MLC-Platinum Global Fund

QUARTERLY INVESTMENT MANAGER'S REPORT

PERFORMANCE

Fund Size: $875.3m	Last quarter	Last 12 months	5 years (compound pa)	Since inception (compound pa)
MLC-Platinum Global Fund	8.5%	-2.2%	8.7%	10.8%
MSCI All Country World Net Index (A$)	11.2%	10.8%	12.3%	7.0%

Fund returns are after fees and expenses. Portfolio inception date: 30 June 1994
Source: MLC Investments Limited and Platinum Investment Management Limited for fund returns, and FactSet for MSCI index returns.
Past performance is not indicative of future performance. The value of an investment may rise or fall with changes in the market.

In the Fund's December 2018 quarterly report, we mentioned that price weakness, low valuations and a more cautious investor sentiment meant that risk had reduced and outlook had improved, and we felt that it was a good time to add stocks to the portfolio. We took the view that given such price falls, the prospect of better returns had increased, albeit it was likely to be a volatile ride.

The markets did indeed rebound in the first three months of this year – at a much faster pace than we envisioned.

The Chinese A-share market was the standout performer, rising 29%,[1] while Chinese stocks listed in Hong Kong (H-shares) were a little more muted, rising 12%.[2] Elsewhere, the US market rose 13%, while Europe and Japan climbed 12% and 6% respectively.[3]

Overall, the Fund returned 8.5% for the quarter, whilst the MSCI index returned 11.2% (in AUD).

Gains across the Fund over the quarter were fairly broad-based, but it is worth noting the underlying components of the Fund's performance. The Fund's long positions gained 12.9%[4] over the quarter, which compares favourably with the broader market. However, given their 85% average weighting in the portfolio (the Fund held an average cash position of around 15% through the quarter), this only translated into a contribution of about 10.9% towards the Fund's performance.

Looking at the underlying companies, the Fund's Chinese holdings returned 21.8% and contributed 4.4% to the Fund's performance. The strongest contributors amongst our Chinese holdings included Ping An Insurance (insurance and banking, +33%), Jiangsu Yanghe Brewery (white spirits producer, +40%), and Weichai Power (diesel engine manufacturer, +47%). The other significant contributor to performance came from our US holdings, which rose 16%, well ahead of the US market, and contributed 3.4% to the Fund's returns.

Of note were the gains made by our oil-exposed holdings in the year to date, in particular, **TechnipFMC** (+19%) and **Transocean** (+25%). In our December 2018 quarterly report, we outlined the investment case for our offshore oil service companies, a sector of the market that had been deeply discounted and out-of-favour.

Over the course of the December quarter, the Brent oil price had collapsed from US$80 to US$50 due to a sharp ramp-up in US shale oil production out of the Permian Basin, which drove a rebuild in US oil inventories (signalling oversupply), and Saudi Arabia's move to boost its production to 11 million barrels per day in expectation of additional US sanctions on Iran (which were subsequently delayed).

Since then, the picture has improved. In response to lower oil prices, US shale producers reduced their spending, with shale production capex now expected to fall by 10% in 2019, while the Saudis throttled back their production to 9.8 million barrels per day. This led the oil price to a quick rebound from US$50 back to US$69.

More importantly, we are seeing increasing evidence of a pick-up in offshore activity. Over the past three months, TechnipFMC won a number of new offshore contracts (including the Petrobras Mero project in Brazil and Eni's Merakes field in Indonesia), and Transocean has continued to raise the tender rates for its deep-water drill ships. In response to the positive trends in activity and the higher oil price, the stock prices of Transocean and TechnipFMC have risen 40% and 25% (in local currency) from their respective lows.

Detracting from performance were losses on short positions which reduced the Fund's returns by 0.9% this quarter, as well as the minor appreciation of the Australian dollar over the period.

1 CSI 300 Index (local currency).
2 Hang Seng China Enterprises Index (local currency).
3 Respectively referring to the S&P 500 Index, the STOXX Europe 600 Index, and the Japan Nikkei 225 Index, each in local currency terms.
4 References to returns and performance contributions in this report are in AUD terms, unless otherwise specified.

DISPOSITION OF FUND ASSETS (NET INVESTED POSITIONS)ˆ

Region	31 Mar 2019	31 Dec 2018
Asia	37.1%	35.3%
Europe	24.5%	18.9%
North America*	17.4%	19.2%
Japan	5.7%	5.8%
Cash	15.3%	20.8%

ˆ The table shows the Fund's effective net exposures to the relevant regions as a percentage of the Fund's net asset value, taking into account direct securities holdings and both long and short derivative positions. Numerical figures are subject to rounding adjustments.

* At 31 March 2019, in the US market the Fund had a -0.4% short position against each of the Russell 2000 Index and the Nasdaq Index (nil at 31 December 2018). The Fund's -3.9% short position (at 31 December 2018) against the S&P 500 Index was closed during the quarter.

Source: Platinum Investment Management Limited

TOP 10 HOLDINGSˆ

Company	Country	Industry	Weight
Alphabet Inc	USA	Communication Serv.	3.9%
Samsung Electronics	Korea	Info Technology	3.7%
Ping An Insurance	China	Financials	3.5%
Intel Corporation	USA	Info Technology	3.5%
Siemens AG	Germany	Industrials	2.9%
Facebook Inc	USA	Communication Serv.	2.7%
Glencore PLC	Switzerland	Materials	2.6%
China Overseas Land	China	Real Estate	2.4%
Sanofi SA	France	Health Care	2.4%
Jiangsu Yanghe Brewery	China	Consumer Staples	2.3%

ˆ As at 31 March 2019. The table shows the Fund's top 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives.

Source: Platinum Investment Management Limited

NET SECTOR EXPOSURESˆ

Sector	31 Mar 2019	31 Dec 2018
Communication Services	16.4%	15.4%
Financials	15.2%	14.7%
Industrials	12.3%	13.0%
Information Technology	11.4%	10.4%
Materials	9.0%	9.0%
Energy	5.7%	5.7%
Consumer Discretionary	5.5%	4.3%
Health Care	5.3%	6.1%
Real Estate	2.4%	2.4%
Consumer Staples	2.3%	1.8%
Utilities	–	0.4%
Other *	-0.8%	-3.9%
Total Net Exposure	84.7%	79.2%

ˆ The table shows the Fund's effective net exposures to the relevant sectors as a percentage of the Fund's net asset value, taking into account direct securities holdings and both long and short derivative positions. Numerical figures are subject to rounding adjustments.

* Includes index short positions.

Source: Platinum Investment Management Limited

NET CURRENCY EXPOSURESˆ

Sector	31 Mar 2019	31 Dec 2018
US dollar (USD)	32.8%	31.9%
Hong Kong dollar (HKD)	14.0%	13.5%
Japanese yen (JPY)	12.9%	13.4%
Euro (EUR)	9.5%	10.4%
Korean won (KRW)	7.4%	7.3%
Indian rupee (INR)	5.3%	4.9%
Chinese yuan (CNY)	4.4%	4.0%
British pound (GBP)	4.2%	4.2%
Norwegian krone (NOK)	3.4%	3.2%
Canadian dollar (CAD)	2.4%	2.5%
Australian dollar (AUD)	1.4%	1.3%
Thai baht (THB)	1.2%	1.3%
Swiss franc (CHF)	1.0%	1.7%
Danish krone (DKK)	–	0.5%

ˆ The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards, and derivatives. Numbers have been subject to rounding adjustments.

Source: Platinum Investment Management Limited

Over the 12-month period, the Fund's long equity exposure provided only a small positive return, which was offset by losses on short positions. Within the portfolio, Chinese holdings were up an average of 10% and contributed 2.3% to performance. However, it should be noted that these returns were boosted by a weak Australian dollar over this period. Across the portfolio, strong contributors over the 12 months included Schibsted (online classifieds, +54%), Alphabet (owner of Google, +23%) and Ping An Insurance (+22%). Our Japanese holdings were the major detractors from performance, reducing returns by 3.4%.

One question that naturally arises from consideration of the above results is the merit of running short positions[5] in the portfolio. In a 12-month period where markets sold off sharply before rebounding, one would have perhaps expected a greater contribution from shorting.

As Andrew Clifford outlined in this quarter's Macro Overview, the uncertainty in markets created by China's slowdown and its trade dispute with the US resulted in many stocks being sold down to very attractive valuations. These stocks represent a significant opportunity for investors. On the other hand, the extraordinarily high valuations that have resulted from investors crowding into high-growth companies represent a very real risk.

Since the Fund was established nearly 25 years ago, we have seen numerous examples of financial excesses across a broad range of geographies and assets. Many have unwound with the damage relatively contained to the particular asset involved. The crash in cryptocurrencies is one such example, the current account crisis in Turkey during 2018 being another. However, as was experienced in the tech wreck of 2000/01 and the global financial crisis (GFC) in 2008, in some cases the unwinding of the financial excesses in one area can have broader ramifications for all markets. Today, we can see numerous areas that give cause for concern. Besides the mania for high-growth stocks, other examples include the enthusiasm for debt securities despite very low yields, the popularity of risk parity strategies,[6] and a frenzied FoMo (fear-of-missing-out) over unlisted investments such as private equity and infrastructure.

So while we are optimistic about the prospects for our portfolio, we remain cautious about the environment that we are investing in. As such, we believe it makes good sense to retain a conservative net invested position in the Fund through the use of cash and short positions.

CHANGES TO THE PORTFOLIO

The market is currently valuing investment opportunities in the tech sector in a very bipolar manner. On the one hand, sectors such as the mid-cap 'software-as-a-service' (SaaS)[7] companies are in bubble territory, trading on price-to-sales (P/S) multiples as high as 30x, while on the other hand, semiconductor manufacturers, who are the logical beneficiaries of the growth in cloud computing and artificial intelligence (AI), are trading on single digit P/E multiples.

Our research indicates that a number of semiconductor stocks are currently trading at fantastic value, and accordingly we continued to add to our holdings in **Samsung Electronics**, **Micron Technology** and **Skyworks Solutions** over the quarter. These companies had been impacted by weaker smartphone sales and a slowdown in the investment in data centres in the second half of 2018. Micron is a US competitor to Samsung Electronics in memory chips, both DRAM and flash memory (NAND). Historically, the memory chip business has displayed erratic profitability as manufacturers raced to the next generation of chips to drive down costs, often moving supply well ahead of demand. In recent years the competitive landscape has changed as the industry consolidated down to three players in DRAM and five in flash memory, and profitability has significantly improved. While 2019 will likely see profits fall for these memory companies, their long-term prospects remain bright in our view. A return to data centre investment, and with it a pick-up in demand for memory chips, will be required to support the ongoing roll-out of e-commerce, SaaS, and AI applications. At recent lows, both Micron and Samsung Electronics were trading slightly above book value, a very attractive valuation for businesses operating in an industry where the accumulated intellectual property and industrial know-how represent enormous barriers to entry.

A new addition to the portfolio this quarter was **Booking Holdings**. Booking is the world's largest hotel-focused[8] online travel search and booking platform, controlling brands and websites such as Booking.com, Agoda, Kayak and OpenTable.

5 Short-selling or "shorting" is a transaction aimed at generating a profit from a fall in the price of a particular security, index, commodity or other asset. To enter into a short sale, an investor sells securities that are borrowed from another. To close the position, the investor needs to buy back the same number of the same securities and return them to the lender. If the price of the securities has fallen at the time of the repurchase, the investor has made a profit. Conversely, if the price of the securities has risen at the time of the repurchase, the investor has incurred a loss. The MLC Platinum Global Fund may short market indices, but not individual stocks.

6 A risk parity strategy (also known as risk premia parity) is an approach to portfolio management that allocates capital across multiple asset classes based on risk (usually defined as volatility), rather than expected returns. Unlike most traditional multi-asset portfolios in which equities, rather than bonds, tend to determine returns as well as carry more of the risk, risk parity strategies generally aim to build diversified portfolios in which each group of assets contributes an equal amount of risk.

7 Software-as-a-service (SaaS) is essentially software that is hosted off a company's premises from a third-party data centre (typically called 'the cloud'), and is charged on an ongoing subscription-based model, rather than the traditional one-off licence fee + maintenance fee.

8 In 2018, Booking sold 760 million room nights for a total value of US$92 billion through its websites.

Hotels are a product that is well suited to be sold via online search portals and marketplaces. There are many reasons for this. For example, the hotels market is very fragmented and each hotel is easily substitutable for another, but the offerings are also differentiated enough that users want to compare them. However, what truly makes an online aggregator of hotels an attractive business is that ***hotel pricing is dynamic***. Hoteliers are constantly adjusting pricing to fill unsold rooms. While booking directly with a chain might get you the best price for that particular hotel, users know that they will often find a better deal on an aggregator site like Booking.com, as some hoteliers will discount their prices to fill vacancies.

On the 'supply' side, independent hotels represent 80% of the rooms sold on Booking's websites. These operators face a challenging mix of high fixed costs, huge marginal profitability for each extra guest, and inventory that expires on a daily basis. They also don't usually have the internal capability to build booking apps and conduct extensive direct response advertising to fill their excess inventory themselves. It is easy to see how a marketplace that can fill rooms on a success-based fee is an attractive channel. The value provided to both the customer and the hotelier results in attractive economics for the platform, with Booking enjoying a long history of making 30% or more in operating margins.

So, if Booking's business is so attractive, why was the stock recently sold down by investors? It was for two main reasons:

1. Slower growth – Booking's revenue growth has slowed from a trend rate of 20% p.a. to 14% in 2018. Booking's business is heavily weighted to Europe (65% of the transactions conducted on its platforms are from European customers) and management estimates that the economic slowdown in the region will taper growth further to 6-8%.

2. Higher investments – Booking's management team has said that it is seeing good opportunities to increase investments in countries like the US and China to drive long-term growth, but this will be at the expense of slower profit growth in 2019.

The uncertain near-term outlook for revenue and profit growth has prompted investors with short-time horizons to flee the stock. However, those with a longer-term perspective should find the future prospects for Booking more appealing. One can see multiple factors driving the global travel industry to continue to grow: the rise of outbound tourism in China, the trend of consumers shifting more spending to experiences from physical goods, as well as the increasing affordability of international travel driven by the rise of budget airlines focusing on international long-haul routes (such as Air Asia and Norwegian Air).

Booking, valued at a starting P/E of 16x, is overall a good example of a high-quality company trading at a reasonable price, and we believe it will be a sound long-term investment for the Fund.

OUTLOOK

While markets have rallied over the past three months, there is still a large amount of investor scepticism around the health of the global economy. This scepticism is most clearly expressed by the relative valuations on offer today. Quality businesses operating in industries that have some cyclicality are often trading on single digit P/E multiples, while businesses with evident growth (even if that growth is only 5-10% p.a.) are often trading on P/E multiples of 25-40x.

There are plenty of economic indicators today that support this scepticism. The US yield curve inverted at the end of March,[9] and the trends in European PMI[10] and temporary employment data are evident of some of the knock-on effect of the slowdown in China. However, in investing, the question is not what the indicators look like today, but what they will (most likely) look like in the future.

It's clear that the largest driver of the current economic weakness was the sharp tightening of credit conditions in China, a by-product of the government's financial sector reform. However, the situation has now reversed, interest rates have come down, and the Chinese government has instituted large tax cuts for both households and corporates to stimulate the economy. As Andrew Clifford stated in his December 2018 Macro Overview, if China's economy slowed in response to a tightening of credit, then one should also expect it to improve when credit conditions are loosened.

While we suspect that economic conditions will most likely improve in the near-term, our enthusiasm for the portfolio is not driven by macro factors, but rather by the individual companies and the low valuations on offer. A large portion of the portfolio is trading on an earnings yield of 10% or higher, suggesting good prospects of solid returns going forward.

9 This means that the interest rate on debt instruments with longer-term maturities is lower than the interest rate on those with short-term maturities, indicating that fixed income investors are placing a high probability that interest rates will be cut in the near future to support a weakening economy. As of 29 March 2019, the US 10-year rate was 2.39% versus the 1-year rate at 2.40% (Source: US Treasury).

10 The Purchasing Managers' Index (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.

Macro Overview

by Andrew Clifford, Chief Investment Officer, 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.

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/

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 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.

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.

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, 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.

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.

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.

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 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.

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.

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.

If you have any questions about your investment in the MLC-Platinum Global Fund, please contact the MasterKey Service Centre on

132 652 from anywhere in Australia or
+61 3 8634 4721 from overseas

11 MSCI China Net Index (local currency).

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