

# Platinum International Fund



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## Overview

- The Fund's performance was broadly flat over the quarter. Pulp producers Suzano and UPM rose as a result of higher pulp prices. PDD Holdings – a Chinese e-commerce business – delivered good earnings as Chinese consumers boosted their online purchases and they increased market share. Swiss financial services giant, UBS Group rallied as the market digested the potential of its Credit Suisse acquisition.
- Despite a long series of interest rate rises, global stock markets have rallied strongly – partly around the possibilities of AI. As a result, a disproportionate percentage of market returns are coming from the so-called magnificent seven of Apple, Microsoft, Amazon, Google, NVIDIA, Tesla and Facebook.
- Outside these favoured names, there are many companies that have experienced significant setbacks in both their businesses and stock prices and thus represent good buying opportunities. We expect the Fund's strategy of avoiding – or shorting – expensive growth stocks and focussing on better-priced businesses will contribute to returns in the medium term.

## Performance

compound p.a.+, to 30 September 2023

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	0%	15%	10%	6%	11%
MSCI AC World Index^	0%	20%	11%	9%	7%

+ 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.

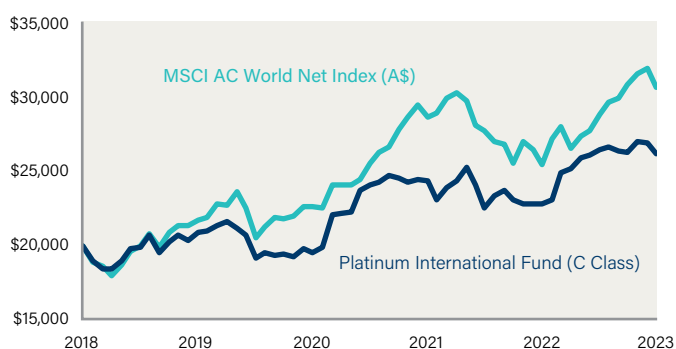
Source: Platinum Investment Management Limited, FactSet Research Systems.

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

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 (C Class) returned -0.2% for the quarter.

The main factor driving markets over the quarter was changing expectations for interest rates globally. While we believe the tightening cycle is either at or near its end, significant interest rates cuts seem unlikely, especially in the US where the economy remains robust on the back of ongoing fiscal stimulus. In China the drag of a weak property sector remains the key concern and although the government continues to implement policy measures to boost the economy and the property market, stock markets – for now – remain unconvinced.

In our portfolio, strong contributors to performance included pulp producers **Suzano** (share price up 22% over the quarter) and **UPM** (up 19%) as a result of higher pulp prices. **PDD Holdings** (up 40%), a Chinese e-commerce business, produced strong earnings as Chinese consumers boosted their online purchases and new competition rules allowed the company to take market share. **UBS Group** (up over 22%) rallied as the market gained confidence in the value of its Credit Suisse acquisition. Our short positions added modestly to overall returns.

Detractors included our investments in airlines **Wizz Air** (down 31%) and **InterGlobe Aviation** (down 9%) as a result of concerns over rising fuel prices. **LG Chem** (down 25%) fell due to concerns that fading momentum in global electric vehicle (EV) sales would affect results from their EV battery business.

## Commentary

Across the globe commentators continue to debate a series of big questions.

- How many interest rate rises are left, if any?
- Will inflation recede or will tight labour markets keep pushing up prices?
- Will the USA and Europe escape recession and enjoy a soft landing?

Meanwhile global stock markets have rallied strongly from the lows of 2022 and remain not far from the all-time speculative highs of the pandemic bull market. Partly this strength can be attributed to the excitement around the possibilities of artificial intelligence (AI). This has seen a disproportionate percentage of market returns being derived from a small number of very large companies, the so-called magnificent seven of Apple, Microsoft, Amazon, Google, NVIDIA, Tesla and Facebook. It is tempting for investors to be drawn into this debate but to do so is to focus one's attention in the same place as everyone else, when investment opportunities are more likely to appear in areas out of the spotlight.

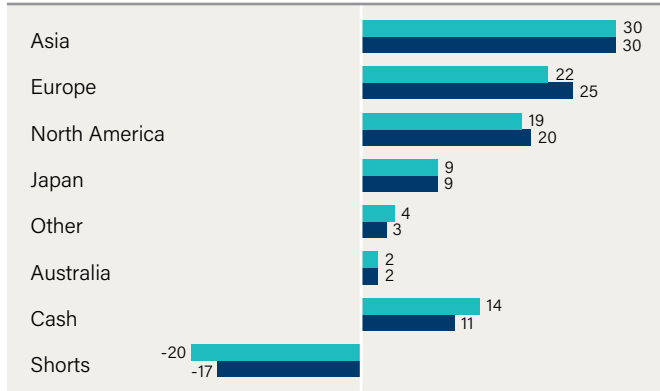
What the above discussion misses is that there are many companies that have already experienced significant business setbacks and endured bear markets in their stock prices. As a stock picker we ask: why debate the possibility of a global economic recession, when we can look at *companies* that have suffered their own recession and may now be attractively valued? One example are those businesses directly and immediately affected by higher interest rates.

Those higher rates provided us with interesting opportunities in European businesses we label "Asset Gatherers". **Allfunds** (an investment fund platform) and **St James's Place** (UK wealth management) were hit by a common problem – falling asset prices.

Each of these businesses earn revenue based on assets under management or administration and so were affected by falling bond and equity prices over 2022.

Both companies have strong positions in their respective markets and we expect Allfunds and St James's Place to continue to grow strongly once they're beyond this short-term earnings setback. Share price falls of 50% or more from the highs of 2021 gave the Fund an opportunity to add to our holdings at very attractive prices.

### Disposition of Assets %



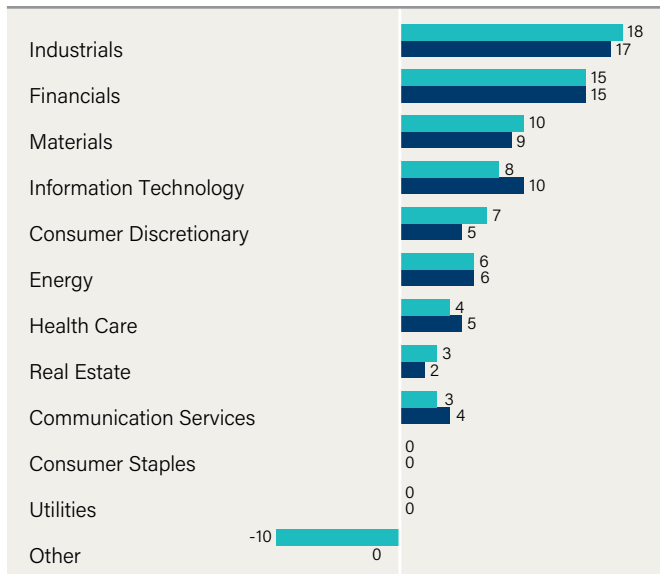
■ 30 SEP 2023 ■ 30 JUN 2023  
 See note 3, page 5. Numerical figures have been subject to rounding.  
 Source: Platinum Investment Management Limited.

### Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
ZTO Express Cayman Inc	China	Industrials	3.5%
Microchip Technology Inc	US	Info Technology	3.2%
UPM-Kymmene OYJ	Finland	Materials	3.0%
Minebea Co Ltd	Japan	Industrials	2.9%
Ping An Insurance Group Co	China	Financials	2.8%
Samsung Electronics Co Ltd	South Korea	Info Technology	2.7%
UBS Group AG	Switzerland	Financials	2.7%
Allfunds Group Plc	UK	Financials	2.7%
Suzano SA	Brazil	Materials	2.5%
InterGlobe Aviation Ltd	India	Industrials	2.4%

As at 30 September 2023. See note 5, page 5.  
 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.

The Japanese market has been the strongest major global market in 2023, rising nearly 17% year to date.<sup>1</sup> A significant part of the Japan story is the corporate governance reform over the last decade that is resulting in Japanese companies placing greater focus on shareholder interests. (For more on this trend, see “How Japan Regained Its Mojo” in our June 2023 quarterly report.)

Over the past year, the Fund added to a position in **Toyo Seikan** group. Toyo Seikan has a strong position in aluminium and steel cans for food and beverages, along with a range of other packaging related businesses. The industry has consolidated in Japan and now - like most major markets - has two major players. However, unlike its global peers, returns on capital have been poor as the company held excess holdings of cash, securities and real estate. At the time of our original purchases, the entire market value of the company was accounted for by cash balances and investments. In May this year the company announced they would be focussing on profitability and streamlining investments in securities and real estate. Additionally, over the next five years ¥100 billion would be spent on stock buybacks (30% of the company at that point in time) and a further ¥80 billion would be distributed in dividends. While the stock has rallied over 70% since our initial purchases, it remains at 0.7x book value, with the potential for additional distributions of capital and, most importantly, much improved profitability.

<sup>1</sup> MSCI Japan Net Index A\$.

In China, distress in the property development sector and its impact on the economy has been front page news in the financial papers. The story that is not being told though is how many sectors of the economy are doing well. Auto sales are running at levels around the peak of five years ago<sup>2</sup>. Indeed, China has this year surpassed Japan as the global leader in auto exports, driven by a leadership position in electric vehicles.<sup>3</sup> Domestic travel is strong with air passenger numbers in July at levels 13% above pre-COVID levels and with airfares 15%-20% higher.<sup>4</sup>

By the second quarter, Chinese e-commerce deliveries were up 20% from a year ago.<sup>5</sup> In short, while the Chinese consumer may not be buying properties, they are certainly spending their money elsewhere. The fears around China mean many Chinese companies are trading at depressed levels.

Consider the Fund's holding in **ZTO Express**. The company is the leading express delivery service in China and in the past five years has increased deliveries from six billion parcels a year to an expected 30 billion in 2023. To put that number in context, in the US, FedEx and UPS combined deliver a mere 12 billion. ZTO continues to take market share and in our view could grow parcel deliveries by 24% this year. Additionally, severe price competition in the market is receding. In our view the company could grow its operating profit by 50% this year. Today the stock trades on 15 times our estimates of earnings for this year and we expect the company can grow earnings at around the 20% p.a. mark for some years thanks to industry growth and market share gains. By any standard this is an extraordinary valuation for such a high-quality growth stock. Again, for context consider the following. ZTO's market capitalisation is \$US 20 billion. For Fedex and UPS combined it's over US \$200 billion.<sup>6</sup>

### AI and a note of caution

The recent rally in AI stocks has driven greater-risk taking by investors in many of the growth stocks that drove the speculative bubble of 2021. Some favoured software companies again trade at valuations of 15 to 20 times sales and some companies with dubious business models are again attracting multibillion-dollar valuations. This gave us the opportunity to put in place short positions against companies whose long-term valuations we believe will be pressured by higher interest rates.

## Outlook

We continue to see significant divergences in stock prices and valuations across different sectors and geographies. These represent both threat and opportunity for investors.

The broad global stock market indices have been pushed higher this year by growth stocks that again have reached high valuations.

In this context the market looks vulnerable to a setback as it did in late 2021, especially when one considers that long term interest rates have hit new highs in recent weeks. Outside of these highly favoured names, there are many companies that have experienced significant setbacks in both their businesses and stock prices and thus represent good buying opportunities. We expect the Fund's strategy of avoiding – or shorting – expensive growth stocks and focussing on better-priced opportunities elsewhere will contribute to returns in the medium term.

<sup>2</sup> Source: Trading Economics.

<sup>3</sup> Sources: Nikkei Asia, MIT Technology Review.

<sup>4</sup> [www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/outlook-for-china-tourism-2023-light-at-the-end-of-the-tunnel](https://www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/outlook-for-china-tourism-2023-light-at-the-end-of-the-tunnel)

<sup>5</sup> Source: China State Postal Bureau.

<sup>6</sup> Source: FactSet Research Systems.

## 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. 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.

## Disclaimers

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