Platinum International Fund

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Performance

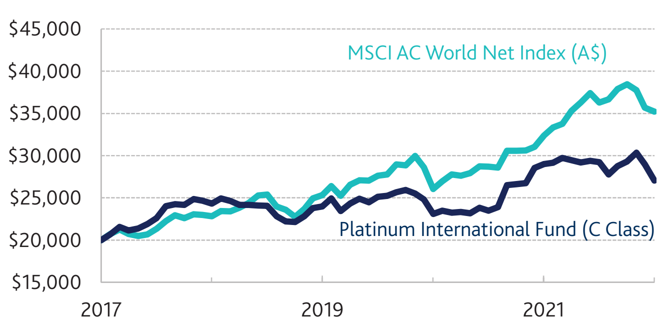
(compound p.a.+, to 31 March 2022)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	-8%	-7%	4%	6%	11%
MSCI AC World Index^	-8%	9%	12%	12%	7%

+ Excluding quarterly returns.
* C Class – standard fee option. Inception date: 30 April 1995.
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 5. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

31 March 2017 to 31 March 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 5.

The Fund (C Class) returned -7.7% for the quarter, marginally ahead of the market's -8.4% return.[1]

The performance within the Fund and markets differed dramatically over the course of the quarter.

In the period prior to Russia's invasion of Ukraine, the Fund returned 2.3% while the market fell -8.6%. This period was marked by rising interest rate expectations as the global economy continued its post-pandemic recovery. During these initial weeks of the quarter, expensive growth stocks performed poorly with the Fund benefiting from short positions in these types of companies.

Post the invasion, stocks that were poised to benefit from the economic recovery, such as cyclicals, travel stocks and European banks, experienced significant price falls, as did Chinese companies, reflecting concerns about geopolitical risk and the struggling Chinese economy as it faced a new wave of COVID-19 infections. Investors once again favoured the growth names, with the growth-heavy US Nasdaq 100 Index finishing up 10% over this period. During the final weeks of the quarter, the Fund ceded its strong absolute and relative performance of the earlier period to finish slightly ahead of the market.

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

Strong performers for the Fund over the quarter were our investments in commodity producers. Of note was **Glencore** (+33%), which benefited from broadly higher commodity prices for its mining activities and the dislocation in commodity markets, providing opportunities for its trading arm. US fertiliser company **Mosaic** (+69%) benefited from higher potash and phosphate prices due to concerns regarding Russian/Belarus supplies of these important fertiliser products. The Fund did not have any investments in Russian stocks.

The largest detractor from performance was **Raiffeisen Bank International** (-50%), an Austrian bank which has major banking positions across Central and Eastern Europe (CEE). Other major detractors from performance were our Chinese holdings, notably **Weichai Power** (-19%), **Tencent** (-16%) and **ZTO Express** (-11%), where the market experienced a broad and indiscriminate sell-off as a result of concerns around China's partnership with Russia. Concerns that the US regulator, the Securities and Exchange Commission, would move to delist Chinese stocks from US stock exchanges exacerbated the market's weakness. Japanese industrial stocks **MinebeaMitsumi** (-17%) and **Lixil** (-25%) also detracted, reflecting supply chain and input cost issues following the strong rises in commodity prices.

Contributions from short positions, which are concentrated in the expensive growth stocks, also followed the rotation within the markets, adding significantly to the Fund's performance in the early weeks of the quarter, and then detracting as the markets rebounded during March. Overall, our short positions contributed 1% to performance over the quarter.

Changes to the Portfolio

The Fund's net invested position was reduced over the course of the quarter from 67% to 62%. The decrease in the net invested position reflects an increase in short positions from 23% to 28%. The shorts consist of market indices (14%), individual stocks (12%) predominantly in very highly valued growth names, and baskets of expensive growth stocks in the clean energy sector (2%). The cautious positioning reflects our concerns about interest rates and inflation, and the deteriorating geopolitical environment.

New holdings for the Fund included energy producers **Shell** and **Suncor Energy** (Canadian oil producer and refiner). As outlined below, energy markets were already tight prior to Russia's invasion of Ukraine, and it is now likely that the world will experience elevated energy prices for an extended period. While stock prices of energy companies have risen, broadly they are not reflecting this longer-term outlook.

Disposition of Assets

REGION	31 MAR 2022	31 DEC 2021	31 MAR 2021
Asia	25%	28%	27%
Europe	24%	21%	18%
North America	21%	21%	26%
Japan	13%	14%	13%
Australia	5%	3%	3%
Other	3%	2%	1%
Cash	10%	10%	11%
Shorts	-28%	-23%	-22%

See note 3, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	31 MAR 2022	31 DEC 2021	31 MAR 2021
Industrials	18%	20%	21%
Materials	16%	14%	18%
Financials	13%	15%	15%
Consumer Discretionary	7%	10%	9%
Information Technology	6%	12%	9%
Health Care	5%	5%	3%
Energy	4%	1%	1%
Communication Services	4%	5%	2%
Real Estate	3%	3%	3%
Consumer Staples	1%	1%	-1%
Other	-16%	-18%	-11%
TOTAL NET EXPOSURE	62%	67%	67%

See note 4, page 5. Numerical figures have been subject to rounding.
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 https://www.platinum.com.au/our-products/pif.

In Europe, we bought a number of stocks that were impacted by concerns regarding European economic growth. These included a new holding in **Wizz Air**, a fast-growing low-cost carrier, that returned to valuations approaching those reached in the COVID-19 sell-off in March 2020. We also increased our holdings in European banks **Intesa Sanpaolo** (Italy), **Barclays** (UK) and **Erste Bank** (Eastern Europe).

A number of stocks that had performed well during the period were trimmed, including **Mosaic** (fertilisers), **China Overseas Land & Investments** (Chinese residential property developer) and **AIA** (Asian insurance).

Commentary

Russia's invasion of Ukraine and the implications for markets has been the focus of attention for investors in recent weeks. Not only is the world facing higher energy and food prices as a result of the conflict, there is the possibility of outright shortages of these commodities, potentially creating serious humanitarian as well as economic issues globally. There have also been concerns regarding China's role in the conflict and the potential for sanctions on China if they were seen to be aiding Moscow either militarily or in avoiding sanctions. Meanwhile, China is dealing with the re-emergence of COVID-19 at a time when the economy is facing its most severe slowdown since its reopening, as a result of the common prosperity reforms introduced during 2021. We will address each of these issues, but before doing so, it is important to understand the economic and market context in which these events are occurring.

Prior to the invasion of Ukraine, inflation and interest rates were the key issues. Inflation in much of the developed world was continuing to rise, reaching levels not seen since the early 1980s. While inflation had been rising throughout the second half of 2021, tight labour markets and commodity markets, ahead of a full reopening of economies post the COVID-19 pandemic, made it clear that it would not fade away as matter of course. The result was a clear change in expectations for the future course of interest rates, most notably in the US where 2-year Treasury yields rose from 0.73% to 2.29% over the quarter. It was not that long ago that increases in interest rates were not expected until 2024. The US economy continued to show strong momentum through the quarter and inflationary pressures have been exacerbated by the conflict. As a result, the Federal Open Market Committee (FOMC) affirmed at their March meeting that they expected numerous interest rate increases to occur over the course of 2022.

One now has to overlay this backdrop of inflation and rising interest rates with a number of additional complications. Russia is responsible for approximately 10% of the world's oil production, of which approximately 75% is exported, and provides Europe with 34% of its oil imports.[2] Russia is also responsible for supplying 40% of Europe's total gas consumption and around 18% of globally traded volumes of thermal coal.[3] For the moment, Europe has not sanctioned purchases of Russian energy (though some private companies have stopped trading with Russia) and Russia has continued to supply oil and gas since the start of the conflict. However, this has occurred at a time when energy markets were already tight and prices were trending higher. In agricultural commodities, Russia and Ukraine provide significant volumes of globally traded wheat (29%), corn (19%) and sunflowers (33%).[4] In fertiliser, Russia accounts for 20% of global potash supply and Belarus supplies a further 18%.[5] Russia is also a significant supplier of other commodities such as steel, palladium, platinum, nickel, iron ore, copper and aluminium. Given that it is highly likely that Russia, short of a regime change, will remain a pariah state, it is also likely that energy and food prices will remain at elevated levels for a considerable period of time. The possibility of humanitarian crises in parts of the developing world is significant, and in the developed world, there will be pressure on household budgets, particularly for lower-income earners. And of course, headline inflation numbers are more likely to continue their upward trend.

2 Source: International Energy Agency (IEA).

3 Source: IEA.

4 Source: US Department of Agriculture, Morgan Stanley Research.

5 Source: ICIS, CRU consultants, Morgan Stanley Research.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Glencore PLC	Australia	Materials	4.0%
Microchip Technology Inc	US	Info Technology	3.2%
MinebeaMitsumi Co Ltd	Japan	Industrials	3.1%
Samsung Electronics Co	South Korea	Info Technology	2.8%
ZTO Express Cayman Inc	China	Industrials	2.8%
Ping An Insurance Group	China	Financials	2.7%
China Overseas Land & Inv	China	Real Estate	2.5%
Tencent Holdings Ltd	China	Comm Services	2.3%
Mosaic Co	US	Materials	2.3%
UPM-Kymmene OYJ	Finland	Materials	2.2%

As at 31 March 2022. See note 5, page 5.
Source: Platinum Investment Management Limited.

In the short term, the conflict has damaged consumer and business confidence, especially in Europe, and indicators are consistent with a sharp slowdown in European economic activity. In the medium term, there are reasons to expect Europe to recover as government spending increases in response to the current situation. We already know that Europe will increase defence spending substantially in the years ahead, and there will be significant investment in diversifying energy sources away from Russia, including the region's ongoing push into renewable energy. The full benefits of the reopening post the COVID-19 pandemic have also yet to be experienced. Unless some of the more extreme scenarios play out, such as Russia cutting off energy supplies or the use of nuclear weapons in Ukraine, it is likely that increases in government spending, together with a progression to a full reopening post COVID-19, will underwrite a robust recovery in the European economy.

The Chinese economy was struggling in the second half of 2021 as a result of the "common prosperity" reforms. As we have discussed in previous quarterly reports, the most important of these reforms, with respect to economic activity, has occurred in the residential property market, which saw a substantial decline in the sale of new apartments with a flow-on effect to construction activity. While policy measures have helped property sales stabilise, the country has now been impacted by the Omicron variant of COVID-19. Having avoided the worst of the pandemic, the arrival of Omicron is likely to effectively bring an end to the country's zero-COVID policy. Unfortunately, the relatively low efficacy of the Sinovac vaccine means that the country's health system will now face the same stress and overloading that the rest of the world has experienced over the last two years. The use of lockdowns to slow the spread of the virus will disrupt economic activity and supply chains. The government has indicated they will pursue measures to support the economy and that the pace of economic reform will slow in order to re-establish business confidence.

The other concern regarding China is its "partnership" with Russia, affirmed in the days leading up to the invasion of Ukraine. Concerns range from potential military support via the supply of weapons, to aiding Russia in avoiding sanctions, and the possibility that China could use this moment to invade Taiwan. China's progress over the last 40 years has been a result of being integrated into the global economic system. Undoubtedly, over time, China has sought to bend this system to their advantage, however, it is highly unlikely that the country would do anything to damage the system and their place in it. If anything, the events of recent weeks will have highlighted to political leaders globally the high level of interdependence of the economic systems of China and the West.

Outlook

The economic and geopolitical backdrop for markets is the most complex it's been for over 40 years. In such an environment, one might expect that investors would be demanding a significant increase in risk premiums, yet the world's major stock markets are only down 5-10% from their recent highs. The one exception to this, is China, which is down 30%. How this unfolds in the stock market is likely to vary greatly by sector and geography.

In recent weeks, the stocks that have been heavily impacted by the conflict in Ukraine are those that have been directly affected. These include a range of cyclical businesses from auto original equipment manufacturers (OEMs) and component providers, to industrial businesses, European banks and travel-related businesses. Chinese stocks have suffered a broad and indiscriminate sell-off as a result of geopolitical fears and the weak economic environment in that country. In many cases, stock prices have approached crisis-level valuations seen in previous sell-offs, such as the global financial crisis or March 2020 COVID-19 sell-off. Many of these companies represent excellent value and we would expect them to perform well in the medium term, as Europe and China recover and uncertainties dissipate.

The growth stocks that led the bull market of the last decade are, however, likely to follow a different path. Investors had a preview of this in the early weeks of the March quarter as expectations of interest rate increases continued to rise and the growth stocks experienced significant selling pressure. Investors have subsequently returned to these companies as a place to hide, though we would expect this to be relatively short-lived as interest rates maintain their march higher. In particular, our assessment is that the highly speculative growth stocks (i.e. those with extremely high valuations, often trading on valuations in excess of 20 times sales) still have considerable downside.

The Fund is positioned for this environment, with its investments (longs) predominantly comprising profitable businesses, though with some degree of cyclicality, trading at attractive valuations. The Fund also holds short positions in the popular and expensive growth companies. It remains our view that the portfolio should be able to produce good absolute returns over the next three to five years. However, as we said last quarter, 2022 is likely to be an interesting and volatile year for investors as we work our way through the end of a pandemic and exit the era of ever-lower interest rates. The conflict in Ukraine has strengthened the case, and in the short term, investors should expect ongoing volatility in markets.

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. [The gross MSCI index was used prior to 31/12/98]. 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 MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") 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. "Shorts" show the Fund's exposure to its short securities positions and short securities/index derivative positions, as a percentage of its portfolio market value. "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 net exposures to the relevant sectors through its long and short securities positions and long and short 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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