

How Platinum invests

Investment philosophy

Platinum is an active manager focused on delivering long-term absolute returns (i.e. returns in absolute terms, rather than relative to any benchmark).

Platinum's investment philosophy is centred on the belief that there are times when events of a transitory nature may have a disproportionate effect on a company's share price, be they positive or negative, causing it to deviate from its inherent trend line. Such events, in Platinum's view, present potential investment opportunities, if one is able to differentiate between the companies that have a sound business case but are facing temporary set-backs from those which have lesser potential or face fundamental problems.

Platinum's style of investment management is focused on seeking out the out-of-favour and overlooked parts of the market. Its core expertise is in identifying companies that have sound businesses and promising growth prospects but are temporarily out-of-favour with the market.

Investment approach and process

To identify companies whose businesses and growth prospects are temporarily inappropriately valued by the market, Platinum builds each portfolio through a process of individual stock selection (the "bottom-up approach") rather than from any pre-determined asset allocation by macro-economic modelling (the so-called "top-down" model) or by reference to any index weightings (the so-called "benchmarking" model).

Platinum applies both qualitative and quantitative analyses when selecting stocks. Considerations in connection with each company typically include, but are not limited to:

- whether the company's business is competitive and sustainable;
- the quality of the company's management;
- the company's ownership structure;
- whether the company is financially sound;
- the company's price to earnings ratio, price to book ratio, and free cash flow; and
- whether the company is likely to generate free cash flow that will grow.

Such analyses are underpinned by observations and studies of broader socio-political and macroeconomic themes and trends.

Furthermore, companies need to behave in such a way so as to be able to sustain their future operations. This rationale is often referred to as Environmental, Social and Governance (ESG) considerations. In reality these elements are a component, amongst others, that affords a company's 'social license' to continue to operate. Not acting within the expectations of the broader community will hurt the ongoing viability of a company and its prospects, thereby diminishing our expectations of a company's future return to shareholders.

Platinum's investment process generally involves the following key elements:

Idea generation

Generation of themes and ideas in Platinum's investment process is eclectic in nature. Input from observations of the changing social and political landscape and the application of numeric skills are both regarded as an important part of the investment process.

Platinum places great store on the cross-pollination of ideas and the view that increasingly more weight should be applied to the global context of a company's operations than purely regional considerations.

Platinum's investment team is structured into sectoral/regional teams each with a team leader who in most cases is also a Portfolio Manager

for one or more of the Funds managed by Platinum, which are further supported by a team of quantitative analysts and dealers. The location, organisational structure, range of team meetings and internal infrastructure is all designed to foster a collaborative open approach and to facilitate the free flow of information between analysts with different geographic and industry responsibilities.

Screens

Platinum uses screening which allows for the selection of companies based on specific criteria (or "screens") across a databank of companies. This process allows Platinum to undertake cross-comparative studies of companies in its investable universe, thereby drawing up short-lists for more intense study. In setting these screens, Platinum may build on a hypothesis regarding social, political, or economic change. For example, a screen may seek to identify industry groups that are currently out-of-favour with investors.

Intensive research

Once a company has been identified as a potential investment opportunity, it is then investigated by investment analysts in greater detail and depth, utilising a variety of resources, including material from the company itself and its competitors, consultation with experts, reports from stockbroking analysts and industry material. Analysts are also often required to visit the companies being studied as well as their competitors and suppliers.

The analyst primarily responsible for the research and investigation of a company prepares a detailed report which is then subjected to the scrutiny of team members who meet to vigorously discuss and debate the merits of the case. The purpose of these meetings is to expose areas of concern and potential flaws in each investment proposal rather than to achieve a consensus. The final decision lies not with a committee, but solely between the analyst who is the promoter of the idea and the relevant Portfolio Manager.

The research report and/or investment review will include such matters as, for example, certain achievements expected from the company being proposed. These may vary considerably depending on the nature of the company involved, but, amongst other things, tend to include sales and earnings targets. Failure by the company to meet these targets would raise concern and, notwithstanding any price action, could result in the shares being sold. It is Platinum's experience that when targets are met or exceeded, the share price tends to overshoot expectations. Flexibility in selling may allow for the market's tendency to overreact.

Portfolio construction

As a consequence of the investment strategy, each Fund's Portfolio will be built-up from a series of individual stock selections rather than from a pre-determined asset allocation. Investment weightings will vary considerably from benchmarks such as indices issued by MSCI Limited.

In a way, Portfolio building can be seen as a layering process. At any time, there will be newly introduced ideas, others that have made an initial contribution, and others that are starting to tire. Care is taken to understand the inter-relationship of stocks within the Portfolio.

The number of securities held by each Fund will tend to be relatively small. Generally, there are between 50 to 140 securities depending on whether the Fund is global or regional focused.

When undervalued securities cannot be found, Platinum will leave funds in cash. Therefore, after periods when the markets have performed strongly a Fund may hold significant cash positions.

Likewise, when Platinum's research reveals companies whose prospects are seen as overvalued, Platinum may short sell positions in securities (and indices).