Platinum International Fund

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Performance

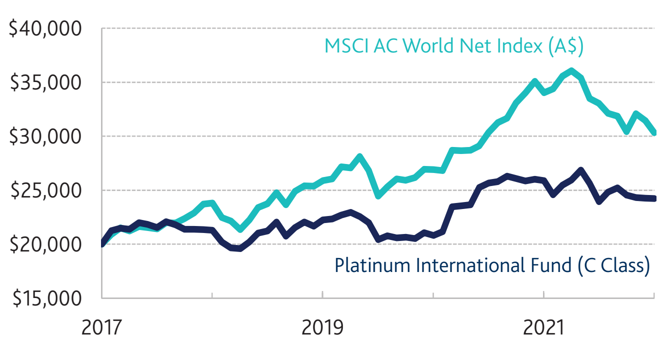
(compound p.a.+, to 30 September 2022)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	-1%	-6%	3%	4%	11%
MSCI AC World Index^	0%	-11%	5%	9%	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

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 5.

The Fund (C Class) returned -1.3% over the quarter.[1]

The largest contributors to performance were an eclectic mix, including **InterGlobe Aviation** (+16%), **UPM-Kymmene** (+12%), and **Microchip** (+5%). European financials (**Raiffeisen Bank** +18%, **Beazley** +13%, **Allfunds** +3%) also contributed to performance. Shorts contributed 1.3%. Our Chinese holdings were key detractors from performance over the quarter, with major holdings **Weichai Power** (-40%), **Alibaba** (-30%), and **Tencent** (-25%) falling sharply.

Over the year, the Fund returned -6.4% compared with the market's return of -10.9%. In the first nine months of 2022, a period that coincides with the beginning of the current bear market in global equities, the Fund returned -6.6%, well ahead of the market's decline of -15.9%.

When examining the performance of global stock markets over the last 12 months, there have been some drivers of market performance that we have clearly anticipated and for which the portfolio has been well positioned, and others for which the portfolio holdings were not ideal. Having said that, as long-term investors, we are making decisions based on views of the long-term earnings power of businesses, knowing full well that short-term economic trends may not be in our favour. Indeed, it is often the fear of short-term trends that provides the greatest opportunities. Still, given the extraordinary macroeconomic environment that has been

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.

the backdrop for investing over the last 12 months, it is worth examining how these variables have contributed to or detracted from the Fund's returns.

1. **Rising interest rates.** Over the last two years, we have continuously outlined the risk that the pandemic-inspired money printing by governments would ultimately result in inflation and rising interest rates, and that this would end the speculative bull market in growth assets. Within the portfolio, we have largely avoided exposure to these overvalued growth companies, many of which have experienced significant share price falls in the current bear market, and indeed, the portfolio has benefited from holding significant short positions in these stocks. Over the last 12 months, our short positions added 9% to the Fund's performance.
2. **Rising commodity prices.** In recent years, the Fund has had exposure to a broad range of commodities, including copper, energy, pulp, and fertilisers. While the rally in commodities faded in the last quarter, we had substantially reduced our position during the course of the year. Companies such as Glencore, which has exposure to a broad range of commodities and commodity trading, UPM-Kymmene (pulp), and Mosaic (fertilisers), added around 1.9% to performance over the last 12 months.
3. **Exchange rate fluctuations.** The depreciation of the euro and the Japanese yen significantly impacted the returns of our European and Japanese investments in Australian dollar terms. In aggregate, the depreciation of these currencies reduced the Fund's performance over the year by 2.8%. The weakness in both currencies was driven by widening interest rate differentials with the US, and in the case of the euro, the rapid escalation in energy costs in Europe post Russia's invasion of Ukraine. While one may have expected that we would anticipate such moves and hedge our exposures, exchange rate movements are not so easily predicted. Indeed, the size of the money printing exercise in the US relative to Europe and Japan would lead one to avoid the US dollar. As higher interest rates start to impact the US economy, we would expect a reversal of the US dollar's strength.
4. **China's economic slowdown and the rising political risk premium on Chinese assets.** The slowdown in the Chinese economy in response to a collapse in apartment sales was well anticipated by markets in mid-2021. Our view was, and remains, that the economy would readily recover from the property downturn in time, and the setback for China represented an opportunity for investors. What was not anticipated was the additional risk premium that would be priced into Chinese assets after Russia's invasion of Ukraine. The Fund's Chinese holdings

Disposition of Assets

REGION	30 SEP 2022	30 JUN 2022	30 SEP 2021
Asia	25%	24%	29%
Europe	25%	23%	21%
North America	18%	16%	19%
Japan	8%	8%	13%
Other	2%	2%	1%
Australia	2%	3%	3%
Cash	21%	24%	13%
Shorts	-24%	-20%	-18%

See note 3, page 5. 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	16%	15%	19%
Financials	13%	12%	15%
Materials	11%	11%	14%
Consumer Discretionary	7%	8%	11%
Energy	6%	4%	1%
Health Care	4%	3%	6%
Information Technology	3%	5%	9%
Real Estate	3%	3%	3%
Communication Services	2%	2%	4%
Consumer Staples	0%	0%	1%
Other	-9%	-8%	-14%
TOTAL NET EXPOSURE	55%	56%	68%

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	3.6%
Microchip Technology Inc	US	Info Technology	3.2%
UPM-Kymmene OYJ	Finland	Materials	2.9%
Ping An Insurance Group	China	Financials	2.8%
MinebeaMitsumi Co Ltd	Japan	Industrials	2.5%
InterGlobe Aviation Ltd	India	Industrials	2.3%
Shell PLC	Netherlands	Energy	2.3%
Trip.com Group Ltd	China	Cons Discretionary	2.3%
Beazley PLC	UK	Financials	2.1%
Intesa Sanpaolo SpA	Italy	Financials	2.0%

As at 30 September 2022. 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.

reduced returns over the last 12 months by 3.3%. Please see the Platinum Asia Fund report for a more in-depth discussion on China.

While the Fund's return since the peak in markets has been pleasing, the longer-term numbers continue to trail the market. It is our view that to produce good absolute returns from investing in equities, it is critical to minimise the impact of large bear markets that occur periodically. Not only can long-term compound returns be improved by avoiding a good portion of the downside from these periods, it can also minimise the pressure on investors during these difficult times, when many fall for the temptation to sell and lock in losses just as markets are finding their lows. This is why, when we cannot identify suitable opportunities, we hold cash and increase our shorts in individual companies or market indices to reduce exposure to downside in markets. As such, we expect to lag market returns during the latter stages of a bull market.

The bull market in global equities that started in the ashes of the 2007-2009 global financial crisis (GFC) and most likely finished at the end of 2021, is the longest in stock market history. The popular growth stocks that led this bull market traded at elevated valuations for a number of years. Thus, we progressively reduced our investments in these growth names, moved into less-favoured areas, and increased our cash holdings and short positions. Our risk-averse approach resulted in a relatively low net exposure to markets and returns that lagged in the final stages of the bull market. The first nine months of 2022 demonstrate the benefit of this risk-averse approach. As we outline in this quarter's commentary below, our view is that we remain in a complex investment environment and that maintaining a cautious approach should continue to pay dividends. Finally, I would note that over the last 10 years, the Fund returned 11% p.a., a good absolute result for investors, and a result achieved while maintaining a cautious approach.

Changes to the Portfolio

The net invested position remained essentially unchanged from the end of the prior quarter at 55%. This cautious positioning continues to reflect our concerns over the impact of rising interest rates on corporate profits and the still elevated valuations in some sectors within the market. The unchanged net exposure does not fully reflect the underlying changes in the portfolio over the course of the quarter. Short positions were increased from 20% to 24%, again a net result with many short positions having been closed and others reopened. The emphasis of the short positions remains on the highly valued growth stocks that experienced a strong rally in the first half of the quarter.

The cash position fell from 24% to 21%. We added to existing positions in **Airbus** and **Infineon Technologies** (German semiconductor manufacturer), both of which had sold off with the broader market. We also added to our positions in European banks **Intesa Sanpaolo**, **Erste**, and **Raiffeisen Bank**, which are poised to benefit from higher interest rates. **Schlumberger**, the US oilfield services provider, was a new addition to the portfolio. The company stands to benefit from an increase in capital spending by oil producers in response to projected supply shortages in the years ahead.

We trimmed a number of our strong performers, including **Glencore** (mining, commodities trading), **Beazley** (insurance), and **China Overseas Land & Investment** (Chinese residential property developer). We also sold out of **MTU Aero Engines** (German aerospace), preferring to add to our position in **Airbus**.

Commentary

The backdrop for investors remains extraordinarily complex. This year, we have witnessed rapid increases in interest rates across large parts of the global economy. In the US and Europe, both short- and long-term interest rates are at levels not seen in over a decade. Energy prices have moved sharply higher, particularly in Europe, as a result of Russia's invasion of Ukraine. A stronger US dollar has resulted in the Japanese yen and the euro falling to levels not seen in 20 years or more. The Chinese economy is in a deep slump as a result of weak construction activity due to falling residential property sales and ongoing COVID lockdowns. Political dynamics, whether they be governments struggling with the impact of inflation on households and businesses, tensions between China and the West, or Russia's abhorrent behaviour, add further uncertainty to the situation. Any of these factors alone can dramatically impact earnings at the individual company level and in aggregate for the market.

On the question of interest rates, there is considerable focus on the possibility of inflation receding and the interest rate cycle turning back down. It is curious that last year, commentators, who were so willing to believe central bank guidance that rates wouldn't rise until 2024, are now keen to fight the US Federal Reserve's determination to reduce inflation. Nevertheless, as we discussed last quarter, it is likely that inflation is near its high and will recede from here, given the collapse we have seen in money growth, particularly in the US. Many economic indicators point to a rapidly slowing economic environment, with the main exception being employment, which remains resilient for the moment.

The more important issue now is likely to be the damage that the increase in rates has done across the economy and to corporate earnings. To give one example, to provide some context to this concern, in the US, the combination of higher mortgage rates and higher residential property prices has resulted in a home buyer today facing a monthly mortgage payment almost 60% higher than a year ago, 95% higher than at the onset of COVID, and three times the lows post the GFC.[2] The predominance of fixed-rate mortgages in the US means that only new buyers are facing these increases. It is hardly surprising then that new and existing home sales are in free fall. This is just the impact on one sector of the economy, though one generally accepted to have a significant impact across the broader economy.

China continues to be a concern for investors on two fronts. The collapse in residential apartment sales and the related construction slowdown have seen the country enter its most challenging economic period since the early 1990s. Our view is that the fall in apartment sales is the result of government reforms seeking to cap property prices, harming buyers' confidence in the market. With the fall in sales, highly leveraged property developers have run into cash flow problems, preventing completion of projects. This, not surprisingly, has further harmed buyers' confidence. This is quite a different scenario to the property bubble story that is often outlined in the financial press. Under our scenario, the current impasse can be potentially solved through rescue funds that allow for the completion of current projects, which, along with various other measures, is the approach being taken by authorities. Even if the worst-case scenario plays out in the property market, along the lines of Ireland or Spain in the GFC, it should be noted that both these economies ultimately recovered from these downturns. Further, in the case of China, the deeply discounted valuations on the listed banks and financial entities already suggest a very difficult environment is well and truly anticipated by investors.

The second concern regarding China is the deteriorating relationship with the West, and often at the forefront of this concern is the potential for a Chinese invasion of Taiwan. The high degree of economic interdependence between China and the developed world and Taiwan's central role as the global economy's main supplier of leading-edge semiconductors would suggest such extreme scenarios are unlikely. The problem with concentrating on these extreme outcomes is not focusing on the narrower actions that can impact investors directly. Examples that have already occurred include sanctions by Western governments on dealing with China, such as the recently announced restrictions on Nvidia from selling their high-end graphic processing units (GPUs) to Chinese customers, or restrictions on investors holding shares in specified Chinese companies. Both Western governments and China have applied punitive tariffs on traded goods. Simple avoidance of Chinese companies by investors will not remove these risks. Consideration needs to be given to a range of issues, from supply chains, end-market exposures, key technologies, to controlling shareholders, in order to fully address the China political risk in any investment.

Finally, it is worth noting the dramatic sell-off in the UK bond market and the British pound in response to the government's proposal to make significant tax cuts in order to revitalise the economy. In the daily commentary about governments the world over, there is an underlying assumption that governments can create economic activity from the stroke of a pen. In reality, economic output is a function of the economy's capital base, pool of labour, and natural resources, and at any point in time, these are fixed.[3] Governments can only redistribute the resources of the economy through their ability to tax, borrow, and print money. As such, there is a limit on a government's ability to redistribute as it competes with businesses and households for those resources. This limitation has often been experienced in the developing world by countries facing current account crises. The reason it is worth noting the run on the pound and the UK bond market is that many other governments are under pressure to respond to households' loss of purchasing power, a situation that will be exacerbated if employment markets weaken significantly.

Outlook

With global stock markets down 25% (in USD terms) from the highs set at the start of 2022, a significant adjustment has already taken place. However, in the context of the extraordinary speculation that occurred and the complex environment that investors are facing, this simply may not be enough. It should be remembered that during the last two global bear markets in 2000-2003 and 2007-2009, markets fell over 50%.

Having said that, it should also be remembered that those bear markets provided investors with opportunities to buy stocks at extraordinary valuations. As we have noted in past reports, there has been a significant divergence in stock price performance and valuations across different sectors and countries. This has resulted in many companies continuing to trade at high valuations while others are trading at levels consistent with the bottom of prior bear markets. The opportunity now is to buy the latter while avoiding or shorting the former.

2 Source: Piper Sandler.

3 Of course, the capital base will be expanded by ongoing investment, including that funded by offshore sources, and the labour pool through immigration.

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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