Platinum International Fund

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Performance

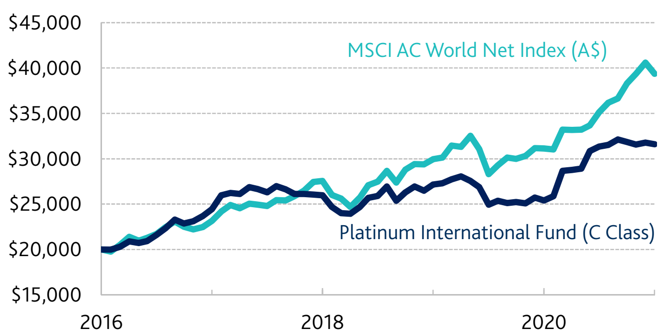
(compound p.a.+, to 30 September 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	-1%	24%	7%	10%	12%
MSCI AC World Index^	3%	26%	13%	15%	8%

+ 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

30 September 2016 to 30 September 2021



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 -0.7% for the quarter and 24.4% for the year.[1]

Throughout July and August, the continuing spread of the COVID-19 Delta variant raised concerns that the global economic recovery would falter. At the same time, China's regulatory reform program has created concerns around the country's economic prospects. As has been the case in recent years, when faced with uncertainty, investors reverted to favouring companies whose businesses have a high degree of certainty (growth and defensive businesses) and avoiding those that are sensitive to economic growth. As a result, while markets did grind higher in the first two months of the quarter, this was predominantly driven by large growth stocks (such as the 'FANMAGs'[2]), with more economically sensitive stocks left behind.

However, despite the concerns, the major economies by and large continued on a strong recovery pathway and inflationary pressures continued to emerge rather than recede as many had hoped. Most notable was the ongoing tightness in job markets in the major economies, leading to rising labour costs. Additionally, energy prices increased substantially with coal and gas prices reaching levels as much

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

2 Facebook, Amazon, Netflix, Microsoft, Apple, and Google (now trading as Alphabet).

as two to five times higher than pre-COVID levels (depending on the location). These continuing signs of inflation resulted in rising yields on government bonds in the latter weeks of the quarter, a trend that was reinforced when the US Federal Reserve acknowledged that tapering in its purchases of bonds "may soon be warranted". This resulted in a rapid reversal of the trends in equity markets, as the more buoyant environment typically benefits economically sensitive companies, while higher bond yields have a greater impact on the valuations of growth and defensive stocks.

Usually we wouldn't focus on such short-term variations within the market over a three-month period. However, in this case, it provides an insight into not only the shorter-term performance of the Fund, which is currently weighted more toward economically sensitive businesses, but also provides a framework for thinking about markets in the months ahead. This will be covered later in the outlook section.

Over the last 12 months, the gross return on the invested (long) portion of the portfolio was 32%, which is a strong outcome, reflecting good underlying stock selection during this period. The difference between this result and the Fund's 24% return (after allowing for fees) is predominantly related to the cautious net invested position of the portfolio over the period, with cash holdings and short positions reducing the final return. As we have discussed over the last year, the extraordinary performance of stock markets and asset prices more generally, fuelled by excessive money printing by central banks, has led us to maintain a relatively cautious position. While this positioning has dented returns, we are of the view that such an approach has been (and continues to be) appropriate, given the risk that rising inflation represents to equity valuations.

Amongst the largest contributors to performance over the quarter were a diverse group of holdings. **Glencore** (+14%) rallied on ongoing strength in commodity prices. Japanese bathroom and housing products company **Lixil** (+13%) gained after reporting record quarterly earnings and indicating its full-year margin target may prove conservative. **InterGlobe Aviation** (+18%) strengthened on increasing optimism around the COVID situation with the Indian government lifting capacity restrictions on domestic flights, as well as rising hopes that international travel will start recovering from next year. **Raiffeisen Bank International** (+19%) benefited from the strong economic recovery and the prospect of higher interest rates. US fertiliser company **Mosaic** (+12%), a relatively new holding in the Fund, gained on signs of an up cycle in fertiliser prices.

Disposition of Assets

REGION	30 SEP 2021	30 JUN 2021	30 SEP 2020
Asia	29%	25%	29%
Europe	21%	20%	18%
North America	19%	23%	27%
Japan	13%	12%	13%
Australia	3%	3%	3%
Other	1%	1%	1%
Cash	13%	15%	9%
Shorts	-18%	-6%	-16%

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

Net Sector Exposures

SECTOR	30 SEP 2021	30 JUN 2021	30 SEP 2020
Industrials	19%	20%	19%
Financials	15%	16%	11%
Materials	14%	16%	13%
Consumer Discretionary	11%	8%	12%
Information Technology	9%	11%	17%
Health Care	6%	6%	8%
Communication Services	4%	1%	6%
Real Estate	3%	3%	2%
Energy	1%	0%	1%
Consumer Staples	1%	-1%	0%
Utilities	0%	0%	0%
Other	-14%	-2%	-13%
TOTAL NET EXPOSURE	68%	79%	75%

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.

The sell-off in China, due to concerns around regulatory reforms and the risk of default by property developer China Evergrande Group, saw our Chinese holdings detract from returns during the quarter. **Ping An Insurance** (-25%) fell due to concerns around its exposure to property developers in its investment book. E-commerce giant **Alibaba** (-35%) fell in response to regulatory changes in the sector. **Trip.com** (-13%), China's largest online travel agent, was impacted by a deferred recovery in international travel as a result of the COVID-19 Delta variant.

Elsewhere, **LG Chem** (-9%), the global leader in batteries for electric vehicles, fell in response to a recall in General Motors' Chevrolet Volt that had seen a number of vehicle fires related to manufacturing faults in LG Chem's batteries. **Micron Technology** (-16%) and **Samsung Electronics** (-8%) were sold off on concerns around memory chip prices.

We remain confident in the investment case for each company. For the three Chinese companies mentioned, we took advantage of their share price weakness to add to our positions.

Changes to the Portfolio

The Fund's net invested position fell from 79% to 68% over the quarter. This was the result of an increase in short positions from 6% to 18% and a reduction in cash from 15% to 13%.[3] The short positions are a combination of index shorts (10%), baskets of expensive growth names (6%) in the technology, clean energy, and biotechnology sectors, in addition to some individual company shorts (2%).

The case for being short the expensive growth stocks is compelling at this point. If one is to examine the accounts of many of these much-loved growth companies, you would see not only revenues growing quickly, but losses growing almost as quickly! In a traditional business environment this is not possible, as companies would quickly run out of cash. However, this is typically achieved by paying employees a proportion of their compensation in the company's shares. The plan is generally not to do this forever, but to move slowly toward profitability as the business scales up, and often this will occur as growth prospects diminish. It is a clever piece of financial engineering, that has been used to build some very significant businesses over the last decade that are now profitable in a traditional sense. The risk is that if the company's share price falls, they need to progressively issue more and more shares to pay the bills. At some point, employees stop accepting this 'confetti' as payment, and without the oversized sales and R&D teams, revenue growth collapses. These 'fast-growing loss makers' face a serious risk, as their valuations are based on profits that are often five or more years away and hence their share prices are much more sensitive to long-term interest rates. So, higher long-term rates have the possibility of not only driving down their share prices, it has the secondary impact of putting their entire business at risk.

3 Numbers have been subject to rounding.

Tencent, the Chinese social media, e-commerce and online gaming company, was added to the portfolio. The company had long been a holding in the Fund but the last of the position was sold earlier in the year. The company's share price fell in response to new regulations that will potentially impact the profitability of a number of their business units. Our assessment is that Tencent's dominant position in the online landscape in China (with over 1.2 billion monthly active users on its WeChat platform alone[4]), will allow the company to continue to perform well in the new environment.

Another new holding in the Fund was **Pigeon**, a Japanese producer of baby and childcare products. The company has a leading position in both Japan and China. The pandemic has seen a significant drop in birth rates in China, its fastest growing market, impacting the company's short-term growth prospects. We expect that in time, birth rates will rebound as we move out of the pandemic, and with that, a rebound in the company's sales growth.

As mentioned earlier, we took advantage of the weakness in Chinese share prices to add to holdings in **Alibaba** (e-commerce), **Trip.com** (online travel agent) and **Ping An Insurance** (financial conglomerate). These purchases were funded by sales of US retailers **American Eagle Outfitters** (exited) and **Ulta Beauty**, **Ally Financial** (US auto lending) and **Bank of Ireland**.

4 Source: https://www.statista.com/statistics/255778/number-of-active-wechat-messenger-accounts/

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
ZTO Express Cayman Inc	China	Industrials	3.3%
Glencore PLC	Australia	Materials	3.0%
Samsung Electronics Co	South Korea	Info Technology	2.9%
Minebea Co Ltd	Japan	Industrials	2.9%
Microchip Technology Inc	US	Info Technology	2.8%
Tencent Holdings Ltd	China	Comm Services	2.6%
Weichai Power Co Ltd	China	Industrials	2.5%
Ping An Insurance Group	China	Financials	2.4%
UPM-Kymmene OYJ	Finland	Materials	2.3%
Micron Technology Inc	US	Info Technology	2.3%

As at 30 September 2021. See note 5, page 5.
Source: Platinum Investment Management Limited.

Commentary and Outlook

There are two key issues for markets currently: regulatory reforms in China, particularly their impact on residential property markets; and rising inflationary pressures as a result of the dramatic increases in energy prices and emerging wage inflation.

The pace of regulatory reform in China picked up speed over the last quarter, covering a wide range of industries from e-commerce, to online gaming, property, and after-school tutoring. Our view is simply that China's economy has historically been very loosely regulated and in recent years there has been a steady trend of introducing appropriate safeguards, similar to what we see in developed markets. The idea that this will quash Chinese entrepreneurial zeal or China's access to capital is in our view far-fetched.[5]

One area worthy of further examination is the impact of regulation on the property development industry, as construction is a significant source of economic activity for China. Our concern is not that there is an impending bursting of a bubble in residential property that will lead to a collapse in the Chinese economy. Our view is that China's residential market has solid fundamentals. There remains strong underlying end-user demand for modern housing stock and property buyers have long required substantial deposits, which has limited speculative investment. While one can never discount the possibility of a setback in property prices, we feel this is an unlikely scenario. For a more in-depth outline of our case, please read this quarter's Macro Overview.

However, there have been a raft of new regulations impacting the property sector, all aimed at capping the rate of price appreciation in residential apartments. The uncertainty caused by these changes, along with the widely reported financial troubles of Evergrande, has resulted in a sharp fall in the pre-sale of new apartments in recent months. If there is to be a period of subdued demand for apartments, this will likely have a broader impact on short-term economic growth. However, such impacts are likely to be relatively short-lived, as authorities have numerous tools at their disposal, such as easing the availability of mortgage finance, that will encourage the return of apartment buyers.

On inflation, we have been writing on this topic in our reports since June 2020. Simply, our view has been that inflation was a risk as a result of the extraordinary money printing by banking systems that accompanied the policy relief efforts for the pandemic. Subsequently, there has been a substantial increase in inflation, with many commentators attributing this to short-term supply shortages that will naturally resolve in time and that this period of rising prices will be temporary. Our concern is the underlying causes are more deep-seated and not so easily resolved. Either way, new sources of inflationary impulses continue to arise. Energy markets are now seeing extraordinary price rises across the globe as referenced earlier. Labour shortages are present in the major economies and wages are starting to rise strongly. This all gives weight to there being more momentum in inflation than generally accepted.

Policy makers are being challenged here. Central banks appear fearful of raising interest rates, presumably because of the high levels of indebtedness and lofty asset prices. Meanwhile, the longer inflation runs, the higher interest rates will eventually rise. If inflation is not attended to, the impact will be felt in household budgets as they are squeezed by higher prices, especially in food and energy. Alternatively, if wages outrun general price increases, the impact may be felt in corporate profits.

The impacts on markets are likely to be varied. If China experiences a slowdown as a result of the various regulatory reforms, the market impact may be subdued as stock prices of companies likely to be directly affected have already been sold off heavily, with many down 50% or more. As such, with much of the risk already priced into stocks in that market, we generally see this as a buying opportunity.

Otherwise, many of the Fund's holdings are companies that are in the midst of the supply shortages in semiconductors, industrial components, autos and commodities, and we expect them to continue to experience robust profit growth. Their relatively modest starting valuations should make them good investments over the medium term. We still expect a travel boom as we exit COVID-related restrictions across the globe, which is expected to benefit our investment in travel-related sectors, while our financial (banks and insurance) holdings should benefit from the trend toward higher interest rates.

However, the short-term picture around inflation and the potential for interest rates to move higher is concerning. This is especially so given the high levels of indebtedness and excessive valuations in not only parts of the share market, but in many unlisted assets as well. It is our view that a cautious approach is required for the moment. Either way, the months ahead are shaping up to be an interesting period ahead for markets.

5 For a longer discussion please see our article https://www.platinum.com.au/Insights-Tools/The-Journal/China-Societal-Change

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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