

# Platinum International Fund



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## Performance

(compound pa, to 31 December 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	-8%	-8%	6%	7%	12%
MSCI AC World Index^	-10%	1%	8%	9%	6%

\* C Class – standard fee option. Inception date: 30 April 1995.

After fees and costs, before tax, and assuming reinvestment of distributions.

^ Index returns are those of the MSCI All Country World Net Index in AUD.

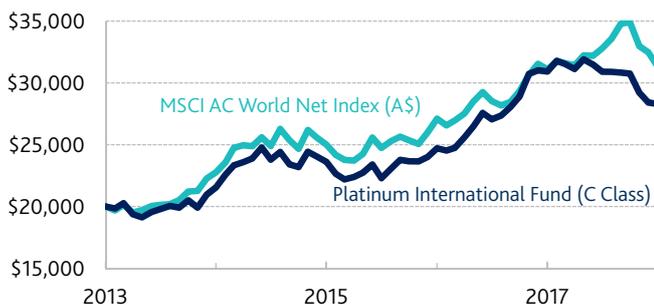
Source: Platinum Investment Management Limited, FactSet.

Historical performance is not a reliable indicator of future performance.

See note 1, page 4. Numbers have been subject to rounding adjustments.

## Value of \$20,000 Invested Over Five Years

31 December 2013 to 31 December 2018



After fees and costs, before tax, and assuming reinvestment of distributions.

Historical performance is not a reliable indicator of future performance.

Source: Platinum Investment Management Limited, FactSet.

See notes 1 & 2, page 4.

The Fund (C Class) returned -8.5% over the last year, of which a loss of -8% was incurred during the final quarter. While our full year return was well below the global index, which returned +0.6%, the Fund was slightly ahead in the last quarter as the index fell -10.3%.<sup>1</sup>

Performance across markets was notably different in the final quarter of the year. During the first nine months of 2018, price weakness was concentrated primarily amongst companies that were directly exposed to the concerns surrounding China's economic slowdown, the US-China trade war, and rising US interest rates. In the last quarter, this stock price weakness spread to the high-growth software, e-commerce and biotech companies which had hitherto been holding up the broader market. These highly valued sectors led the US market lower, with the US finishing the quarter in line with or weaker than other major markets. Please refer to the [Macro Overview](#) for a more in-depth discussion of the factors driving markets.

As a result of the sell-off in tech stocks and the US market more broadly, our short positions made a significant positive contribution to performance this quarter. Of particular note was the 55% plunge in the share price of Nvidia (a US maker of graphic processing units or GPUs), one of the Fund's key short positions, which was closed out for a significant profit. Also making strong contributions were our short positions against the US NASDAQ and Russell 2000 indices as well as a Biotech ETF.

In the broad sell-off, few of our long stock positions made ground. Notable exceptions included China Overseas Land & Investment (Chinese real estate developer, +10%) and ICICI Bank (Indian bank, +18%).

The oil price fell 40% during the quarter as the US decided to effectively defer sanctions on purchases of Iranian oil. As OPEC producers had been increasing production to make up for the potential shortfall, and US onshore producers had also expanded their output in response to higher prices, the result was an unexpected deterioration in the supply-demand balance in the oil market. Not surprisingly, oil-related stocks were impacted and our holdings in TechnipFMC (oil project service provider, -37%), Transocean (drilling service contractor, -50%), and Seven Generations (Canadian oil and

<sup>1</sup> Global market index referring to MSCI All Country World Next Index (A\$).

gas producer, -8%) were key detractors from performance over the quarter.

In last quarter's report, we noted that "clearly, for the present, we are well and truly out of step with the market in terms of where we believe the attractive investments are in the current environment." While most of the portfolio's positions experienced further price declines this quarter, the significant change is that the expensive stocks and markets that we have been avoiding – or indeed shorting – are now starting to decline at least at similar rates. While the net result is far from satisfactory, the shift does suggest that investors are starting to recognise the differentials in value between the companies in our portfolio and the broader market averages.

## Portfolio Review and Commentary

Over the quarter, our cash levels increased from 15.8% to 19.5%, while short positions decreased from 15.4% to 11.2%. The resulting net invested position of the portfolio remained relatively unchanged – at a very conservative 69.3%, compared with 68.8% as at 30 September.

While one might expect cash to have been put to work with such widespread falls, the increase in cash at quarter-end is merely the net result of ongoing sales and purchases. Underlying this net increase in cash have been ongoing efforts to reposition the portfolio towards more attractively-valued stocks that have emerged as a result of the broad-based sell-off.

Amongst the positions that have been sold or significantly reduced are companies which, while still representing reasonable value, have become less attractive relative to the other opportunities as a result of their "comparatively" good recent performance. Stocks sold from the portfolio include **Murata Manufacturing** (Japan, electronic components), **AstraZeneca** (UK, pharmaceuticals) and **TSMC** (Taiwan, semiconductor foundry). Reduced holdings include **Asahi Group** (Japan, brewery), **Kasikornbank** (Thailand, bank) and **Ping An Insurance** (China, insurance and banking).

**General Electric (GE)** was added to the portfolio during the quarter. The company has had an extraordinary fall from grace over the last two decades, as a result of poor management and some disastrous acquisitions. Today, it finds itself in a financially compromised position with an over-leveraged balance sheet. However, GE has two core business units that are of very high quality and are growing: aerospace and healthcare. It also has good operations in power generation, oil services, and a range of other businesses, though which currently tend to be cyclically depressed with some also dealing with other issues. The company has experienced significant changes at the board level and has a new CEO in Lawrence Culp, who previously ran the highly

## Disposition of Assets

REGION	31 DEC 2018	30 SEP 2018	31 DEC 2017
Asia	34%	34%	39%
Europe	19%	20%	22%
North America	18%	18%	16%
Japan	9%	11%	14%
Australia	<1%	<1%	<1%
South America	<1%	<1%	<1%
Russia	<1%	<1%	1%
Cash	20%	16%	7%
Shorts	-11%	-15%	-12%

See note 3, page 4. Numbers have been subject to rounding adjustments.  
Source: Platinum Investment Management Limited.

## Net Sector Exposures <sup>^</sup>

SECTOR	31 DEC 2018	30 SEP 2018	31 DEC 2017
Financials	15%	15%	16%
Communication Services	14%	14%	11%
Industrials	11%	10%	10%
Materials	10%	10%	9%
Information Technology	7%	7%	9%
Energy	6%	7%	11%
Consumer Discretionary	4%	5%	12%
Health Care	4%	5%	7%
Real Estate	2%	2%	2%
Consumer Staples	<1%	2%	<1%
Utilities	<1%	<1%	2%
Other*	-3%	-9%	-7%
TOTAL NET EXPOSURE	69%	69%	82%

<sup>^</sup> A major GICS reclassification was implemented during the quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.

\* Includes index short positions.

See note 4, page 4. Numbers have been subject to rounding adjustments.  
Source: Platinum Investment Management Limited.

## Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	2.8%
Ping An Insurance Group	China	Financials	2.7%
Alphabet Inc	USA	Comm Services	2.6%
Glencore PLC	Switzerland	Materials	2.6%
China Overseas Land & Invt	China	Real Estate	2.4%
Sanofi SA	France	Health Care	2.3%
Roche Holding AG	Switzerland	Health Care	2.1%
Siemens AG	Germany	Industrials	2.0%
Facebook Inc	USA	Comm Services	2.0%
PICC Property & Casualty	China	Financials	1.8%

As at 31 December 2018. See note 6, page 4.

Source: Platinum Investment Management Limited.

successful Danaher Corporation as its CEO and President from 2001 to 2014. GE's stock price has collapsed, now down nearly 80% from its highs in 2016, in the face of concerns that the company may need to raise significant equity to bolster its balance sheet. Even if this is the case, we think GE's current price represents a good entry point and have taken an initial position. One should note that, however, given the magnitude of the issues GE faces in some of its business divisions, we expect the resolution of the company's problems to take some time.

Other new holdings for the portfolio include **Sumco**, a Japanese producer of silicon wafers used in the production of semiconductors. The industry has survived a long period of oversupply of wafers and, in recent years, seen improved pricing and profitability. However, the slowdown in global mobile phone sales has created valid concerns around near-term profitability, which have resulted in a sharp stock price fall. Longer term, we are of the view that prospects for this industry remain bright as semiconductor volumes will continue to grow, improving the demand for wafers, which should in turn lead to better pricing power for wafer producers. Also added to the portfolio was **Scout24**, a German online real estate and auto marketplace, which has been a long-term holding of the Platinum European Fund. In addition to these new positions, the Fund has also added to existing positions where stock prices have fallen to very attractive levels. These included **Intesa Sanpaolo** (Italy, banking) and **Raiffeisen Bank** (Eastern Europe, banking), **Tencent** (China, internet), and **Nitto Denko** (Japan, electronic components).

## Net Currency Exposures

CURRENCY	31 DEC 2018	30 SEP 2018	31 DEC 2017
US dollar (USD)	41%	30%	22%
Japanese yen (JPY)	17%	10%	10%
Hong Kong dollar (HKD)	13%	12%	14%
Euro (EUR)	12%	12%	14%
Chinese yuan (CNY)	6%	8%	7%
Indian rupee (INR)	6%	5%	6%
Korean won (KRW)	5%	6%	8%
British pound (GBP)	4%	5%	5%
Norwegian krone (NOK)	3%	3%	5%
Canadian dollar (CAD)	3%	3%	1%
Swiss franc (CHF)	2%	2%	1%
Australian dollar (AUD)	2%	2%	3%
Chinese yuan offshore (CNH)	-16%	0%	0%

See note 5, page 4. Numbers have been subject to rounding adjustments. 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 <https://www.platinum.com.au/our-products/pif>.

## Currency

Changes were made to the Fund's currency positioning on two fronts. 16% of the Fund's exposure to the Chinese Yuan was hedged into US Dollars.<sup>2</sup> While we expect the People's Bank of China may take some steps to prevent the Yuan from falling against the US Dollar due to the trade negotiations, China's likely need for further monetary and fiscal policy easing to encourage economic activity will potentially place downward pressure on the exchange rate. The other key move was to add 7% to the Fund's exposure to the Japanese Yen, which has historically performed strongly in times of market uncertainty. The Fund continues to maintain a minimal exposure to the Australian Dollar.

## Outlook

The Fund's net invested position remains conservative at 69.3%. As we stated last quarter, this low invested position is not quite an expression of any particularly bearish outlook on markets, but rather reflects the significant disparity in valuation between the popular stocks and markets, which we are short, and the out-of-favour stocks in which we are invested.

Indeed, the attractive valuations of our holdings entail a cautiously optimistic outlook regarding the Fund's prospective returns. At year-end, the long positions in our portfolio were trading on an average forward price-to-earnings (P/E) ratio of 10x, and a price-to-book (P/B) ratio of 1.4x. These compare favourably with market averages, particularly in light of both quantitative and qualitative indicators suggesting that our companies are both more profitable and growing faster than the average.

However, the shorter-term outlook is more problematic. How will global macroeconomic conditions develop in light of China's policy easing and interest rate moves in the US? Will China and the US come to an agreement on trade and, if so, when? As we have discussed in the [Macro Overview](#), given the complexity and the uncertainty surrounding these issues, the timing of the unfolding of events is far from clear.

<sup>2</sup> When we consider currency exposure to the companies we hold, we do not look to the currency in which the stock is priced or purchased, but rather the underlying economic exposure of the company's businesses. This is relevant where a company is listed on an exchange outside of its home market. For example, for a company doing business predominantly in China but is listed on an exchange in the US, we will consider the holding as a Chinese Yuan exposure, even if we buy and sell the stock in US Dollars. This is because, if the Chinese Yuan were to devalue by 5%, all else being equal, we would expect the US Dollar price of the stock to reflect this by falling 5%.

## Notes

1. Fund returns are calculated using the net asset value (NAV) unit price (which does not include the buy/sell spread) of the stated unit class of the Fund and represent the combined income and capital returns of the stated unit class over the specified period. Fund returns are net of fees and costs, are pre-tax, and assume the reinvestment of distributions. Returns for P Class are net of any accrued investment performance fee.  
The MSCI Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or expenses. For the purpose of calculating the "since inception" returns of the MSCI Index, the inception date of C Class of the Fund is used. Where applicable, the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then. Fund returns are provided by Platinum Investment Management Limited; MSCI index returns are sourced from FactSet.  
Platinum does not invest by reference to the weightings of the Index. A Fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the Fund's holdings may vary considerably to the make-up of the Index that is used as its reference benchmark. Index returns are provided as a reference only.  
The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. 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.  
The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.
2. The investment returns depicted in this graph are cumulative on A\$20,000 invested in C Class (standard fee option) of the specified Fund over the specified period relative to the specified net MSCI Index in Australian Dollars.
3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices.
4. The table shows, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices. In the case of the Platinum Unhedged Fund, the Fund does not undertake any short-selling. Its net exposures are therefore the same as its long exposures.
5. The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards, and derivatives. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.

6. The table shows the Fund's top 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

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Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

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