platinumportfolios

thoughtful investing for private clients

Quarterly Newsletter

First Quarter 2024

Global Market Commentary

Global stock markets registered strong gains in Q1 2024 buoyed by a resilient US economy and continued enthusiasm around Artificial Intelligence (AI). Expectations of interest rate cuts also boosted shares, although the pace of cuts is likely to be slower than the market had hoped for at the beginning of the year. Bonds saw negative returns in the quarter.

United States: Despite facing significant challenges in 2023, the US economy defied recession forecasts by maintaining a robust growth rate of 3.2% in the fourth quarter. Inflation, meanwhile, continued its descent towards the Federal Reserve's 2% target, but at a slower pace in recent months. Expectations for moderate job gains and easing inflation set the stage for a soft landing for the US economy in 2024. However, as cyclical tailwinds subside and the anticipation of the US election looms, risks to economic stability persist.

While the Federal Reserve opted to keep rates steady at 5.25-5.5% in its March meeting, the updated dot plot signalled a cautious approach to rate cuts. With only a slim majority of FOMC members anticipating up to three rate cuts in 2024 and a reduction in projected rate cuts for 2025, the Fed emphasized the gradual nature of future policy easing.

After an impressive 2023, U.S. equities have continued their upward momentum in the first quarter of 2024. In fact, resilient corporate profits and hopes for policy easing have produced multiple all-time market highs this year. However, market performance remains concentrated as the largest stocks in the index have continued to dominate. While valuations might look stretched, there are still many attractive opportunities outside of the Mega Cap stocks.

Eurozone: Eurozone shares witnessed robust gains in Q1. Signs of improving business activity emerged, accompanied by a cooling inflation rate, which stood at 2.6% in February, down from 2.8% in January. Despite speculation, European Central Bank President Christine Lagarde downplayed the likelihood of an imminent interest rate cut, emphasizing the bank's cautious stance.

Japan: The Japanese equity market experienced an extraordinary rally, with the TOPIX Total Return index soaring by 18.1% in Japanese yen terms. Foreign investors played a pivotal role in driving this rally, fuelled by optimism over Japan's positive economic cycle characterized by mild inflation and wage growth. Notably, the Nikkei surpassed the 40,000-yen level. Corporate earnings in Japan exceeded expectations, with positive revisions for both the current and next fiscal years. The weakening yen provided support, while the inflationary environment boded well for companies with pricing power. The Bank of Japan's decision to set a short-term rate above zero underscored confidence in Japan's economic trajectory.

Looking forward to the rest of the year, we face uncertain times, however, favourable fundamentals outside of major stocks are expected to bolster broader equity market performance, while fixed income assets will continue to serve their traditional role of income generation and diversification.

"We don't have to be smarter than the rest, we have to be more disciplined than the rest."

Warren Buffet

In This Issue

Local Market Commentary

The first quarter of 2024 presented a complex landscape for the South African equity market. While initial optimism for aggressive interest rate cuts fuelled some hope, the reality proved more measured.

Despite a slight decrease in fuel prices towards the end of 2023, inflation remained a concern. The South African Reserve Bank (SARB) opted to keep the key repo rate at 8.25%, unchanged throughout the quarter, maintaining the highest level since 2009. This decision, driven by the need to curb inflation, put a damper on investor expectations for a swift rate cut and dampened market sentiment.

The FTSE/JSE All Share Index declined by 2.25% in the first quarter, reflecting overall market weakness. This decline was primarily driven by a downturn in the commodity sector, likely due to global economic jitters. However, a bright spot emerged in the property sector. The SA Listed Property Index defied the trend, returning 3.47%. This resilience could be attributed to a search for yield in a high-interest-rate environment, with property offering a potential hedge against inflation.

Investor sentiment in South Africa was also influenced by global trends. Emerging markets faced headwinds, and the Rand weakened against the Dollar and the British Pound.

Despite the lacklustre performance in Q1, there are reasons for cautious optimism. South African stocks are currently trading at attractive valuations compared to their global counterparts. This could position them for a potential re-rating if economic conditions improve.

The second half of 2024 could be a pivotal period. The trajectory of inflation, shifts in the SARB's monetary policy and the results of local elections could significantly impact the market. Additionally, developments on the global stage, particularly regarding economic growth and potential interest rate changes in major economies, will also play a role in shaping investor confidence.

On 16 March 2022 the US Federal Reserve Chair, Jerome Powell, approved the first interest rate hike in more than three years at that time. The Federal Reserve also announced that many hikes would follow to try and address the soaring inflation. After the first rate hike it was followed by 10 subsequent hikes, concluding in July 2023. The federal rate is now standing at 5.25% - 5.5% which makes it much more expensive to borrow money than it has been in the past 17 years. A higher federal funds rate means banks' borrowing costs are greater. They pass this on to consumers in the form of higher interest rates on things like auto loans, mortgages and credit card debt.

While the impact of these interest rate hikes on individual consumers is important to monitor, there's an underlying threat that extends to companies that have been taking advantage of the prolonged period of low rates. Many corporations borrowed excessively during this time, and the rise in interest rates is now placing pressure on their financial positions. One key metric to watch is the net debt to EBITDA ratio, which provides insight into how many years it would take a company to pay off its debt. Generally, a ratio below 2 suggests a healthy ability to service debt, but when this ratio exceeds 3, it raises concerns about the company's ability to manage its debt burden effectively. Alarmingly, the S&P 500 had a net debt to EBITDA ratio of 1.46 in 2001, but this figure has been steadily climbing and now sits at 2.6 at the close of 2023. As rates remain high, certain companies may struggle to service their debt, potentially leading to reductions in dividends and share buybacks, posing risks to investors' portfolios.

The debt issue isn't isolated to the corporate world; household debt has also surged, reaching record levels by the end of 2023. Consumer spending saw a marked increase during this period, but it soon became evident that this rise was driven primarily by consumer debt. Credit card debt, in particular, rose by an alarming 46% since the beginning of 2021, with roughly 8.5% of outstanding credit card debt being at least one month overdue. Delinquency rates on credit card and auto loans continue to creep up and are now nearing record highs. These worrying trends have been unfolding over several years, prompting the critical question: how much longer can these debt levels continue to rise unchecked?

While it remains unclear how long this pattern will persist or if the US government will intervene if a financial crisis emerges, it's vital for us as fund managers to remain vigilant. We have a responsibility to anticipate and manage the risks associated with this environment of rising debt levels. Despite the potential for interest rate cuts later this year, debt and interest rates will still remain elevated compared to recent historical levels. This should serve as a wake-up call for everyone to recognize the hidden threat posed by soaring debt levels.

While the economy may appear to be humming along on the surface, the reality is that there is a significant undercurrent of risk due to the ever-increasing debt burden at both the corporate and household levels. It's essential as fund managers to be proactive in recognizing and addressing these risks to safeguard the future financial stability of our clients. Let's ensure we keep this rising debt on our radar and take necessary actions to mitigate its potential impacts.

The Platinum BCI Worldwide Flexible Fund

The Platinum BCI Worldwide Flexible Fund had a strong quarter, showing an increase of 6.79%. It remains one of the top-performing funds over the past three years and longer. Its nomination by Morningstar in the best flexible allocation sector is a testament to the fund's consistent performance.

Our best-performing stocks this quarter included Williams-Sonoma, Cencora, Microsoft, Berkshire Hathaway, and Qualcomm. However, Nike, Apple, Zoetis, and British American Tobacco did not perform as well. We sold out of British American Tobacco during the quarter.

Williams-Sonoma was our star performer this quarter. Known for its strong brand and effective business model, the company manages costs well and maintains high profit margins. Recently, it reported excellent earnings and sales, increased its dividend by 25.5%, and announced a $1 million stock buyback. The stock price jumped 18% and is up 53.13% for the year. Due to this rise, we sold some of our shares to rebalance the holding to neutral.

Although Nike and Apple are strong brands, they underperformed this quarter. Nike, facing economic slowdowns and rising costs, continues to lead in footwear and apparel. We believe their long-term plans for expansion and new technology will eventually boost their sales and profits.

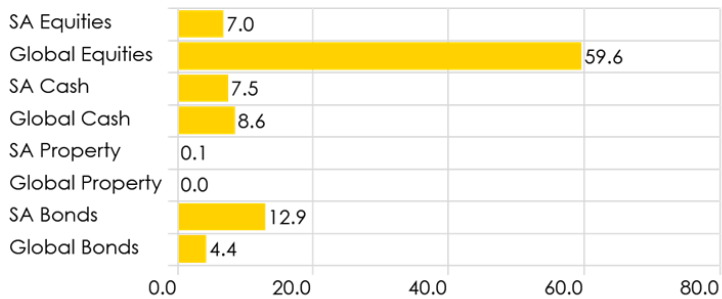
Locally, our Income Fund Managers performed well despite market challenges. For instance, Bridge Taxi Finance in South Africa failed to pay some debts, negatively impacting some funds. Fortunately, our funds were not affected. This situation underscores the importance of risk management and selecting the best managers in each sector.

We maintain our belief that strong companies with solid fundamentals will perform well even in tough economic conditions. Our chosen companies possess strong finances, well-known brands, and competitive advantages. They also have steady cash flows and low debt levels, making them less risky. We are confident these companies will continue to grow and help us provide excellent returns to our investors.

We are excited about the current opportunities we see in the market. There are at least three companies we are looking to add to our portfolio that are trading slightly above our buy price. We are hopeful that their respective share prices will soften in the coming weeks.

We remain committed to enhancing our fund's performance by working smarter and harder for our clients.

Asset allocation



Top Holdings

Microsoft Corp	5.80
Granate BCI Multi Income D	5.21
Aluwani BCI High Yield D	5.07
Cencora Inc	4.98
Taquanta Active Income FR R3	4.62
Dodge & Cox Worldwide Global Bd USD Acc	4.22
Prescient Global Income Provider B	3.95
Williams-Sonoma Inc	3.41
Abbott Laboratories	3.27
Comcast Corp Class A	2.96

Trailing Returns

As of Date: 2024/03/31

	Last Q	1 Yr	3 Yrs	5 Yrs	10 Yrs
Platinum BCI Worldwide Flexible A	6.79	20.98	13.21	12.61	11.74
SA CPI +5%	2.30	10.85	11.39	10.41	10.35
EAA Fund ZAR/NAD Flexible Allocation	4.16	14.88	10.31	10.63	8.35

Note: Quarterly performance since inception: Highest 13.17% Lowest –6.68%. Annualised return is weighted average compound growth rate over the period measured. Actual annual figures are available to the investor on request. Source Morningstar as at 31

The Platinum BCI Balanced Fund of Funds and Platinum BCI Income Provider Fund of Funds

Both funds experienced a strong quarter, outperforming their respective benchmarks and peer category averages. The Balanced FoF provided returns of 3.18% net of fees for the quarter, against the CPI+4% benchmark of 2.06% and category average of 1.60%. The Income Provider FoF returned 3.72% net of fees vs its CPI+2% benchmark of 1.81% and category average of 1.33%.

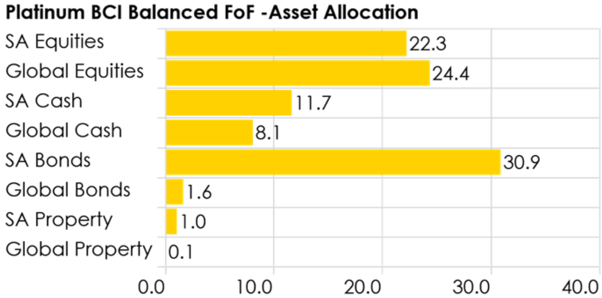
The strategic tilts within the long-term Strategic Asset Allocation strategy proved fruitful. Despite the local market yielding negative returns for the quarter, the funds benefitted from being underweight in local stocks. Additionally, the overweight allocation to offshore investments, particularly global equities, further bolstered returns.

Positive contribution to performance came from offshore stock selection in global holdings such as Meta, William-Sonoma and Cencora. Furthermore, investments in select gold counters yielded strong returns amid the recent rally in gold prices Conversely, exposure to local banks dampened performance, primarily due to delayed interest rate cuts amidst stubbornly high inflation. Remgro and Nike also declined over the quarter.

On the manager front, 36One continued their superior returns, outperforming the local market by 8.71% for the quarter. The cautious approach to local stocks, due to uncertainty of growth in the local economy and the outcome of the upcoming elections, is translating into strong absolute and relative returns.

It is pleasing to see that the credit manager used in our strategies, Aluwani, delivered a strong quarter, despite the challenges encountered by the local taxi industry and the resulting defaults on certain debt structures. For further details, please refer to the commentary on the Platinum Defensive Income FoF.

Platinum BCI Balanced FoF -Asset Allocation



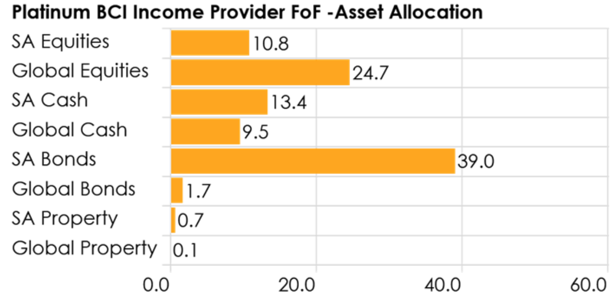
Top Holdings	
The Platinum Global Managed B USD Acc	26.96
Aluwani BCI High Yield D	13.71
Granate BCI Multi Income D	13.57
Taquanta Active Income FR R3	13.30
36ONE BCI Equity D	8.39
Truffle SCI General Equity C	7.18
Aylett Equity Prescient A1	6.56
M&G Equity Fund F	6.20
Fairtree Equity Prescient A2	3.14

Trailing Returns

As of Date: 2024/03/31

	Last Q	1 Yr	3 Yrs	5 Yrs	10 Yrs
Platinum BCI Balanced FoF A	3.18	10.01	7.72	8.47	7.59
SA CPI +4%	2.06	9.79	10.33	9.36	9.30
(ASISA) South African MA Medium Equity	1.60	8.69	8.03	7.83	6.76

Platinum BCI Income Provider FoF -Asset Allocation



Top Holdings	
The Platinum Global Managed B USD Acc	32.53
Aluwani BCI High Yield D	17.45
Granate BCI Multi Income D	17.29
Taquanta Active Income FR R3	16.80
36ONE BCI Equity D	4.31
Truffle SCI General Equity C	3.46
Aylett Equity Prescient A1	3.27
M&G Equity Fund F	2.85
Fairtree Equity Prescient A2	1.52

Trailing Returns

As of Date: 2024/03/31

	Last Q	1 Yrs	3 Yrs	5 Yrs	10 YrS
Platinum BCI Income Provider FoF A	3.72	11.03	7.75	7.43	7.24
SA CPI +2%	1.56	7.68	8.21	7.26	7.20
(ASISA) South African MA Low Equity	1.33	8.63	7.75	7.29	6.78

Note: Quarterly performance since inception: Platinum BCI Balanced fund: Highest 8.62% Lowest –3.90%. Platinum BCI Income Provider fund: Highest 5.28% Lowest –1.84%. Annualised return is weighted average compound growth rate over the period measured. Actual annual figures are available to the investor on request. Source Morningstar as at 31 March 2024.

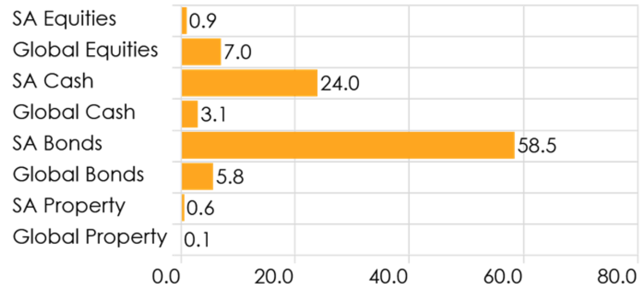
The Defensive Income FoF took advantage of the current high yield environment, returning 2.85% net of fees for the quarter compared with against the SteFi +2% benchmark of 2.32% and category average of 1.10%.

The allocation to credit provided the strongest returns. This is comforting to witness in a period where credit was in the spotlight for all the wrong reasons. Bridge Taxi Finance, a South African company providing financing to the local mini-bus taxi industry, failed to meet some of its debt obligations. This translated to significant losses on credit notes which held this debt, resulting in certain credit funds, with large exposures, side-pocketing the debt out of their main fund (*Side-pocketing is the practice of removing the affected instruments from the main fund with the attempt to recover losses at a later stage).* Thankfully, the credit funds used in the Fund of Funds does not have exposure to these affected. We maintain strong confidence in our credit managers, and this default underscores the significance of diversification and risk management in pure credit portfolios.

Further positive performance came from small allocations to a local equity manager, the 36One Equity Fund, and the global multi-asset fund, the Platinum Global Managed Fund.

Platinum Defensive Income Fund of Funds

Asset Allocation



Top Holdings	
Aluwani BCI High Yield D	22.98
Granate BCI Multi Income D	22.87
Taquanta Active Income FR R3	22.15
BCI Income Plus H	16.33
The Platinum Global Managed B USD Acc	8.73
36ONE BCI Equity D	2.02

Note: Fund Launched 2 October 2023. Performance figures will be published as from 1 October 2024.

Global equities continued their strong start to the year amid fresh evidence of a robust US economy. However, the outlook remains uncertain. Short-term shocks have continued to rattle markets, ranging from China's property crisis, volatile commodity prices, turmoil in bond markets and – most recently – the re-emergence of tensions in the Middle East.

The fund had a strong quarter, delivering a return of 5.30% to investors. Williams-Sonoma, Cencora, Microsoft, Berkshire Hathaway, and Qualcomm were our best performing stocks for the quarter. Our detractors were Nike, Apple, and Zoetis.

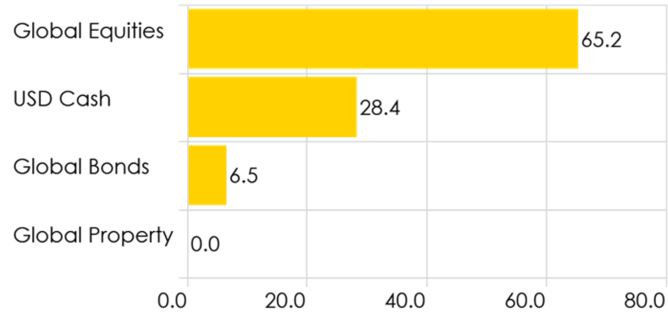
Our top performer for the quarter, Williams-Sonoma, is a speciality retailer with an enviable brand reputation, omnichannel business model, and a healthy financial position. They have shown solid expense control and structural margin drivers have enabled margins to stay in the high teens. A double beat in their last quarters earnings results, both on profit and sales guidance, was well received by the market. In addition, they announced a 25.5% hike in the quarterly dividend and a $1 million share repurchase program. The news sent shares soaring 18% on the day. The shares are now up +53.13% year to date. This incredible rally in the stock pushed the price passed our sell price and resulted in us trimming the stock and taking profit during the quarter.

While Nike and Apple underperformed over the last quarter, they are two of the strongest brands in the world, however, even strong brands have periods of underperformance which they are experiencing recently. Nike remains a leader in the footwear and apparel industry even with the recent headwinds. Economic downturns, supply chain disruptions, and rising input costs are squeezing profit margins and slowing revenue growth. However, we believe their long-term strategies for geographic expansion, development in technology and focus on key growth categories will feed through to future revenue growth and profitability and continue to generate a competitive advantage for the company.

Against the current economic backdrop, we believe that quality companies with robust business fundamentals will be rewarded by investors. Our quality companies are more resilient and better positioned to weather an environment where rates stay higher for longer. They have strong balance sheets, good brands, and competitive advantages or moats. They have good cash flows and lower debt levels than the wider market, resulting in performance that is less volatile. We remain confident that our companies will continue growing their profits and cash flows in the uncertain times ahead, and result in us continuing our track-record of delivering excellent risk-adjusted returns to our investors.

The Platinum Global Managed Fund USD

Asset allocation



Top Holdings	
Microsoft Corp	5.42
Dodge & Cox Worldwide Global Bd USD Acc	4.46
Cencora Inc	4.39
Prescient Global Income Provider B	4.05
Williams-Sonoma Inc	3.82
Visa Inc Class A	3.60
Abbott Laboratories	3.43
PepsiCo Inc	3.20
Berkshire Hathaway Inc Class B	3.05
Chubb Ltd	2.81

Trailing Returns

As of Date: 2024/03/31

	Last Q	1 Yr	3 Yrs	5 Yrs	10 Years
The Platinum Global Managed A USD Acc	5.30	14.26	4.58	7.17	6.80
EAA Fund USD Aggressive Allocation	5.26	13.26	2.80	6.03	4.41

Note: Quarterly performance since inception: Highest: 16.11% Lowest: -8.98%. Annualised return is weighted average compound growth rate over the period measured. All performance figures quoted are sourced from Morningstar. Period ending 31 March 2024. Actual annual figures are available to the investor on request.

Cencora: Quietly Outperforming the AI Hype with Practical Applications

In a world captivated with AI advancements from major tech firms, Cencora is making significant strides by focusing on practical, industry-specific applications of artificial intelligence (AI). Instead of chasing the latest trends, Cencora adopts a more measured and impactful approach to implementing AI. This includes optimizing inventory management, predicting market demand, and strengthening long-term relationships with its clients and partners.

Cencora's use of AI can be observed in the way it manages hospital pharmacy systems. It has introduced advanced hospital "vending machines" that are equipped with RFID-tagged medications. When a healthcare provider removes a drug from the machine, Cencora's system instantly updates inventory levels and processes billing automatically. The AI-driven approach allows hospitals to maintain precise stock levels, ensuring essential drugs are always on hand. Hospitals benefit from streamlined operations and less focus on inventory systems, while Cencora gains access to invaluable data on usage trends.

The data gathered through these processes provides Cencora with a substantial advantage. By analyzing trends and usage patterns, Cencora can anticipate future demand for medications with exceptional accuracy. This information is then sold to major pharmaceutical companies, such as Pfizer and J&J, empowering them to fine-tune production schedules and avoid the pitfalls of overstocking. The relationship Cencora forms with these companies is robust and difficult to replicate, creating a "sticky relationship" that encourages long-term partnerships.

On the international stage, Cencora continues to expand its reach, further diversifying its portfolio and revenue streams. Though international operations currently contribute just 11% of total revenue, they yield an impressive 22% of operating income, underscoring the potential for significant growth. Strategic acquisitions, such as that of Alliance Healthcare, have doubled international revenue growth for each of the past three years. Looking ahead, Cencora is eyeing distribution networks in emerging markets such as India and China, aiming to tap into substantial populations and potentially lucrative opportunities.

The future is bright for Cencora as it looks to capitalize on emerging trends within the pharmaceutical industry. The growing weight loss drug market, for instance, represents a major opportunity for the company. Although affordability may currently be a challenge, anticipated reductions in drug prices could make treatments more accessible to a broader audience. As one of the established distributors of choice for pharmaceutical products, Cencora is well-positioned to benefit from this burgeoning market and other innovative medications entering the market.

Cencora's AI-powered approach may not grab the headlines like its tech giant counterparts, but it is quietly redefining industry standards and creating a unique niche. With a solid history of success, strategic growth plans, and a keen understanding of the industry's needs, Cencora offers investors an attractive opportunity for long-term returns beyond the AI hype. The company's continued commitment to practical, real-world AI applications ensures it will remain a key player in the evolving healthcare and pharmaceutical landscape.

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