MLC-Platinum Global Fund

QUARTERLY INVESTMENT MANAGER'S REPORT

PERFORMANCE

Fund Size: $593.5m	Last quarter	Last 12 months	5 years (compound pa)	Since inception (compound pa)
MLC-Platinum Global Fund	10.3%	-5.0%	3.3%	10.0%
MSCI All Country World Net Index (A$)	4.1%	-12.5%	8.3%	7.2%

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 finished the year on a strong note, rising 10.3% over the December quarter.[1]

The main contributors to the Fund's quarterly return were clustered in our Chinese and European holdings. Over the year, both of these regions had become "untouchable" for investors on account of the geopolitics for China, and access to natural gas for Europe, with stocks being heavily discounted as a result. In both cases, a more favourable outcome has occurred, with Europe showing the ability to reduce gas usage to avert the most dire energy shortage scenarios and China spectacularly throwing off its zero-COVID policy shackles, which will drive an economic recovery far quicker than most had expected.

This more positive outlook for both regions drove large moves in our major Chinese holdings, such as **Weichai Power** (+41%), **Trip.com** (+26%), **AK Medical** (+27%) and **Tencent** (+25%). In Europe, the standout contributors were **Erste Bank** (+32%), **Airbus** (+25%), **Wizz Air** (+20%), **Infineon Technologies** (+25%) and **Intesa Sanpaolo** (+22%).

Detractors for the quarter were relatively limited. Of the major positions, the most notable moves were seen in financial products sales/administration platform **Allfunds** (-14%) and precision components manufacturer **MinebeaMitsumi** (-8%). In each case, the driver of these falls was more market-related than stock-specific, with Minebea reacting to the recent strengthening of the Japanese yen, and Allfunds, whose revenue relies on a percentage of assets under management, gyrating with bond and equity markets.

The Fund's index short positions (S&P 500, Nasdaq and DAX) detracted from performance over the quarter (-1.3% contribution overall).

CHANGES TO THE PORTFOLIO

In past quarterly reports, we have mentioned one guide we use to find investment opportunities is to keep asking what new problems need to be solved and what industries will benefit from providing the solution. A good recent example is Europe's renewed focus on energy independence, combined with a global goal to reduce carbon emissions, which is driving a wave of investment in electrification, requiring power semiconductors, electric vehicle (EV) batteries, and copper/nickel, and also a reassessment of nuclear energy as a viable option. In exploring this change, the Fund has many current and former investments, including **Infineon Technologies** (power semiconductors), **LG Chem** (EV batteries), **Glencore** and **Sumitomo Metal Mining** (copper and nickel).

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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.

DISPOSITION OF FUND ASSETS (NET INVESTED POSITIONS) ^

Region	31 Dec 2022	30 Sep 2022
Asia	30.2%	27.5%
Europe	28.1%	24.7%
North America	13.0%	11.7%
Japan	9.0%	8.8%
Other	1.2%	1.2%
Australia	0.2%	0.2%
Cash	11.6%	16.0%

^ 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 2022, the Fund had a -3.9% short position against the Nasdaq E-Mini Future Mar 23 and a -2.0% short position against the Russell Mini CME 2000 Mar 23. The -4.9% short position against the S&P 500 E-Mini Future Dec 22 and -5.0% short position against the Nasdaq E-Mini Future Dec 22 were closed during the quarter.

Source: Platinum Investment Management Limited.

TOP 10 HOLDINGS ^

Company	Country	Industry	Weight
ZTO Express Cayman Inc	China	Industrials	4.5%
UPM-Kymmene OYJ	Finland	Materials	4.3%
Tencent Holdings Ltd	China	Comm Services	4.1%
Intesa Sanpaolo SpA	Italy	Financials	3.9%
Microchip Technology Inc	US	Info Technology	3.9%
Itochu Corp	Japan	Industrials	3.1%
Trip.com Group Ltd	China	Consumer Disc	3.0%
MinebeaMitsumi Co Ltd	Japan	Industrials	2.8%
Samsung Electronics Co Ltd	South Korea	Info Technology	2.7%
Shell PLC	Netherlands	Energy	2.5%

^ As at 31 December 2022. 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 ^

Sector	31 Dec 2022	30 Sep 2022
Industrials	21.1%	19.4%
Financials	17.0%	16.2%
Information Technology	12.7%	13.6%
Energy	10.3%	7.3%
Materials	9.2%	11.4%
Consumer Discretionary	7.4%	6.6%
Communication Services	5.8%	4.9%
Health Care	2.6%	2.2%
Real Estate	2.3%	2.5%
Other	-5.9%	-9.9%
TOTAL NET EXPOSURE	82.5%	74.1%

^ 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 2022	30 Sep 2022
Chinese Renminbi (CNY)	22.6%	20.2%
Euro (EUR)	20.5%	17.3%
Japanese Yen (JPY)	16.2%	11.5%
UK Pound Sterling (GBP)	11.0%	11.2%
United States Dollar (USD)	10.7%	20.7%
South Korean Won (KRW)	4.8%	4.4%
Canadian Dollar (CAD)	4.3%	3.6%
Hong Kong Dollar (HKD)	3.4%	4.5%
Indian Rupee (INR)	2.3%	2.4%
Swiss Franc (CHF)	1.9%	1.7%
Brazilian Real (BRL)	1.2%	1.2%
Australian Dollar (AUD)	0.0%	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.

Along these lines, the issue of "security of supply" and "nearshoring" is getting a lot more focus by the business community and governments alike, following the experience of COVID supply chain disruptions, the Russia/Ukraine war, and geopolitical questions over a long-term reliance on Chinese manufacturing.

Given we have spent the last 40 years linking global supply chains, unsurprisingly, our discussions with companies keep reinforcing the fact that relocating these supply chains will be slower and more difficult than first expected. Indeed, the accelerated shift away from Russia as a sourcing destination is an interesting test case of the difficulties and unintended impacts this can have.

A live example of this is the refined product tanker market. Over the quarter, the Fund built new positions in **TORM** and **Scorpio Tankers**, both of which own a fleet of 'clean product tankers', ships used to transport products like diesel, jet fuel or chemicals.

Europe, with a passenger car fleet that is more diesel-reliant than other nations and has a shortage of domestic refinery capacity, has typically imported one million barrels of diesel from Russia to meet its needs. This trade route would typically entail a 10-day round trip from the port of Primorsk, through the Baltic Sea and into the ports of say, Rotterdam or Rostock.

However, due to self-sanctioning by companies, roughly half of this diesel is now being sourced from the US, Latin America or the Middle East, with the much greater distance from these respective regions turning the 10-day round trip into a 30-day round trip. The longer travel time reduces the effective supply of tanker capacity in the market, and this tightening in the market has seen tanker rental day rates triple! The profit impact on the ship owners has been immense, with Scorpio, which would typically make profits of US$100 million profit per year, now making US$100 million of profit *per month*. Furthermore, rates are likely to head higher as Europe introduces a full ban on Russian diesel imports on 5 February 2023.

The obvious solution to this shortage of tanker capacity is to bring on new ships, and operators have a massive financial incentive to do so. The roadblock to doing so is getting building slots at a shipyard, which post the COVID shipping boom and Europe's dash to secure liquefied natural gas (LNG) are booked solidly with orders for new container ships and LNG carriers. Hence, little meaningful new product tanker supply will enter the market for the next two years.

Overall, our investment in the tanker owners is a shorter-term trade, and we will have moved on well before any new supply comes online. However, we are also seeing longer-term changes linked to supply chain relocation, such as the step-up in demand for robotics and automation equipment as companies try to offset the dual problem of higher labour costs and availability of labour in locations closer to home by automating as much of their production line as possible. Our holding in Chinese heavy-duty truck manufacturer Weichai Power (through their ownership of automation provider Kion) benefits from this trend, and it is an area we continue to explore for further ideas.

In terms of other moves over the quarter, we built a position in Canadian uranium and enrichment player **Cameco**, which is benefiting from the revival in nuclear energy and the West's desire to shift away from Russian-sourced uranium fuel conversion and enrichment (Russia provides 27% and 39% of global conversion and enrichment capacity, respectively[2]). We also added to a number of our Chinese holdings, such as **Tencent**, **Trip.com**, **Weichai Power** and **ZTO Express**, following the large sell-off in October. We partly funded these positions by selling down the bulk of our holding in potash and phosphate fertiliser producer **Mosaic** and trimming our holding in **Microchip Technology** after the strong November rally in semiconductor stocks.

2 Source: Cameco.

OUTLOOK

When thinking about the outlook for asset prices in 2023, there are a number of factors to consider.

On the negative side, we would highlight:

1. The number of economic leading indicators that historically signal a recession continues to increase (conference board leading economic index, deeply inverted US yield curve, composite purchasing managers' surveys, trucking and housing activity etc.)
2. After an incredible period of new money creation in 2020/21, money outstanding as measured by M2 or US bank deposits is shrinking.[3] This is another expression of tight financial conditions and is not supportive of asset prices.
3. We are witnessing the bursting of the fourth great stock market bubble, the others being 1929, 1972 and 2000. While this is a small sample set, the breaking of these past bubbles was always followed by recession and market declines of circa 50%.[4]

On the positive side:

1. China is already in a deep recession and following the abandonment of its zero-COVID policy, it is likely to have a large economic recovery in 2023. With the size of the Chinese economy now approaching that of the US,[5] a strong Chinese recovery can offset weakness elsewhere.
2. The S&P 500 (-21%), Nasdaq (-33%) and STOXX Euro 600 (-14%) have all had decent corrections from their late December 2021 highs, and sentiment is cautious. Adjusting for inflation, the fall in value has been larger still.

Overall, we feel the background of a deflating equity bubble, a rapid increase in interest rates, and the normalisation of corporate earnings distorted by stimulus still calls for patience. While we have seen valuation multiples adjust in the face of higher interest rates, the next phase for investors is a focus on falling earnings.

The silver lining to the above is that, much like the end of the 2000 bubble, there is a decent amount of valuation dispersion within markets, with many industrial and cyclical sectors already priced incredibly cheaply. At this point in the cycle, our favoured method of operation is to be nimble with our cash, continue to rotate into sectors that are already pricing in a recession, and focus on building holdings in those industries that will be the sources of incremental investment and growth over the next five years.

Clay Smolinski

Co-Chief Investment Officer & Portfolio Manager
Platinum Asset Management

3 Source: Federal Reserve Bank of St. Louis.

4 We would highly recommend the research of Jeremy Grantham at GMO on financial bubbles: https://www.gmo.com/americas/research-library/entering-the-superbubbles-final-act/

5 At the end of 2022, the Chinese economy was roughly US$18 trillion vs. the US at US$25 trillion (Source: International Monetary Fund). For the past 40 years, the size of the US economy dwarfed all others, so having a closer economic equal to the US in a different recovery phase is a new scenario for investors.

Macro Overview: 2023 – A Great Environment for 'True' Investors

by Andrew Clifford, Co-Chief Investment Officer

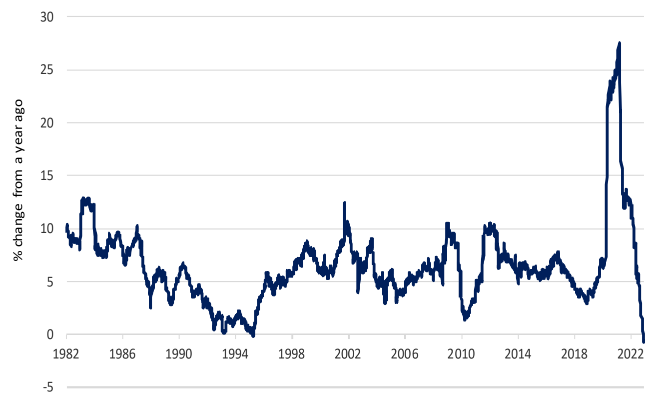
2022 was a dramatic year for markets. CEO and Co-CIO Andrew Clifford sat down with Investment Analyst Julian McCormack in December to share his thoughts on events, covering interest rates, recession fears, China and Europe - and what they all mean for the markets in 2023 and Platinum's portfolios. An edited transcript of the conversation is below.*

JM: Andrew, markets seem to be pricing in a mild recession. What is your broad overview of interest rates, inflation, recession fears, etc.?

AC: I think we need to get ahead of the game here. It is relatively clear that inflation has probably peaked. You can spend all your life trying to work out how quickly it recedes and when rate cuts will come. Ahead of that, though, I think monetary conditions are a much better indicator to focus on, specifically, in its most simple form, the growth rate of M2, a broad measure of the money supply. In 2022, in the US, the epicentre of the great money printing exercise we've just lived through, M2 is shrinking, and importantly, it's occurring in a nominal economy that is actually growing at a reasonable pace at this point. Essentially, that means monetary conditions are very tight, and you have to get well beyond the rate cuts before that's going to turn around. So, that tells you that inflation is probably going to come down over the next year or so. But for us as investors, that's not the interesting point; it's what it means for markets and asset prices. As I've said on many occasions in our reports and presentations, I think the shrinking of the money supply is a very significant headwind for markets, pushing them to the downside.

Fig. 1: US Money Supply M2 is Shrinking

% change on a year ago, weekly



Source: Federal Reserve Bank of St. Louis, 5 December 2022. M2 includes M1 (cash and cash-like, or currency and coins held by the non-bank public, checkable deposits, and travellers' checks [sic]) + savings deposits (including money market deposit accounts), small-time deposits under $100,000, and shares in retail money market mutual funds.

* The full interview is available in audio format on The Journal page of our website https://www.platinum.com.au/Insights-Tools/The-Journal. Interview was recorded on 20 December 2022.

JM: It's been an interesting reversal of either complacency or comfort in recent weeks. Everyone was expecting some sort of rally, which came and then just wilted away towards the end of the month, at the time of recording (20 December).

AC: Everyone has been expecting inflation to ease off. It looks like that's happening, and everyone appears to be positioned for that. However, the US Federal Reserve (Fed) is telling us it's going to be a while before rates peak, and we start to get those rate cuts. Again, we can spend all our lives trying to predict what will happen, but I think the more important thing is the impact that this will have on company earnings. That's the next focus, and there's a mixed bag there. We're seeing plenty of companies release disappointing numbers, and there have been decent falls in stock prices on the back of that. But at the same time, if you look at the absolute numbers for many companies, they're not all bad, but our job as investors is to think about how things will look 3-5 years ahead. Indeed, combined with coming out of COVID, the COVID beneficiaries, and those who were hurt by COVID, there are some mixed messages. Some companies are going to experience poor earnings just because they've been through an extraordinary boom and their business is coming back to trend, or will probably go below trend, while others that suffered from supply chain problems may yet have many good years ahead of them.

JM: There have been lots of idiosyncratic events, not least the implosion of speculative parts of the equity market, crypto exchanges, ructions in the UK gilt market, and suspensions in redemptions in captive real estate investment trusts. Do you have any comments about these?

AC: We would expect that after the boom we've been through and the speculative mania that we experienced, there will be some sort of crisis point coming out of this. The blow-up of the crypto market and the exchanges has no doubt caused a lot of pain for people, but it doesn't seem to have had any real flow-on effect on broader markets or the economy for the moment. Similarly, the deflating stock prices of the more speculative stock names have not had any particularly bad impact on the broader economy or market. The UK gilts and the issues that the pension funds had there were the beginning of a concerning event. The fiscally lax mini-budget announced by the UK government in late September, sent bond yields skyrocketing, and forced pension funds, which had taken leveraged positions in gilts and other fixed-interest products, to liquidate their positions. The Bank of England's intervention in the bond market seemed to have averted a great crisis there. But then, recently, we've had a couple of large, high-profile real estate investment trusts suspend redemptions. It's interesting, of course, as I've said over the last 2-3 years, I do suspect the problems are hidden in the unlisted part of the markets. The promoters of those trusts will tell you that it's all part of normal operations; if redemptions are greater than a certain percentage, they will suspend redemptions. But still, these things tend to become self-perpetuating, where everyone starts lining up for their redemption every month, and on top of that, it's in this unlisted part of the market, where there is an awful lot of debt. It's those sorts of things that could have a bigger or broader impact going forward. And I think there are plenty of places in the unlisted world where that may occur.

JM: As that liquidity has been drained, we are seeing the US dollar, which has strengthened all year, weaken in recent weeks and months. What are your thoughts on the US dollar?

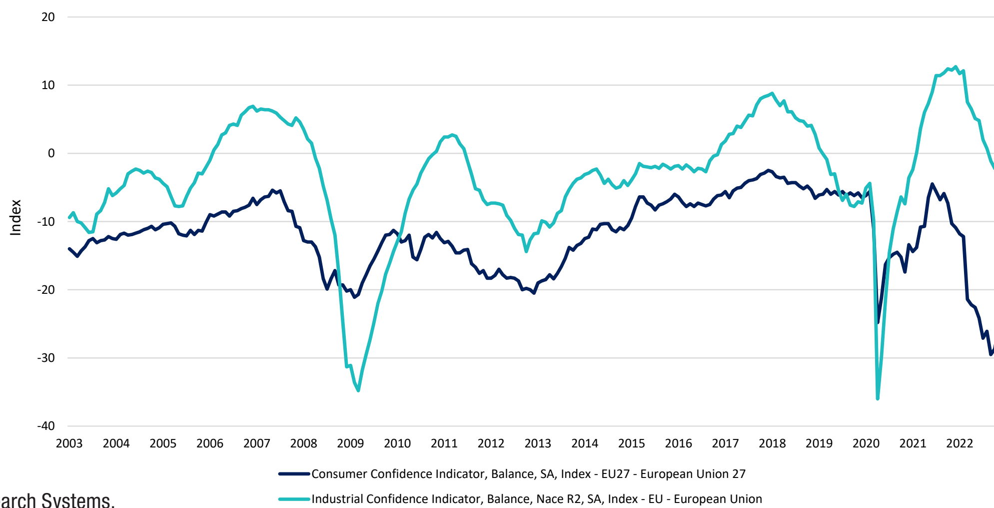
AC: I think it was a case of US dollar strength rather than yen or euro weakness, or any of the other currencies. We saw the yen briefly touch 150 in October, this is an extraordinarily low level for that currency. The euro was also hit hard, although it's a more difficult story because of the energy security issue and changing competitiveness. Across the board, other currencies are looking extraordinarily cheap. The US has been increasing rates faster than anywhere else. Rate differentials are often a driver of currency markets, but I do think we are probably approaching the peak in the momentum of that rate differential opening up. The US dollar has already reversed a fairly decent amount of the rally that it had. You can never get the timing of these things right, but over the next 18 months to three years, I expect the US dollar will weaken.

JM: You mentioned the euro, it's a difficult place to think about given it was all cataclysmic six months ago and has dropped off the headlines now. So, how are you thinking about Europe and its mixed bag of potential outcomes?

AC: At the centre of the problem for Europe is obviously energy. Very little investment in new capacity, whether that's oil, gas or thermal coal, has taken place in recent years. In addition, the energy transition is beginning and people are reluctant to invest in these areas. In the meantime, though, we are still going to need to consume these fossil fuels, so there is this awkward period over the next few years where the supply of energy is likely to be tight. Then, of course, on top of that, and in particular for Europe, we have Russia's invasion of Ukraine, which impacts basically all of those key energy markets. The really important market for Europe is gas, particularly its transportation, which is reliant on Russian pipelines. This fundamentally impacts the competitiveness of Europe, and we've seen industries close down in chemicals, fertilisers, and so on; areas that are heavy users of energy have had to close capacity because they're not competitive. That's a fundamental change, and we've seen natural gas consumption down 20% in the period August-November versus the same three-month period in 2017-2021, across most of Europe as a result of that.[1] In the very short term, as Europe has scrambled to sort out its

1 https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20221220-3

Fig. 2: Consumer and Business Confidence is Incredibly Weak in Europe



Source: FactSet Research Systems.

energy supplies, it looks like they will get through the winter in fairly good shape without any severe squeeze on supply, with storage levels still good. However, the longer-term issue will be, as the years go by, how quickly they're able to replace that Russian gas. This is the core problem for Europe. Consumer and business confidence is incredibly low (see Fig. 2), with the former even below levels reached during the global financial crisis (GFC), so it's a very difficult environment there.[2] There are a couple of positives, though. The fall in the euro takes away some of that pain. The weaker euro will help industries where energy may not be as important and where Europe is still a big exporter. The other factor that will help on that front is we are at the foothills of the recovery of the Chinese economy. China is an important trading partner for Europe (China was the European Union's third-largest export market in 2021 in US dollars, representing 11% of its exports),[3] so it's another positive that may help to offset the energy supply conundrum.

JM: You've been building pretty reasonable positions in some energy companies, what are your thoughts on the outlook for energy for 2023 and beyond?

AC: I think there is a really good long-term story for most of the energy markets. However, I think one needs to be a little cautious about getting too enthusiastic at this point; the medium-term story is great, but the short-term one is unknowable. I mean, some things could happen; I'm not predicting them, but if, for example, we were to see the end of the conflict in Ukraine, that could ease market tightness somewhat. The other issue to think about, and we're seeing it in a whole range of industries, is government interference in markets. We have seen price caps on gas in Australia. We've also seen taxes proposed in places like the UK. So, when you're looking at energy supplies, there's a real possibility you're not going to get the entire upside of any shortages that develop, whether it's prices being capped or profits being taxed. While we certainly have some energy positions in our global equity portfolio, they're relatively modest compared to the story that's out there.

JM: Moving on to China, six months ago, it was at the centre of yet another crisis, which all seemed to have abated by the end of the year. Where are we in terms of the Chinese economy, especially in light of its reopening post-COVID?

AC: Let's take a step back for a moment and think about the last 20-odd years of the commentary around China. There's always been this element that this thing is not real, it's a house of cards, it's a Ponzi scheme, and it's all going to fall apart any moment now. Whenever there is a crisis or an issue in the economy, that's the lens through which many people see it. The problem with that kind of analysis is that it can lead one astray. Just look at the most recent example, President Xi Jinping was heavily criticised in the Western media for the COVID lockdowns. Now that they've been relaxed, he's being heavily criticised for having taken a gamble on the lives of his people. On COVID, we've said all along that China will get through it, as every other country has, and with the tragedy that it involves. But the issue coming back to China more broadly is that the framework I would use is that this is a very large, dynamic and sophisticated market economy. People worry about the politics there, and there are plenty of reasons to worry about that, but at the end of the day, the political leadership doesn't run the place; the bureaucrats do, as they do in Australia or the US, and this is a very sophisticated bureaucracy. Poor policy decisions led to the situation they have with COVID today, and the same can be said of the property market, which led to a freezing up of the residential property development sector. Where are they now? Well, they will work their way through COVID, and they have come up with an obvious solution to the property market problem, which is to provide liquidity to ensure property developments are completed and apartments are delivered to the buyers. I suspect that once they work their

2 Source: FactSet Research Systems.

3 https://tradingeconomics.com/european-union/exports-by-country

way through that, the next thing they're going to find out is that because of two years of suppressed property sales, they will quite possibly have a shortage of residential apartments by the end of 2023 or going into 2024.

JM: Any final comments on your outlook for 2023?

AC: In summary, I expect 2023 will be the flip side of what we've had for the last couple of years. I think we will have a Chinese economy that will strongly recover, a US economy that's fading, and a European economy that will be difficult to call. We're going to continue to have these uncertainties around, but as has been the case in the last year or two, there will continue to be opportunities in markets to make money. There are plenty of sectors that have sold off very heavily and are trading at valuation levels that we rarely see. Countries like China are still trading at very attractive valuations, despite the recent market bounce. While I think the overall environment doesn't look great for markets, our focus remains on looking for individual opportunities. The more uncertainty there is, and when that uncertainty changes from one quarter to the next, the more opportunities there are to make money from markets. So, I think it's actually a great environment for 'true' investors.

MSCI REGIONAL INDEX NET RETURNS TO 31.12.2022 (USD)

REGION	Quarter	1 Year
All Country World	9.8%	-18.4%
Developed Markets	9.8%	-18.1%
Emerging Markets	9.7%	-20.1%
United States	7.0%	-19.8%
Europe	19.6%	-17.0%
Germany	24.6%	-22.3%
France	22.2%	-13.3%
United Kingdom	17.0%	-4.8%
Italy	26.4%	-14.4%
Spain	22.9%	-7.3%
Japan	13.2%	-16.6%
Asia ex-Japan	11.4%	-19.7%
China	13.5%	-21.9%
Hong Kong	18.2%	-4.7%
Korea	18.1%	-29.4%
India	2.0%	-8.0%
Australia	15.7%	-5.3%
Brazil	2.4%	14.2%

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 31.12.2022 (USD)

SECTOR	Quarter	1 Year
Energy	17.8%	33.1%
Industrials	17.5%	-13.1%
Materials	16.2%	-11.6%
Financials	14.3%	-9.8%
Health Care	13.1%	-6.1%
Consumer Staples	11.2%	-6.6%
Utilities	10.3%	-4.7%
Real Estate	5.9%	-24.6%
Information Technology	5.8%	-31.1%
Communication Services	2.4%	-35.5%
Consumer Discretionary	-0.7%	-31.8%

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.

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