

Platinum International Fund

(Quoted Managed Hedge Fund) - ASX: PIXX

31 August 2020

Facts

| | |
|-------------------------------|---------------------|
| Portfolio value | \$307.88 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) | \$4.2559 |

Fees

| | |
|-------------------------------|---|
| Entry fee | Nil |
| Buy/sell spread | 0.15%/0.15% |
| (Platinum International Fund) | |
| Fee: | Investment Management 1.10% p.a. Investment Performance 15.00% p.a.* |

Performance ¹

| | Fund % | MSCI % |
|-------------------------------|--------|--------|
| 1 month | 2.70 | 2.91 |
| 3 months | 2.53 | 3.49 |
| 6 months | (3.94) | 0.45 |
| Calendar year to date | (7.97) | (0.44) |
| 1 year | (2.45) | 6.16 |
| 2 years (compound pa) | (0.30) | 6.60 |
| Since inception (compound pa) | 2.68 | 11.62 |

*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 | 44.5 | (0.2) | 44.3 | 63.1 |
| Australia | 3.3 | | 3.3 | 20.8 |
| China | 18.2 | | 18.2 | 19.0 |
| Hong Kong | 2.3 | | 2.3 | 2.9 |
| Taiwan | 0.6 | | 0.6 | 0.5 |
| India | 1.6 | | 1.6 | 1.6 |
| Japan | 11.6 | | 11.6 | 11.6 |
| Korea | 6.7 | | 6.7 | 6.7 |
| New Zealand | | (0.2) | (0.2) | (0.2) |
| Thailand | 0.1 | | 0.1 | 0.1 |
| North America | 29.0 | (4.0) | 25.0 | 4.5 |
| Canada | 3.1 | | 3.1 | 3.2 |
| United States | 25.9 | (4.0) | 21.9 | 1.3 |
| Europe | 17.3 | (0.2) | 17.2 | 31.3 |
| Austria | 1.1 | | 1.1 | |
| Belgium | 0.1 | | 0.1 | |
| Denmark | 0.4 | | 0.4 | 0.4 |
| Finland | 0.7 | | 0.7 | |
| France | 3.7 | | 3.7 | |
| Germany | 4.0 | | 4.0 | |
| Ireland | 1.5 | | 1.5 | |
| Italy | 1.3 | | 1.3 | |
| Netherlands | 0.0 | (0.2) | (0.2) | |
| Norway | 0.2 | | 0.2 | 0.2 |
| Spain | 2.9 | | 2.9 | |
| United Kingdom | 1.4 | | 1.4 | 1.4 |
| Euro | | | | 29.2 |
| Other | 1.1 | | 1.1 | 1.1 |
| Zambia | 1.1 | | 1.1 | 1.1 |
| Sub-Total | 92.0 | (4.4) | 87.5 | 100.0 |
| Cash | 8.0 | 4.4 | 12.5 | |
| Total | 100.0 | | 100.0 | 100.0 |

Long - 95 stocks, 2 swaps Short - 9 swaps, 1 index

NB: With effect from 31 May 2020, our country classifications for securities were updated to reflect Bloomberg's "country of risk" designations, and our currency classifications for countries were updated to reflect the relevant local currencies of our country classifications.

Top ten positions of Platinum International Fund ⁴

| Stock | Country | Industry | % |
|----------------------------|---------------|--------------------|-------------|
| Samsung Electronics Co Ltd | Korea | Info Technology | 3.7 |
| LG Chem Ltd | Korea | Materials | 3.0 |
| Ping An Insurance | China | Financials | 3.0 |
| Amadeus IT Holdings | Spain | Info Technology | 2.9 |
| Booking Holdings Inc | United States | Cons Discretionary | 2.8 |
| Glencore plc | Australia | Materials | 2.7 |
| Facebook Inc | United States | Comm Services | 2.6 |
| ZTO Express Inc ADR | China | Industrials | 2.6 |
| Takeda Pharma Co | Japan | Health Care | 2.5 |
| Microchip Technology | United States | Info Technology | 2.5 |
| Total | | | 28.3 |

Industry breakdown of Platinum International Fund ³

| Sector | Long % | Short % | Net % |
|------------------------|--------|---------|-------|
| Industrials | 18.1 | (0.4) | 17.7 |
| Info Technology | 16.4 | (0.9) | 15.5 |
| Materials | 13.2 | | 13.2 |
| Consumer Discretionary | 12.8 | | 12.8 |
| Financials | 11.5 | | 11.5 |
| Communication Services | 8.3 | | 8.3 |
| Health Care | 7.7 | | 7.7 |
| Real Estate | 1.9 | | 1.9 |
| Energy | 1.8 | | 1.8 |
| Utilities | 0.2 | | 0.2 |
| Consumer Staples | | (1.0) | (1.0) |
| Other | | (2.2) | (2.2) |

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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".

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 relates to the underlying fund, the Platinum International Fund.

- Investors faced with “two stock markets” – raging bull (or emerging bubble) in growth and bear market in economic sensitives.
- Dangerous environment for retail investors chasing returns. **Remember - speculation is not investing.**
- Rotating early, consistent with our philosophy, has hurt relative returns in extreme conditions since early 2018.

Market Commentary

The divergence in markets keeps widening. The polarisation has created “two stock markets” – growth stocks rising rapidly, while most stocks reflect the recession. Ultra-low interest rates and money supply growth are offsetting COVID-19’s impact. When ‘crowding’ occurs, we must look elsewhere. This split masks opportunities in areas we think are robust like semiconductors, travel and Chinese consumption.

Alarm bells ring loudly as retail investors climb on board. During August we saw an incredible market response to stock-splits by Apple and Tesla. Despite creating no value in our view, both stocks “went vertical”. We also note the increase in stock issuance and proliferation in the number of special purpose acquisition companies (SPACs), reminding us of previous late-stage bull markets. We can’t define the timing - we suspect it’s more than weeks, but less than years – but we think this will almost certainly end badly with permanent impairment of capital for many.

Recent market action around COVID-19 (sell-off and rebound) saw no change in market leadership. We await an acceleration of economic sensitives or a further narrowing, or even collapse, of the current leaders as indicative of the next phase.

Our philosophy is price driven. We look for stock mispricings. This includes buying growing companies like Tencent, Google (now Alphabet), Facebook and Moderna when they were misunderstood. We naturally miss out on buying expensive stocks that can keep rising. This may be uncomfortable but it is not a concern; it is simply not what we do. We build our portfolio by migrating from hotter to cooler areas of the market. Over the last two+ years, this has been in the economically sensitive areas such as China, semiconductors and travel.

COVID-19 roiled markets, but we have remained steadfast. To give a sense of the portfolio’s earnings power - the P/E is 13x FY0 (last reported financial year) earnings, or an earnings yield approaching 8%. Contrast this with cash yielding close to or below 0% in the major economies (Source: RBA) and the MSCI All Country World Index (ACWI) FY0 P/E of 22x (4-5% earnings yield) (Source: FactSet Research Systems).

Performance Analysis

In last month’s report ([Click Here](#)) we analysed medium- to long-term performance. Relative underperformance has coincided with the “Post-GFC Bull Divergence Phase” including 2018, 2019 and 2020. The Fund’s -2% cumulative return from 31 December 2017 to 31 August 2020 lags the MSCI ACWI’s 27% cumulative return over the same period. Within this, we have lagged the three “Up Waves”. The third “Up Wave” started on 23 March 2020, and as at 31 August 2020, our 7% cumulative return lagged the ACWI’s 20% cumulative return.

Focusing on the last 12 months, the Fund’s short positions have cost 8%. This is disappointing given their role is to reduce risk.

On the long side, despite the markets being driven by Apple, Amazon and Microsoft, we have delivered market-like returns (refer to the attribution table below). Investments in IT, Communications, Industrials, Materials and Healthcare contributed 12% to returns, led by LG Chem (Korean battery maker), ZTO Express (Chinese logistics company), chipmakers Skyworks, Microchip and Samsung, platforms Facebook, Tencent and Alphabet, vaccine maker Moderna and Indian telco operator Bharti Airtel. Investments in Financials and Energy offset this to the extent of 7%, with oil-related investments TechnipFMC, Transocean and Seven Generations, combined with previously successful investments in the Chinese insurance sector, in the vanguard. Active currency positions made a meaningful positive contribution.

| 1 year to 31 August 2020 | Average Weight % | Contribution % |
|--|------------------|----------------|
| Long Portfolio | 90 | 4 |
| Short Positions | (13) | (8) |
| Cash / FX | 23 | 2 |
| Total (Fund, net of fees) | | (3) |
| Comparison (MSCI AC World Net Index (A\$)) | | 6 |

Source: Platinum. Numbers are based on individual portfolio positions. Contribution numbers may not add up due to rounding and the effect of fees.

Valuation: Earnings forecasts at this stage have less value than normal due to COVID-19 impacts, but valuation of the portfolio against historic earnings (FY20 is last reported financial year) gives a sense of its earnings power. There is value in an absolute and relative sense.

| Metric | Platinum International Fund | MSCI AC World Net Index (A\$) |
|---------------------------|---|---------------------------------------|
| FY0 Earnings Yield | 7.6% (Price to Earnings ratio of 13.1x) | 4.5% (Price to Earnings ratio of 22x) |
| FY0 Dividend Yield | 3.1% | 2.5% |
| Price-to-Book Ratio | 1.5 | 2.3 |
| Enterprise Value-to-Sales | 1.5 | 1.7 |

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

Past performance is not a reliable indicator of future returns.