

Platinum International Fund

(Quoted Managed Hedge Fund) - ASX: PIXX

31 July 2020

Facts

Portfolio value	\$305.04 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)	\$4.1441

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	(0.64)	1.08
3 months	(1.15)	3.51
6 months	(8.85)	(6.83)
Calendar year to date	(10.39)	(3.25)
1 year	(6.61)	3.03
2 years (compound pa)	(1.67)	6.96
Since inception (compound pa)	1.82	10.88

*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	40.3	(0.2)	40.1	58.3
Australia	0.5	(0.1)	0.4	14.3
China	18.5		18.5	19.4
Hong Kong	2.0		2.0	4.1
India	1.2		1.2	1.2
Japan	11.5		11.5	12.8
Korea	6.5		6.5	6.5
New Zealand		(0.1)	(0.1)	(0.1)
Thailand	0.1		0.1	0.1
North America	28.4	(8.0)	20.4	6.6
Canada	2.7		2.7	2.9
United States	25.7	(8.0)	17.6	3.7
Europe	19.0		19.0	34.1
Austria	1.1		1.1	
Belgium	0.1		0.1	
Denmark	0.4		0.4	0.4
France	3.8		3.8	
Germany	3.8		3.8	
Ireland	1.3		1.3	
Italy	1.3		1.3	
Norway	0.2		0.2	1.1
Spain	2.7		2.7	
Switzerland	2.8		2.8	2.8
United Kingdom	1.5		1.5	1.5
Euro				28.3
Other	1.0		1.0	1.0
Zambia	1.0		1.0	1.0
Sub-Total	88.6	(8.3)	80.4	100.0
Cash	11.4	8.3	19.6	
Total	100.0		100.0	100.0

Long - 90 stocks, 2 swaps Short - 10 swaps, 2 indices

Top ten positions of Platinum International Fund ⁴

Stock	Country	Industry	%
Samsung Electronics Co Ltd	Korea	Info Technology	4.1
Ping An Insurance	China	Financials	3.1
ZTO Express Inc ADR	China	Industrials	2.9
Glencore plc	Switzerland	Materials	2.8
Booking Holdings Inc	United States	Cons Discretionary	2.8
Amadeus IT Holdings	Spain	Info Technology	2.7
Facebook Inc	United States	Comm Services	2.5
Sanofi SA	France	Health Care	2.5
Takeda Pharma Co	Japan	Health Care	2.4
LG Chem Ltd	Korea	Materials	2.4
Total			28.2

Industry breakdown of Platinum International Fund ³

Sector	Long %	Short %	Net %
Info Technology	17.0	(0.8)	16.2
Industrials	16.5	(0.4)	16.1
Materials	11.8		11.8
Consumer Discretionary	11.8	(0.4)	11.4
Financials	11.3		11.3
Communication Services	8.2		8.2
Health Care	8.0		8.0
Real Estate	2.1		2.1
Energy	1.9		1.9
Utilities	0.2		0.2
Consumer Staples		(1.3)	(1.3)
Other		(5.4)	(5.4)

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 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 bubble) in growth and bear market in economic sensitives.
- Dangerous environment for retail investors chasing returns. We implore clients to “rotate before it’s too late”.
- Rotating early, consistent with our philosophy, has hurt relative returns in extreme conditions since early 2018.

Market Commentary

We have highlighted divergence in markets, but it keeps widening; polarisation has created “two stock markets” – growth stocks rising faster than underlying businesses while most stocks reflect the current recession. Drivers include ultra-low interest rates, lack of economic growth and money supply growth to offset the COVID-19 impact. We know when crowding occurs, we must look elsewhere. This split masks opportunities in robust areas like semiconductors, travel and Chinese consumption.

Alarm bells are ringing as retail investors climb on board, stock issuance is increasing and creative financing abounds with SPACs (Special Purpose Acquisition Company) the latest trend – ‘cash boxes’ by another name. This reminds us of late-stage bull markets, for example, 1987, Japan 1989, Technology 2000, Resources 2008. 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. We can’t define the timing - we suspect it’s more than weeks, but less than years. We believe this will almost certainly end badly with permanent impairment of capital for many; that is how markets work.

Platinum’s philosophy is price driven, that is, we look for mispricing. This includes buying growing companies like Tencent, Google (now Alphabet), Facebook and Moderna when they were misunderstood. We deliberately avoid expensive stocks, acknowledging that they may go up. This may be uncomfortable (and Fear of Missing Out - ‘FOMO’ inducing) but it is simply not what we do. We build the portfolio by migrating from hotter areas of the market to where we think the risk-reward profile is more favourable. Over the last two plus years this has been in the economically sensitive areas such as China, semiconductors and travel.

COVID-19 roiled markets, but we have to stick to our investment approach. To give a sense of the portfolio’s earnings power, the P/E is 17x 2019 earnings or an earnings yield approaching 6%, contrasted with cash yielding 0% and the MSCI AC World Index 2019 P/E of 22x or an earnings yield of 4-5% (Source: FactSet Research Systems). We expect portfolio earnings to show decent growth above these levels once economies normalise.

Performance Analysis

Below, we highlight portfolio outcomes through recent market phases to demonstrate a consistency of approach with history. The table below shows performance issues are confined to the recent divergence, but note 1996-98 was an even tougher environment.

Environment	Start	End	Fund%	Index%	Relative%
GFC Bear	May 07	Feb 09	-9	-37	+26
Post-GFC Bull Phase 1	Feb 09	Dec 17	+168	+170	-2
Post-GFC Bull Divergence Phase	Dec 17	Jul 20	-4	+23	-28
Tech Boom Divergence (compare)	Jun 96	Dec 98	+42	+90	-48

Source: FactSet Research Systems.

Past performance is not a reliable indicator of future returns.

This table below shows the more recent up and down ‘waves’, which highlight the Fund’s outperformance in sell-offs, while lagging in the rallies led by stocks we believe are expensive. This may create FOMO, but at this stage in the cycle, we must fight against this. It is worth noting that the MSCI AC World Value Index is down 8% from 31.12.2017 - 31.7.2020, consistent with a bear market in economic sensitives (Source: FactSet Research Systems).

Environment	Start	End	Fund%	Index%	Relative%
Up Wave 1	31.12.17	3.10.18	0	+13	-13
Down Wave 1 (Trade/China/Rates)	3.10.18	25.12.18	-10	-15	+6
Up Wave 2	25.12.18	20.2.20	+20	+44	-24
Down Wave 2 (COVID-19)	20.2.20	23.3.20	-15	-23	+8
Up Wave 3	23.3.20	31.7.20	+4	+16	-12

Source: FactSet Research Systems.

Past performance is not a reliable indicator of future returns.

In aggregate from the start of 2018, we had great outcomes among our technology stocks (semiconductors - Skyworks, Samsung, Micron and platforms - Facebook, Alphabet, Tencent), healthcare (including Roche, Sanofi, Gilead Sciences, Moderna) and Chinese investments (including ZTO Express, Ping An, Weichai Power and Anta Sports). Active currency positions added 4% to returns. On the other hand, short selling expensive companies in an attempt to protect the portfolio has been a significant drag (total cost of 8% over the period), while economically sensitive sectors such as Energy/Materials and Financials had a similar impact.

To stress, we are excited by our long book, based on the medium-term prospects of the businesses we own. We are poised to add shorts dynamically as and when we believe the pay-off from doing so is most compelling.

The data in these tables, with fuller history and brief comments, is available graphically from invest@platinum.com.au.