platinumportfolios

thoughtful investing for private clients

Q2 2024 Newsletter

Global Market Commentary

The economic momentum seen in the first quarter of 2024 persisted into the second quarter, resulting in another positive period for equity markets. Initially, investors were cautious about central bank rate cuts due to concerns of the U.S. economy overheating, which surfaced towards the end of Q1. Consequently, strong economic data in April was poorly received by the markets. However, as the quarter progressed, these concerns diminished, and optimism for a soft landing revived.

Inflation and Interest Rates: Inflation remained stubbornly above 3% in the first half of 2024, raising concerns about its persistent elevation beyond the Fed's target. While the decline may take longer than anticipated, stable supply chains, moderating wage increases, and significant reductions in inflation for shelter and auto insurance are expected to help overall inflation gradually return to 2% by mid-next year. This persistent inflation has led to rates markets now anticipating far fewer cuts than at the start of the year.

Equity Markets: Developed market equities posted a positive total return of 2.8% over the quarter. Markets found support in relatively strong Q1 earnings, led primarily by a small group of mega-cap stocks. We see the earnings-growth gap between these leaders and the rest closing later this year. This presents a compelling opportunity for stock selection, as earnings feed valuations. While the "Magnificent 7" mega-caps were priced at roughly 34x earnings as of late May, the other 493 stocks in the S&P 500 traded at a much less demanding 17x. Yet a still-strong earnings profile means many of the top stocks aren't necessarily expensive relative to their growth prospects. In all cases, individual analysis is key to ensuring share prices are well aligned to company fundamentals.

Fixed Income Markets: Fixed income investors faced another challenging quarter, with global investment-grade bonds delivering a negative return of -1.1%.

Monetary Policy

United States: The Federal Reserve significantly tempered expectations for rate cuts this year. Initially forecasting three cuts at the start of the year, the Fed has instead held rates firm and now forecasts only one cut for the remainder of the year. Fed officials have emphasized the need for patience to ensure that inflation consistently moves toward the target.
Europe: In contrast, the European Central Bank (ECB) cut interest rates for the first time since 2019, as inflation in the eurozone has substantially decreased since last year. Underlying inflation has also eased, indicating weakened price pressures and declining inflation expectations across all horizons. Despite this, ECB officials remain divided on future policy, suggesting no immediate rush for further rate cuts.

European Economic Data: Economic indicators in Europe continue to point towards easing inflation and a soft landing. The eurozone Purchasing Managers' Index (PMI) has been in expansion territory for four consecutive months, driven primarily by the services sector. Additionally, the rate of contraction in manufacturing is slowing. In Germany, there are signs of recovery, with business surveys steady in May and consumer confidence on the rise.

Conclusion: Overall, Q2 2024 produced resilient economic growth, although accompanied by persistent inflation and a cautious approach to monetary policy. While equity markets, particularly in the U.S., benefitted from the AI growth theme, the narrowness of this performance raises concerns. Fixed income markets struggled, and central banks remained vigilant in their approach to managing inflation and supporting economic stability.

"It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong." — George Soros

In This Issue

The second quarter of 2024 was a highly eventful period in South Africa, with the national elections and the formation of the Government of National Unity (GNU) taking centre stage. This was a significant event in our young democracy, as the peaceful transfer of power by the revolutionary party is not always guaranteed, as seen in other African nations.

In the first half of the previous quarter, the local equity index benefited from the strong rise in commodity prices, posting robust returns primarily in the resources sector. However, as the elections approached, there were sharp, knee-jerk reactions to election polls, all showing a significant decline in the ANC's support. Naturally, investors were wary of the uncertainty regarding the country's future administration, with the potential for a regime shift to the right.

The election outcome resulted in the ANC losing its parliamentary majority for the first time in 30 years, leaving equity and bondholders in a state of limbo while political parties jockeyed for power. Once the ANC announced its intention to form the GNU with the central left, markets responded positively. The All Share Index increased by 5.05% in the following week, and the Rand appreciated by 5.28%. Bond yields also declined, dropping from 10.7% to as low as 9.685%, finally settling at 9.98% by the end of the month.

Inflation in South Africa remained steady throughout the quarter, hovering between 5.20% and 5.30% year-on-year. This is expected to decrease towards the end of the year / beginning of next year. The SARB is widely anticipated to follow the US Fed's lead in cutting rates. The US FRA curves and futures pricing in the first cut for September of this year and will be welcomed by the South African consumer who is already financially stretched.

While the formation of the GNU and the willingness to set aside party ideology in pursuit of bettering the lives of South Africans is welcomed, we remain sceptical about the implementation of policy reform and conflict resolution. Additionally, Gauteng, the economic heartbeat of South Africa, could not form a majority government, which will hinder efforts to address the province's downward trajectory.

We continue to manage portfolios with a fundamental approach, focusing on factors such as market valuations, relative growth rates and interest rate cycles.

Balancing Risk and Reward: The Role of Fundamentals in Investing

As John C. Bogle aptly states in his book, "The Little Book of Common Sense Investing," the stock market is a giant distraction from the business of investing. Investors can generally be classified into two categories: fundamental investors and speculative investors.

Fundamental investors prioritize the intrinsic value of companies, basing their decisions on factors such as financial health, earnings, dividends, and long-term growth prospects. They believe that the share price will eventually reflect the company's underlying value.

Speculative investors, on the other hand, primarily focus on market expectations and sentiments. They attempt to predict future movements based on market trends, news, economic indicators, and investor behaviour, rather than on the company's sales, margins, or profits. Their goal is often to achieve short-term profits by buying and selling stocks based on perceived future price changes, relying heavily on market rumours and trends.

Currently, a few tech giants—Nvidia, Microsoft, Amazon, Meta, and Apple—dominate the performance of the S&P 500. The index has risen by 14% this year, with these five companies contributing to 60% of these gains. Notably, Nvidia alone accounts for 31% of the S&P 500's increase so far this year. In the second quarter of 2024, 90% of the S&P 500's gains were driven by just Nvidia, Apple, and Microsoft. Despite their impressive performance, these companies are trading at the highest price-to-earnings multiples in their history. Investors are continuing to pour money into these stocks, driven by the hope of continued growth, often ignoring fundamental analysis. The fear of missing out (FOMO) has overshadowed common sense, leading to speculative behaviour.

This trend has resulted in these five companies comprising 30% of the total market capitalization of the S&P 500. However, in the last quarter, their combined earnings accounted for only 12.4% of the total S&P 500 earnings. The share prices of these companies are not aligned with their underlying value, as investors speculate on their continued rapid growth. This concentration poses a risk, as it suggests the market's health is overly dependent on a handful of companies. If these companies fail to meet the high expectations set by speculative investors, their gains could quickly reverse.

While these companies are undeniably strong, the level of concentration is concerning. As fund managers, it is our responsibility to manage risks for our clients. Fundamental investing requires patience and discipline, especially in a market filled with noise and distractions. By focusing on intrinsic value rather than market speculation, fundamental investors can navigate market fluctuations and build portfolios that offer sustainable, long-term returns.

Although the market is currently dominated by a few mega cap stocks, there are numerous opportunities in overlooked sectors. Those willing to conduct diligent fundamental analysis can uncover valuable investments that promise enduring growth and stability. This patient and disciplined approach aligns with the core principles of fundamental investing, ensuring that we build portfolios capable of withstanding market volatility and delivering consistent returns.

In conclusion, the essence of fundamental investing lies in the meticulous analysis of a company's true value. While the allure of short-term gains driven by market speculation can be tempting, it is the long-term perspective that ultimately yields sustainable success. As we continue to navigate a market dominated by a few influential players, it is imperative to remain steadfast in our commitment to fundamental analysis. This approach not only mitigates risk but also positions us to capitalize on opportunities that may be overlooked by the broader market.

Article by : Barry Steenkamp

The Platinum BCI Worldwide Flexible Fund

Investor enthusiasm remained high during the quarter, but signs of a cooling US economy, such as lower personal spending and higher jobless claims, suggest a potential slowdown. The strong performance of a few mega-cap stocks masked weaker returns from other index constituents, with equal-weighted S&P 500 returns being negative for the quarter.

The Platinum Worldwide Flex fund was down 2.59% in the second quarter in rands. The strong rand affected performance, although the fund remained positive year to date. Over the past 12 months, the fund achieved a return of 8.57% in rands. The fund's performance was mixed during the quarter, but it remains a top quartile performer over 3, 5, 10 years, and longer periods.

The fund's exposure to the IT sector significantly contributed to performance, with Qualcomm (+22.98%), Apple (+18.14%), and Amphenol (+17.19%) leading the gains.

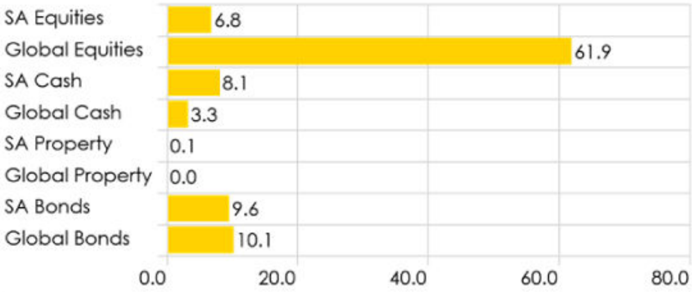
The consumer sector detracted from performance, with Nike being the biggest detractor, down -19.40% for the quarter due to disappointing earnings and challenges like slow innovation, rising competition, high stock levels, and depressed sales in China.

We increased our equity exposure to just under 70%. Our portfolio is well-positioned to benefit from market appreciation through world-class quality companies while maintaining a balanced approach to deliver good risk-adjusted returns across market cycles.

A positive election outcome boosted the South African market. A relief rally drove 'SA Inc.' assets higher, with the rand, bonds, and domestically focused shares surging. Rand hedge shares and resources lagged due to rand strength and lower commodity prices, except for oil. Despite hedging against worst election outcomes, our exposure to South African bonds helped contain drawdowns.

We remain satisfied with our fund's positioning, allowing investors to participate in market growth through a diversified portfolio of quality companies while aiming to provide consistent, risk-adjusted returns across all market cycles.

Asset allocation



Top Holdings	
Dodge & Cox Worldwide Global Bd USD Acc	7.04
Prescient Global Income Provider B	6.80
Microsoft Corp	6.02
Berkshire Hathaway Inc Class B	5.29
Cencora Inc	4.48
Granate BCI Multi Income D	4.17
Aluwani BCI High Yield D	4.03
Taquanta Active Income FR R4	3.68
Williams-Sonoma Inc	3.01
Zoetis Inc Class A	3.00

Trailing Returns

As of Date: 2024/06/30

	Last Q	1 Yr	3 Yrs	5 Yrs	10 Yrs
Platinum BCI Worldwide Flexible A	-2.59	8.57	12.20	11.44	10.79
SA CPI +5%	2.47	10.47	11.30	10.29	10.28
EAA Fund ZAR/NAD Flexible Allocation	0.97	9.56	9.87	10.63	8.02

Source: Morningstar Direct

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 30 June 2024.

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

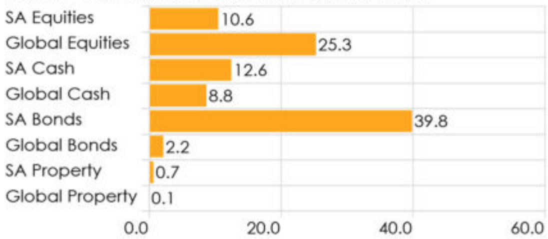
Growth in South Africa remains benign, reporting a 0.1% contraction for the first quarter of this year. Given our bearish outlook on the South African economy and the poor growth prospects, especially in light of the strong growth drivers offshore, we have maintained an underweight position in local equities in favour of local bonds and global stocks. Until mid-June, the funds were experiencing strong absolute returns and were on track to outperform their benchmarks for the quarter.

However, the sharp appreciation of the Rand negatively impacted our allocation to global assets, resulting in the funds underperforming their benchmarks over the quarter. The Balanced Fund returned 1.76% versus the CPI+4% benchmark of 2.22%, while the Income Provider Fund returned 1.10% versus the CPI+2% benchmark of 1.73%. We lagged in relative performance against our peers in the relative ASISA categories, primarily due to a larger offshore and lower SA equity allocation, meaning that our strategies did not benefit as much comparatively from the strong returns in the second half of June. Despite the disappointing returns for the quarter, we remain confident in our fundamentals-based market views and believe that our strategies will help investors achieve their financial goals.

Our equity managers with global mandates provided positive returns, although these were muted by the currency appreciation on offshore holdings and rand-hedge stocks, as well as specific SA Inc stock selections. Holdings in Exxaro, BHP, Sasol, MTN, and AECI were the main detractors. Fairtree and Truffle both delivered strong returns for the quarter, benefiting from significant holdings in Naspers/Prosus, African Rainbow Materials, specific retailers, and a large exposure to financial services.

Our bond managers have a naturally low duration exposure in the funds, which provides a defensive element to the overall strategy while also taking advantage of credit markets. Unfortunately, the low credit issuances and tightening credit spreads hampered performance for the quarter. Longer-duration debt issuances would have benefited greatly from the decrease in sovereign bond yields, contributing to the relative underperformance against our peers.

Platinum BCI Income Provider FoF -Asset Allocation



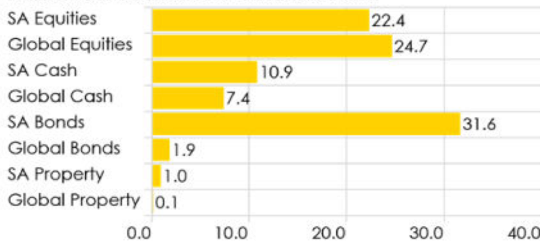
Top Holdings	
The Platinum Global Managed B USD Acc	32.42
Granate BCI Multi Income D	17.68
Aluwani BCI High Yield D	17.55
Taquanta Active Income FR R4	16.93
36ONE BCI Equity D	4.04
Truffle SCI General Equity C	3.44
Aylett Equity Prescient A1	3.07
M&G Equity Fund F	2.71
Fairtree Equity Prescient A2	1.53

Trailing Returns

As of Date: 2024/06/30

	Last Q	1 Yrs	3 Yrs	5 Yrs	10 YrS
Platinum BCI Income Provider FoF A	1.10	8.93	7.75	7.35	7.01
SA CPI +2%	1.73	7.31	8.12	7.13	7.13
(ASISA) South African MA Low Equity	3.31	9.87	8.06	7.63	6.80

Platinum BCI Balanced FoF -Asset Allocation



Top Holdings	
The Platinum Global Managed B USD Acc	26.29
Granate BCI Multi Income D	14.05
Aluwani BCI High Yield D	13.89
Taquanta Active Income FR R4	13.43
36ONE BCI Equity D	8.22
Truffle SCI General Equity C	7.16
Aylett Equity Prescient A1	6.58
M&G Equity Fund F	6.22
Fairtree Equity Prescient A2	3.12

Trailing Returns

As of Date: 2024/06/30

	Last Q	1 Yr	3 Yrs	5 Yrs	10 Yrs
Platinum BCI Balanced FoF A	1.76	8.87	8.21	8.67	7.32
SA CPI +4%	2.22	9.42	10.24	9.24	9.23
(ASISA) South African MA Medium Equity	3.59	9.83	8.57	8.28	6.72

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 30 June 2024.

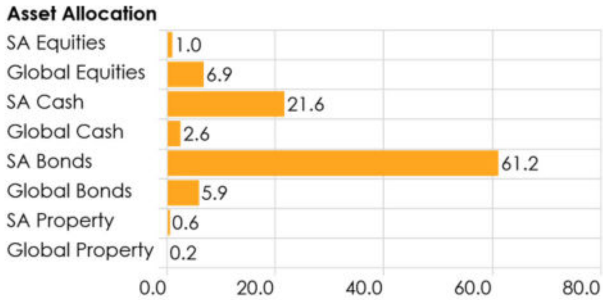
Platinum Defensive Income Fund of Funds

The Defensive Income FoF provided investors with 2.05% returns over the quarter, slightly lagging the STeFI+2% benchmark of 2.27%.

The allocation to credit in the fund underperformed due to overcrowding demand in a sector not issuing new debt instruments. This is unsurprising given the uncertainty surrounding the national elections, with many corporations taking a wait-and-see approach before embarking on significant new projects.

Encouragingly, one of our largest holdings, Granate, outperformed the benchmark. Exposure to sovereign bonds, inflation-linked bonds, and local property counters all contributed to their strong absolute performance.

In Rand terms, the allocation to the Global Managed Fund detracted from performance due to currency effects.



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

The Platinum Global Managed Fund USD

In a recent commencement address to graduating students at Dartmouth University, eight-time Wimbledon champion Roger Federer highlighted an important lesson: despite winning 80% of his 1,526 matches, he only secured 54% of the points. His message is clear: perfection is unattainable, and it is essential to quickly learn from each point and move forward. He emphasized that this approach enables you to fully commit to each subsequent point with intensity, clarity, and focus. Federer's true strength lay in overcoming short-term setbacks and maintaining focus on the long-term goal of winning.

This message resonated deeply with us at Platinum Portfolios, reminding us to maintain our focus on long-term objectives in a market which is currently highly concentrated and dominated by growth stocks. As long-term investors, our goal is to achieve success over the long haul, particularly with quality investments where the likelihood of success increases significantly over time. The challenge is that long-term success often involves short-term losses, and enduring these fluctuations is a crucial aspect of our investment strategy. The key lies in discerning what to ignore and what to focus on.

Another vital component of our stock selection process is identifying opportunities with attractive risk-reward ratios, where the potential upside outweighs the downside risk. Furthermore, the stocks we invest in generate healthy free cash flow and return it to shareholders through dividends and buybacks. This allows the intrinsic value of these businesses to grow over time while we wait for the market price to align with the underlying value. During this period, we are able to benefit from a solid dividend and buyback yield.

The MSCI World Index USD ended the second quarter up 2.1% while the fund's performance was flat over this period. It has delivered a return of 10.86% in USD over the past 12 months.

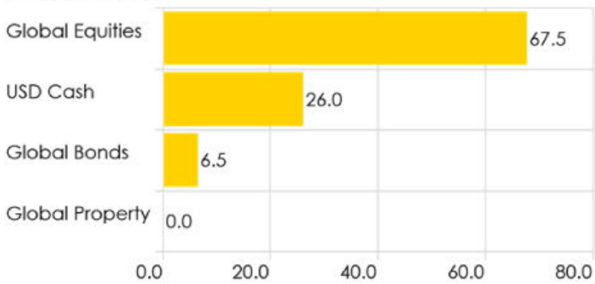
Stock selection in the IT sector proved to be the largest contributor to performance, particularly driven by strong performance from Qualcomm (+22.98%), Apple (+18.14%) and Amphenol (+17.19%)

Conversely, our stocks in the consumer cyclical and healthcare sectors were a relative detractor. The biggest detractor in the sector was Nike which was down -19.40% for the quarter.

After Nike's recent disappointing earnings report where they projected a drop of 10% in earnings over the next quarter and slashed 2025 full-year guidance the stock plummeted. Nike faces some challenges, such as a slow innovation cycle, rising competition, slower consumer demand, and depressed sales in China. Starting in the Covid period, Nike aggressively pushed its digital channels, but it has done so with massive damage to its relationships with their all-time partners, the sports apparel retailers. Although we still consider Nike to be a quality industry leader with a pristine balance sheet, having little long-term debt, the company is in the midst of a painful turn-around which could take some time.

During the quarter we topped up our equity exposure to just under 68%. Overall, we are satisfied with the positioning of the fund which is allowing investors to participate in the market appreciation through a portfolio of world class quality companies, while maintaining a balanced approach with the objective of continuing to deliver good risk adjusted returns through all market cycles.

Asset allocation



Top Holdings	
Microsoft Corp	5.64
Dodge & Cox Worldwide Global Bd USD Acc	4.36
Berkshire Hathaway Inc Class B	4.02
Prescient Global Income Provider B	4.01
Cencora Inc	3.99
Williams-Sonoma Inc	3.33
Visa Inc Class A	3.32
Zoetis Inc Class A	3.23
Abbott Laboratories	3.07
Walmart Inc	2.97

Trailing Returns

As of Date: 2024/06/30

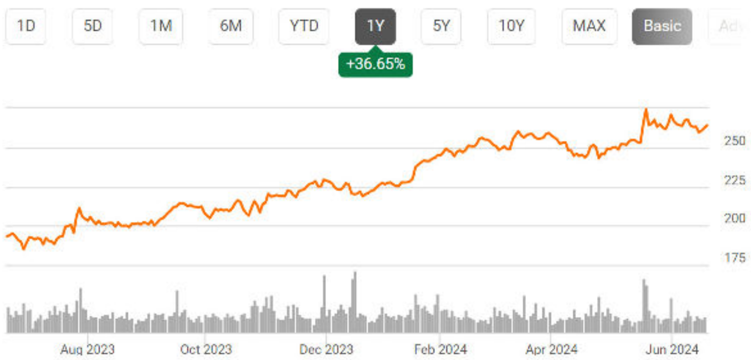
	Last Q	1 Yr	3 Yrs	5 Yrs	10 Years
The Platinum Global Managed A USD Acc	-0.08	10.86	3.91	6.41	6.34
EAA Fund USD Aggressive Allocation	1.40	12.04	1.50	5.74	4.21

Source: Morningstar Direct

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 30 June 2024. Actual annual figures are available to the investor on request.

Chubb Limited, headquartered in Switzerland with $100 billion in market capitalization, stands as the world's largest publicly traded property and casualty insurer. Formed through ACE Limited's acquisition of Chubb for $29.5 billion in 2016, we acquired ACE in July 2015, thus becoming owners of Chubb.

Recently, we were pleased to learn that Warren Buffett's Berkshire Hathaway disclosed a significant stake in Chubb, approximately 6% of its total shares. This endorsement from the investment mogul reinforces our belief in Chubb's quality and strengthens our confidence in the investment.



Chubb is renowned for its solid, stable operations, delivering a robust return of 36.65% over the past year to investors.

Key reasons we favour Chubb include its:

- Diversified product mix and multinational presence
- Ability to consistently produce underwriting products.
- Investment in technology to improve and streamline customer service.
- Solid financial performance

Geographically, Chubb generates 52% of its premiums from the U.S., with Asia, Europe, the Middle East, Africa, Latin America, and Bermuda/Canada contributing the remainder. Their growth strategy is focused on expanding its presence in countries where there are positive structural growth drivers.

Chubb's strategic expansion in international markets has been highlighted by acquisitions i in Asia, where they acquired the Cigna business in 2022, and increased ownership in Huatai Insurance Group, reinforcing its position in China which is the second-largest insurance market after the United States.

Chubb's disciplined underwriting practices have consistently led to underwriting profits. Since 2016, the company has prioritized premium growth and shareholder returns through dividends and share repurchases and have maintained an impressive underwriting ratio below 90%.

Chubb has introduced AI to enhance various areas in their business such as underwriting to claims, marketing, and analytics. Investments in technology have enhanced Chubb's customer service capabilities, crucial in an industry where service quality plays a pivotal role in customer retention and acquisition.

The company's $140 billion investment portfolio, largely in fixed-income securities, has been a significant earnings driver, benefitting from high interest rates. With a strong balance sheet boasting just $15.8 billion in debt and a prudent investment approach, Chubb reported record financial performance in 2023, with robust growth continuing into Q1 2024.

Chubb's compelling fundamentals, industry-leading underwriting margins, and Berkshire Hathaway's investment underscore its wide competitive moat, making it an attractive long-term investment.

Platinum Portfolios (Pty) Ltd is an authorised Financial Services Provider FSP 641

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