Platinum Capital Limited ASX: PMC

31 October 2018

Facts

Portfolio value	$452.1 mn
Portfolio inception	29 June 1994
Current share price	$1.79
Current dividend yield	5.59%
Pre-tax NTA	$1.5692
Post-tax NTA	$1.5128
Max. franked dividend	9.92 cps
NTA retained earnings & div profit reserve	17.93 cps

Fees

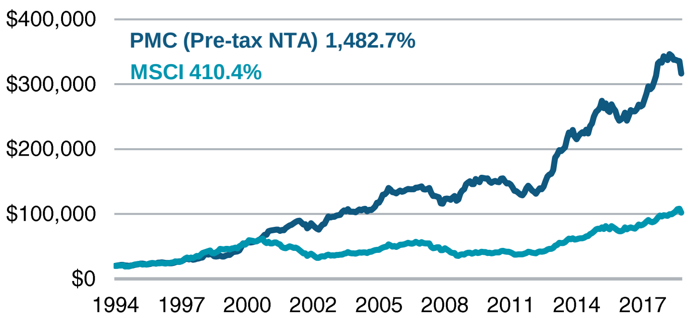
Management fee:	1.1% p.a. of the portfolio value
Performance fee:	15% of the amount by which the portfolio's annual performance exceeds the return achieved by the MSCI All Country World Net Index

Performance[1]

	Company % (Pre-tax NTA)	MSCI %
1 month	(5.78)	(5.56)
3 months	(6.31)	(1.78)
6 months	(8.64)	2.31
Calendar year to date	(5.09)	5.99
1 year	(4.71)	7.62
2 years (compound pa)	10.72	14.71
3 years (compound pa)	5.55	7.98
5 years (compound pa)	9.30	12.48
7 years (compound pa)	13.23	15.24
10 years (compound pa)	9.89	8.96
Since inception (compound pa)	12.01	6.93

The Company's return is calculated after the deduction of fees and expenses, adjusted for taxes paid and any capital flows, and assumes the reinvestment of dividends. Returns are not calculated using the Company's share price.

Performance graph[2]



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Invested positions[3]

	LONG %	NET %	CURRENCY %
Australia	0.7	0.7	0.3
Austria	0.5	0.5	
Canada	2.6	2.6	2.5
China	6.7	6.7	6.7
China Ex PRC	13.2	13.2	
Hong Kong	1.0	1.0	13.2
Denmark	0.6	0.6	0.6
France	3.3	3.3	
Germany	6.0	6.0	
India	4.9	4.9	5.0
Italy	0.4	0.4	
Japan	14.3	13.5	10.0
Korea	6.5	6.2	6.3
Malaysia	0.2	0.2	0.2
Norway	3.4	3.4	3.4
Switzerland	5.4	5.4	2.5
Thailand	0.5	0.5	0.5
United Kingdom	2.6	2.2	6.8
United States	12.1	(0.7)	29.7
Zimbabwe	0.9	0.9	
	85.9	71.7	
Euro Currency			12.3
Cash	14.1	28.3	
Total	100.0	100.0	100.0

Long - 81 stocks, 2 swaps Short - 10 stocks, 2 indices

Top ten positions[4]

STOCK	COUNTRY	INDUSTRY	%
Ping An Insurance Grp	China	Financials	3.4
Samsung Electronics Co Ltd	Korea	Info Technology	3.2
Siemens AG	Germany	Industrials	3.1
Glencore PLC	Switzerland	Materials	2.9
Alphabet Inc	USA	Info Technology	2.6
Roche Holding AG	Switzerland	Health Care	2.5
Sanofi SA	France	Health Care	2.5
China Overseas Land & Invst.	China	Real Estate	2.5
Schibsted ASA	Norway	Cons Discretionary	2.2
Technip FMC	UK	Energy	2.2

Industry breakdown[3]

SECTOR	LONG %	NET %
Info Technology	18.5	16.9
Financials	13.1	13.1
Materials	12.5	12.5
Industrials	11.1	11.1
Cons Discretionary	9.4	6.9
Health Care	6.8	5.0
Energy	6.5	6.5
Consumer Staples	3.8	2.3
Real Estate	2.5	2.5
Telecom Services	1.8	1.8
Other*	0.0	(6.8)

* Includes index short positions

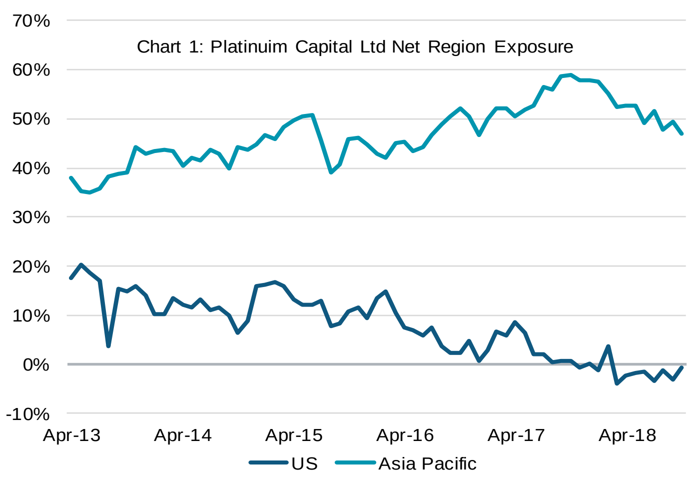
1. & 2. Source: Platinum for PMC returns and RIMES Technologies for MSCI returns. The returns are calculated relative to the MSCI All Country World Net Index in A$ (nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist). The investment returns depicted in the graph are cumulative on A$20,000 invested in PMC 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.

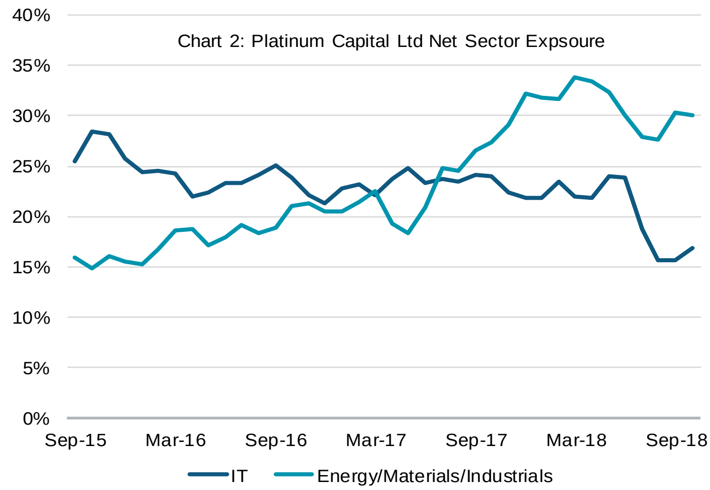
3. The "Long %" represents the exposure to direct securities holdings and long stock/index derivatives as a percentage of PMC's portfolio value. The "Net %" represents the exposure to direct securities holdings and both long and short stock/index derivatives as a percentage of PMC's portfolio value. 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 "Currency %" represents the effective currency exposure of PMC's portfolio as a percentage of PMC's portfolio value, taking into account currency exposures through securities holdings, cash, forwards and long and short derivatives.

4. The "Top ten positions" show PMC's top ten long positions as a percentage of PMC's portfolio value. Direct securities holdings and long stock/index derivatives are included. However, short stock/index derivatives are not included.

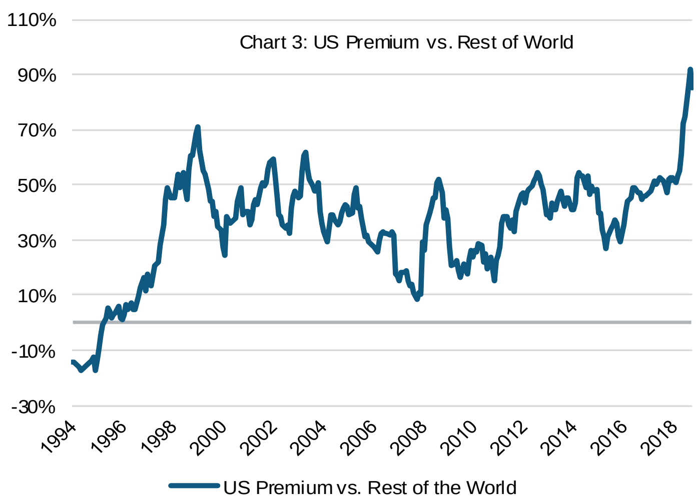
- Multi-year portfolio migration away from US (-0.7%) toward Asia Pacific (now 47%).
- Energy, Materials and Industrials increased allocation in recent years (now 30%).
- Tough 2018 YTD. After returning 39% in two years to 30 April 2018, last six months have been hard.

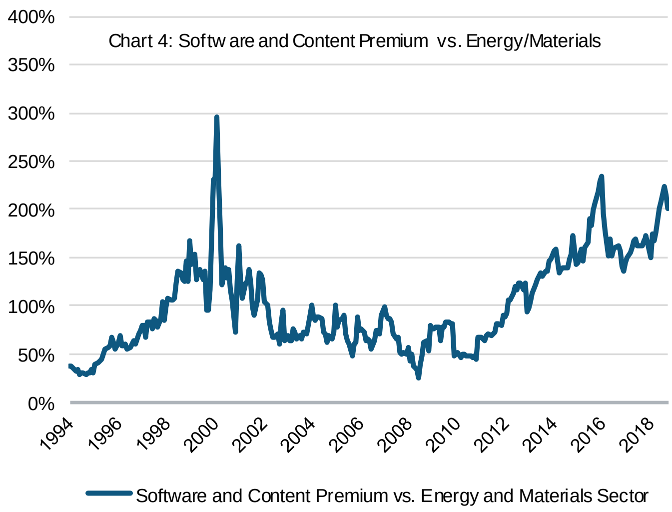
- October was the toughest month for global markets since February 2009. The factors increasingly causing investors angst in recent months extended to high-flying US technology names, which had previously defied gravity. These were rising US interest rates, trade issues (including Iran sanctions pressuring oil), US mid-term elections and China's reform.
- We have been reducing portfolio risk since March aiming to protect investors' capital. This has tended to involve reducing or selling companies whose shares held up, and increasing shorts on the hotter areas. Market exposure reached its lowest levels since 2009. By late October, we were starting to nibble again with many stocks we know over-punished. This will likely continue. The portfolio, carrying a meaningful degree of protection, is on a very attractive forward earnings yield above 9% (or P/E of 11x) on average.
- Over five years, we gradually reduced our US exposure and invested in Asia-Pacific on the back of surges around the elections of Abe (Japan) and Modi (India) and around the 2014 lows of the Chinese bear market. Similarly, the 2015-16 oil price decline and detailed analysis uncovering electric vehicle beneficiaries has seen a reduction of exposure to the 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. This explains the portfolio moves above.





Regional returns over the last six months explain the outcome. The US rose 10% while Japan fell 2%, Europe fell 5% and Asia ex Japan fell 12%. In the portfolio, our Asian exposures fell with their market. Collectively European and North American exposures made no impact up or down, but we did poorly in Japan, which cost almost 3%. This included investments among materials, computer games, a bank and Lixil, who announced a change in CEO. This is at odds with a solid economy and improving governance. Our risk management tools (shorts and FX) started to make a positive impact in October, contributing around 1.5%, and the top four contributors to the company this month were all short positions.

As absolute return managers, we aim to generate positive returns over the medium term, and pay no heed to index compositions. The last six months saw a sharp drawdown in the portfolio from its all-time peaks. Similar, or worse outcomes, occurred around 1998/9, 2002, 2008 and 2011. Of these, only 1998/9 was similar in that it was sharply worse than the market. On that occasion, like today there was a dramatic bifurcation in returns and valuations offered no short-term relief. However, the chart suggests a similarity today, with that period.

From February 1999, as the US premium eroded and the technology bubble burst, the portfolio's positioning aided its returns over the 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.

Andrew Clifford (CEO, CIO and Co-Founder) recently presented at the Portfolio Construction Forum Strategies Conference 2018, on the topic of "RoI is everything – abstractions are distractions". You can view the presentation (and earn 0.5 CE hours) by clicking the following link:
https://portfolioconstructionforum.edu.au/perspectives/roi-is-everything-abstractions-are-distractions/

Notes: Chart 1 Portfolio Net Region Exposure – Platinum Investment Management Ltd
Chart 2 Portfolio Net Sector Exposure – Platinum Investment Management Ltd
Chart 3 US Premium v World: 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 4 Software/Content Premium v Energy/Materials: 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.