



## Facts

Portfolio value	\$10.26 bn
Fund commenced	30 April 1995
Minimum investment	A\$10,000 or NZ\$10,000
Regular Investment Plan	A/NZ\$5000 plus A/NZ\$200 mth/qrt
Income distribution date	Annual, 30 June
Unit valuation	Sydney Business Day
Unit prices C Class	App – 1.9053 Red – 1.8957
Unit prices P Class	App – 0.9144 Red – 0.9098

## Performance<sup>1</sup>

	P Class %	C Class %	MSCI %
1 month	(2.73)	(2.74)	(1.52)
3 months	(7.81)	(7.86)	(6.64)
6 months	(9.65)	(9.76)	0.86
Calendar year to date	(7.91)	(8.12)	4.38
1 year	(8.38)	(8.41)	2.94
2 years (compound pa)		8.78	11.76
3 years (compound pa)		5.73	8.29
5 years (compound pa)		8.24	11.03
7 years (compound pa)		13.18	14.96
10 years (compound pa)		9.42	9.40
Since inception (compound pa)*	2.35	12.16	6.67

## Invested positions<sup>3</sup>

	LONG %	NET %	CURRENCY %
Australia	0.3	0.3	2.1
Austria	1.2	1.2	
Brazil	0.2	0.2	0.2
Canada	2.4	2.4	2.4
China	5.8	5.8	6.6
China Ex PRC	14.8	14.8	
Hong Kong	0.7	0.7	12.4
Denmark	0.8	0.8	0.8
France	2.8	2.8	
Germany	4.8	4.8	
Hungary	0.0	0.0	0.2
India	5.8	5.8	6.0
Italy	1.0	1.0	
Japan	9.1	9.0	11.6
Korea	6.1	5.3	5.3
Malaysia	0.1	0.1	0.1
Netherlands	0.0	(0.1)	
Norway	2.6	2.6	2.6
Russia	0.1	0.1	
Switzerland	4.6	4.6	2.1
Thailand	0.5	0.5	0.5
United Kingdom	2.1	1.7	4.5
United States	14.5	5.1	44.8
	80.7	69.8	
China Renminbi Off Shore			(14.0)
Euro Currency			11.6
Cash	19.3	30.2	
Total	100.0	100.0	100.0

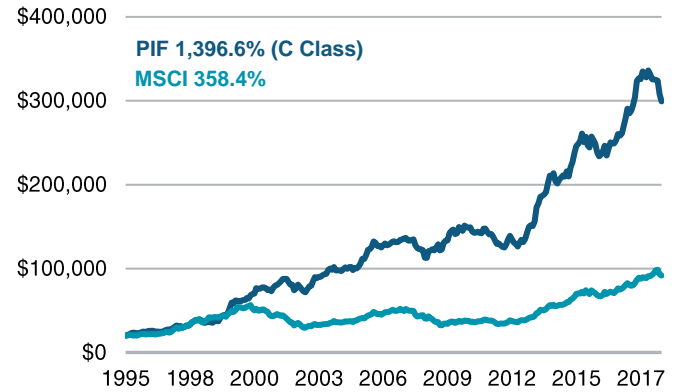
Long - 111 stocks, 2 swaps      Short - 12 stocks, 2 indices

## Fees

Entry fee	Nil
Buy/sell spread	0.25%/0.25%
Fee:	C Class      Investment Management 1.35% p.a. Investment Performance N/A
	P Class      Investment Management 1.10% p.a. Investment Performance 15.00% p.a.*

\*of the amount by which the Fund's return exceeds its index return

## Performance graph<sup>2</sup>



## Top ten positions<sup>4</sup>

STOCK	COUNTRY*	INDUSTRY	%
Samsung Electronics Co Ltd	Korea	Info Technology	2.9
Ping An Insurance Grp	China	Financials	2.9
Alphabet Inc	USA	Communication Serv.	2.7
Glencore plc	Switzerland	Materials	2.5
China Overseas Land & Invst	China	Real Estate	2.5
Siemens AG	Germany	Industrials	2.3
Sanofi SA	France	Health Care	2.3
Roche Holding AG	Switzerland	Health Care	2.1
Facebook Inc	USA	Communication Serv.	2.0
Technip FMC	UK	Energy	2.0

\*China includes exposure to Chinese A shares, H shares and ADRs.

## Industry breakdown<sup>3</sup>

SECTOR	LONG %	NET %
Financials	15.1	15.1
Communication Services	14.2	14.2
Industrials	10.2	10.2
Materials	9.9	9.9
Info Technology	8.0	7.7
Energy	6.2	6.2
Cons Discretionary	6.2	3.9
Health Care	5.9	4.4
Real Estate	2.5	2.5
Consumer Staples	2.4	1.8
Utilities	0.2	0.2
Other*	0.0	(6.1)

\* Includes index short positions

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1. & 2. Source: Platinum for Fund returns and RIMES Technologies for MSCI returns. Investment returns are calculated using the Fund's NAV unit price (i.e. exclude a buy/sell spread) for C Class and P Class, and represent the combined income and capital returns for each of these unit classes in the specified period. All returns are pre-tax, net of fees and costs and assume the reinvestment of distributions. Returns for P Class are net of any accrued investment performance fee. The returns are calculated relative to the MSCI All Country World Net Index in A\$ (nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist). The investment returns depicted in the graph are cumulative on A\$20,000 invested in the Fund since inception. Past performance is not a reliable indicator of future returns. It should be noted that Platinum does not invest by reference to the weightings of the index. Underlying assets are chosen through Platinum's bottom up stock selection process and as a result holdings will vary considerably from the make-up of the index. The index is provided as a reference only.

3. China refers to securities or derivatives over securities, which securities are listed on the Shanghai or Shenzhen stock exchange. China Ex PRC refers to securities or derivatives over securities, which securities are listed outside of the PRC but provide exposure to PRC companies. The "Long %" represents the exposure to direct securities holdings and long stock/index derivatives as a percentage of the Fund's net asset value. The "Net %" represents the exposure to direct securities holdings and both long and short stock/index derivatives as a percentage of the Fund's net asset value. The "Currency %" represents the effective currency exposure of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account currency exposures through securities holdings, cash, forwards and long and short stock/index derivatives.

4. The "Top ten positions" show the Fund's top ten long positions as a percentage of the Fund's net asset value. Direct securities holdings and long stock derivatives are included. However, short stock derivatives are not included.

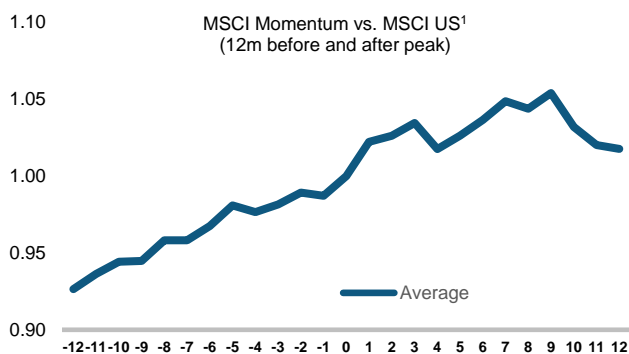
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## Market update and commentary

- **Tough last six months for portfolio with ripple effects from Chinese tightening dominant.**
- **Portfolio positioned with good mix of value and cash to deploy.**
- **Multi-year migration from US (now 5%) to Asia Pacific (now 42%) and recent additions in Energy, Materials, Industrials.**

- The last six months have been challenging. Three issues dominated – China’s financial reform (and unintended slowdown), Trump’s trade war and rising US rates. None surprised us but the key lesson was that **China’s impact on the world economy and markets is bigger than most previously perceived**. As the world’s largest physical market for everything from handbags to cars to copper, it is no longer the case of when the US sneezes the world catches a cold. While US fiscal stimulus seems fortuitously timed, China’s ‘achoo’ moment has spread around the globe.
- The portfolio suffered from this ripple effect to areas we believed, and still do, had prospects that were better than general perception. As 2019 approaches, comfort can be gained from policy loosening in China, a “ceasefire” in the trade war, (ironically negotiated by its instigator) and some moderation in market expectations for US rate rises, given weak inflationary signals, and slowing housing and auto markets.
- Our enthusiasm comes from the fact catalysts for a tough 2018 are reversing, portfolio holdings average 11X P/E (versus 15X in January) and a large cash balance gives optionality. Charts we have used here in recent months have shown the migration of the portfolio in the face of extreme divergence in valuations, reminiscent of 1998 which also caused us relative grief ahead of a snap back.

Four observations follow to give better context, before examining the last six months in detail.



Momentum: in previous corrections (1998, 2011, 2015) the portfolio offered little protection yet in bear markets (2000-3 & 2007-9) it held up very well. A key reason for this is how stocks with momentum behave relatively to the market in the months following a market peak, as shown in the chart. People hold onto winners (eg FAANG, biotech in 2018) for longer and initially the out-of-favour suffer. Momentum outperforms for about nine months after the peak. China peaked in late January, while Nasdaq fell through October and November. We have reduced exposure to formerly high flying sectors and started buying fallen angels again from late October, rebuilding net positions.

Market Breadth: looking crudely at 2500+ stocks making up the MSCI AC World index, 30 stocks generated the entire YTD returns of the index. They are on average 15 times larger in market cap than their peers, 29 of them are listed in the US, 10 each are from Healthcare and Technology, and their

median PE of 21x last December was much higher than the broader group’s 16X. As index-agnostic stock-pickers we select from the broader palette without heed to size or location and the average stock has fallen by around 3% this year against the index’s 4% rise.

End Point Bias: we are our own worst enemy when presenting our performance overleaf. Not only do we provide a US-dominated index, for comparison, then ignore it when building portfolios, but the table is absolutely dominated by recent performance, and as we read top to bottom, this further exaggerates good or bad recent outcomes. (Reading bottom to top would give greater prominence to the longer term). Seven of the 11 timeframes displayed are shorter than the minimum recommended holding period for the Fund. Viewing the same table from a year ago (see table), it is clear the major impact that the last six months has had on all the numbers.

Peak to Peak: our goal is to generate capital growth from investing in mispriced equities whilst trying not to lose clients’ money. We believe this approach will do better than the index across the cycle. Today the cycle is extended. Global markets last peaked in May 2007 (or in September 2018!).

This is 11.5 years ago. Since then the Fund returned 123% cumulative (7.2% pa) and the market (MSCI AC World Net Index \$A) 76% cumulative (5.1% pa). We achieved solid returns despite the GFC, and beat the market by 47% cumulative (2.1% pa) with an average net exposure to markets of 73% over the period. This is a solid outcome.

Ten year returns are in line with the index and this may seem disappointing but for context, over this period the US returned 13% pa while rest of world only 6.6% pa. It is important to remember two things. Firstly, it is fair to describe the index as heavily overweight the US at around 55% for a country comprising 25% of world GDP and with a more domestically focused set of companies than in most other countries. Secondly, this keeping up with a bull market led by the US has been achieved with 75% exposure to markets given our caution on not losing money.

Finally, looking more closely at recent performance, the following observations should be made. At a market level, April to September, saw a geographic bifurcation with the US up 18% and the rest of the world only 4%. In October and November everywhere fell together. Looking over the six months specifically, the US is up 3% with the other key regions (Europe, Asia, Japan) and Australia falling by 4-7%, healthcare stood at +10% while energy and materials fell 9%. The sharp sell-off in technology brought that formally white hot sector back into the pack over the period.

In the portfolio, while shorts added 2% to returns in the last two months, they effectively offset US longs over six months. China and Japan each cost 3%; Europe, rest of Asia and Canada cost 1% each. Bearing in mind local market dynamics, the Japanese impact was most disappointing with a local bank, Lixil, materials and gaming stocks hit. Looking at sectors, net cyclical exposures (financials, consumer discretionary, industrials, materials and energy) were costly, losing 7% on half the Fund’s exposure. The ripple effect of China’s slowdown was the key factor to highlight here. Technology cost 2% with Asian names and semis hurt most. Healthcare added 1%, with Sanofi and Roche two of the three best long stocks, and a timely biotech short, which was one of three shorts in the top five contributors list headed by the demise of Nvidia’s stock price.

Since late October the portfolio has been increasing exposure through closing shorts and adding to areas such as semiconductors, where there is too much fear of the cycle in an industry which has consolidated and showing better supply discipline. Moore’s Law is slowing making it additionally more expensive to push new boundaries and acting as a barrier to new entrants. Certain growth stocks are also back on our radar after the sell off.

### Performance - As at 30 November 2017<sup>2</sup>

	P Class %	C Class %	MSCI %
1 month	1.19	0.96	2.96
3 months	10.01	10.62	10.81
6 months		12.52	7.82
Calendar year to date		25.54	16.37
1 year		29.19	21.31
2 years (compound pa)		13.59	11.06
3 years (compound pa)		13.96	12.31
5 years (compound pa)		19.29	18.23
7 years (compound pa)		12.58	13.30
10 years (compound pa)		9.32	5.97
Since inception (compound pa)*	12.78	13.17	6.84

Source 1: Momentum Chart - MSCI. Average of ratio from peaks in June 1990, July 1998, April 2000, October 2007, May 2011, June 2015  
 Source 2: Please refer to the disclaimer on the front page in relation to the performance calculation