

Platinum International Fund



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Performance

(compound p.a.+, to 31 March 2023)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	5%	18%	11%	6%	12%
MSCI AC World Index^	9%	4%	12%	10%	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.

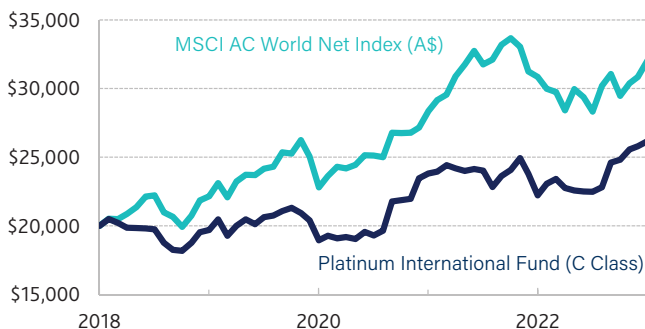
Source: Platinum Investment Management Limited, FactSet Research Systems.

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 2018 to 31 March 2023



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 17.7% for the year, a 13.9% outperformance of the market, which returned 3.8%.¹

The Fund's long portfolio performed well, returning 10.7% (for an overall contribution to performance of 8.4%), which was supplemented by a strong 8.8% contribution from our short positions.² The year was characterised by the deflating of the speculative bubble in growth stocks and illustrates the benefit of Platinum's investment approach of seeking out opportunities in areas that are 'out of favour' with investors and avoiding the 'much-loved' investment ideas of the day. We believe the past year represents a strong start to the Fund's performance in the current bear market in global equities.

The Fund returned 5.4% for the quarter, compared with the market's return of 8.7%. Market returns in local currency terms were similar across regions, with Europe up 8.5%, North America up 7.4% and Japan up 7.1%, with Asia ex-Japan being the exception, up only 4.5%.³ However, there were significant divergences by sector, as investors responded to the failures of Silicon Valley Bank and Credit Suisse by seeking out perceived safe havens in growth stocks and selling economically sensitive sectors. Information Technology was up 20.3% while Energy fell 3.5%. Those sectors in the eye of the storm also performed poorly, with Financials down 1.8% and Real Estate up 0.5%.

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

2 Contribution numbers are based on the total return of individual positions and are gross as they do not take into account the Fund's fees and costs (other than brokerage).

3 MSCI AC Europe, MSCI North America, MSCI Japan and MSCI Asia ex-Japan, respectively, in local currency. Source: MSCI.

Within our portfolio, key contributors to performance included travel-related investments **Wizz Air** (+56% over the quarter) and **Booking Holdings** (+32%), as the travel sector continued its post-COVID boom. Semiconductor stocks **Microchip Technology** (+19%), **Infineon Technologies** (+33%) and **Micron Technology** (+21%) were also strong contributors, benefiting from commentary from various management teams that the current downturn in the cycle may be coming to an end and conditions could progressively improve throughout the rest of the year. Precision components supplier **MinebeaMitsumi** (+27%) was another strong performer, gaining on indications demand may have bottomed in several of its businesses.

Key detractors included global insurance player **Beazley** (-12%), weakening after releasing disappointing results, **Allfunds** (-7%), weakening on general concerns in the financials sector, and commodities (**Glencore** -14%, **UPM-Kymmene** -11%, **Schlumberger** -8%), falling on growth concerns. Short positions in aggregate reduced performance for the quarter by 1.8%.

Changes to the Portfolio

The Fund's net invested position increased from 63% to 70% over the quarter.

Falling share prices in the financial sector provided an opportunity to add to existing holdings **Allfunds** (European investment fund platform), **St. James's Place** (UK wealth manager) and **Intercontinental Exchange** (financial exchanges and data services). We initiated a new position in **TransUnion**, a US provider of consumer credit ratings and other data services. TransUnion had been sold off on concerns that the collapse in US mortgage applications, as a result of higher interest rates, would impact their earnings in the short term, providing an opportunity to acquire shares in this high-quality growth company at an attractive price.

Early in the quarter, we trimmed positions in our European banks **Erste**, **Raiffeisen Bank International** and **Intesa Sanpaolo** after strong share price gains in recent months. Similarly, we substantially reduced our position in online travel agent **Booking Holdings**. We also exited our position in **BMW** due to a combination of strong stock price performance and rising concerns over the increasingly competitive nature of the electric vehicle market in China. The net result was that the Fund's cash position fell from 20% to 16% over the quarter.

The focus of the short portfolio continues to be on companies that have weak earnings outlooks as interest rates start to impact the growth outlook. We continued to reduce our short positions on the growth stocks that have already fallen heavily over the last year. In aggregate, short positions were reduced from 17% to 14% over the quarter.

Disposition of Assets

REGION	31 MAR 2023	31 DEC 2022	31 MAR 2022
Asia	27%	27%	25%
Europe	26%	26%	23%
North America	19%	16%	22%
Japan	8%	8%	13%
Australia	2%	2%	5%
Other	2%	2%	3%
Cash	16%	20%	10%
Shorts	-14%	-17%	-28%

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

Net Sector Exposures

SECTOR	31 MAR 2023	31 DEC 2022	31 MAR 2022
Industrials	19%	16%	18%
Financials	16%	14%	13%
Information Technology	9%	4%	6%
Materials	8%	9%	16%
Energy	8%	6%	4%
Consumer Discretionary	5%	8%	7%
Health Care	4%	4%	6%
Communication Services	3%	3%	4%
Real Estate	2%	3%	3%
Consumer Staples	0%	0%	1%
Other	-2%	-4%	-16%
TOTAL NET EXPOSURE	70%	63%	62%

See note 4, page 5. 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	3.9%
MinebeaMitsumi Co Ltd	Japan	Industrials	3.3%
Microchip Technology Inc	US	Info Technology	3.2%
Ping An Insurance Group	China	Financials	2.7%
UPM-Kymmene OYJ	Finland	Materials	2.6%
Allfunds Group Plc	UK	Financials	2.6%
Samsung Electronics Co Ltd	South Korea	Info Technology	2.3%
Weichai Power Co Ltd	China	Industrials	2.3%
LG Chem Ltd	South Korea	Materials	2.3%
Airbus SE	France	Industrials	2.1%

As at 31 March 2023. See note 5, page 5.
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>

Commentary

In recent quarters, we have stressed how the investment environment has fundamentally changed from that of the prior decade. The period from the global financial crisis (GFC) until early 2022 was marked by easy monetary policy and low interest rates, initially with quantitative easing and then the extraordinary fiscal and monetary policy response to the COVID pandemic. The cumulative effects of these policies have been the primary cause behind the sharp increase in inflation experienced across much of the global economy. The current interest rate tightening cycle that began in March 2022 has been dramatic, most notably in the US, where official interest rates have risen from virtually zero to close to 5% in the space of a year.⁴ This is the most rapid increase in rates versus prior tightening cycles in the last 40 years (see the Macro Overview for further details). The monetary environment has changed from being a tailwind for economic growth and markets to a very strong headwind.

The failures of Silicon Valley Bank and Credit Suisse are a symptom of this environment. It should be remembered that these events come on the back of other recent financial accidents, such as the forced liquidation of assets by UK pension funds last October as a result of losses in leveraged bond portfolios and the collapse of cryptocurrency exchanges such as FTX. For the moment, banking regulators, by guaranteeing deposits, have calmed the situation both in the US and Switzerland. While there are lingering doubts about whether we will see further bank runs in the US, it is quite possible that the worst may be over. However, this does not mean there are no further ramifications for investors as a result of these events.

At the centre of the failure of Silicon Valley Bank and the broader troubles that have been faced by second-tier banks in the US in recent weeks are losses on bond and mortgage portfolios that resulted from the rise in interest rates. While these losses impacted bank capital, they did not cause Silicon Valley Bank to become insolvent. Rather, it was the loss of confidence of depositors, due to the weakened balance sheet, that resulted in a run on the bank and its ultimate demise. As such, the guarantee on deposits is an effective short-term solution. This doesn't solve the problem for the remaining banks that have accumulated losses in their bond and mortgage portfolios, reducing their capital base and thus their ability and willingness to make new loans at a time when banks were already becoming increasingly cautious.

It's important to note that these second-tier banks in the US are important lenders to small and medium-sized businesses, accounting for 28% of bank lending to this sector, and similarly to commercial real estate, providing 67% of bank lending.⁵ This reduction in the availability of new loans is likely to exacerbate the impact of higher interest rates at a time when corporate defaults are rising at an alarming pace. The precariousness of the situation is why many are now predicting that the US Federal Reserve (Fed) will stop raising interest rates and start cutting rates before the end of this year. Given that there are also signs that inflation has peaked, this is not an unreasonable conclusion to draw. The one dilemma the Fed faces at this time, though, is that the US economy remains quite robust. While we noted last quarter that employee layoff announcements had picked up sharply, employment markets remain tight, with people readily finding new jobs, and annual wage growth, while softening, remains historically strong, growing by 7.3% for the twelve months to February 2023.⁶ There remains the risk that a significant cut in interest rates too early could reignite inflationary forces.

There have been concerns about possible contagion from the US to other banking systems, with the failure of Credit Suisse emphasising these concerns. While higher rates may yet impact other banking systems, the transmission mechanism will be different. In the US, residential mortgages are primarily done on a fixed-rate basis for 30 years, which means when rates go up, the lender loses out. In banking systems in other countries, where variable-rate (or short-term fixed-rate) mortgages are standard, it is the borrower that suffers when rates rise. Ultimately, that may result in banks incurring higher credit costs if increasing numbers of households are unable to service their mortgages. For the moment, there is little evidence of this in markets such as Europe or Australia, but of course, one cannot discount that it may yet happen in time. As for Credit Suisse, it was simply an accident-prone institution that was vulnerable to a bank run in a time of significant uncertainty. It is worth mentioning that none of the Platinum funds hold any US banks or Credit Suisse.

Europe's economy has been remarkably resilient in the face of numerous negative factors. Interest rates have risen sharply in response to inflation, as we have seen elsewhere. The war in Ukraine has severely impacted consumer and business confidence, not to mention the disruption to energy and other commodity markets. Yet the European economy still grew in real terms over the course of 2022 by 3.5%, and likewise, employment grew by 1.2%.⁷ This has occurred in a period where rapidly escalating energy prices

⁴ Federal Funds Effective Rate. Source: Federal Reserve Bank of St. Louis.

⁵ Source: BofA.

⁶ Source: <https://tradingeconomics.com/united-states/wage-growth>

⁷ Source: FactSet Research Systems.

in the first half of 2022 resulted in an outright loss of competitiveness for European industries, with energy-intensive sectors such as petrochemicals and fertilisers experiencing significant capacity closures. Offsetting this set of unfortunate circumstances was that energy prices only remained elevated for a relatively short period, with key markets returning to levels before the Ukraine war, partly as a result of the good fortune of a warmer-than-normal winter and a sluggish Chinese economy reducing overall energy demand. While the outcomes in Europe have been surprisingly good, there remains a degree of uncertainty. Firstly, history would suggest there is a significant lag between interest rate increases and their impact on activity, in which case we are yet to see the full impact of last year's interest rate rises. Further, it is far from clear that Europe has fully resolved its energy supply issues, particularly as there is a significant degree of good fortune in escaping the worst-case scenarios in the second half of last year.

In China, the country has moved beyond the damaging economic effects of last year's COVID lockdowns in a similar fashion to the rest of the world, with indicators of mobility suggesting life is returning to normal. Most importantly, there has been a pickup in sales of residential apartments in the major cities, suggesting that the government's move to ensure adequate funding for property developers to complete projects has resulted in a lift in confidence in the sector. We would expect the economy to continue to build momentum as the year unfolds. With respect to tensions between the US and China, it is worth noting the announcement from Ford that for its new electric vehicle plant, it will be using battery technology provided by the Chinese company Contemporary Amperex Technology Co. Limited (CATL), while there are reports that Tesla will also sign a deal with the company. The Ford deal has been signed even though it could potentially exclude the company from US subsidies. CATL is the global leader in providing electric vehicle batteries, having mastered making batteries using a lower-cost lithium iron phosphate (LFP)

chemistry. This is mentioned simply to note that while the war of words continues between the US and China, the reality is that the economies of the West and China are highly interdependent.

Outlook

Since the collapse in the stock price of Silicon Valley Bank on 9 March, it is interesting that the US market has rallied 5% in local currency terms while other major stock markets have generally weakened (see Fig. 1). The strong short-term performance in the US is generally attributed to the increased likelihood of earlier-than-expected interest rate cuts. While cuts are probably closer than we had thought, this is probably not a good explanation for the market's reaction. After the last two speculative stock market bubbles that ended in 2001 (the tech wreck) and 2008 (the GFC), the first interest rate cuts presaged a collapse in US corporate earnings and the stock market. As already noted, given that over the last 12 months we have experienced the sharpest rise in rates in the US in over four decades, along with quantitative tightening, followed now by a banking crisis that will further tighten the availability of credit, to suggest that the market is celebrating future rate cuts that will usher in the beginning of a new economic cycle does not seem credible.

The answer is partly found by looking at sector performance within the US market. The market has been led higher by a select group of technology stocks (many of the old favourites of the bull market, such as the FANGs, Microsoft and Nvidia) and consumer staples (up 4.7% since 9 March), while interest-rate sensitive stocks that tend to benefit from falling interest rates, such as financials (down 3.6%) were sold off. This is a stock market that is factoring in a much more uncertain future. This is consistent with the softer performance of markets outside of the US, as they are typically more sensitive to economic growth.

As events unfold, the idea that US corporate earnings will remain resilient looks increasingly unrealistic, and the probability of further significant falls in US stock indices is high. However, investors are not generally well served by focusing on such predictions. The best approach at such times is to not get caught up in the short term and instead focus on likely outcomes in different sectors and economies over the next five years and beyond, and be ready to take advantage of opportunities presented by the markets. Companies that will benefit from the decarbonisation of the global economy, the diversification of supply chains and reshoring of production, higher interest rates, and a resurgent China are some of the themes that we will continue to focus on in our search for opportunities.

Fig. 1: US Market Bounces Despite Bank Crisis

Local currency

COUNTRY	INDEX	% CHANGE 9 MAR 2023 TO 31 MAR 2023
USA	S&P 500	4.9%
USA	Nasdaq Composite	7.8%
Europe	STOXX Europe 600	-0.5%
Japan	Nikkei 225	-2.0%
China	SSE Composite Index	-0.1%
Australia	S&P/ASX 200	-1.8%

Source: FactSet Research Systems.

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