platinumportfolios
GLOBAL
thoughtful investing for private clients

Quarterly Newsletter

Second Quarter 2023

Global market Commentary

After a difficult 2022, the first half of 2023 has been kinder to equity investors. Global shares gained in the quarter with the MSCI World USD index delivering just under 15% year-to-date and 6.28% for the quarter. Emerging market stocks lagged for the quarter. Enthusiasm over AI (Artificial Intelligence) boosted technology stocks, resulting in spectacular performance in mega-cap stocks such as Apple, Meta Platforms and Nvidia, along with a group of names that investors are betting will benefit from the AI frenzy. Halfway through 2023, it is looking like a soft landing might be possible, but with the Federal Reserve still warning of interest rate increases to come, it is unclear what the future holds. It was a mixed quarter for bond investors as they came to terms with the idea that the rates are not coming down any time soon.

Patience is also a form of action

- Auguste Rodin

Investors went into the second quarter on high alert for a recession and thinking the Fed could soon cut rates. At the quarter end, there is still no economic recession in sight and core inflation remains sticky. The U.S. economy has remained resilient in the first half of 2023, but a quick look across each sector of the economy tells us that economic momentum continues slowing. Business spending appears to be one of the areas of the economy most at risk. Increased caution among lenders and slowing corporate profits could constrain capital expenditures. Consumers are feeling the effects of less fiscal stimulus and higher inflation, depleting their savings balances, and are taking on more debt to maintain their lifestyles. The personal savings rate in the U.S. has fallen to 4.2% this year, well below its long-term average of 8.9%.

The Federal Reserve (Fed) raised interest rates by twenty-five basis points (bps) in May. However, it did not hike rates in June, adopting what economists have termed a "hawkish pause." The "dot plot" of rate predictions indicated two further rate rises in 2023.

A tight labour market has allowed the unemployment rate to hover around its 50-year lows despite cooling demand, averaging at 3.5% this year after an uptick to 3.7% in May. Importantly, cooling labour market conditions have contributed to a moderation in wages, which only grew by 0.3% month-over-month in May for all private workers. Compared to a year ago, wage growth has now come down to 4.3% from a peak of 5.9% in March 2022. However, there is also a limit to how much the unemployment rate could rise going forward, as U.S. businesses still face a structurally smaller labour force than prior decades. Diminished legal immigration, particularly over the course of the pandemic, and baby-boomers reaching retirement age have left the economy short of workers.

At the current juncture, it is difficult to be overly bullish on equities. While performance this year has been better, it has been entirely driven by valuation expansion on the back of lower interest rate expectations, with the top ten companies in the S&P 500 accounting for 13.8 percentage points of the 14.9% price return year-to-date (Source JPMorgan). Expectations for interest rate policy easing may also be too optimistic and as expectations adjust, multiples could come under further pressure. Along with slowing growth weighing on earnings expectations, this creates a challenging backdrop for equities ahead. As such, we prefer a defensive stance in equities with a focus on quality and good cash flow generation.

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Do you have the right bus driver.

The Comrades Marathon is described as the ultimate human race. The annual event is a run approximately 90km between Durban and Pietermaritzburg and is considered the world's oldest ultramarathon. Stuart Green, Analyst, Multi-Manager Solutions, at Platinum Portfolios, a boutique fund management company, looks at the similarities between the marathon and fund management.

"Firstly, it is important you select the right 'bus driver' – this is the person who leads a group of runners due to their sufficient knowledge and experience of the course. Much like a fund manager, it is the bus driver's responsibility to get participants to the finish line and meet their goals."

It takes months of training and careful planning. It is truly a proud South African tradition, and something my family and I have participated in a number of times over the years. One of the most important aspects of completing the run is having an appropriate strategy and a personal goal. More importantly, runners need to be able to stick to this strategy through all the unforeseen obstacles they may face. Many talented runners have failed during the race over the years, mainly from deviating from the strategy and trying to run a faster race to reach the finish line quicker. This is not unlike investing for a specific long-term goal.

Next, it is about selecting the right strategy.

What are Multi-asset Funds?

Multi-asset funds have always been one of the most popular investment groups among financial advisors and investors, making up nearly half (49%) of the total R2.65trn in unit trusts in South Africa, according to the latest statistics released by the Association for Savings and Investments of South Africa (ASISA). The bulk of these assets sit in the high equity category.

These funds have a flexible mandate that allows the investment manager to invest across all traditional asset classes (equities, bonds, property, or cash) and will generally be able to invest offshore, up to a maximum of 45% of their assets outside of South Africa.

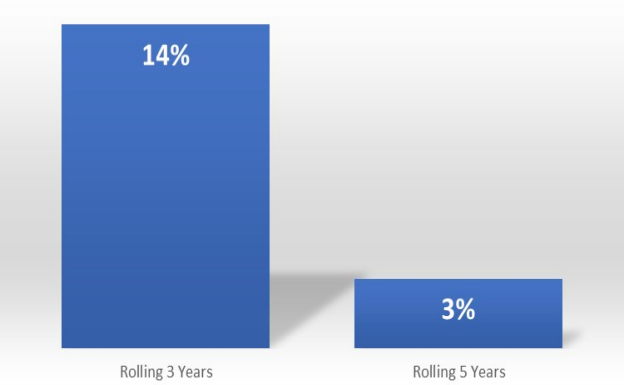
The Peer Competitor

A large number of the multi-asset high equity funds assign themselves a peer-based benchmark, with almost all being the average of the SA multi-asset high equity category. The argument for this benchmark is that it is an appropriate measure within similar risk parameters in which managers can "run the same race." While this may be one measure to broadly show how a similar composite of asset classes may have performed, the investment style and strategy can produce a vast difference in returns for funds in the same benchmark that effectively have the same tools to generate returns. This is evident when we look at return periods up until April 2023:

Source: Morningstar, Platinum Portfolios

This is akin to the club runner who is more interested in how other club members are running, what race strategy they will employ, what equipment they are using and their recent race results. Their main aim is only to beat their fellow runners in the club and not focus on their own unique skills and strategy in order to achieve a long-term goal, such as finishing Comrades. This strategy can prove costly as they strive to always keep ahead of their peers and not plan to achieve the overall goal, often running out of steam and falling short of the target.

How many of these funds actually complete the race? In this category over the long term an investor should expect returns of CPI+5%. This number of funds that have achieved this through time is staggeringly low shown below by the number of funds achieving this target at least half of the time:



Source: Morningstar, Platinum Portfolios

Performance is measured net of fees of all current funds in existence, from March 2001 (inception date of CPI data)

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The right bus driver is key to success continued.

Why partner with Platinum Portfolios as your investment manager?

We see ourselves as a personalised "Bus Driver", often seen in the field with a flag on his back. This is the experienced campaigner who has completed his comrades task several times before and is the right companion to help guide the runners across the line in their own personal timed goal, with them every step of the way.

The strategy is carefully researched and implemented with the suitable solution through a combination of underlying manager selection. It is a measured and calculated approach, applying the appropriate time management and pace (risk exposure and targeted return) through the up and down hills, always in pursuit of the goal, such as a Bill Rowan medal (CPI+5%), a Robert Mtshali medal (CPI+4%), a Bronze medal (CPI+3%) or simply to finish the race (capital preservation).

Green says "Our portfolios are constructed to achieve a specific goal that is relevant for the end investor. This is important as we do not aim to beat our peers but strive to solve for a specific outcome. Every step in our investment process is tailored to increase the probability to achieve this. Our asset mix is dynamic which means we will act on our views by overweighting or underweighting certain asset classes and underlying managers as market circumstances change. However, we are not traders. The asset mix moves we make are incremental and deliberate but over time they are significant.

We are truly independent, using the right strategy to achieve the best possible outcome. Not all investment strategies can solve for every need in the portfolio and so we will use all tools possible to meet the end goal."

Stuart Green

Analyst Multi-Manager Solutions, Platinum Portfolios

The Platinum Global Managed Fund USD

The Platinum Global Managed fund USD delivered a return of +2.99% for the quarter. The MSCI World Index USD was up 6.28% for the same period.

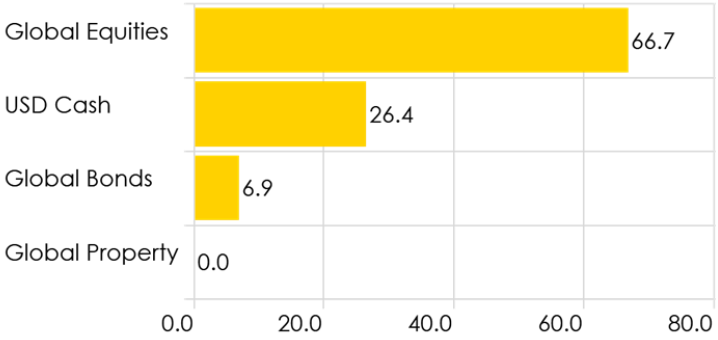
Despite economic headwinds, equity markets have had a solid year so far. While the stock market performance has been better, it was boosted by a big rally in mega-cap stocks such as Apple, Microsoft, Meta, Nvidia, and Tesla. Most of the performance came from the top 10 companies in the S&P 500, accounting for approximately 80% of the price return year-to-date.

Of these stocks we hold Microsoft and Apple in the fund, which are our best performing stocks year-to-date. Our best performing stocks for the quarter were Microsoft, AmerisourceBergen, Apple, Comcast, and Berkshire Hathaway. The huge climb up in the Apple share price resulted in the stock reaching our sell price and we decided to trim our position back to neutral weighting towards the end of the quarter. The detractors to our performance for the quarter were AbbVie, Nike, and Amgen.

During the quarter, some of our stocks came down below our buy prices and so we were able to top up and increase our equity weighting to just below 67%. Our focus remains on our company fundamentals and monitoring the valuations of the stocks we would like to buy. Slowing growth is weighing on earnings expectations, and this does create a challenging backdrop for equities ahead. We still prefer a defensive stance in equities; however, we will keep focusing on valuations and continue to take advantage of opportunities as they arise to gradually increase our equity weighting in the fund.

Note: All performance figures quoted are sourced from Morningstar. Period ending 30 June 2023

Asset allocation



Top Holdings

Microsoft Corp	5.04
Dodge & Cox Worldwide Global Bd USD Acc	4.82
Prescient Global Income Provider B	4.43
AmerisourceBergen Corp	3.99
Williams-Sonoma Inc	3.15
Abbott Laboratories	3.14
Apple Inc	3.11
Cisco Systems Inc	3.10
Johnson & Johnson	3.03
Comcast Corp Class A	3.00

Trailing Returns

As of Date: 2023/06/30

	Last Q	1 Yr	3 Yrs	5 Yrs	7 Yrs
Platinum Global Managed USD Acc	2.98	5.53	5.99	6.29	6.96
EAA Fund USD Aggressive Allocation	2.50	8.10	5.71	3.95	5.23

The Quantifiable Value of Patience

"The stock market is a device to transfer money from the impatient to the patient." — Warren Buffett

Having patience as a fund manager can have an enormous impact on the performance of your fund. The first and most important step is to identify and invest in quality companies. This is a rigorous process that requires meticulous research to identify companies that display strong fundamentals. Once these have been identified, it is important to buy the company's stock at the right price. Overpaying for a company can have negative long-term consequences in the fund, and a share price might take years to reach the entry price again. The power of patience can't be underestimated in this process.

Patience in Investing involves maintaining a long-term perspective and it is critical to avoid impulsive or emotional decisions based on short-term market fluctuations. Or in simpler terms, when share prices shoot up or down due to markets overreacting to good or bad news, it takes patience not to follow the herd but to remain steadfast in your investment strategy.

If the long-term fundamentals of the company are still sound, there is no reason to sell, despite many others doing so. This overreaction by the market creates buying opportunities when the share price of a company drops significantly and reaches its intrinsic value once more.

AmerisourceBergen (ABC) is one of the world's largest pharmaceutical services companies which focuses on providing drug distribution and related services to reduce health care costs and improve supply to patients. ABC is one of three companies that effectively operate as an oligopoly. The three leading distributors are AmerisourceBergen, McKesson and Cardinal Health, and together they represent 90% of the US market. They do not manufacture any products and focus solely on the distribution of pharmaceutical products.

One example of their ingenious methods when it comes to their supply chain is using Radio-Frequency Identification (RFID) technology in their inventory and billing management. Refrigeration units are installed at hospitals to make manufacturers' drugs more accessible to the hospital. The RFID technology picks up when a drug is removed from the unit and if it is not placed back in a couple of hours it updates the inventory system and only then bills the hospital for the drug used. When a certain drug's inventory becomes low an alert is sent to ABC so that they can stock up on the drug and the hospital never has to worry about inventory levels.

All great companies have risks, and AmerisourceBergen is no different. In 2015 a wave of lawsuits emerged against them due to their apparent role in the opioid epidemic of the decade before. This had a significant impact on the share price which dropped by almost 40% over the next year. Recently, they have settled the lawsuits and will be paying $ 6 billion over the next 18 years. This won't impact their yearly cashflow greatly – indicating that the markets overreacted and therefore created a buying opportunity.

The quantifiable value of patience can be seen on the next page in the graphs.

If you bought $ 10 000 worth of shares of AmerisourceBergen on 1 January 2016 at a PE ratio of 20.23x, it would be worth $ 19 742.07 today (including dividends). This equates to an annual rate of return of 9.50%.

A patient investor would have to wait a year before the share price reached its intrinsic value again when the PE ratio was close to 15x. Purchasing $ 10 000 worth of AmerisourceBergen shares on 6 January 2017 means you were able to buy almost 21 more shares for the same value. That $ 10 000 would now be worth $ 23 981.13 (including dividends). This equates to an annual rate of return of 14.46%.

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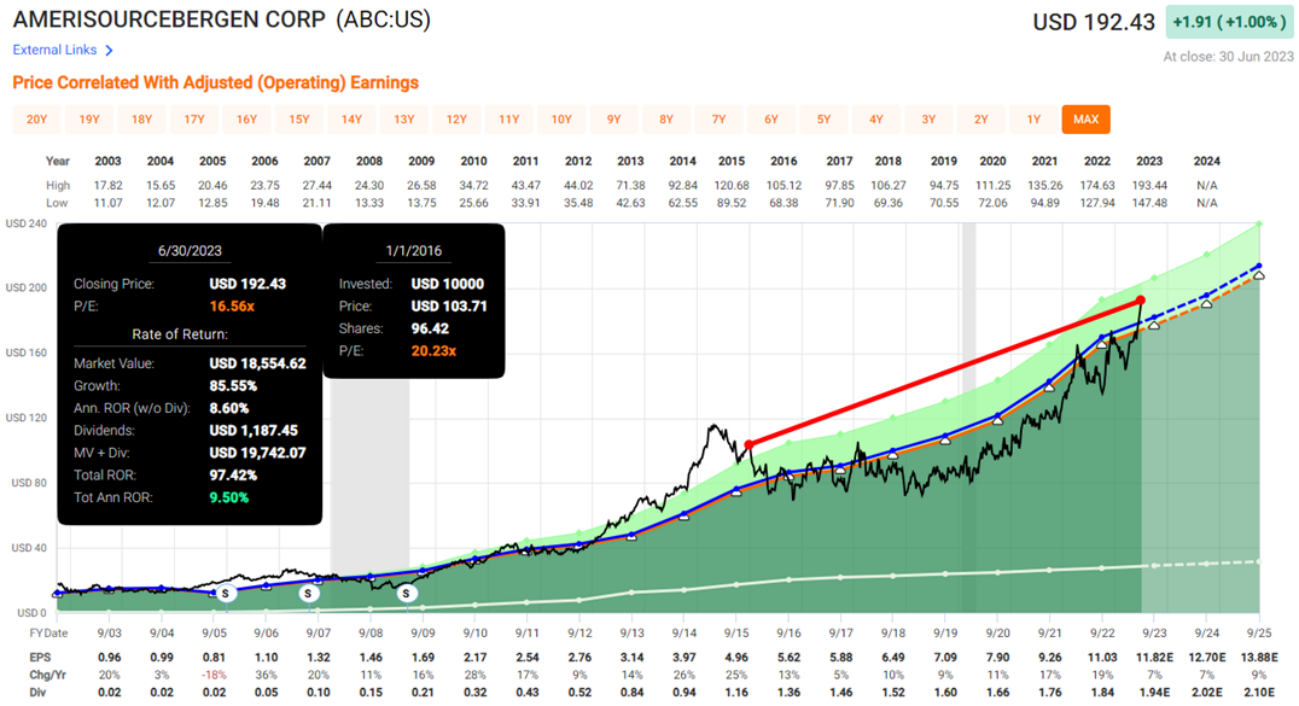
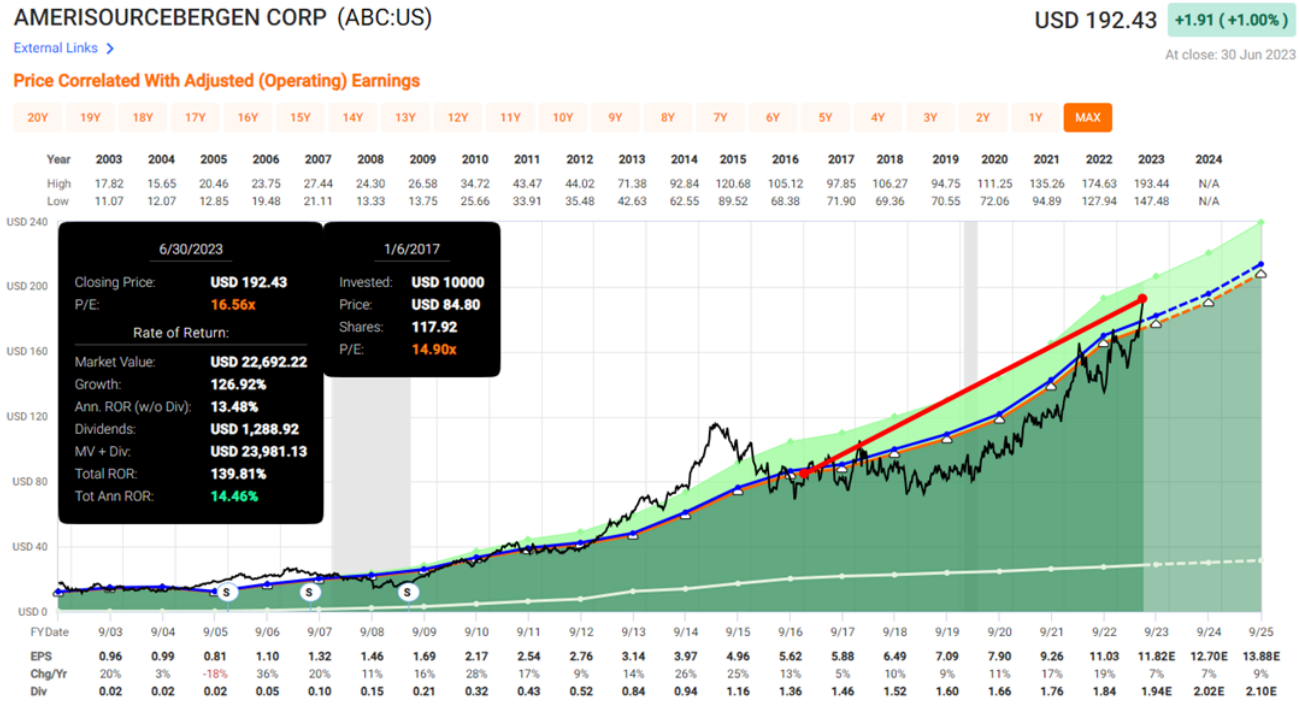
Quantifiable Value of Patience continued.

Waiting patiently for the share price to drop to or below its intrinsic value has resulted in the investment being worth $ 4 239.06 more. It took one year for this to happen, and the quantifiable value of patience can be seen in the result. $ 4 239.06 doesn't seem that much but on a $ 10 million investment it becomes much more. This is one example of what separates good fund management from great fund management.





Source: Fast Graphs

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The Platinum Global Managed Fund (the "Fund") is a cell of The Offshore Mutual Fund PCC Limited (the "Scheme") (Registration Number 51900). The Scheme is an open-ended investment company, which was registered with limited liability in Guernsey on 20 May 2010, and is authorised by the Guernsey Financial Services Commission ("GFSC") as a Class B Collective Investment Scheme. The Scheme is an umbrella company constituted as a Protected Cell Company under the Companies Law. The provisions of the Companies Law enable a company to which it applies to create one or more cells for the purpose of segregating and protecting the assets within those cells so that, on the basis that the company complies with the conditions laid down by the Companies Law, liabilities of the company attributable to one cell can only be satisfied out of the assets of that cell and even if those assets are insufficient, recourse cannot be had to the assets of any other cell. The Fund was approved by the Financial Sector Conduct Authority in terms of Section 65 of the Collective Investment Schemes Control Act, 2002 (the "Act"), Notice 2076 of 2003 as amended by notice 1502 of 2005 ("the conditions") on 18 February 2013.

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