

Facts

Portfolio value	\$460.4 mn
Portfolio Inception	29 June 1994
Current share price	\$1.64
Current dividend yield	4.27%
Pre-tax NTA	\$1.5879
Post-tax NTA	\$1.5402
Maximum franked dividend	6.44 cps
NTA retained earnings & div profit resv.	20.55 cps

Performance¹

	Company % (Pre-tax NTA)	MSCI %
1 month	(2.00)	3.84
3 months	0.99	7.93
6 months	2.94	10.58
Calendar year to date	(2.00)	3.84
1 year	11.29	26.38
2 years (compound pa)	1.71	13.95
3 years (compound pa)	10.17	15.78
5 years (compound pa)	7.21	11.84
7 years (compound pa)	12.26	15.97
10 years (compound pa)	8.88	12.29
Since inception (compound pa)	11.89	7.51

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

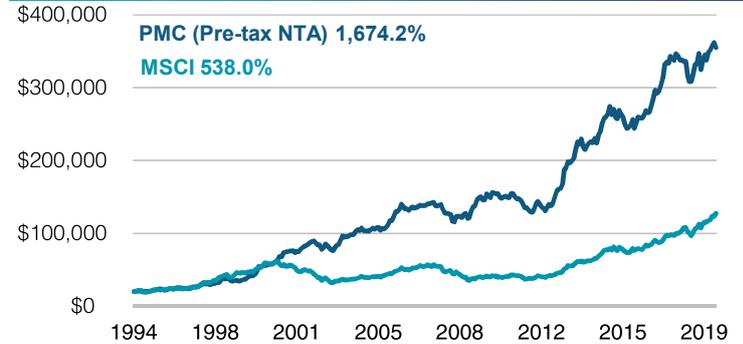
	Long %	Short %	Net %	Currency %
Asia-Pacific	47.8	(8.3)	39.5	35.3
Australia	0.3	(0.3)		0.3
China	6.0		6.0	6.0
China Ex PRC	14.4	(4.9)	9.5	
Hong Kong	1.8		1.8	12.1
India	4.0		4.0	4.3
Japan	15.3	(3.1)	12.2	21.8
Korea	5.6		5.6	5.7
Thailand	0.4		0.4	0.4
China Renminbi Off Shore				(15.2)
North America	24.2	(6.2)	18.0	43.5
Canada	3.0		3.0	2.5
United States	21.1	(6.2)	14.9	41.0
Europe	15.9	(3.0)	12.8	20.4
Austria	1.0		1.0	
Denmark	0.5		0.5	0.5
France	2.7		2.7	
Germany	2.0	(3.0)	(1.1)	
Ireland	1.3		1.3	
Italy	1.5		1.5	
Norway	0.8		0.8	1.9
Switzerland	4.4		4.4	1.7
United Kingdom	1.6		1.6	4.7
Euro				11.5
Other	0.9		0.9	0.8
Brazil	0.7		0.7	0.6
Zimbabwe	0.2		0.2	0.2
Sub-Total	88.8	(17.5)	71.2	100.0
Cash	11.2		28.8	
Total	100.0		100.0	100.0

Long - 79 stocks, 2 swaps Short - 10 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



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Top ten positions⁴

Stock	Country	Industry	%
Samsung Electronics Co Ltd	Korea	Info Technology	3.9
Ping An Insurance	China	Financials	3.8
Alphabet Inc	United States	Comm Services	3.0
Facebook Inc	United States	Comm Services	2.8
Glencore PLC	Switzerland	Materials	2.7
ZTO Express Inc	China	Industrials	2.6
Intel Corp	United States	Info Technology	2.4
Itochu Corporation	Japan	Industrials	2.0
Sumco Corp	Japan	Info Technology	2.0
Minebea Co Ltd	Japan	Industrials	2.0
		Total	27.3

Industry breakdown³

Sector	Long %	Short %	Net %
Financials	14.3		14.3
Info Technology	15.4	(2.2)	13.2
Industrials	11.8		11.8
Materials	11.5		11.5
Communication Services	10.5		10.5
Consumer Discretionary	10.4	(1.2)	9.2
Health Care	6.9		6.9
Energy	4.4		4.4
Real Estate	1.9		1.9
Consumer Staples	1.7	(3.0)	(1.3)
Other		(11.1)	(11.1)

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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).

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Ahead of the coronavirus outbreak, the year started somewhat anomalously with equity prices rising and bond yields falling. This was against a backdrop of political resolution (trade deal and Brexit) and was in line with our expectations, with economic data generally being encouraging. The initial reaction to the threat of the virus saw equities suffer and bonds continue to march higher (yields lower). With uncertainty around the virus and around the market's¹ response to it, we accelerated the de-risking of the portfolio by reducing our net equity exposure, after a strong run, and ended the month with only 71% net equity exposure.

The portfolio had a disappointing month, down 2.0% in A\$ terms, against a backdrop of a broadly flat global market and a falling local currency. In particular, our Energy & Materials exposures, and our short positions had a combined impact of detracting around 3%.

The last two years

Over the last two years, a combination of the geographic skew of the portfolio, our risk aversion and the portfolio's exposure to energy and materials, have led to a poor outcome versus both our own expectations and vis-a-vis the market.

The backdrop has been an environment dominated by ultra-low interest rates fuelling fanciful valuations in certain segments (growth and defensives), while economic sensitives appear to be shunned. Momentum as an investment strategy is working generally (buying what is going up, and selling what is going down), yet it is at odds with our philosophy of seeking the out-of-favour. The extreme sector divergence of Information Technology² versus Energy³ summarises this: +8% vs -4% return in January after a year of 47% vs 13% return and a decade of 420% vs 44% cumulative return to December 2019.

To breakdown our returns and understand the underperformance, the three key drivers were:

- Geographic skew. The index bias to the US (at well over 50%) contrasts with our portfolio being dominated by Asia-Pacific and Europe; the reasons have been oft-described. At an index level, Asia⁴ and Europe⁵/Japan⁶ (both 9% pa) significantly underperformed the World⁷ (+14% pa).
- Risk aversion. In addition to avoiding expensive sectors, our short-selling has cost us 2% pa in the last two years, though we made money in the 2018 sell-off before suffering during a strong 2019.
- Energy and materials. Our investments in this area are largely derived from our work on electric vehicles and in a belief that capex is needed in the oil industry. Despite having well-timed our entry to the oil sector generally around 2015-16, in the last two years it has cost us close to 3% pa across this broad group.

The highlights over this period have included: investments in semiconductor stocks (e.g. Intel, Micron, Samsung and Skyworks), increased exposure to the Japanese industrial sector (e.g. Itochu); and ongoing returns from our Chinese leaders despite the 2018 slowdown and trade tensions (e.g. Ping An Insurance and Anta Sports). Interestingly, traditional investment approaches (value/quality) are working in China at a broad level. Alphabet, Facebook and Roche have also been strong.

Longer term context

The most extreme, and most recent, episode of such significant two-year relative underperformance took place in the periods ending between December 1998 and April 1999. Interestingly, the portfolio's peak five year outperformance was from March 1999 to March 2004 when the portfolio delivered 187% while the market fell 19% cumulatively led by the unwinding of the technology bubble and its aftermath. A number of parallels can be drawn between that period and today, particularly the enthusiasm for technology stocks, the bifurcation of valuations in the market, several valuation and sentiment indicators, and observations on the prevalence of loss-making companies coming to market.

A side effect of short-term underperformance is its optical impact on long-term numbers (e.g. 10 years). Two years ago, the portfolio's 10 year returns (to 31 January 2018) were 10% pa, against the market's 7% pa. Removing the portfolio's strong performance in the GFC and its immediate aftermath from the now 10 year calculation and replacing it with the last two years softness, masks the fact that we had effectively kept up with the bull market until these recent events, despite our more cautious disposition than the market portfolio.

Metric	Platinum Capital Limited	MSCI AC World Net Index (A\$)
NTM (Next 12 Months) Earnings Yield	8.9% (Price to Earnings ratio of 11.2x)	6.2% (Price to Earnings ratio of 16.2x)
NTM Dividend Yield	3.1%	2.9%
Price-to-Book-Ratio	1.4	2.3
Enterprise Value-to-Sales	1.1	1.6

The valuations in the table refer to the long portion of the portfolio, excluding negative net earnings, and using FactSet consensus earnings.

Please visit our website for an update on coronavirus as at 29 January 2020.

<https://www.platinum.com.au/Insights-Tools/The-Journal/Update-re-coronavirus>

¹ Market means MSCI AC World Net Index in A\$, source: FactSet.

² MSCI AC World Net IT Index in A\$, source: FactSet.

³ MSCI AC World Net Energy Index in A\$, source: FactSet.

⁴ MSCI AC Asia ex Japan Net Index in A\$, source: FactSet.

⁵ MSCI AC Europe Net Index in A\$, source: FactSet.

⁶ MSCI Japan Net Index in A\$, source: FactSet.

⁷ MSCI AC World Net Index in A\$. source: FactSet.