

Platinum International Brands Fund



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Portfolio Manager

Overview

- The Fund returned -4.7 % over the quarter due to weakness in some discretionary retail stocks and core Chinese holdings. Positive contributors included retailer Mobile World which benefited from a more positive view on the Vietnamese economy. Jeweller Pandora rose 20% after beating market expectations. Japanese confectionary maker Ezaki Glico also did well.
- We are avoiding or selling short businesses that saw sales and margins rise during the pandemic and who are yet to suffer a reversion to more 'normal' levels.
- Conversely, many stocks we own are now trading at more attractive valuations and we continue to see opportunities to buy excellent businesses at reasonable prices. Chinese stocks represent such an opportunity – spending has been restrained and could recover, whereas Western consumers are now showing signs of retreating.

Performance

compound p.a.+, to 30 September 2023

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	-5%	9%	5%	5%	11%
MSCI AC World Index^	0%	20%	11%	9%	4%

+ Excludes quarterly returns.

* C Class – standard fee option. Inception date: 18 May 2000.

After fees and costs, before tax, and assuming reinvestment of distributions.

^ Index returns are those of the MSCI All Country World Net Index in AUD.

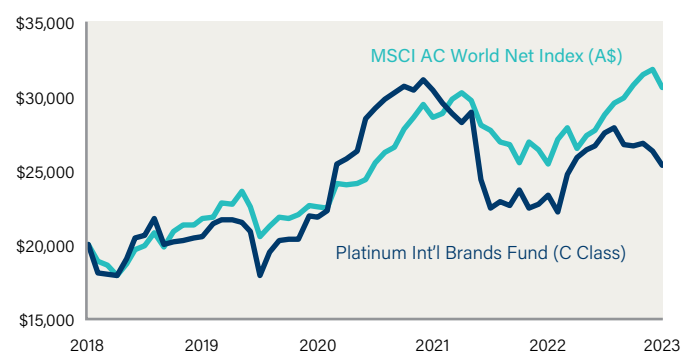
Source: Platinum Investment Management Limited, FactSet Research Systems.

Historical performance is not a reliable indicator of future performance.

See note 1, page 5. Numerical figures have been subject to rounding.

Value of \$20,000 invested over five years

30 June 2018 to 30 September 2023



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 returned -4.7 % over the quarter. Returns were pressured by weakness in key discretionary retail holdings, as well as continuing softness in our core Chinese positions.

Our Fund results reflect a combination of pressures. Higher interest rates and weaker consumer spending have impacted the outlooks for many of our developed market holdings. The strength in our Vietnamese holdings – which bounced following a severe sell-off – was offset by weakness in our Chinese stocks as ongoing property market issues in that economy curtailed consumer spending. The strength of the US dollar and our relatively low exposure to that market was another headwind for performance relative to the broader market.

Our top contributors for the quarter included leading Vietnamese retailer **Mobile World**, whose share price rose around 20% over the quarter on improving sentiment toward the Vietnamese economy and results that showed business resilience and solid inventory control.

Jeweller **Pandora** rose 20% in response to results that beat market expectations as the turnaround under new management continues. We also saw a strong contribution (up nearly 9%) from Japanese confectionary maker **Ezaki Glico** which appears to have successfully passed on input cost increases into product pricing in key categories.

Key detractors from performance included apparel retailers **SMCP** (-52%) and **Aritzia** (-36%). SMCP fell early in the quarter as it reported disappointing first half results, then declined further in September as it released a profit warning primarily citing weakness in Chinese demand. Aritzia too called out weakening demand, but this was compounded by poor inventory control as the group builds out a large new internal warehouse system. Results released toward the end of the quarter showed an improving trend and the stock responded by bouncing 6% on the day of the release.

During the quarter we exited our positions in Japanese brewer Asahi Group and Tokyo Disney shareholder Keisei Electric Railway. We sold Asahi on fears around the consumption environment in its key European markets. This move proved timely as the shares sold off immediately following its early-August results on commentary around weaker than expected volumes.

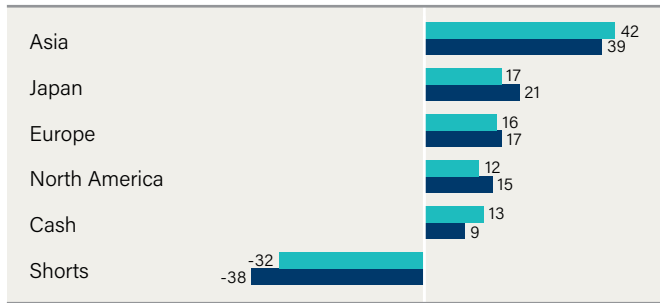
We sold Keisei for a profit as its key holding in Tokyo Disney-owner Oriental Land (worth more than 2x Keisei's market capitalisation) had appreciated well beyond where we see fair value, and our discussions with the company revealed a very low likelihood of monetisation of the stake.

We did not purchase any new holdings in the quarter. However, we added to our position in Ezaki Glico on signs of positive progress in the business. We also added to our position in **Prosus**, a holding company for a stake in the Chinese digital platform Tencent. Prosus appears set to resume its sell-down of Tencent stock and use the proceeds to undertake a concurrent buyback of Prosus shares as management seeks to close the sizeable holding-company discount.

Commentary

Western-market consumption has remained surprisingly resilient given the rapid rise in interest rates and the removal of pandemic-era stimulus. Clearly there has been support from low unemployment and solid nominal wage growth, but one would expect higher rates to bite at some point – particularly in markets such as Australia and the UK where mortgages are progressively resetting to much higher floating rates.

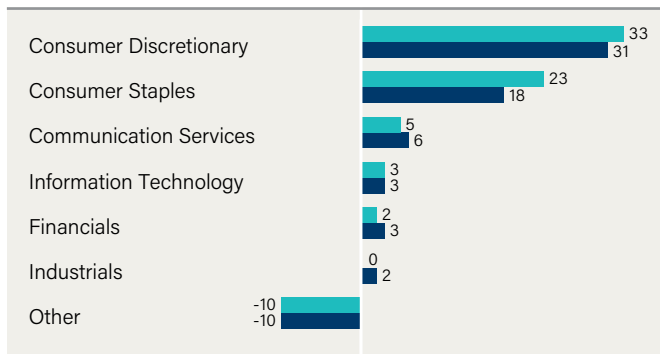
Disposition of Assets %



■ 30 SEP 2023 ■ 30 JUN 2023

See note 3, page 5. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

Net Sector Exposures %



■ 30 SEP 2023 ■ 30 JUN 2023

See note 4, page 5. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

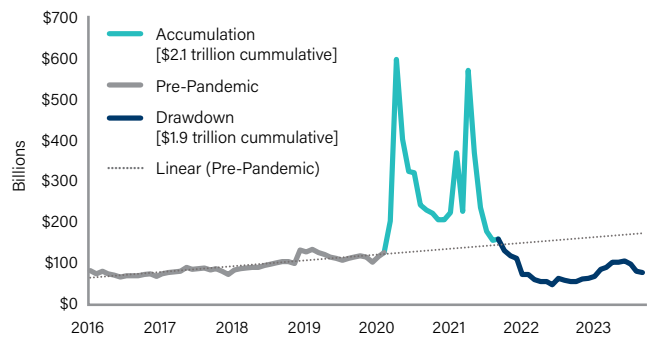
Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Ezaki Glico Co Ltd	Japan	Consumer Staples	5.3%
Prosus NV	China	Cons Discretionary	5.0%
Digital Garage Inc	Japan	Info Technology	3.7%
Fu Shou Yuan Int Group Ltd	China	Cons Discretionary	3.2%
Basic-Fit NV	Netherlands	Cons Discretionary	3.2%
China Feihe Ltd	China	Consumer Staples	3.2%
JD.com Inc	China	Cons Discretionary	3.1%
Haleon PLC	US	Consumer Staples	3.1%
Nien Made Enterprise Co Ltd	Taiwan	Cons Discretionary	3.0%
Meituan Dianping	China	Cons Discretionary	3.0%

As at 30 September 2023. See note 5, page 5. Source: Platinum Investment Management Limited.

In the US we are seeing an interesting divergence – retailers most exposed to lower-income consumers are struggling while the higher end consumer remains reasonably resilient. However, even luxury bellwethers such as LVMH have been pressured by weakening Chinese consumption and a pullback in the US from the pandemic spending boom. Several analyses point to the prospect of weakening US consumption as consumers run down their pandemic-era excess savings. As the chart below indicates, dipping into the pandemic nest egg may have been supporting consumer lifestyles, but this dynamic appears to be nearing its end.

Drawing down accumulated excess savings in the US¹



We have sought to avoid or to sell short otherwise mature businesses that enjoyed dramatic sales and margin expansion during the pandemic and where reversion to more 'normal' levels is yet to fully occur. Similarly, we hold short positions in a number of structurally challenged businesses and also "meme" stocks where unjustifiable valuations continue to unwind.

The stocks we are long tend to offer structural growth at reasonable valuations, such as funeral services business **Fu Shou Yuan** and low-cost gym operator **Basic-Fit**. Or they are deep value companies (trading at exceptionally low prices) that are either improving their capital allocation or have the potential to do so – such as Ezaki Glico and infant formula business **China Feihe**.

¹ Federal Reserve Bank of San Francisco, BEA.

Outlook

We have a dim view of the outlook for consumer spending globally, and this is reflected in our conservative positioning, with the Fund only around 55% net exposed to markets, at the low end of our historical exposure range. Outside of Asia, inflation is showing signs of persistence, implying interest rates stay higher for longer, which likely leads to an economic slowdown and rising unemployment. In our view, instability in the commercial property sector and amongst heavily-indebted private equity portfolio companies could spill over into the broader economy.

Curiously, residential property prices in the West seem to be rebounding despite high mortgage rates, but this dynamic may prove short-lived. China has introduced various measures to stimulate its housing market, but we are yet to see the impact flow through to consumption with retail sales growth remaining weak.

We expect a continued reversion to mean levels of (inflation-adjusted) sales and operating margins for key US discretionary retailers that were beneficiaries of pandemic era spending. Conversely, we expect ongoing improvements in profitability for several of our holdings that were negatively impacted by the pandemic-era lockdowns and input cost spikes.

The valuations of many stocks we own are now considerably more attractive than they were even a few months ago and we continue to examine opportunities to buy excellent businesses at reasonable prices, preferring opportunities that present multiple ways to win. We continue to see the most opportunity in Chinese stocks, where spending has been restrained and could recover, rather than Western markets where consumers overspent and are now showing signs of retreating.

As always though, our holdings are a result of the bottom-up assessment of the opportunity set, with each stock possessing its own idiosyncratic characteristics that should provide an opportunity for outperformance separate to the path of consumption trends globally.

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 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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "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.

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