Platinum Capital Limited
ASX: PMC

31 May 2019

Facts

Portfolio value	$437.9 mn
Portfolio Inception	29 June 1994
Current share price	$1.615
Current dividend yield	5.57%
Pre-tax NTA	$1.5129
Post-tax NTA	$1.4838
Maximum franked dividend	8.97 cps
NTA retained earnings & div profit resv.	14.90 cps

Fees

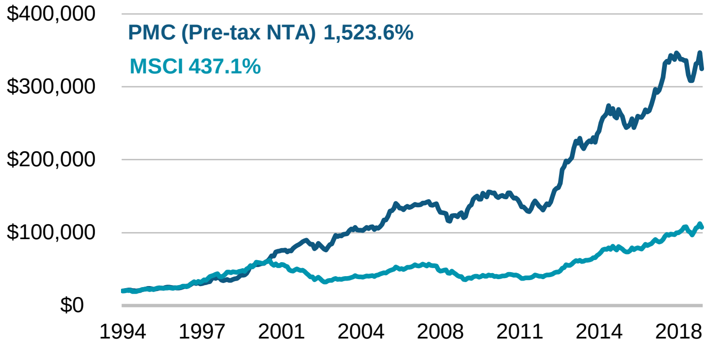
Management fee:	1.1% p.a. of the portfolio value
Performance fee:	Payable at 15% of the amount by which the portfolio's annual performance exceeds the return achieved by the MSCI All Country World Net Index

Performance [1]

	Company % (Pre-tax NTA)	MSCI %
1 month	(6.43)	(4.44)
3 months	(2.16)	1.11
6 months	5.22	6.87
Calendar year to date	5.20	10.84
1 year	(5.49)	7.80
2 years (compound pa)	4.61	8.91
3 years (compound pa)	8.19	10.70
5 years (compound pa)	8.08	11.61
7 years (compound pa)	13.23	15.03
10 years (compound pa)	9.07	10.98
Since inception (compound pa)	11.83	6.98

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 %	Short %	Net %	Currency %
Asia-Pacific	**46.4**	**(7.1)**	**39.3**	**35.9**
Australia	0.7	(0.3)	0.5	0.7
China	9.8	(2.9)	7.0	7.0
China Ex PRC	13.1		13.1	
Hong Kong	1.1		1.1	16.8
India	5.6		5.6	5.7
Japan	9.7	(3.1)	6.6	15.9
Korea	5.8	(0.9)	4.9	4.9
Thailand	0.5		0.5	0.5
China Renminbi Off Shore				(15.6)
Europe	**16.2**	**(3.7)**	**12.5**	**22.3**
Austria	1.1		1.1	
Denmark	0.4		0.4	0.4
France	2.6		2.6	
Germany	2.5	(3.0)	(0.5)	
Ireland	0.7		0.7	
Italy	1.0		1.0	
Norway	1.7		1.7	2.6
Switzerland	4.2		4.2	1.6
United Kingdom	2.1	(0.6)	1.5	4.5
Euro				13.1
North America	**20.1**	**(14.0)**	**6.1**	**40.9**
Canada	1.9		1.9	2.0
United States	18.2	(14.0)	4.2	38.9
Other	**1.1**	**(0.2)**	**0.9**	**1.0**
Brazil	0.5	(0.2)	0.4	0.4
Zimbabwe	0.5		0.5	0.5
Sub-Total	**83.7**	**(24.9)**	**58.8**	**100.0**
Cash	**16.3**		**41.2**	
Total	**100.0**		**100.0**	**100.0**

Long - 81 stocks, 2 swaps   Short - 14 swaps, 4 indices

Top ten positions [4]

Stock	Country	Industry	%
Ping An Insurance	China	Financials	4.3
Samsung Electronics Co Ltd	Korea	Info Technology	3.2
Facebook Inc	United States	Comm Services	3.1
Glencore plc	Switzerland	Materials	2.5
China Overseas Land & Investment	China	Real Estate	2.5
Alphabet Inc	United States	Comm Services	2.4
Bharti Airtel Ltd	India	Comm Services	2.4
PICC Prop & Cas	China	Financials	2.2
TechnipFMC Ltd	UK	Energy	2.1
Jiangsu YangheBrew	China	Consumer Staples	2.1
		Total	26.8

Industry breakdown [3]

Sector	Long %	Short %	Net %
Financials	16.6		16.6
Communication Services	12.1		12.1
Materials	11.3		11.3
Industrials	10.8	(0.3)	10.5
Consumer Discretionary	8.6	(1.9)	6.6
Info Technology	9.5	(4.2)	5.3
Energy	4.3		4.3
Health Care	4.4	(1.9)	2.5
Real Estate	2.5		2.5
Consumer Staples	3.6	(1.9)	1.7
Other*		(14.7)	(14.7)

*Includes index 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. 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 "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. 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 stock/index 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 derivatives are included. However, short stock derivatives are not included.

Market update and commentary

- Trade tensions re-emerged in May, presenting a setback after strong start to 2019. YTD returns remain solid at 5%.
- Market divergence between cheap and expensive stocks is extreme and getting wider; this feels like a coiled spring.
- Resultant portfolio positioning most cautious since 2008 with net exposure at 59%; trade related risks are asymmetric.

Trump reignited his trade war with China via Twitter early in May. In our view, downside risk from its escalation overwhelms short-term upside from its resolution. We acted swiftly, adding market shorts in export heavy Japan, Hong Kong and Germany, then the technology-heavy Nasdaq. This reduced net exposure during the month by approximately 22% in aggregate. While there is increased focus on trade tensions, it is worth being aware that China's loosening measures are starting to have an impact on its broad, consumer economy, and their property market is stronger.

This did not stop May being challenging for the market or the portfolio which returned -6%; Technology, Resources and Consumer Discretionary were hit hard. India was a bright spot. The situation, particularly the attack on Huawei, is unprecedented in recent history. It is unlikely to benefit the world economy while it remains unresolved. We challenge any assumption that this is good for the US, while agreeing it is bad for everyone else. Having put broad protection in place, we can now search at a company level for any mispriced impacts, including any beneficiaries.

Performance:

Over the last year, the portfolio has returned a disappointing -5%. For context: in one out of every six rolling 12-month periods, the portfolio has returned -5% or less. During the period, our resources exposure, particularly energy related, and our Asian technology leaders were the main drivers of this. Short positions in Tesla and Nvidia, and investments in Ping An Insurance and the Indian banks were the top positive contributors. For comparison, while global markets were up 8%, both Asia and Japan had down years – as did Germany in the light of trade conflict. We remain exposed to many stocks in Asia-Pacific with good long-term prospects and attractive current valuations.

Our simple goal is to deliver capital growth over the long-term by investing in undervalued companies. We ignore the index in trying to achieve this. We assess business prospects against current market prices, to build a portfolio of companies that private owners should be happy with. This process often leads to us zigging, while the market is zagging, and vice versa.

Going against the crowd is uncomfortable, but it can pay handsome dividends, and works over the cycle. Since the market last peaked twelve years ago, in May 2007, the portfolio has returned cumulative 131% (7.2% pa) net-of-fees while the market has offered cumulative 88% (5.4% pa).

Indeed, while we have just experienced our softest relative performance since 1999, we have had multiple periods of greater relative outperformance within the last 20 years. The parallel with 1999 should not be underestimated. There are strong similarities in the market environment, with technology stocks priced at nosebleed levels and the "old economy" shunned.

The impact of the last year on the all the performance numbers displayed overleaf also needs to be emphasised. They all relate to performance up to a point in time. As recently as on 30 April 2018, the portfolio's 5 year return was in line with the market's 16% pa whilst using a 79% average net market exposure. Any questions about performance must focus on the weaker performance of the last 13 months; this is detailed below.

Period	Portfolio	Index	Comment
May – Sept 2018	-3.0%	8.3%	Asia/Europe/Japan stocks hurt the portfolio as China slowed. Index driven by a narrow group of large US technology, healthcare, consumer stocks, on high starting valuations. Portfolio exposure was reducing as market risks were building.
Oct – Dec 2018	-8.1%	-10.3%	Outcome similar to corrections in 1998, 2011 and 2015 with the portfolio outperforming the index as it sold off. We reduced the shorts and added to some beaten-down longs.
Jan – Apr 2019	12.4%	16.0%	Strong start to 2019 for portfolio and markets. Average long position returned 17%, ahead of market, but the portfolio held back by caution, with shorts and cash a drag.
May 2019	-6.4%	-4.4%	Trade tensions reignited. Action taken to protect the portfolio from escalation, yet initial impact hit positions in technology, resources and consumer discretionary companies hard.

Outlook:

Looking forward, and as we presented on our recent adviser and investor roadshow, the biggest challenge investors currently face is trying to deal with macro uncertainty induced by trade tensions, political populism, the rise of China, unconventional monetary policy and technology disruption.

As a result, there is intense crowding into what seems immune – perceived safe havens (e.g. Consumer Staples, REITs, Infrastructure) and secular growth stories (concentrated in Technology and Biotech). **Expensive stocks are more expensive than ever** – this does not augur well for returns from investing in popular areas of the market.

Meanwhile, companies with economic sensitivity are shunned, and as a result, we can build a portfolio of industry leaders on a starting earnings yield of 10% (a P/E of 10x) with prospects for growth. In a low interest rate world, this is exceptional value, and it feels like the best portfolio we have been able to assemble in a decade. **Cheap stocks are cheaper than ever**. These are broadly spread geographically, with long positions of similar scale in China, the rest of Asia (Japan, Korea, India), the US and Europe.

Combining these two observations, leads to what appears to be a cautiously positioned portfolio but it masks enthusiasm for the medium term prospects for what we own, and concern about both market-level risks and extreme valuations. One might say we are taking **a divergent view on a divergent market.** We have spoken before about markets feeling like a coiled spring, as they did in mid-2016 around the time of Brexit, and once again, this is a strong analogy.