

Facts

Portfolio value	\$453.7 mn
Portfolio Inception	29 June 1994
Current share price	\$1.49
Current dividend yield	4.70%
Pre-tax NTA ex-div*	\$1.5271
Post-tax NTA ex-div*	\$1.4864
Maximum franked dividend	6.00 cps
NTA retained earnings & div profit resv*	15.15 cps

*After June 2019 final dividend of 4 cps

Performance¹

	Company % (Pre-tax NTA)	MSCI %
1 month	(1.99)	(0.13)
3 months	4.04	7.28
6 months	1.78	8.47
Calendar year to date	9.45	18.91
1 year	0.51	7.04
2 years (compound pa)	5.49	14.36
3 years (compound pa)	9.13	13.22
5 years (compound pa)	8.55	12.67
7 years (compound pa)	13.92	15.86
10 years (compound pa)	8.58	11.07
Since inception (compound pa)	11.88	7.21

PMC's returns are calculated after the deduction of fees and expenses, adjusted for taxes paid and any capital flows and assume the reinvestment of dividends. PMC's returns have not been calculated using PMC's share price.

Invested positions³

	Long %	Short %	Net %	Currency %
Asia-Pacific	46.4	(3.3)	43.1	34.1
Australia	0.7	(0.5)	0.2	3.0
China	7.6		7.6	7.6
China Ex PRC	14.6		14.6	
Hong Kong	1.1		1.1	11.5
India	4.3		4.3	4.4
Japan	11.9	(2.0)	9.9	17.2
Korea	5.7	(0.7)	5.0	5.0
Thailand	0.4		0.4	0.4
China Renminbi Off Shore				(15.0)
Europe	15.6	(0.8)	14.8	21.1
Austria	1.0		1.0	
Denmark	0.5		0.5	0.5
France	2.7		2.7	
Germany	2.1		2.1	
Ireland	0.8		0.8	
Italy	1.1		1.1	
Norway	1.0		1.0	2.1
Switzerland	3.9		3.9	1.7
United Kingdom	2.5	(0.8)	1.7	4.0
Euro				12.8
North America	22.3	(16.4)	5.8	43.8
Canada	2.6		2.6	2.1
United States	19.6	(16.4)	3.2	41.7
Other	1.2		1.2	1.0
Brazil	0.9		0.9	0.8
Zimbabwe	0.3		0.3	0.3
Sub-Total	85.4	(20.5)	64.9	100.0
Cash	14.6		35.1	
Total	100.0		100.0	100.0

Long - 78 stocks, 2 swaps Short - 15 swaps, 3 indices

Fees

Management fee:	1.1% p.a. of the portfolio value
Performance fee:	Payable at 15% of the amount by which the portfolio's annual performance exceeds the return achieved by the MSCI All Country World Net Index

Performance graph²



PMC's returns are calculated after the deduction of fees and expenses, adjusted for taxes paid and any capital flows and assume the reinvestment of dividends. PMC's returns have not been calculated using PMC's share price.

Top ten positions⁴

Stock	Country	Industry	%
Ping An Insurance	China	Financials	3.9
Samsung Electronics Co Ltd	Korea	Info Technology	3.3
Facebook Inc	United States	Comm Services	2.9
Alphabet Inc	United States	Comm Services	2.6
Technip FMC Ltd	UK	Energy	2.5
ZTO Express Inc	China	Industrials	2.4
PICC Prop & Casualty	China	Financials	2.3
Bharti Airtel Ltd	India	Comm Services	2.3
Glencore PLC	Switzerland	Materials	2.3
Micron Technology Inc	United States	Info Technology	2.1
Total			26.6

Industry breakdown³

Sector	Long %	Short %	Net %
Financials	13.7		13.7
Materials	11.5		11.5
Communication Services	11.2		11.2
Industrials	11.3	(0.3)	11.0
Info Technology	12.6	(4.2)	8.4
Consumer Discretionary	10.5	(3.5)	6.9
Energy	4.5		4.5
Health Care	4.5	(1.8)	2.7
Real Estate	2.0		2.0
Consumer Staples	3.6	(2.5)	1.1
Other		(8.2)	(8.2)

Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935, trading as Platinum Asset Management ("Platinum") is the investment manager of Platinum Capital Limited ("PMC"). This information is general in nature and does not take into account your specific needs or circumstances. You should consider your own financial position, objectives and requirements and seek professional financial advice before making any financial decisions. Numerical figures have been subject to rounding. Neither PMC nor Platinum, guarantee the performance of PMC, the repayment of capital or the payment of income. The market commentary reflects Platinum's views and beliefs at the time of preparation, which are subject to change without notice. No representations or warranties are made by PMC or Platinum as to their accuracy or reliability. To the extent permitted by law, no liability is accepted by PMC or Platinum for any loss or damage as a result of any reliance on this information.

1. & 2. Source: Platinum for portfolio returns and Factset Research Systems for MSCI returns. The returns are calculated relative to the MSCI All Country World Net Index in A\$ (except the gross MSCI Index was used prior to 31/12/98). The investment returns in the line graph are cumulative on A\$20,000 invested in PMC since inception. Past performance is not a reliable indicator of future returns. Platinum does not invest by reference to the weightings of the index. The index is provided as a reference only.

3. The "Long %" is the exposure to long securities and long securities/index derivative positions, the "Short %" is the exposure to short securities and short securities/index derivative positions and the "Net %" is the exposure to long and short securities and long and short securities/index derivative positions, each as a percentage of PMC's portfolio value. The "Currency %" is the effective currency exposure of PMC's portfolio as a percentage of its portfolio value, taking into account long and short securities, cash, forwards and long and short securities/index derivative positions. For the "Industry breakdown", index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".

3. and 4. China generally refers to securities or derivatives over securities, which securities are listed on the Shanghai or Shenzhen stock exchange. China Ex PRC generally refers to securities or derivatives over securities, which securities are listed outside of the PRC but provide exposure to PRC companies.

4. The "Top ten positions" show PMC's top ten long securities positions as a percentage of PMC's portfolio value (including long securities and long securities derivative positions).

All data where MSCI is referenced is the property of MSCI. No use or distribution of this data is permitted without the written consent of MSCI. This data is provided "as is" without any warranties by MSCI. MSCI assumes no liability for or in connection with this data. Please see full MSCI disclaimer in <https://www.platinum.com.au/Special-Pages/Terms-Conditions>

- The portfolio had a softer August but calendar year-to-date (YTD) returns remain solid at 9%.
- Extreme divergence between “expensive” and “cheap” implies parallels with 1999 and early 1970s.
- Net exposure (long less short positions) in the portfolio close to lowest levels since GFC; gross exposure average (long plus short positions) in line with portfolio’s historic average.
- Longer term relative underperformance a result of challenging period since April 2018.

Update

Early August saw trade tensions between the US and China reignite. As we did in May, we reduced exposure in the portfolio, but by less than in that previous period. This reflects the extent to which many of the risks seem to be somewhat “priced in”. While we can already observe that global manufacturing is in recession as a result of trade tensions, increasing attention is being paid to whether the US consumer stumbles and brings this long cycle to an end. We are somewhat ambivalent about this – while the crowd may be heavily exposed to the beneficiaries of a strong US consumer, we are not. It is becoming increasingly likely that we see increased government spending in major economies to try and kick-start things, and kick the can further down the road. A realisation that China is growing again, or a relaxation of the tariffs squeezing global trade, could be helpful to many of our portfolio holdings. Meanwhile, further consumer weakness may assist our short positions. Our index shorts enable us to be nimble, and with signs of more encouraging data, we lightened shorts early in the month, bringing net exposure back to 70% by 5 September.

As we keep highlighting, the market is increasingly bifurcated. Investors are paying up for “perceived safety” or “secular growth” while shunning any economic sensitivity. This crowding resembles the 1999/2000 “Tech bubble” or the 1970s “Nifty Fifty”. Platinum’s approach of “avoiding the crowd” is being tested as stocks which are expensive become more so, and those which are cheap, get cheaper. This is great when looking forward, but feels very uncomfortable whilst it unfolds.

The widely held idea that ultra-low interest rates can be used to justify the valuations of growth stocks and defensive stocks, misses an important point. This would also justify investing in cyclicals, or stocks with uncertainty. The maths behind it is simple – a lower discount rate increases all asset values. However, the fact that many cyclical stocks are on crisis-type valuations, suggest that psychology is a bigger driver of intra-market outcomes than financial alchemy.

When we look at the portfolio, valuation metrics are enticing in both an absolute and relative sense, and this gives us plenty of encouragement.

Metric	Platinum Capital Ltd	MSCI AC World Net Index (A\$)
NTM (Next 12 Months) Earnings Yield	9% (Price to Earnings ratio of 11x)	7% (Price to Earnings ratio of 15x)
NTM Dividend Yield	3.2%	3.1%
Price-to-Book-Ratio	1.4	2.1
Enterprise Value-to-Sales	1.1	1.5

Valuation refers to the long portion of the portfolio, excluding negative net earnings, and using FactSet consensus earnings.

Past performance is not a reliable indicator of future returns.

Performance

So far in calendar year 2019, the portfolio has returned a solid 9%. Looking at the returns, the average long position was up 14% (in line with the markets’ 19% (Source: FactSet)). The contribution from the 87% average long invested position was 12%. The long contributions are broken down geographically and sectorally in the below table.

Region/Country	Average weight %	Contribution %	Sector	Average weight %	Contribution %
China	22	5	Tech/Communications	23	4
US	18	3	Financial/Real Estate	18	3
Europe	18	2	Industrials	11	3
Japan	11	2	Consumer/Health	17	3
Rest of Asia	13	1	Energy/Materials	17	(0)

Source: Platinum Investment Management Limited.

Shorts cost 2% with average exposure of 16% YTD; technology shorts struggled in Q1 particularly. The top stocks included Ping An, Facebook, Anta Sport and Technip FMC. Lixil had a major positive impact after we agitated for management change in light of poor corporate governance.

In looking at index returns for the MSCI AC World Net Index (A\$), there has been a meaningful advantage in 2019 to being listed in the US, with all sectors except Healthcare seeing an advantage, which averages about 8%, and is most pronounced in Technology/Communications and Financials/Real Estate.

Long-term outcomes

In the last couple of months, this commentary has highlighted the impact of the extended US-led bull market on our relative returns, and noted that it has been the last 16 months that has been the main cause of apparent longer-term underperformance.

Over the last two years, the Fund has delivered 5% p.a., however, we are a cumulative 20% behind the index. This is the biggest negative gap in relative performance since 1999. At that time there was a divergence (between technology and everything else) that resembles markets today. In the two years to March 1999, we were 45% behind the index. In the following 5 years, as we navigated the technology bubble peak, then rotated into cyclicals near the 2003 low, we outperformed by a cumulative 206%.

It is worthwhile to look at our absolute and relative performance since inception on a rolling 12-month basis (291 observations), to put returns into context and frame expectations. It is noteworthy that just over half of the time, our rolling one-year returns are below market, yet the long term outcomes are strong. This is a reminder that going against the crowd is not the most comfortable way to invest, but that it can make sense over longer time periods. The current twelve month outcomes are in bold.

Absolute Return			Relative Performance		
Return Range (rolling 12mth basis since inception 29/06/1994)	# of times	% of times	Return Range (rolling 12mth basis since inception 29/06/1994)	# of times	% of times
Over 20%	88	30	Over 20%	48	16
10-20%	73	25	10-20%	30	10
0-10%	69	24	0-10%	66	23
(negative) 0-10%	47	16	(negative) 0-10%	117	40
(negative) 0-20%	14	5	(negative) 0-20%	28	10
Below negative 20%	0	0	Below negative 20%	2	1

Source: Platinum Investment Management Limited and FactSet.

Past performance is not a reliable indicator of future returns.