Platinum Capital Limited ASX: PMC

MONTHLY REPORT **30 September 2022**

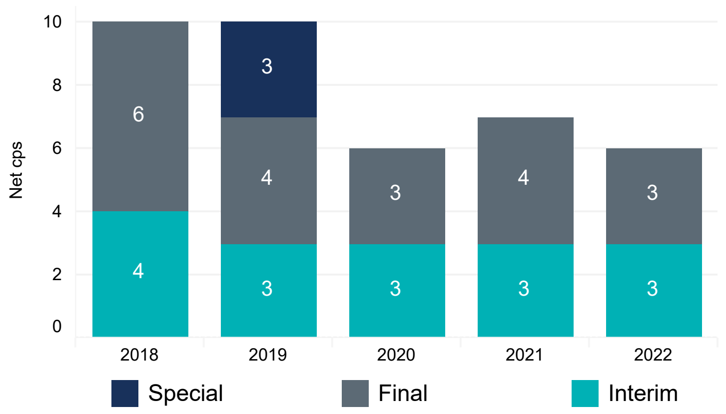
FACTS[1]

Market capitalisation	$338.95 mn
Listing date	29 June 1994
Current share price	$1.150
Current dividend yield	5.22%
Pre-tax NTA	$1.4194
Post-tax NTA	$1.4155
Maximum franked dividend	8.09 cps

Management fee: 1.10% p.a. (excl. GST) of portfolio value* plus

Performance fee: 15.00% p.a. (excl. GST) of outperformance over benchmark (MSCI All Country World Net Index (A$)). Performance fees are calculated after recovery of any underperformance carried forward from prior periods.

HISTORY OF FULLY FRANKED DIVIDENDS (CPS)[3]



PERFORMANCE[2]

	1 month	3 months	6 months	CYTD	1 year	2 years p.a.	3 years p.a.	5 years p.a.	7 years p.a.	10 years p.a.	Since inception p.a.
Company % (Pre-tax NTA)	0.1	(1.3)	(1.2)	(8.7)	(7.2)	6.9	2.4	3.6	5.5	10.4	10.9
MSCI %	(3.6)	(0.3)	(8.2)	(15.9)	(10.9)	6.2	5.4	8.7	8.8	12.6	7.1

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. Past performance is not a reliable indicator of future returns.**

INVESTED POSITIONS[4]

	LONG %	SHORT %	NET %	CCY %
Asia-Pacific	35.4	(3.8)	31.7	43.1
Australia	2.5	(1.8)	0.7	3.0
China	18.7		18.7	18.7
China Renminbi Offshore				(1.0)
Hong Kong				2.7
India	2.4		2.4	2.4
Japan	7.9	(1.8)	6.2	13.6
South Korea	3.6		3.6	3.6
Other Asia-Pacific	0.2	(0.2)	0.1	0.1
Europe	24.5	(0.2)	24.4	26.1
Austria	2.2		2.2	
Euro				17.5
Finland	3.0		3.0	
France	3.6		3.6	
Germany	3.4		3.4	
Italy	2.4		2.4	
Netherlands	2.5		2.5	
United Kingdom	5.9		5.9	7.6
Other Europe	1.7	(0.2)	1.5	1.0
North America	16.5	(19.2)	(2.7)	28.4
Canada	1.6		1.6	2.2
United States of America	14.9	(19.2)	(4.3)	26.3
Other	2.4		2.4	2.4
Sub-Total	78.9	(23.1)	55.8	100.0
Cash	21.1	23.1	44.2	
Total	100.0		100.0	100.0

Long - 117 stocks, 2 swaps, 1 option, 2 other Short - 36 swaps, 2 indices

TOP TEN POSITIONS[5]

STOCK	COUNTRY	INDUSTRY	%
ZTO Express Cayman Inc	China	Industrials	3.6
Microchip Technology Inc	United States	Info Technology	3.3
UPM-Kymmene OYJ	Finland	Materials	3.0
Ping An Insurance Group	China	Financials	2.8
Minebea Co Ltd	Japan	Industrials	2.5
InterGlobe Aviation Ltd	India	Industrials	2.4
Trip.com Group Ltd	China	Cons Discretionary	2.3
Shell PLC	Netherlands	Energy	2.3
Beazley PLC	UK	Financials	2.1
Intesa Sanpaolo SpA	Italy	Financials	2.0
		Total	26.3

INDUSTRY BREAKDOWN[4]

SECTOR	LONG %	SHORT %	NET %
Industrials	17.4	(1.6)	15.7
Financials	14.4	(1.3)	13.1
Materials	10.5		10.5
Consumer Discretionary	11.3	(4.0)	7.3
Energy	5.4		5.4
Information Technology	10.4	(6.3)	4.1
Health Care	3.2		3.2
Communication Services	3.3	(0.6)	2.7
Real Estate	2.6		2.6
Consumer Staples	0.5	(0.3)	0.2
Other		(9.1)	(9.1)
Sub-Total	78.9	(23.1)	55.8
Cash	21.1	23.1	44.2
Total	100.0		100.0

1. Source: Platinum.The pre-tax NTA was calculated in accordance with Australian Accounting Standards, based on the fair value of all investments. The post-tax NTA is the pre-tax NTA after provision for tax on both realised and unrealised income and gains. The NTA is unaudited.
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 31/12/96). 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. Shows dividends paid during the calendar year.. This information is historical. No guarantee is given about future dividends or the level of franking of such dividends (if any).
4. 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 total of the "Long %" and "Short %", each as a percentage of PMC's portfolio value. The "CCY %" 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".
4. and 5. Country classifications for securities reflect Bloomberg's "country of risk" designations, and currency classifications for securities reflect the relevant local currencies of the country classifications.
5. 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).

Platinum Capital Limited ASX: PMC

MONTHLY REPORT **30 September 2022**

MARKET UPDATE AND COMMENTARY

- An almost flat month for the portfolio as markets made new calendar year-to-date lows.*
- For the calendar year to date, shorts have continued to provide considerable cushioning in weak markets.
- Looking forward, there are exciting opportunities on the long side, but we expect further broad market weakness.
- Management of risk is paramount as we expect more volatile times ahead in markets.

Market Commentary

This has been one of the most extraordinary times in markets that the portfolio has seen. The moves in currencies and bond yields during September looked, to use the much over-used phrase, “unprecedented” to us. In bear markets, we often find new and unknown corners of the market coming unstuck. In this bear market, one example seems to be the UK pension system’s hedging in so-called LDI trades or liability-driven investments. The fiscally lax mini-budget announced by the newly appointed UK Chancellor of the Exchequer, Kwasi Kwarteng, on 23 September 2022, sent bond yields skyrocketing and caused a near break in these LDIs - forcing the Bank of England to intervene in the bond market.

The US Federal Reserve (Fed) made it clear throughout September that they are not backing down on the inflation fight. We have seen an incredibly rapid increase in interest rates, which is causing real damage to the economy. However, we believe we are a long way from seeing dramatic cuts in rates from the Fed as this could very easily re-ignite its inflation problems. China continues to be in a completely different part of its economic cycle compared to the Western economies.

We have had an astonishing bull market in the US, driven by record levels of government spending and money printing. We are inclined to think that this will be a long and volatile bear market with similar drawdown levels to those seen in other cycles. Ahead of us is a very difficult period for corporate profits and earnings across the board. On the other hand, China has not experienced such speculation and remains an interesting area to explore for opportunities.

In recent weeks, we have reduced our net exposure to ~56%. The intra-month weighting was one of the lowest net market exposures that the portfolio has ever had, and we will continue to protect capital by utilising short positions. We do, however, remain ~79% long-invested, and continue to buy stocks that we think have reached extremely cheap valuations.

We remain excited by opportunities across decarbonisation, semiconductors, travel, Chinese consumers, European financials, and growth industrials. On the short side, we continue to protect the portfolio with positions in stocks that, in our view, have alarming fundamentals and/or valuations, most of which are in the technology and consumer areas.

For more details, see the latest Quarterly Report to be released on 20 October 2022.

Performance Analysis**

The portfolio has benefited from its broad tool kit during this year’s market sell-off, with shorts contributing 9% to returns, providing considerable cushioning. These were skewed towards the “growthier” end of the market, which had been hot for some time leading into late 2021. The broad de-rating of equities, coincident with rising bond yields, meant the long side of the portfolio was not immune to the market sell-off. This is consistent with our experience in the two large bear markets of 2000-03 and 2007-09. On the positive side, within the long portfolio, the top contributors for the calendar year to date include Mosaic (fertiliser), Glencore (mining, commodities trading), China Overseas Land & Investment (Chinese property), Beazley (specialist insurer) and Trip.com (online travel agent).

For more details, see the latest Quarterly Report to be released on 20 October 2022.

Valuation

The portfolio’s aggregate valuation metrics are attractive in both an absolute sense and relative to the market, with a 58% higher starting earnings yield and a 41% discount on an asset basis (see table below).

Metric	Platinum Capital Limited	MSCI AC World Net Index (A$)
NTM Earnings Yield	11.4% (Price-to-Earnings ratio of 8.8x)	7.2% (Price-to-Earnings ratio of 13.8x)
NTM Dividend Yield	3.8%	3.1%
Price-to-Book Ratio	1.3x	2.2x
Enterprise Value-to-Sales	1.4x	1.6x

The valuations in the table have been calculated by Platinum and for the portfolio refer to the long portion of the portfolio, exclude negative net earnings and use FactSet consensus earnings. As at 30 September 2022. NTM = next twelve months.

*Market returns throughout this report refer to the MSCI AC World Net Index in A$. Source: FactSet.

Source: Platinum. Contribution numbers are based on the total return of individual positions (in AUD) and are gross as they do not take into account the portfolio’s fees and costs (other than brokerage). **Past performance is not a reliable indicator of future returns.