

Platinum International Fund

(Quoted Managed Hedge Fund) - ASX: PIXX

30 June 2019

Facts

Portfolio value	\$326.47 mn (Post Distribution)
Fund commenced	12 September 2017
Fund launch	14 September 2017
Income distribution date	Annual, 30 June
Unit valuation	Sydney Business Day
Net Asset Value (\$ per unit)	\$4.4671 (Post Distribution)

Fees

Entry fee	Nil
Buy/sell spread	0.20%/0.20%
(Platinum International Fund)	
Fee:	Investment Management 1.10% p.a. Investment Performance 15.00% p.a.*

Performance ¹

	Fund %	MSCI %
1 month	3.84	5.20
3 months	1.67	4.88
6 months	10.18	16.60
Calendar year to date	10.18	16.60
1 year	1.17	11.33
Since inception (compound pa)	5.53	14.73

*of the amount by which the Fund's return exceeds its index return

Performance graph ²



Invested positions of Platinum International Fund ³

	Long %	Short %	Net %	Currency %
Asia-Pacific	43.9	(4.4)	39.5	37.4
Australia	0.1	(0.3)	(0.2)	4.4
China	8.0		8.0	8.8
China Ex PRC	13.8		13.8	
Hong Kong	0.8		0.8	12.5
India	5.7		5.7	5.9
Japan	8.6	(3.3)	5.3	14.9
Korea	6.3	(0.9)	5.4	5.4
Thailand	0.6		0.6	0.6
China Renminbi Off Shore				(14.9)
Europe	15.9	(3.7)	12.2	17.6
Austria	1.2		1.2	
Denmark	0.4		0.4	0.5
France	2.8		2.8	
Germany	1.8	(3.1)	(1.3)	
Ireland	0.8		0.8	
Italy	1.0		1.0	
Norway	1.5		1.5	1.9
Switzerland	3.8		3.8	1.5
United Kingdom	2.5	(0.6)	2.0	3.6
Euro				10.2
North America	23.8	(13.4)	10.4	44.7
Canada	2.4		2.4	2.3
United States	21.4	(13.4)	8.1	42.4
Other	0.4	(0.1)	0.3	0.2
Brazil	0.4	(0.1)	0.3	0.2
Sub-Total	84.1	(21.6)	62.4	100.0
Cash	15.9		37.6	
Total	100.0		100.0	100.0

Long - 97 stocks, 4 swaps Short - 18 swaps, 3 indices

Top ten positions of Platinum International Fund ⁴

Stock	Country	Industry	%
Ping An Insurance	China	Financials	4.3
Samsung Electronics Co Ltd	Korea	Info Technology	3.5
Facebook Inc	United States	Comm Services	3.3
Alphabet Inc	United States	Comm Services	2.6
China Overseas Land & Investment	China	Real Estate	2.5
Technip FMC Ltd	UK	Energy	2.5
Glencore PLC	Switzerland	Materials	2.3
Intel Corp	United States	Info Technology	2.2
Bharti Airtel Ltd	India	Comm Services	2.0
Jiangsu Yanghe Brewery	China	Consumer Staples	1.9
Total			27.1

Industry breakdown of Platinum International Fund ³

Sector	Long %	Short %	Net %
Financials	16.4		16.4
Communication Services	12.9		12.9
Industrials	10.6	(0.3)	10.3
Materials	9.2		9.2
Info Technology	12.1	(3.8)	8.4
Consumer Discretionary	7.5	(2.1)	5.4
Energy	5.1		5.1
Real Estate	2.5		2.5
Health Care	4.5	(2.1)	2.5
Consumer Staples	3.1	(1.7)	1.4
Utilities	0.2		0.2
Other		(11.8)	(11.8)

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1. & 2. Source: Platinum for Fund returns and RIMES Technologies for MSCI returns. Investment returns are calculated using the Fund's NAV unit price (i.e. exclude a buy/sell spread), and represent the combined income and capital returns in the specified period. All returns are pre-tax, net of fees (including any accrued performance fee) and costs and assume the reinvestment of distributions. The returns are calculated relative to the MSCI All Country World Net Index in A\$. The investment returns depicted in the graph are cumulative on A\$20,000 invested in the Fund 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 the Platinum International Fund's ("PIF's") net asset value. The "Currency %" is the effective currency exposure of PIF's portfolio as a percentage of its net asset 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 PIF's top ten long securities positions as a percentage of PIF's net asset value (including long securities and long securities derivative positions).

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Market update and commentary

This commentary and table relates to the underlying fund, Platinum International Fund (“PIF”).

- **Strong June return of 4% as markets rebounded take YTD returns to a solid 10%.**
- **Trade situation calmed for now and extreme level of protection reduced.**
- **Market divergence extreme between “expensive” and “cheap” suggests parallels with 1999.**
- **Longer term performance numbers distorted by challenges of last 14 months.**

Update

Following swift protective action in May to protect investors from any escalation of the trade situation, the portfolio positioning remains highly dynamic. As tensions eased, the index short positions approximately halved to reflect a better short-term environment. The cash balance was reduced by the year-end distribution payment, leading to what might be described as neutral net exposure of 74% by 2 July, noting the figures overleaf were pre-this payment. The cost of having shorts in place during May and June was 0.5% as markets reached all-time highs.

As highlighted on our recent roadshow and in our 19 June market update, the market is increasingly bifurcated with investors paying up for “perceived safety” or “secular growth” whilst shunning businesses with any economic sensitivity. This crowding is reminiscent of the technology bubble of 1999/2000 which is the only example in living memory of such extreme divergence. Platinum’s approach of “avoiding the crowd” is being tested to the extent that stocks which are expensive are becoming more so, and those which are cheap, are becoming cheaper. This is a great set-up when looking forward, but feels very uncomfortable whilst it unfolds. That the portfolio, which is full of leading companies in their fields, has an average earning yield of 9% and suggestive of crisis-type valuations, is very encouraging for us. Further to this is the ability to short sell where the excesses are particularly apparent, and this includes the technology-heavy Nasdaq Index, along with individual companies.

More detail on the portfolio is contained in the quarterly report, which will be published around 18 July.

Performance

Over the last 12 months, PIF returned only 1% which is disappointing versus our general expectations, but well within its normal range, with one-quarter of PIF’s 24 financial years this far seeing negative outcomes.

The key problem during the last year has been exposures to energy and materials, which cost almost 4% over the year. Risk management (shorts and FX) ended up having no aggregate impact over the year, though the low net position was a relative drag in a rising market.

Looking at the geographic make up of returns, Asia was the major contributor at 4% driven by financials. Japan and Canada weighed, with stock specific issues in the former, and resources exposure in the latter, the key challenges.

In the portfolio the top performers were dominated by Asian Financials – Chinese insurer, Ping An Insurance and Chinese property developers, China Overseas Land; Indian banks - ICICI and Axis; Swiss healthcare company – Roche; and two stock specific shorts – Nvidia and Tesla.

It is noteworthy when looking at index returns for the MSCI AC World Net Index, half the return came from 40 of around 2,800 stocks. Of these 40, 34 were listed in the US, and sector-wise, 33 were in IT/Telecoms, Healthcare or Consumer sectors. This group is on a median forward P/E of 22x.

Long-term outcomes

- We are in an extended market cycle, with three corrections (2011, 2015-16, 2018) since the last bear market (May 2007 to March 2009). Ten-year numbers reflect only a bull market environment. Over the last 12 year cycle, since the last peak, PIF has beaten the market handsomely.
- The disappointing relative outcome of the last 14 months affects returns over all longer periods. This has been explained in detail in last month and this month’s report. More than two thirds of PIF’s underperformance over 10 years can be ascribed to this recent period.
- Over the life of PIF, the average net exposure to markets has been 68%, and for the current bull market to date this has been 75%. PIF’s return is around 80% of the market return over the last 10 years.
- We view risk as permanent loss of capital, and act accordingly, ignoring benchmarks in portfolio construction. As part of our risk management process, PIF has rarely invested more than one third of its capital on an individual exchange. The US index weighting in the index exceeds 50%. Over the past decade, the US returned 16% pa, far exceeding Asia (9% pa), Europe (8% pa) and Japan (7% pa). PIF, at 9.4% pa, is ahead of these three regional outcomes over 10 years.
- The distribution payment has exceeded 8% for each of the last five years and averaged over 6% for the last decade.

This table illustrates yearly returns over the market cycle so far, to remove any end-point bias. It also shows the returns of the US versus the rest of the World, the average net exposure of PIF, and the distribution yields. The averages to the right show 10 year annualised returns compared alongside 10 year annualised returns one year ago to show base year effect, and the 12 year annualised returns to reflect the current market cycle.

Financial Year To 30 June	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2009- 2018 (p.a.)	2010- 2019 (p.a.)	2008- 2019 (p.a.)
% PIF	(16)	18	12	(7)	(6)	37	17	20	(6)	21	14	1	11	9	8
MSCI AC World Net \$A	(20)	(16)	7	3	(2)	31	19	24	(1)	15	15	11	9	12	6
MSCI US	(23)	(14)	9	3	9	34	20	31	6	14	18	15	12	16	9
MSCI AC World ex US Net \$A	(17)	(18)	6	2	(11)	27	18	16	(7)	17	11	7	5	8	3
% Net Exposure	60	61	67	72	71	80	76	83	77	81	80	70	76	75	73
Distribution Yield	6	21	0	3	2	3	6	10	8	10	12	8	6	8	8

Source: Platinum Investment Management Limited and FactSet. These are the returns of the underlying fund, Platinum International Fund (“PIF”), calculated using PIF’s C Class NAV unit price. Returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The returns of PIXX may vary from the returns of PIF due to different cash holdings and gains and losses arising as a result of PIXX’s market making activities. **Past performance is not a reliable indicator of future returns.**