MLC-Platinum Global Fund

QUARTERLY INVESTMENT MANAGER'S REPORT

PERFORMANCE

Fund Size: $823.5m	Last quarter	Last 12 months	5 years (compound pa)	Since inception (compound pa)
MLC-Platinum Global Fund	-9.5%	-10.1%	6.2%	10.5%
MSCI All Country World Net Index (A$)	-10.3%	0.6%	9.4%	6.7%

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.

The Fund returned -10.1% over the last year, of which a loss of -9.5% was incurred during the final quarter. While our full year return was well below the global index, which returned +0.6%, the Fund was slightly ahead in the last quarter as the index fell -10.3%.

Performance across markets was notably different in the final quarter of the year. During the first nine months of 2018, price weakness was concentrated primarily amongst companies that were directly exposed to the concerns surrounding China's economic slowdown, the US-China trade war, and rising US interest rates. In the last quarter, this stock price weakness spread to the high-growth software, e-commerce and biotech companies which had hitherto been holding up the broader market. These highly valued sectors led the US market lower, with the US finishing the quarter in line with or weaker than other major markets. Please refer to the enclosed Macro Overview for a more in-depth discussion of the factors driving markets.

As a result of the sell-off in the US market, our short positions against the S&P 500 and Russell 2000 indices made a significant positive contribution to performance this quarter.

In the broad sell-off, few of our long stock positions made ground. Notable exceptions included China Overseas Land & Investment (Chinese real estate developer, +10%) and ICICI Bank (Indian bank, +18%).

In last quarter's report, we noted that "clearly, for the present, we are well and truly out of step with the market in terms of where we believe the attractive investments are in the current environment." While most of the portfolio's positions experienced further price declines this quarter, the significant change is that the expensive stocks and markets that we have been avoiding are now starting to decline at least at similar rates. While the net result is far from satisfactory, the shift does suggest that investors are starting to recognise the differentials in value between the companies in our portfolio and the broader market averages.

PORTFOLIO REVIEW AND COMMENTARY

Over the quarter, our cash levels increased from 13.7% to 16.9%, while index short positions decreased from 7.0% to 3.9%. The resulting net invested position of the portfolio remained relatively unchanged – at a conservative 79.2%, compared with 79.4% as at 30 September.

While one might expect cash to have been put to work with such widespread falls, the increase in cash at quarter-end is merely the net result of ongoing sales and purchases. Underlying this net increase in cash have been ongoing efforts to reposition the portfolio towards more attractively-valued stocks that have emerged as a result of the broad-based sell-off.

Amongst the positions that have been sold or significantly reduced are companies which, while still representing reasonable value, have become less attractive relative to the other opportunities as a result of their "comparatively" good recent performance, such as **Murata Manufacturing** (Japan, electronic components) and **Asahi Group** (Japan, brewery).

General Electric (GE) was added to the portfolio during the quarter. The company has had an extraordinary fall from grace over the last two decades, as a result of poor management and some disastrous acquisitions. Today, it finds itself in a financially compromised position with an over-leveraged balance sheet. However, GE has two core business units that are of very high quality and are growing: aerospace and healthcare. It also has good operations in power generation, oil services, and a range of other businesses, though which currently tend to be cyclically depressed with some also dealing with other issues. The company has experienced significant changes at the board level and has a new CEO in Lawrence Culp, who previously ran the highly successful Danaher Corporation as its CEO and President from 2001 to 2014. GE's stock price has collapsed, now down nearly 80% from its highs in 2016, in the face of concerns that the company may need to raise significant equity to bolster its balance sheet. Even if this is the case, we think GE's current price represents a good entry point and have taken an initial position. One should note that, however, given the magnitude of the issues GE faces in some of its business divisions, we expect the resolution of the company's problems to take some time.

Platinum ASSET MANAGEMENT

DISPOSITION OF FUND ASSETS (NET INVESTED POSITIONS)ˆ

Region	31 Dec 2018	30 Sep 2018
Asia	35.3%	34.3%
Europe	19.2%	19.6%
North America*	18.9%	14.9%
Japan	5.8%	10.5%
Cash	20.8%	20.6%

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 December 2018, in the US market the Fund had a -3.9% short position against the S&P 500 Index (-4.7% at 30 September 2018). The Fund's -2.2% short position (at 30 September 2018) against the Russell 2000 Index was closed during the quarter.

Source: Platinum Investment Management Limited

TOP 10 HOLDINGSˆ

Company	Country	Industry	Weight
Alphabet Inc	USA	Comm Services	3.7%
Samsung Electronics	Korea	IT	3.3%
Intel Corporation	USA	IT	3.2%
Siemens AG	Germany	Industrials	3.2%
Ping An Insurance	China	Financials	2.8%
Sanofi SA	France	Health Care	2.5%
Glencore PLC	Switzerland	Materials	2.5%
China Overseas Land & Invt	China	Real Estate	2.4%
Facebook Inc	USA	Comm Services	2.3%
LG Chem Ltd	Korea	Materials	2.1%

ˆ As at 31 December 2018. 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 Dec 2018	30 Sep 2018
Communication Services	15.4%	16.3%
Financials	14.7%	13.4%
Industrials	13.0%	12.1%
Information Technology	10.4%	10.4%
Materials	9.0%	9.3%
Health Care	6.1%	6.4%
Energy	5.7%	7.3%
Consumer Discretionary	4.3%	4.7%
Real Estate	2.4%	1.9%
Consumer Staples	1.8%	3.7%
Utilities	0.4%	0.8%
Other *	-3.9%	-7.0%
Total Net Exposure	79.2%	79.4%

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.

A major GICS reclassification was implemented during the 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 short positions.

Source: Platinum Investment Management Limited

NET CURRENCY EXPOSURESˆ

Sector	31 Dec 2018	30 Sep 2018
US dollar (USD)	31.9%	35.7%
Hong Kong dollar (HKD)	13.5%	13.0%
Japanese yen (JPY)	13.4%	11.0%
Euro (EUR)	10.4%	10.5%
Korean won (KRW)	7.3%	7.3%
Indian rupee (INR)	4.9%	3.9%
British pound (GBP)	4.2%	4.0%
Chinese yuan (CNY)	4.0%	4.6%
Norwegian krone (NOK)	3.2%	3.2%
Canadian dollar (CAD)	2.5%	2.8%
Swiss franc (CHF)	1.7%	1.4%
Australian dollar (AUD)	1.3%	0.6%
Thai baht (THB)	1.3%	1.3%
Danish krone (DKK)	0.5%	0.6%

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

Energy

The oil price fell 40% during the quarter as the US decided to effectively defer sanctions on purchases of Iranian oil. As OPEC producers had been increasing production to make up for the potential shortfall, and US onshore producers had also expanded their output in response to higher prices, the result was an unexpected deterioration in the supply-demand balance in the oil market. Not surprisingly, oil-related stocks were impacted and our holdings in TechnipFMC (oil project service provider, -37%), Transocean (drilling service contractor, -50%), and Seven Generations (Canadian oil and gas producer, -8%) were key detractors from performance over the quarter.

One of the portfolio's investment themes since 2015 has centred around the recovering oil price, and our strategy included owning a mix of oil producers and oil service companies. In the early stage of the recovery, our holdings were skewed to oil producers who would be the first to benefit from higher oil prices, while more recently our positioning has shifted more towards oil service providers. The oil service industry has been very depressed, with industry capex having been cut 50% from the previous peak, but we expect these companies to benefit from higher levels of investment going forward as oil producers need to replace their depleted oil reserves.

With the oil price having now fallen back to US$47 and the industry again in oversupply, a rebound in oil industry capex may feel like a very distant prospect. Why, then, do we remain confident that the rebound will come? The key is the decline rate.

Globally, the world produces and consumes around 100 million barrels of oil per day. This output of 100 million barrels has a natural decline rate of 4-5% per year, driven by the fact that mature fields deplete over time. Global oil demand over the past six years has grown by approximately 1 million barrels per day. The demand growth and the natural decline rate, together, mean that the oil industry, at a minimum, needs to develop new production capacity of 5 million barrels per day to not fall into deficit.

Over the past four years, the vast majority of the 5 million replacement barrels have come from legacy projects coming online (Canadian oil sands, Brazil subsalt, US Gulf of Mexico) that had been commissioned prior to the oil downturn. Over this period, US shale oil output has also grown, but it is worth remembering that annual shale output has never grown by more than 1.1 million barrels per day. Moreover, given the economics of the shale operators as well as the geological constraints, it's difficult to see shale output grow by more than 1.5 million barrels per day without the inducement of oil being priced well above US$60.

With the pipeline of legacy projects soon coming to an end, and shale only able to incrementally add 1 – 1.5 million barrels of oil per day, the question is where the other 4 million replacement barrels will come from.

We think a large amount needs to come from offshore oil developments, and indeed 60% of non-OPEC reserves sits in offshore basins. Like the shale industry, offshore oil service providers like TechnipFMC have re-engineered their technology to lower the cost of offshore developments, to the point where a large number of offshore projects are now able to generate a 10% return on investment at an oil price level of US$50-60 per barrel – economics that are equal or superior to shale.

So while our holdings in offshore oil service companies have recently hurt returns, we remain optimistic about their medium- to long-term prospects. The current level of industry capex is unsustainable and should rise. With our holdings being on price-to-earnings (P/E) multiples as low as 4-7x in a modest recovery scenario (not going back to past peaks), we expect these investments to provide us with good returns in the long run.

Financials

Our financials holdings were another major source of the fall in the Fund's value over the year. Contributors to this fall included Raiffeisen Bank, KB Financial and Suruga Bank.

The issues and challenges faced by these banks are very different, and so are our re-assessments of their prospects. We maintained our holdings in Raiffeisen and KB, whilst Suruga has been a mistake and we have exited the position.

First, on Suruga. When investing in banks, our approach tends to favour buying in the middle of a credit downturn when share prices and earnings are suppressed and bad debt problems are well known. As long as the bank generates enough pre-provision profits (and has enough capital) to handle the losses, this can be a fantastic time to invest, and our successful investments in a number of Italian, Indian and Eastern European banks all fit this mould.

Suruga Bank is a non-standard consumer lender in Japan, lending to niche customer groups such as foreign residents and employees of small and medium enterprises (SMEs) that the major banks tend to ignore. We became interested in the bank after its share price had fallen 60% due to losses from loans it had made to build 'shared houses'.[1]

While we were correct in our assessment that the bank was able to handle the losses without needing to raise capital, a subsequent investigation of its lending practices revealed that Suruga had aggressively moved into far riskier lending company-wide and management had been misrepresenting the true nature of its loan book. This completely changed our view on what the bank could earn in the future and we exited at a loss.

The situation is completely different with Raiffeisen Bank and KB Financial. The concerns around each bank relate to issues outside of their control, namely, government interference and regional economic slowdown.

1 A shared-home is similar to a dormitory where occupants each rent a single room but have shared kitchen, bathroom and living facilities. Shared houses are popular in Japan with students and migrant workers.

In Raiffeisen's case the issue is Russia. Over the last 25 years **Raiffeisen Bank** has built a profitable banking business in Russia that is focused on serving mid-sized corporates and the relatively wealthy middle class retail customers. Russia now accounts for 30% of the group's earnings. The concern stems from the new US sanctions implemented in April which, instead of targeting the Russian government, directly targeted specific private Russian individuals and companies (typically those believed to be in Putin's inner circle). Following the announcement of these sanctions, the market has been quick to sell off any stock with 'Russia risk'. Having examined the facts, we are less concerned. Raiffeisen isn't the bank of choice for these high profile individuals and corporates, hence the sanctions have had no direct impact on Raiffeisen's business and, unless dramatically widened, are unlikely to do so in the foreseeable future.

For **KB Financial Group**, the recent fall was driven by a mix of fears over the economic outlook (given Korea's export orientated economy and its proximity to China) and new measures by the Korean regulator to restrict mortgage lending (to cool rising house prices) and reduce bank charges on credit card transactions.

If we look past these fears and focus instead on the fundamentals of their businesses, we believe that Raiffeisen and KB still represent attractive investments. Both banks are very well capitalised, solidly profitable and can grow in the long-term. The fact that Raiffeisen and KB are both trading below 6x P/E makes them outstanding value in our view. We have increased our holding in Raiffeisen and are maintaining our position in KB Financial.

OUTLOOK

With multiple global markets in decline, investors are understandably asking 'are we slipping into a global recession?' and 'how much further can markets fall?'.

While we devote considerable time attempting to understand where we are in the economic and market cycle, the problem with these questions is that they can never be answered with certainty. However, there are some meaningful observations we can make today, with certainty:

- Many major markets have fallen by 20% or more from their highs in early 2018. China is down 30%. Korea and Japan are down 20%.
- Investor sentiment is negative.
- Most importantly, a whole range of stocks have now fallen by 30-50% and are trading on single digit P/E multiples. These stocks have already priced in a recession happening now.

Falling prices, low valuations and a more cautious sentiment are all indications that **risk has reduced and the prospect for better returns has increased**. These factors indicate one should be adding to stocks, and that's what we have been doing. In addition to the positions mentioned above, we have added to our existing holdings in **Intesa Sanpaolo** (Italian bank), **Microchip** and **Skyworks** (US semiconductor makers), **Weibo** (Chinese social media) and several more.

While the outlook has improved and we have been adding to stocks, this does not mean we believe markets are about to take a V-shaped recovery. From a pure timing perspective, history shows that after markets experience circa 20% declines, they tend to remain volatile for some time. Basically, investor confidence has been shaken and it will take time to rebuild. The Fund has a reasonable cash balance, and we will be looking to use that cash to increase our investments over the coming months.

Macro Overview

by Andrew Clifford, Chief Investment Officer, Platinum Investment Management Limited

2018 – YEAR IN REVIEW

As we entered 2018, the prospects for the global economy were as bright as they had been since the onset of the Global Financial Crisis (GFC) over a decade ago. The US economy was growing from strength to strength, with tax cuts on the way that promised an additional boost. China had recovered well from its investment slump of 2014-15. Economic momentum was building in Europe and Japan.

There were a number of risks on the horizon. Many stemmed from rising US interest rates, especially as there were fears of inflation being fuelled by the tax cuts which added stimulus to what was already a buoyant economy. Another concern was how funding the increased fiscal deficit would impact on the US bond market. Further on the horizon remained the question of how the world's central banks would extricate themselves from their money printing exercises or "quantitative easing" (QE). There was also President Trump's threat of a trade war, along with other politically inspired skirmishes such as Brexit.

Under the radar of most Western media and commentators were the developments of China's financial reform. The reform essentially aimed to bring securitised assets – the so-called shadow banking activities – back onto the balance sheets of banks. The goal of the authorities was to tighten up on the speculative use of credit outside of the regulated banking environment. While to our minds this was good policy, we did highlight in our March 2018 Macro Overview that the reform process gave rise to a risk of tightened credit availability which could potentially impact the economy. Our base case at the time was that, as China's economy was undergoing robust growth, the system should absorb and cope with the impact reasonably well.

This assumption turned out to be overly optimistic. The Chinese economy did progressively slow throughout 2018 in response to tighter credit conditions, with notable credit losses occurring in unregulated peer-to-peer lending networks, impacting consumer spending. The slowdown was further exacerbated by the commencement of President Trump's "trade war" in July. As we have highlighted in past reports, while the impact of the tariffs imposed to date has been relatively minor, they have certainly damaged business confidence and resulted in cut-backs in investment spending in China's manufacturing sector. The slowdown in China has continued throughout the latter months of the year, with passenger vehicle sales down 13% and 16% from a year ago in October and November 2018 respectively, and the first 11 months of the year registering a 2.8% decline from the same period in 2017.[1] Similarly, mobile phone sales volume in China in Jan-Nov 2018 decreased by 8% year-on-year.[2] Other indicators, such as the Purchasing Managers' Index (PMI), also registered declines over the last quarter.

The impacts of China's slowdown have been felt far beyond its borders. While China today is the world's second largest economy (US$12 trillion versus the US at US$19 trillion), it is for many goods the world's largest market. Not only is this the case for commodities and raw materials, such as iron ore and copper, it is also the case for many manufactured goods, from cars to smartphones to running shoes. Indeed, it would be difficult to think of a physical good for which China is not the biggest consumer in volume terms. As a result, China's slowdown has been felt globally and has been a significant factor in the loss of economic momentum in Europe, Japan and many of the emerging economies. The one country that has so far appeared immune to China's slowdown is the US, which was growing faster in the first instance, but also had the benefit of a fortuitously timed fiscal stimulus in the form of tax cuts.

PROSPECTS FOR 2019

What does the year ahead hold in store?

Reasons for Caution

The loss of momentum in China, together with the trade war, will continue to cause a significant deal of uncertainty. Many companies entered 2018 with strong order books. As is typical in times of boom, customers were likely double-ordering components or items which they thought might be in short supply. When business slowed, these customers would have found themselves cutting back on new orders aggressively. In addition, the trade war also led some companies to bring forward orders to avoid the added cost of tariffs. All of this has created a significant amount of noise in sales outcomes for many businesses and it may well be some time into the new year before one has a clear sense of where demand has settled for many goods. And, of course, we are yet to see whether the US and China can negotiate a compromise on trade prior to the 1 March deadline – when, absent an agreement, US tariffs on a further US$200 billion of Chinese imports will take effect.

More importantly, the greatest risk facing the global economy is that the last driver of growth, the US, is now poised to slow. Housing and auto sales have fallen in response to higher interest rates. The benefits of the tax cuts have for the main part been expressed. The impact of tariffs on business is now being felt. While their direct impact on the US economy is perhaps not significant, the tariffs and the broader trade

1 www.marklines.com/en/statistics/flash_sales/salesfig_china_2018, based on data compiled by the China Association of Automobile Manufacturers.

2 www.counterpointresearch.com/china-smartphone-share/

tension likely have begun to affect both consumer and business confidence, particularly as we await the outcome of the US-China negotiations.

Furthermore, the political environment in the US post the mid-term elections is also likely to be a drain on confidence, and the partial shutdown of the US government over funding debates may well be a prelude for what is to come. While similar shutdowns have occurred in the past with relatively minor disruptions, they certainly add to the distractions faced by both businesses and consumers. President Trump's infrastructure program could potentially be the next boost to growth, though it is unlikely to have much impact within the next 12 months even if it were to eventuate. As for interest rates, while the Federal Reserve has signalled that it will slow the pace of rate hikes, rate cuts appear a distant prospect. Many commentators have been focusing on the likelihood of a US recession, but it is beside the point. The conditions are in place for a progressively slower environment in the US throughout the course of 2019.

An important lesson from the last four years is that a maturing Chinese economy has become more responsive to domestic interest rate movements and credit condition. As the financial reform started to take hold in 2017, interest rates did rise and the Chinese Yuan appreciated, which subsequently saw economic activity slow in 2018. This is not dissimilar to what happened in 2015 when a recovery in activity from the prior investment slowdown was building momentum, only to be extinguished as capital outflows under the country's managed exchange rate mechanism led to tightened monetary conditions. Absent a more flexible exchange rate mechanism, China will likely remain susceptible to these mini booms and busts.

Another lesson from 2018 was how important China had become to the global economy. For the last 30 years or more, the US economy and financial markets have been at the centre of every analysis of global markets. It has long become a cliché to say that "when the US sneezes, the rest of the world catches a cold". In 2018, the US economy was in great shape, and yet the rest of the world slowed, because of China.

Reasons for Optimism

Applying these lessons to the year ahead, we would make the following observations. In order to alleviate the stress the financial reform has placed on the system, China has pushed out the deadlines for banks to comply with the requirement to bring their shadow banking assets back onto the balance sheet. Banks' capital reserve ratios have been cut to free up lending capacity, and funding has been assured for approved infrastructure projects. By October 2018, the 1-month Shanghai Interbank Offered Rate (SHIBOR) had fallen to 2.7% from 4.7% at the start of the year, and anecdotally the availability of credit for companies with strong balance sheets has improved dramatically. Tax cuts are on the way for households and businesses, which are estimated to be in the order of 1% of GDP.

These are important developments that are worth paying attention to. **If China's economy slowed in response to a tightening of credit conditions, one should also expect to see activity gradually pick up as policy loosening takes effect.** As it happens in any economic downturn, there will be debates around whether enough has been done and how long before the economy responds. Nevertheless, policy is clearly moving in a direction to, at least, gently encourage growth. Certainly, the broader economic data is yet to show any obvious signs that a bottom has been found, though some "green shoots" can be observed in improving construction equipment sales and a pick-up in infrastructure investment.

Besides the potential for a recovery in China, the other positive that may unfold is a resolution, at least in part, to the trade conflict between the US and China. In our last quarterly report we discussed in some detail the reasons that we believed there were significant incentives for both sides to find a compromise. Subsequently, the 1 January increase in US tariffs from 10% to 25% on US$200 billion of Chinese imports has been deferred while the two sides look to negotiate a deal. In our view, the need for both countries to find a middle ground is compelling, and it also appears that post the mid-term elections in the US, there is now an imperative for President Trump to win a domestic political victory. However, given the innumerable unknowns around the incentives on both sides of the negotiating table, it is difficult to have a strong level of conviction in this view. Presumably, we will be entertained by a "made for TV" style drama as the 1 March deadline approaches.

MARKET OUTLOOK

As we observed in last quarter's Macro Overview, the slowdown in China, the uncertainty around trade, and rising interest rates in the US, had resulted in falling stock prices across the sectors that are sensitive to economic growth or exposed to trade issues. On the other hand, companies that were perceived to be immune to these concerns had performed strongly. These good performers were found primarily amongst high-growth companies in sectors such as software, e-commerce and biotech. Again, as we noted, these high-growth stocks were either at or approaching valuations that were exceedingly high by historical standards. Through the first nine months of 2018, the performance of these sectors accounted for much of the performance differential between the US market, which had continued to reach new highs, and the world's other major markets, which had been in steady declines since February. In the last quarter, in response to higher interest rates and tightening liquidity, this pattern changed with the US selling off in line with or even more fiercely than other major markets, led by the highly valued tech and biotech names.

Recently Bloomberg recorded an interview with Stan Druckenmiller, one of the most successful hedge fund managers of all time. The hour-long interview covered a wide range of topics, but of particular interest is Druckenmiller's observation that the signals he has relied on over the last 40 odd years to make calls on markets are no longer working. Druckenmiller noted that interest rate moves during a period of quantitative easing and very low rates, as well as stocks' price movements in response to news, could no longer be reliably reverse-engineered to give readings on what is happening in the economy. The result has been a higher degree of difficulty in extracting returns from markets. His comments echo those we have read from other experienced fund managers, and indeed in recent years many managers with strong long-term records have performed poorly with quite a number of them choosing to close shop and cease managing money. It is part of the phenomenon of active managers struggling to outperform the market and what some have referred to as the "death of value investing".

Various reasons have been offered for this idea that markets aren't behaving quite as one expects. At the top of this list of reasons is the impact of QE and low interest rates. Especially topical at the moment is the question of how the reversal of QE, with the Federal Reserve reducing its holding of US Treasuries, particularly at a time of rising fiscal deficits, is impacting on markets. Another oft-cited reason for recent market "anomalies" is the "rise of the machines" – be they high-frequency algorithmic trading or quant-based investment strategies. Furthermore, with the rise of populist governments across the world, political risk, at face value, is much greater than it has been. Accumulation of high levels of debt in certain sectors of the global economy may also be playing a role, though this is hardly a new phenomenon. It may simply be that China is having a much greater influence on the global economy and on markets than ever before.

We would broadly agree with the claim that markets are not behaving quite as one expects. However, the reality of markets is that they often don't behave in line with investors' expectations, and the patterns that investors think they see are only temporary. So, as investors, how should we navigate our way through this environment? There are two core principles which underpin Platinum's investment approach. First is the belief that the **best opportunities are often found by looking in the out-of-favour areas** and avoiding the popular ones. Secondly, **the price we pay for a company is the single most crucial determinant of the return** that we will earn on the investment.

Guided by these core principles, we would make the following observations about the current state of the markets. Investor sentiment has deteriorated significantly over the last quarter. Sentiment is difficult to gauge with precision, but a number of the quantitative indicators that we use to objectively measure sentiment are certainly pointing to a bearish stance by equity investors. Our more qualitative assessment is that across the markets the level of bearishness varies dramatically by region and by sector. For example, North Asian domestic investors are generally very negatively disposed towards their own markets, and investors are quite fearful of certain sectors,

MSCI ALL COUNTRY WORLD SECTOR INDEX NET RETURNS TO 31.12.2018 (USD)

Sector	Quarter	1 Year
Utilities	0.8%	1.4%
Communication Services	-6.2%	-10.9%
Consumer Staples	-6.6%	-10.5%
Health Care	-9.6%	1.7%
Financials	-11.9%	-15.7%
Materials	-13.4%	-16.0%
Consumer Discretionary	-14.4%	-8.3%
Industrials	-15.6%	-14.4%
Information Technology	-17.1%	-5.8%
Energy	-20.2%	-13.3%

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

MSCI REGIONAL INDEX NET RETURNS TO 31.12.2018 (USD)

Region	Quarter	1 Year
All Country World	**-12.8%**	**-9.4%**
Developed Markets	**-13.4%**	**-8.7%**
Emerging Markets	**-7.5%**	**-14.6%**
United States	**-13.8%**	**-5.0%**
Australia	-10.0%	-12.0%
Europe	**-12.5%**	**-14.8%**
Germany	-15.5%	-22.2%
France	-15.0%	-12.8%
United Kingdom	-11.8%	-14.2%
Italy	-11.8%	-17.8%
Spain	-8.7%	-16.2%
Russia	-9.0%	-0.7%
Japan	**-14.2%**	**-12.9%**
Asia ex-Japan	**-8.7%**	**-14.4%**
China	-10.7%	-18.9%
Hong Kong	-4.5%	-7.8%
Korea	-13.1%	-20.9%
India	2.5%	-7.3%
Brazil	13.4%	-0.5%

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

such as autos, semiconductors and commodities, as they are perceived to be more prone to the cyclicality of economic activity. Such observations lack precision and certainty. Of course, if the US economy deteriorates significantly or if the trade talks fall over, it is readily conceivable that markets will fall further. Nevertheless, it is in these periods of great uncertainty that one should be looking for opportunities to buy markets. Our sense is that markets may not have quite bottomed just yet.

At turbulent times like this, we will fall back to an assessment of the potential returns implied by the valuations of our holdings. Simply put, we will consider the earnings or cash flow yields that our companies will provide investors with over the next five years and beyond. While there is no certainty regarding these future earnings, and the prospects of some of our holdings over the next one to two years may have diminished from what might have otherwise been expected, the valuations across these out-of-favour sectors are highly attractive today.

Attractive valuations (i.e. low prices relative to prospective earnings) are not a guarantee that stock prices will not fall further, especially over the short-term. However, the expected returns from an investment are not some ethereal concept – returns will flow to investors' pockets where companies pass their earnings onto shareholders in the form of dividends and/or stock buy-backs. Alternatively, at the right price, knowledgeable buyers may appear and buy out the company from shareholders. In short, based on our assessment of the current valuations across the companies we own, we believe that our portfolio offers good prospects of favourable returns. What we feel less certain about, however, is the time frame over which these returns will be realised, which is difficult to assess given the numerous challenges facing the market today.

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

A148279-0119