Platinum Global Fund (Long Only)

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Portfolio Manager

Performance

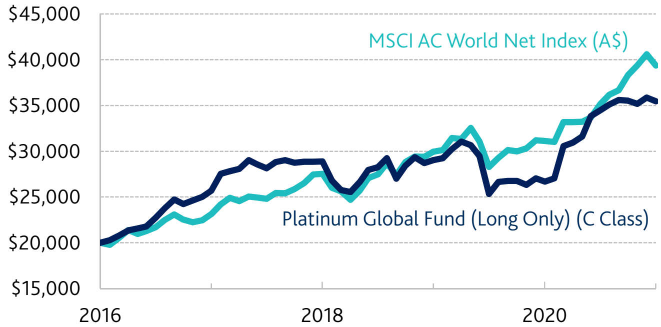
(compound p.a.+, to 30 September 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Global Fund (Long Only)*	0%	33%	7%	12%	11%
MSCI AC World Index^	3%	26%	13%	15%	8%

+ Excludes quarterly returns
* C Class – standard fee option. Inception date: 28 January 2005.
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 4. 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 4.

The Fund (C Class) returned -0.3% for the quarter and 32.9% for the year.[1]

Over the past six months the value of the Fund has effectively tracked sideways, rising close to 3%, whilst the broader market has pushed higher. There are two main factors behind this:

1. The first is, since late May, a number of our companies with cyclical exposure have seen their stock prices fall 5-15%, as the delta variant spread rapidly around the world and investors began questioning whether the economy will begin to weaken from here. These pullbacks have offset gains elsewhere in the portfolio.

2. The second is the market reaction to the regulatory wave in China, which resulted in a blanket market sell-down. Roughly 20% of the Fund is invested in China, and in aggregate those stocks fell 10%, representing a drag of 2% on performance. Whilst a 2% drag is not large in absolute terms, it meant that 20% of the portfolio did not participate in the rally seen elsewhere.

Breaking down the main contributors to performance for the quarter, on the positive side, we saw gains across our major holdings in **Raiffeisen Bank International** (+19%), **Mosaic** (+12%), **Lixil** (+13%) and **Glencore** (+14%).

Of these holdings, our position in US fertiliser company **Mosaic** was recently acquired in March and will be less familiar to readers. Mosaic is a one of the world's largest and lowest-cost producers of phosphate and potash fertilisers. The company has weathered a decade-long down cycle in fertiliser prices, however, there are now signs we are in an up cycle. China's grain stocks have been wiped out post the flooding of the Yangtze River basin and there is a need to rebuild China's pig herd (and feed them) after the swine flu cull in 2020. This has seen China's corn imports rise from 3 million to 10 million tonnes, pushing up corn and soy prices

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

and increasing the number of acres planted and fertiliser application rates. China's recent move to ban fertiliser exports until mid-2022 will further tighten the market and Mosaic's share price has started to rise in response.

The detractors of performance followed a similar pattern to our contributors, with a group of holdings, such as **Micron Technology** (-16%), **Trip.com** (-13%) and **Showa Denko** (-17%), suffering mid-teen falls in their share prices. However, there is one standout, being our investment in **TAL Education** which fell 81%, costing the Fund 0.75% in performance.

TAL is a provider of educational tutoring services in China, a service used by millions of Chinese parents trying give their children the best chance of navigating China's notoriously competitive school system. We purchased our stake in TAL post the stock having already fallen 80%, in response to the uncertainty around the new regulatory controls the government was going to introduce around the industry.

While we fully expected considerable regulatory changes to the business, our assessment was TAL was one of the highest-quality operators in the sector, and given the foundational value of education to the country and the clear demand from parents, there would still be a place for quality independent providers in the system. As is now well known, this last assumption proved incorrect, with the government taking the surprise move to convert the tutoring industry to a not-for-profit enterprise.

The outcome from the TAL investment is very disappointing, however, the approach to the investment in TAL was not unlike investing in a promising biotech awaiting phase 3 data. There was risk of a worse outcome on the regulatory front, but there were also many scenarios that provided considerable upside, and the position was sized accordingly to ensure a manageable impact to the Fund, should the negative outcome occur.

Changes to the Portfolio

Similar to last quarter, we continued the pattern of rotating our holdings that have benefited from the economic recovery into companies that we believe will benefit from new areas of growth.

We completely exited our holding in Indian truck manufacturer **Ashok Leyland**, and heavily trimmed our holding in US online bank and auto lender **Ally Financial**, with both companies previously being top-10 positions and fantastic performers for the Fund. We also continued to trim our positions in **Bank of Ireland** and **Louisiana-Pacific**.

Disposition of Assets

REGION	30 SEP 2021	30 JUN 2021	30 SEP 2020
Asia	31%	27%	27%
Europe	24%	22%	22%
North America	21%	26%	30%
Japan	12%	10%	9%
Australia	3%	3%	2%
Other	1%	1%	0%
Cash	7%	11%	9%

See note 3, page 4. 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	22%	23%	25%
Financials	16%	19%	13%
Materials	16%	18%	11%
Information Technology	14%	13%	17%
Health Care	7%	5%	9%
Communication Services	7%	3%	4%
Consumer Discretionary	7%	5%	7%
Real Estate	4%	3%	4%
Consumer Staples	1%	0%	0%
Energy	1%	0%	1%
TOTAL NET EXPOSURE	93%	89%	91%

See note 4, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Microchip Technology Inc	US	Info Technology	4.6%
Raiffeisen Bank Intl	Austria	Financials	4.2%
Applus Services SA	Spain	Industrials	3.8%
ZTO Express Cayman Inc	China	Industrials	3.8%
Weichai Power Co Ltd	China	Industrials	3.5%
Micron Technology Inc	US	Info Technology	3.5%
Minebea Co Ltd	Japan	Industrials	3.3%
Samsung Electronics Co	South Korea	Info Technology	3.3%
Glencore PLC	Australia	Materials	3.3%
UPM-Kymmene OYJ	Finland	Materials	3.1%

As at 30 September 2021. See note 5, page 4.
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 http://www.platinum.com.au/our-products/pgflo

The heavy sell-down in China, gave us the opportunity to establish a new position in **Tencent** and we continued to tilt the portfolio towards companies with structural growth, adding to our positions in **Merck KGaA**, a leader in consumables for the production of biotech drugs, and European funds management distribution platform **Allfunds Group**.

In our June quarterly report,[2] we mentioned some of the areas of great change we were focusing on in order to find investment opportunities. One of those areas is the work from home (WFH) trend, that will have a lasting effect on our life choices. A new holding that is directly benefiting from the WFH trend is **Open House**.

Open House is a very unique Japanese homebuilder. The company is different in two ways:

1. The first is their **sales culture**. The company was founded by Masaaki Arai. Arai started out running a Century 21 real estate office, where he won the award for being the best-performing sales office in the country for 12 consecutive years. Arai took his sales philosophy and built a process-driven sales culture, based on high levels of training and meritocracy-based pay, to the point where Open House offers the highest-paying graduate jobs in Japan outside of the tech sector.
2. The second is their **housing product**. In an urban landscape dominated by apartments, Open House builds detached single-family homes in the major cities, giving Japanese families space at an affordable price. The genesis of this, was the change in zoning laws across Japan in the early 2000s, which allowed far more flexibility in build height and the ability to subdivide residential land. This allows Open House to buy small/irregular-sized land lots (roughly 140 square metres) that the other developers tend to shun and build two custom family homes that offer a parking space, home office and a roof garden, for the same price as an apartment.

Prior to WFH, this model produced fantastic financial success, with Open House consistently growing sales and profits at 30% p.a., making returns on equity in the high 20% range. WFH has accelerated this demand for Open House's style of homes even further.

This change in what is a desirable living space in the WFH era should be a multi-year trend and we were able to buy this impressive operator for a mere 10x earnings.

2 https://www.platinum.com.au/PlatinumSite/media/Reports/pgfloqtr_0621.pdf

Outlook

We are at an important juncture in markets, as the acceptance that the current inflationary environment will be a transient blip is now increasingly being questioned.

The economic picture on the ground has changed out of sight and the signs of inflation are both stark and everywhere you look. Most will be aware of the strong inflation in energy, goods and transport prices, but importantly, inflation is strong in categories that tend to be more structural, namely labour and rent/housing.

Nominal wage increases in the US are now running at over 5% p.a., and there are over 10 million open job positions vs. an unemployed population of 8 million. Labour shortages and wage hikes are a constant theme in discussions with the companies we follow. This activity is flowing through to housing and rental costs, with US national rents up 16% for the year to date, and 10% higher than the pre-COVID price trend. When we combine this with the trend towards more populist governments, there is mounting evidence we are not returning to the low inflation world of the past decade.[3]

Central banks around the world are now starting to take action. Rate increases are already occurring across emerging markets and the US Federal Reserve announced they are likely to reduce their bond purchases in November, which will effectively reduce the amount of interest rate manipulation that has kept rates low.

Making macro predictions is fraught with error, but here we feel the risk is asymmetric because the market is still largely pricing in a continuation of the low interest rate environment.

Hence, this is a time where we think it is paramount to stick to the discipline that price matters and to be wary of the 'hot' areas of the market. With that, we continue to position the portfolio into companies where relative valuations are on your side and you're likely to be more insulated if interest rates move higher.

3 Source: Evercore ISI Research (wages), FactSet Research Systems (labour force), October Apartment List National Rent Report (rents).

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. 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 net MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash") 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. "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 exposures to the relevant sectors through its long securities positions and long 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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