Platinum Global Fund (Long Only)

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Portfolio Manager

Performance

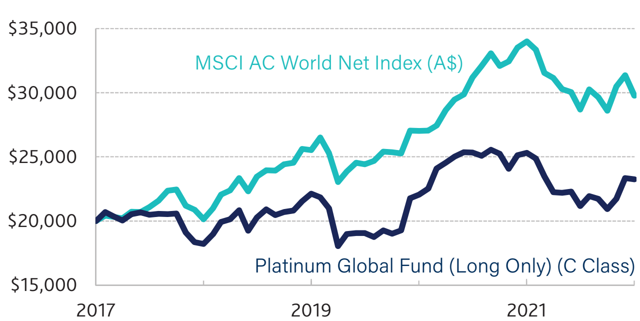
(compound p.a.+, to 31 December 2022)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Global Fund (Long Only)*	11%	-8%	2%	3%	10%
MSCI AC World Index^	4%	-12%	5%	8%	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

31 December 2017 to 31 December 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) finished the year on a strong note, rising 11.0% 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.

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,

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 returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

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).

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.

Disposition of Assets

REGION	31 DEC 2022	30 SEP 2022	31 DEC 2021
Europe	31%	28%	22%
Asia	30%	27%	30%
North America	19%	22%	26%
Japan	6%	6%	12%
Other	1%	1%	1%
Australia	0%	0%	3%
Cash	12%	16%	6%

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

Net Sector Exposures

SECTOR	31 DEC 2022	30 SEP 2022	31 DEC 2021
Industrials	22%	21%	22%
Financials	14%	13%	15%
Information Technology	13%	14%	18%
Energy	10%	7%	1%
Materials	9%	11%	15%
Consumer Discretionary	7%	6%	7%
Communication Services	6%	5%	8%
Health Care	6%	5%	4%
Real Estate	2%	2%	3%
Consumer Staples	0%	0%	1%
TOTAL NET EXPOSURE	88%	84%	94%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
ZTO Express Cayman Inc	China	Industrials	4.5%
AK Medical Holdings Ltd	China	Health Care	4.4%
UPM-Kymmene OYJ	Finland	Materials	4.1%
Tencent Holdings Ltd	China	Comm Services	4.0%
Microchip Technology Inc	US	Info Technology	3.9%
Intesa Sanpaolo SpA	Italy	Financials	3.8%
Weichai Power Co Ltd	China	Industrials	3.5%
Trip.com Group Ltd	China	Consumer Disc	2.9%
Applus Services SA	Spain	Industrials	2.9%
MinebeaMitsumi Co Ltd	Japan	Industrials	2.8%

As at 31 December 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 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.

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.

2 Source: Cameco.

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.

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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "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.

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