# Platinum Global Fund (Long Only)

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Portfolio Manager

## Performance

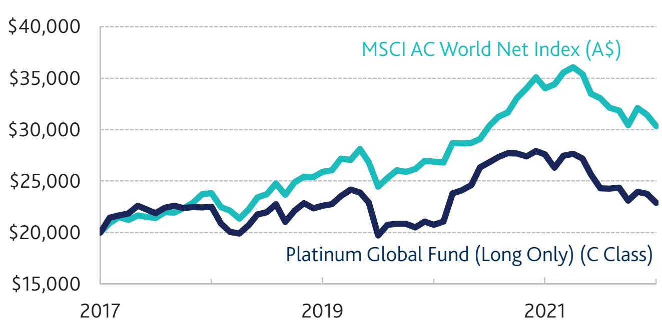
### (compound p.a.+, to 30 September 2022)

| | QUARTER | 1YR | 3YRS | 5YRS | SINCE INCEPTION |
|---|---|---|---|---|---|
| Platinum Global Fund (Long Only)* | -1% | -17% | 0% | 3% | 9% |
| MSCI AC World Index^ | 0% | -11% | 5% | 9% | 7% |

+ Excludes quarterly returns
* C Class – standard fee option. Inception date: 28 January 2005.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet Research Systems.
Historical performance is not a reliable indicator of future performance.
See note 1, page 4. Numerical figures have been subject to rounding.

### Value of $20,000 Invested Over Five Years

30 September 2017 to 30 September 2022




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

The Fund (C Class) returned -1.0% over the quarter.[1]

The major global equity markets continued their downward trend, with the US (-5%), European (-4%), and Korean (-8%) markets all reaching new 52-week lows.[2] China was the hardest hit, with the Hang Seng China Enterprises Index (HSCEI) and A-Share indices falling 22% and 15%, respectively. Chinese stocks are in a deep bear market, with the HSCEI now 50% below its high in February 2021.

The other major factor in markets was the strength of the US dollar (USD). The continued interest rate hikes in the US (widening the positive interest rate differential between the USD and major foreign exchange pairs) and the fact that the US is now an energy-independent/exporting nation in a high-energy price environment are driving continued USD strength. Over the quarter, the USD appreciated another 6-10% vs. the major pairs, and for the year to date, it has appreciated 12% vs. the Chinese yuan, 13% vs. the Australian dollar, 16% vs. the euro, 21% vs. the British pound, and 26% vs. the Japanese yen.[3]

Consistent with the large fall in the Chinese market, our major detractors over the quarter tended to be our Chinese stocks, with major holdings **Weichai Power** and **Tencent** falling 40% and 25% over the quarter, respectively. Outside of this, we saw low/mid teen-style declines in tapware and bathroom fixture manufacturer **Lixil** (-17%), 5G network equipment player **Ciena** (-12%), and testing and inspection provider **Applus Services** (-13%).

The fall in Weichai's share price was linked to its 45% ownership of Kion, a leading German manufacturer of warehouse automation solutions and forklifts, which issued a profit warning on its automation division. Despite strong demand for the product (increasing labour costs plus improvements in automation capabilities are driving a wave of warehouse automation demand), profits in this division have been crunched due to component shortages, cost

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

2 MSCI USA, MSCI Europe, MSCI Korea, respectively, in local currency. Source: MSCI.

3 Source: FactSet Research Systems.

inflation and insufficient pass-through mechanisms written into legacy contracts. While this is disappointing, the structural demand for automation equipment is real, and Kion should be able to restore profitability as it works through the problem contracts over time. After the price fall, Weichai is trading on roughly 6x normalised earnings, with US$1.8 billion of net cash on the balance sheet.

Given that there was little incremental news about Tencent's business, its price move is linked more to the overall weakness of the Hong Kong market. Tencent's revenues are driven by online advertising and gaming, both of which have been under pressure in 2022, given the recession and regulatory pressure on play time for users aged under 18, as well as new game approvals. With efforts to boost the economy building and new game approvals starting again, we would expect the performance of both divisions to improve in 2023.

In terms of positive contributors, we saw gains in Chinese orthopaedic implant manufacturer **AK Medical** (+31%), **Raiffeisen Bank** (+18%), **Sprott Physical Uranium** (+14%), Indian low-cost airline **InterGlobe Aviation** (+16%), specialty insurer **Beazley** (+13%), and pulp and biochemicals player **UPM-Kymmene** (+12%).

AK Medical is the largest domestic manufacturer of orthopaedic products (mainly hip and knee) in China. AK has been the most R&D focused of the domestic players, building a 20% market share and being the first to get approvals for a number of its 3D printed/more-innovative implants.[4]

The stock was heavily sold down due to the short-term impact on profits from the new volume-based procurement (VBP) system. The VBP was essentially a form of centralised buying/bidding for a limited selection of standardised hip/knee implants, aimed at providing affordable options for patients and reducing costs for the health system.

AK's strategy was to win the largest share of the VBP volume bid, and pair that with heavy R&D into new speciality implant products (that carry higher prices) for more complex procedures that would fall outside the VBP. While the VBP product carries low profit margins, by winning the largest volume share, AK has been able to build relationships with thousands of new surgeons across China, who need to complete procedures with both VBP and higher-end implants. These new sales relationships have led to greater market acceptance of AK's higher-end products, resulting in better-than-expected sales and profits announced in their recent half-yearly results, which triggered the 31% rise in the stock price.

4 Source: Company reports.

## Disposition of Assets

| REGION | 30 SEP 2022 | 30 JUN 2022 | 30 SEP 2021 |
|---|---|---|---|
| Europe | 28% | 23% | 24% |
| Asia | 27% | 25% | 31% |
| North America | 22% | 19% | 21% |
| Japan | 6% | 6% | 12% |
| Other | 1% | 1% | 1% |
| Australia | 0% | 3% | 3% |
| Cash | 16% | 22% | 7% |

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

## Net Sector Exposures

| SECTOR | 30 SEP 2022 | 30 JUN 2022 | 30 SEP 2021 |
|---|---|---|---|
| Industrials | 21% | 21% | 22% |
| Information Technology | 14% | 12% | 14% |
| Financials | 13% | 11% | 16% |
| Materials | 11% | 13% | 16% |
| Energy | 7% | 5% | 1% |
| Consumer Discretionary | 6% | 5% | 7% |
| Health Care | 5% | 3% | 7% |
| Communication Services | 5% | 5% | 6% |
| Real Estate | 2% | 2% | 4% |
| Consumer Staples | 0% | 1% | 1% |
| TOTAL NET EXPOSURE | 84% | 78% | 93% |

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

## Top 10 Holdings

| COMPANY | COUNTRY | INDUSTRY | WEIGHT |
|---|---|---|---|
| Microchip Technology Inc | US | Info Technology | 5.3% |
| ZTO Express Cayman Inc | China | Industrials | 4.3% |
| UPM-Kymmene OYJ | Finland | Materials | 4.1% |
| AK Medical Holdings Ltd | China | Health Care | 4.0% |
| Intesa Sanpaolo SpA | Italy | Financials | 3.3% |
| Tencent Holdings Ltd | China | Comm Services | 3.1% |
| Mosaic Co | US | Materials | 3.1% |
| MinebeaMitsumi Co Ltd | Japan | Industrials | 3.0% |
| Applus Services SA | Spain | Industrials | 2.7% |
| InterGlobe Aviation Ltd | India | Industrials | 2.7% |

As at 30 September 2022. See note 5, page 4.
Source: Platinum Investment Management Limited.

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

The long-term prospects are very encouraging for AK Medical in our view. We have increased our holding and it is now a top-5 position in the Fund. To date, the Chinese orthopaedic market has been dominated by foreign companies, and the government wants to promote domestic capability in this field. In addition, procedure rates in China are still small compared to Japan (5x higher) and Europe (10x higher), and they can grow as the standard of living improves. AK Medical has the opportunity to be a much larger company in the future as it can benefit both from growth in the market size and by taking share from competitors.

## Changes to the Portfolio

Over the quarter, we added oil and gas equipment/service providers **Schlumberger** and **Vallourec** to the portfolio, along with building a position in **Airbus**. These are examples of companies not yet at peak earnings, having been deeply impacted by COVID, and now experiencing a recovery.

Schlumberger and Vallourec are benefiting from a large pick-up in demand for oil and gas capital expenditure, but to give context to that change, we need to understand what the industry has gone through.

Oil and gas capital expenditure peaked in 2014 at roughly US$600 billion per annum, then fell to just under US$400 billion per annum in 2015, a level it tracked at until late 2019. The industry was then hit by COVID, with capital expenditure collapsing to US$250-300 billion over 2020 and 2021.[5] In this regard, the oil and gas capex industry went through a recession, followed by a depression. Over this eight-year period, the oil and gas equipment service companies have needed to cut staff, equipment, and offices to survive, with the industry becoming lean out of necessity.

From that low base, the picture has changed on two fronts. The first is that the reduction in spending has started to reduce supply; with oil and gas markets now tight and prices high, companies are incentivised to spend more, and indeed, are being encouraged by governments to do so. The other change is that Europe wants to find non-Russian sources for 50% of its natural gas consumption, which requires spending to boost production in other countries. The result has been a pick-up in spending in almost every region across the globe.

When you combine a step change in spending with a very lean oil and gas services industry, you tend to get excellent profit outcomes, as the companies can name their price. Indeed, Schlumberger has communicated that they are already sold-out for 2023, and will need to be well remunerated to expand their own capacity.

5 Source: Bernstein, BMO Capital Markets, and Rystad.

Looking forward, Airbus is set to benefit from the recovery in air travel, the fact that their new A321neo is economically superior to the 737 Max, and their sales mix is expected to improve over the next three years as losses from the A350 widebody program are reduced, and the share of the more-profitable A321 sales increases. Airbus is currently trading on 9x our forward earnings estimate, an attractive price for a global duopoly.

Outside of these new additions, we added to our holdings in **Micron Technology**, **Infineon Technologies**, **Intesa Sanpaolo**, and **Tencent**. These positions were funded by completely selling out of our holdings in **Glencore**, **MTU Aero Engines**, and **Lamb Weston**, all of which have been successful investments for the Fund.

## Outlook

As we wrote last quarter, stock markets are currently dominated by macro events. There is an almost singular focus on inflation and interest rates, with the market swinging wildly on the interpretation of whether each new data point will lead to higher or lower interest rates.

While inflation is the current market obsession, the likely next phase is simply a focus on earnings. With COVID spending patterns normalising and interest rates being set at levels to reduce demand for goods and labour (i.e. higher unemployment), corporate profits are coming under pressure and earnings are beginning to disappoint. With global stock markets down 25% from their highs at the start of this year, there has been some adjustment to this new reality, but we are still seeing sudden drops in share prices of companies warning of lower profits ahead (e.g. FedEx and Nike), which suggests that this earnings pressure is not yet fully priced in.

Another marker is what happened in past recessions. In the past six recessions/bear markets, market valuations contracted on average to 15x earnings (usually troughing at 13x), while earnings typically fell by 15%.[6] Assuming a very mild 10% fall in earnings and a 15x multiple, that would place fair value of the S&P 500 index at 3000-3100, roughly 20% lower than current levels. The fact that the mild scenario in this exercise still points to considerable downside is a testament to how expensive the market was in 2021.

With this backdrop, we are emphasising patience when deploying cash, favouring ideas like Infineon, Airbus, and AK Medical, where valuations have already adjusted downwards and, in our view, the companies have clear growth opportunities over the next 3-5 years.

6 Source: Evercore ISI.

## Notes

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

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

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, the Fund's holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The investment returns depicted in the graph are cumulative on A$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified net MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash") shows the Fund's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "Cash" in this table includes cash at bank, cash payables and receivables and cash exposures through derivative transactions.
4. The table shows the Fund's exposures to the relevant sectors through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".
5. The table shows the Fund's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

## Disclaimers

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