

# Platinum Investment Bond - APIR Code: LIF2561AU

## Platinum International Fund

MONTHLY REPORT 31 October 2021



### FACTS

Portfolio value	\$0.59 mn
Option commenced	23 March 2021
Unit valuation	Adelaide Business Day
Net asset value (\$ per unit)	\$0.9769

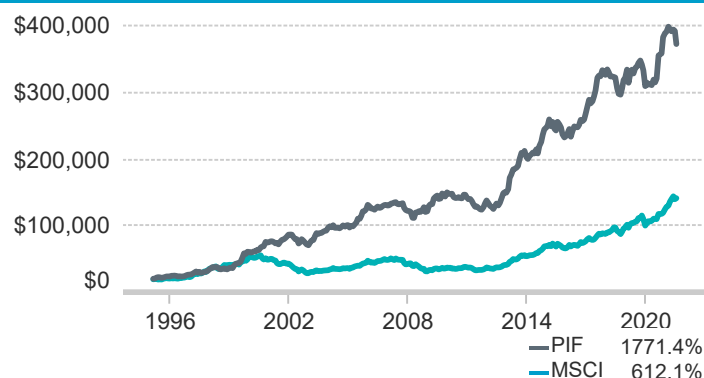
### FEES

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

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

	Fund %	MSCI %
1 month	(5.0)	1.1
3 months	(4.9)	1.1
6 months	(4.7)	10.0
Calendar year to date	4.4	20.0
1 year	16.1	28.3
2 years (compound pa)	4.9	14.9
3 years (compound pa)	6.7	15.2
5 years (compound pa)	8.5	15.0
7 years (compound pa)	8.6	13.1
10 years (compound pa)	11.3	15.2
Since inception (compound pa)	11.7	7.7

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



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>	46.6		46.6	44.1
Australia	3.7		3.7	3.8
China	19.9		19.9	20.8
Hong Kong	2.1		2.1	2.3
India	1.9		1.9	1.9
Japan	13.5		13.5	9.7
Kazakhstan	0.3		0.3	0.3
South Korea	5.0		5.0	5.1
Thailand	0.2		0.2	0.2
<b>Europe</b>	21.5	(1.5)	20.0	23.6
Austria	1.9		1.9	
Denmark	0.5		0.5	0.5
Finland	2.3		2.3	
France	3.5		3.5	
Germany	4.2	(1.5)	2.7	
Hungary	0.1		0.1	0.1
Ireland	1.1		1.1	
Italy	1.6		1.6	
Netherlands	0.1		0.1	
Spain	0.9		0.9	
United Kingdom	5.1		5.1	5.6
Euro				17.3
<b>North America</b>	19.4	(19.0)	0.4	30.9
Canada	1.6		1.6	2.9
United States of America	17.9	(19.0)	(1.2)	28.0
<b>Other</b>	1.4		1.4	1.4
<b>Sub-Total</b>	88.9	(20.5)	68.4	100.0
<b>Cash</b>	11.1	20.5	31.6	
<b>Total</b>	100.0		100.0	100.0

Long - 127 stocks, 2 swaps Short - 20 swaps, 4 indices

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

STOCK	COUNTRY	INDUSTRY	%
Glencore PLC	Australia	Materials	3.2
Minebea Co Ltd	Japan	Industrials	3.2
ZTO Express Cayman Inc	China	Industrials	3.1
Samsung Electronics Co	South Korea	Info Technology	2.8
Microchip Technology Inc	United States	Info Technology	2.8
Tencent Holdings Ltd	China	Comm Services	2.7
Ping An Insurance Group	China	Financials	2.5
Weichai Power Co Ltd	China	Industrials	2.3
Micron Technology Inc	United States	Info Technology	2.3
UPM-Kymmene OYJ	Finland	Materials	2.3
<b>Total</b>			<b>27.2</b>

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

SECTOR	LONG %	SHORT %	NET %
Industrials	19.4	(0.2)	19.2
Financials	15.2		15.2
Materials	15.2		15.2
Consumer Discretionary	12.7	(1.4)	11.3
Information Technology	11.2	(4.0)	7.2
Health Care	6.2		6.2
Communication Services	4.5	(0.1)	4.5
Real Estate	3.0		3.0
Energy	0.7		0.7
Consumer Staples	0.7	(0.1)	0.6
Other		(14.8)	(14.8)

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 AS\$. The investment returns depicted in the graph are cumulative on AS\$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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**This commentary relates to the underlying fund, the Platinum International Fund**

- October was a very challenging month for the portfolio, but one-year returns remain above the long-term average.
- Divergences in markets are extreme, providing great opportunities for patient investors.
- Looking in detail at the opportunity cost in markets in recent months shows consistency with our philosophy and approach.

### Market Commentary

The portfolio has suffered in recent months from a resumption of divergences that we are quite deliberately on the other side of. Our large exposure to China and semiconductors is based on fundamentals and have been lucrative since we entered them in a meaningful way in 2014 and 2018 respectively. On the other hand, market darlings, such as the so-called FANMAG\* group, and at the extreme, the more speculative elements, such as Tesla, have raced back into vogue. While there is a sense that inflationary pressures are building, a consensus that this is transient has not been helpful, with our view that the odds favour owning companies positioned for a more prolonged period of price rises. These are a more economically sensitive group, while the market has tended to favour the opposite since March. The 2021 United Nations Climate Change Conference (COP26) in Glasgow has grabbed recent headlines. Our exposure to 'carbon transition' has evolved into the largest theme in the portfolio. Bringing together ideas around electrification of vehicles, materials essential to this transition, such as copper, and companies driving industrial efficiency, collectively equate to well over 20% of the long book.

### Performance Analysis\*\*

We have written at length about recent setbacks resulting from reform efforts in China and their impact on market sentiment (particularly in targeted sectors), and hesitancy by Western investors. To provide context, we meaningfully increased our exposure to China in around 2014, near the bottom of its bear market, and our average return over the seven years to February 2021 was over 150% on the capital invested there. Since February 2021, Chinese stocks have cost the portfolio 3.5% in returns. In recent months, we re-entered Alibaba and Tencent at attractive levels, having exited in late 2020 and early 2021 respectively, as they became too popular. Our major Chinese holdings include China Overseas Land & Investment (real estate), Ping An Insurance, Trip.com (travel), Weichai Power (engine maker) and ZTO Express (logistics). These seven companies have an average P/E of 9x.\*\*\*

During the trade war we made significant investments in semiconductors, which are the chips and memory at the heart of all the exciting growth stories out there today. From the end of 2018, when the trade war presented this opportunity, to February 2021, returns from our stocks in this area averaged around 100%. We were trimming some of these positions after a strong run, but exposure to this sector has cost the portfolio around 1% since then. Our three largest positions, Samsung, Micron and Microchip have an average P/E of 11x.\*\*\*

A challenge here has been opportunity cost with high-profile companies like FANMAGs and Tesla, and many more speculative, loss-making businesses developing into what we have described as a speculative mania. These seven companies now have a combined market value of US\$11 trillion and trade on an average P/E of 37x.\*\*\* For context, these seven companies are collectively valued more highly than any country's market outside of the US itself (Source: FactSet).

A key feature of our approach is an attempt to avoid permanent impairment of capital, and as per the point above, there is a high degree of speculation present in markets. With market indices up strongly in recent months, we have felt compelled to adopt a prudent approach, seeking to reduce risk, recognising the opportunity cost of doing so. The net exposure has averaged 76% over this period and while this is above our long-term average, it leads to a poor comparison with indices. Our goal, however, is clear: to generate returns from investing in undervalued securities. As markets have moved higher, risks are elevated and we have further reduced our net exposure to 69%. This is deliberate and will continue to be a drag on relative performance if markets keep rising.

It is also worth noting that the major addition to the portfolio in 2020 was around 10% in travel-related stocks, ravaged by lockdowns. Average returns on this group of stocks, led by General Electric, Booking.com, Ryanair and Amadeus have been around 50% to 31 October 2021.

### Valuation

The portfolio's aggregate valuation metrics, for what it's worth, are attractive in an absolute sense and relative to the market, with a 42% higher starting earnings yield and a 41% discount on an asset basis (see table below).

Metric	Platinum International Fund	MSCI AC World Net Index (A\$)
NTM Earnings Yield	7.8% (Price-to-Earnings ratio of 13x)	5.5% (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	2.0x

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 October 2021.

\*FANMAG stands for Facebook (now Meta Platforms), Apple, Netflix, Microsoft, Amazon and Google (now Alphabet)

\*\*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.

\*\*\*Source: FactSet, using consensus earnings for NTM (Next Twelve Months) and taking the harmonic mean, which is the right way to calculate this.