

Platinum International Fund

(Quoted Managed Hedge Fund) - ASX: PIXX

31 March 2020

Facts

Portfolio value	\$324.49 mn
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)	\$4.2470

Fees

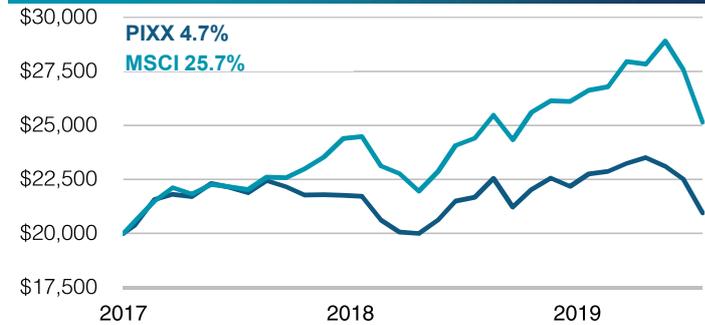
Entry fee	Nil
Buy/sell spread	0.20%/0.20%
(Platinum International Fund)	
Fee:	Investment Management 1.10% p.a. Investment Performance 15.00% p.a.*

Performance¹

	Fund %	MSCI %
1 month	(6.99)	(8.88)
3 months	(10.90)	(9.69)
6 months	(7.95)	(5.59)
Calendar year to date	(10.90)	(9.69)
1 year	(3.34)	3.00
2 years (compound pa)	(2.17)	6.82
Since inception (compound pa)	1.83	9.39

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

Performance graph²



Invested positions of Platinum International Fund³

	Long %	Short %	Net %	Currency %
Asia-Pacific	41.4	(11.4)	30.0	45.7
Australia	0.4	(3.1)	(2.7)	10.2
China	4.3	(2.6)	1.7	3.7
China Ex PRC	14.3		14.3	
Hong Kong	1.6		1.6	11.3
India	2.2		2.2	2.3
Japan	12.3	(5.4)	6.9	21.6
Korea	5.8	(0.2)	5.6	5.8
Thailand	0.4		0.4	0.4
China Renminbi Off Shore				(9.5)
Europe	15.3	(0.6)	14.7	24.5
Austria	1.1		1.1	
Denmark	0.3		0.3	0.3
France	3.0		3.0	
Germany	2.3		2.3	
Ireland	0.9		0.9	
Italy	1.2		1.2	
Norway	0.2		0.2	1.0
Spain	1.7		1.7	
Sweden		(0.6)	(0.6)	(0.1)
Switzerland	3.5		3.5	1.7
United Kingdom	1.2		1.2	3.1
Euro				18.5
North America	26.9	(12.3)	14.6	29.5
Canada	1.9		1.9	2.1
United States	25.1	(12.3)	12.7	27.4
Other	0.3		0.3	0.3
Brazil	0.3		0.3	0.3
Sub-Total	84.0	(24.3)	59.7	100.0
Cash	16.0	24.3	40.3	
Total	100.0		100.0	100.0

Long - 95 stocks, 2 swaps Short - 36 swaps, 5 indices

Top ten positions of Platinum International Fund⁴

Stock	Country	Industry	%
Samsung Electronics Co Ltd	Korea	Info Technology	3.8
ZTO Express Inc	China	Industrials	3.3
Ping An Insurance	China	Financials	2.9
Alphabet Inc	United States	Comm Services	2.8
Facebook Inc	United States	Comm Services	2.6
Micron Technology In	United States	Info Technology	2.4
Skyworks Solutions	United States	Info Technology	2.4
Takeda Pharma Co	Japan	Health Care	2.3
China Overseas Land & Investment	China	Real Estate	2.2
Sanofi SA	France	Health Care	2.2
Total			26.8

Industry breakdown of Platinum International Fund³

Sector	Long %	Short %	Net %
Info Technology	16.8	(3.6)	13.3
Industrials	13.2	(1.4)	11.8
Financials	11.1	(0.2)	11.0
Health Care	9.3	(0.8)	8.5
Communication Services	9.2	(0.8)	8.5
Consumer Discretionary	10.8	(2.6)	8.2
Materials	8.4	(2.3)	6.1
Real Estate	2.3		2.3
Energy	2.0		2.0
Utilities	0.2		0.2
Consumer Staples	0.6	(3.1)	(2.6)
Other		(9.7)	(9.7)

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1. & 2. Source: Platinum for Fund returns and Factset Research Systems 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 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".

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 the market value of PIF's portfolio (including long securities and long securities derivative positions).

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This commentary related to the underlying fund, the Platinum International Fund.

- Coronavirus induced sell-off dominates a difficult March for equity investors.
- Conservatively positioned portfolio cushions the blow with fund down less than market.
- Bifurcation between “growth and defensives” and the rest of market widens from already extreme levels.

Update:

March was another challenging month for equity investors, as the extreme sell-off driven by the COVID-19 pandemic continued. February and March saw markets¹ down 13%. Only January/February 2008 (-13.6%) was worse over Platinum’s history.

In simple terms, the forced removal of labour from the economy has caused a global recession and markets will struggle to make a sustained recovery until they can anticipate a clear path to a “return to work”. This could be driven by successful lockdown efforts, medical advances or simply political pressure. Meanwhile, governments will attempt to redistribute the impact but cannot create economic activity. The impact has been dramatic with major markets falling 30-40% and many stocks falling much more. We are working through a number of ideas, with two strong businesses, temporarily impaired, added to the portfolio so far: a travel technology firm and a semiconductor processing equipment company.

Our first responsibility is to try and protect investors from permanent impairment of capital and hence we have been very active on the short side. This cushioned the sell-off impact which at its most extreme saw the market² down 23% (20 February - 23 March) and the portfolio down 15% over the same period; shorts contributed +5% in that period.

Portfolios are moving to adapt to volatile markets. Net exposure as at close on 6 April is 60% net (86% long, 26% short).

Perspective:

Previously we have highlighted that at times our relative performance had suffered due to our cautious approach (our cash and short positions generally held back solid returns from the long portion of the portfolio over 1, 3, 5 and 10 years to December 2019) and our exposure to energy/ materials.

The caution was validated; markets had been enthusiastic ahead of COVID-19. Energy/Materials were punished, with the added impact of the oil shock. We are confident that the cases for our offshore oil capex investments and the regulation-driven migration to electric vehicles, are both impacted and deferred, but not cancelled.

Over the quarter, “growth and defensives” were flat³, with cyclicals down 15-20%⁴. Remembering, our philosophy is to look for the out-of-favour stocks.

Ironically, rising bond yields now pose a greater threat to portfolios. To fund COVID-19 responses, government debts are increasing. Central banks were already calling for fiscal spending. Funding this will put pressure on funding and if we see bond yields move higher, this will remove what is being used as a valuation support for the hotter parts of equity markets

Performance:

Portfolio outcomes were heavily influenced by markets and the categorisation (defined above) of “growth and defensive” versus “cyclicals” is instructive, as is geography, over the sell-off (20 February to 23 March) and the quarter. Even with the sell-off, Gilead (leading race for a COVID-19 treatment), Moderna (leading COVID-19 vaccine candidate) and Chinese logistics leader ZTO made positive contributions. Roche and Intel joined these as top contributors for the quarter, alongside the shorts.

Sell Off 20/02 to 23/03	Average Weight %	Contribution %	Average Return ⁵ %	Quarter 01/03 to 31/03	Average Weight %	Contribution %	Average Return ⁶ %
Growth/Defensive	33	-6	-17	Growth/Defensive	36	-1	-2
Cyclicals	50	-16	-33	Cyclicals	53	-13	-25
Shorts & cash/FX	17 & 17	+7		Shorts & cash/FX	13 & 11	+3	
Total	66	-15		Total	76	-11	
Asia Pacific (Net)	39	-7		Asia Pacific (Net)	42	-4	
Rest of world (Net)	27	-10		Rest of world (Net)	34	-9	

Valuation:

Earnings forecasts at this stage have lesser value than normal but we can look at the valuation of the portfolio against historic earnings to get a sense of the earnings power of the portfolio in a recovery.

Metric	Platinum International Fund	MSCI AC World Net Index (A\$)
LTM (Last 12 Months) Earnings Yield	9.5% (Price to Earnings ratio of 10.5x)	7.0% (Price to Earnings ratio of 14.2x)
LTM (Last 12 Months) Dividend Yield	3.5%	3.3%
Price-to-Book-Ratio	1.2	1.9
Enterprise Value-to-Sales	1.2	1.3

The valuations in the table refer to the long portion of the portfolio, excluding negative net earnings, and using FactSet consensus earnings.

Please visit The Journal section of our website for regular updates: <https://www.platinum.com.au/Insights-Tools/The-Journal>.

The Quarterly Report will be available online next week.

¹ Source: FactSet Market Research, Market means MSCI AC World Net Index in A\$.

² Source: FactSet Market Research, Market means MSCI AC World Net Index in A\$.

³ Source: FactSet Market Research, MSCI ACWI Sector returns (A\$): “Growth and Defensives”: Healthcare +2, Staples/IT -1, Utilities, Comms -2.

⁴ Source: FactSet Market Research, MSCI ACWI Sector returns (A\$): “Cyclicals”: Discretionary -10, Real Estate -12, Industrials -15, Materials -16, Financials -22, Energy -36.

⁵ Average return is Contribution divided by Average Weight.

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