Platinum Capital Limited ASX: PMC

31 August 2018

Facts

Portfolio value		$496.3 mn
Portfolio inception		29 June 1994
Current share price		$1.85
Current dividend yield		5.41%
Pre-tax NTA ex-div*	$1.6699	NTA retained earnings &
Post-tax NTA ex-div*	$1.5795	dividend profit reserve^ 24.83 cps
Max. franked dividend^	9.17 cps	

*The 30 June 2018 final dividend was 6 cps.
^After the impact of 2018 final dividend of 6 cps.

Fees

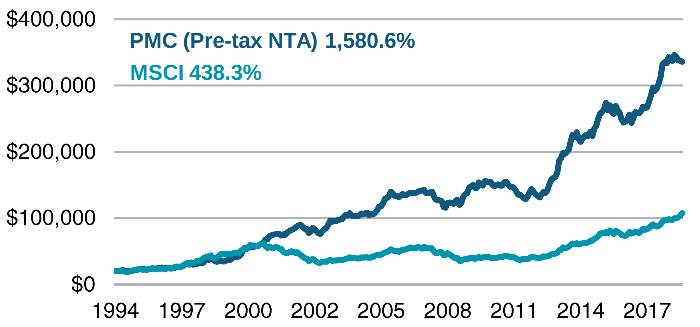
Management fee:	1.1% p.a. of the portfolio value
Performance fee:	15% of the amount by which the portfolio's annual performance exceeds the return achieved by the MSCI All Country World Net Index

Performance[1]

	FUND % (Pre-tax NTA)	MSCI %
1 month	(0.52)	3.60
3 months	(2.17)	8.04
6 months	(1.36)	10.06
Calendar year to date	0.79	11.80
1 year	10.73	22.19
2 years (compound pa)	13.72	16.44
3 years (compound pa)	8.99	11.11
5 years (compound pa)	11.31	14.34
7 years (compound pa)	13.87	16.32
10 years (compound pa)	10.56	8.59
Since inception (compound pa)	12.38	7.21

The Pre-tax NTA return is calculated on net assets after the deduction of fees & costs and assumes the re-investment of any dividends

Performance graph[2]



The Pre-tax NTA return is calculated on net assets after the deduction of fees & costs and assumes the re-investment of any dividends

Invested positions[3]

	LONG %	NET %	CURRENCY %
Australia	0.7	0.7	0.4
Austria	0.5	0.5	
Canada	2.4	2.4	2.4
China	7.0	7.0	7.0
China Ex PRC	13.1	13.1	
Hong Kong	1.0	1.0	13.3
Denmark	0.5	0.5	0.6
France	2.6	2.6	
Germany	5.8	5.8	
India	5.4	5.4	5.5
Japan	12.7	12.5	10.3
Korea	6.6	6.6	6.6
Malaysia	1.2	1.2	1.2
Norway	3.2	3.2	3.2
South Africa	0.2	0.2	0.2
Switzerland	4.9	4.9	2.3
Thailand	1.1	1.1	1.1
United Kingdom	3.1	3.1	6.2
United States	11.9	(1.4)	28.1
Zimbabwe	0.8	0.8	
	84.6	71.1	
Euro Currency			11.9
Cash	15.4	28.9	
Total	100.0	100.0	100.0

Long - 81 stocks, 2 swaps Short - 5 stocks, 2 indices

Top ten positions[4]

STOCK	COUNTRY*	INDUSTRY	%
Ping An Insurance Grp	China	Financials	3.3
Samsung Electronics Co Ltd	Korea	Info Technology	3.3
Siemens AG	Germany	Industrials	3.1
Alphabet Inc	USA	Info Technology	2.6
Glencore PLC	Switzerland	Materials	2.6
Technip FMC	UK	Energy	2.3
Roche Holding AG	Switzerland	Health Care	2.3
China Overseas Land & Invst.	China	Real Estate	2.2
Sanofi SA	France	Health Care	2.1
Facebook Inc	USA	Info Technology	2.1

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

Industry breakdown[3]

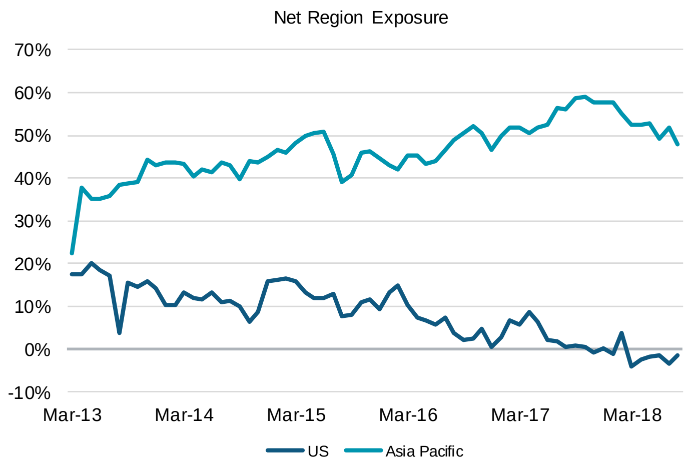
SECTOR	LONG %	NET %
Info Technology	17.5	15.7
Financials	14.2	14.2
Materials	10.9	10.9
Cons Discretionary	10.5	9.0
Industrials	10.2	10.2
Energy	6.6	6.6
Health Care	6.4	4.9
Consumer Staples	3.8	2.4
Real Estate	2.2	2.2
Telecom Services	2.1	2.1
Utilities	0.3	0.3
Other*	0.0	(7.3)

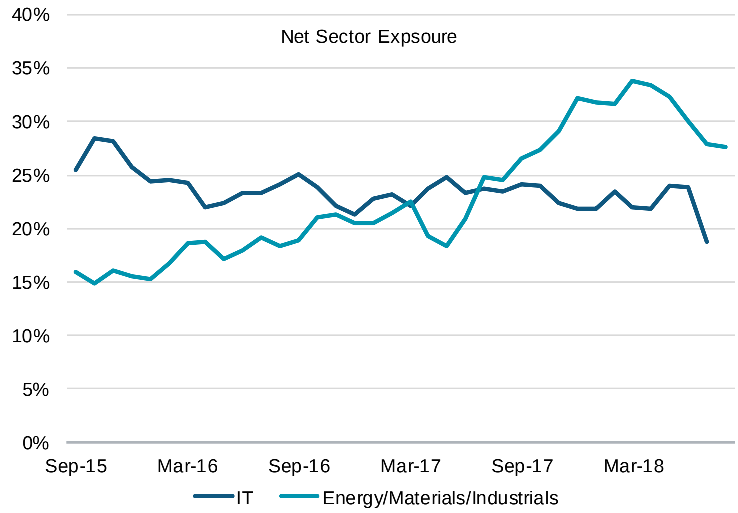
* Includes index short positions

1. Source: Platinum for PMC returns and RIMES Technologies for MSCI returns. Performance results have been calculated using the pre-tax net tangible asset value and represent the combined income and capital return of the investments for the specified period. Please note that the results are not calculated from the share price of PMC. 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). Past performance is not a reliable indicator of future returns.
2. Source: Platinum for PMC returns and RIMES Technologies for MSCI returns. The investment returns depicted in this graph are cumulative on A$20,000 invested in PMC since inception relative to the MSCI All Country World Net Index in A$ ("Index") (nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist). Performance results have been calculated using the pre-tax net tangible asset value as released to the ASX and represent the combined income and capital return of PMC's investments for the specified period. Please note that the results are not calculated from the share price of PMC. 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. Past performance is not a reliable indicator of future returns.
3. The "Long %" represents the exposure to physical holdings, corporate fixed income securities and long stock derivatives as a percentage of PMC's portfolio value. The "Net %" represents the exposure of physical holdings and both long and short derivatives as a percentage of PMC's portfolio value. The "Currency %" represents the currency exposure for PMC's Portfolio as a percentage of PMC's portfolio value, taking into account currency hedging.
4. The "Top ten positions" show PMC's top long share exposure positions as a percentage of PMC's portfolio value. Long derivative exposures are included. However, short derivative exposures are not.

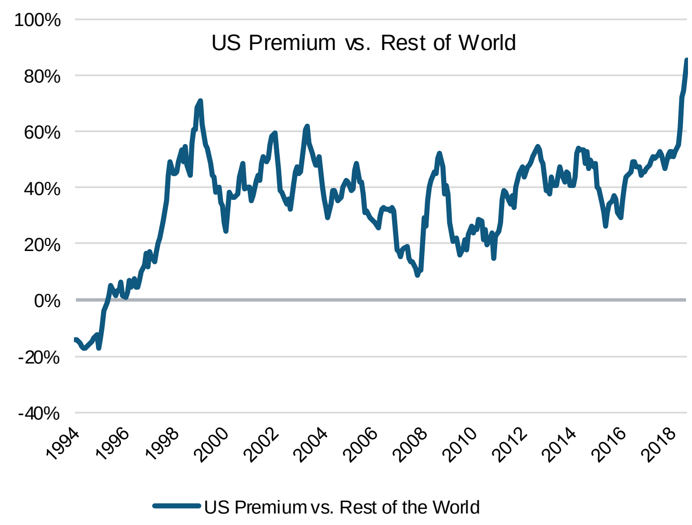
- Multi-year migration away from US (-1%) toward Asia Pacific (now 48%)
- Energy, Materials and Industrials seen big allocation in recent years (now 28%)
- Tough 2018, with market punishing cyclicals and Asia, yet the portfolio remains flat YTD

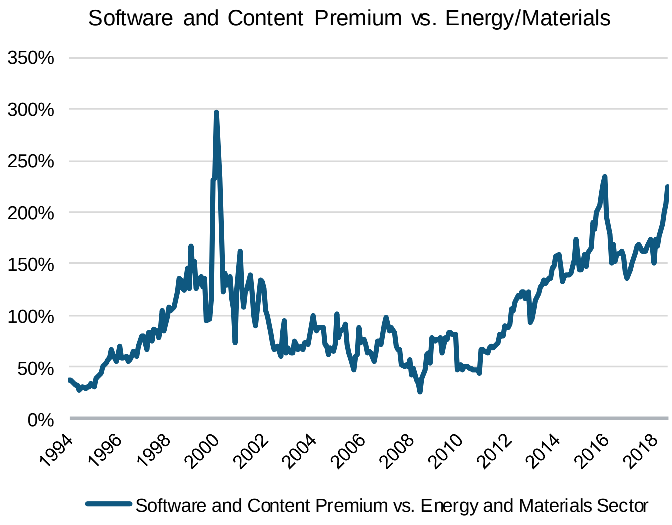
- The portfolio has been hit by fear around rising US interest rates, Trump's "trade war" and financial reform in China. Some also fear Turkey is a canary in the coal mine. These issues are not new, but unlike in 2017, they now cause alarm. Market sentiment has been hit hard, especially in China, but most importantly, economic and company data remains robust.
- In light of the backdrop, we lightened net exposure around March and in July and August, took more pre-emptive action by trimming winners and increasing shorts but have also re-deployed capital into over-sold stocks.
- There is tantalising value in pockets of the market. The portfolio is full of cheap stocks with growth drivers, coupled with a prudent degree of protection. The portfolio is on a forward P/E ratio below 11x.
- Over five years, we gradually reduced our US exposure and invested in Asia-Pacific with surges around the elections of Abe (Japan) and Modi (India) and into the lows of the Chinese bear market.
  Similarly, the 2015-16 oil price decline and uncovering electric vehicle beneficiaries has seen technology winners fund a shift to Energy, Materials and Industrials.





Valuation drives our stock selection. Ideas tend to cluster in out-of-favour countries and sectors. In the history of Platinum (nearing 25 years), the US has not been more expensive relative to other markets; it came close in late 1998/early 1999 around the Asian crisis. Meanwhile, outside the tech bubble peak in 1999, Energy/Materials have not been cheaper relative to Software/Content.





Year-to-date, the portfolio is flat with decent gains earned in Europe and the US longs offset by the cost of shorting (mostly of selected expensive US indices) and from Asia, specifically Japan, with China having only a marginal impact (around -20bps). Put another way, gains in Healthcare, Technology and Energy have been offset by Cyclicals and our shorting.

However, the portfolio fell 2% over the last quarter, mostly impacted by the third of the portfolio positioned in China and Japan, which cost about 3%. US shorts offset gains on longs, while Indian banks and Norway added 1% combined.

Meanwhile, the All Country Net Index ($A) was up 8%, driven by the US market being up 13%. Remember, the US market constitutes over 50% of the All Country Net Index ($A), despite only being 13% of GDP (PPP) and its listed sector's revenues domestically biased.

On a relative basis, this quarter was the portfolio's weakest in almost 20 years. To reflect, the previous worst relative performance quarter to November 1998 saw the portfolio fall 8% versus the All Country Net Index ($A) up 7%. Like now, the US was expensive on an absolute and relative basis, and technology was heavily favoured over resources. From February 1999, as the US premium eroded and the technology bubble burst, the portfolio positioning aided its returns over the next five year period. This of course is only one episode, but the point is, we have seen it before. The market's spring seems coiled far too tightly and we believe we are well-positioned for when value trumps momentum.

Notes:

Chart 1: Based on Factset data ex-financials, using market cap weighted price to book, and price to earnings for US, Asia ex Japan, Japan and Europe. P/B premium and P/E premium measured as US Valuation relative to simple average of the other 3 regions. US Premium is average of the two metrics.

Chart 2: Based on Factset data, using market cap weighted price to book, and price to earnings for software & content, and energy & materials. Premium in chart is simple average of P/B Premium and P/E Premium