



Platinum International Fund

(Quoted Managed Hedge Fund)[®]

(ARSN 620 895 301 | ASX Code: PIXX)

Quarterly Investment Manager's Report

30 September 2022

Investment Update

Platinum International Fund (Quoted Managed Hedge Fund) (PIXX)



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Performance

(compound p.a.* to 30 September 2022)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
PIXX*	-1.2%	-6.1%	3.2%	4.2%	4.5%
MSCI AC World Index^	-0.3%	-10.9%	5.4%	8.7%	9.2%

* Excluding quarterly returns.

* PIXX's returns are net of accrued fees and costs, are before tax, and assume the reinvestment of distributions. Inception date: 12 September 2017.

^ 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 11.

The Platinum International Fund (Quoted Managed Hedge Fund) (ASX code: PIXX) is a feeder fund that primarily invests into Platinum's flagship international equity fund, the Platinum International Fund ("PIF"), which was established on 4 April 1995.

The following is the 30 September 2022 Quarterly Investment Manager's Report prepared for PIF by its Portfolio Managers. Please note that in this report, the "Fund" refers to PIF and portfolio details, such as portfolio disposition, top 10 holdings and currency exposure, pertain to PIF's portfolio. Please be aware that PIXX and PIF (C Class - standard fee option) have different fee structures and therefore different returns. PIXX's returns may also vary from PIF's performance fee class (P Class) returns due to different cash holdings as well as gains and losses arising as a result of PIXX's market making activities.

In Brief:

- The largest positive contributors to performance over the quarter included InterGlobe Aviation, UPM-Kymmene, Microchip, and European financials (Raiffeisen Bank, Beazley, Allfunds).
- Our Chinese holdings were key detractors, with major holdings Weichai Power, Alibaba, and Tencent falling sharply.
- The Fund's net invested position remains essentially unchanged from last quarter at 55%. Shorts were increased from 20% to 24%, with many positions closed and new ones reopened, while cash was reduced from 24% to 21%. 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.
- This cautious positioning continues to reflect our concerns regarding the impact of rising interest rates on corporate earnings and the still elevated valuations in some sectors.
- We remain in a complex investment environment, and our cautious approach should continue to pay dividends. Many companies continue 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.

PIXX returned -1.2% for the quarter.¹

This commentary relates to the underlying fund, the Platinum International Fund (PIF).

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, PIF 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, PIF 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 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.

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

Disposition of Assets of PIF

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%
Australia	2%	3%	3%
Other	2%	2%	1%
Cash	21%	24%	13%
Shorts	-24%	-20%	-18%

Numbers have been subject to rounding. See note 2, page 11.
Source: Platinum Investment Management Limited.

Net Sector Exposures of PIF

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%

Numbers have been subject to rounding.
Source: Platinum Investment Management Limited. See note 3, page 11.

Top 10 Holdings of PIF

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 4, page 11.

Source: Platinum Investment Management Limited.

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 reduced returns over the last 12 months by 3.3%.

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, we 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.

Macro Overview: Forget Picking the Bottom, Focus on Value

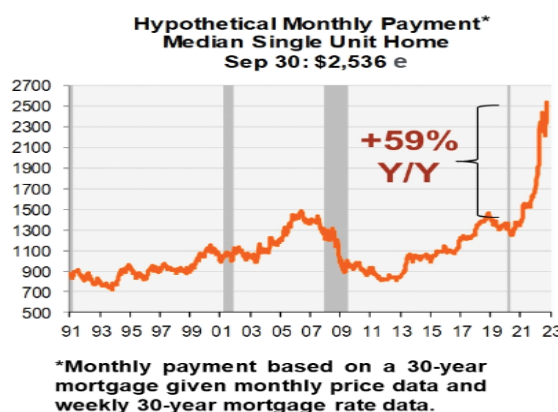
by Andrew Clifford, Co-Chief Investment Officer

In late September, CEO and Co-CIO Andrew Clifford sat down with Investment Specialist Julian McCormack to share his thoughts on interest rates, inflation, China, and Europe - and what they all mean for markets and Platinum's portfolios. An edited transcript of the conversation is below.*

JM: Andrew, there is a lot going on in the markets. Let's start with interest rates, how far will they go?

AC: This is everyone's question at the moment, and understandably so. The typical approach to answering this is to examine the underlying components of inflation and where they're heading. There is a lot of evidence indicating that inflation is starting to peak, although the one thing that is holding up is the employment market, which is still surprisingly robust. But at some point, inflation will roll over. I think the bigger issue here is how much interest rates have moved already. We've just been through one of the most extraordinary increases in interest rates. Coming off near-zero rates, yields on two-year US Treasuries are now around 4% and 10-year yields aren't far behind.¹ These are levels we haven't seen since 2008. When that degree of change in funding costs occurs in the economy, you have to expect some fall-out from that. One really interesting number is the cost of a mortgage in the US. Average monthly payments on a new mortgage for a median-priced house at current prices are up around 60% from a year ago, they have almost doubled from the pre-COVID period, and are up threefold from the lows of 2013/2014 (see Fig. 1). US households predominantly have fixed-rate 30-year mortgages, so they obviously aren't actually paying the higher payments, but it provides a real sense of just how much funding costs have changed in that economy, and it's not surprising to see activity in the US housing market in free fall. We need to turn our minds to the damage in the economy. I think what we have ahead of us is a very difficult period for company earnings across the board.

Fig. 1: US Monthly Mortgage Payments



Source: Piper Sandler.

JM: That comment about fixed mortgages is interesting. It's not costless. So, how do you move house when you can't take on a new mortgage?

AC: It's one of the interesting side effects of the US fixed mortgage market. For many people, they just simply can't afford to move. They have a good mortgage deal where they're living, and that is impacting labour flexibility at a time when the economy needs it the most. It works against one of the US' otherwise key strengths, in terms of the way people move around for jobs.

¹ All market data in this Macro Overview are sourced from FactSet Research Systems, unless otherwise stated.

*The full interview is available in audio format on The Journal page of our website <https://www.platinum.com.au/Insights-Tools/The-Journal>

JM: If you're the US Federal Reserve, do you pause, keep raising, or cut?

AC: Well, I'm glad I'm not the Fed. It's not really a question for us as investors of what they *should do*, it's simply just a question of what they *will do*. Two or three years ago, when central banks were saying rates would be zero until 2024, I said, "Well, you shouldn't believe that". They tell us that because they need to build expectations in. They want you to believe it, so whether you're a consumer or a business, you will act as if rates are going to stay very low. Similarly, today they have to say rates are going up and build that same expectation. While they might slow the frequency and size of the rate increases, which will, of course, come to an end at some point, I think we're a long way away from seeing dramatic cuts in rates. There is a very real risk that if the Fed cuts rates too quickly, with those strong employment numbers and inflation still well ahead of interest rates, that they will reignite those inflationary forces.

JM: What could come out of left field in terms of monetary policy or its reformulation that could really change things?

AC: What I'd say, which is not answering your question directly, is that we've acted for a long time as if there are no limitations on the actions of governments. But the real economy, which is labour, people going to work, and the capital they use, is the real limitation on the economy. All governments are doing is redistributing funds and resources around the economy, and there are limitations on what they can do. We had a great example recently in the UK with the new Prime Minister, Liz Truss, and the new Chancellor of the Exchequer, Kwasi Kwarteng, thinking that they just needed to spend money to get things back up and running in what has been a very weak environment. The market didn't respond well to their proposed £45 billion mini-budget, comprising unfunded tax cuts and temporary measures to help with energy bills.² The market said there is no way they are doing that, because simply, it requires the rest of the economy and the globe to fund that decision. The UK government subsequently backtracked on cuts to the top tax rate. Inflation is telling us that we've come up against the limitations of how governments can spend.

JM: Let's go to the opposite extreme. How would you characterise China's situation and outlook given its last 40 years of economic history?

AC: There are a few questions we need to address around China, but I'll start with the simple economic one; the country is in, let's call it, a recession. Whatever the numbers

say, this is the most serious downturn in growth since the economy opened up. At the centre of that downturn is a collapse in sales of new properties that is flowing through to construction and activity. This is a very important part of the Chinese economy and the collapse in volumes has come about as a result of policies designed to cap property prices. It's been a severe policy error that has destroyed households' confidence in the property market and property developers. The idea, though, that some great property bubble has popped is not really on the mark. They have not delivered nearly the amount of modern housing stock that the Chinese population needs. They have a problem. It's like a liquidity trap. Nobody wants to buy a property because they don't know if the developer is going to honour their commitment to develop the property. Confidence needs to be restored. There are announcements all the time of rescue funds being provided to the developers, not to get those developers back on their feet, but to ensure that these half-finished developments go ahead and are completed. I believe they're heading in the right direction on this front, and if they fix that problem, I think that will solve the economic slowdown there. Property sales may not get back to the huge, very high levels they were at, but they will most likely recover.

Of course, China has also had a resurgence in COVID, but we know that countries exposed to COVID get through it, one way or another. I'd be surprised if we weren't moving on shortly from that in China. We are also seeing lots of stimulatory actions. Monetary growth in China, for instance, is now accelerating and at the highest levels for quite a few years. In sum, we are very optimistic that China will come out of this recession, just as we would be for any normal functioning economy coming back from a downturn.

The other, obviously bigger issue with China that people are talking about is the political tensions with the West. Clearly, this concern will be with us for some time. My first response to this issue is always the same: our systems are so intertwined that for either side to ignore that in their interactions would have very significant implications economically, not just for China, but for the world. We can't predict the outcome; however, we would hope that good judgement prevails on both sides. When it comes to questions like an invasion of Taiwan, I think there is a lot of focus on the very unlikely possibility of that occurring rather than the things that might really happen, which could be quite damaging. I would add that the US security agencies that said Russia would invade Ukraine are saying right now that an invasion of Taiwan is highly unlikely and that there are no such preparations. It's more the middle ground where things can really hurt individual companies and portfolios; the very simple thing of sanctions, for example. Recently, the US imposed sanctions preventing NVIDIA from selling some

² <https://www.economist.com/leaders/2022/09/28/how-not-to-run-a-country>

of its high-end graphic processing units (GPUs) to Chinese customers, which is very damaging to its business. Clearly, you don't want to invest in companies that are close to the Chinese government. You also need to be aware that when investing in high-tech areas, if China is a big part of their sales base, that's a risk. So, as investors, we need to be aware of these risks and ensure that we're not overly exposed.

JM: Moving onto Europe, the outlook there is clearly somewhat gloomy. How are you framing the extremely weak consumer confidence, the industrial slowdown, and the vulnerability around energy, versus what is generally a pretty good jurisdiction?

AC: Obviously, the war has had huge humanitarian costs not just in Ukraine but across Africa in terms of food supplies. However, if we just focus on the economic and investment implications, one of the biggest impacts is on the cost of energy. Companies across the board have seen a substantial loss in their competitive positions due to the higher energy prices, and we've certainly seen closures in capacity of fertiliser and chemical plants and the like. On the other hand, this has also been reflected in a weaker euro. We've obviously seen very dramatic strength in the US dollar versus all currencies, not just the euro, including the Australian dollar and the yen. There's a slightly different story for each, but it's mainly a US dollar story, which benefits the rest of the world in terms of their competitive positions. For Europe, the fall in the euro, which has been quite substantial by historic standards, has helped to level out the impact of the higher energy costs on industrial companies and restore profitability. The unknown question is how long energy prices will stay at this level. I would expect that over a two-to-three-year period, the intense pain Europe is feeling now will ultimately dissipate as new sources of energy are secured. We have already seen Europe manage to secure a significant increase in LNG imports and the like.

JM: American corporations, which have enjoyed some measure of global dominance, have the reverse problem with respect to the currency impact on revenues. How are you thinking about these and the headwinds they face?

AC: It's interesting because there has been a very different market response in places like Europe and Japan to the weakening of their currencies. Normally, you would expect, particularly for Japanese companies, such as the classic exporters like Toyota, to perform relatively well in yen terms, maybe even maintain their US dollar price, given the huge benefit they get from that. You would expect similar outcomes in Europe too. But that actually hasn't happened this time. On the other hand, you would have expected quite a lot of concern about earnings for US companies, based just

on the strength of the US dollar. There's some talk about that, but not a lot. So, the market reaction has been very different to what we would have seen in earlier times.

I think this reaction partly reflects an aversion to business and geopolitical risk, but there's also recency bias at play here, where we remember what worked well before, so we go back to it. It's also worth noting that the US market was the most pumped up by monetary expansion, and while that's certainly faded, it's still benefiting from the tail-end of that, which is holding up US asset prices. It's been a really interesting market this year. In one way, there has been a stealth bear market for a number of years now for anything that's not in the 'growth' or 'defensive' camp. Their valuations have been continually marked down. When we entered this year, the world was looking like a pretty good place, so you would have expected economically exposed/cyclical companies to do well. However, we then had the extension of the recession in China due to a resurgence in COVID and Russia's invasion of Ukraine. As a result, companies that didn't meet those pure safety criteria have taken big hits, falling to crisis-level valuations - to levels that we saw at the bottom of 2009. Whereas the fade in glory of the great tech stocks is slow. We also saw this happen in 2001. It took a very long time for the likes of Oracle, Cisco, Dell, EMC, and Microsoft to reach their lows in both share prices and valuations, but they all ultimately fell to price-to-earnings multiples of 10, having been at 50, 60, or 70.

It will all depend on the earnings that companies deliver, because expectations are very high. The stock that has most severely disappointed investors to date is Meta Platforms (formerly Facebook), followed by Netflix in that group. Meanwhile, Google is an advertising business, and interest rates are rising a lot. I would be thinking very seriously about how earnings are going to unfold for that business in the next couple of years.

JM: People are quite obsessed with picking the bottom of markets. Going back to your initial point on interest rates, how much lower can US markets go? Or where are we in the market cycle?

AC: I think the best we can do is to look to history for a guide. We had an extraordinarily speculative bull market, particularly for companies with questionable business models with no earnings, or at the extreme, meme stocks like GameStop and so forth. This was driven by a huge torrent of money thrown at it by various policies that were put in place. Your natural inclination, given that the 'liquidity tap' has now been effectively turned off, is that this is going to be a pretty bad bear market. In the bear markets of 2000-2003 and 2007-2009, indices fell around 50%, and in some cases more in particular parts of the market. On that basis, I'm not sure

why people are thinking it's going to be a lot different this time. Having said that, though, there are opportunities out there now as many stocks are already down 50-60% or more. Some of those are stable businesses sitting on nice earnings multiples. We've highlighted many of these types of companies in the past, such as semiconductors and auto companies. There are some pretty interesting assets out there, but growth and tech stocks have yet to adjust. People have also been hiding in a whole range of other more boring things lately, such as consumer staples (food, household products), utilities, and the like, where their businesses actually aren't performing particularly well, but have managed to hold onto valuations that are well ahead of where they were two or three years ago. You need to keep an open mind. People ask us how we are going to try and pick the bottom. In a sense, our response is that we don't try to pick the bottom but just respond to the value in stocks, both in terms of what we want to buy and what we want to sell. We are buying stocks that we think have extraordinary valuations, and we'll wait for the recovery of their businesses to come. On the other side of that, where we see companies that we think are in problematic environments and have high valuations, we're shorting them.

JM: Am I right in asserting that, say three years out, it looks like a somewhat higher nominal growth world than the last cycle that allowed this amazing ebullience for things that could either grow or behave like a bond?

AC: I think we will most likely return to an environment which looks more like what it did a couple of decades ago, where we had reasonable valuations and you could make money if you owned companies that delivered on earnings against that. I think, as we've already spoken about, China has an opportunity to recover, and Europe, under a different set of circumstances of dealing with their energy crisis, will also recover. The US economy will need to experience a slowdown first. Economic systems are incredibly robust and it will come back down to the real assets in the economy and what drives growth. Too often, people just focus on the financial side, but in three-to-five years' time, we will come out of these downturns, and companies that are trading on single-digit PEs with earnings in line with expectations or better, should perform well and reward investors.

MSCI Regional Index Net Returns to 30.9.2022 (USD)

REGION	QUARTER	1 YEAR
All Country World	-6.8%	-20.7%
Developed Markets	-6.2%	-19.6%
Emerging Markets	-11.6%	-28.1%
United States	-4.8%	-17.6%
Europe	-10.2%	-27.0%
Germany	-12.6%	-37.1%
France	-8.9%	-24.0%
United Kingdom	-10.8%	-14.1%
Italy	-8.5%	-28.5%
Spain	-14.1%	-25.6%
Japan	-7.7%	-29.3%
Asia ex-Japan	-13.8%	-28.7%
China	-22.5%	-35.4%
Hong Kong	-17.0%	-22.3%
Korea	-16.4%	-40.7%
India	6.5%	-9.9%
Australia	-6.7%	-16.4%
Brazil	8.5%	4.3%

Source: FactSet Research Systems.
Total returns over time period, with net official dividends in USD.
Historical performance is not a reliable indicator of future performance.

MSCI All Country World Sector Index Net Returns to 30.9.2022 (USD)

SECTOR	QUARTER	1 YEAR
Energy	-1.6%	16.2%
Consumer Discretionary	-2.8%	-27.1%
Financials	-5.9%	-18.7%
Industrials	-6.1%	-22.0%
Consumer Staples	-6.6%	-9.0%
Health Care	-7.0%	-11.5%
Information Technology	-7.3%	-26.6%
Materials	-7.6%	-18.5%
Utilities	-8.0%	-4.8%
Real Estate	-12.4%	-22.5%
Communication Services	-14.0%	-38.0%

Source: FactSet Research Systems.
Total returns over time period, with net official dividends in USD.
Historical performance is not a reliable indicator of future performance.

The Journal

Visit www.platinum.com.au/Our-Products/PIXX to find a repository of information about the Platinum International Fund (Quoted Managed Hedge Fund) (PIXX), including:

- NAV history and intra-day iNAV
- Distribution history and the Distribution Reinvestment Plan
- ASX releases and financial statements
- Monthly updates on performance, portfolio positioning and top 10 holdings.



You can also find a range of thought-provoking articles and videos on our website. For ad hoc commentary on the latest market trends and investment themes, look up **The Journal** under **Insights & Tools**. If you find yourself short on time to read our in-depth reports and articles, check out our brief market updates in **video** format, or have a listen to our **audio podcasts**.

Recent highlights include:

- **Webinar - Shifting Sands: The Cycle Looks to Have Changed - Should Your Investments Change Too?**¹ Investment specialists Julian McCormack and Henry Polkinghorne provide a cautionary view of the deflating US equity bubble, the ongoing threat that abnormally high levels of inflation pose to asset prices, and a look at how the current situation is quite different for the Chinese economy.
- **Video - Riding the Energy Capex Wave.**² Following an eight-year recession in capital spending and extensive cost-cutting, the oil and gas industry is seeing a large step-up in activity as countries seek to invest in and develop new sources of supply. From our experience, when you combine a big increase in spending with an extremely lean industry, excellent profit outcomes can follow, as co-CIO and portfolio manager Clay Smolinski explains.
- **Video – Batteries Enabling the Energy Transition.**³ Batteries are a key enabler of the energy transition, not just for home and grid storage but also for transport applications. Rapid growth, high barriers to entry, and massive innovation are just three reasons Liam Farlow believes batteries are an exciting area to invest in over the next 5-10 years.
- **Video - Power Semiconductors Powering Our Lives.**⁴ A key part of Platinum's investment process is to look for areas of change that are underappreciated by the market. The wide adoption of EVs and the transition to green energy will have a profound effect on the power semiconductor market and our lives, with the No. 1 manufacturer, Infineon Technologies, just one of many companies that have captured our attention, as Jimmy Su explains.
- **Article - Getting Personal in Consumer Staples.**⁵ Three broadly related personal categories, feminine care, adult incontinence, and pet hygiene offer some of the most attractive investment opportunities in the consumer space from a profitability and growth perspective, as Craig Pan explains.
- **Article - A Postcard from NYC: Pets, Pools and Price Increases.**⁶ The pet and pool industries are experiencing a COVID windfall, but interestingly, their stocks have not performed as well as one would expect. James Foreman explains why that's the case and the opportunities this may present.

1 <https://www.platinum.com.au/Insights-Tools/The-Journal/Shifting-Sands-The-Cycle-Looks-to-Have-Changed-Sho>

2 <https://www.platinum.com.au/Insights-Tools/The-Journal/Riding-the-Energy-Capex-Wave>

3 <https://www.platinum.com.au/Insights-Tools/The-Journal/Batteries-Enabling-the-Energy-Transition>

4 <https://www.platinum.com.au/Insights-Tools/The-Journal/Power-Semiconductors-Powering-Our-Lives>

5 <https://www.platinum.com.au/Insights-Tools/The-Journal/Getting-Personal-in-Consumer-Staples>

6 <https://www.platinum.com.au/Insights-Tools/The-Journal/A-Postcard-from-NYC-Pets-Pools-and-Price-Increases>

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).

"PIXX" refers to the Platinum International Fund (Quoted Managed Hedge Fund) (ARSN 620 895 301, ASX Code: PIXX). "PIF" refers to the Platinum International Fund (ARSN 089 528 307), the unlisted underlying fund into which PIXX invests primarily.

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. PIXX's returns are calculated by Platinum using PIXX's net asset value unit price (i.e. excluding the buy/sell spread) and represent the combined income and capital returns over the specified period. PIXX's 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. 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, PIXX's underlying 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 PIXX's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows PIF'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 PIF'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.
3. The table shows PIF'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".
4. The table shows PIF's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

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