Platinum Investment Bond™ - Platinum International Fund

Quarterly Investment Manager's Report

31 December 2024

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Investment Update

Platinum Investment Bond - Platinum International Fund (PIBPIF)

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Overview

- The Fund underperformed significantly over the past year with an underweight to US technology stocks and negative results from shorting contributing to underperformance. More positively, our Chinese stocks delivered a 20% return for the year.
- We are seeing signs of speculative fervour in the US market. We feel the positives from a Trump election victory – for example deregulation – are being factored in whilst the risks of higher inflation due to tariffs and labour markets tightened by immigration restrictions are being ignored.

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 December 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).

Over the year the Fund significantly underperformed the 29% return posted by the AC World Index.

The driver of the index return is familiar. The US market (S&P500) again posted outsized gains (23+% in USD) thanks to its heavier weighting to technology stocks. The MSCI World IT Index rose 32% over the year (in USD).

Returns in the rest of the world were more muted but still solid, with the MSCI AC World ex US Index rising 16%.

The reasons for underperformance in 2024

What explains our Fund's lower returns? Our Chinese holdings delivered solid performance over the year, returning 20%. However, our much lower allocation to the US market and technology stocks was a big headwind and shorting cost 2% of overall performance. Stock selection also played a role. This year the pattern was that our larger winners were often accompanied by large detractors, holding back aggregate returns.

In our technology holdings, large gains in firms such as **TSMC** (+80%), **Broadcom** (around 90%) and **Tencent** (47%) were offset by 30% falls in **Samsung Electronics** and **Microchip**. We saw a similar situation in commercial services companies, with gains in **TransUnion** (+35%) and the **London Stock Exchange** (+22%), partially offset by the 24% fall in our top ten position **Allfunds**.

In our travel holdings, good performance from India's **Interglobe** (+50%) and China's **Trip.com** (up around 100%) were partially offset by a 32% fall in **Wizz Air**. In short, our stock picking over the year resembled a barbell, where we picked decent winners, but some large losers as well.

The quarterly view

Moving onto the quarter, good contributors included Broadcom (up 30%) and **Toyota** (+21%). Both rallied after providing encouraging long-term business targets. A key to the Broadcom investment case is the growth potential in their custom AI chip division which serves players like Google and Meta. At their quarterly result Broadcom said that planning discussions with their customers led them to believe revenue from this division could rise to circa $40-50bn by 2027. (It was $12bn in 2024).

In the case of Toyota, details were leaked to the Nikkei that the company will set a 20% return on equity goal.

Elsewhere, UK wealth advisor St James Place rose nearly 20% as fund flow and client retention beat expectations.

Our detractors were clustered in two areas, China and oil & gas. In line with the broader Chinese market, most of our holdings gave back half their September gains, as investors await more follow through on the government's pledges to support the economy. Our oil and gas names such as Brazil's **Petrobras** and US companies **Valaris** (-20%) and **Schlumberger** (-11%) all fell, as investors questioned OPEC's next move, given the Trump administration's desire to dramatically increase US oil production.

Adding some NICE

In our March quarterly, we detailed how we viewed the AI investment opportunity and why most of our AI-themed investments were in the hardware/semiconductor manufacturers who will power these models. While we still hold those investments, we have been on the lookout for beneficiaries of AI in the **software** space.

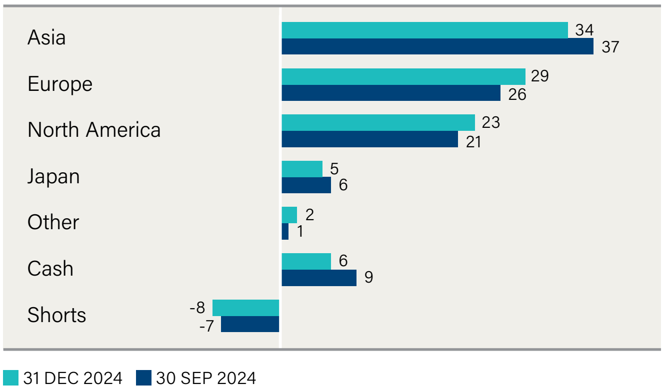
A good example of this, and a recent addition to the fund is Israeli company **NICE**. NICE provides cloud-based contact centre software to customers operating large/complex call centre operations (think major insurance companies or a government service like Service NSW). This software is multifaceted – including the digital telephony and call routing, software that manages the call centre staff, CRM software and new AI modules used to handle call centre workloads.

Given NICE's focus on the complex end of the market, new customers go through a major integration process shifting their systems to a cloud offering. Once complete this can lead to very long customer lifecycles with little churn. This allows NICE to earn circa 20% EBIT margins, well ahead of many other SaaS vendors.

Cloud-based communications software is relatively early in its adoption cycle. Estimates suggest 35% of the industry has made the shift, with the early adopters concentrated in the SME sector, given the easier integration process. However, we are now seeing large enterprises shift from legacy on-premise systems. This could fuel NICE's growth for many years to come.

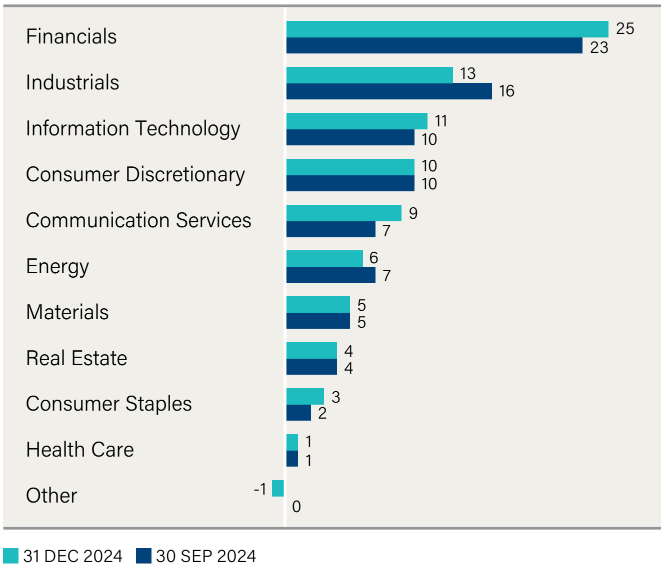
The other interesting aspect is NICE's ability to sell AI modules. The cost of call centre operations is largely labour (software is <10% of total costs) and staff turnover is high, so AI tools to divert workloads and assist in training create tangible savings for customers. When it comes to new software capability, distribution is often key and NICE is in an excellent position to tailor new AI functionality to call centre applications and sell it to their customer base. The company says there is rapid take-up of new AI modules and we expect this will allow NICE to increase its revenue per user.

Disposition of Assets %



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

Net Sector Exposures %



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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	US	Comm Services	4.7%
Tencent Holdings Ltd	China	Comm Services	4.6%
ZTO Express Cayman Inc	China	Industrials	3.9%
Taiwan Semiconductor	Taiwan	Info Technology	3.8%
Samsung Electronics Co Ltd	South Korea	Info Technology	3.7%
TransUnion	US	Industrials	3.6%
Allfunds Group Plc	UK	Financials	3.6%
UPM-Kymmene OYJ	Finland	Materials	3.3%
Ping An Insurance Group	China	Financials	3.1%
DSV A/S	Denmark	Industrials	3.1%

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

Richemont – jewellery to shine?

Another new position initiated over the quarter is the luxury goods maker **Richemont**.

The opportunity in Richemont is the classic one – a high-quality company suppressed by an industry wide downturn. The luxury industry is in recession as the Covid boom has turned to bust. This started with a fall away in the US and European 'aspirational buyer', followed by a 30% fall in Chinese demand.

The appeal of Richemont versus other luxury companies sits in its two jewellery houses, Cartier and Van Cleef & Arpels. There has been a persistent trend towards branded jewellery. The luxury jewellery market was 15% branded in 2007. It sits at 30% today. The category is becoming less reliant on gifting and weddings and increasingly driven by self-purchases. Despite the growth, the luxury jewellery market remains far less crowded than other luxury categories, with Cartier and Van Cleef accounting for 40% of industry sales alone. The other impressive aspect (and a good indicator of the health of the brands) is the performance of Richemont's jewellery houses through the downturn, where sales have continued to grow while most other luxury houses saw declines.

With Richemont trading on 18x (ex cash on balance sheet) and with both recent Swiss watch exports and US/EU credit card data pointing to luxury spend bottoming, adding Richemont to the portfolio made sense on both the short and long-term horizon.

Our short portfolio

The other area of change has been the short book. The Trump victory has triggered a speculative boom in long dated technological project stocks, with a huge run up in the market capitalisation of companies associated with crypto, quantum computing, space launches, next gen nuclear reactors and electric flying taxis. Outside of crypto, the common denominator of all these companies is that the commercial, technological and regulatory hurdles to bringing these concepts into profitable existence are enormous. These moves are being driven by a rush back into leveraged vehicles, with traded value in leveraged single stock ETFs exceeding the 2022 highs. There has also been a big spike in single stock option volumes.

This is reminiscent of the market action seen during the 2021 bubble peak, with the difference this time that it is happening while interest rates are high! This means we lack the catalyst of rate hikes bringing an end to the party, albeit given the amount of leverage being used, a simple change in trend towards profit taking can be all you need. Overall in recent weeks we have been upping our short book directly targeting these areas, but are not close to max position sizes as we finesse the catalyst/timing.

Outlook

US economic data is still benign. Signs of stress amongst low income consumers has not produced any meaningful deterioration in labour markets. Simply put, the US economy continues to chug along in the higher rate environment.

While it is early days, the Chinese property market is now responding to the Government's policy measures. On a national basis, property sales stopped falling in October and were up 4.6% in November with property sales in the largest 21 cities up 20% YoY. If the stabilisation continues, it bodes well for consumer confidence and a broader consumption improvement.

In terms of valuations and sentiment, the US is the standout and investors are jubilant. The Trump administration is being given credit *in advance* for solving geopolitical problems, cutting taxes, reviving US manufacturing and imposing vast tariffs with little internal cost. More sectors have been pulled into the excitement, with a swathe of cyclical industrials who used to trade on high teen multiples now trading on high twenties/low thirties valuations.

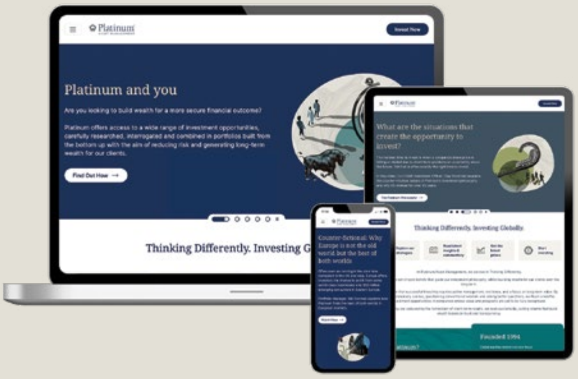
Our goal is to find businesses with modest starting valuations where those valuations have the potential to be higher. We want to see a clear case for how profits will be higher in three years and reasons why investor sentiment around the company can improve. Both NICE and Richemont fit these criteria.

Avoiding the US/technology bandwagon has come at a large opportunity cost over the past two years but we feel now is the time to stay disciplined. In our portfolio we want to be rotating into companies where the extremes are already discounted whilst building positions in companies where earnings can be higher in three-years' time. If we do this, good returns can follow.

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.



Like to know what's happening in global sharemarkets and your Platinum funds? Every week or so we add articles or videos to **The Journal** section of our website.

VIDEO

What the factory floor tells us about US markets[1]

As we turn into 2025, all eyes are on Wall Street. But what's happening on the US factory floor? Platinum's Manroop Singh discusses his late 2024 trip to the US.

VIDEO

Asian markets in 2025: headwinds or tailwinds?[2]

In this video, our Asian Strategies Portfolio Manager, Cameron Robertson, talks valuations, Chinese stimulus and Asia in the age of President Trump.

ARTICLE

The US election: landslides and cross-currents[3]

The US election ended with a comprehensive win for Donald Trump and the Republicans. But what does it mean for investors?

ARTICLE

The luxury of long time horizons[4]

Zoe Middleton explains how luxury goods companies defy some of the rules of basic economics and why they think in decades, not quarters.

ARTICLE

"Professionals study logistics" – how one Danish company is moving the world[5]

The world's supply chains are getting more complex. Manroop Singh explains why that's good news for one Platinum stock pick.

ARTICLE

Five great short stories[6]

When to "short" a tech stock? Here's five situations that can improve the odds of success.

1 www.platinum.com.au/the-journal/what-the-factory-floor-tells-us-about-us-markets
2 www.platinum.com.au/the-journal/asian-market-in-2025-headwinds-or-tailwinds
3 www.platinum.com.au/the-journal/the-us-election-landslides-and-cross-currents
4 www.platinum.com.au/the-journal/a-lap-of-luxury
5 www.platinum.com.au/the-journal/'professionals-study-logistics'-how-a-danish-freight-forwarder-is-moving-the-world
6 www.platinum.com.au/the-journal/short-story

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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