# Platinum Unhedged Fund

Clay Smolinski
Portfolio Manager

## Performance

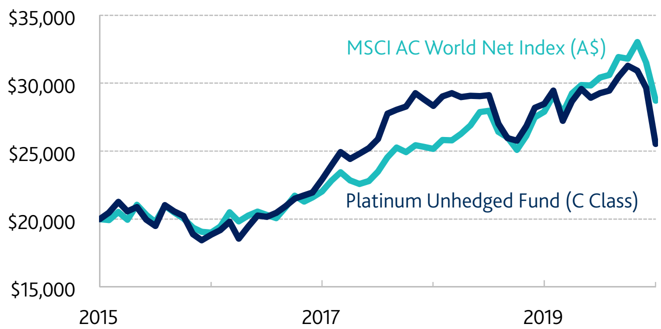
### (compound p.a.+, to 31 March 2020)

| | QUARTER | 1YR | 3YRS | 5YRS | SINCE INCEPTION |
|---|---|---|---|---|---|
| Platinum Unhedged Fund* | -18% | -10% | 4% | 5% | 10% |
| MSCI AC World Index^ | -10% | 3% | 9% | 8% | 7% |

+ Excludes quarterly returns
* C Class – standard fee option. Inception date: 28 January 2005.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.
See note 1, page 4. Numerical figures have been subject to rounding..

### Value of $20,000 Invested Over Five Years

31 March 2015 to 31 March 2020




After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
See notes 1 & 2, page 4.

The Fund (C Class) fell 18.4%[1] over the quarter, which was a disappointing outcome in both an absolute and relative sense. This outcome can be viewed in stages:

- **1 January - 20 February (pre the market collapse):** The MSCI AC World Index rose 8.4% over this period, driven by a final surge in the US market and 'hot' technology stocks[2]. The Fund, which had a relatively low holding in these areas, rose 3.6% over this period.
- **21 February - 31 March (post the market collapse):** The Fund did not fare any better than the broad market, returning -21% vs. the Index return of -17%.

The performance during the collapse is especially disappointing, given that between 24 February and 6 March (prior to the worst of the market falls) we:

- Increased the cash holdings of the Fund to 18%.
- Reduced our exposure to cyclicals in the Fund by 12%.

The simple observation is that value has not provided any protection in this market sell down. Indeed, it has been the expensive and loved sectors that have fared much better. Stocks on multiples of 8x earnings leading into the crisis have been sold down to 5x earnings, while even seemingly defensive pharmaceutical businesses, such as Takeda Pharmaceutical (Japan) and Bayer (Germany) have seen their prices fall 24% and 27% respectively over the quarter and now trade on earnings multiples of 9x and 7x respectively.[3]

Another illustration is our holding in Applus Services. Applus is essentially an auditor, performing regulatory mandated testing and inspection for the oil & gas, infrastructure and automotive industries. The vast bulk of this testing is for in-service assets (i.e. pipelines or power grids) or is integral to their customers' business (Applus provides regulatory approval for new car models at their test track in Barcelona). While there will be disruptions in the short term, activity in this area will almost certainly return. Despite having no debt

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum Unhedged Fund report are in AUD terms.

2 For example, the Nasdaq Composite and S&P 500 Index rose 16% and 12% respectively over that period, while the MSCI ex US Index (a proxy for the rest of the world) rose 4.6%. Returns are in AUD terms. Source: FactSet.

3 All individual stock returns are in local currency and price-to-earnings (P/E) multiples are trailing. Source: FactSet.

repayments until 2024, €500m of liquidity at its disposal and a flexible cost base (mostly labour), Applus has seen its share price fall 49% in recent weeks and now trades on 5x earnings.

Outside of the above, the major areas of detraction for the Fund and their cost to overall returns were:

- All **energy** exposure (TechnipFMC, Seven Generations, Transocean), which detracted -5.0% from performance.
- **Financials** (Raiffeisen Bank, Ally Financial, Axis Bank), -4.8%
- **Industrials** (Applus, Minebea, Weichai Power), -3.1%.

Given the widespread market sell-off, the list of positive contributors is shorter than we would like but generally comprise companies that are clear beneficiaries of the virus, such as **Gilead Sciences** (+15%) who has a potential COVID-19 treatment in the form of their antiviral Remdesivir, and **Moderna** (+53%) who has a potential vaccine. Other positive contributors included **ZTO Express** (+13%), gaining on the back of greater e-commerce deliveries, and **Barrick Gold** (+7%), benefiting from higher gold prices (typically seen as a 'safe haven' in uncertain times).

## Changes to the Portfolio in March

By mid-March, most global share markets had fallen between 30-35% in local currency terms, with many stocks down more than 50%. With a wide range of businesses now trading on attractive valuations, we started adding to our stock holdings, taking the cash balance down from its 9 March peak of 20% to 13%. Our purchases were concentrated in:

- **Semiconductors –** we believe our semiconductor holdings will benefit from long-term growth underpinned by the investment in cloud computing, 5G and artificial intelligence. They also have sound balance sheets and profitable industry structures. With many of these stocks being sold off sharply and again trading below 10x earnings, we added to our holdings in **Skyworks, Micron Technology, Microchip Technology, Samsung Electronics** and added a new name in **Lam Research.**
- **Travel –** there have been few industries more disrupted than travel, with some enormous falls in stock prices, although most would agree given the innate human desire to explore, it is a matter of *when* not *if* travel activity will rebound. In this space, we have generally favoured asset-light companies with strong balance sheets that can both make it through the disruption and potentially emerge stronger, as weaker competitors are eliminated. This includes adding to our holding in **Booking Holdings.**
- **Too cheap to ignore –** we added to a number of stocks that reached GFC-like valuations, including **Applus and Takeda** and several new names, including **Bayer**.

## Looking Forward

From an economic perspective this crisis is about access to **labour**. Only when employees can go back to work and people can move freely again, will the situation heal.

The key variables we are looking at that could speed up the return of labour include:

1. The effectiveness of antiviral treatments such as Gilead Science's Remdesivir, used to treat Ebola. If this treatment is successful for COVID-19, it could reduce the death rate and ease the load on ICU beds.
2. The speed at which the system can ramp up additional ICU beds and produce additional respirators and protective gear to meet demand.
3. The effectiveness of the lockdowns in countries like the US to control the spread.[4]
4. Whether governments change course and encourage a return to work earlier. The likelihood of this happening is greater if points 1 and 2 are achieved.
5. The speed of the development of an eventual vaccine.

We are all living the 'medical response' to the virus by self-isolating, but the 'economic response' through financial stimulus is also top of mind, with the US administration recently enacting a US$2 trillion (10% of GDP) stimulus package. Economic measures include:

- In the case of the US, cheques to the value of US$2,400 for most families.
- Large increases in unemployment benefits. The UK government for instance, is willing to pay all employees who have been temporarily stood down, 80% of their wage up to a cap of £2,500 per month, while the US is adding US$600 per week on top of the current payment.
- Cash injections to help small business cover payroll and overheads.
- Subsidised loans for large business.
- Encouraging banks to provide forbearance to borrowers (businesses or individuals) who have seen their income affected by the crisis.

These are fantastic measures to both ensure families can keep food on the table and the bones of businesses can remain intact through this period. These stimulus packages will cushion the blow in the coming months and limit the destruction to business that is hard to quickly rebound from. However, this stimulus does not solve the key **real economic problem** of freedom of labour and supply chains, and hence this is where our focus remains. It is all about the speed of

4 Wuhan was locked down for two months with incredible compliance from its citizens. The question is whether we will see similar citizen compliance in major metro areas like New York, Los Angeles or London.

getting back to work and what our consumer behaviour looks like once that occurs.

## Outlook

A bedrock of our approach is that the starting valuation you pay for an investment has a large influence in both the future returns you will make and its risk profile. This approach served us well in the fall-out from the tech bubble, the global financial crisis (GFC) and through the European sovereign crisis, but has not worked during the fall in March. After such an outcome, a fair question is why investors should stick with this approach? On this, I would make the following observations:

1. The large falls seen in stocks, irrespective of their valuation, have significantly increased the latent value and returns potential of the portfolio.
2. Large market events, like the GFC and the wash-out from the tech bubble, have a habit of causing phase shifts and changes in leadership within markets.[5]

At the time of writing, most global markets were down between 20-28% in local currency terms from their highs, with the valuation difference between cyclicals and the much-loved defensive stocks now at a record level. **In the spirit of not letting perfection being the enemy of the good, we believe now is a good time to be buying stocks**, with the full appreciation that given the economic disruption, markets could see lower levels in the coming months, providing better opportunities.

When thinking about our invested position, on one hand, there are many companies offering exceptional value, but on the other hand, one has to keep in mind that markets have fallen from fairly elevated levels, with the truly wonderful companies still valued well above levels you would consider attractive. The balance of the two brings us to our net invested position of 87%.

5 For example, the view that inflation remains low forever may come into question as we see governments around the globe embracing a policy of almost unlimited fiscal stimulus to fight the recession. In a similar vein, the harm this recession will have on the business models of market darlings like Uber, Afterpay and others could lead to a step change in how investors appraise the risk and value of these types of companies.

### Disposition of Assets

| REGION | 31 MAR 2020 | 31 DEC 2019 | 31 MAR 2019 |
|---|---|---|---|
| North America | 36% | 35% | 29% |
| Asia | 26% | 26% | 37% |
| Europe | 19% | 21% | 16% |
| Japan | 6% | 7% | 3% |
| Cash | 13% | 11% | 15% |

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

### Net Sector Exposures

| SECTOR | 31 MAR 2020 | 31 DEC 2019 | 31 MAR 2019 |
|---|---|---|---|
| Industrials | 20% | 21% | 16% |
| Information Technology | 17% | 13% | 9% |
| Communication Services | 13% | 13% | 13% |
| Financials | 10% | 15% | 15% |
| Health Care | 10% | 6% | 3% |
| Consumer Discretionary | 5% | 4% | 2% |
| Materials | 5% | 3% | 4% |
| Real Estate | 4% | 5% | 4% |
| Energy | 3% | 7% | 9% |
| Utilities | 0% | 0% | 1% |
| Consumer Staples | 0% | 2% | 8% |
| TOTAL NET EXPOSURE | 87% | 89% | 85% |

See note 4, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

### Net Currency Exposures

| CURRENCY | 31 MAR 2020 | 31 DEC 2019 | 31 MAR 2019 |
|---|---|---|---|
| US dollar (USD) | 47% | 41% | 36% |
| Euro (EUR) | 15% | 16% | 14% |
| Hong Kong dollar (HKD) | 10% | 11% | 14% |
| Japanese yen (JPY) | 10% | 10% | 12% |
| Indian rupee (INR) | 8% | 7% | 6% |
| Korean won (KRW) | 5% | 5% | 4% |
| British pound (GBP) | 3% | 5% | 3% |
| Canadian dollar (CAD) | 1% | 2% | 2% |
| Australian dollar (AUD) | 0% | 1% | 0% |
| Chinese yuan (CNY) | 0% | 2% | 8% |
| Danish krone (DKK) | 0% | 0% | 1% |
| Norwegian krone (NOK) | 0% | 0% | 1% |

See note 5, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

### Top 10 Holdings

| COMPANY | COUNTRY | INDUSTRY | WEIGHT |
|---|---|---|---|
| Sanofi SA | France | Health Care | 4.0% |
| Skyworks Solutions | US | Info Technology | 3.9% |
| ZTO Express Inc ADR | China | Industrials | 3.6% |
| Facebook Inc | US | Comm Services | 3.4% |
| Alphabet Inc | US | Comm Services | 3.3% |
| Applus Services | Spain | Industrials | 3.3% |
| IHS Markit Ltd | US | Industrials | 3.2% |
| Intel Corp | US | Info Technology | 3.0% |
| Raiffeisen Bank | Austria | Financials | 2.9% |
| Micron Technology | US | Info Technology | 2.9% |

As at 31 March 2020. See note 6, page 4.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/puf.

## Notes

1. Fund returns are calculated using the net asset value (NAV) unit price (which does not include the buy/sell spread) of the stated unit class of the Fund and represent the combined income and capital returns of the stated unit class over the specified period. Fund returns are net of fees and costs, are pre-tax, and assume the reinvestment of distributions.

   The MSCI Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or expenses. MSCI index returns are sourced from FactSet.

   Platinum does not invest by reference to the weightings of the Index. The Fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the Fund's holdings may vary considerably to the make-up of the Index that is used as its reference benchmark. Index returns are provided as a reference only.

   The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.
2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified net MSCI Index in Australian Dollars.
3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the market value of the Fund's positions, the Fund's effective exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices. "Shorts" relates to the effective exposures to short securities and short securities/index derivative positions.
4. The table shows, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant sectors through direct securities holdings as well as long derivatives of stocks and indices.
5. The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards, and derivatives. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
6. The table shows the Fund's top 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

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