



# Platinum<sup>®</sup> World Portfolios PLC Quarterly Investment Manager's Report

Platinum World Portfolios - International Fund  
Platinum World Portfolios - Asia Fund  
Platinum World Portfolios - Japan Fund  
Platinum World Portfolios - Health Sciences Fund

31 March 2023

 **Platinum<sup>®</sup>**  
WORLD PORTFOLIOS PLC

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# Performance

to 31 March 2023

SUB-FUND	PORTFOLIO VALUE (US\$ MIL)	QTR	1 YR	2 YRS COMPOUND PA	3 YRS COMPOUND PA	5 YRS COMPOUND PA	SINCE INCEPTION COMPOUND PA	INCEPTION DATE
<b>PWP - International Fund</b>								
Class A (USD)	29.5	4.4%	3.1%	-1.7%	14.6%	3.0%	6.8%	27 Apr 2016
Class B (USD)	1.5	4.3%	2.4%	-2.4%	13.9%	2.2%	6.3%	2 Dec 2016
Class D (USD)	0.1	4.3%	2.1%	-2.5%	13.8%	2.1%	5.3%	16 Nov 2015
Class F (EUR)	0.4	2.4%	4.3%	1.4%	14.5%	4.8%	4.8%	4 Apr 2017
Class G (GBP)	12.7	1.6%	9.5%	3.8%	14.8%	5.6%	9.4%	27 Apr 2016
MSCI AC World Net Index (USD) <sup>(1)</sup>		7.3%	-7.4%	-0.4%	15.4%	6.9%	8.7%	16 Nov 2015
MSCI AC World Net Index (USD) (EUR) <sup>(2,3)</sup>		5.4%	-5.2%	3.6%	15.7%	9.6%	7.9%	4 Apr 2017
MSCI AC1 World Net Index (USD) (GBP) <sup>(2,4)</sup>		4.4%	-1.4%	5.3%	15.5%	9.7%	11.5%	27 Apr 2016
<b>PWP - Asia Fund</b>								
Class A (USD)	14.5	3.1%	-3.9%	-10.8%	9.2%	2.4%	6.8%	10 Mar 2017
Class B (USD)	2.0	2.7%	-4.3%	-11.3%	-	-	-12.1%	27 Jan 2021
Class D (USD)	2.5	2.7%	-4.3%	-11.2%	8.9%	2.0%	6.8%	16 Nov 2015
Class F (EUR)	0.1	0.9%	-2.6%	-7.8%	9.5%	-	6.2%	3 Feb 2020
Class I (USD)	141.3	3.1%	-3.8%	-10.6%	9.5%	2.5%	7.6%	19 Jan 2017
MSCI AC Asia ex Japan Net Index (USD) <sup>(1)</sup>		4.3%	-8.9%	-11.8%	6.9%	0.1%	5.8%	16 Nov 2015
MSCI AC Asia ex Japan Net Index (USD) (EUR) <sup>(2)</sup>		2.5%	-6.7%	-8.3%	7.3%	-	2.1%	3 Feb 2020
<b>PWP - Japan Fund</b>								
Class A (USD)	10.0	5.2%	-3.6%	-3.0%	9.1%	1.0%	5.9%	11 Jan 2016
Class B (USD)	1.4	5.0%	-	-	-	-	-	21 Jun 2022
Class D (USD)	15.1	5.0%	-4.2%	-3.7%	8.4%	0.4%	5.3%	16 Nov 2015
Class F (EUR)	0.1	3.2%	-2.5%	0.1%	9.0%	2.9%	2.3%	18 Oct 2017
MSCI Japan Net Index (USD) <sup>(1)</sup>		6.2%	-5.2%	-5.9%	7.4%	1.3%	4.4%	16 Nov 2015
MSCI Japan Net Index (USD) (EUR) <sup>(2,3)</sup>		4.3%	-2.9%	-2.1%	7.7%	3.8%	3.8%	18 Oct 2017
<b>PWP - Health Sciences Fund</b>								
Class D (USD)	24.9	-1.7%	-	-	-	-	-	28 Oct 2022

(1) For the purpose of calculating the "since inception" returns of the Index in USD, the inception date of Class D of the Fund is used, since Class D was the first USD-denominated share class activated.

(2) The MSCI Index returns in USD have been converted into the specified currency (EUR or GBP, as the case may be) using the prevailing spot rate.

(3) For the purpose of calculating the "since inception" returns of the Index in EUR, the inception date of Class F of the Fund is used, since Class F was the first EUR-denominated share class activated.

(4) For the purpose of calculating the "since inception" returns of the Index in GBP, the inception date of Class G of the Fund is used, since Class G was the first GBP-denominated share class activated.

Fund returns are net of accrued fees and expenses, are pre-tax, and assume the accumulation of net income and capital gains. Where a particular share class is not denominated in USD, the net asset value per share in USD, being the Fund's base currency, is converted into the denomination currency of that share class using the prevailing spot rate.

**Historical performance is not a reliable indicator of future performance. Returns could be reduced, or losses incurred due to currency fluctuations See note 1, page 29.**

Source: Platinum Investment Management Limited for Fund returns; FactSet Research Systems for MSCI Index returns.

# Macro Overview: The 'Out of Favour' and Areas of Significant Change Offer Opportunity

by Andrew Clifford, Co-Chief Investment Officer

CEO and Co-CIO Andrew Clifford sat down with Head of Investment Specialists Dean McLelland in late March to share his thoughts on the stability of the global banking system, interest rates, the state of play in Europe and China's reopening - and what they all mean for the markets in 2023 and Platinum's portfolios. An edited transcript of the conversation is below.\*

**DM: Banks were the biggest news during the quarter and while many people have heard of Credit Suisse, Silicon Valley Bank in the US was probably not a household name until quite recently. How are you thinking about the stability of the financial system and the likely economic impacts?**

**AC:** I'd like to start by revisiting what we've been saying about the investment environment that we're in. Interest rates have been going up for a year now, and the US Federal Reserve (Fed) has been unwinding its quantitative easing, so this is a completely different investment environment from the one that we've been in for the last decade.

When you have tight monetary policy, this is when financial accidents occur, and Silicon Valley Bank (SVB) and Credit Suisse are not the first of those. We have to remember that last year there was a big scare around UK pension funds, which was thankfully averted, and there was also the collapse of the crypto exchanges. Ultimately, when money is tight, whether that's through higher interest rates or less availability of credit, that's when things become exposed. That's what occurred with SVB, and it reflects the way the US banking system operates.

I think the important thing to take away from this is that people are worried about whether there are going to be further bank collapses and how this will flow through to the economy. While SVB's depositors have been rescued, we can't confidently say that the problems in the US banking sector have been resolved. However, the US is experienced in handling bank failures, they have lots of small bank collapses all the time, and the formula they've rolled out for SVB is a standard approach.

However, even if we do move beyond this, it has made the tight money situation even worse. Regional banks in the US have made lots of investments in 30-year fixed interest securities at 1.5% or 2%, and now their cost of money, which they pay on much shorter time frames, has risen substantially and is much higher than that, so they're losing money on an ongoing basis. When banks are in this situation, whether they survive it or not, and I think they will largely survive it, they will be even more restrictive in their lending. We're already seeing that in the loan surveys from the regional banks in the US. Regional banks are a really important part of business lending; they represent more than half of commercial real estate loans, and they play a large part in small business lending. The outcome of the collapse of SVB reinforces the very difficult environment the economy and markets are in.

\* The full interview is available in audio format on The Journal page of our website <https://www.platinumworldportfolios.ie/Insights/The-Journal>

**DM: Do you think central banks will reverse course and start cutting rates from here?**

**AC:** This current banking crisis is predominantly a US phenomenon, and the Fed is in a really difficult position. While there are plenty of signs that inflation is peaking and that the economy is on the cusp of slowing down, it hasn't actually happened yet. The labour market is still strong, wages continue to grow quickly and used car prices, which was a crazy market through COVID where used cars became incredibly expensive, then the prices rolled over, are now rising again. I think that the difficulty here is if the Fed cuts rates in response to the banking crisis but inflation doesn't settle down, all sorts of unexpected consequences can play out, like yields on 30-year or 10-year bonds rising rather than falling. Ultimately, when we are thinking about the investment environment, even if rates do peak at current levels and central banks start to cut, that difficulty in obtaining credit is going to be with us for some time. It takes 12-18 months for rate increases to flow through to the economy, and it's only been a year since the first interest rate increase. We still have all the rate increases over the course of 2022 and the first quarter of this year to really take effect. Yes, central banks may reverse course but I'm not sure that will bring the economy or investors any immediate joy.

**DM: Moving to Europe, Credit Suisse aside, perhaps the financial system appears more resilient than what we see in the US, but there is still a war going on, and the energy crisis, while it wasn't as bad as many feared, certainly hasn't been resolved. How are you thinking about Europe?**

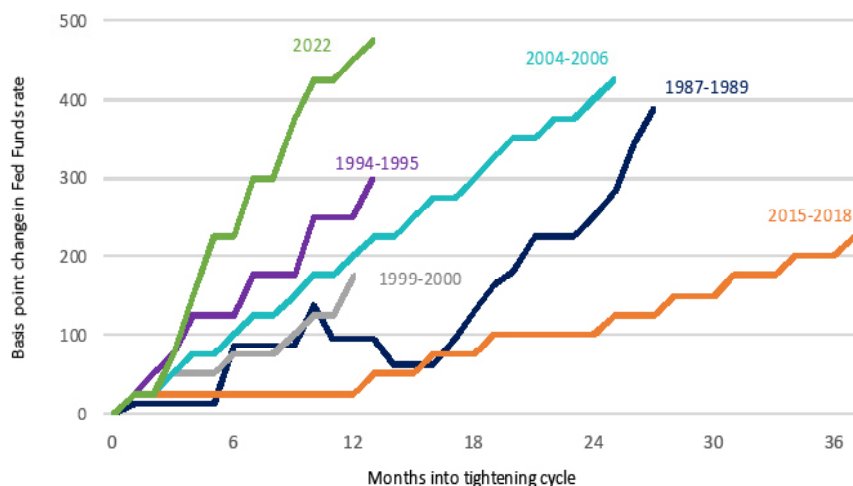
**AC:** The banking systems in Europe and elsewhere are different to the US, with the latter dominated by fixed 30-year mortgages. By and large, most other countries are dominated by variable-rate mortgages, even if they're fixed for two or three years. This means the banking systems elsewhere, and certainly in Europe, don't take on that interest rate risk. The transmission mechanism will therefore be different because it will be the homeowners with a mortgage and businesses that have borrowed money who will be hurt rather than in the US, where it's the banks that will pay the price for taking that risk. The potentially worrying thing is if there is a significant downturn, where the banks will be hurt elsewhere in the world as borrowers start to struggle to pay off their loans. I think the remarkable thing about Europe is that we've had a war there for over a year now and a huge increase in energy prices at the start of 2022, but yet that economy has remained incredibly robust. There has been no major pickup in unemployment, and economic growth is still positive, even though some industries that rely on gas have had to close down. There was a bit of luck involved, with large parts of the northern

hemisphere experiencing a warmer-than-normal winter and China's economy being very slow, which allowed Europe to source alternative gas much more easily than expected. Europeans have responded to the higher energy prices by cutting consumption. At the moment, gas storage is filling up very quickly, so we're partway through resolving that, but we are also in the hands of the weather. In summary, despite what they experienced with soaring energy prices early in 2022, the economy still managed to perform remarkably well.

**DM: With the Chinese economy reopening and the market recovering remarkably at the end of last year, China has been largely out of the spotlight in the first quarter of this year. How are you seeing the Chinese economy and market at the moment?**

**AC:** There were a lot of negatives that lined up against China in recent years. First of all, there were a number of economic reforms that caused significant uncertainty in the business community. Some people will talk about the crackdown on the technology sector, but it was really a regulatory reform of that sector. We also saw policy mistakes in trying to control property prices that led to the property market crashing. There were the COVID lockdowns, and of course, the US was also imposing sanctions and tariffs on the country. So, it's been a very difficult environment, and from there, we only have one way to go. The easiest one to tackle was the end of the lockdowns, and data on people's mobility shows a return to normal levels. Overseas travel hasn't returned to pre-COVID levels, as there are apparently shortages in approving visas, but all of the reopening activities that we've seen elsewhere are starting to happen in China.

Financing has been provided to the property sector to ensure developments get completed, and we have seen a strong rebound in property sales in the larger cities - not back to the levels they were, but a very substantial bounce from the bottom, and there has even been a slight uptick in property prices. That all bodes well for the economy. Some shorter-term observations are that consumer spending is not yet experiencing the same bounce back in ferocity that we saw in other places after they reopened from COVID lockdowns, so it would seem there's still some degree of caution amongst consumers at the moment, but I think that is simply a question of time. Lastly, the government has signalled very clearly that their work on regulatory reform around e-commerce is now complete, so we expect confidence to start to build. After a period of absence, Jack Ma recently returned to China, and symbolically, I think that's a very positive development for the business community. There was also the announcement about Alibaba splitting up its business into six different units.

**Fig. 1: US Interest Rate Tightening Cycles**

Source: Evercore ISI Research.

**DM: So, there has been a lot of improvement in economic fundamentals, but it still feels like the sentiment towards investing in China has not rebounded in the same way, would that be fair?**

**AC:** I think that's right. It's very clear that people are still cautious about China. You can't go from many commentators calling this market uninvestable to a bull market, so undoubtedly, there's a lot of caution, and I think the pattern of coming out of any bear market is that it takes time before the concerns that drove share prices lower are peeled away. I would expect that as we go through the year and we see companies reporting better sales and profits, people will gradually come back to the market, and ultimately, what will bring people back is if China has a good year this year. I have no doubt that those who were calling it uninvestable will, by and large, return and invest in that market.

**DM: There are a lot of different economic and geopolitical concerns still at play, can you bring them together in terms of your outlook for major markets?**

**AC:** What's been interesting in the last couple of quarters is the relatively poor performance of the US market; meanwhile, many European markets are not far from their all-time highs, and China has had a very good bounce off the bottom. The question that is debated on the front pages in the US is whether the bear market has finished. While we've had a good bounce from the lows of 2022, I believe it's likely there is more downside to come. This has been the biggest increase in interest rates we have experienced in the last 40-odd years, and it's the fastest increase in interest rates we've seen by a very long way (see Fig. 1). The reason I would be worried about the general level of the US market is

that interest rates have a very clear relationship with corporate earnings, and when we have rate increases like these, corporate earnings will be very weak, and invariably, that leads to a weak US stock market. Whereas I think China is in a completely different cycle, and Europe, again, is in its own cycle. Having said that, I think that for investors to overly focus on the headline levels of markets really misses the point. There are huge divergences within countries and sectors, and there are companies or industries that have already been sold down heavily, and that's where opportunities lie. While I do think there's more to go in this bear market, I continue to see 2023 as a year of opportunity for investors.

**DM: Where are you seeing these opportunities?**

**AC:** We focus our search for opportunities in two key areas. One area is in those companies, industries and countries that are out of favour, where investors' cognitive biases tend to lead them to be too focused on recent events. The other set of opportunities is where there's a lot of change going on, whether it's regulatory, technological or in the competitive environment. There are some really big changes going on in the world today, most notably that the global economy needs to undergo a massive investment cycle to decarbonise, and that is presenting a huge array of opportunities. The opportunity set here is much broader than many people think. Electric cars, wind turbines, solar panels and wind farms are often what most people think of, but really, there's a huge number of companies that will benefit, for example, companies that make semiconductors for electric vehicles or solar panels. There will be opportunities in commodities in a range of areas, and again, people think of lithium and copper, but something like pulp, traditionally just used to make paper, is going to be needed

to replace plastics, and there are some really interesting activities that come out of making pulp that present opportunities from decarbonisation.<sup>1</sup>

Since COVID, there have been concerns about the reliance on China and the desire for companies to reshore their production or diversify their production bases. That gives rise to opportunities in a lot of different ways, such as relocating those factories to developed markets, which will need high levels of automation on account of the higher labour costs, so companies that provide that sort of equipment stand to benefit. In the developing markets, countries like Thailand and Vietnam are already benefiting from the huge move of production to their shores, creating investment opportunities.

There is also China, which we've already discussed at length; it is still deeply unloved but also fits into this idea of change. China is a leader in so many areas around leading-edge technology. The whole decarbonisation effort will heavily rely on China.

<sup>1</sup> Portfolio manager Jodie Bannan discusses how wood pulp is being used to produce sustainable packaging alternatives to plastic and also lower CO2-emitting biofuels and bioplastics in this short video: <https://www.platinumworldportfolios.ie/Insights/The-Journal/Video-Investing-for-Net-Zero>

Finally, the shift in interest rates will have long-term impacts on particular types of businesses or companies that go beyond just the first-order effect. Banks that have strong deposit franchises, for example, should do much better in a higher interest rate environment because previously they were gaining no benefit from their deposit franchises, while insurance companies will get better returns on the investment of their floats (the money they hold onto from the time customers pay their insurance premium until they make an insurance claim). Alternatively, in areas where there is significant competition from start-ups, a lot of venture capital money will be withdrawn, and these start-ups are going to have to become profitable. In the banking sector, lots of neobanks (online banks with no physical branch networks) are falling by the wayside, and e-commerce businesses now need to break even. They're not going to get more money for many ventures. Many will fail, and those who are left standing will potentially have won the land grab and developed very valuable businesses.

In summary, while it's easy to get caught up in the doom and gloom printed in the headlines, there are a lot of opportunities for investors in this market, and that is what we are focusing on.

## MSCI Regional Index Net Returns to 31.3.2023 (USD)

REGION	QUARTER	1 YEAR
All Country World	7.3%	-7.4%
Developed Markets	7.7%	-7.0%
Emerging Markets	4.0%	-10.7%
United States	7.6%	-8.9%
Europe	10.4%	1.4%
Germany	14.7%	2.2%
France	14.6%	8.8%
United Kingdom	6.1%	-0.8%
Italy	14.7%	9.1%
Spain	15.7%	11.9%
Japan	6.2%	-5.2%
Asia ex-Japan	4.3%	-8.9%
China	4.7%	-4.7%
Hong Kong	-2.4%	-5.3%
Korea	9.6%	-14.4%
India	-6.4%	-12.2%
Australia	2.8%	-9.2%
Brazil	-3.2%	-18.7%

Source: FactSet Research Systems.  
Total returns over time period, with net official dividends in USD.  
Historical performance is not a reliable indicator of future performance.

## MSCI All Country World Sector Index Net Returns to 31.3.2023 (USD)

SECTOR	QUARTER	1 YEAR
Information Technology	20.4%	-7.5%
Communication Services	17.2%	-15.5%
Consumer Discretionary	14.2%	-12.1%
Industrials	6.7%	-1.3%
Materials	5.3%	-9.4%
Consumer Staples	3.4%	0.6%
Real Estate	0.5%	-19.8%
Utilities	-0.7%	-6.4%
Financials	-1.5%	-10.8%
Health Care	-1.7%	-4.1%
Energy	-3.1%	6.5%

Source: FactSet Research Systems.  
Total returns over time period, with net official dividends in USD.  
Historical performance is not a reliable indicator of future performance.

# Vietnam: A Beneficiary of Foreign Investment, Urbanisation and a Growing Middle Class

by Jack Cao, Senior Investment Analyst

Members of Platinum's Asia team recently travelled to Vietnam, visiting companies that we already own and scouting for potential new investments. Immediately as we disembarked, we could sense the energy and buzz on the ground. Our insights and key takeaways are below.

Having closely witnessed China's growth over the past two decades, we see a strikingly similar story developing in Vietnam today, namely, its structural growth is underpinned by:

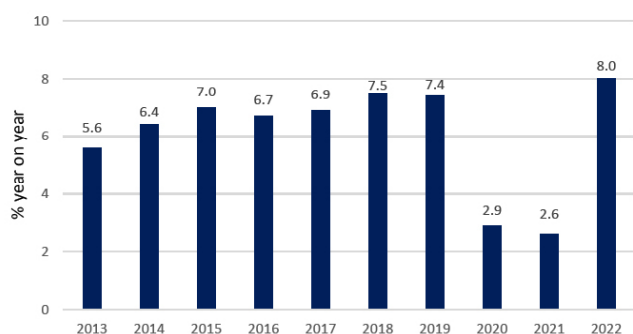
- Rising foreign direct investment (FDI)
- Increasing urbanisation driving demand for infrastructure and real estate
- A growing middle class.

## An attractive destination for foreign investment

Vietnam has experienced phenomenal economic growth, growing at an average annual pace of 6% over the past decade.<sup>1</sup> The country has benefited from growing FDI as multinational corporations (MNCs) looked for new production bases in the region to offset the rising cost of conducting business in China after the double-digit percentage increase in the cost of labour there over the past decade.

<sup>1</sup> Source: CLSA, CEIC.

**Fig. 1: Vietnam real GDP Growth (% Year on Year)**



Source: CLSA, CEIC.

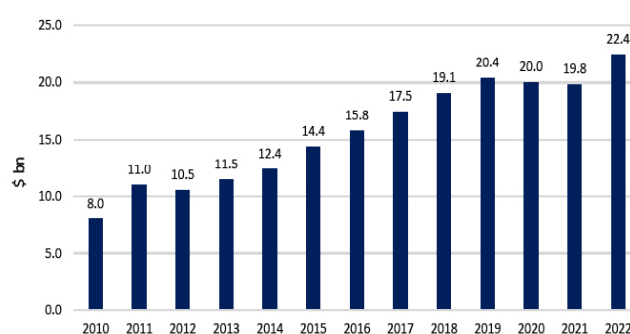
While we don't believe that MNCs will pull out of China in any significant way, there is growing acceptance of the China-plus-one strategy as a viable sourcing approach. Vietnam stands out over its regional peers in several regards, namely:

- Significantly lower cost of labour (see Fig. 3 on the following page)
- Geographic proximity to China allows it to tap into the Chinese supply chain
- An abundant supply of a young and well-educated labour force. The working population (aged between 15 and 64) accounts for 70% of Vietnam's total population, and the national literacy rate is 95%.<sup>2</sup>

While workforce productivity will take time to reach levels comparable to China, we heard anecdotes of employers' high regard for the work ethics of local employees.

<sup>2</sup> Source: JP Morgan, National Statistics Office, 2019.

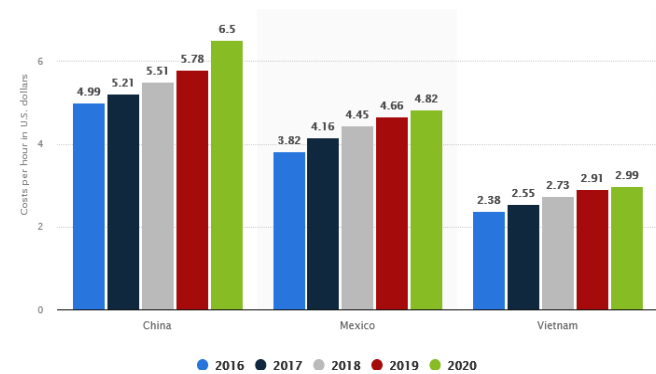
**Fig. 2: A relentless rise of FDI in Vietnam (US\$ bn)**



Source: Dragon Capital.

**Fig. 3: Vietnam's labour costs are half that of China's**

Manufacturing labour costs per hour for China, Vietnam, and Mexico from 2016 to 2020 (US\$)



Source: Statista.

The signing of multiple trade agreements in recent years,<sup>1</sup> together with rising trade frictions between the US and China, should further propel Vietnam as a preferred location for manufacturing.

While the pace of growing exports in the headline numbers is to be marvelled, rising from US\$114 billion to US\$365 billion over the past decade,<sup>2</sup> the composition of Vietnam's exports by products shows a clear shift from a decade ago, with electronics and components becoming more prominent than textiles and footwear and representing 45% of total exports.<sup>3</sup> Lured by the monetary incentives offered by the Vietnamese government in the form of tax concessions, large Korean conglomerates set up their operations in droves, pledging to invest US\$15 billion in new plants, including US\$6 billion from Samsung and LG Electronics. As these giants established their bases, their upstream component makers followed them into Vietnam, often with plants located nearby.

<sup>1</sup> These include Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), EU Vietnam FTA and Regional Comprehensive Economic Partnership.

<sup>2</sup> Source: Bloomberg.

<sup>3</sup> Source: Credit Suisse, GSO, 2022.

In an industrial park in Bac Ninh Province, 50 kilometres from Hanoi, we saw rows of neatly laid out industrial properties that have been taken up by well-known electronics makers, including Apple's principal assembler Foxconn and smartphone acoustic component maker Goertek (see Fig. 4).

The industrial park operator told us that it takes 3-5 years to get one industrial property up and running. The process is fairly cumbersome. A feasibility study needs to be submitted, farmers who currently occupy the land need to be compensated, a 50-year land lease agreement with the government needs to be entered into, and a land use certificate needs to be issued, followed by a sublease to industrial tenants. The government has recently tightened requirements on industrial property operators; hence, the review process has become more stringent. Given such an involved process, we are of the view that investing in local companies that are well versed in navigating the red tape, is a sensible investment strategy.

## Urbanisation is driving infrastructure and housing

The rising urbanisation rate, together with household formation, is driving new demand for infrastructure and housing. Our guide informed us that the entire country has only 600 kilometres of highways (400 kilometres in the north and 200 kilometres in the south) for a population of 95 million, with over 15 million people residing in the two major metropolises of Ho Chi Minh City and Hanoi, and an annual rural to urban migration of 1.5 million people.<sup>4</sup> Further, there are 500,000 new households formed through marriages each year.<sup>5</sup> It is our view that the housing market is at a relatively nascent stage of development, and consequently, the affordability ratio is comparatively good. A two-bedroom, mid-end apartment with 80 square metres of floor space in Ho Chi Minh City and Hanoi can be purchased for

<sup>4</sup> Source: JP Morgan, 2019.

<sup>5</sup> Source: Statista.

**Fig. 4: Well-known electronics makers are setting up base in Hanoi**



Source: Platinum Investment Management Limited.

US\$150,000. For couples in the top 15-20% income bracket earning a combined income of US\$23,000, that's around six-and-a-half times their household income. Rental yields are running at an attractive 4.5-5% in Hanoi and 4-4.5% in Ho Chi Minh City.<sup>6</sup>

The new Ocean Park mega property development located 40 minutes from downtown Hanoi, is still in a nascent stage. Our commute over the expressway passed through sparsely populated farmland on the eastern side of the Red River. We sensed an ongoing reluctance among most residents to commit to that type of daily commute, with most buyers opting to use their new purchase as their second home. The project comes with extensive amenities, including a man-made beach (locals call it a salt lake), an outdoor gym area, a mega retail mall, an international school, and a university that are operated by the developer's related entities. The scale of the project reflects the ambitions of the developer as well as the realisation that there is a significant cost advantage from extensive land banking and a phased launch of projects due to the general upward trajectory of land prices.

There are issues within the property sector that the government is trying to resolve, which is currently in the eye of the storm. Due to the slow project approval process by local governments since the introduction of anti-corruption laws in 2016, developers have prioritised the sale of premium projects while neglecting the mass segment where the bulk of demand lies, thereby creating a demand/supply mismatch. Moreover, there's the problem of these so-called "developers", who are merely speculating on the value of their prime land plots without actually engaging in any real development. These land premiums are often funded through bond issuance and marketed to retail investors based on yield enhancement, without the underlying development project delivering any cashflows to fund bond interest payments. The recent arrest of a high-profile developer, along with changes to bond issuance rules, shows the government is serious about remedying these undesirable behaviours. With the overall housing construction sector contributing less than 4% to national GDP, we don't believe that the housing sector is overextended or that it poses a persistent drag on the economy. We have avoided investing in Vietnam's property sector to date, not because we have doubts about its long-term potential but rather due to the issues surrounding developers and the sourcing of land banks.

<sup>6</sup> Source: BofA, 2023.

## The rise of the middle class

One of the exciting domestic stories is the rise of the middle class in Vietnam. There are 24 million people who fit the global definition of the middle class, representing roughly 25% of the population.<sup>7</sup> According to McKinsey & Company, less than 10% of Vietnam's population were members of the middle class in 2000, and by 2030, this figure is expected to be close to 75%.<sup>8</sup> With the growing FDI, there is a progressive shift in the workforce away from the agricultural sector to higher-paying manufacturing and IT outsourcing jobs.<sup>9</sup> This, in turn, is driving improvements in the standard of living, with rising ownership of household appliances and electronic devices. As we've seen in other neighbouring countries, the emergence of a growing middle-class population tends to coincide with the transformation of the retail sector, from unorganised locally-owned stores to branded retail chains. Private enterprises, flush with funding from capital markets and seeking to replicate the well-worn playbook from other markets, are turbo-charging the build-out of modern trade. Armed with more sophisticated merchandising, marketing and site selection, along with an improved overall shopper experience, it is easy to see why investors are betting on the inevitability of this channel shift. Mobile World Investment (a holding in our Asia ex-Japan strategy) is a company that exemplifies this retail format transformation. Mobile World has close to 50% market share in consumer electronics and mobile phones and has built a strong footprint in grocery retail.<sup>10</sup> One insight we heard on the ground was that urban mall visitation is currently hindered by the lack of transport infrastructure, with the metro railway yet to be completed. As two-wheeler scooters are the dominant form of private transportation, urban consumers still prefer street stores for their ease of vehicle access, but this is expected to change once the new railway is completed.

Vietnam has a relatively young demographic, with around half of its population aged 30 or below.<sup>11</sup> This has been conducive to the rapid adoption of mobile payments and e-commerce, similar to what we saw in China over the last decade. We visited an e-commerce retailer's logistic operations. The warehouse manager is an ex-pat who had previously worked at multiple global express delivery companies, and he saw a lot of opportunities to improve efficiency through greater standardisation. Speed of delivery is increasingly a differentiator, and e-commerce operators have had to build out in-house logistic capabilities to adequately compete. They operate many local warehouses

<sup>7</sup> Source: Credit Suisse, BCG, 2017.

<sup>8</sup> Source: <https://www.mckinsey.com/featured-insights/future-of-asia/the-new-faces-of-the-vietnamese-consumer>

<sup>9</sup> Source: JP Morgan, 2019.

<sup>10</sup> Source: Mobile World Investment.

<sup>11</sup> Source: JP Morgan, National Statistics Office, 2022.

under a 'hub and spoke' model close to consumers to increase delivery speed and reduce the costs of delivery. This also proved helpful during COVID-19, when there were movement restrictions across different regions. The main challenge is that with consumers demanding faster deliveries, the cost of warehousing close to the city is getting more expensive, forcing operators to move outwards from the centres.

Dominant consumer franchises also provide an attractive investment opportunity in Vietnam, such as in the dairy industry, where there is plenty of scope to 'premiumise' product offerings as consumers become wealthier. We have exposure to this growing sector via VinaMilk (formerly Vietnam Dairy Products Joint Stock Company). VinaMilk is the dominant dairy producer in Vietnam, and we visited their packaging plant located on the outskirts of Ho Chi Minh City. We were impressed with its operations on our visit; the plant appears to be well managed, with stringent quality controls on raw materials conducted at multiple points and the use of advanced machinery imported from Switzerland, and packaging lines are well automated with minimal human presence.

## Market and Regulatory Observations

There is much optimism among the local brokerage community that Vietnam is slated for an upgrade from a frontier market to an emerging market over the coming two years. Two broad issues still need to be resolved, namely, the lifting of the foreign ownership limit and the establishment of a central counterparty system to allow trading without deposit requirements.

We met with senior monetary policymakers at the State Bank of Vietnam (SBV). SBV has adopted an inflation-targeting regime since 2011, following a period of high inflation in 2008-09 that saw headline inflation exceed 20%. As the US Federal Reserve increased policy rates in 2022, SBV followed suit and also increased rates by 1% in September 2022 to 5% and another 1% to the current rate of 6% in October,<sup>12</sup> as it prioritised curbing inflation over promoting growth. This looked slightly conservative to us given that the local inflation rate of 3.1% was far from alarming and below the SVB's own 4% inflation target.<sup>13</sup> We suspect SBV's decision primarily reflects its desire to protect the currency, given that it was intervening in the currency market by selling its foreign exchange reserves. The subsequent 0.5% cut in the policy rate in early April, reflects a shift in priority towards supporting growth.

<sup>12</sup> Source: <https://tradingeconomics.com/vietnam/interest-rate>

<sup>13</sup> Source: <https://www.gso.gov.vn/en/homepage/>

On the political front, despite the ruling party being communist, the governance system tends to be socialist. In our view, the government is pragmatic and willing to make decisions that are in the best interests of the population without being burdened by ideology. The government demonstrated administrative competency during the pandemic, where it was able to quickly bring COVID-19 under control, secure early access to vaccines, open up its borders and normalise the economy in 2022.

The recent corruption crackdown, which reached the top echelons of the Vietnamese government, unnerved many foreign investors. This, along with a crackdown on bond market activities, were the key drivers behind the 40% retracement in the local stock market in 2022. One would think that if the motivation of this campaign is strictly aimed at rooting out corruption within the party, that would be positive for boosting the confidence of foreign investors.

## Summary

Our trip to Vietnam confirmed the importance of on-the-ground visits: local contacts and face-to-face company meetings and site tours are invaluable, especially given that Vietnam is still an under-researched market. Its growing economy, burgeoning middle class and rising urbanisation rates, which are creating infrastructure and housing investment, place it on a remarkably similar growth path to that of China's, albeit on a much smaller scale given the population differences. Its attractiveness as a destination for foreign investment, particularly from companies seeking to reshore and diversify their manufacturing bases away from China, provides further support for the investment case. We are excited about the companies we have invested in that are tapping into these growth themes, and we will continue to explore further opportunities in this fast-growing, rapidly changing economy.



Source: Platinum Investment Management Limited.

# Platinum World Portfolios - International Fund



**Andrew Clifford**  
Portfolio Manager



**Clay Smolinski**  
Portfolio Manager



**Nik Dvornak**  
Portfolio Manager

## Performance

(compound p.a.<sup>+</sup>, to 31 March 2023)

SHARE CLASS	QTR	1 YR	3 YRS P.A.	5 YRS P.A.	SINCE INCEPTION P.A.
PWP Int'l Fund Class A USD	4%	3%	15%	3%	7%
PWP Int'l Fund Class B USD	4%	2%	14%	2%	6%
PWP Int'l Fund Class D USD	4%	2%	14%	2%	5%
PWP Int'l Fund Class F EUR	2%	4%	14%	5%	5%
PWP Int'l Fund Class G GBP	2%	10%	15%	6%	9%
MSCI AC World Net Index (USD) <sup>^</sup>	7%	-7%	15%	7%	9%

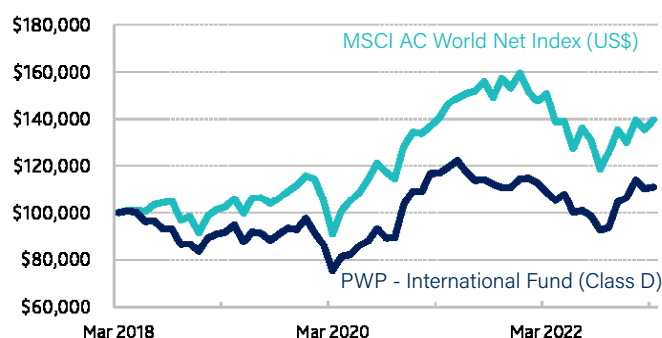
+ Excluding quarterly returns. Fund returns are net of accrued fees and costs. Class D inception date (16 Nov 2015) is used for Index "since inception" returns.

<sup>^</sup> Index returns are those of the MSCI All Country World Net Index in USD. Source: Platinum Investment Management Limited for Fund returns, FactSet Research Systems for Index returns.

**Historical performance is not a reliable indicator of future performance. Returns could be reduced, or losses incurred due to currency fluctuations.** See notes 1 & 2, page 29.

## Value of US\$100,000 Invested Over Five Years

31 March 2018 to 31 March 2023



After fees and costs. See notes 1 & 3, page 29. **Historical performance is not a reliable indicator of future performance. Returns could be reduced, or losses incurred due to currency fluctuations.**

Source: Platinum Investment Management Limited, FactSet Research Systems.

**The Fund (Class D) returned 2.1% for the year, a 9.8% outperformance of the market, which returned -7.4%.<sup>1</sup>**

The year was characterised by the deflating of the speculative bubble in growth stocks and illustrates the benefit of Platinum's investment approach of seeking out opportunities in areas that are 'out of favour' with investors and avoiding the 'much-loved' investment ideas of the day.

**The Fund returned 4.3% for the quarter.** Market returns in local currency terms were similar across regions, with Europe up 8.5%, North America up 7.4% and Japan up 7.1%, with Asia ex-Japan being the exception, up only 4.5%.<sup>2</sup> However, there were significant divergences by sector, as investors responded to the failures of Silicon Valley Bank and Credit Suisse by seeking out perceived safe havens in growth stocks and selling economically sensitive sectors. Information Technology was up 20.3% while Energy fell 3.5%. Those sectors in the eye of the storm also performed poorly, with Financials down 1.8% and Real Estate up 0.5%.

Within our portfolio, key contributors to performance included travel-related investments **Wizz Air** (+56% over the quarter) and **Booking Holdings** (+32%), as the travel sector continued its post-COVID boom. Semiconductor stocks **Microchip Technology** (+19%), **Infineon Technologies** (+33%) and **Micron Technology** (+21%) were also strong contributors, benefiting from commentary from various management teams that the current downturn in the cycle may be coming to an end and conditions could

1 References to returns and performance contributions (excluding individual stock returns) in this PWP - International Fund report are in USD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

2 MSCI AC Europe, MSCI North America, MSCI Japan and MSCI Asia ex-Japan, respectively, in local currency. Source: MSCI.

progressively improve throughout the rest of the year. Precision components manufacturer **MinebeaMitsumi** (+27%) was another strong performer, gaining on indications demand may have bottomed in several of its businesses.

Key detractors included global insurance player **Beazley** (-12%), weakening after releasing disappointing results, **Allfunds** (-7%), weakening on general concerns in the financials sector, and commodities (**Glencore** -14%, **UPM-Kymmene** -11%, **Schlumberger** -8%), falling on growth concerns. Short positions in aggregate reduced performance for the quarter by 1.8%.

## Changes to the Portfolio

The Fund's net invested position increased from 63% to 71% over the quarter. Falling share prices in the financial sector provided an opportunity to add to existing holdings **Allfunds** (European investment fund platform), **St. James's Place** (UK wealth manager) and **Intercontinental Exchange** (financial exchanges and data services). We initiated a new position in **TransUnion**, a US provider of consumer credit ratings and other data services. TransUnion had been sold off on concerns that the collapse in US mortgage applications, as a result of higher interest rates, would impact their earnings in the short term, providing an opportunity to acquire shares in this high-quality growth company at an attractive price.

Early in the quarter, we trimmed positions in our European banks **Erste**, **Raiffeisen Bank International** and **Intesa Sanpaolo** after strong share price gains in recent months. Similarly, we substantially reduced our position in online travel agent **Booking Holdings**. We also exited our position in **BMW** due to a combination of strong stock price performance and rising concerns over the increasingly competitive nature of the electric vehicle market in China. The net result was that the Fund's cash position fell from 20% to 16% over the quarter.

The focus of the short portfolio continues to be on companies that have weak earnings outlooks as interest rates start to impact the growth outlook. We continued to reduce our short positions on the growth stocks that have already fallen heavily over the last year. In aggregate, short positions were reduced from 17% to 13% over the quarter.

## Commentary

In recent quarters, we have stressed how the investment environment has fundamentally changed from that of the prior decade. The period from the global financial crisis (GFC) until early 2022 was marked by easy monetary policy and low interest rates, initially with quantitative easing and then the extraordinary fiscal and monetary policy response to the COVID pandemic. The cumulative effects of these

## Disposition of Assets

REGION	31 MAR 2023	31 DEC 2022	31 MAR 2022
Asia	27%	26%	25%
Europe	26%	26%	23%
North America	19%	16%	21%
Japan	8%	8%	13%
Australia	2%	2%	8%
Other	2%	2%	3%
Cash	16%	20%	8%
Shorts	-13%	-17%	-28%

See note 4, page 29. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

## Net Sector Exposures

SECTOR	31 MAR 2023	31 DEC 2022	31 MAR 2022
Industrials	19%	16%	18%
Financials	16%	14%	13%
Information Technology	9%	4%	9%
Materials	8%	9%	16%
Energy	8%	6%	4%
Consumer Discretionary	5%	8%	7%
Health Care	4%	4%	5%
Communication Services	3%	3%	3%
Real Estate	2%	3%	3%
Consumer Staples	0%	0%	1%
Other	-2%	-4%	-16%
TOTAL NET EXPOSURE	71%	63%	64%

See note 5, page 29. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

## Net Currency Exposures

CURRENCY	31 MAR 2023	31 DEC 2022	31 MAR 2022
Euro (EUR)	20%	23%	16%
Chinese Renminbi (CNY)	20%	20%	18%
Japanese Yen (JPY)	18%	18%	13%
United States Dollar (USD)	16%	16%	21%
UK Pound Sterling (GBP)	9%	10%	6%
South Korean Won (KRW)	4%	4%	4%
Hong Kong Dollar (HKD)	3%	2%	3%
Canadian Dollar (CAD)	2%	2%	4%
Australian Dollar (AUD)	2%	2%	8%
Indian Rupee (INR)	2%	2%	2%
Brazilian Real (BRL)	2%	2%	2%
Swiss Franc (CHF)	1%	1%	1%
China Renminbi Offshore (CNH)	-1%	-1%	0%

See note 6, page 29. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

policies have been the primary cause behind the sharp increase in inflation experienced across much of the global economy. The current interest rate tightening cycle that began in March 2022 has been dramatic, most notably in the US, where official interest rates have risen from virtually zero to close to 5% in the space of a year.<sup>3</sup> This is the most rapid increase in rates versus prior tightening cycles in the last 40 years (see the Macro Overview for further details). The monetary environment has changed from being a tailwind for economic growth and markets to a very strong headwind.

The failures of Silicon Valley Bank and Credit Suisse are a symptom of this environment. It should be remembered that these events come on the back of other recent financial accidents, such as the forced liquidation of assets by UK pension funds last October as a result of losses in leveraged bond portfolios and the collapse of cryptocurrency exchanges such as FTX. For the moment, banking regulators, by guaranteeing deposits, have calmed the situation both in the US and Switzerland. While there are lingering doubts about whether we will see further bank runs in the US, it is quite possible that the worst may be over. However, this does not mean there are no further ramifications for investors as a result of these events.

At the centre of the failure of Silicon Valley Bank and the broader troubles that have been faced by second-tier banks in the US in recent weeks are losses on bond and mortgage portfolios that resulted from the rise in interest rates. While these losses impacted bank capital, they did not cause Silicon Valley Bank to become insolvent. Rather, it was the loss of confidence of depositors, due to the weakened balance sheet, that resulted in a run on the bank and its ultimate demise. As such, the guarantee on deposits is an effective short-term solution. This doesn't solve the problem for the remaining banks that have accumulated losses in their bond and mortgage portfolios, reducing their capital base and thus their ability and willingness to make new loans at a time when banks were already becoming increasingly cautious.

It's important to note that these second-tier banks in the US are important lenders to small and medium-sized businesses, accounting for 28% of bank lending to this sector, and similarly to commercial real estate, providing 67% of bank lending.<sup>4</sup> This reduction in the availability of new loans is likely to exacerbate the impact of higher interest rates at a time when corporate defaults are rising at an alarming pace. The precariousness of the situation is why many are now predicting that the US Federal Reserve (Fed) will stop raising interest rates and start cutting rates before the end of this year. Given that there are also signs that

inflation has peaked, this is not an unreasonable conclusion to draw. The one dilemma the Fed faces at this time, though, is that the US economy remains quite robust. While we noted last quarter that employee layoff announcements had picked up sharply, employment markets remain tight, with people readily finding new jobs, and annual wage growth, while softening, remains historically strong, growing by 7.3% for the twelve months to February 2023.<sup>5</sup> There remains the risk that a significant cut in interest rates too early could reignite inflationary forces.

There have been concerns about possible contagion from the US to other banking systems, with the failure of Credit Suisse emphasising these concerns. While higher rates may yet impact other banking systems, the transmission mechanism will be different. In the US, residential mortgages are primarily done on a fixed-rate basis for 30 years, which means when rates go up, the lender loses out. In banking systems in other countries, where variable-rate (or short-term fixed-rate) mortgages are standard, it is the borrower that suffers when rates rise. Ultimately, that may result in banks incurring higher credit costs if increasing numbers of households are unable to service their mortgages. For the moment, there is little evidence of this in markets such as Europe or Australia, but of course, one cannot discount that it may yet happen in time. As for Credit Suisse, it was simply an accident-prone institution that was vulnerable to a bank run in a time of significant uncertainty. It is worth mentioning that none of the Platinum funds hold any US banks or Credit Suisse.

Europe's economy has been remarkably resilient in the face of numerous negative factors. Interest rates have risen sharply in response to inflation, as we have seen elsewhere. The war in Ukraine has severely impacted consumer and business confidence, not to mention the disruption to energy and other commodity markets. Yet the European economy still grew in real terms over the course of 2022 by 3.5%, and likewise, employment grew by 1.2%.<sup>6</sup> This has occurred in a period where rapidly escalating energy prices in the first half of 2022 resulted in an outright loss of competitiveness for European industries, with energy-intensive sectors such as petrochemicals and fertilisers experiencing significant capacity closures. Offsetting this set of unfortunate circumstances was that energy prices only remained elevated for a relatively short period, with key markets returning to levels before the Ukraine war, partly as a result of the good fortune of a warmer-than-normal winter and a sluggish Chinese economy reducing overall energy demand. While the outcomes in Europe have been surprisingly good, there remains a degree of uncertainty. Firstly, history would suggest there is a significant lag between interest rate increases and their impact on activity,

3 Federal Funds Effective Rate. Source: Federal Reserve Bank of St. Louis.

4 Source: BofA.

5 Source: <https://tradingeconomics.com/united-states/wage-growth>

6 Source: FactSet Research Systems.

in which case we are yet to see the full impact of last year's interest rate rises. Further, it is far from clear that Europe has fully resolved its energy supply issues, particularly as there is a significant degree of good fortune in escaping the worst-case scenarios in the second half of last year.

In China, the country has moved beyond the damaging economic effects of last year's COVID lockdowns in a similar fashion to the rest of the world, with indicators of mobility suggesting life is returning to normal. Most importantly, there has been a pickup in sales of residential apartments in the major cities, suggesting that the government's move to ensure adequate funding for property developers to complete projects has resulted in a lift in confidence in the sector. We would expect the economy to continue to build momentum as the year unfolds. With respect to tensions between the US and China, it is worth noting the announcement from Ford that for its new electric vehicle plant, it will be using battery technology provided by the Chinese company Contemporary Amperex Technology Co. Limited (CATL), while there are reports that Tesla will also sign a deal with the company. The Ford deal has been signed even though it could potentially exclude the company from US subsidies. CATL is the global leader in providing electric vehicle batteries, having mastered making batteries using a lower-cost lithium iron phosphate (LFP) chemistry. This is mentioned simply to note that while the war of words continues between the US and China, the reality is that the economies of the West and China are highly interdependent.

## Outlook

Since the collapse in the stock price of Silicon Valley Bank on 9 March, it is interesting that the US market has rallied 5% in local currency terms while other major stock markets have generally weakened (see Fig. 1). The strong short-term performance in the US is generally attributed to the increased likelihood of earlier-than-expected interest rate cuts. While cuts are probably closer than we had thought, this is probably not a good explanation for the market's reaction. After the last two speculative stock market bubbles that ended in 2001 (the tech wreck) and 2008 (the GFC), the

**Fig. 1: US Market Bounces Despite Bank Crisis**

Local currency

COUNTRY	INDEX	% CHANGE 9 MAR 2023 TO 31 MAR 2023
USA	S&P 500	4.9%
USA	Nasdaq Composite	7.8%
Europe	STOXX Europe 600	-0.5%
Japan	Nikkei 225	-2.0%
China	SSE Composite Index	-0.1%
Australia	S&P/ASX 200	-1.8%

Source: FactSet Research Systems.

first interest rate cuts presaged a collapse in US corporate earnings and the stock market. As already noted, given that over the last 12 months we have experienced the sharpest rise in rates in the US in over four decades, along with quantitative tightening, followed now by a banking crisis that will further tighten the availability of credit, to suggest that the market is celebrating future rate cuts that will usher in the beginning of a new economic cycle does not seem credible.

The answer is partly found by looking at sector performance within the US market. The market has been led higher by a select group of technology stocks (many of the old favourites of the bull market, such as the FANGs, Microsoft and Nvidia) and consumer staples (up 4.7% since 9 March), while interest-rate sensitive stocks that tend to benefit from falling interest rates, such as financials (down 3.6%) were sold off. This is a stock market that is factoring in a much more uncertain future. This is consistent with the softer performance of markets outside of the US, as they are typically more sensitive to economic growth.

As events unfold, the idea that US corporate earnings will remain resilient looks increasingly unrealistic, and the probability of further significant falls in US stock indices is high. However, investors are not generally well served by focusing on such predictions. The best approach at such times is to not get caught up in the short term and instead focus on likely outcomes in different sectors and economies over the next five years and beyond, and be ready to take advantage of opportunities presented by the markets. Companies that will benefit from the decarbonisation of the global economy, the diversification of supply chains and reshoring of production, higher interest rates, and a resurgent China are some of the themes that we will continue to focus on in our search for opportunities.

## Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
ZTO Express Cayman Inc	China	Industrials	3.9%
MinebeaMitsumi Co Ltd	Japan	Industrials	3.3%
Microchip Technology Inc	US	Info Technology	3.2%
Ping An Insurance Group	China	Financials	2.7%
UPM-Kymmene OYJ	Finland	Materials	2.6%
Allfunds Group Plc	UK	Financials	2.6%
Weichai Power Co Ltd	China	Industrials	2.3%
LG Chem Ltd	South Korea	Materials	2.2%
Samsung Electronics Co Ltd	South Korea	Info Technology	2.1%
Airbus SE	France	Industrials	2.1%

As at 31 March 2023. See note 7, page 29.

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 [www.platinumworldportfolios.ie/The-Funds/PWP-International-Fund](http://www.platinumworldportfolios.ie/The-Funds/PWP-International-Fund)

# Platinum Asia Fund



**Andrew Clifford**  
Portfolio Manager



**Cameron Robertson**  
Portfolio Manager



**Kirit Hira**  
Portfolio Manager

## Performance

(compound p.a.<sup>+</sup>, to 31 March 2023)

SHARE CLASS	QTR	1 YR	3 YRS P.A.	5 YRS P.A.	SINCE INCEPTION P.A.
PWP Asia Fund Class A USD	3%	-4%	9%	2%	7%
PWP Asia Fund Class B USD	3%	-4%	-	-	-12%
PWP Asia Fund Class D USD	3%	-4%	9%	2%	7%
PWP Asia Fund Class F EUR	1%	-3%	9%	-	6%
PWP Asia Fund Class I USD	3%	-4%	9%	3%	8%
MSCI AC Asia ex Jp Net Index <sup>^</sup>	4%	-9%	7%	0%	6%

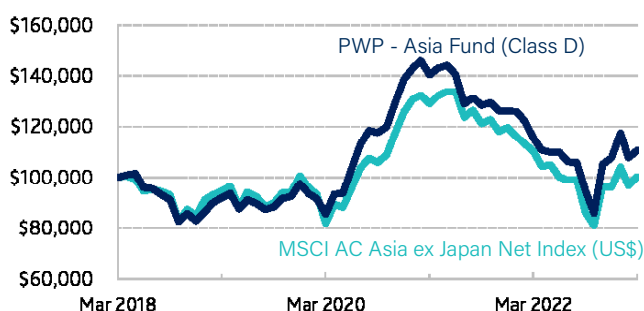
<sup>+</sup> Excluding quarterly returns. Fund returns are net of accrued fees and costs. Class D inception date (16 Nov 2015) is used for Index "since inception" returns.

<sup>^</sup> Index returns are those of the MSCI All Country Asia ex Japan Net Index in USD. Source: Platinum Investment Management Limited for Fund returns, FactSet Research Systems for Index returns.

**Historical performance is not a reliable indicator of future performance. Returns could be reduced, or losses incurred due to currency fluctuations.** See notes 1 & 2, page 29.

### Value of US\$100,000 Invested Over Five Years

31 March 2018 to 31 March 2023



After fees and costs. See notes 1 & 3, page 29. **Historical performance is not a reliable indicator of future performance. Returns could be reduced, or losses incurred due to currency fluctuations.**

See notes 1 & 2, page 29.

Source: Platinum Investment Management Limited, FactSet Research Systems.

The Fund (Class D) returned 2.7% for the quarter.<sup>1</sup>

Korea and China stood out as the best-performing markets during the quarter, while the rest of the region was largely weak, with India, Thailand and Malaysia all selling off.

At the start of the quarter, China's reopening was firmly in focus, leading to a continued sharp appreciation in stock prices, particularly in travel and service-exposed areas of the market. As the quarter wore on, enthusiasm was tempered a little. The economic recovery, while clearly coming through, is occurring at a measured pace. There have also been some fears that as growth comes back, competitive intensity in certain areas, like e-commerce, may also see a corresponding increase. All this led to some paring of gains as the quarter progressed, but overall, China was a strong contributor.

Larger holdings, like **Tencent** (+22%), **Trip.com** (+10%), **H World Group** (+15%), **ZTO Express** (+6%) and **Weichai Power** (+20%) saw their shares appreciate in line with the reopening of that economy and the relaxing of regulatory pressures. Office software and computer game company **Kingsoft** (+48%) also rose rapidly towards the end of the quarter, as it was caught up in the market's enthusiasm around the potential for incorporating large language models, like chatGPT, into its product suite. **Alibaba** (+16%) gained after announcing it will break up into six different business units, five of which are already slated for initial public offerings (IPOs) in Hong Kong.

<sup>1</sup> References to returns and performance contributions (excluding individual stock returns) in this PWP - Asia Fund report are in USD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

Despite the generally strong backdrop, some Chinese holdings declined. For example, **JD.com** (-22%) fell as fears around the competitive intensity in the domestic e-commerce market increased. Grocery delivery company **Dingdong** (-10%) delivered what we considered a fairly encouraging earnings release during the quarter, showing an impressive turnaround in profitability. Nevertheless, Dingdong's shares subsequently sold off, seemingly around competition fears and a question over how consumers' eating and shopping behaviours may change with lockdowns now behind them. Paper and packaging company **Nine Dragons Paper** (-17%) and **China Merchants Bank** (-8%) also declined during the quarter.

The strength of the Korean market was driven more by company- and industry-specific factors than any broader narrative for the overall market.

Our holdings in the large semiconductor companies across the region, including **Samsung Electronics** (+16%), **Taiwan Semiconductor Manufacturing** (+19%) and **SK Hynix** (+18%) benefited as market participants appear to be positioning for industry conditions to improve later this year. **LG Chem** (+19%) fared well, with the share price rising on increasing enthusiasm around the company's growth opportunities in North America with their battery business as well as an improving outlook for their chemicals business. Our small holding in **HPSP** (+87%), a recently listed company with a global monopoly in high-pressure hydrogen annealing equipment used in cutting-edge semiconductor production, performed well during the quarter as investors cottoned on to the strength of its position.

As mentioned, the Indian market had a weaker quarter, dragging some of our Indian holdings down. Sentiment towards the broad Indian market was shaken during the quarter by the publication of a high-profile short-seller's report, which focused on the business practices of a heavily indebted large Indian business conglomerate (that we had no exposure to). The challenges seen in the US banking system with Silicon Valley Bank and Signature Bank also clouded the earnings outlook for large Indian IT outsourcing firms that receive a significant amount of their work from the US banking sector. Finally, we saw signs of weakness in rural consumption trends in India, which impacted sentiment towards the listed Indian consumer goods companies. Looking at our portfolio, property developer **Macrotech Developers** (-15%) and airline **InterGlobe Aviation** (-5%) both sold off along with the broader market.

Our short positions in aggregate were modest positive contributors to the Fund's returns.

## Changes to the Portfolio

During the quarter, we reduced our exposure to some of the stronger-performing stocks in the Fund. For example, we sold down Chinese travel website **Trip.com**, hotel chain operator **H World Group**, fast food chain **Yum China** (exited), artificial intelligence (AI)-hyped software and gaming company **Kingsoft**, and large Chinese internet companies **Tencent** and **Alibaba**.

The proceeds were redeployed into other opportunities across the region.

## Disposition of Assets

REGION	31 MAR 2023	31 DEC 2022	31 MAR 2022
China	49%	50%	43%
South Korea	13%	11%	10%
India	7%	8%	9%
Taiwan	7%	5%	7%
Vietnam	6%	5%	5%
Hong Kong	4%	4%	4%
Philippines	2%	2%	2%
Macao	2%	2%	1%
Singapore	1%	1%	1%
Thailand	1%	1%	0%
Indonesia	1%	0%	0%
Cash	8%	10%	18%
Shorts	-5%	-1%	-6%

See note 4, page 29. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

## Net Sector Exposures

SECTOR	31 MAR 2023	31 DEC 2022	31 MAR 2022
Consumer Discretionary	18%	19%	16%
Information Technology	15%	13%	16%
Industrials	14%	13%	11%
Real Estate	13%	15%	14%
Financials	12%	12%	10%
Materials	6%	5%	3%
Consumer Staples	4%	4%	3%
Communication Services	4%	4%	3%
Health Care	1%	1%	1%
Energy	0%	0%	0%
Other	0%	3%	-1%
TOTAL NET EXPOSURE	87%	89%	77%

See note 5, page 29. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

We added to our position in **Supalai**. This is a well-run Thai property developer that is focused on serving the mid-market. We believe it has a healthy competitive position stemming from its strong procurement capabilities. The Thai property market has been running at a relatively stable level for a number of years and could be set to benefit from the return of international travellers. Meanwhile, the business is trading at what we believe to be an attractive valuation, exhibits good governance and has a nice dividend yield.

We also increased our exposure to Vietnamese electronics and grocery retailer **Mobile World Investment**, Indonesian paints company **Avia Avian** and Chinese utilities billing software company **Longshine Technology**.

In terms of new holdings, we received shares in Chinese food delivery, travel and services platform, **Meituan**, as **Tencent** continues its portfolio optimisation process and distributes shares in its investee companies to Tencent shareholders. Perhaps more importantly, however, as it pertains to our investment in Tencent, we view this as a mixed blessing. Distributing Tencent's investment holdings should help investors fully realise the value of those assets, but it's also important to acknowledge these actions partially reflect the fact it has become much more difficult under the current regulatory environment for Tencent to leverage its mobile ecosystem to continue supporting the deployment of capital into investees at high rates of return. That said, Tencent management has proven themselves to be very capable capital allocators, even in overseas markets where they couldn't rely on the support from their platform,

so we remain optimistic they will continue to build value for shareholders on this front.

We also initiated small positions in Chinese e-commerce company **PDD** and a South East Asian company that operates in the pharmaceutical and supplements markets.

## Commentary

It is encouraging to see many of the headwinds that have been present in China over the past couple of years now dissipating. The country has fully reopened from its COVID lockdowns, and we are seeing consumers and businesses take advantage of this. Domestic travel has picked up dramatically; for example, Macau has seen visitations increase by 122% in the first two months of the year compared to the same period last year.<sup>2</sup> Retail sales are also back to growth, rising 3.5% in January and February after showing a slight 0.2% decline last year.<sup>3</sup>

The property sector, which had been a headwind to the Chinese economy over the past 18 months, is showing signs of stabilisation and possibly even the first glimmers of returning to growth. After a hiatus, the government is once again making it easier for the surviving developers to access fresh capital, complete projects and get back to growth. The People's Bank of China (PBOC) has also taken a fairly nuanced approach to stabilising the market, with tailored

<sup>2</sup> Source: <https://www.dsec.gov.mo/ts/#/step2/KeyIndicator/en-US/27>

<sup>3</sup> Source: <https://www.scmp.com/economy/china-economy/article/3215009/china-tourism-domestic-flights-surpass-pre-pandemic-levels-and-international-bookings-soar>

## Net Currency Exposures

CURRENCY	31 MAR 2023	31 DEC 2022	31 MAR 2022
Chinese Renminbi (CNY)	49%	50%	43%
South Korean Won (KRW)	13%	11%	10%
United States Dollar (USD)	9%	4%	6%
Hong Kong Dollar (HKD)	7%	10%	18%
New Taiwan Dollar (TWD)	7%	5%	7%
Vietnamese Dong (VND)	6%	5%	5%
Indian Rupee (INR)	2%	7%	6%
Philippine Peso (PHP)	2%	2%	2%
Macanese Pataca (MOP)	2%	2%	1%
Singapore Dollar (SGD)	1%	1%	1%
Thai Baht (THB)	1%	0%	0%
Indonesian Rupiah (IDR)	1%	0%	0%
UK Pound Sterling (GBP)	0%	0%	1%

See note 6, page 29. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

## Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Taiwan Semiconductor	Taiwan	Info Technology	5.7%
Samsung Electronics Co	South Korea	Info Technology	5.2%
ZTO Express Cayman Inc	China	Industrials	5.1%
Ping An Insurance Group	China	Financials	4.7%
Vietnam Enterprise Inv	Vietnam	Other	4.2%
InterGlobe Aviation Ltd	India	Industrials	4.1%
Tencent Holdings Ltd	China	Comm Services	3.6%
China Resources Land Ltd	China	Real Estate	3.6%
SK Hynix Inc	South Korea	Info Technology	3.1%
Weichai Power Co Ltd	China	Industrials	3.0%

As at 31 March 2023. See note 7, page 29.

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 [www.platinumworldportfolios.ie/The-Funds/PWP-Asia-Fund](http://www.platinumworldportfolios.ie/The-Funds/PWP-Asia-Fund)

policy settings in place for different parts of the country. One example of the PBOC's recent adjustments is to allow local markets to lower rates if their property prices have seen steady declines.<sup>4</sup> This means, for example, that at the current point in time, a first-time homebuyer could access funding at interest rates as much as 1% lower if they wanted to purchase a home in Wuxi, where prices have recently been declining, than if they were buying a home just 50 kilometres further east, in the relatively more buoyant property market of Shanghai. As a result of policies like these and others, which help to restore confidence in the market, new house prices across the 70 largest cities in the country actually saw a slight increase in January for the first time in a year, and volumes in the secondary market are starting to pick up as well.

A third aspect that impacted investor confidence towards the Chinese market in recent years was the regulatory environment. After a series of regulatory actions, such as targeting anti-monopolistic behaviour among large e-commerce and internet companies and opening the "walled garden" ecosystems these firms had developed, it appears the required adjustments in business strategy and operations are now largely complete. These actions have, in some instances, helped level the playing field, resulting in relative winners and losers emerging from the shake-up. With the industry now in a steadier state, we are seeing commercial activity once again picking up, as evidenced by a range of things, including the resumption of computer game launches and fintech companies re-engaging with plans to conduct an initial public offering (IPO).

In recent months and quarters, we have received many questions from clients about our exposure to China. With the Chinese market having been so out of favour in recent times, we had steadily built up a very meaningful position. To be clear, we still remain optimistic about the outlook for this country and the market. That said, as the Chinese economy, company earnings and sentiment have started to improve, share prices have correspondingly begun to adjust upwards. Meanwhile, in other countries across the region, stocks have generally been a little weaker in recent months. As a result, the relative value on offer is, at the margin, shifting a little, and we have gradually been adjusting our portfolio to reflect the changing opportunity set.

We've spoken previously about the improvements in the South Korean market with respect to protections for minority investors and how we expect this to be a slow and steady tailwind to asset pricing in that market over the coming years. In the shorter term, however, the Korean market tends to be pushed around based on market sentiment towards the more cyclical end markets for the country's major exporters. Over the past year, the country's semiconductor sector (Samsung and SK Hynix) has experienced a decline in end demand, with a concerted downturn across global mobile phone sales, PC and laptop sales, and demand from cloud computing and hyperscale operators. In the face of this weakness, the industry has behaved remarkably well, reducing planned investment in new capacity. However, reductions in planned capacity take time to tighten the supply-demand balance, and so we saw inventory build throughout the supply chain. While end demand still remains uncertain, we are hearing early positive commentary emerging around customer and channel inventories starting to clear. The industry has also been dragged into the US-China trade war and strategic competition, further complicating matters. The positive from this is that these actions have reduced the threat of any new Chinese entrants, but they have also put a question mark on the longer-term future of these Korean companies' facilities located within China. So, the industry may continue down a rocky path for a little while yet, but whenever global demand does recover, industry profitability could return with a vengeance.

## Outlook

As always, picking the future direction of markets is a challenging exercise. That said, the backdrop for investors to make money investing in the Asia region over at least the medium term seems promising. Unlike many stock markets around the world, Asia shouldn't face the same degree of headwinds from rising rates or the withdrawal of liquidity left over from prior quantitative easing exercises. Markets across the region are, by and large, trading on reasonable valuations, and it is not hard to find growth opportunities for companies and industries in these rapidly advancing economies.

Our net exposure has reduced modestly during the past quarter, driven more by increases in our short positions than any paucity of long ideas. We continue to search broadly for new investment opportunities as part of the constant process of portfolio renewal, and the fact that we are continuing to find ideas at a steady cadence reflects the general premise that the region remains prospective.

<sup>4</sup> See <http://www.pbc.gov.cn/en/3688110/3688172/4756445/4763787/index.html>

# Platinum Japan Fund



**James Halse**  
Portfolio Manager

## Performance

(compound p.a.<sup>+</sup>, to 31 March 2023)

SHARE CLASS	QUARTER	1 YR	3 YRS P.A.	5 YRS P.A.	SINCE INCEPTION P.A.
PWP Japan Fund Class A USD	5%	-4%	9%	1%	6%
PWP Japan Fund Class B USD	5%	-	-	-	-
PWP Japan Fund Class D USD	5%	-4%	8%	0%	5%
PWP Japan Fund Class F EUR	3%	-2%	9%	3%	2%
MSCI Japan Net Index (USD) <sup>^</sup>	6%	-5%	7%	1%	4%

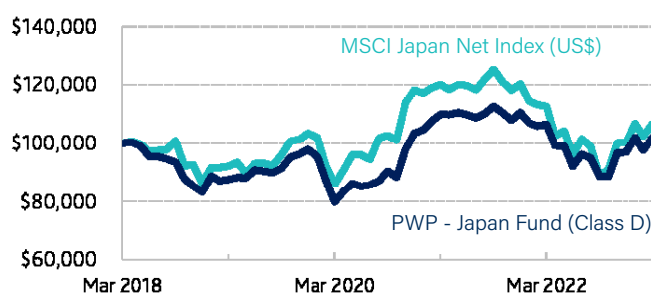
+ Excluding quarterly returns. Fund returns are net of accrued fees and costs. Class D inception date (16 Nov 2015) is used for Index "since inception" returns.

<sup>^</sup> Index returns are those of the MSCI Japan Net Index in USD. Source: Platinum Investment Management Limited for Fund returns, FactSet Research Systems for Index returns

**Historical performance is not a reliable indicator of future performance. Returns could be reduced, or losses incurred due to currency fluctuations.** See notes 1 & 2, page 29.

### Value of US\$100,000 Invested Over Five Years

31 March 2018 to 31 March 2023



After fees and costs. See notes 1 & 3, page 29. **Historical performance is not a reliable indicator of future performance. Returns could be reduced, or losses incurred due to currency fluctuations.** See notes 1 & 2, page 29. Source: Platinum Investment Management Limited, FactSet Research Systems.

The Fund (Class D) delivered a solid 5.0% return during the quarter, boosted by general strength in the Japanese equity market.<sup>1</sup>

The rise in the broader market was primarily driven by a rebound in growth stocks, particularly in technology-related areas. Meanwhile, financials reversed much of their gains from the December quarter as the issues in the US banking system stoked recession fears and led to downward pressure on rates globally. This reduced pressure on the yen and thus makes it less likely the Bank of Japan will be forced to abandon its controversial yield curve control policy, which in turn reduced hopes of Japanese banks being able to invest their low-cost deposits at higher rates of return.

The issues in the US likely also caused investors to turn their eyes to the asset side of the balance sheets of Japanese financial institutions and to note their large holdings of low-yielding government bonds. The danger here is that should rates rise, the market value of these holdings will fall. These assets are not required to be marked-to-market unless sold, but if depositors withdraw funds in large enough numbers, capital positions can begin to look precarious as assets are sold to meet withdrawals, thus crystallising losses and stimulating more withdrawals and a disastrous feedback loop; exactly what happened with Silicon Valley Bank (SVB). This outcome seems much less likely in the Japanese context as the deposit base is diversified, whereas SVB's clients were typically loss-making, venture capital-funded corporates, which had

<sup>1</sup> References to returns and performance contributions (excluding individual stock returns) in this PWP - Japan Fund report are in USD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

account balances that were rapidly declining as the normal source of replenishment, the venture-funding market, had dried up. Nevertheless, the change in investor perceptions of this risk factor sent financials stocks, particularly regional bank stocks, lower. The Fund had minimal exposure to this area, so was only slightly affected.

Strong contributors to the Fund's performance in the quarter included semiconductor equipment maker **Tokyo Electron** (+24% in the quarter) and silicon wafer producer **Sumco** (+13%), as well as memory chip makers **SK Hynix** (+18%) and **Samsung Electronics** (+16%). These stocks all rebounded in line with the broader technology sector. Semiconductor stocks also bounced following commentary from various management teams suggesting that the bottom of the current downturn in the cycle may occur in the first half of 2023. Additionally, our large position in precision manufacturer **MinebeaMitsumi** rose 27% from depressed levels on indications demand may have bottomed in several of its businesses, and two of our small-cap Korean holdings performed strongly. **Doosan Bobcat** (+26%) gained on continued strong demand for its small excavators in North America, and semiconductor equipment maker **HPSP** (+87%) became a local favourite after parallels were drawn to industry leader ASML by certain local commentators.

Detractors from performance included **Toho Titanium** (-21%), which declined due to investor concerns over its ability to pass on input cost increases to customers, and software as a service (SaaS) provider **Henng K.K.** (-21%), which sold off as its earnings fell by more than the market expected. The stock remains interesting as a small but growing player in digital security with a significant opportunity to increase its pricing. Baby bottle maker **Pigeon** fell 5% after providing a weak near-term outlook as birth numbers in China continue to be impacted by pandemic effects. Coating machine manufacturer **Hirano Tecseed** fell 10% as earnings weakened because of input cost increases. Our short positions detracted 0.7% from performance.

## Disposition of Assets

REGION	31 MAR 2023	31 DEC 2022	31 MAR 2022
Japan	82%	81%	69%
South Korea	8%	9%	8%
Cash	10%	10%	23%
Shorts	-7%	-6%	-4%

See note 4, page 29. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

## Net Sector Exposures

SECTOR	31 MAR 2023	31 DEC 2022	31 MAR 2022
Information Technology	28%	26%	18%
Industrials	22%	20%	20%
Materials	16%	18%	13%
Consumer Staples	8%	7%	6%
Consumer Discretionary	3%	6%	7%
Communication Services	3%	4%	6%
Health Care	2%	3%	2%
Financials	2%	0%	2%
Real Estate	-3%	0%	0%
TOTAL NET EXPOSURE	82%	84%	73%

See note 5, page 29. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

## Net Currency Exposures

CURRENCY	31 MAR 2023	31 DEC 2022	31 MAR 2022
Japanese Yen (JPY)	87%	88%	50%
South Korean Won (KRW)	8%	9%	8%
United States Dollar (USD)	4%	3%	8%
Australian Dollar (AUD)	1%	1%	34%

See note 6, page 29. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

## Changes to the Portfolio

We added new holdings in **Digital Garage** and **MS&AD Insurance** in the quarter. Digital Garage holds a portfolio of assets that include a large stake in online price comparison site Kakaku.com and also owns one of Japan's leading payment processing businesses. It is well-placed to continue benefiting from an ongoing shift to cashless payments and is attractively valued. MS&AD is an attractively valued and conservatively run insurer that has significantly overprovisioned for potential future natural catastrophe losses despite having reduced much of its risk via reinsurance arrangements. This causes its valuation to be even further understated.

Additionally, we took advantage of price weakness to add to our positions in IT services firm **DTS**, seismic consultant **Oyo** and software testing firm **SHIFT**, while trimming several stronger performers, including personal hygiene brand owner **Unicharm**, **Fujitec**, **Samsung**, **MinebeaMitsumi** and **Tokyo Electron**.

We exited our holding in power semiconductor manufacturer **Rohm** as we feared significant destruction of shareholder value as a result of the use of its cash balance to potentially join a private equity-led syndicate to take conglomerate Toshiba private. While a merger with Toshiba's chip business would make a lot of strategic sense for Rohm, the use of its sizeable cash balance to assume a role as a minority owner of a conglomerate would be far from optimal. We await further details of how this may play out.

We also exited our holding in paper manufacturer **Hokuetsu** (+29% from our first purchase in May 2021 to our final sale price) following solid relative performance and what we viewed as a peak in its relative cost advantage versus competitors.

## Commentary

A big story in Japanese markets during the quarter was the move by the Tokyo Stock Exchange (TSE) to attempt to push companies to focus more on their cost of capital and stock prices via a 'name and shame' approach. This culminated at the end of the quarter with a (non-mandatory) request that companies trading below 1x price-to-book (P/B) should publish detailed plans as soon as possible on how they expect to achieve a 1x level or better and to continue updating those plans each year.

The TSE's move appeared to already have had some effects even prior to their request being officially made, with Citizen Watch citing it as a core reason for announcing a buyback of 25% of its outstanding shares, causing its stock to jump 27% over the next two trading days.<sup>2</sup> The TSE's pronouncements, along with the disclosure of a ~5% stake by an activist investor, may also have had an impact on Dai Nippon Printing's decision to announce a buyback of ¥300 billion (A\$3.4 billion) of stock over three years, amounting to around a third of its total market value. This buyback is planned to be partially funded by the sale of a large portion of its ¥400 billion in cross-shareholdings in other Japanese-listed companies.<sup>3</sup>

<sup>2</sup> Source: [https://www.citizen.co.jp/cms/cwc/global/files/FY22\\_3QPse.pdf](https://www.citizen.co.jp/cms/cwc/global/files/FY22_3QPse.pdf)

<sup>3</sup> Source: [https://www.global.dnp/news/detail/20168984\\_4126.html](https://www.global.dnp/news/detail/20168984_4126.html)

## Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Toyo Seikan Group	Japan	Materials	6.8%
Fuji Soft Inc	Japan	Info Technology	4.6%
Minebea Co Ltd	Japan	Industrials	4.5%
Fujitec Co Ltd	Japan	Industrials	4.1%
Pigeon Corp	Japan	Consumer Staples	4.0%
DTS Corp	Japan	Info Technology	3.8%
Lixil Group Corp	Japan	Industrials	3.3%
Oyo Corp	Japan	Industrials	3.1%
SHIFT Inc	Japan	Info Technology	2.9%
Doosan Bobcat Inc	South Korea	Industrials	2.8%

As at 31 March 2023. See note 7, page 29.

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 [www.platinumworldportfolios.ie/The-Funds/PWP-Japan-Fund](http://www.platinumworldportfolios.ie/The-Funds/PWP-Japan-Fund)

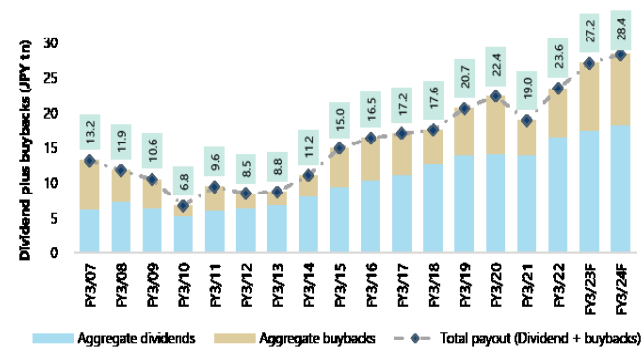
It appears likely that cash distributions from Japanese corporations will continue to increase from current record levels, spurred by growing shareholder activism amid the ongoing push by the TSE, Financial Services Authority, and Ministry of Economy, Trade and Industry for corporates to improve their profitability. In turn, this should drive an improvement in stock performance for two main reasons. The first reason is that a company buying back stock priced at levels below 1x P/B actually increases its book value per share as a result of the transaction. The second is that a reduction in excess cash holdings leads to an improvement in return on equity (ROE), which tends to increase the valuations at which stocks trade.

Therefore, we could see a double-whammy effect of buybacks driving a solid increase in book value per share, coupled with a market trading at a higher average P/B ratio. Indeed, Jefferies estimates<sup>4</sup> that if the MSCI Japan's ROE increases to 13% from its current 10% level, the P/B ratio of the index could increase by 50%, to 1.9x (see Fig. 2), which would drive stocks upward well in excess of any underlying earnings growth.

Regular readers may recall that the Fund has a large weighting to companies where there is an opportunity to enhance shareholder value via improvements in governance and capital allocation. During the quarter, one of our large holdings, Fujitec, saw major changes to its board of directors following an extraordinary meeting called by an activist to propose new independent director candidates.

<sup>4</sup> Source: Quantamentals, Japan Microstrategy: TSE Reform Beneficiaries, 23 March 2023, Jefferies.

**Fig. 1: Topix - Aggregate Dividend and Buybacks Trend Since FY3/07**



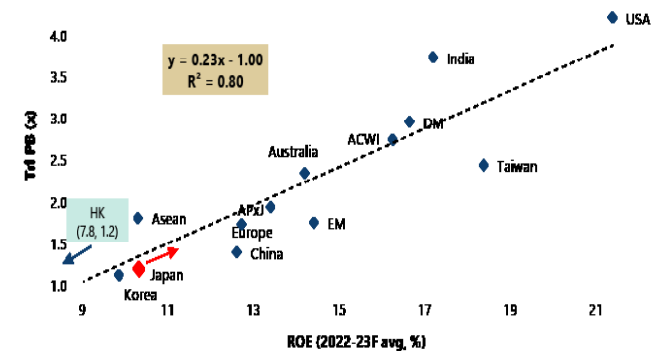
Source: FactSet Research Systems, Bloomberg, Jefferies.

Following the partial success of the activist's slate, the company removed its unelected chairman and another existing director resigned, indicating the activist achieved a broader victory than initially suspected. Fujitec returned 10% for the quarter and has appreciated 40% from our initial purchase in May 2021.

## Outlook

We see the outlook for Japanese stocks as very positive. With a starting point of low valuations and a tailwind of rising buybacks and dividends driven by the government and activists pushing to improve profitability, it is relatively easy to envision a golden period for the market going forward. Of course, Japan would not be immune from a US-led global downturn, but the economy is seeing a somewhat independent boost from corporate investment in the reshoring of production and wages that have begun to grow. Meanwhile, interest rates remain low and the currency appears to have stabilised, which reduces imported inflation. The Fund is thus positioned quite bullishly so as to benefit from these dynamics.

**Fig. 2: MSCI Global Regions and Markets (including finance) - ROE versus P/B**



Source: Jefferies, FactSet Research Systems, Bloomberg.

# Platinum Health Sciences Fund



Dr Bianca Ogden  
Portfolio Manager

## Performance

(to 31 March 2023)

SHARE CLASS	QUARTER	SINCE INCEPTION
PWP Health Sciences Fund Class D USD	-2%	1%

Fund returns are net of accrued fees and costs. Inception date is 28 Oct 2022.  
The Fund uses an absolute return hurdle for performance comparison purposes and for the purposes of calculating performance fees payable to the investment manager. Source: Platinum Investment Management Limited.  
**Historical performance is not a reliable indicator of future performance. Returns could be reduced, or losses incurred due to currency fluctuations.** See notes 1 & 2, page 29.

The Fund (Class D) returned -1.7% for the quarter.<sup>1</sup>

The global healthcare sector had the worst start to the year in 30 years relative to the S&P 500 index (see Fig. 1).

The PWP - Health Sciences Fund primarily invests in companies that develop new therapies, devices or diagnostic approaches. The Fund also focuses on companies that enable such innovations to take place, such as next-generation tools used by scientists. For the past 18 months or so, these subsectors of healthcare have been abandoned by generalist investors due to the changing interest rate environment. Many companies in this subsector are unprofitable and depend on external capital, which is now more difficult to come by. In the past six months, we have witnessed a glimpse of a recovery, but the collapse of Silicon Valley Bank, which has been a crucial provider of

<sup>1</sup> References to returns and performance contributions (excluding individual stock returns) in this PWP - Health Sciences Fund report are in USD terms, unless otherwise specified. Individual stock and index returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

**Fig. 1: Healthcare Performance Relative to S&P 500 Calendar Year to Date (US\$)**



Source: Goldman Sachs Global Investment Research, FactSet Research Systems.

**As at the date of this document there is insufficient data for the Value of US\$100,000 Invested Chart.**

funding to many start-ups in this space, has again put a dampener on the recovery. In all honesty, the biotech sector is currently priced as if it is going out of business.

A recent chart from Goldman Sachs highlights the fact that valuations of biotech companies are currently at rock-bottom levels (see Fig. 2). These levels have historically coincided with recessions and, most importantly, have marked key inflection points for the sector.

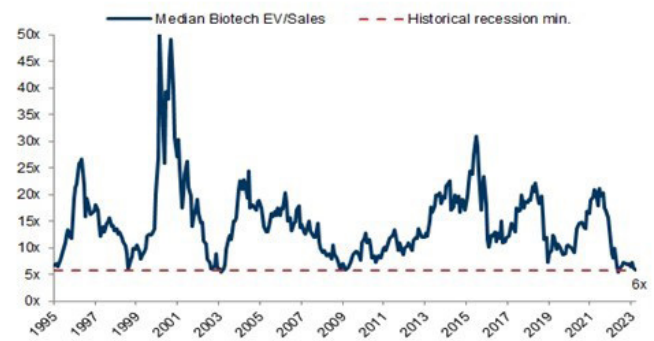
For further context, the SPDR S&P Biotech ETF (XBI), an index that largely comprises non-profitable biotechs, returned -8.2% in US dollar terms for the quarter. As mentioned, the Fund returned -1.7% for the quarter.

Pharmaceutical (pharma) companies have held up relatively better, reflecting their attraction as safe havens. The pharma companies that we own focus on retooling, including **Takeda Pharmaceutical** and **Sanofi**. Both companies are making good progress and have provided a positive contribution to the Fund's performance over the quarter, rising 6% and 12%, respectively. A special mention goes to Sanofi, which received new drug approvals and promising data in chronic obstructive pulmonary disease (COPD) for its key anti-inflammatory antibody, Dupixent.

Other contributors to performance over the quarter included US biotech **Albireo Pharma** (+103%), which was acquired by French biopharmaceutical company Ipsen over the quarter. Albireo's focus is on bile-acid modulators to treat rare liver conditions and complements Ipsen's rare disease portfolio. **Bayer** (+21%) rallied after further chatter on a potential breakup and the appointment of Bill Anderson as the new CEO. Bill was previously the CEO of Roche Pharma and is considered to be a very pragmatic manager. This is yet another member of the Roche alumni taking on the task of reforming a company with a drug discovery engine problem.

Key detractors over the quarter included **Icosavax**, **Alector** and **Quanterix**, which all weakened in line with the biotech sector. **Redx Pharma** (-52%) was another significant underperformer, with the stock weakening following its unsuccessful reverse merger with a US biotech.

**Fig. 2: Biotech Enterprise Value (EV)/Sales**



Source: Goldman Sachs Global Investment Research, FactSet Research Systems.

### Disposition of Assets

REGION	31 MAR 2023	31 DEC 2022
North America	33%	29%
Europe	18%	19%
Japan	4%	5%
Asia	3%	4%
Australia	2%	0%
Cash	39%	43%

See note 4, page 29. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

### Net Sector Exposures

SECTOR	31 MAR 2023	31 DEC 2022
Biotechnology	32%	28%
Pharmaceuticals	22%	23%
Life Sciences Tools & Services	5%	5%
Other	2%	1%
TOTAL NET EXPOSURE	61%	57%

See note 5, page 29. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

### Net Currency Exposures

CURRENCY	31 MAR 2023	31 DEC 2022
United States Dollar (USD)	72%	69%
Euro (EUR)	13%	17%
Japanese Yen (JPY)	4%	5%
Chinese Renminbi (CNY)	3%	4%
UK Pound Sterling (GBP)	3%	3%
Australian Dollar (AUD)	2%	0%
Danish Krone (DKK)	1%	1%
Swedish Krona (SEK)	1%	1%

See note 6, page 29. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

## Changes to the Portfolio

Since the inception of the Fund on 28 October 2022, we have continued to deploy capital into a range of names. Given the company-level volatility that this sector experiences, often exacerbated by events early in the year, we continue to apply our disciplined approach to valuations while looking for opportune times to invest further in a prudent fashion.

We initiated a new position in **Esperion Therapeutics** during the quarter, and we added to various investments that, despite their good progress, continue to see an ongoing lack of investor interest. One such example is **Exscientia**; it announced two new pipeline assets moving into the clinic during the quarter, but its valuation is again back below an enterprise value of US\$50 million, as many investors are waiting for clinical data. We added to our position as we see a productive drug discovery engine in the making. We also added to **Icosavax**, **Omega Therapeutics** and **Zealand Pharma**. At the same time, we trimmed some of our holdings, which had a great start to the year, including **Albireo Pharma** (exited), **Takeda** and **Zai Lab**.

## Commentary

Pharma companies are sitting on very healthy balance sheets, but so far, they have not deployed very much of it. Life for pharma companies is not going to get any easier, given that a patent cliff is approaching towards the end of this decade and price pressure is set to intensify as a result of the Inflation Reduction Act provisioning for Medicare to negotiate certain prescription drugs starting in 2026. Mergers and acquisitions (M&A) are inevitable given that the competitive dynamics of the industry have changed significantly over the past two decades. Today, a market monopoly for a new mechanism of action drug is no longer a given; peers, as well as biotech companies, are fast followers, continuously adding pressure. Hence, the days of being able to take your time and tinker with a new R&D project are behind us; today, the need to increase R&D efficiency is paramount.

Product portfolio concentration is also an issue for pharma companies, with often one product contributing significantly to sales. Fig. 3 summarises the concentration of the top product as a percentage of sales at pharma companies.

Merck stands out, with Keytruda (sales of US\$21 billion in 2022) accounting for more than half of its pharma sales. While Keytruda is approved for many cancer indications, it is still striking to see how concentrated Merck's product portfolio has become. Merck's pipeline does have some interesting assets coming through, such as sotatercept for pulmonary hypertension (obtained via its acquisition of Acceleron, which was held in the Fund at the time), an oral peptide inhibitor of PCSK9, a key enzyme that regulates cholesterol (UCB, a holding in the Fund, will receive royalties

**Fig. 3: Top Product as a % of Pharma Sales (2022)**

COMPANY	% OF PHARMA SALES*	BRAND NAME	MECHANISM OF ACTION	DISEASE INDICATION	PHARMA SALES % OF OVERALL BUSINESS SALES
Merck	54.9	Keytruda	anti-PD1	Oncology	71%
Abbvie	36.6	Humira	anti-TNF	Inflammatory disease	100%
Sanofi	27.0	Dupixent	anti-IL4/13	Inflammatory disease	71%
Eli Lilly	26.1	Trulicity	GLP-1 agonist	Metabolic disease	100%
BMJ	25.5	Eliquis	anti-Fxa	Cardiovascular disease	100%
GSK	24.2	Dolutegravir	Integrase Inhibitor	HIV infection	73%
JNJ	19.3	Stelara	anti-IL12/23	Inflammatory disease	65% after spin-off of consumer division
Pfizer	17.7	Eliquis	anti-Fxa	Cardiovascular disease	85%
AstraZeneca	13.5	Tagrisso	anti-EGFR	Lung cancer	100%
Roche	13.3	Ocrevus	anti-CD20	Multiple Sclerosis	70%
Novartis	11.6	Cosentyx	anti-IL17A	Inflammatory disease	100% following spin-off of Sandoz division

Source: Company reports, Platinum Investment Management Limited.

\*Pharma sales are defined as pure pharma, excluding vaccine, consumer and animal health sales. For Merck and Pfizer, COVID-related sales are also excluded.

for this product upon approval), as well as personalised cancer vaccines from Moderna, but overall, diversification is paramount for Merck. Not that long ago, Merck was seen as a contender to buy antibody biotech Seagen, however, during the quarter, Pfizer was the successful bidder, acquiring Seagen for US\$40 billion (2023E sales of US\$2.2 billion). Pfizer estimates the acquisition will generate US\$10 billion in sales by 2030.<sup>2</sup>

Keytruda's US patent expires in 2028, with Merck working on a subcutaneous injectable version as well as coformulations with other immuno-oncology pipeline products. The company will see cash accumulate on its balance sheet leading into 2028; hence, we are likely to see more acquisitions. Post quarter-end, on 17 April, Merck did indeed announce the acquisition of Prometheus Biosciences for US\$10.8 billion, a company held in the Fund that we discussed in the December 2022 quarterly report.<sup>3</sup> Merck will pay US\$200 per share for the company, which represents a 75% premium to the previous day's closing price.<sup>4</sup>

Today, pharma companies need to focus on externally sourced R&D just as much as their internal R&D projects. Their venture capital arms will play a key role in helping to engage with the biotech industry, as will the alumni networks of these large companies. Biotechs are the innovators in the healthcare sector, a fact that was further highlighted in the recent IQVIA Institute report, *Global Trends in R&D 2023*. The data shows that emerging biopharma companies<sup>5</sup> are the ones that "are responsible for two-thirds of the R&D pipeline".<sup>6</sup>

## Outlook

Many investors in the healthcare sector are trying to figure out where to hide, and during the March quarter, the defensive nature of healthcare did not really play out. M&A is not a fix; it is part of life in this sector. The Silicon Valley Bank collapse was unhelpful and has put the biotech sector back to square one, with funding becoming an issue and a buyer's strike happening again. We will be paying close attention to clinical data as well as approval decisions for several of our holdings.

## Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Takeda Pharmaceutical	Japan	Health Care	3.9%
Bayer AG	Germany	Health Care	3.8%
Sanofi SA	US	Health Care	3.5%
Exscientia Plc	UK	Health Care	2.4%
Gilead Sciences Inc	US	Health Care	2.2%
Galapagos NV	Belgium	Health Care	2.2%
UCB SA	Belgium	Health Care	2.2%
Quanterix Corp	US	Health Care	1.9%
Telix Pharmaceuticals Ltd	Australia	Health Care	1.9%
Icosavax Inc	US	Health Care	1.8%

As at 31 March 2023. See note 7, page 29.

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 [www.platinumworldportfolios.ie/The-Funds/PWP-Health-Sciences-Fund](http://www.platinumworldportfolios.ie/The-Funds/PWP-Health-Sciences-Fund)

<sup>2</sup> Source: <https://www.pfizer.com/news/press-release/press-release-detail/pfizer-invests-43-billion-battle-cancer>

<sup>3</sup> [https://www.platinumworldportfolios.ie/PlatinumSite/media/Updates-Reports/Health%20Sciences/ptwhqtr\\_1222.pdf](https://www.platinumworldportfolios.ie/PlatinumSite/media/Updates-Reports/Health%20Sciences/ptwhqtr_1222.pdf)

<sup>4</sup> Source: <https://www.reuters.com/markets/deals/merck-late-stage-talks-acquire-prometheus-biosciences-wsj-2023-04-16/>

<sup>5</sup> Companies that spend less than US\$200 million a year on R&D and have less than US\$500 million in sales.

<sup>6</sup> Source: <https://www.iqvia.com/insights/the-iqvia-institute/reports/global-trends-in-r-and-d-2023>

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1. Fund returns are calculated by Platinum using the Fund's net asset value per share (i.e. excluding the anti-dilution levy) attributable to the specified share class. Where a share class is not denominated in USD, the net asset value per share in USD, being the Fund's base currency, is converted into the denomination currency of that share class using the prevailing spot rate. Fund returns are net of fees and expenses, pre-tax, and assume the accumulation of the net income and capital gains, each as attributable to the specified share class. The MSCI index returns are in USD, 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. Returns could be reduced, or losses incurred due to currency fluctuations. 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 portfolio inception dates for each active share class of the relevant Fund are as follows:
  - Platinum World Portfolios - International Fund:
    - Class A USD (Accumulating) (ISIN: IE00BYRGQX37): 27 April 2016
    - Class B USD (Accumulating) (ISIN: IE00BYRGR076): 2 December 2016
    - Class D USD (Accumulating) (ISIN: IE00BYRGQZ50): 16 November 2015
    - Class E EUR (Accumulating) (ISIN: IE00BYRGR415): 16 October 2020
    - Class F EUR (Accumulating) (ISIN: IE00BYRGR183): 4 April 2017
    - Class G GBP (Accumulating) (ISIN: IE00BYRGR290): 27 April 2016
  - Platinum World Portfolios - Asia Fund:
    - Class A USD (Accumulating) (ISIN: IE00BYRGR522): 10 March 2017
    - Class B USD (Accumulating) (ISIN: IE00BYRGR639): 27 January 2021
    - Class D USD (Accumulating) (ISIN: IE00BYRGRD06): 16 November 2015
    - Class E EUR (Accumulating) (ISIN: IE00BYRGR852): 16 October 2020
    - Class F EUR (Accumulating) (ISIN: IE00BYRGR969): 3 February 2020
    - Class G GBP (Accumulating) (ISIN: IE00BYRGRB81): 19 February 2019
    - Class I USD (Accumulating) (ISIN: IE00BYMJ5524): 19 January 2017
  - Platinum World Portfolios - Japan Fund:
    - Class A USD (Accumulating) (ISIN: IE00BYRGRF20): 11 January 2016
    - Class D USD (Accumulating) (ISIN: IE00BYRGRJ67): 16 November 2015
    - Class F EUR (Accumulating) (ISIN: IE00BYRGRJ89): 18 October 2017
  - Platinum World Portfolios - Health Sciences Fund
    - Class D USD (Accumulating) (ISIN: E0000SJFC91): 28 October 2022

For the purpose of calculating the "since inception" returns of the MSCI index, the inception date of Class D of the Fund is used (as Class D was the first share class activated).

3. The investment returns depicted in this graph are cumulative on US\$100,000 invested in Class D of the specified Fund over the specified period relative to the specified net MSCI Index in US Dollars.
4. 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 long derivative transactions.
5. 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".
6. The table shows the Fund's net exposures to the relevant currencies through its long and short securities positions, cash at bank, cash payables and receivables, currency forwards and long and short securities/index derivative positions, as a percentage of its portfolio market value. Currency classifications for securities reflect the relevant local currencies of the relevant Bloomberg country classifications. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
7. 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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An umbrella fund with segregated liability between sub-funds  
Company Registration Number: 546481

**BOARD OF DIRECTORS**

Stephen Menzies (Australian)  
Tony McPoland  
Kevin Molony

**REGISTERED OFFICE**

Arthur Cox Building  
Earlsfort Terrace  
Dublin 2  
Ireland

**WEBSITE**

[www.platinumworldportfolios.ie](http://www.platinumworldportfolios.ie)



**INVESTMENT MANAGER**

Platinum Investment Management Limited  
Level 8, 7 Macquarie Place  
Sydney NSW 2000  
Australia

GPO Box 2724  
Sydney NSW 2001  
Australia

**TELEPHONE**

+61 2 9255 7500

**EMAIL**

[invest@platinum.com.au](mailto:invest@platinum.com.au)

**LONDON OFFICE**

Platinum UK Asset Management  
20 North Audley Street  
London, W1K 6LX  
United Kingdom

**TELEPHONE**

+44 203 981 7898

**EMAIL**

[tim.maher@platinumam.co.uk](mailto:tim.maher@platinumam.co.uk)