

Platinum International Fund

(Quoted Managed Hedge Fund) - ASX: PIXX

31 July 2019

Facts

Portfolio value	\$345.26 mn
Fund commenced	12 September 2017
Fund launch	14 September 2017
Income distribution date	Annual, 30 June
Unit valuation	Sydney Business Day
Net Asset Value (\$ per unit)	\$4.5737

Fees

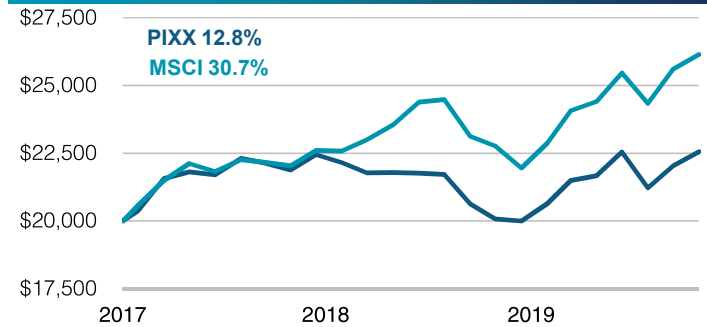
Entry fee	Nil
Buy/sell spread	0.20%/0.20%
(Platinum International Fund)	
Fee:	Investment Management 1.10% p.a. Investment Performance 15.00% p.a.*

Performance ¹

	Fund %	MSCI %
1 month	2.39	2.11
3 months	0.08	2.65
6 months	9.32	14.29
Calendar year to date	12.81	19.06
1 year	3.53	11.04
Since inception (compound pa)	6.60	15.29

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

Performance graph ²



Invested positions of Platinum International Fund ³

	Long %	Short %	Net %	Currency %
Asia-Pacific	42.3	(1.1)	41.2	32.8
Australia	0.1	(0.3)	(0.2)	0.6
China	6.5		6.5	7.6
China Ex PRC	13.9		13.9	
Hong Kong	0.9		0.9	13.2
India	4.7		4.7	5.3
Japan	9.4		9.4	15.8
Korea	6.2	(0.8)	5.4	5.4
Thailand	0.5		0.5	0.5
China Renminbi Off Shore				(15.7)
Europe	15.8	(1.6)	14.2	16.6
Austria	1.3		1.3	
Denmark	0.5		0.5	0.5
France	2.9		2.9	
Germany	1.8	(0.9)	0.9	
Ireland	0.8		0.8	
Italy	1.1		1.1	
Norway	1.0		1.0	1.9
Switzerland	3.8		3.8	1.5
United Kingdom	2.7	(0.7)	2.0	3.5
Euro				9.2
North America	26.3	(12.4)	13.9	50.2
Canada	3.1		3.1	2.6
United States	23.3	(12.4)	10.8	47.6
Other	0.5		0.5	0.4
Brazil	0.5		0.5	0.4
Sub-Total	85.0	(15.1)	69.8	100.0
Cash	15.0		30.2	
Total	100.0		100.0	100.0

Long - 96 stocks, 3 swaps Short - 16 swaps, 2 indices

Top ten positions of Platinum International Fund ⁴

Stock	Country	Industry	%
Ping An Insurance	China	Financials	3.9
Samsung Electronics Co Ltd	Korea	Info Technology	3.5
Facebook Inc	United States	Comm Services	3.2
Alphabet Inc	United States	Comm Services	3.1
Technip FMC Ltd	UK	Energy	2.6
Intel Corp	United States	Info Technology	2.4
Glencore plc	Switzerland	Materials	2.3
China Overseas Land & Investment	China	Real Estate	2.1
PICC Prop & Casualty	China	Financials	2.1
Tencent Holdings	China	Comm Services	2.1
Total			27.4

Industry breakdown of Platinum International Fund ³

Sector	Long %	Short %	Net %
Financials	14.8		14.8
Communication Services	13.0		13.0
Industrials	11.3	(0.3)	11.1
Info Technology	13.5	(3.5)	10.0
Materials	9.7		9.7
Energy	5.4		5.4
Consumer Discretionary	7.5	(2.5)	5.1
Health Care	4.6	(2.0)	2.6
Real Estate	2.2		2.2
Consumer Staples	2.7	(1.8)	0.9
Utilities	0.2		0.2
Other		(5.1)	(5.1)

Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935, trading as Platinum Asset Management ("Platinum") is the responsible entity of the Platinum International Fund (Quoted Managed Hedge Fund) (the "Fund"). The Fund's latest Product Disclosure Statement (the "PDS") provides details about the Fund. You can obtain a copy of the PDS from Platinum's website www.platinum.com.au, or by contacting Investor Services on 1300 726 700 (Australian investors only), or 0800 700 726 (New Zealand investors only), or 02 9255 7500, or via invest@platinum.com.au. 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. Platinum does not guarantee the performance of the Fund, 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 Platinum as to their accuracy or reliability. To the extent permitted by law, no liability is accepted by Platinum for any loss or damage as a result of any reliance on this information.

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), and represent the combined income and capital returns in the specified period. All returns are pre-tax, net of fees (including any accrued performance fee) and costs and assume the reinvestment of distributions. The returns are calculated relative to the MSCI All Country World Net Index in A\$. 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. 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 Platinum International Fund's ("PIF's") net asset value. The "Currency %" is the effective currency exposure of PIF's portfolio as a percentage of its net asset 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 PIF's top ten long securities positions as a percentage of PIF's net asset 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>

Market update and commentary

This commentary and table relates to the underlying fund, Platinum International Fund.

- The Fund added over 2% in July taking year-to-date (YTD) returns to a strong 13%.
- Extreme divergence between “expensive” and “cheap” implies parallels with 1999 and early 1970s.
- Net exposure in the Fund currently trending around lowest levels since 2011.
- Longer term relative underperformance a result of challenging period since April 2018.

Update

Market behaviour in July was somewhat perverse, with optimism fuelled by hopes of a large US interest rate cut, or at a minimum, indications of future cuts. The first cut in a decade came at the end of the month, but underwhelmed the market. Ironically, this signalled that the economy is stronger than some feared, meaning a higher discount rate than many had hoped for. So it seems good is bad, while bad is good. Expectations are critical in investing, and we started to see some strong results from the favourites underwhelm, whilst cyclical were not punished so hard for weakness. As we entered August, the US and China trade tensions picked up and the Fund's net exposure was cut to 64% by 5 August.

The way the market appears to be focusing acutely on interest rates to price equities, is not accounting properly for the relationship between bond yields and growth rates. This latter relationship means that relying on low rates to justify valuations, ignores that low rates are due to lower growth prospects.

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 key driver of returns over the medium term is price, and with the portfolio offering an earnings yield reminiscent of a crisis, this is encouraging.

Metric	Platinum International Fund	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	3.0%	3.0%
Price-to-Book Ratio	1.5	2.2
Enterprise Value-to-Sales	1.2	1.5

Valuation refers to the long portion of the Fund's portfolio, excluding negative net earnings, and using FactSet consensus earnings. **Past performance is not a reliable indicator of future returns.**

Performance

So far in 2019, the Fund has returned 13%. In the last 20 years, only 2013 was meaningfully better at 30%. 2009's 14% and 2015's 13% were comparable. 2019 is better than the other 16 of the last 20 years.

Looking at the returns, the average long position was up 18% (in line with the markets' 19% - Source: RIMES Technologies). The contribution from the 84% average long invested position was 15%. 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	24	5
US	20	5	Financial/Real Estate	18	4
Europe	18	2	Industrials	11	3
Japan	8	2	Consumer/Health	15	3
Rest of Asia	13	1	Energy/Materials	15	1

Source: Platinum Investment Management Limited

Shorts cost 2% with average exposure of 15% YTD; technology shorts struggled in Q1 particularly. The top stocks included Ping An, Facebook, Technip FMC and Anta Sports. Lixil had a major positive impact, after we agitated for management change, in light of poor corporate governance.

In looking at index returns for 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 (to 30 June 2019)

- We are in an extended market cycle, with three corrections (2011, 2015-16, 2018) since the last bear market (May 2007 to March 2009). Ten-year numbers reflect only a bull market environment. Over the last 12 year cycle, since the last peak, the Fund has beaten the market handsomely.
- The disappointing relative outcome of the last 14 months affects returns over all longer periods. This has been explained in detail in last month and this month's report. More than two thirds of the underperformance over 10 years can be ascribed to this recent period.
- Over the life of the Fund, the average net exposure to markets has been 68%, and as for the current bull market to date, this has been 75%. The Fund return is around 80% of the market return over the last 10 years.
- We view risk as permanent loss of capital, and act accordingly, ignoring benchmarks in portfolio construction. As part of our risk management process, the Fund has rarely invested more than one third of its capital on an individual exchange. The weighting of the US in the world index exceeds 50%. Over the past decade, the US returned 16% pa, far exceeding Asia (9% pa), Europe (8% pa) and Japan (7% pa). The Fund, at 9.4% pa, is ahead of these three regional outcomes over 10 years.
- The distribution payment has exceeded 8% for each of the last five years and averaged over 6% for the last decade.

This table illustrates yearly returns over the market cycle so far, to remove any end-point bias. It also shows the returns of the US versus the rest of the world, the average net exposure of the Fund, and the distribution yields. The averages to the right show the 10 year annualised returns compared alongside the 10 year annualised returns one year ago to show base year effect, and the 12 year annualised returns to reflect the current market cycle.

Financial Year To 30 June	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2009-2018 (p.a.)	2010-2019 (p.a.)	2008-2019 (p.a.)
% PIF	(16)	18	12	(7)	(6)	37	17	20	(6)	21	14	1	11	9	8
MSCI AC World Net \$A	(20)	(16)	7	3	(2)	31	19	24	(1)	15	15	11	9	12	6
MSCI US	(23)	(14)	9	3	9	34	20	31	6	14	18	15	12	16	9
MSCI AC World ex US Net \$A	(17)	(18)	6	2	(11)	27	18	16	(7)	17	11	7	5	8	3
% Net Exposure	60	61	67	72	71	80	76	83	77	81	80	70	76	75	73
Distribution Yield	6	21	0	3	2	3	6	10	8	10	12	8	6	8	8

Source: Platinum Investment Management Limited and FactSet. **Past performance is not a reliable indicator of future returns.**