Platinum Capital® Limited

Quarterly Investment Manager's Report

31 December 2019

ABN 51 063 975 431

Investment Update

by Andrew Clifford, Portfolio Manager

Performance

(compound pa, to 31 December 2019)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Capital Limited	4.0%	17.3%	10.5%	8.6%	12.0%
MSCI AC World Index^	4.5%	26.8%	13.6%	11.8%	7.4%

PMC's returns are calculated using PMC's pre-tax net tangible asset (NTA) backing per share as released to the ASX monthly. PMC's returns are calculated after the deduction of fees and expenses, have been adjusted for taxes paid and any capital flows, and assume the reinvestment of dividends. **PMC's returns are not calculated using PMC's share price.**
Portfolio inception date: 29 June 1994.
^ Index returns are those of the MSCI All Country World Net Index in AUD.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited for PMC's returns; FactSet for MSCI Index returns. See note 1, page 10.

Net Tangible Assets

The following net tangible asset backing per share (NTA) figures of Platinum Capital Limited (PMC) are, respectively, before and after provision for tax on both realised and unrealised income and capital gains.

	PRE-TAX NTA	POST-TAX NTA
30 September 2019	$1.5709	$1.5193
31 October 2019	$1.5734	$1.5290
30 November 2019	$1.5996	$1.5483
31 December 2019	$1.6203	$1.5631

Source: Platinum Investment Management Limited.

PMC returned 4.0% for the quarter and 17.3% for the year. While these are strong absolute results, they lagged the performance of global equity markets.

The breakdown of the year's performance is worth noting. PMC's long positions returned 28% for the year (in AUD terms),[1] which was slightly ahead of the broader market. This return was achieved with a highly differentiated portfolio, with the portfolio having an average weighting of 47% in Asian markets (including Japan) and 21% in North America over the year.

The returns earned from our positions in Asia ex Japan (+31%), US (+37%) and Japan (+41%), were ahead of their respective market returns, with only our European returns (+17%) trailing. While admittedly, this is only a 12-month period, we see this as evidence that our stock selection process continues to produce good outcomes at the individual stock level, particularly in light of the strong performance of global growth stocks (+33% for the year) versus global value stocks (+21%).[2]

Our decision to not be fully invested, with an average invested (i.e. long) position of 88% over the year, detracted around 4% from PMC's annual return. Losses on short positions[3] reduced returns by a further 5%. The question that naturally arises from these outcomes is the merit of holding cash reserves and shorting. In a year where markets have steadily moved higher, it certainly appears to be a futile exercise. However, as we have stressed in our updates over the course of last year, there are many signs of speculative behaviour by investors. This is evident not just with respect to the mania in high growth and defensive stocks in listed markets, but also in unlisted investments, such as private equity and infrastructure, as well as the enthusiastic use of

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum Capital Limited report are in AUD terms. Individual stock returns are quoted in local currency terms.

2 MSCI AC World Growth and Value in AUD terms.

3 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.

debt across much of the global economy. While it is difficult to predict when any of these excesses will be unwound, and to what extent that impacts stock prices, we continue to adopt a prudent approach by maintaining cash holdings in order to take advantage of opportunities when presented, and maintaining a level of short positions to provide a degree of downside protection.

At an individual stock level, key contributors to performance over the year (which were also reflective of the quarter) were our semiconductor and related stocks, **Samsung Electronics** (up 44% in local currency terms), **Micron Technology** (up 69%), **Skyworks Solutions** (up 80%), **Microchip Technology** (up 46%), **Intel** (up 28%) and **Sumco** (up 49%). While some of these stocks have been held for a number of years, the positions were increased at different times over the last 12 months on share price weakness, with the stocks sold off in response to weak demand, trade-related issues, and the Huawei bans. In recent months, stock prices have rallied, reflecting an easing in trade tensions, signs of increased data centre spending in the US, and good sales of 5G mobile handsets in China.

Other strong performers included a number of our Chinese investments, notably, **Ping An Insurance** (up 52%), **Anta Sports Products** (up 86%), **Weichai Power** (heavy duty diesel engines, up 106%) and **ZTO Express** (express parcel delivery, up 47%). In each case, the underlying businesses of these companies continued to perform well over the course of the year, driving their stock price performance. Key detractors from performance were our energy and materials investments, such as **Seven Generations** and **Glencore**.

Changes to the Portfolio

The net exposure of the portfolio increased over the quarter from 74% to 84%. Short positions fell from 16% to 9%, the most significant change being the closure of index shorts early in the quarter.

New holdings included Takeda (Japanese pharmaceuticals) and Schlumberger (oil services).

Takeda has undergone significant internal change in recent years and overhauled its research and development approach, which together with acquisitions and external partnerships, is driving much-needed innovation. The company has completely changed its approach to drug development and the benefits are now becoming apparent.

Disposition of Assets

REGION	31 DEC 2019	30 SEP 2019
Asia	34%	35%
North America	26%	23%
Europe	17%	17%
Japan	15%	13%
South America	1%	1%
Australia	0%	1%
Cash	7%	10%
Shorts	-9%	-16%

Numerical figures have been subject to rounding.
See note 2, page 10. Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	31 DEC 2019	30 SEP 2019
Financials	15%	14%
Information Technology	14%	10%
Industrials	13%	12%
Materials	12%	13%
Communication Services	11%	11%
Consumer Discretionary	7%	8%
Health Care	7%	3%
Energy	5%	5%
Real Estate	2%	2%
Consumer Staples	0%	0%
Other*	0%	-4%
TOTAL NET EXPOSURE	84%	74%

* Includes index short positions.
Numerical figures have been subject to rounding.
See note 3, page 10. Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics Co	Korea	Info Technology	4.3%
Ping An Insurance	China	Financials	3.7%
Facebook Inc	US	Comm Services	3.0%
Alphabet Inc	US	Comm Services	2.7%
Glencore plc	Switzerland	Materials	2.7%
ZTO Express Inc ADR	China	Industrials	2.6%
Minebea Co Ltd	Japan	Industrials	2.4%
Sumco Corp	Japan	Info Technology	2.3%
Skyworks Solutions	US	Info Technology	2.3%
China Overseas Land & Inv	China	Real Estate	2.3%

As at 31 December 2019. See note 5, page 10.
Source: Platinum Investment Management Limited.

For further details of PMC's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit www.platinumcapital.com.au.

Schlumberger is a leading provider of services to the oil and gas industry. Since the collapse in the oil price in 2014, spending by the oil and gas industry on exploration and production has fallen significantly. As a result, the revenues of the company have fallen by over 30% and operating profits by over 60%. We are expecting a pick-up in exploration and production activity by oil companies, in order to replace steadily declining production from existing fields, and with that, a recovery in Schlumberger's profitability.

We added to our position in **AIA**, the Hong Kong based life company that is a strong second player to Ping An Insurance in the Chinese life insurance market. The company was sold off on concerns of potential disruption to its business from the Hong Kong protests. Price weakness provided us with an opportunity to acquire more stock at attractive prices.

Otherwise, most activity centred on trimming positions that performed well over the course of the year such as, Anta Sports Products, and Bharti Airtel (Indian Telecom).

Net Currency Exposures

CURRENCY	31 DEC 2019	30 SEP 2019
US dollar (USD)	41%	40%
Japanese yen (JPY)	20%	18%
Hong Kong dollar (HKD)	12%	12%
Euro (EUR)	12%	13%
Chinese yuan (CNY)	7%	7%
Korean won (KRW)	6%	6%
British pound (GBP)	5%	5%
Indian rupee (INR)	4%	5%
Canadian dollar (CAD)	3%	3%
Norwegian krone (NOK)	2%	2%
Swiss franc (CHF)	2%	2%
Brazilian real (BRL)	1%	1%
Australian dollar (AUD)	0%	1%
Chinese yuan offshore (CNH)	-14%	-15%

Numerical figures have been subject to rounding.
See note 4, page 10. Source: Platinum Investment Management Limited.

Outlook

In recent quarterly reports, we have noted the attractive valuations across the portfolio as a reason to be cautiously optimistic about PMC's future returns. The average forward price-to-earnings (P/E) ratio for the long positions in the portfolio is 12.3x, which is higher than 10.8x in September and 10.3x at the end of 2018, reflecting the strong gains in a number of our stocks.

After such a strong year in the markets, an element of caution is warranted in the short term. Having said that, we remain comfortable with our portfolio positioning. Current valuations continue to remain attractive in comparison with market averages, and our quantitative and qualitative assessments lead us to believe that our portfolio is more profitable and faster growing than the global universe of stocks that we cover.

While a number of our long-term holdings have indeed rallied strongly in recent months, which is a pleasing result for our investors, other positions, notably in the energy and materials sectors, have not fared as well, largely reflecting negative sentiment towards cyclicals. Sentiment is lifting however, and as such, we remain confident in the long-term prospects for the businesses we own.

Macro Overview

by Andrew Clifford, CIO, Platinum Investment Management Limited

Interest rates – a tailwind or headwind for equities in 2020?

In our September quarterly update[1] we discussed the strong consensus that had developed among investors and commentators that interest rates would remain at low levels for some time to come, or as it has become known as, the "lower for longer" view. Whenever such strong agreement is present amongst investors it is important to consider the alternative view.

As noted in our last report, long-term interest rates have fallen to the same levels (or lower) as those experienced in prior periods of significant weakness in the global economy, such as the 2012 European sovereign crisis or the 2016 Chinese investment slowdown. While global manufacturing has certainly weakened, and there is significant political uncertainty, is the environment really that weak to justify such low levels of interest rates?

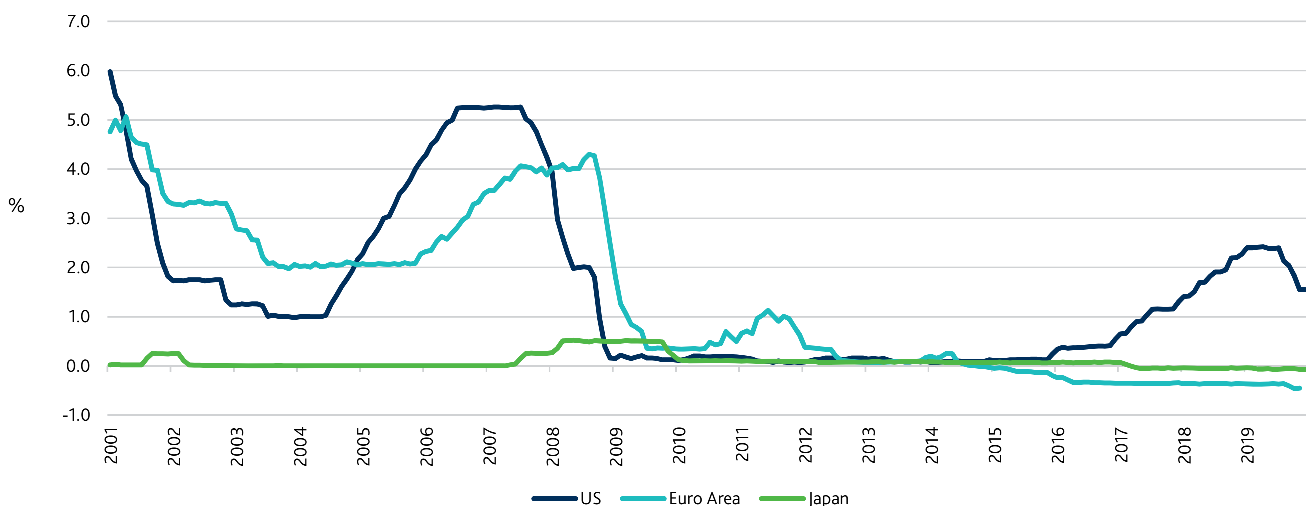
Employment in the major economies suggests otherwise. Over the last five years, the US economy has added 9.8 million jobs, representing a 7% increase in the workforce over that period. Similarly, Europe has added 8.7 million jobs, an increase of 6%, and Japan, with a declining working age population, has added over 1 million jobs, an increase of 2%. While employment is a lagging indicator of economic activity in the short term, these numbers suggest we have experienced a period of relatively robust global growth - one that is not consistent with such low interest rates.

Many investors may observe that interest rates have been low for much of the last 30 years, reaching new lows each cycle, irrespective of the severity of the downturn. The answer then, is simply that **interest rates do not reflect the level of economic activity, but rather the interest rate policies of the world's central banks.** With official interest rates below zero in Japan and Europe (see Fig. 1), the limitations of such policies are coming to the fore. The central banks cannot simply continue to reduce rates to ever-more negative levels as depositors, where feasible, will seek to leave the banking system, potentially threatening its viability.

With central banks either close to, or having reached, the end of the road on lower interest rates, it is interesting to note that central banks around the world are calling for an increase in government spending and fiscal deficits to support economic activity. The European Central Bank, Bank of Japan and Reserve Bank of Australia all made calls in late 2019 for their respective governments to increase fiscal stimulus.

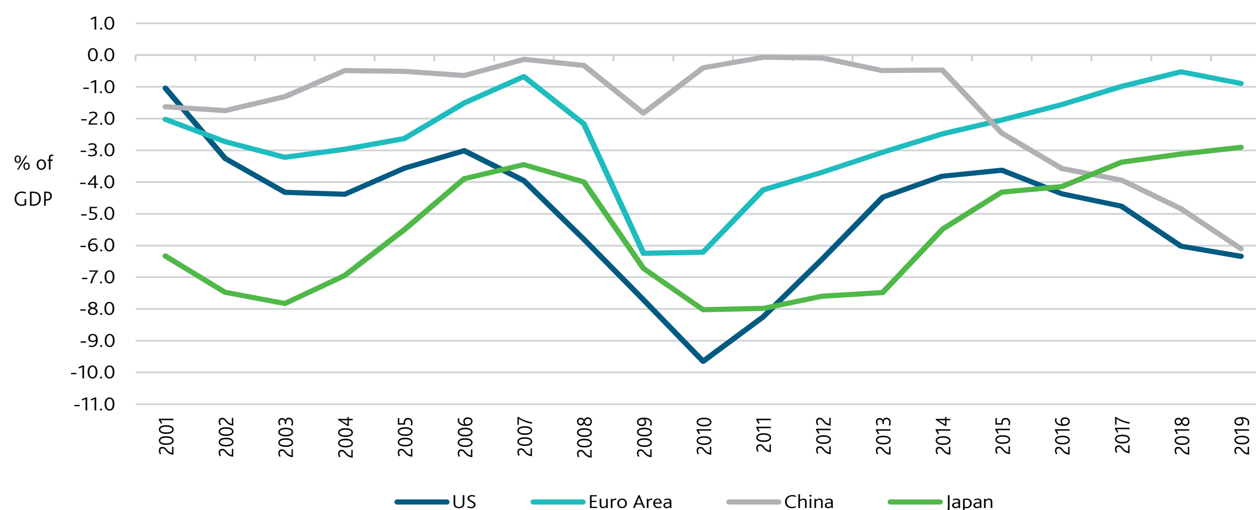
1 https://www.platinum.com.au/PlatinumSite/media/Reports/pclqtr_0919.pdf

Fig. 1: Central Bank Official Interest Rates - At the End of the Road for Europe and Japan?



Source: FRED - Federal Reserve Bank of St. Louis Economic Data, as at November 2019.

Fig. 2: Government Budget Balances (% of GDP) - Europe and Japan are Best Placed for Fiscal Stimulus



Source: IMF, as at December 2019.

The effectiveness of low and negative rates in encouraging economic activity and the potential side effects, such as increasing indebtedness, is also under discussion. In December, Sweden's central bank, Riksbank increased its repo rate from -0.25% to 0%, in spite of a slowing economy, quoting concerns about the "negative effects" that may arise from long periods of negative rates. It would not surprise us to see further discussion around the effectiveness of very low interest rates, with central banks ultimately looking for a way out of the corner they have painted themselves into. The immediate issue facing the central banks, as they try to normalise rates, is the level of indebtedness in their economies that these policies have encouraged. It is interesting to note, that such a strong consensus on "lower for longer" has developed at a time when central banks are signalling that current interest rate policies may have run their course.

While any move toward normalising interest rate structures may be a long way off, other factors may lead to a pick up in activity in 2020 and beyond, leading to an uptick in inflationary pressures and interest rates. With encouragement from central banks to increase spending and deficits, it is hard to imagine that governments will not follow this recommendation. The US has already undertaken significant fiscal expansion as a result of the 2018 tax cuts, with its deficit currently running at around 6% of GDP (see Fig. 2). Nevertheless, given that the markets are happy (for the moment) to finance this debt at interest rates of less than 2% p.a., and with concerns around the impact of the trade war and an election year underway, an additional round of stimulus is conceivable. China's fiscal deficit has also increased substantially (currently estimated at 6% of GDP) due to tax cuts and spending initiatives over the last 18 months. Given the Chinese government's stated desire to restrain the growth of debt across the economy, policy makers are probably somewhat constrained on additional fiscal measures.

This leaves Europe, where the fiscal deficit is around 1% of GDP, and Japan where the fiscal deficit has fallen to 3% of GDP, as the most likely sources of significant additional fiscal stimulus. As discussed last quarter, France and the Netherlands have announced tax cuts, and during the December quarter, Japan passed a supplementary budget of 13.2 trillion yen (or 2% of GDP). Today, Europe and Japan run the world's largest current account surpluses in absolute dollar terms, which means these economies are significant sources of funding for activity across the rest of the world. If fiscal stimulus results in European and Japanese excess savings being applied within their own economies in any significant way, it is likely to result in greater competition for financial resources across the globe, resulting in upward pressure on long-term interest rates. In addition to the competition for financial resources, any stimulus will come at a time when labour markets in the major economies are relatively tight, which could create some degree of wage inflation, and a further source of upward pressure on interest rates.

Finally, the December quarter saw the promise of a 'phase one' trade deal between the US and China, to be signed in the New Year.[2] Based on events of the last 18 months, even if the deal is signed, we shouldn't expect that the trade issue will be set aside completely. Nevertheless, it represents a clear retreat by the US administration from its most extreme positions on trade.

The UK general election result reduces the uncertainty in both the UK and European economies, with the UK exiting the European Union in a more orderly fashion. Both of these outcomes should result in an improvement in business confidence globally.

2 The US and China announced details of a 'phase one' trade deal on 13 December 2019. The US agreed not to proceed with the new tariffs that were due to commence on 15 December 2019 and to also cut existing tariffs on ~US$120 billion in Chinese goods to 7.5% (from 15%) after 30 days of signing the deal. The US's 25% tariffs on ~$US250 billion on Chinese goods will remain. In exchange, China agreed to buy ~US$200 billion in US products over two years, including US$40-50 billion in agricultural goods. The deal also included Chinese concessions on intellectual property (IP) protections and forced tech transfers, and currency and financial-services provisions. Source: FactSet

While the consensus remains that interest rates are not going to rise anytime soon, it is not inconceivable that the economic environment improves over the course of 2020, as a result of fiscal stimulus and less uncertainty around issues such as trade and Brexit. Indeed, we would not be surprised to see rates moving higher over the next 18 to 24 months, back to levels seen at the end of 2018, when US treasuries peaked at above 3%. Certainly problems remain that may derail such an outcome. Most notably the US election process has the potential to create significant noise and uncertainty. Additionally, domestic political protests such as those in Hong Kong and elsewhere, look difficult to resolve, and could potentially escalate further.

Nevertheless, our suggestion is that rates may return to where they were a little over 12 months ago. At that time, the world did not look so different to today.

MSCI Regional Index Net Returns to 31.12.2019 (USD)

REGION	QUARTER	1 YEAR
All Country World	**9.0%**	**26.6%**
Developed Markets	**8.6%**	**27.7%**
Emerging Markets	**11.8%**	**18.4%**
United States	**9.0%**	**30.9%**
Europe	**9.0%**	**24.1%**
Germany	9.9%	20.8%
France	8.5%	25.7%
United Kingdom	10.0%	21.0%
Italy	8.1%	27.3%
Spain	6.0%	12.0%
Russia	16.8%	50.9%
Japan	**7.6%**	**19.6%**
Asia ex-Japan	**11.8%**	**18.2%**
China	14.7%	23.5%
Hong Kong	7.3%	10.3%
Korea	13.4%	12.5%
India	5.3%	7.6%
Australia	4.3%	22.9%
Brazil	14.2%	26.3%

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

MSCI All Country World Sector Index Net Returns to 31.12.2019 (USD)

SECTOR	QUARTER	1 YEAR
Information Technology	14.5%	46.9%
Health Care	13.7%	22.7%
Materials	9.3%	20.1%
Financials	9.0%	23.2%
Consumer Discretionary	8.2%	27.7%
Communication Services	8.2%	24.6%
Industrials	7.4%	26.4%
Energy	5.8%	12.8%
Consumer Staples	2.6%	21.6%
Utilities	2.3%	21.1%

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

Market Outlook

While a discussion of interest rates rarely makes for exciting reading, it is currently the critical issue for investors in all asset classes. There are three ways that interest rates are impacting markets today, the first two are perennial features of markets, and the third is peculiar to current circumstances.

The most obvious of these, is the role interest rates play in the valuation of assets. The value of any given asset is a function of the future cashflows that it will produce and the appropriate risk-adjusted interest rate.[3] This is true for all assets, whether it is a listed company, rental property, toll road, or government bond. In theory, the lower interest rates are, the higher the value that should be ascribed to an asset for a given set of expected future cashflows. The impact of ever-falling interest rates has been a significant tailwind for the performance of all asset classes globally for over 30 years. We have all experienced this phenomenon, not only in our investment portfolios, but also in the prices of residential property in most markets. While there may be questions of the efficacy of low rates on economic growth, there can be no question regarding the impact of low interest rates on the performance of asset markets. Of course, the role of interest rates in the price of assets is one of the most basic concepts in finance, but worth remembering at this time because as rates reach their bottom, we lose this tailwind and it potentially becomes a headwind. While some postulate that if rates stay low, valuations will continue to head higher, the experience in Japan where rates have been below 2% for 20 years, was that the average valuation of the market halved.

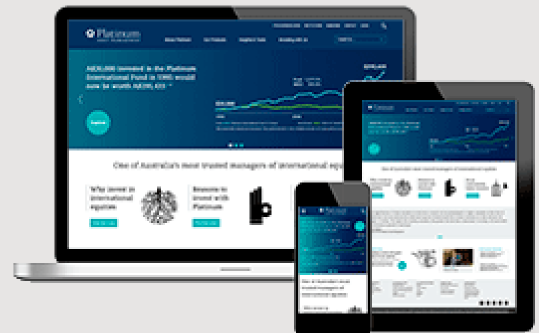
The second impact of low rates occurs in the real world, where the hurdle rate for real investment is lowered. Today, this is most readily observed in the willingness of investors to fund new projects in e-commerce, software, biotech, and other high growth areas, where poor short-term returns on investment are accepted for the potential of a significant long-term pay-off. However, in many cases the amount of capital invested in an area will drive down the attractive return investors are after in the first place. Uber's ride-sharing business is an interesting example where a company, despite achieving a leading position in a new e-commerce field, faces the continual rise of new entrants, which we would simply put down to the generous funding these competitors have already received. Only once these funds have been lost, or access to them removed, will rationality prevail. A similar experience has occurred for investors in the US shale oil sector, where plentiful capital has ultimately led to very poor returns and consequently companies are now struggling to receive debt or equity funding for such ventures. The low cost of money will see funds attracted by the most exciting opportunity of the moment, ultimately driving down returns. Simply, the availability of cheap money actually changes the future cashflow of the industry, and thus the valuation. This premise fits neatly with our approach of avoiding the crowd, as any sector or business idea that is attracting significant capital today, is likely to have a difficult future.

The third impact of low interest rates has been to push investors to seek returns elsewhere, including the stock market. As we have previously discussed, this occurred at a time when there were many reasons to discourage investors from the market, from the global political environment to the disruption of traditional business models. As a result, investors in entering the market have sought either defensive names (i.e. consumer staples, infrastructure, utilities, and property) or high growth areas (i.e. e-commerce, software, payments, and biotech) that are regarded as relatively immune to these issues. Investors simultaneously avoided businesses facing uncertainty (i.e. cyclicals), and in particular those impacted by the trade war (i.e. China generally, automobiles, and electronics). This has resulted in a significant divergence in valuations, with the growth and defensive stocks trading at high levels and the rest of the market trading at generally more attractive valuations. A move to higher interest rates will be particularly challenging for these highly valued sectors.

On the back of optimism around the US-China trade negotiations and the UK general election, markets have entered 2020 on an enthusiastic note. This may continue for some time, but if it is the presage of better economic times, it is hard to see how long-term interest rates can remain suppressed. Given how important the higher-valued defensive and growth stocks have been in driving index levels, a period of softer returns is likely ahead in the broad market.

3 Usually referred to as the discount rate in finance.

The Journal



Visit www.platinum.com.au/Our-Products/PMC to find a repository of information about Platinum Capital Limited (PMC) including:

- Performance and NTA history
- Dividend history and the Dividend Reinvestment Plan
- ASX releases and financial statements
- Monthly updates on performance, portfolio positioning and top 10 holdings.

You can find a range of thought-provoking articles and videos on our website. For ad hoc commentary on the latest market trends and investment themes, look up **The Journal** under **Insights & Tools**.

If you find yourself short on time to read our in-depth reports and articles, have a listen to our **audio podcasts** or watch brief market updates in **video** format.

Recent videos and articles include:

- **In Conversation with Platinum's Founder, Kerr Neilson.**[1] Kerr Neilson chats with Douglas Isles on a wide range of topics - the relevancy of behavioural finance today, where he is seeing the greatest change around the world and the exciting investment opportunities it presents, as well as what lies ahead in 2020.
- **Disruption and Survival in the Consumer Market.**[2] The rapid adoption of new technologies is transforming consumer behaviour. Jamie Halse explains how the consumer team differentiates between the 'disruptors', 'thrivers', 'survivors' and 'untouchables', and the investment opportunities this creates.
- **Standing out from the Crowd.**[3] Phil Sellaroli explains the pivotal role Platinum's trading team plays in the investment process – from idea origination to trade execution and risk assessment. Providing a vital market filter to the investment team, they identify long-term buying/selling opportunities in a market often focused on short-term events.
- **Pencils, Balloons and BMWs – What's it all About?**[4] Julian McCormack provides an entertaining analogy of the current market. While we never know what will be the catalyst that 'pops' an extended market, we do know what the inherent risk is. We need to be vigilant to not only avoid the danger but also identify the value that's on offer.
- **Food Delivery: Delivering Growth, but can they Deliver Profits?**[5] The food delivery space has evolved significantly over the past few years. With many of us now ordering takeaway food simply from an app on our phone, total food sales of listed food delivery platforms in the Western hemisphere have soared to US$18 billion in the first half of 2019. But not all operators are profitable. Jimmy Su and Jamie Halse explain what it takes to be successful.

1 https://www.platinum.com.au/Insights-Tools/The-Journal/In-Conversation-with-Kerr-Neilson
2 https://www.platinum.com.au/Insights-Tools/The-Journal/Disruption-and-Survival-in-the-Consumer-Market
3 https://www.platinum.com.au/Insights-Tools/The-Journal/Standing-out-from-the-Crowd
4 https://www.platinum.com.au/Insights-Tools/The-Journal/Pencils-balloons-and-BMWs
5 https://www.platinum.com.au/Insights-Tools/The-Journal/Food-Delivery-Delivering-Growth

Notes

Unless otherwise specified, all references to "Platinum" in this report are references to Platinum Investment Management Limited (ABN 25 063 565 006 AFSL 221935). "PMC" refers to Platinum Capital Limited (ABN 51 063 975 431) (ASX code: PMC).

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. PMC's returns are calculated using PMC's pre-tax net tangible asset (NTA) backing per share (as released to the ASX monthly). PMC's returns are calculated after the deduction of fees and expenses, have been adjusted for taxes paid and any capital flows, and assume the reinvestment of dividends. **PMC's returns have not been calculated using PMC's share price.**

   PMC's returns have been provided by Platinum. The MSCI All Country World 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. The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then. For the purpose of calculating the "since inception" returns of the Index, PMC's portfolio inception date (29 June 1994) is used. Platinum does not invest by reference to the weightings of the Index. PMC's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, PMC's holdings may vary considerably to the make-up of the Index. Index returns are provided as a reference only.

   The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in PMC's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.
2. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the market value of PMC's positions, PMC's effective exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices. "Shorts" relates to the effective exposures to short securities and short securities/index derivative positions.
3. The table shows, as a percentage of PMC's portfolio value, PMC'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 PMC's portfolio as a percentage of PMC's portfolio value, taking into account PMC's currency exposures through securities holdings, cash, forwards, and derivatives. The table may not exhaustively list all of PMC's currency exposures and may omit some minor exposures.
5. The table shows PMC's top 10 long equity positions as a percentage of PMC's portfolio value, taking into account direct securities holdings and long stock derivatives. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

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