3.8%
Energy	23.9%	-28.6%
Materials	18.4%	20.9%
Industrials	15.7%	11.3%
Information Technology	15.2%	45.6%
Communication Services	14.9%	23.7%
Consumer Discretionary	14.5%	36.7%
Utilities	10.2%	3.8%
Real Estate	8.4%	-6.4%
Health Care	7.4%	14.9%
Consumer Staples	7.4%	8.1%

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.

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

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