Platinum Unhedged Fund

Clay Smolinski
Portfolio Manager

Performance

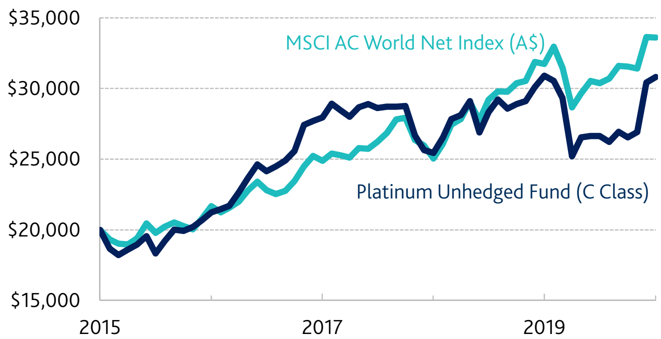
(compound p.a.⁺, to 31 December 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	16%	0%	3%	9%	11%
MSCI AC World Index^	7%	6%	11%	11%	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

31 December 2015 to 31 December 2020



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.

Over the calendar year, the Fund's return was roughly flat, with the December quarter proving far more interesting, with the Fund (C Class) rising 16.1%.[1]

The major reason for the strong returns during the quarter were the successful Phase 3 trials of the messenger RNA (mRNA)-based vaccines for COVID-19 announced in November by BioNTech/Pfizer and Moderna respectively.

Over the past six months, we have discussed the bull market underway in growth and safety stocks (the perceived COVID-19 winners), and the historically extreme valuation divergence that has emerged, with the cyclical stocks being left behind. The news of multiple successful vaccines has been a trigger for investors to reassess the outlook and this positioning. We have subsequently seen a sharp rotation back into the more cyclical (and attractively valued) areas of the market.

Along these lines, the major clusters of performance of the Fund were our holdings in areas that would directly benefit from a successful vaccine or would indirectly benefit from a broader economic recovery. The most notable were:

- **Travel:** We discussed the rationale for our travel holdings in the June 2020 quarterly report. The vaccine has allowed investors to begin looking past the current lockdowns and focus more on the long-term growth potential of these businesses, with **General Electric** (+73% over the quarter), **MTU Aero Engines** (+50%) and **Booking Holdings** (+30%) all rising in response.
- **Financials:** In a similar fashion, the change in outlook has seen investors take a more positive view on the size of probable loan losses and timing of when the banks will return to paying dividends. This triggered a strong price response in a number of our bank holdings, including **Bank of Ireland** (+109%), **Ally Financial** (+42%) and **Raiffeisen Bank International** (+28%).
- **Semiconductors:** We saw strong gains in our semiconductor holdings, with **Micron Technology** and

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum Unhedged Fund 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.

Samsung Electronics rising 60% and 39% respectively as the DRAM demand/price outlook looks favourable (with solid demand from cloud infrastructure and 5G phones) and the major players remain disciplined around adding new capacity.

Given the broad strength, the detractors in the portfolio were modest. **China Overseas Land & Investment** fell 13% under the cloud of the Trump administration placing restrictions on US citizens owning some Chinese firms. **Barrick Gold** fell 22% as it gyrated with movements in the gold price.

Changes to the Portfolio

Over the quarter we continued to build our position in **UPM-Kymmene Oyj (UPM)**. UPM is a Finnish pulp/paper/forestry company that over the past 15 years has migrated its business into differentiated and higher return on capital areas, such as wood-based specialty chemicals and speciality packaging and adhesives. The company has several projects to drive earnings over the coming years. The first project is the full ramp up of their 2.1 million tonne per annum low-cost Paso de los Toros pulp mill in Uruguay. This is UPM's second mill in that country, having been in the making for 10 years with UPM securing 424,000 hectares of low-cost wood fibre feedstock and rail and port facilities to enable export.

The second project is UPM's expansion of its existing biochemicals and renewable fuels capacity. Here UPM is making high-quality renewable diesel and bio-based glycols, with the latter used to make, for example, low CO_2 emission PET bottles. UPM's advantage is its unique ability to use wood-based waste products as the feedstock, rather than more common sources such as used cooking oil and soy/palm oil. This reduces the problem of feedstock price pressure experienced in other markets, as several players fight to obtain waste cooking oil or animal fats.

From the demand side, there is a clear push within governments and corporates to move to more environmentally sustainable solutions, whether it be for transport fuels or plastics. However, supply chains for these products often move slower than corporate goals, and UPM is receiving huge interest from consumer good companies to buy their new supply. A recent quote from PepsiCo captures the sentiment:

"PepsiCo is already one of the largest customers of food-grade recycled PET in the world… if there was more available, we would buy it, and if there were more markets where it could be used, we'd utilize it. Currently demand outpaces supply, especially for food-grade recycled PET".[2]

2 Source: PepsiCo 2020 Green Bond Report, October 2020.

Disposition of Assets

REGION	31 DEC 2020	30 SEP 2020	31 DEC 2019
North America	32%	30%	35%
Asia	28%	27%	26%
Europe	23%	22%	19%
Japan	8%	9%	7%
Australia	4%	2%	2%
Cash	5%	9%	11%

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	31 DEC 2020	30 SEP 2020	31 DEC 2019
Industrials	26%	25%	21%
Information Technology	17%	17%	13%
Financials	16%	13%	15%
Materials	15%	11%	3%
Health Care	6%	9%	6%
Consumer Discretionary	5%	7%	4%
Real Estate	4%	4%	5%
Communication Services	3%	4%	13%
Energy	2%	1%	7%
Consumer Staples	0%	0%	2%
TOTAL NET EXPOSURE	95%	91%	89%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Applus Services	Spain	Industrials	4.5%
Ally Financial Inc	US	Financials	4.4%
Samsung Electronics Co	Korea	Info Technology	4.3%
Microchip Technology	US	Info Technology	4.3%
Micron Technology	US	Info Technology	3.8%
LG Chem Ltd	Korea	Materials	3.5%
Glencore Plc	Australia	Materials	3.4%
Raiffeisen Bank	Austria	Financials	3.4%
General Electric Co	US	Industrials	3.2%
Takeda Pharma Co	Japan	Health Care	2.7%

As at 31 December 2020. 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 https://www.platinum.com.au/our-products/puf.

Overall, with the environmental movement providing high demand for its products, capacity expansion and the first signs of a rising pulp price, we believe UPM is in a good position to deliver a substantial increase in profits over the coming years.

Outlook

Looking forward we are mindful of two scenarios:

1. The first scenario is the ***status quo*** i.e. more of the same. Since the intensification of the US/China trade war in 2018 we have seen a bias to slowing growth, low inflation, and the rate hiking cycle of 2017 paused and moved to cuts. The COVID-induced recession has supported a view that this scenario will persist far into the future. This created huge investor demand for growth stocks. This has been the dominant trend in markets and we have to be open to the fact that this could persist.
2. The second scenario is to acknowledge that we have had a major shock and are now in an ***economic recovery***. As our economies re-open with a flood of stimulus behind us, this recovery could be quite powerful. Historically, from this point in the cycle, the best returns would be expected to come from cyclicals and the companies directly benefiting from that recovery. It is also clear that these types of stocks are where the relative value lies in markets today. As mentioned above, since November 2020 we have seen the market take small steps to embracing this view.

In constructing the portfolio, we are essentially weaving these two scenarios together. What this means in practice is, while we want to own stocks where there is value and a direct benefit from recovery, we are favouring companies where there are additional legs to the case – e.g. there must be a growth driver that will generate earnings, should the recovery take longer or be weaker than expected. Effectively there must be more than mean reversion.

In a similar fashion, we are happy to own businesses in the quality growth mould that are benefiting from long-term changes, but are focused on identifying tomorrow's growth companies that are not being priced as such today.

To illustrate, some examples of key groupings across the portfolio include:

- **20% in growth industrials**. These stocks are recovery beneficiaries but also have strong long-term stories e.g. UPM, Carrier and Indian truck-maker Ashok Leyland.
- **15% in semiconductors.** These holdings are powered by three major themes - investment in cloud infrastructure, internet of things (IoT) and 5G.
- **15% in financials.** These include our Chinese insurance holdings, which are benefiting from long-term growth, such as AIA, along with companies that have differentiated positions, such as Ally Financial and Raiffeisen Bank International.
- **12% in travel-related stocks.** Acquired during the peak of the COVID-19 lockdowns, our holdings have begun to perform strongly post the positive vaccine data. We believe many of these businesses will likely go back to being viewed as 'quality growth'. Examples include on-line travel agents like Booking Holdings or the Chinese leader Trip.com.
- **10% in internet and business services:** These include names such as ZTO Express, Facebook and Google.

Last quarter we pointed out that economic data had recovered far faster than the post-global financial crisis (GFC) period, particularly in China and the US. Today, this picture of a broad economic recovery continues. In the US, the housing sector is booming, US auto sales have made a V-shaped recovery and retail sales, are above pre-COVID levels.[3]

Importantly, this activity is flowing through to jobs, with the US unemployment rate now 6.7%. For context, during the GFC, US unemployment roughly doubled from 4.5% to 10%, then took four years to fall back below 7%. 2020 saw it rise from 3.5% to 15% to below 7% in the space of six months.[4]

A similar picture is being seen in China, where the major data points show its economy is in good health. Chinese retail sales and industrial activity have rebounded, auto sales over the last six months are 12% higher vs. 2019 and domestic air traffic volumes have fully recovered.[5]

Overall, given the picture of economic recovery and the return of investor interest in cyclicals since November, there is growing evidence we may be on the cusp of a change in market leadership. The portfolio is well-positioned should these trends continue.

3 Source: FactSet Research Systems. Housing starts: Seasonally adjusted annual rate (November 2020); Auto sales: Seasonally adjusted annual rate (December 2020); Retail sales: Seasonally adjusted (November 2020).

4 Source: FactSet Research Systems, seasonally adjusted (November 2020).

5 Source: FactSet Research Systems for retail sales and travel (November 2020). Evercore ISI for auto sales (November 2020).

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

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935, trading as Platinum Asset Management (Platinum®). Platinum is the responsible entity and issuer of units in the Platinum Unhedged Fund (the "Fund"). This publication contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons') investment objectives, financial situation or needs, and should not be used as the basis for making investment, financial or other decisions. You should read the entire Platinum Trust® Product Disclosure Statement (including any Supplement(s) thereto) for the Fund ("PDS") and consider your particular investment objectives, financial situation and needs before making any investment decision to invest in (or divest from) the Fund. You can obtain a copy of the current PDS from Platinum's website, www.platinum.com.au or by phoning 1300 726 700 (within Australia), 0800 700 726 (within New Zealand) or +61 2 9255 7500, or by emailing to invest@platinum.com.au. You should also obtain professional advice before making an investment decision.

Neither Platinum nor any company in the Platinum Group®, including any of their directors, officers or employees (collectively, "Platinum Persons"), guarantee the performance of the Fund, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum). To the extent permitted by law, no liability is accepted by any Platinum Person for any loss or damage as a result of any reliance on this information. This publication reflects Platinum's views and beliefs at the time of preparation, which are subject to change without notice. No representations or warranties are made by any Platinum Person as to their accuracy or reliability. This publication may contain forward-looking statements regarding Platinum's intent, beliefs or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. No Platinum Person undertakes any obligation to revise any such forward-looking statements to reflect events and circumstances after the date hereof.

MSCI Disclaimer

The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).