Platinum ASSET MANAGEMENT

Platinum Asia Fund

(Quoted Managed Hedge Fund)®

(ARSN 620 895 427 | ASX Code: PAXX)

Quarterly Investment Manager's Report

31 March 2019

Platinum ASIA FUND (QUOTED MANAGED HEDGE FUND)

Investment Update

Platinum Asia Fund (Quoted Managed Hedge Fund) (PAXX)

Joseph Lai
Portfolio Manager

Performance
(to 31 March 2019)

	QUARTER	6 MTHS	1 YEAR	SINCE INCEPTION PA
PAXX	10.1%	3.2%	-0.2%	6.8%
MSCI AC Asia ex J Index	10.4%	3.7%	2.3%	9.6%

PAXX's returns are net of accrued fees and costs, are before tax, and assume the reinvestment of distributions. Inception date: 12 September 2017. Index returns are those of the MSCI All Country Asia ex Japan Net Index in AUD. Source: Platinum Investment Management Limited, FactSet. Historical performance is not a reliable indicator of future performance. See note 1, page 11.

The Platinum Asia Fund (Quoted Managed Hedge Fund) (ASX code: PAXX) is a feeder fund that primarily invests into Platinum's flagship Asian equity fund, the Platinum Asia Fund ("PAF"), which was established on 3 March 2003.

The following is the 31 March 2019 Quarterly Investment Manager's Report prepared for PAF by its Portfolio Manager. Please note that in this report, the "Fund" refers to PAF and portfolio details, such as portfolio disposition, top 10 holdings and currency exposure, pertain to PAF's portfolio. Please be aware that PAXX and PAF (C Class - standard fee option) have different fee structures and therefore different returns. PAXX's returns may also vary from PAF's performance fee class (P Class) returns due to different cash holdings as well as gains and losses arising as a result of PAXX's market making activities.

It has been a positive quarter for global markets, particularly for Chinese equities with the Chinese A-share market[1] rising 29% over the period.

Considering the general negative sentiment which lingered after the heavy sell-off late last year, many may be surprised by how well the market has fared in the year to date. For those who took a contrarian view, though, it was perhaps to be expected, as extreme bearish sentiment met with a synchronised loosening of interest rates across all major economies.

In particular, China's efforts to clean up its shadow banking sector have largely drawn to a close and economic activity has once again begun to pick up, which was a major factor spurring this quarter's strong recovery in stock markets globally.

It should therefore come as no surprise that this quarter's top contributors to PAF's performance were mostly Chinese companies, including Alibaba (e-commerce platform, +31%), Sany Heavy Industry (industrial equipment manufacturer, +47%), Anta Sports (sports apparel brand, +42%), and Ping An Insurance (+30%). Elsewhere, our private Indian bank holdings also performed well – Axis Bank was up 25%, IDFC First Bank up 27% – as corporate loan growth began to pick up after years of stagnation, perhaps a sign of better times to come for the Indian economy. The portfolio's short positions generally detracted from performance in this rising market.

Changes to the Portfolio

After trimming our net exposure late last year, we seized the market trough and began adding significantly to our China positions since early January. Many Chinese companies with strong market positions and a long runway of growth ahead were trading on attractive valuations. Quality was on sale!

PAF's net invested position has increased to 83%, including a 4% aggregate short exposure.

We have sold positions that have reached their fair value based on our assessment (Reliance Industries, Jiangsu Yanghe Brewery, ZTO Express) or whose fundamentals have deteriorated (Adani Ports, Edelweiss Financial).

1 CSI 300 Index (local currency).

The cash raised was deployed into new positions in Asian companies that we believe to be of very high quality, including:

- **Autohome** – China's leading online car portal. Consumers are accustomed to comparing the features of various models on Autohome's platform before making a purchase. In turn, the platform uses the data it collects from users to analyse consumer preference. This information is highly valuable to car manufacturers and distributors. Autohome's large-and-still-rapidly-growing user base makes the company a very attractive investment opportunity in our view.
- **ASM Pacific Technology** – the world's largest supplier of back-end semiconductor equipment. Increasing miniaturisation in the microchips built into our smart devices is driving demand for ASM's advanced microchip processing equipment, which gives the company a lot of pricing power. Concerns over a cyclical slowdown in semiconductor manufacturing led the stock price to decline over the last 12 months, which gave us an opportunity to initiate a position at a very reasonable valuation.
- **Taiwan Semiconductor Manufacturing Co (TSMC)** – a global leader in outsourced manufacturing of computer chips. TSMC manufactures a large proportion of the world's high-end microchips, particularly those found in smartphones. With the advent of 5G telecommunication technology, the proliferation of the "Internet of Things" and machine-to-machine communication, chip demand is set to increase and TSMC, in our view, will be a likely beneficiary of this secular trend.
- **Meituan Dianping** – a popular Chinese internet platform for lifestyle services. The company is one of the two dominant players in the duopolistic online food delivery market and a leader in online and in-store booking services for hotels, restaurants, entertainment, and more. Meituan Dianping has garnered some 400 million users and merchants onto its platform, and continues to expand its service categories as well as geographic coverage.

Commentary

China

Our team's recent research trips to China confirmed our view that there are many innovative private companies working to improve the way we live, work and consume through clever applications of technology such as artificial intelligence (AI), mobile internet connectivity, cloud computing and biotech. By way of illustration:

- Apps on smartphones are now able to link patients to the entire clinical experience in hospitals, from the initial appointment to consultation, to drug prescription and delivery, lowering costs while improving efficiency.

Disposition of Assets of PAF

REGION	31 MAR 2019	31 DEC 2018	31 MAR 2018
China^	43%	33%	45%
Hong Kong	10%	4%	5%
Taiwan	4%	0%	2%
India	12%	16%	13%
Korea	8%	11%	10%
Thailand	4%	4%	5%
Philippines	3%	3%	2%
Vietnam	2%	2%	1%
Malaysia	<1%	<1%	<1%
Singapore	0%	0%	1%
Indonesia	0%	0%	<1%
Cash	13%	26%	16%
Shorts	-4%	-4%	-2%

^ Inclusive of all mainland China-based companies, both those listed on exchanges within mainland China and those listed on exchanges outside of mainland China.
See note 2, page 11. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures of PAF ^

SECTOR	31 MAR 2019	31 DEC 2018	31 MAR 2018
Financials	25%	21%	23%
Consumer Discretionary	18%	9%	10%
Communication Services	15%	11%	10%
Information Technology	9%	3%	6%
Real Estate	6%	4%	6%
Industrials	3%	8%	8%
Consumer Staples	3%	5%	3%
Health Care	2%	-1%	4%
Energy	1%	6%	6%
Materials	1%	2%	6%
Utilities	1%	1%	2%
Other*	-1%	2%	-1%
TOTAL NET EXPOSURE	83%	70%	82%

^ A major GICS reclassification was implemented during the December 2018 quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.
* Includes index shorts and other positions.
See note 3, page 11. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

- Processing huge amounts of data (typically hosted on the cloud) at unprecedented speed, AI is helping clinicians with disease diagnosis and prevention, as well as with drug discovery.
- Supported by policy reforms and unprecedented access to capital, more and more Chinese pharmaceutical and biotech companies are leapfrogging generic drugs to research and develop innovative drugs in cutting-edge areas ranging from immuno-oncology to cell and gene therapies.
- AI is also helping insurance companies with claim processing and assessments, both lowering processing costs and reducing fraudulent claims.
- Commercial banks are widely utilising AI to assist with (but not dictate) credit assessments and lending decisions.
- Subscription-based online services (think Netflix and Spotify) that have hitherto been dismissed as unviable in China due to the prevalence of piracy and the cultural expectation of digital content being free, are now steadily shaping up as a new business model across categories ranging from books to music to movies.

Having witnessed and studied these exciting developments, driven by entrepreneurial companies undertaking interesting innovations, we find it perplexing that all that one can find about China in Western media is doom and gloom. Indeed, there appears to be a rather large disconnect between reality and the popular narrative.

Perhaps this is where the opportunity lies for those willing to take a different perspective and seek out a more logical explanation of reality.

From the perspective of China's policymakers, the focus for the past four decades has been on fostering economic development and lifting the standard of living for the people. This focus remains today. The Chinese leaders' modus operandi has been "crossing the river by feeling the stones", as propounded in the late 1970s by Deng Xiao Ping – the architect of China's economic reform and opening-up policy.

"Crossing the river by feeling the stones" roughly entails a gradual transition towards adopting the market mechanisms of capitalism, letting market forces dictate prices and direct resource allocation. Capitalism works, but from time to time it leads to excesses or the creation of "bubbles", especially when the regulatory framework is immature. This has been the case with China. When regulators detect excesses in an area, they have historically sought to contain them by "popping the bubble", taking the view that short-term pain will deliver long-term gain.

Casting our minds back over the years, one realises that we have witnessed many such "crackdowns": the shut-down of excess capacity in coal, steel and other heavy industries; the revamp of environmental standards to tackle pollution; the clean-up of shadow bank lending; the credit tightening following the initial stimulus prompted by the global financial crisis; and the stringent macro-prudential measures to cool the property market… ***It felt bad each time.***

Net Currency Exposures of PAF

CURRENCY	31 MAR 2019	31 DEC 2018	31 MAR 2018
US dollar (USD)	41%	41%	16%
Hong Kong dollar (HKD)	28%	27%	37%
Chinese yuan (CNY)	17%	15%	12%
Indian rupee (INR)	10%	17%	13%
Korean won (KRW)	8%	10%	11%
Thai baht (THB)	4%	4%	4%
Taiwan new dollar (TWD)	3%	0%	2%
Philippine piso (PHP)	3%	3%	2%
Vietnamese dong (VND)	2%	2%	1%
Australian dollar (AUD)	<1%	1%	<1%
Malaysian ringgit (MYR)	<1%	<1%	1%
Chinese yuan offshore (CNH)	-19%	-20%	0%

See note 4, page 11. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings of PAF

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China	Consumer Discretionary	4.8%
Ping An Insurance	China	Financials	3.8%
Tencent Holdings	China	Communication Services	3.8%
Taiwan Semiconductor	Taiwan	Information Technology	3.7%
Samsung Electronics	Korea	Information Technology	3.5%
AIA Group	Hong Kong	Financials	3.5%
Axis Bank	India	Financials	2.7%
Kasikornbank PCL	Thailand	Financials	2.7%
58.com Inc	China	Communication Services	2.6%
Ayala Land Inc	Philippines	Real Estate	2.6%

As at 31 March 2019. See note 5, page 11.
Source: Platinum Investment Management Limited.

China's policymakers have endeavoured to engender long-term growth, typically by introducing more effective regulations and improving the economic infrastructure. However, reform rarely succeeds at the first attempt, over-correction can occur, and it may take years of trial and error (or "feeling the stones") before getting things more or less right.

More importantly for investors, when the regulator is in "clean-up" mode, economic activity tends to slow. When policies are relaxed, the economy tends to pick up again. This has been a recurrent pattern over the last 40 years, although the duration of each cycle varied.

What should be of interest to investors is the phenomenon that, once the rules of engagement are clarified, private enterprises will become active again, sometimes even getting into a frenzy. Because the prize is big, there is no shortage of smart and driven entrepreneurs battling to win.

It is this continual, interactive process of the government improving on the rules of engagement catalysed by the unleashing of the animal spirits that has created the economic miracle that is modern China.

With this context in mind, we can re-examine some of the commonly held conceptions (or misconceptions) about China. The dominant narrative in the press at the end of last year was that China's economy was in trouble and it was heading into a major recession. In fact, most of the gauges of economic activity were still quite robust.

While car sales fell 7% in 2018, and the second half of last year being particularly weak, it was by no means a major slowdown. However, given that China is now the world's largest auto market by a wide margin, selling 23 million cars a year, a mild slowdown was enough to lead to a significant de-stocking of unsold cars and components all along the supply chain, so much so that the impact was quite palpable in economies outside of China, such as Japan and Europe.

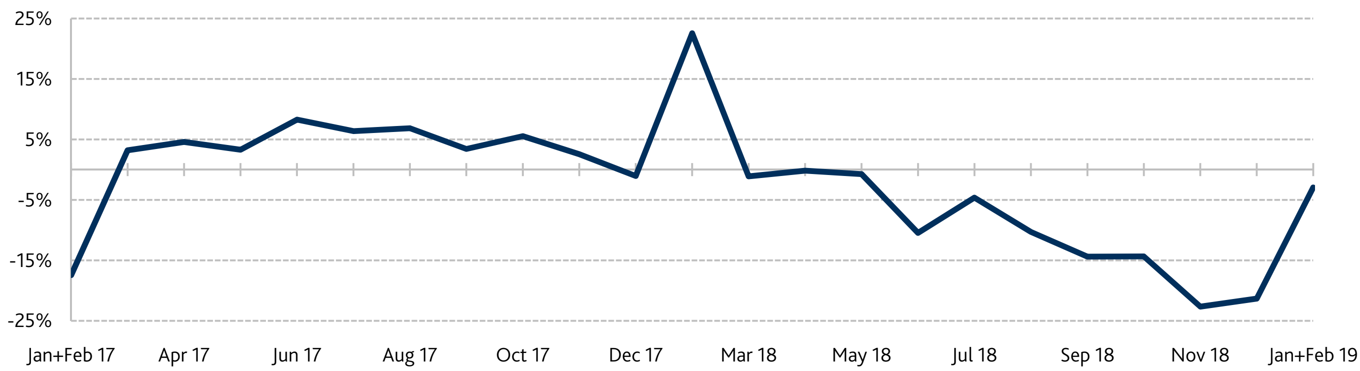
It was in fact an engineered slowdown which came as a result of regulators putting a brake on the risky shadow bank lending activities which, among other things, funded some of the car purchases during the boom. Regulators wanted to clean house and auto makers (and the entire supply chain) got caught up in the process. Recent data on car retail sales volume shows that we are already seeing clear signs of stabilisation, with January and February numbers only 2.9% lower than the peak of a year ago (see Fig 1 below). The ending of last year's major credit tightening has allowed car sales to grow again.

Another commonly touted opinion is that China is a debt-fuelled bubble economy that is about to implode. We simply cannot find any convincing evidence to support the claim. What we have observed from historical experience is that China's regulators regularly pop the bubbles in their own economy. Compared to policymakers in major developed economies, Chinese authorities are often more likely to intervene and rein things in when they see an area of the economy getting out of control.

For an economy that has been growing on average at 10-15% per annum nominally for 15 years, China's property price appreciation has in fact been rather lacklustre – particularly when compared to that experienced in many Australian cities over the last 10 years, despite Australia's average income growth being far slower. The reason for China's more modest property price increase is that Chinese regulators have been tightly controlling mortgage credit over the years, requiring significant down-payments and during particularly heated periods or locations even resorting to draconian policies such as limiting purchases to "one household one property".

Debt growth over the last 10 years has in fact been at a reasonably measured pace, more or less in line with nominal GDP growth. As a result, China's debt-to-GDP ratio is comparable to that of the US and Europe, and much lower than Japan's debt levels.

Fig 1: Car Retail Sales Volume in China, Year-on-Year Change



Source: CAM, Bernstein, Platinum Investment Management Limited.
Note: January and February sales were aggregated for seasonal adjustment to account for Lunar New Year.

Looking ahead, having now concluded the clean-up of the shadow banking sector, Chinese regulators have evidently re-focused their attention on economic growth, and policies are once again supportive of growth and expansion for private enterprises.

China has a strong private sector, which has for some time been the growth engine of the economy, employing some 80% of the urban workforce. The private sector is getting lots of help from the government this year. The cost of doing business is being reduced by cuts to fees and charges. Tax cuts for businesses and households to the tune of 3% of GDP are being rolled out. Banks are once again being encouraged to lend to private enterprises.

These are all significant measures, and China's A-share market has responded enthusiastically, up 29% year to date while trading volumes have exceeded the RMB 1 trillion (A$200 billion) mark.

We are comfortable with the Fund's China exposure which includes many quality companies that are leaders in their respective industries and have promising growth prospects (such as the above-mentioned Alibaba, Meituan Dianping, Anta Sports, and Ping An Insurance).

India

After years of waiting, investors may finally be seeing a nascent capital expenditure cycle brewing in India. Notably, the industrial sector, which had been paying down debt, started to borrow again in the last six months.

The story is not a straightforward one, however, as the exciting germination of the capital expenditure cycle happens to coincide with a necessary adjustment in the non-bank financial sector. The last few years saw a rapid rise of a group of non-bank lending companies which filled some of the void left by the banks by providing loans for, among other things, home and auto purchases. As is often the case, loan growth in under-regulated sectors entailed some bad lending.

Over the next few quarters, we expect to see more bad debt being recognised while sales of housing, auto and other consumption categories which benefited from financing will likely weaken as this recognition comes to pass.

PAF's Indian holdings have been positioned with these concerns and opportunities in mind. We have avoided exposure to the expensive consumer-related stocks which have been very popular with many of them trading on price-to-earnings multiples in excess of 40x. Instead, we have significant exposure to India's private sector banks which we believe will benefit from market share gains.

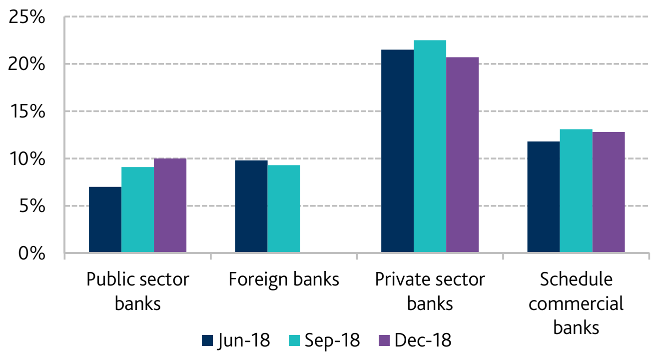
Indian private banks are taking an overwhelming share of the new lending (as can be seen in their faster growth rate in Fig 2 below), while the stale public sector/state-owned banks and the non-bank lenders are both struggling to keep up due respectively to poor service and capital constraints. As well as gaining market share, the private sector banks are also seeing their cost of bad debt fall (see Fig 3 below for their gross non-performing asset ratio), creating the right conditions to generate earnings growth. We are optimistic that these private banks will become the key pillars of India's gradually maturing banking system.

Outlook

As discussed in our previous report, key concerns over the Asian markets are easing. Apprehensions of an economic slowdown facing both the US and China led to a synchronised (intentionally or coincidentally) policy loosening globally, particularly from the two largest economies. Trade talks between the two countries are also close to reaching a resolution at the time of writing.

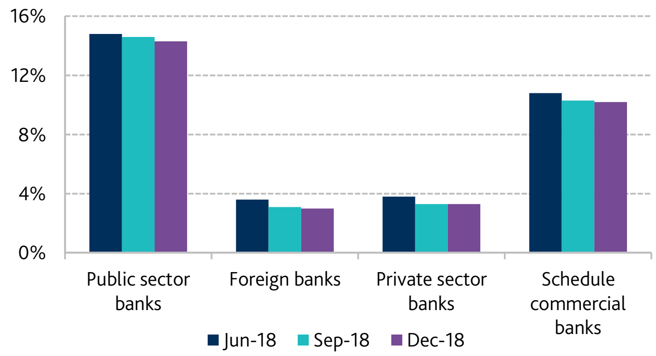
As the recovery of this past quarter shows, the Asian stock markets still hold much promise and investor interest has returned as soon as the macroeconomic and geopolitical concerns abated. We continue to find interesting companies in the region and will add to positions when valuations are attractive.

Fig 2: Year-on-Year Credit Growth of Indian Banks



Source: RBI FSR 2018, IDFC FIRST Bank Economics Research, Platinum.

Fig 3: Gross Non-Performing Asset Ratio of Indian Banks



Source: RBI FSR 2018, IDFC FIRST Bank Economics Research, Platinum.

Macro Overview

by Andrew Clifford, CIO, Platinum Investment Management Limited

A tale of two yield curves – what interest rates tell us about the world's two largest economies

Investors have been preoccupied with US interest rates in recent months as the Federal Reserve changed its stance on the likelihood of future rate increases. The resulting inversion of the US yield curve[1] has garnered significant attention as this is widely seen as a harbinger of a recession and weaker stock markets. And of course, where the US goes the world follows! There is no question that not only are interest rates an important variable for economic growth, they are also a key factor in driving stock market performance. As such, it is neither surprising nor inappropriate that the discussion around interest rates receives so much attention.

However, while the US economy is important for the global economy and financial markets, the lesson of 2018 was that China is now equally important. As we sought to explain in previous reports, China's financial sector reforms which commenced in 2017, reduced the availability of credit and precipitated a significant economic slowdown in the following year. The situation was exacerbated by the trade war with the US. While China's economy is only around two-thirds of the size of the US economy,[2] its impact on the markets for many physical goods is often the world's largest due to the scale of its demand. While this is well appreciated when it comes to iron ore and copper, of which China consumes about half of the world's output,[3] some may find it hard to believe that China is also the world's largest market[4] for autos (more than 23 million passenger vehicles sold in 2018 versus 17 million for the US),[5] smartphones (454 million handsets shipped in 2017 versus 201 million for North America),[6] and just about any other physical good one might nominate. As such, the result of China's credit tightening, compounded by its trade disputes with the US, was a slowdown not only in China's economic activity, but also in Europe, Japan, and many emerging economies which had otherwise been growing well until the latter half of last year.

The idea that China plays a large and important role in the global economy is hardly a controversial one, yet few participants in financial markets direct a proportionate amount of attention to what is going on in China and most remain focused firmly on the US. By way of illustration, many readers are likely to be well aware of the recent inversion of the US yield curve, and while some may not know exactly what the yield is on the US 10-year Treasuries, most probably have an approximate idea. (For the record, as of the end of March, the US 10-year rate was 2.39%, marginally lower than the 1-year rate at 2.40%[7]). Keener followers of markets may also know that the German 10-year bunds and the Japanese 10-year government bonds currently have a yield close to or even below zero! However, how many market participants know where the Chinese 10-year government bonds are trading at, let alone the shape of the Chinese yield curve?

One may well gain some insights from China's yield curve, and investors might not have been caught completely off guard by last year's downturn had they paid nearly as much attention to China's interest rates in the year before as they typically do to every statement made by members of the US Fed.

At the end of 2017, as can be seen from the chart overleaf, Chinese interest rates had risen significantly from the lows of 2016, with the 1-year Chinese government bond yield just 0.1% below the 10-year rate. Not quite an inverted yield curve, but close. While the People's Bank of China (PBoC) does not manage interest rates in the same manner as the central banks of developed economies, these market-set rates should provide a reasonable indicator of the credit conditions in China. In the second half of 2018, the PBoC, together with China's banking regulator, implemented a

1 A yield curve plots the interest rates (or yields) of comparable debt instruments with different maturities. Starting on the left with the yields of shorter-term instruments, the curve typically slopes upwards to the right, reflecting investors' desire to be compensated for the uncertainty associated with locking their money away for longer periods of time. An inverted yield curve occurs when longer-term debt instruments have a lower yield than short-term debt instruments, reflecting expectations of weaker economic conditions – and hence lower interest rates – in the future.

2 Based on 2018 (estimate) nominal GDP, US Dollars. Source: IMF World Economic Outlook Database.

3 https://www.businessinsider.com.au/china-global-commodity-demand-rank-gdp-2018-10

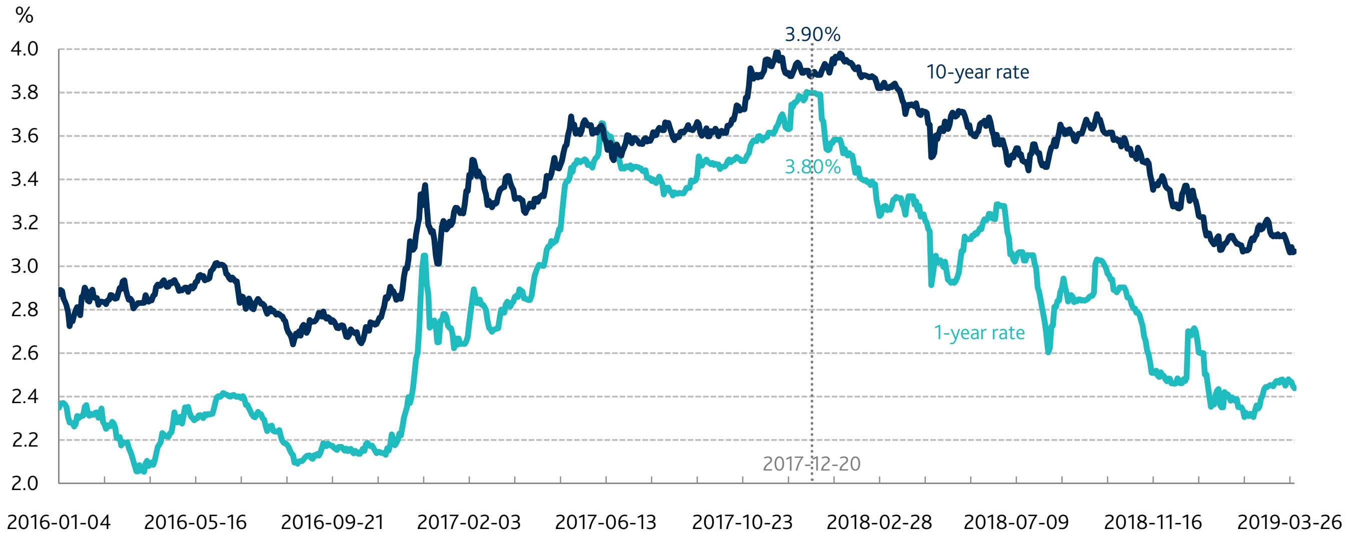
4 Typically in volume terms, though this may be very different in value terms.

5 Source: VDA and https://www.best-selling-cars.com/international/2018-full-year-international-worldwide-car-sales/

6 https://www.gfk.com/nl/insights/press-release/smartphone-unit-sales-rose-6-in-north-america-in-4q17-highest-growth-in-two-years/

7 Source: US Treasury. 29 March 2019 rates.

1-Year versus 10-Year Chinese Government Bond Yields



Source: China Central Depository & Clearing (CCDC), Platinum Investment Management Limited.

number of policy measures to ease liquidity conditions and loosen credit availability, and as a result, interest rates fell significantly.

In addition to lower interest rates, the Chinese government also introduced a range of corporate and personal tax cuts, as well as increased its spending on infrastructure. In developed economies, budget estimates published by the government would typically disclose the nature and scale of the various fiscal policy initiatives. While no such official numbers exist in China, estimates of this year's fiscal stimulus are as high as 3% or more of GDP, not dissimilar in size to the stimulatory measures put in place during the 2015/16 slowdown.

So, while the recent inversion of the US yield curve may be indicative of a potential slowdown or even a recession in that country, it is important to note also that fiscal and monetary policies in China are firmly set on an expansionary path.

The other positive development during the quarter is the deferral of the imposition of additional tariffs on Chinese imports into the US, as the two sides work towards a new trade agreement.

Global Macroeconomic Outlook

Indeed, there are signs of stabilisation in China's economy, though these remain inconclusive for the moment. There has been a pick-up in credit demand, car retail sales volume for the first two months of 2019 were only down slightly (2.9%[8]) from the peak a year ago (see chart on page 5), the Purchasing Managers' Index (PMI)[9] has improved, and at least anecdotally, the numbers of bidders at government land auctions have substantially increased. On the other hand, import and export numbers have been very weak. This is most likely the result of US and Chinese importers having brought forward their orders at different points last year, ahead of the imposition of tariffs, and may take some time to recover even if a successful trade deal transpires in the near future.

In the US, interestingly, despite (or perhaps because of) the Fed halting interest rate hikes, citing weaker economic growth, the data actually suggests that the economy remains relatively robust, with employment and wage growth remaining buoyant. Housing, the area that had been impacted most heavily by last year's rate increases, saw a strong rebound in new and existing home sales this quarter as lower bond yields fed through to lower mortgage rates.

As for Japan and Europe, as both regions have been impacted by the trade issues, there may well be a delay in the return of stronger momentum in economic growth. Having said that, domestic indicators such as employment and household expenditures remain strong in Japan and in key economies within Europe.

8 Source: CAM and Bernstein.

9 The PMI is an indicator of the economic health of the manufacturing sector. It is derived from monthly surveys of purchasing executives at private sector companies and is based on five major indicators: new orders, inventory levels, production, supplier deliveries and employment environment. A PMI reading of greater than 50 indicates expansion of the manufacturing sector when compared to the previous month, while a reading of under 50 represents a contraction and a reading at 50 indicates no change.

Looking ahead, our expectation is that China's economy will respond positively to the monetary and fiscal stimulus measures that the government has instituted. A resolution to the trade dispute with the US would also help considerably. Even if the recent inversion of the US yield curve is of significance, there can often be a lag before the economy and stock markets peak. The housing market's response to lower mortgage rates is quite supportive of the possibility that the cycle may yet have a little way to run in the US.

However, some caution is due. Given the size of the Chinese economy, it is to be expected that growth rates will steadily decline over time and, as such, the recovery may not be as spectacular or as impactful for the rest of the world as similar episodes have been in the past. Another risk to the relatively benign outlook is that a rebound in both the US and China could see the Fed change tack once again to raise rates. In addition, clearly, any stumble in the US-China trade negotiations would also be very detrimental.

Market Outlook

Markets have run strongly in the first three months of 2019 in response to the Fed's signalling that interest rate rises are on hold for the moment. Amongst developed markets, the US once again led the way (up 13.7%), then Europe (up 11.4%), followed by Japan (up 7.6%) (each in local currency terms).[10] These divergences are not particularly notable on a three-month basis, though they continue a pattern of the US outperforming the rest of the world.

As we have repeatedly observed over the past year, there has been a significant divergence within markets, with a strong preference for stocks with certainty and growth, as investors sought to avoid or reduce risk. This has most notably been manifested in the extraordinary performance of high-growth

10 Local currency quarterly returns of the MSCI USA Net Index, the MSCI All Country Europe Net Index, and the MSCI Japan Net Index respectively.

MSCI Regional Index Net Returns to 31.3.2019 (USD)

REGION	QUARTER	1 YEAR
All Country World	**12.2%**	**2.6%**
Developed Markets	**12.5%**	**4.0%**
Emerging Markets	**9.9%**	**-7.4%**
United States	**13.7%**	**8.8%**
Europe	**10.7%**	**-3.9%**
Germany	6.9%	-13.7%
France	10.7%	-3.7%
United Kingdom	11.9%	-0.1%
Italy	14.6%	-10.6%
Spain	7.0%	-8.8%
Russia	12.2%	2.2%
Japan	**6.7%**	**-7.8%**
Asia ex-Japan	**11.4%**	**-5.2%**
China	17.7%	-6.2%
Hong Kong	15.6%	8.0%
Korea	4.9%	-16.7%
India	7.2%	6.8%
Australia	11.4%	4.5%
Brazil	8.1%	-4.2%

Source: FactSet.
Total returns over time period, with net official dividends in USD.
Historical performance is not a reliable indicator of future performance.

MSCI All Country World Sector Index Net Returns to 31.3.2019 (USD)

SECTOR	QUARTER	1 YEAR
Information Technology	18.8%	8.5%
Energy	14.1%	2.9%
Industrials	13.8%	-1.0%
Consumer Discretionary	13.2%	2.7%
Consumer Staples	11.4%	4.8%
Communication Services	11.1%	4.7%
Materials	11.1%	-3.1%
Utilities	9.5%	12.4%
Financials	8.2%	-7.8%
Health Care	8.0%	10.9%

Source: FactSet.
Total returns over time period, with net official dividends in USD.
Historical performance is not a reliable indicator of future performance.

technology stocks, best represented by the new software-as–a-service (SaaS) businesses. Examples include Salesforce, Workday and ServiceNow. Each of these companies provides cloud-based software applications that help companies run their business. During the quarter, many of these SaaS companies (easily in excess of 50 in the US alone, plus more listed elsewhere) not only rebounded, some even proceeded to reach significant new highs. While many of these companies hold great promise and some have the capability to execute, it is not uncommon for their stock prices to be trading at **15 to 25 times *sales***. These are extraordinarily high valuations, and while the future success of some of these companies may ultimately justify their current stock prices, it is unlikely that all of them will. It should be noted that the performance of high-growth areas such as information technology and healthcare explains much of the US market's outperformance over the rest of the world, reflecting its higher weighting in these sectors.

But perhaps these high-growth sectors will continue to rise, you might say. Why should one expect the strong price ascent of these well-loved companies to stall, or even reverse, at some point? Firstly, when interest rates ultimately move higher, the stock prices of highly-valued companies tend to be more sensitive. We saw a preview of this in the fourth quarter last year when, faced with the prospect of further interest rate hikes, the high-growth tech and healthcare stocks finally had a setback. However, with the Fed's now more dovish stance on rates, a similar sell-off appears to be off the agenda for the moment. Another possible trigger for a correction is the supply of new "growth stock investment opportunities". On this front, there is reason to be cautious as there is a substantial pipeline of new IPOs coming to market. These include Lyft (Uber's competitor in ride-sharing, listed in the last week of March), Pinterest (web application for sharing images), and Uber. Ultimately, the very high valuations of growth stocks will likely attract a steady supply of new listings which, once reaching enough volume, will at some point potentially suppress the share price performance of companies already listed.

Outside of these expensive pockets of "growth", the end of 2018 saw many other stocks sold down to very attractive valuations. Broadly speaking, these out-of-favour companies all had elements of uncertainty or cyclicality in their businesses. Afflicted by apprehensions of a global recession, investors were unwilling to look through the cycle to a potential recovery. These included many semiconductor, energy, metals, banking, auto, and industrial stocks, as well as much of the Chinese market. In many cases, the stocks were already trading at or close to the valuations reached at the bottom of prior economic and market downturns. In such cases, the likelihood of a recession had become a moot point as the stock valuation had already priced in a substantial discount as if a major recession was already occurring. Some of these companies had a strong recovery this quarter, most notably Chinese stocks (up 17.9%).[11] Easier monetary conditions in China, fiscal expansion, and relief on the trade front were all contributors to the rebound in the Chinese market. Despite this move, however, sentiments of both Chinese and foreign investors remain cautious and valuations are still highly attractive. Similarly in the other depressed areas (such as semiconductor, energy and industrials), while there has been a broad lift, valuations remain attractive and prospective returns promising.

11 MSCI China Net Index (local currency).

Notes

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Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

1. PAXX's returns are calculated using PAXX's net asset value (NAV) unit price (which does not include the buy/sell spread) and represent PAXX's combined income and capital returns over the specified period. PAXX's returns are pre-tax, assume the reinvestment of distributions, and are net of fees and costs as well as any accrued investment performance fee.

   PAXX's returns have been provided by Platinum Investment Management Limited. The MSCI All Country Asia ex-Japan Net Index (A$) returns have been sourced from FactSet. Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or expenses. For the purpose of calculating the "since inception" returns of the Index, PAXX's inception date (12 September 2017) is used. Platinum does not invest by reference to the weightings of the Index. PAXX's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, PAXX's holdings may vary considerably to the make-up of the Index. Index returns are provided as a reference only.

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2. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of PAF's net asset value, PAF's exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices.
3. The table shows, as a percentage of PAF's net asset value, PAF's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices.
4. The table shows the effective net currency exposures of PAF's portfolio as a percentage of PAF's net asset value, taking into account PAF's currency exposures through securities holdings, cash, forwards and derivatives. The table may not exhaustively list all of PAF's currency exposures and may omit some minor exposures.
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