

## Facts

Portfolio value	\$463.30 mn
Portfolio Inception	29 June 1994
Current share price	\$1.62
Current dividend yield	5.56%
Pre-tax NTA	\$1.6004
Post-tax NTA	\$1.5486
Maximum franked dividend	8.73 cps
NTA retained earnings & div profit resv.	21.37 cps

## Performance<sup>1</sup>

	Company % (Pre-tax NTA)	MSCI %
1 month	2.02	2.11
3 months	(0.68)	2.65
6 months	8.11	14.29
Calendar year to date	11.68	19.06
1 year	2.02	11.04
2 years (compound pa)	8.07	15.03
3 years (compound pa)	11.15	13.82
5 years (compound pa)	8.80	13.05
7 years (compound pa)	14.80	16.54
10 years (compound pa)	8.97	11.32
Since inception (compound pa)	12.02	7.24

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.

## Invested positions<sup>3</sup>

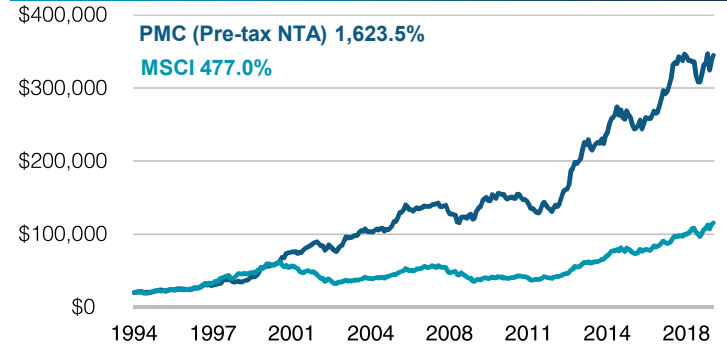
	Long %	Short %	Net %	Currency %
<b>Asia-Pacific</b>	<b>44.4</b>	<b>(1.0)</b>	<b>43.3</b>	<b>34.3</b>
Australia	0.6	(0.3)	0.4	0.6
China	7.6		7.6	7.6
China Ex PRC	12.7		12.7	
Hong Kong	1.2		1.2	14.0
India	4.8		4.8	5.2
Japan	11.2		11.2	16.3
Korea	5.8	(0.8)	5.0	5.1
Thailand	0.4		0.4	0.4
China Renminbi Off Shore				(15.0)
<b>Europe</b>	<b>16.0</b>	<b>(0.8)</b>	<b>15.2</b>	<b>21.1</b>
Austria	1.0		1.0	
Denmark	0.4		0.4	0.4
France	2.7		2.7	
Germany	2.3		2.3	
Ireland	0.9		0.9	
Italy	1.0		1.0	
Norway	1.0		1.0	2.2
Switzerland	4.0		4.0	1.6
United Kingdom	2.7	(0.8)	1.9	4.1
Euro				12.9
<b>North America</b>	<b>23.0</b>	<b>(12.5)</b>	<b>10.5</b>	<b>43.7</b>
Canada	2.6		2.6	2.1
United States	20.4	(12.5)	7.9	41.6
<b>Other</b>	<b>1.0</b>		<b>1.0</b>	<b>0.9</b>
Brazil	0.6		0.6	0.5
Zimbabwe	0.4		0.4	0.4
<b>Sub-Total</b>	<b>84.3</b>	<b>(14.3)</b>	<b>70.0</b>	<b>100.0</b>
Cash	15.7		30.0	
<b>Total</b>	<b>100.0</b>		<b>100.0</b>	<b>100.0</b>

Long - 77 stocks, 2 swaps Short - 12 swaps, 1 index

## Fees

Management fee:	1.1% p.a. of the portfolio value
Performance fee:	Payable at 15% of the amount by which the portfolio's annual performance exceeds the return achieved by the MSCI All Country World Net Index

## Performance graph<sup>2</sup>



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## Top ten positions<sup>4</sup>

Stock	Country	Industry	%
Ping An Insurance	China	Financials	4.0
Samsung Electronics Co Ltd	Korea	Info Technology	3.3
Facebook Inc	United States	Comm Services	3.0
Technip FMC Ltd	UK	Energy	2.7
Alphabet Inc	United States	Comm Services	2.6
Glencore plc	Switzerland	Materials	2.4
PICC Prop & Casualty	China	Financials	2.3
Bharti Airtel Ltd	India	Comm Services	2.2
Intel Corp	United States	Info Technology	2.1
Tencent Holdings	China	Comm Services	2.1
		<b>Total</b>	<b>26.7</b>

## Industry breakdown<sup>3</sup>

Sector	Long %	Short %	Net %
Financials	14.5		14.5
Materials	12.0		12.0
Communication Services	11.2		11.2
Industrials	11.1	(0.3)	10.9
Info Technology	12.6	(3.8)	8.8
Consumer Discretionary	8.5	(2.3)	6.2
Energy	4.8		4.8
Health Care	4.2	(1.8)	2.4
Real Estate	2.1		2.1
Consumer Staples	3.2	(1.9)	1.3
Other		(4.1)	(4.1)

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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 "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 PMC's portfolio value. The "Currency %" 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".

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 PMC's top ten long securities positions as a percentage of PMC's portfolio value (including long securities and long securities derivative positions).

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- The portfolio added over 2% in July taking year-to-date (YTD) returns to a strong 12%.
- Extreme divergence between “expensive” and “cheap” implies parallels with 1999 and early 1970s.
- Net exposure in the portfolio currently trending around lowest levels since 2011.
- Longer term relative underperformance a result of challenging period since April 2018.

### Update

Market behaviour in July was somewhat perverse, with optimism fuelled by hopes of a large US interest rate cut, or at a minimum, indications of future cuts. The first cut in a decade came at the end of the month, but underwhelmed the market. Ironically, this signalled that the economy is stronger than some feared, meaning a higher discount rate than many had hoped for. So it seems good is bad, while bad is good. Expectations are critical in investing, and we started to see some strong results from the favourites underwhelm, whilst cyclicals were not punished so hard for weakness. As we entered August, the US and China trade tensions picked up and the portfolio's net exposure was cut to 64% by 5 August.

The way the market appears to be focusing acutely on interest rates to price equities, is not accounting properly for the relationship between bond yields and growth rates. This latter relationship means that relying on low rates to justify valuations, ignores that low rates are due to lower growth prospects.

As we keep highlighting, the market is increasingly bifurcated. Investors are paying up for “perceived safety” or “secular growth” while shunning any economic sensitivity. This crowding resembles the 1999/2000 “Tech bubble” or the 1970s “Nifty Fifty”. Platinum's approach of “avoiding the crowd” is being tested as stocks which are expensive become more so, and those which are cheap, get cheaper. This is great when looking forward, but feels very uncomfortable whilst it unfolds. The key driver of returns over the medium term is price, and with the portfolio offering an earnings yield reminiscent of a crisis, this is encouraging.

Metric	Platinum Capital Limited	MSCI AC World Net Index (A\$)
NTM (Next 12 Months) Earnings Yield	9% (Price-to-Earnings Ratio of 11x)	7% (Price-to-Earnings Ratio of 15x)
NTM Dividend Yield	3.0%	3.0%
Price-to-Book Ratio	1.5	2.2
Enterprise Value-to-Sales	1.1	1.5

Valuation refers 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.**

### Performance

So far in 2019, the portfolio has returned 12%. In the last 20 years, only 2013 was meaningfully better at 32%. 2009's 16% and 2015's 13% were comparable. 2019 is better than the other 16 of the last 20 years.

Looking at the returns, the average long position was up 17% (in line with the markets' 19% - Source: RIMES Technologies). The contribution from the 87% average long invested position was 15%. The long contributions are broken down geographically and sectorally in the below graph.

Region/Country	Average weight %	Contribution %	Sector	Average weight %	Contribution %
China	23	5	Tech/Communications	23	5
US	18	4	Financial/Real Estate	18	4
Europe	19	2	Industrials	11	3
Japan	10	2	Consumer/Health	17	3
Rest of Asia	13	2	Energy/Materials	18	1

Source: Platinum Investment Management Limited

Shorts cost 2% with average exposure of 15% YTD; technology shorts struggled in Q1 particularly. The top stocks included Ping An, Facebook, Technip FMC and Anta Sports. Lixil had a major positive impact, after we agitated for management change, in light of poor corporate governance.

In looking at index returns for MSCI AC World Net Index (A\$), there has been a meaningful advantage in 2019 to being listed in the US, with all sectors except Healthcare, seeing an advantage, which averages about 8% and is most pronounced in Technology/Communications and Financials/Real Estate.

### Long-term outcomes (to June 30, 2019)

- 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, the portfolio 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 the underperformance over 10 years can be ascribed to this recent period.
- For the duration of the current bull market, the average net portfolio exposure to markets has been 75%. The portfolio return is 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, the portfolio has rarely invested more than one third of its capital on an individual exchange. The weighting of the US in the world index exceeds 50%. Over the past decade, the US returned 16% pa, far exceeding Asia (9% pa), Europe (8% pa) and Japan (7% pa). The portfolio, at 9.4% pa, is ahead of these three regional outcomes over 10 years.

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 and the average net exposure of the portfolio. The averages to the right show the 10 year annualised returns compared alongside the 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.)
% PMC	(17)	18	12	(6)	(8)	42	17	18	(7)	20	16	0	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	61	67	62	73	72	78	80	83	75	78	79	72	75	75	73

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