

Platinum International Fund

(Quoted Managed Hedge Fund) - ASX: PIXX

30 September 2019

Facts

Portfolio value	\$353.45 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)	\$4.6138

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	2.61	2.00
3 months	3.28	4.02
6 months	5.01	9.10
Calendar year to date	13.80	21.29
1 year	4.80	8.76
2 years (compound pa)	5.69	13.79
Since inception (compound pa)	6.50	15.00

*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	45.5	(1.1)	44.4	32.0
Australia	0.1	(0.8)	(0.7)	0.2
China	6.2		6.2	6.3
China Ex PRC	15.6		15.6	
Hong Kong	0.8		0.8	13.0
India	4.6		4.6	4.6
Japan	11.0		11.0	16.8
Korea	6.6	(0.3)	6.3	6.3
Thailand	0.5		0.5	0.5
China Renminbi Off Shore				(15.7)
Europe	16.9	(0.6)	16.2	17.3
Austria	1.3		1.3	
Denmark	0.5		0.5	0.5
France	3.2		3.2	
Germany	1.6		1.6	
Ireland	1.1		1.1	
Italy	1.5		1.5	
Norway	0.9		0.9	1.9
Switzerland	4.2		4.2	1.7
United Kingdom	2.5	(0.6)	1.8	3.7
Euro				9.5
North America	26.2	(14.6)	11.5	50.1
Canada	3.8		3.8	3.2
United States	22.4	(14.6)	7.7	46.9
Other	0.7		0.7	0.6
Brazil	0.7		0.7	0.6
Sub-Total	89.2	(16.4)	72.8	100.0
Cash	10.8		27.2	
Total	100.0		100.0	100.0

Long - 94 stocks, 3 swaps Short - 21 swaps, 1 index

Top ten positions of Platinum International Fund ⁴

Stock	Country	Industry	%
Samsung Electronics Co Ltd	Korea	Info Technology	3.9
Ping An Insurance	China	Financials	3.9
Alphabet Inc	United States	Comm Services	3.2
Facebook Inc	United States	Comm Services	3.0
Glencore plc	Switzerland	Materials	2.6
Intel Corp	United States	Info Technology	2.6
ZTO Express Inc	China	Industrials	2.4
Technip FMC Ltd	UK	Energy	2.4
Bharti Airtel Ltd	India	Comm Services	2.2
Sanofi SA	France	Health Care	2.1
Total			28.3

Industry breakdown of Platinum International Fund ³

Sector	Long %	Short %	Net %
Financials	14.9		14.9
Communication Services	13.0	(0.1)	12.9
Industrials	11.8	(0.2)	11.6
Info Technology	14.5	(3.5)	11.0
Materials	10.3		10.3
Consumer Discretionary	9.4	(3.6)	5.7
Energy	5.2		5.2
Health Care	5.1	(1.6)	3.5
Real Estate	2.1		2.1
Utilities	0.2		0.2
Consumer Staples	2.7	(3.1)	(0.4)
Other		(4.2)	(4.2)

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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 "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 market value of Platinum International Fund's ("PIF's") portfolio. The "Currency %" is the effective currency exposure of PIF's portfolio as a percentage of the market value of its portfolio, 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 the market value of PIF's portfolio (including long securities and long securities derivative positions).

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Market update and commentary

This commentary relates to the underlying Fund, the Platinum International Fund.

- The Fund had a strong September, taking the YTD returns to 14%.
- Extreme divergence between “expensive” and “cheap” implies parallels with 1999 and early 1970s.
- Net exposure (long less short positions) in the Fund towards lower end of post-GFC range.
- Longer term relative underperformance a result of challenging period since April 2018.
- Asian region has been biggest contributor to portfolio returns over last five years.

Update

Market behaviour in the early part of September, may have, to a large extent, reflected the extreme positioning in markets. The brief reversal of previous embedded trends was perhaps an unwinding of some bets, and gave us a sneak preview of what could happen if any of a number of circumstances, other than the status quo, are to evolve from here.

While some US and European economic data appears at first unsupportive of continued market strength, we would point to any of:

1) a resolution of the trade situation, 2) any recognition that China is growing, 3) any telegraphing of increased fiscal spending (and simultaneous recognition that the unconventional monetary experiment has stopped working) or any expectation of higher interest rates (which would likely be linked to the others), could be at once detrimental to the crowd, and beneficial to many of our positions, which have been shunned for fear of the opposite. It must be kept in mind with the US election looming, that the key protagonist, who loves to do deals, often Tweets to remind us that his self-esteem is inextricably linked to the level of the stock market.

Closer to home it is ironic, as the world contemplates fiscal spending over QE, that Australia may be going the opposite way. This does not bode well for our currency unit, and we continue to keep our cash in US Dollars and Japanese Yen. We remain short the Chinese currency as a risk mitigator against any escalation of trade conflict causing increased confusion for Chinese corporate decision makers and slowing the world's largest physical economy.

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”. When there is a mania in one arena, this often leads to great companies being overlooked elsewhere. For those who “avoid the crowd”, this can be very uncomfortable while it unfolds but with the extreme positioning that we see today, it could be indicative of a very prospective investment landscape if one is willing to take an opposing view to the masses.

The widely held idea that ultra-low interest rates can be used to justify the valuations of growth stocks and defensive stocks, misses an important point. This would also justify investing in cyclicals, or stocks with uncertainty. The maths behind it is simple – a lower discount rate increases all asset values. However the fact that many cyclical stocks are on crisis-type valuations, suggest that psychology is a bigger driver of intra-market outcomes than financial alchemy.

When we look at the portfolio, valuation metrics are enticing in both an absolute and relative sense, and this gives us plenty of encouragement.

Metric	Platinum International Fund	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	3.1%	3.0%
Price-to-Book-Ratio	1.4	2.2
Enterprise Value-to-Sales	1.1	1.5

Valuation refers to the long portion of the Fund's portfolio, excluding negative net earnings, and using FactSet consensus earnings.

Performance

So far in calendar year 2019, the Fund has returned a strong 14%. In the last 20 years, only three years (2009, 2013 and 2017) have seen higher YTD returns at September end. Looking more closely at the returns, the average long position is up 18% (broadly in line with the markets' 21%), and with average exposure of 85%, contributed 16% to returns. The long contributions are broken down to key regions and sectors in the below table.

Region/Country	Average weight %	Contribution %	Sector	Average weight %	Contribution %
China	22	5	Tech/Communications	25	5
US	20	4	Financial/Real Estate	18	4
Europe	18	2	Industrials	11	3
Japan	9	2	Consumer/Health	15	3
Rest of Asia	13	2	Energy/Materials	15	0

Source: Platinum Investment Management Limited.

The top stocks included Ping An Insurance, Facebook, Samsung Anta Sports and ZTO Express. Lixil had a major positive impact, after we agitated for management change, in light of poor corporate governance. Shorts cost 2% with average exposure of 16% YTD; technology shorts struggled in Q1 particularly.

In looking at index returns for the 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 this locational advantage which is most pronounced in Financials/Real Estate.

Long-term outcomes

In the recent months, this commentary has highlighted the impact of the extended US-led bull market on our relative returns, and noted that it has been the last 18 months that has been the main cause of apparent longer-term underperformance.

A common misperception given the strength of the US market is that the Fund's exposure to Asia has been detrimental to returns. This is far from the case. Indeed, over the last few years, it is worth stressing that Asia has been the biggest contributor to the portfolio's returns.

As the table above showed, around half of 2019 YTD returns come from investments in the region, led by China and India. Four of the six top stock contributors are listed in the region.

We made a meaningful increase in the Fund's exposure to the region around 2014, coincident with the bottom of China's multi-year bear market, and India's election of Prime Minister, Narendra Modi.

Looking at the five calendar years; 2014-2018, the investments in Asia contributed 26% (and Japan a further 3%), to our net cumulative return of 42% over the period that we significantly ramped up our regional exposure. That return was dominated by 15% contribution from China (19% average exposure) and 9% from the combined exposure to India and Korea (11% average exposure). Putting this in context, as a Return on Capital, we made 78%* from our investments in the region.

Other leading Asian contributors over this five year period included technology leaders (Alibaba, Baidu, China Mobile, 58.com), Chinese insurers (China Life, China Pacific, Ping An Insurance and PICC), regional banks (Bangkok Bank, IDFC, KB Financial), spirits makers (Jiangsu Yanghe and Kweichow Moutai) and leading sportswear brand, Anta Sports.

*the contribution from Asia Pacific stocks divided by the average exposure to the stocks over the five year period.

References to Asia in the section above relate to what MSCI define as 'Asia ex-Japan'.

The Platinum International Fund (Quoted Managed Hedge Fund) quarterly report will be available on our website on 21 October 2019.