

Facts

Portfolio value	\$456.54 mn
Portfolio Inception	29 June 1994
Current share price	\$1.545
Current dividend yield	4.53%
Pre-tax NTA	\$1.5709
Post-tax NTA	\$1.5193
Maximum franked dividend	6.77 cps
NTA retained earnings & div profit resv.	22.39 cps

Performance ¹

	Company % (Pre-tax NTA)	MSCI %
1 month	3.10	2.00
3 months	3.09	4.02
6 months	4.59	9.10
Calendar year to date	12.85	21.29
1 year	3.68	8.76
2 years (compound pa)	5.48	13.79
3 years (compound pa)	10.48	14.43
5 years (compound pa)	8.63	12.35
7 years (compound pa)	13.96	15.78
10 years (compound pa)	8.77	11.30
Since inception (compound pa)	11.98	7.26

PMC's returns are calculated after the deduction of fees and expenses, adjusted for taxes paid and any capital flows and assume the reinvestment of dividends. PMC's returns have not been calculated using PMC's share price.

Invested positions ³

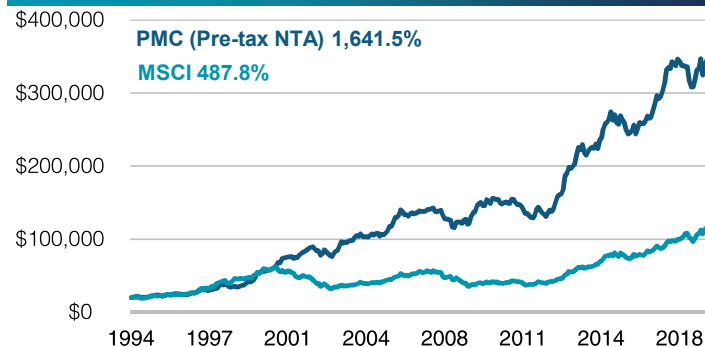
	Long %	Short %	Net %	Currency %
Asia-Pacific	48.7	(1.1)	47.5	33.9
Australia	0.7	(0.7)	(0.0)	0.9
China	7.1		7.1	7.1
China Ex PRC	15.4		15.4	
Hong Kong	1.1		1.1	11.5
India	4.6		4.6	4.6
Japan	13.1		13.1	18.4
Korea	6.3	(0.4)	5.9	5.9
Thailand	0.4		0.4	0.4
China Renminbi Off Shore				(14.9)
Europe	17.2	(0.7)	16.5	22.5
Austria	1.1		1.1	
Denmark	0.4		0.4	0.4
France	3.0		3.0	
Germany	2.2		2.2	
Ireland	1.1		1.1	
Italy	1.5		1.5	
Norway	1.0		1.0	2.1
Switzerland	4.6		4.6	1.8
United Kingdom	2.4	(0.7)	1.7	4.8
Euro				13.4
North America	23.0	(14.4)	8.6	42.6
Canada	3.3		3.3	2.8
United States	19.7	(14.4)	5.3	39.8
Other	1.2		1.2	1.1
Brazil	0.9		0.9	0.8
Zimbabwe	0.3		0.3	0.3
Sub-Total	90.1	(16.2)	73.9	100.0
Cash	9.9		26.1	
Total	100.0		100.0	100.0

Long - 79 stocks, 2 swaps Short - 14 swaps, 1 index

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 graph ²



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Top ten positions ⁴

Stock	Country	Industry	%
Samsung Electronics Co Ltd	Korea	Info Technology	3.9
Ping An Insurance	China	Financials	3.9
Glencore PLC	Switzerland	Materials	2.8
Facebook Inc	United States	Comm Services	2.8
Alphabet Inc	United States	Comm Services	2.7
ZTO Express Inc	China	Industrials	2.5
Bharti Airtel Ltd	India	Comm Services	2.4
Technip FMC Ltd	UK	Energy	2.4
PICC Prop & Casualty	China	Financials	2.3
Intel Corp	United States	Info Technology	2.2
Total			27.9

Industry breakdown ³

Sector	Long %	Short %	Net %
Financials	14.2		14.2
Materials	12.7		12.7
Industrials	12.0		12.0
Communication Services	11.3		11.3
Info Technology	13.8	(3.7)	10.0
Consumer Discretionary	11.3	(3.5)	7.8
Energy	4.9		4.9
Health Care	4.7	(1.5)	3.1
Real Estate	2.0		2.0
Consumer Staples	3.2	(3.3)	(0.0)
Other		(4.2)	(4.2)

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1. & 2. Source: Platinum for portfolio returns and Factset Research Systems for MSCI returns. The returns are calculated relative to the MSCI All Country World Net Index in A\$ (except the gross MSCI Index was used prior to 31/12/98). The investment returns in the line graph are cumulative on A\$20,000 invested in PMC 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 PMC's portfolio value. The "Currency %" is the effective currency exposure of PMC's portfolio as a percentage of its portfolio 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 PMC's top ten long securities positions as a percentage of PMC's portfolio value (including long securities and long securities derivative positions).

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- The portfolio had a strong September, taking the YTD returns to 13%.
- Extreme divergence between “expensive” and “cheap” implies parallels with 1999 and early 1970s.
- Net exposure (long less short positions) in portfolio towards lower end of post-GFC range.
- Longer term relative underperformance a result of challenging period since April 2018.
- Asian region has been biggest contributor to portfolio returns over last five years.

Update

Market behaviour in the early part of September, may have, to a large extent, reflected the extreme positioning in markets. The brief reversal of previous embedded trends was perhaps an unwinding of some bets, and gave us a sneak preview of what could happen if any of a number of circumstances, other than the status quo, are to evolve from here.

While some US and European economic data appears at first unsupportive of continued market strength, we would point to any of: 1) a resolution of the trade situation, 2) any recognition that China is growing, 3) any telegraphing of increased fiscal spending (and simultaneous recognition that the unconventional monetary experiment has stopped working) or 4) any expectation of higher interest rates (which would likely be linked to the others), could be at once detrimental to the crowd, and beneficial to many of our positions, which have been shunned for fear of the opposite. It must be kept in mind with the US election looming, that the key protagonist, who loves to do deals, often Tweets to remind us that his self-esteem is inextricably linked to the level of the stock market.

Closer to home it is ironic, as the world contemplates fiscal spending over QE, that Australia may be going the opposite way. This does not bode well for our currency unit, and we continue to keep our cash in US Dollars and Japanese Yen. We remain short the Chinese currency as a risk mitigator against any escalation of trade conflict causing increased confusion for Chinese corporate decision makers and slowing the world’s largest physical economy.

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”. When there is a mania in one arena, this often leads to great companies being overlooked elsewhere. For those who “avoid the crowd”, this can be very uncomfortable while it unfolds but with the extreme positioning that we see today, it could be indicative of a very prospective investment landscape if one is willing to take an opposing view to the masses.

The widely held idea that ultra-low interest rates can be used to justify the valuations of growth stocks and defensive stocks, misses an important point. This would also justify investing in cyclical, or stocks with uncertainty. The maths behind it is simple – a lower discount rate increases all asset values. However the fact that many cyclical stocks are on crisis-type valuations, suggest that psychology is a bigger driver of intra-market outcomes than financial alchemy.

When we look at the portfolio, valuation metrics are enticing in both an absolute and relative sense, and this gives us plenty of encouragement.

Metric	Platinum Capital	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	3.1%	3.0%
Price-to-Book-Ratio	1.4	2.2
Enterprise Value-to-Sales	1.1	1.5

Valuation refers to the long portion of the portfolio, excluding negative net earnings, and using FactSet consensus earnings.

Performance

So far in calendar year 2019, the portfolio has returned a strong 13%. In the last 20 years, only four years (2003, 2009, 2013 and 2017) have seen higher YTD returns at September end. Looking more closely at the returns, the average long position is up 18% (broadly in line with the markets’ 21%), and with average exposure of 87%, contributed 16% to returns. The long contributions are broken down to key regions and sectors in the below table.

Region/Country	Average weight %	Contribution %	Sector	Average weight %	Contribution %
China	23	5	Tech/Communications	23	5
US	18	4	Financial/Real Estate	18	3
Europe	18	3	Industrials	11	3
Japan	11	3	Consumer/Health	17	3
Rest of Asia	13	2	Energy/Materials	17	1

Source: Platinum Investment Management Limited.

The top stocks included Ping An Insurance, Facebook, Samsung Anta Sports and ZTO Express. Lixil had a major positive impact, after we agitated for management change, in light of poor corporate governance. Shorts cost 2% with average exposure of 16% YTD; technology shorts struggled in Q1 particularly.

In looking at index returns for the 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 this locational advantage, which averages about 8% and which is most pronounced in Financials/Real Estate.

Long-term outcomes

In the recent months, this commentary has highlighted the impact of the extended US-led bull market on our relative returns, and noted that it has been the last 18 months that has been the main cause of apparent longer-term underperformance.

A common misperception given the strength of the US market is that the portfolio’s exposure to Asia has been detrimental to returns. This is far from the case. Indeed, over the last few years, it is worth stressing that Asia has been the biggest contributor to the portfolio’s returns.

As the table above showed, around half of 2019 YTD returns come from investments in the region, led by China and India. Four of the six top stock contributors are listed in the region.

We made a meaningful increase in the portfolio’s exposure to the region around 2014, coincident with the bottom of China’s multi-year bear market, and India’s election of Prime Minister, Narendra Modi.

Looking at the five calendar years; 2014-2018, the investments in Asia contributed 26% (and Japan a further 2%), to our net cumulative return of 37% over the period that we significantly ramped up our regional exposure. That return was dominated by 13% contribution from China (19% average exposure) and 10% from the combined exposure to India and Korea (12% average exposure). Putting this in context, as a Return on Capital, we made 73%* from our investments in the region.

The top two stocks in the portfolio over the period were Tencent and Samsung. Other leading Asian contributors over this five year period included technology leaders (Alibaba, Baidu, China Mobile, 58.com), Chinese insurers (China Life, China Pacific, Ping An Insurance and PICC), regional banks (ICICI Bank, IDFC, KB Financial), spirits makers (Jiangsu Yanghe and Kweichow Moutai), Vietnam Dairy and leading sportswear brand, Anta Sports.

*the contribution from Asia Pacific stocks divided by the average exposure to the stocks over the five year period.

References to Asia in the section above relate to what MSCI define as ‘Asia ex-Japan’.

The Platinum Capital Limited quarterly report will be available on our website on 18 October 2019.