

# Platinum Investment Bond - APIR Code: LIF2561AU

## Platinum International Fund



MONTHLY REPORT 31 August 2021

### FACTS

Portfolio value	\$0.46 mn
Option commenced	23 March 2021
Unit valuation	Adelaide Business Day
Net asset value (\$ per unit)	\$1.0153

### PERFORMANCE OF PLATINUM INTERNATIONAL FUND<sup>1</sup>

	Fund %	MSCI %
1 month	0.7	3.1
3 months	(1.1)	10.8
6 months	3.0	20.6
Calendar year to date	10.4	22.4
1 year	23.5	30.2
2 years (compound pa)	9.6	17.6
3 years (compound pa)	6.8	13.9
5 years (compound pa)	9.6	14.9
7 years (compound pa)	9.5	14.0
10 years (compound pa)	11.8	15.6
Since inception (compound pa)	12.0	7.8

The returns shown are for the Platinum International Fund C Class (launched on 30 April 1995). It is one of the investment options available for investors in the Platinum Investment Bond, which was launched on 23 March 2021. Investors in the Platinum Investment Bond will not have experienced the returns prior to 23 March 2021 and the historical data is provided for information purposes only. **Past performance is not a reliable indicator of future returns.**

### INVESTED POSITIONS OF PLATINUM INTERNATIONAL FUND<sup>3</sup>

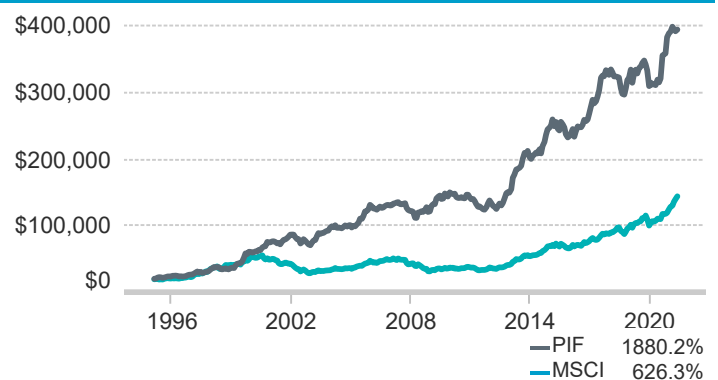
	LONG %	SHORT %	NET %	CCY %
<b>Asia-Pacific</b>	46.5		46.5	48.5
Australia	3.3		3.3	3.5
China	19.8		19.8	20.5
Hong Kong	2.5		2.5	2.9
India	2.2		2.2	2.3
Japan	13.5		13.5	14.3
South Korea	4.9		4.9	4.9
Thailand	0.2		0.2	0.2
<b>Europe</b>	22.0		21.9	22.1
Austria	1.6		1.6	
Belgium	0.1		0.1	
Denmark	0.4		0.4	0.4
Finland	2.7		2.7	
France	3.7		3.7	
Germany	4.1		4.1	
Hungary	0.1		0.1	0.1
Ireland	1.4		1.4	
Italy	1.8		1.8	
Spain	1.0		1.0	
Sweden	0.1		0.1	0.1
Switzerland	0.1		0.1	0.1
United Kingdom	4.8		4.8	5.3
Euro				16.1
<b>North America</b>	20.9	(6.5)	14.4	27.8
Canada	1.9		1.9	3.1
United States of America	19.0	(6.5)	12.5	24.7
<b>Other</b>	1.6		1.6	1.6
<b>Sub-Total</b>	90.9	(6.5)	84.4	100.0
<b>Cash</b>	9.1	6.5	15.6	
<b>Total</b>	100.0		100.0	100.0

Long - 128 stocks, 2 swaps Short - 14 swaps, 1 index

### FEES

Investment management fee	1.05% p.a.
Administration fee	0.30% p.a.
Investing transaction costs	0.30% on contributions

### PERFORMANCE GRAPH OF PLATINUM INTERNATIONAL FUND<sup>2</sup>



### TOP TEN POSITIONS OF PLATINUM INTERNATIONAL FUND<sup>4</sup>

STOCK	COUNTRY	INDUSTRY	%
ZTO Express Cayman Inc	China	Industrials	3.1
Samsung Electronics Co	South Korea	Info Technology	3.0
Weichai Power Co Ltd	China	Industrials	3.0
Microchip Technology Inc	United States	Info Technology	2.9
Glencore PLC	Australia	Materials	2.9
Minebea Co Ltd	Japan	Industrials	2.9
UPM-Kymmene OYJ	Finland	Materials	2.7
AIA Group Ltd	Hong Kong	Financials	2.5
Micron Technology Inc	United States	Info Technology	2.4
China Overseas Land & Inv	China	Real Estate	2.2
<b>Total</b>			<b>27.5</b>

### INDUSTRY BREAKDOWN OF PLATINUM INTERNATIONAL FUND<sup>3</sup>

SECTOR	LONG %	SHORT %	NET %
Industrials	20.8		20.8
Financials	16.0		16.0
Materials	15.0		15.0
Consumer Discretionary	12.3	(0.7)	11.6
Information Technology	11.9	(0.8)	11.1
Health Care	6.7	(0.5)	6.2
Communication Services	3.8		3.8
Real Estate	3.1		3.1
Consumer Staples	0.9	(0.2)	0.7
Energy	0.4		0.4
Other		(4.3)	(4.3)

The Platinum Investment Bond ("Bond") is an investment bond issued by Lifeplan Australia Friendly Society Limited ABN 78 087 649 492 AFSL 237989. Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 ("Platinum"), is the responsible entity of the Platinum International Fund ("PIF"), an underlying investment option of the Bond. The Bond's latest Product Disclosure Statement ("PDS") provides details about the Bond. You can obtain a copy of the PDS from Australian Unity's website [www.australianunity.com.au/platinum](http://www.australianunity.com.au/platinum), or by contacting their Investor Services on 1800 670 638. This information is general in nature and does not take into account your specific needs or circumstances. You should consider your own financial position, objectives and requirements and seek professional financial advice before making any financial decisions. Numerical figures are subject to rounding. Platinum does not guarantee the performance of the Bond or PIF, the repayment of capital or the payment of income. The market commentary reflects Platinum's views and beliefs at the time of preparation, which are subject to change without notice. No representations or warranties are made by Platinum as to their accuracy or reliability. To the extent permitted by law, no liability is accepted by Platinum for any loss or damage as a result of any reliance on this information.

1. & 2. Source: Platinum for PIF returns and Factset Research Systems for MSCI returns. Investment returns are calculated using PIF'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 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 PIF since inception (30 April 1995). **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 PIF's exposure to long securities and long securities/index derivative positions, the "Short %" is PIF's exposure to short securities and short securities/index derivative positions and the "Net %" is the difference between the "Long %" and the "Short %", each as a percentage of the market value of 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. Country classifications for securities reflect Bloomberg's "country of risk" designations, and currency classifications for securities reflect the relevant local currencies of our country classifications.

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's one-year performance remains well above long-term averages despite the recent pause.
- Market dynamics may be setting up a more sustained repeat of the November - February "preview".
- The portfolio remains heavily skewed to 'growth industrials' and broader cyclicals, given valuations and prospects.

Today, it feels like the market is giving patient investors a "second bite at the cherry".

To recap, as late as December 2018, US 10-year bonds were yielding 3%, falling to 1.5% ahead of the COVID-induced sell-off in February 2020, and as low as 0.5% in August last year (Source: FactSet). This ever-lower bond yield continued to encourage investors to chase growth and defensive stocks, perpetuating a decade-long trend in markets. Meanwhile, a long period of austerity post the global financial crisis (GFC), various reforms in China, and a trade war, had seen rolling industrial recessions, and despite economically sensitive stocks becoming ever cheaper, a pandemic was the last thing they needed.

We accumulated various groups of stocks as they were impacted by transient events, most notably, semiconductors during the trade war and travel-related stocks as lockdowns and border closures provided a temporary setback. The term 'growth industrials' can be applied to large swathes of the portfolio, where a structural growth driver has been obscured by near-term cyclicality.

We have also previously observed that some of the biggest trends in the coming decade include decarbonisation, automation and an infrastructure (re)build, which will likely benefit industrial businesses.

The portfolio skew towards cyclicals and away from defensives, by our own classification, is as extreme as at any time in the last decade, other than when cyclicals ran hard between November 2020 and March 2021, triggered by vaccine approval and associated global reopening optimism, and before we took profits from that run-up.

We believe that period, which saw US 10-year bond yields rising to 1.7% by March (Source: FactSet), was a precursor to what might lie ahead. Inflationary pressures are evident, but the market consensus is that these are transient. However, as labour markets tighten, the impacts of record money printing take hold, and government austerity is less politically palatable, we believe rising inflation may be more long-lasting.

'Growth industrials' have depressed profitability and a valuation gap wider than we saw in the technology bubble of the late 1990s. This is a very compelling investment opportunity to us, and explains the portfolio's positioning. Over half of the portfolio is invested in semiconductors, materials, industrials (including travel) and banks. This collection of companies has driven returns over the last 12 months. Indeed, the rest of the portfolio has made no meaningful contribution in aggregate over the same period.

It has, however, been a "game of two halves", with the portfolio returning 20% in the six months to February, and then "pausing for breath", rising only a further 3% in the last six months. It is worth noting that the US 10-year bond was trading back as low as 1.1% during August (Source: FactSet). It is fair to say, that the portfolio is likely to perform better when the 10-year bond yield is rising rather than falling, in the near term.

With these cyclical sectors driving returns, and the long portfolio in totality adding 30%\* to returns over the last 12 months, the disappointments have been losses on short positions designed to reduce the overall level of risk in the portfolio, and near-term mark-to-market losses on Chinese stocks (still positive over one year) in the face of the market expressing concerns about what we see as an ongoing and considered approach to regulatory reform.<sup>1</sup> We view this as a buying opportunity.

The biggest winners in the portfolio at a stock level over the last year were dominated by semiconductors (Samsung Electronics, Micron and Microchip), industrials (General Electric, MinebeaMitsumi, Weichai Power), materials (Glencore, Freeport McMoRan, First Quantum Minerals), and Ally Financial.

The portfolio's aggregate valuation metrics, for what it's worth, are attractive in an absolute sense, and relative to the market, with a 39% higher starting earning yield, and a 41% discount on an asset basis.

Metric	Platinum International Fund	MSCI AC World Net Index (A\$)
NTM Earnings Yield	7.8% (Price-to-Earnings ratio of 13x)	5.6% (Price-to-Earnings ratio of 18x)
NTM Dividend Yield	2.4%	2.4%
Price-to-Book Ratio	1.6x	2.7x
Enterprise Value-to-Sales	1.2x	1.9x

The valuations in the table in respect of the Fund have been calculated by Platinum and refer to the long portion of the portfolio, exclude negative net earnings, and use FactSet consensus earnings. As at 31 August 2021.

\*Source: Platinum. Contribution numbers are based on the total return of individual positions (in AUD) and are gross as they do not take into account the Fund's fees and costs (other than brokerage). Past performance is not a reliable indicator of future returns.

<sup>1</sup> See: <https://www.platinum.com.au/Insights-Tools/The-Journal/In-Focus-China> and <https://www.platinum.com.au/Insights-Tools/The-Journal/China-Time-to-Run-or-Time-to-be-Bold>