Platinum International Fund

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Performance

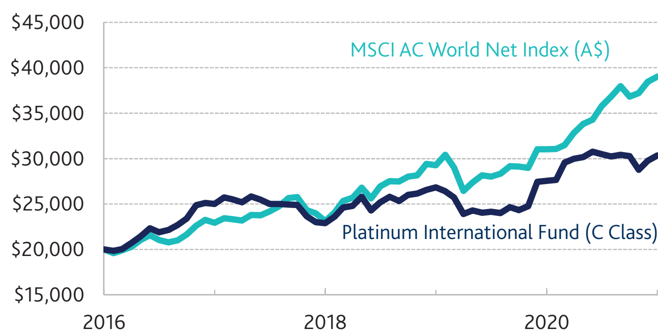
(compound p.a.+, to 31 December 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	0%	10%	10%	9%	12%
MSCI AC World Index^	6%	26%	19%	14%	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

31 December 2016 to 31 December 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 0.2% for the quarter and 10.1% for the year.[1]

During the quarter, inflation continued to rise across the globe, most notably in the US where the Consumer Price Index (CPI) recorded annual increases not seen since the early 1980s. As a result, interest rate rises in the US will likely occur much earlier than previously expected. Elsewhere, concerns continued to rise that the Chinese recovery would stall as a result of falling sales of new residential apartments due to reforms in the property sector. The appearance of the Omicron COVID-19 variant in the final weeks of the year added further uncertainty to the economic outlook.

As has been the case in recent years, when faced with uncertainty, investors have favoured companies that have a high degree of certainty (growth and defensive businesses) and avoided those that are sensitive to economic growth. Indeed, this pattern was highly evident during the December quarter and over the last 12 months.

This is not where the Fund's portfolio is positioned. From our experience, to follow the crowd into these growth and defensive companies could risk a considerable loss of our clients' capital.

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.

When one looks more closely at the numbers, positive returns over the quarter in the US (+9% in AUD terms) were again driven by an ever-smaller number of large-capitalisation growth stocks that are both highly valued and extremely hyped. Europe rose a strong 5% and was also propelled by a re-rating of its already expensive growth stocks. Meanwhile, the major Asian markets fell, led by China (-7%), Japan (-5%) and Korea (-2%).[2]

Strong stock performers included our semiconductor stocks (**Micron Technology** +31% over the quarter, **Microchip Technology** +13%, **Lam Research** +26%) and **MinebeaMitsumi** (Japanese manufacturer of industrial components, +14%), with gains reflecting a strong business environment for these companies.

Detractors included **LG Chem** (-21%), electric vehicle battery maker, weakening on manufacturing quality issues (which appear to have been resolved), as well as general industry headwinds arising from lower car production volumes due to semiconductor shortages. **Trip.com** (-20%), China's largest online travel agent, was impacted by Omicron further delaying the full reopening of Chinese overseas travel. **Alibaba** (-16%), e-commerce giant, was weighed down by increasing competition and ongoing regulatory concerns. **Saras** (-35%), an Italian oil refining company, faced significantly higher operating costs as a result of rising energy prices across Europe. The Fund's short positions slightly detracted from performance over the quarter (-0.4% contribution overall), primarily reflecting losses on our index shorts (Russell 2000, Nasdaq, S&P 500).

Changes to the Portfolio

The Fund's net invested position remains relatively unchanged at 67%. The net invested position reflects cash holdings (10%) and shorts (23%). The short positions consist of indices (13%), baskets of expensive growth stocks in the clean energy and technology sector (6%), and individual stocks (4%). Within the short positions, the main change was a substantial reduction in the biotech sector, which has already experienced significant stock price declines. The cautious overall positioning of the Fund reflects our concerns about inflation and interest rates, and the level of speculative activity in markets, as we outline in the commentary and outlook section below.

2 MSCI USA Net Index (A$), MSCI AC Europe Net Index (A$), MSCI China Net Index (A$), MSCI Japan Net Index (A$), MSCI Korea Net Index (A$), respectively. Source: FactSet Research Systems.

Disposition of Assets

REGION	31 DEC 2021	30 SEP 2021	31 DEC 2020
Asia	28%	29%	30%
Europe	21%	21%	19%
North America	21%	19%	28%
Japan	14%	13%	12%
Australia	3%	3%	4%
Other	2%	1%	2%
Cash	10%	13%	5%
Shorts	-23%	-18%	-7%

See note 3, page 44. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	31 DEC 2021	30 SEP 2021	31 DEC 2020
Industrials	20%	19%	21%
Financials	15%	15%	14%
Materials	14%	14%	17%
Information Technology	12%	9%	17%
Consumer Discretionary	10%	11%	11%
Health Care	5%	6%	6%
Communication Services	5%	4%	4%
Real Estate	3%	3%	2%
Consumer Staples	1%	1%	-1%
Energy	1%	1%	2%
Utilities	0%	0%	0%
Other	-18%	-14%	-6%
TOTAL NET EXPOSURE	67%	68%	87%

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.

Otherwise, it has been a relatively quiet period with respect to changes in our investments. One new holding was **Barclays** (UK bank), which is benefiting from buoyant capital market activities, lower credit costs in the UK and a potentially more benign competitive environment in the UK mortgage lending market. Given its high level of excess capital, we would not be surprised to see Barclays ramp up its share buy-back program. The stock is trading on an undemanding 60% of tangible book value.[3] This position was more than funded by sales of other European bank holdings, **Bank of Ireland**, **Banco Santander** and **Raiffeisen Bank International**, following strong performance.

We added to our position in property developer **China Resources Land**, funded by the sale (exit) of our position in **China Vanke**. China Resources Land has more attractive assets, a stronger balance sheet and lower valuation. We added to existing positions in **Suzano** (South American pulp producer) and **InterGlobe Aviation** (Indian low-cost airline), where share price falls gave us the opportunity to add at attractive prices. We sold out of **Louisiana-Pacific** (US building materials), which had performed strongly, and trimmed our holdings in **Glencore**.

Finally, we hedged 5% of our Japanese yen position into US dollars. The case is simply that Japan is likely to be the last of the major economies to increase interest rates, given a more benign inflationary environment.

Commentary and Outlook

As we enter 2022, it is worth summarising the key issues that are likely to impact equity markets in the year ahead.

1. **The global economy is likely to continue on its strong recovery path.** Nearly any economic indicator you look at in the major economies, with the exception of China, shows economic growth continues to be robust. There are, however, a number of issues that cause some hesitancy that this will continue. One is the cut back in government spending that is occurring as the recovery unfolds. However, as often happens when government spending recedes, the resources of the economy are taken up by the private sector, which is clearly underway, as evidenced by strong employment markets around the world. The emergence of Omicron has delayed the full reopening of the service sector that was being anticipated. To date, there is little evidence of it impacting consumer spending. However, with large numbers of people impacted by the disease, creating shortages of labour, it may well result in a short-term slowing in the early months of 2022. As the Omicron wave recedes and the reopening of economies gets back on track, this will provide further impetus for growth. This leaves China as the most significant concern. The Chinese government is taking measures to boost growth, including cutting interest rates, reducing banking system reserve requirements and easing mortgage requirements for apartment buyers. Additionally, there are some early signs that activity, both in the property market and more broadly, is finding a base. China, having been restrained in its fiscal and monetary policy support for the economy over the last two years, is in a good position to continue to roll out supportive policy measures as needed.

2. **Inflation is back!** Broad price rises are being experienced across the globe, though to varying degrees. Most notable, and of greatest importance, is the US, where the CPI rose to almost 7% over the 12 months to November 2021, a level last seen in the early 1980s.[4] One school of thought is that the price rises are simply a function of supply shortages created by the events of the last two years, and as the shortages are resolved prices will recede. An alternate view, and the one we favour, is that the inflationary impulse is the result of a 41% increase in money supply (M2) in the US, created by various policy responses to the pandemic.[5] While we do accept that some prices will retrace as shortages are resolved, tight labour markets and wage demands are likely to underpin ongoing levels of inflation. Further, businesses that two years ago would not have countenanced increasing prices to cover cost increases are showing no hesitation today.

3 Source: FactSet Research Systems.

4 Source: Federal Reserve Bank of St. Louis.

5 Source: Federal Reserve Bank of St. Louis, over the period 2 March 2020 - 6 December 2021.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
MinebeaMitsumi Co	Japan	Industrials	3.6%
Microchip Technology Inc	US	Info Technology	3.3%
Micron Technology Inc	US	Info Technology	3.1%
Samsung Electronics Co	South Korea	Info Technology	3.1%
ZTO Express Cayman Inc	China	Industrials	2.9%
Glencore PLC	Australia	Materials	2.7%
Tencent Holdings Ltd	China	Comm Services	2.6%
Ping An Insurance Group	China	Financials	2.5%
UPM-Kymmene OYJ	Finland	Materials	2.5%
Weichai Power Co	China	Industrials	2.4%

As at 31 December 2021. See note 5, page 5.
Source: Platinum Investment Management Limited.

3. **Either way, interest rates will likely rise earlier and quite possibly by much more than expected.** Economic growth in the US, as previously noted, is already quite robust with significant tightness in labour markets. Even if inflation recedes well below the current 7% level, it would still warrant a higher Federal Funds rate than the current 0.25%. If inflation remains persistently at these levels, the impact on low-income households will create a political imperative to act. Often it is assumed that because of high levels of debt outstanding, a small interest rate increase will be enough to slow the economy. However, inflation often creates an incentive to borrow and buy ahead of future price rises, especially when the interest rate is well below the rate of inflation. The next stage in money growth and inflation could well be created by increasing private borrowings, which is already starting to occur in the US. To discourage such activity would probably require much higher interest rates.
4. **This is all occurring at a time when there is significant evidence of speculative behaviour in equity markets.** High valuations in favoured sectors, record holdings of equities by US households, high concentration of stock market indices in the largest companies, and a rapid increase in the use of margin debt, are indicative of speculative activity.[6] Historically, similar statements could have been made prior to major market peaks of the last 50 years. Add to this, the systematic ramping up of stock prices of companies such as GameStop and AMC Entertainment well beyond levels that can be justified by their underlying business, the billions of dollars raised by Special Purpose Acquisition Companies (SPACs), and the endless creation of new cryptocurrencies.

This is a backdrop that should give investors reason to be cautious. For 40 years, equity markets have benefited from falling interest rates and accommodating monetary policy, particularly post any of the big sell-offs that have been experienced in that timeframe. If we were to suffer a significant sell-off as a result of the need for higher interest rates to combat inflation, it may not be as straightforward for central banks to cut rates to rescue the market as it has been in the past.

6 Source: Federal Reserve Bank of St. Louis; NDR; FINRA.

The obvious question to address is, when will such an adjustment likely take place? In past interest rate cycles, it has usually taken numerous increases in interest rates before the market has been significantly impacted. So, it is possible the strong run may continue for some time yet. Still, we would caution against trying to time the market here. Most of the stocks that led the market higher in the last half of 2021 have high expectations for what they will achieve in the decade ahead and valuations that assume continuing low interest rates, as well as a significant number of cheerleaders looking for their stock prices to continue higher. Any disappointment on their business outcomes in an environment of increasing interest rates is likely to result in substantial adjustments in their stock prices.

The other question to address is where to invest one's savings in this environment. A wide range of assets from bonds to property and infrastructure are probably best avoided in a rising interest rate environment. Cash is doubly unattractive, as not only do rates remain close to zero for the moment, inflation is now also degrading the value of cash. The opportunity we see is in those parts of the market that are deeply out of favour with investors. The last three years have seen a huge divergence in the performance and valuation between the much-loved growth and defensive names and the rest of the market. It is amongst these out-of-favour names where we continue to find opportunities to make investments in attractively valued businesses. The average price-to-earnings (P/E) ratio of the Fund's (long) investments is 13x, and for each company we hold we are of the view that their earnings will grow over the next three to five years. It is our view that the portfolio will be able to produce good absolute returns over such a period. We will also hold cash, despite the limitations mentioned earlier, as it allows one to take advantage of opportunities as they arise in volatile markets. It is this optionality of cash holdings that is often underrated by investors. Finally, we will aim to protect the downside through the use of short positions, in both market indices and selected individual stocks.

2022 is likely to be an interesting year for investors. Markets are likely to be very volatile as we work our way through the end of the pandemic and possibly exit the era of ever-lower interest rates and end of one of the longest-running bull markets in stock market history.

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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