

## Facts

Portfolio value	\$416.7 mn	
Portfolio Inception	29 June 1994	
Current share price	\$1.30	
Current dividend yield	4.62%	
Pre-tax NTA (ex-div)*	\$1.4051	
Post-tax NTA (ex-div)*	\$1.4067	
Maximum franked dividend	3.86 cps	*The 30 June 2020 final
NTA retained earnings & div profit resv.	7.19 cps	dividend is 3 cps

## Performance <sup>1</sup>

	Company % (Pre-tax NTA)	MSCI %
1 month	2.13	2.91
3 months	1.72	3.49
6 months	(4.77)	0.45
Calendar year to date	(8.85)	(0.44)
1 year	(2.30)	6.16
2 years (compound pa)	(0.91)	6.60
3 years (compound pa)	2.83	11.56
5 years (compound pa)	4.92	9.28
7 years (compound pa)	7.67	12.07
10 years (compound pa)	8.34	11.96
Since inception (compound pa)	11.31	7.16

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>

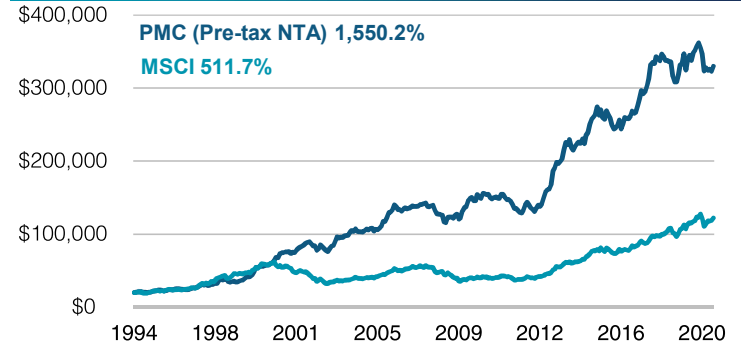
	Long %	Short %	Net %	Currency %
<b>Asia-Pacific</b>	<b>42.8</b>	<b>(0.1)</b>	<b>42.6</b>	<b>61.3</b>
Australia	3.4		3.4	22.1
China	17.7		17.7	17.7
Hong Kong	2.4		2.4	2.9
Taiwan	0.6		0.6	0.5
India	1.3		1.3	1.3
Japan	11.4		11.4	11.1
Korea	5.9		5.9	5.9
New Zealand		(0.1)	(0.1)	(0.1)
<b>North America</b>	<b>25.5</b>	<b>(4.9)</b>	<b>20.6</b>	<b>6.8</b>
Canada	2.7		2.7	3.3
United States	22.8	(4.9)	17.9	3.5
<b>Europe</b>	<b>17.9</b>	<b>(0.3)</b>	<b>17.7</b>	<b>30.6</b>
Austria	0.8		0.8	
Belgium	0.1		0.1	
Denmark	0.6		0.6	0.6
Finland	0.5		0.5	
France	3.5		3.5	
Germany	4.4		4.4	
Ireland	1.6		1.6	
Italy	1.3		1.3	
Netherlands		(0.3)	(0.3)	
Spain	2.9		2.9	
Switzerland	1.0		1.0	1.0
United Kingdom	1.2		1.2	1.2
Euro				27.8
<b>Other</b>	<b>1.3</b>		<b>1.3</b>	<b>1.3</b>
Zambia	1.2		1.2	1.2
Zimbabwe	0.1		0.1	0.1
<b>Sub-Total</b>	<b>87.5</b>	<b>(5.3)</b>	<b>82.2</b>	<b>100.0</b>
<b>Cash</b>	<b>12.5</b>	<b>5.3</b>	<b>17.8</b>	
<b>Total</b>	<b>100.0</b>		<b>100.0</b>	<b>100.0</b>

Long - 80 stocks, 2 swaps Short - 7 swaps, 1 index

## Fees

Management fee:	1.1% (excl. GST) of Net Asset Value; plus
Performance fee:	15% (excl. GST) of outperformance over benchmark (MSCI All Country World Net Index (A\$))

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



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

Stock	Country	Industry	%
Samsung Electronics Co Ltd	Korea	Info Technology	3.2
Ping An Insurance	China	Financials	3.1
Amadeus IT Holdings	Spain	Info Technology	2.9
ZTO Express Inc	China	Industrials	2.7
LG Chem Ltd	Korea	Materials	2.7
Booking Holdings Inc	United States	Cons Discretionary	2.6
Glencore plc	Australia	Materials	2.6
AIA Group Ltd	Hong Kong	Financials	2.4
Bayerische Motoren	Germany	Cons Discretionary	2.2
Facebook Inc	United States	Comm Services	2.2
<b>Total</b>			<b>26.6</b>

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

Sector	Long %	Short %	Net %
Industrials	17.2	(0.3)	16.9
Consumer Discretionary	14.6		14.6
Info Technology	14.7	(1.1)	13.7
Materials	13.3		13.3
Financials	10.3		10.3
Health Care	7.6		7.6
Communication Services	6.4		6.4
Real Estate	1.7		1.7
Energy	1.6		1.6
Consumer Staples		(0.9)	(0.9)
Other		(3.0)	(3.0)

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 securities were updated to reflect the relevant local currencies of our country classifications.

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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 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 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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## Market update and commentary

- 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 portfolio's -1% 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”. In the third and current “Up Wave” our 2% cumulative return has lagged the ACWI's 10% cumulative return over the period 31 March 2020 to 31 August 2020.

Focusing on the last 12 months, the portfolio's short positions have cost 9%. 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 and Samsung, platforms Facebook, Tencent, Alibaba and Alphabet (Google parent), vaccine maker Moderna and Indian telco operator Bharti Airtel. Investments in Financials and Energy offset this to the extent of 6%, 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	89	5
Short Positions	(13)	(9)
Cash / FX	24	2
Total (NAV, net of fees)		(2)
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 Capital Limited	MSCI AC World Net Index (A\$)
FY0 Earnings Yield	7.5% (Price to Earnings ratio of 13.3x)	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 portfolio 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.**