Platinum Capital Limited ASX: PMC

30 September 2020

Facts

Portfolio value	$405.2 mn
Portfolio Inception	29 June 1994
Current share price	$1.265
Current dividend yield	4.74%
Pre-tax NTA	$1.3909
Post-tax NTA	$1.4043
Maximum franked dividend	3.89 cps
NTA retained earnings & div profit resv.	6.98 cps

Fees

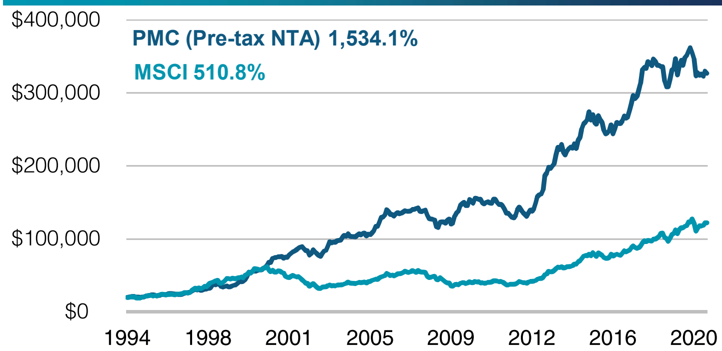
Management fee:	1.1% (excl. GST) of Net Asset Value; plus
Performance fee:	15% (excl. GST) of outperformance over benchmark (MSCI All Country World Net Index (A$))

Performance [1]

	Company % (Pre-tax NTA)	MSCI %
1 month	(0.97)	(0.15)
3 months	0.24	3.87
6 months	1.09	10.08
Calendar year to date	(9.74)	(0.58)
1 year	(6.17)	3.93
2 years (compound pa)	(1.37)	6.32
3 years (compound pa)	1.45	10.40
5 years (compound pa)	4.91	9.85
7 years (compound pa)	7.28	12.02
10 years (compound pa)	8.09	11.86
Since inception (compound pa)	11.23	7.14

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.**

Performance graph [2]



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Invested positions [3]

	Long %	Short %	Net %	Currency %
Asia-Pacific	43.6	(0.3)	43.3	51.9
Australia	3.4		3.4	11.6
China	17.2		17.2	17.2
Hong Kong	2.5		2.5	3.0
Taiwan	1.3		1.3	1.3
India	1.0		1.0	1.0
Japan	12.4	(0.3)	12.1	12.0
Korea	5.9		5.9	5.9
Europe	17.4		17.4	21.6
Austria	0.7		0.7	
Belgium	0.1		0.1	
Denmark	0.5		0.5	0.5
Finland	1.3		1.3	
France	3.5		3.5	
Germany	4.7		4.7	
Ireland	1.5		1.5	
Italy	1.2		1.2	
Spain	2.9		2.9	
United Kingdom	1.0		1.0	0.9
Euro				20.3
North America	24.6	(14.3)	10.3	25.3
Canada	2.4		2.4	3.0
United States	22.2	(14.3)	8.0	22.3
Other	1.1		1.1	1.1
Zambia	1.0		1.0	1.0
Zimbabwe	0.1		0.1	0.1
Sub-Total	86.8	(14.6)	72.2	100.0
Cash	13.2	14.6	27.8	
Total	100.0		100.0	100.0

Long - 79 stocks, 2 swaps   Short - 6 swaps, 1 index

Top ten positions [4]

Stock	Country	Industry	%
Samsung Electronics Co Ltd	Korea	Info Technology	3.7
Ping An Insurance	China	Financials	3.3
Amadeus IT Holdings	Spain	Info Technology	2.9
Glencore PLC	Australia	Materials	2.5
AIA Group Ltd	Hong Kong	Financials	2.5
Booking Holdings Inc	United States	Cons Discretionary	2.4
Bayerische Motoren Werke AG	Germany	Cons Discretionary	2.3
ZTO Express Inc	China	Industrials	2.3
Minebea Co Ltd	Japan	Industrials	2.3
General Electric Co	United States	Industrials	2.2
		Total	26.3

Industry breakdown [3]

Sector	Long %	Short %	Net %
Industrials	18.0	(0.3)	17.7
Info Technology	16.1	(0.8)	15.3
Consumer Discretionary	14.4	(0.7)	13.7
Materials	13.4		13.4
Financials	10.0		10.0
Health Care	6.9	(0.3)	6.5
Communication Services	5.2		5.2
Real Estate	1.6		1.6
Energy	1.1		1.1
Consumer Staples		(0.3)	(0.3)
Other		(12.2)	(12.2)

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 geographic "Long %" is the exposure to long securities and long securities/index derivative positions, the geographic "Short %" is the exposure to short securities and short securities/index derivative positions and the geographic "Net %" is the difference between the geographic "Long %" and the geographic "Short %", each as a percentage of the market value of the Fund's portfolio. The "Currency %" is the effective currency exposure as a percentage of the market value of the Fund's portfolio taking into account long and short securities, cash, forwards and long and short securities/index derivative positions. The cash "Long %" includes cash at bank, cashflows expected from forwards and effective cash exposures resulting from long securities/index derivative positions, the cash "Short %" includes effective cash exposures resulting from short securities/index derivative positions and the cash "Net %" is the difference between the cash "Long %" and the cash "Short %", each as a percentage of the market value of the Fund's portfolio. 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".

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).

Market update and commentary

- Investors faced with "two stock markets" – a raging bull market (or emerging bubble?) in growth stocks, and a bear market in economically sensitive stocks.
- It is a dangerous environment for retail investors chasing returns. **Remember – speculation is not investing.**
- Rotating early, consistent with our philosophy, has hurt relative returns during extreme conditions since early 2018.

Market Commentary

We have talked *ad nauseum* about the dispersion in markets – indeed we have described "two stock markets" – the mania in much-loved growth stocks and a bear market in the economically sensitive stocks. This month we made meaningful changes to the portfolio's exposure, as the crescendo in excitement encouraged us to reintroduce short positions on the technology heavy Nasdaq 100 Index, and we trimmed back successful investments in both Alphabet (Google parent) and Facebook. We expect the shorts to be dynamically managed as conditions evolve.

Along with short positions, another major component in risk management is our currency exposure. During the month, while we believe the medium-term outlook for the US dollar will likely suffer from excessive money printing, we sensed that this was becoming well known, and, as our US dollar position was large, we swapped some Australian dollars and Euros for US dollars, However, do not be surprised if in due course we adjust this again.

With the US election looming, this will likely dominate media coverage, but observing the first debate, it is very hard to be inspired by what lies ahead. Markets tend to respond quickly to changes in expectations derived from polling, and analysis thereof. The best strategy remains to be ready to respond if prices react violently to any surprise outcomes.

While the long-term trends are not yet being challenged, there have been several episodes in recent months that have temporarily given investors a sense of what might happen if there is a change in market leadership – the first half of September being another such episode. The challenge in answering the common question of what will lead to a sustained change is that one can never know. Nobody rings a bell. There is never a clear and identifiable trigger. But what is clear is that there is incredible value in certain parts of the market – this explains our adding travel exposures in recent months for example – and there are also vast pockets where permanent impairment of capital seems likely to us. We continue to employ our time-tested approach, a key tenet of which is the need to be patient.

Performance Analysis

In our July report (Click Here) we analysed medium-to-long-term performance. Relative underperformance has coincided with what was defined in that report as the "Post-GFC Bull Divergence Phase" (which at that time included all of both 2018 and 2019, and through to 31 July 2020). This period now extends to 30 September 2020 and the portfolio's -2% return lagged the MSCI ACWI's 27% return over this period. Within this, we have lagged all the three of the "Up Waves" and outperformed the two "Down Waves". In the third and current "Up Wave" our 1% return lags the index's 10% over the period 31 March to 30 September 2020.

Focusing on the last 12 months, the portfolio's short positions have cost 10% in performance - this is disappointing given their role is to reduce risk. On the long side, despite the divergences we have delivered positive returns in a soft market. This is more surprising when noting most of the market's return has come from three stocks - Amazon, Apple and Microsoft. Indeed, beyond a small number of contributors, mostly technology-related, the average global stock has fallen over the last year.

On the long side, investments in IT, Communications, Industrials, Materials and Healthcare contributed 10% to returns, led by LG Chem (Korean electric vehicle battery maker), logistics companies ZTO Express (China) and FedEx, chip makers Skyworks, and Samsung, platforms Facebook, Tencent and Alibaba, vaccine maker Moderna and Indian telco operator Bharti Airtel.

Investments in Financials and Energy offset this to the extent of 7%, with the biggest impacts coming from TechnipFMC (energy services), Seven Generations (natural gas producer) and BRF (Brazilian food producer) along with industrial giant, GE and miner & trading major, Glencore. Active currency positions made a meaningful positive contribution.

1 year to 30 September 2020	Average Weight %	Contribution %
Long Portfolio	89	3
Short Positions	13	(10)
Cash / FX	24	2
Total (Portfolio, net of fees and costs)		(6)
Comparison (MSCI AC World Net Index (A$))		4

Source: Platinum. Numbers are based on the total return of individual positions (in AUD) and do not take into account fees and costs (other than brokerage). Contribution numbers may not add up due to rounding and the effect of fees. **Past performance is not a reliable indicator of future returns.**

Valuation: Earnings forecasts at this stage have less value than normal due to COVID-19 impacts, but we can look at the valuation of the portfolio against next year's (NTM) earnings to get a sense of its earnings power. There is value in an absolute and relative sense.

Metric	Platinum Capital Limited	MSCI AC World Net Index (A$)
NTM Earnings Yield	6.2% (Price to Earnings ratio of 16.1x)	5.1% (Price to Earnings ratio of 19.8x)
NTM Dividend Yield	2.5%	2.6%
Price-to-Book Ratio	1.5x	2.4x
Enterprise Value-to-Sales	1.5x	1.7x

The valuations in the table in respect of the portfolio have been calculated by Platinum and refer to the long portion of the portfolio, exclude negative net earnings, and use FactSet consensus earnings.