



Platinum
Investment Bond™
- Platinum
International Fund
Quarterly Investment
Manager's Report

31 March 2024



Investment Update

Platinum Investment Bond - Platinum International Fund (PIBPIF)



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Overview

- Fund performance over the past year was affected by our defensive positioning at a time when markets shrugged off fears of recession and were instead buoyed by a boom in US AI and technology stocks. Our holdings in China also disappointed as a post-Covid recovery did not eventuate.
- Over the past quarter our holdings in companies that benefit from *spending* on AI capability did particularly well. **TSMC** and **Micron** were both up over 30%. Our travel holdings also delivered for investors. **Trip.com** rose around 25%. **Airbus** and low-cost Indian airline, **Interglobe**, both rose around 20%.
- Our strategy around AI revolves around investing in companies that should perform very well if AI spending continues to grow but who have strong non-AI businesses that can underpin their performance should the AI theme take longer to evolve.

The Platinum Investment Bond ("Bond") is an investment bond issued by Lifeplan Australia Friendly Society Limited ABN 78 087 649 492 AFSL 237989. Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 ("Platinum"), is the responsible entity of the Platinum International Fund ("PIF"), an underlying investment option of the Bond. Please refer to page 7 for further disclosures.

The following is the 31 March 2024 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 and top 10 holdings, pertain to PIF's portfolio. Please be aware that PIBPIF and PIF (C Class - standard fee option) have different fee structures and therefore different returns.

Performance

Please refer to www.australianunity.com.au/wealth/platinum for the latest performance information.

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

The performance of the Fund has been disappointing. This outcome was not down to a single driver, but the result of a collection of decisions that meant our market positioning turned out to be wrong.

Over the past 12 months, the most significant of these was our defensive positioning, including running a larger than normal short book. We were concerned that a combination of higher rates, tighter lending standards and the breaking of a stock market bubble would produce a recession. These factors led us to err on the side of caution and harmed our relative returns as the expected recession never came and markets pushed substantially higher.

The other factor that cost returns was our position on China. We thought China abandoning its zero Covid policy in January 2023 would see a strong economic recovery and aid stock prices. This did not happen, the economy remained weak and the bear market intensified.

Stock selection also played a role. Our largest detractor over both the year and quarter was **St James' Place**. It's a UK wealth advisory firm hit both by a regulatory requirement to change their fee structure and a need to refund fees after providing inadequate advice documentation to 2% of their clients. We are happy to take a long-term view on holding this stock.

In hindsight there was a significant opportunity in large cap US technology stocks that we bought too timidly (**Meta**, **Alphabet**) or missed (**Netflix**). This created a large opportunity cost.

March quarter outcomes

The performance over the quarter echoed this positioning. We saw strong returns from our US (+18%) and Japanese (+9%) holdings, but our returns in China (+4%) and Europe (+3%) were dull compared to their market indices. Our European holdings were down largely due to the aforementioned St James' Place (-32%), and a pullback in pulp producer **UPM** (-9%).

There were some bright spots. Our holdings in companies that benefit from investment in artificial intelligence (AI) did particularly well. **TSMC** (up around 30%) and **Micron** (up over 38%) were the standouts. Our travel holdings continued to do well. **Trip.com** – which holds leading positions in both the Chinese and Indian online travel markets – rose around 25%. European aviation giant **Airbus** – and low-cost Indian airline **Interglobe** – both rose around 20%.

Toyota (up over 46%) continues to reap the rewards of its long focus on fuel-efficient hybrid electric vehicles that continue to gain popularity. It also enjoyed a short-term boost to profitability from a weak yen. British Insurer **Beazley Plc** (up over 27%) delivered strong results due to an improving underwriting environment.

We dramatically reduced the size of our short book in November 2023. Our short holdings have been narrowed to companies where we see an imminent negative catalyst around the business (e.g. greater Chinese competition), or where the businesses are over-priced, lack sustainable business models and where bankruptcy is possible. Our short positions added 0.4% to total returns over the quarter.

Commentary – the AI issue

We are often asked how we are thinking about AI as an investment theme and about the investments we hold in the space.

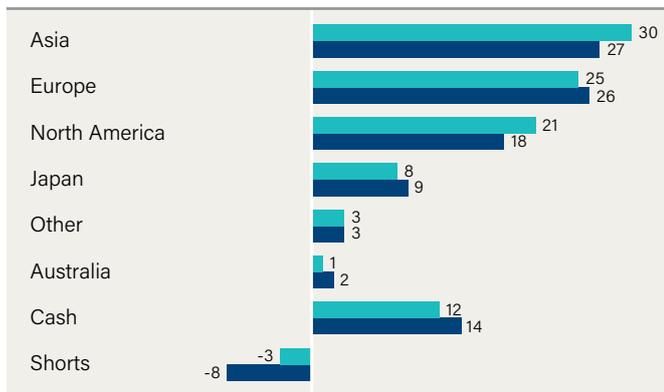
Like the personal computer, AI looks to be a classic multipurpose technology that will touch and even transform many industries. Its use cases can be viewed across two tracks:

- Companies operating at huge scale (such as Meta, Google and Amazon) are seeing high value use cases in advertising targeting and content creation – whether that be text, image, video, speech or coding.
- The use cases in the consumer or broader enterprise space are far less clear, with most still in experimentation phase.

We are mindful that the investment history of these type of technology advances shows a double edge sword. Fortunes can be made investing in the long-term winners, but picking those winners – especially in the early stages – is very difficult.¹

¹ We recommend "Engines that move Markets" by Alasdair Nairn. It looks at the pivotal technological developments over the past century from an investment perspective. The key lesson: the ultimate losers from new technology are far easier to predict than the actual winners.

Disposition of Assets %



■ 31 MAR 2024 ■ 31 DEC 2023

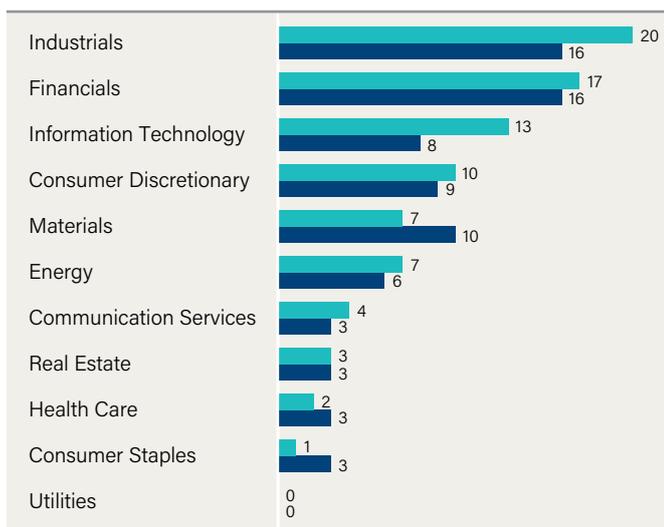
See note 1, page 7. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
ZTO Express Cayman Inc	China	Industrials	4.0%
Allfunds Group Plc	UK	Financials	3.6%
Samsung Electronics Co Ltd	South Korea	Info Technology	3.3%
UBS Group AG	Switzerland	Financials	3.3%
Taiwan Semiconductor	Taiwan	Info Technology	3.1%
UPM-Kymmene OYJ	Finland	Materials	2.8%
Airbus SE	France	Industrials	2.6%
Micron Technology Inc	US	Info Technology	2.6%
InterGlobe Aviation Ltd	India	Industrials	2.5%
Beazley PLC	UK	Financials	2.4%

As at 31 March 2024. See note 3, page 7. Source: Platinum Investment Management Limited.

Net Sector Exposures %



■ 31 MAR 2024 ■ 31 DEC 2023

See note 2, page 7. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

Our approach is not to make bold forecasts about the potential size of the AI market or about who the ultimate winners from this technology revolution will be.

Instead we invest in reasonably-valued businesses who will perform very well if AI spending/applications continue to grow but who all have strong non-AI businesses that will underpin their performance should the AI theme take longer to play out.

Taiwan Semiconductor Manufacturing Company

TSMC is the world’s best independent semiconductor foundry. The difficulty and cost of producing leading edge semiconductors has seen most of the industry switch to the ‘fabless’ model, with giants like Nvidia, Apple and AMD *designing* their chips, while outsourcing the *manufacturing* to TSMC. TSMC has three major advantages over their competitors Intel and Samsung:

- A process node lead – in simple terms TSMC has a miniaturisation advantage that means they produce chips with a price/performance/energy consumption advantage.
- A three decade ecosystem – TSMC customers have standardised around TSMC’s production techniques.
- Independence – TSMC does not compete with its customers.

These advantages show up in TSMC’s financial results, with the company routinely making 40% operating margins and post-tax returns on capital of 35%. The rise of AI represents a large new growth market for TSMC – whatever the winning technology.

Broadcom

Broadcom is high quality semiconductor and enterprise infrastructure software provider. The jewel in Broadcom's crown is its dominant position in networking and custom AI chips.

In *networking* – there is a clear scaling relationship with AI models. The larger the dataset they are trained on, the better the capability. With the latest models trained on datasets of many *trillions* of parameters, it is no longer practical to do this on a single server with multiple GPUs. Instead it requires thousands of servers to be networked together, so the training can be spread across them in a synchronous manner.

This need for efficient networking is a key bottleneck for AI servers and Broadcom has the leading solution via their Tomahawk networking chips.

As the size and complexity of AI training models increase, we are starting to see the largest companies in the industry custom design chips for that singular purpose. Broadcom is a key player here.

Broadcom's biggest customer is Google. It produces their tensor processing unit chips and that will likely generate circa \$5 billion of revenue this year. Broadcom is also working on custom AI chips for Microsoft and Meta. It's likely Amazon will follow.

Over the past year Broadcom's AI related revenue has risen four-fold. It is set to account for roughly 30% of their sales in 2024.

The memory manufacturers – Samsung and Micron

The common thread across AI model training is 'more' – huge datasets, huge computation power, huge energy consumption. Naturally there is an equally huge imperative to make these inputs more efficient.

'High bandwidth memory' (HBM) is a relatively new form of memory that achieves these goals, with the memory directly stacked on the AI processor chip. In addition to a significant higher price point, the amount of capacity required to produce HBM is 2-3x that of regular DRAM. This capacity being diverted to producing HBM has significantly tightened the supply/demand balance of the DRAM industry. The fact this is happening at the same time DRAM demand from traditional sources (PC's, phones etc) is bouncing back could produce some excellent profit outcomes for **Samsung** and Micron.

Overall, our exposure to companies who benefit from AI – but are not solely reliant on it – is roughly 14% of the portfolio.

Outlook

The leading economic indicators are now looking more positive. The US/European unemployment picture is strong, activity in Japan is growing and there are early indicators of economic improvement in China (consumer spending, manufacturing Purchasing Managers' Index etc).

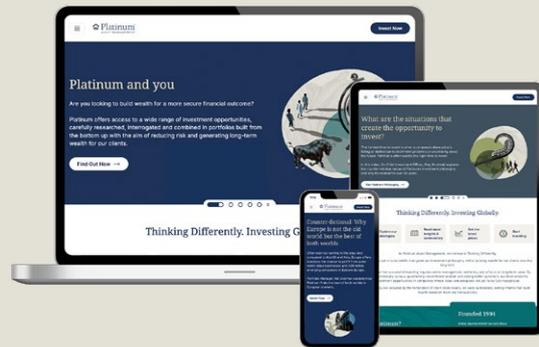
Globally, investor sentiment is strengthening. Recession concerns have faded and we are finding plenty of company-specific mispricings to take advantage of. We are also encouraged that the market gains are starting to broaden out. This bodes well for future returns from our truly-diversified portfolio.

Highlights from The Journal

Visit www.platinum.com.au/platinum-investment-bonds to access information about the Platinum Investment Bond - Platinum International Fund including:

- Weekly unit prices
- Monthly updates on performance, portfolio positioning and top 10 holdings
- Announcements.

You can find a range of thought-provoking articles and videos on our website in **The Journal** under **Insights & Tools**.



VIDEO

The lure of large numbers¹

Cars, beer, the global semiconductor market. Sometimes it pays to play in really big ponds. In this video our team look at some high-quality businesses doing just that – and at the opportunity that offers investors.

ARTICLE

Fear of Running Out²

After a long period of weakness, demand for uranium is on the up. In this article we look at the forces driving that demand and at some companies likely to benefit.

ARTICLE

Toyota: How the hybrid engine regared the investment case³

How should car companies manage the EV megatrend? Toyota took their own path and it looks like it's paying off for their investors.

ARTICLE

China: Why stay the course?⁴

Since Covid, the Chinese sharemarket has been left behind by other regions – especially the US. Investment Specialist, Olivia Salmon looks at what went wrong in China and at the longer-term outlook for this severely beaten-down market.

1 www.platinum.com.au/the-journal/video-the-lure-of-large-numbers

2 www.platinum.com.au/the-journal/fear-of-running-out

3 www.platinum.com.au/the-journal/toyota-how-the-hybrid-engine-regared-the-investment-case

4 www.platinum.com.au/the-journal/china-why-stay-the-course

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).

The Platinum Investment Bond ("PIB") is an investment bond issued and administered by Lifeplan Australia Friendly Society Limited ABN 78 087 649 492 AFSL 237989. "PIBPIF" refers to the Platinum Investment Bond - Platinum International Fund (APIR code: LIF2561AU), one of the underlying investment options of the Platinum Investment Bond. "PIF" refers to the Platinum International Fund (ARSN 089 528 307), the underlying fund into which the PIBPIF invests.

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. 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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "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 long derivative transactions.
2. 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".
3. 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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