Platinum International Fund ARSN 089 528 307

31 October 2019

Facts

Portfolio value	$10.14 bn
Fund commenced	30 April 1995
Minimum investment	A$10,000 or NZ$10,000
Regular Investment Plan (min.)	A/NZ$5000 plus A/NZ$200 mth/qtr
Income distribution date	Annual, 30 June
Unit valuation	Sydney Business Day
Unit prices C Class	App - 2.0014 Red - 1.9934
Unit prices P Class	App - 0.9567 Red - 0.9528

Fees

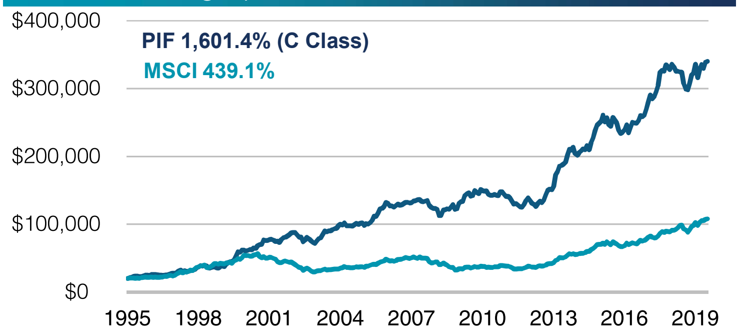
Entry fee		Nil
Buy/sell spread		0.20%/0.20%
Fee:	C Class	Investment Management 1.35% p.a.
		Investment Performance N/A
	P Class	Investment Management 1.10% p.a.
		Investment Performance 15.00% p.a.*

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

Performance [1]

	C Class %	P Class %	MSCI %
1 month	0.50	0.53	0.57
3 months	1.35	1.41	2.45
6 months	1.33	1.45	5.17
Calendar year to date	14.12	14.36	21.99
1 year	10.57	10.84	15.83
2 years (compound pa)	2.53	2.78	11.65
3 years (compound pa)	10.95		15.08
5 years (compound pa)	10.15		12.43
7 years (compound pa)	14.54		15.94
10 years (compound pa)	9.19		11.80
Since inception (compound pa)*	12.26	7.27	7.12

Performance graph [2]



Invested positions [3]

	Long %	Short %	Net %	Currency %
Asia-Pacific	47.0	(1.2)	45.8	33.0
Australia	0.1	(0.8)	(0.6)	0.2
China	6.3		6.3	6.4
China Ex PRC	15.9		15.9	
Hong Kong	0.8		0.8	13.2
India	4.6		4.6	4.6
Japan	12.6		12.6	18.1
Korea	6.2	(0.4)	5.8	5.8
Thailand	0.5		0.5	0.5
China Renminbi Off Shore				(15.7)
Europe	17.0	(0.7)	16.2	17.4
Austria	1.3		1.3	
Denmark	0.6		0.6	0.6
France	3.3		3.3	
Germany	1.7		1.7	
Ireland	1.4		1.4	
Italy	1.7		1.7	
Norway	0.8		0.8	1.8
Switzerland	4.2		4.2	1.5
United Kingdom	2.0	(0.7)	1.3	3.6
Euro				9.8
North America	26.3	(15.0)	11.4	49.0
Canada	3.3		3.3	3.0
United States	23.1	(15.0)	8.1	46.0
Other	0.6		0.6	0.5
Brazil	0.6		0.6	0.5
Sub-Total	91.0	(16.9)	74.0	100.0
Cash	9.0		26.0	
Total	100.0		100.0	100.0

Long - 93 stocks, 3 swaps Short - 19 swaps, 1 index

Top ten positions [4]

Stock	Country	Industry	%
Samsung Electronics Co Ltd	Korea	Info Technology	4.1
Ping An Insurance	China	Financials	3.9
Alphabet Inc	United States	Comm Services	3.3
Facebook Inc	United States	Comm Services	3.2
Intel Corp	United States	Info Technology	2.8
Glencore PLC	Switzerland	Materials	2.6
ZTO Express Inc	China	Industrials	2.4
PICC Prop & Casualty	China	Financials	2.3
Lixil Group	Japan	Industrials	2.2
Micron Technology Inc	United States	Info Technology	2.1
		Total	28.9

Industry breakdown [3]

Sector	Long %	Short %	Net %
Financials	15.3		15.3
Communication Services	13.1	(0.1)	12.9
Industrials	12.5	(0.1)	12.4
Info Technology	15.4	(3.5)	11.9
Materials	9.9		9.9
Consumer Discretionary	9.9	(4.4)	5.5
Energy	4.5		4.5
Health Care	5.4	(1.3)	4.1
Real Estate	2.1		2.1
Utilities	0.2		0.2
Consumer Staples	2.6	(3.2)	(0.5)
Other		(4.3)	(4.3)

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1. & 2. Source: Platinum for Fund returns and Factset Research Systems 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 (as indicated), 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$ (the gross MSCI Index was used prior to 31/12/98). Since inception date for C Class is 30/04/95 and for P Class is 03/07/17. Since inception date of C Class has been used for the purposes of calculating since inception returns of the index. The investment returns depicted in the graph are cumulative on A$20,000 invested in C Class units in the Fund since the C Class inception date. 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 the market value of the Fund's portfolio. The "Currency %" is the effective currency exposure as a percentage of the market value of the Fund's portfolio 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 the Fund's top ten long securities positions as a percentage of the market value of the Fund's portfolio (including long securities and long securities derivative positions).

- The Fund had a flat October with year-to-date (YTD) returns an impressive 14%.
- Extreme divergence between "expensive" and "cheap" is a key feature of markets today.
- Net exposure (long less short positions) in the Fund remains towards lower end of post-GFC range.
- While shorts can act as a drag in bull markets, holistic perspective suggests they add value.

2019 combines the worst excesses of 1999 with the best opportunities of 2009

People love finding historical analogies for the present day. The current bifurcation in markets is reminiscent of 1999 when the old economy was shunned as technology was highly prized. Today's favourites extend beyond technology to "predictables", many of which were unloved 20 years ago. Cyclicals are today's pariahs; any whiff of uncertainty being heavily punished. The idea that low rates are good for valuations has not reached this vast market segment. In these areas it feels more like 2009, which was one of the best times in a generation to be investing in equities.

Cyclicals showing first signs of life?

Recently market behaviour has improved a little from our perspective, backing away from the extreme positioning that had been going on. If the last couple of months foreshadow a change, we would be enthusiastic about a return to more rational outcomes. During each of September and October there have been some signs of life in the hitherto languishing areas of the market. Given the cyclicality in our long book and the interest rate sensitivity of the shorts we could be set up to do well if cyclical areas drive the market from here. It happened as recently as 2017, when our Fund returned 25% against the market's 15%. The market was led by Staples/Utilities, Technology/Communications through August. Since then these sectors (ex Technology) have been the laggards.

Macro-economic events that could favour our holdings revolve around a sense that the crowd has become too comfortable with the idea that interest rates and bond yields will be "lower forever". These include any resolution of the trade situation, recognition that China is growing or a telegraphing of increased fiscal spending (recognising the limits of unconventional monetary policy). Remember with a US election looming, that the self-esteem of the incumbent is inextricably linked to the level of the stock market. Ironically, Australia is heading in the opposite direction with Quantitative Easing (QE) now a possibility while the world realises it simply assists wealthy asset owners, ultimately fuelling populist tendencies. We continue to shun the AUD and remain short the Chinese currency, to mitigate the risk of any escalation of trade conflict, noting two super-powers are squaring off for the first time since the demise of the USSR.

Portfolio

Looking at the portfolio, valuation metrics are enticing in both an absolute and relative sense, giving us plenty of encouragement.

Metric	Platinum International Fund	MSCI AC World Net Index (A$)
NTM (Next 12 Months) Earnings Yield	9% (Price to Earnings ratio of 11.5x)	6% (Price to Earnings ratio of 15.8x)
NTM Dividend Yield	3.0%	3.0%
Price-to-Book-Ratio	1.5	2.2
Enterprise Value-to-Sales	1.1	1.5

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

Performance

So far in 2019, the Fund has returned a strong 14%. Looking more closely, the average long position is up 21% (broadly in line with the markets' 22%), and with average exposure of 85%, these contributed 18% to returns. The long contributions are broken down to key regions and sectors in the below table.

Region/Country	Average weight %	Contribution %	Sector	Average weight %	Contribution %
China	22	5	Tech/Communications	25	7
US	21	5	Financial/Real Estate	18	4
Japan	9	3	Industrials	11	4
Europe	18	2	Consumer/Health	15	4
Rest of Asia	13	2	Energy/Materials	15	-1

Source: Platinum Investment Management Limited.

Our biggest contributors included Ping An Insurance, Facebook, Samsung, Anta Sports and Sumco. Lixil had a major positive impact, after we agitated for management change, in light of poor corporate governance. Shorts cost 3% with average exposure of 16% YTD; technology shorts struggled in Q1 particularly. Index returns for MSCI AC World Index Net (A$), suggest that in 2019 it has been beneficial to a company's stock price to be listed in the US.

Long-term outcomes

In the recent months, this commentary has examined in detail the impact of the extended US-led bull market on relative returns (July), looked at the range of absolute and relative return outcomes over time (August) and explored the contribution from Asian investments (September). The divergent performance of the last 18 months has weighed on longer term numbers and this was fully dissected in May.

This month we look at shorts and their impact on returns, looking specifically at the last five years to June 2019 and show the importance of a holistic perspective.

Over this five year period the Fund's aggregate cumulative return was 57%. The cost of shorting was 4%, but the context is important. We short sell stocks to reduce portfolio risk, and where possible to target excess valuations. In what has mostly been a bull market, our average short exposure has been 11% of the portfolio.

The average cumulative return on stocks we are short has been -35% over this time, or alternatively, that means stocks we shorted went up 35%. While this sounds poor, the backdrop is a market that returned cumulative 81%, or more significantly, our long positions that averaged a cumulative return of 73%. Our average long exposure was 90%.

Consider the net exposure of the Fund at 79% (90% long and 11% short) and the alternative approach of simply owning less stocks and more cash. If we assume that we had reduced our long exposure to 79% but had held it in the same proportions, we would have achieved an inferior outcome.

There is effectively a "spread" between the return on our longs and return on our shorts. In the last five years this has been cumulative 38%. The value of this is particularly substantial when one considers that cash rates are close to zero. The pick-up, holistically, is the equivalent of allocating 11% to this spread, or approximately a benefit of 4%. The additional benefit is in being able to hold onto more of the long positions whilst they are undervalued and using the short positions to manage portfolio risk, via adjusting the Fund's market exposure.

Along the way, it is worth highlighting the episodic gains. In Q3 2015, we made 2% from shorts, another 1% in January 2016, and in Q4 2018 we made over 2%. So as markets sell-off the shorts act as a gentle cushion. If we anticipate the next bear market correctly, our short position would by then likely be much larger than it is today.

The Journal

Over recent months we have increased the production of video content to assist clients with their understanding of what we are doing with their investments. This is worth a visit at https://www.platinum.com.au/Insights-Tools/The-Journal.