Platinum Asia Fund

Andrew Clifford Portfolio Manager

Disposition of Assets

REGION	MAR 2011	DEC 2010
China (Listed PRC)	7%	6%
China (Listed Ex PRC)	18%	18%
Hong Kong	3%	3%
Taiwan	7%	6%
Greater China total	**35%**	**33%**
Korea	19%	18%
Thailand	12%	9%
India	10%	11%
Malaysia	5%	5%
Singapore	5%	5%
Philippines	3%	3%
Indonesia	3%	2%
Vietnam	1%	1%
US/Canada	1%	1%
Cash	6%	12%
Shorts	13%	9%

Source: Platinum

Performance

Performance (compound pa, to 31 March 2011)

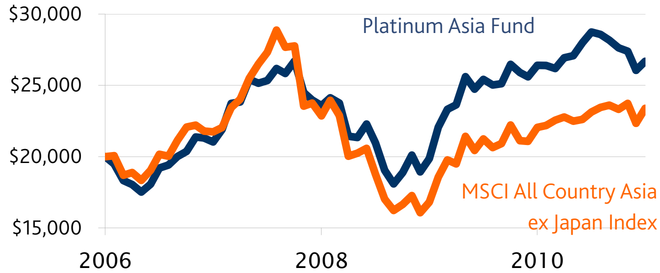
	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Asia Fund	-3%	1%	4%	6%	19%
MSCI AC Asia ex Jp Index	0%	6%	1%	3%	11%

Source: Platinum and MSCI. Refer to Note 1, page 5.

Early in the quarter regional markets fell away over concerns that China would need to tighten policy to deal with rising inflationary issues. Toward the end of the period some softer economic data resulted in these fears receding and the markets making a sharp recovery to end relatively flat both in local currency and Australian dollar terms. India was the stand out market falling almost 5% as investors dealt with rising interest rates and concerns created by a number of government related scandals.

Value of $20,000 Invested Over Five Years

31 March 2006 to 31 March 2011



Source: Platinum and MSCI. Refer to Note 2, page 5.

Poor performances from a number of the bigger holdings in China and India were behind the Fund's underperformance of the market in the current quarter. Companies such as Guangzhou Auto (Chinese auto producer, -12%) and China Mobile (mobile phone network, -7%) are typical of current market behaviour where any slowing in earnings growth in the short-term has been punished in spite of the longer term picture remaining promising. In India our property related names performed poorly as interest rates continued to rise, and in one case allegations of fraudulent behaviour in relation to the awarding of mobile phone licenses weighed on the company's stock price. Our view in each case is that these companies remain promising investments and the patient investor will be well-rewarded for holding on. Bangkok Bank (+17%), the Fund's largest holding is a good illustration of the reward for patience, where a resumption in loan growth has continue to drive earnings and the stock price higher. Short positions in the portfolio detracted approximately 0.5% from performance during the quarter.

Changes to the Portfolio

PTT Chemical, a Thai producer of ethylene, was added to the portfolio. Ethylene is the key intermediate material required to make polyethylene, a product which is subsequently used in making a variety of plastics products such as plastic bags and containers. Global oversupply of ethylene has seen prices suppressed relative to the naptha feedstock used by most producers. Naptha is a product of the oil refining process and the price typically follows the crude oil price. We expect that over the next 2 to 3 years ongoing growth for ethylene will reduce the oversupply and that margins over naptha will return to trend levels. Some producers of ethylene such as PTT Chemical use gas as a feedstock and currently have a significant advantage over naptha based producers; one that increases as the oil price rises relative to their gas feedstock price.

Otherwise, the weakness in the stock prices was used to add to existing holdings such as China Mobile, Unitech (an Indian property developer) and Taiwan Fertiliser (both a fertiliser producer and property developer). The reduction in cash was approximately offset by an increase in short positions on the Korean Kospi Index and the H Share Index in Hong Kong.

Commentary

A number of indicators emerging towards the end of the quarter have hinted at a little steam coming out of the Chinese economy. Sales of new residential properties have fallen by as much as 50% from the levels of late 2010[1] and average selling prices are down in the order of 15%. These falls have been in direct response to new measures put in place this year to cool the property market[2]. As properties are almost entirely pre-sold before construction, the fall-off in sales if maintained will quickly result in a tailing off in residential construction activity. Elsewhere, the growth in auto sales has continued to trend down in recent months; the March purchasing managers survey fell to levels last seen in late 2009 and generally the upward pressure on food and other prices appears to have abated, at least for the moment. Anecdotal evidence also points to a tightening in the availability of credit from the banks which suggests that policy makers have indeed been hitting the brakes a little harder than otherwise understood.

Starting midway through March, the markets greeted this basket of "softer economic data" by moving stocks prices across the region sharply higher. The logic being that if the various measures that have been put in place to deal with China's inflationary issues have been successful, then one need no longer worry about further interest rate hikes and the like, and indeed one can start to anticipate the unwinding of efforts to slow China's economy. In other words, we are back to the races, and that may well be the case for the moment.

[1] In part there are seasonal factors at work around Chinese New Year but nevertheless this fall in volume is significant.

[2] New measures include restrictions on the number of properties that can be owned, increases in deposit requirements for buyers, and taxes on properties sold within five years of purchase.

It appears to us, however, that China's problems are not so easily solved. For starters there is mounting evidence that the labour market has tightened significantly. For over a year manufacturers in the coastal provinces have complained about the difficulty in hiring new workers and rising wage rates. One contact we spoke to recently when researching China's agricultural sector claimed that in rural areas only 5% of the population was between 20 and 35 years of age, suggesting that the rural to urban migration will continue to slow. Of course rising wages are not, per se, a bad thing provided they are driven by productivity improvements, though it is unlikely that this is currently the case.

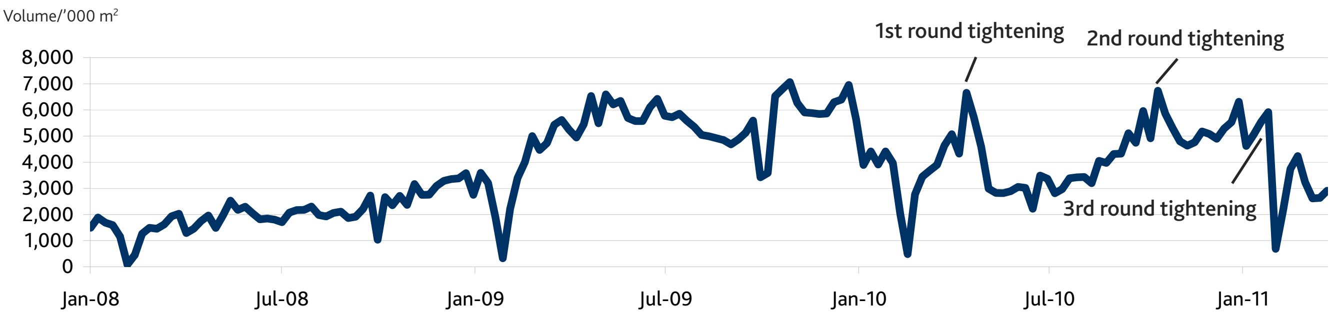
A further pressure point for China has been rising commodity prices. If China's growth has been slowing in recent weeks or months it is difficult to observe in commodity markets with many commodities, both hard and soft, not far from recent highs. Other factors beside demand drive these markets; the oil price response to tensions in the Middle East being a case in point. But if we accept the case that China has slowed to some degree and is now set to reaccelerate, then the case for even higher commodity prices can be made. While one might debate what impact a significantly higher oil price might have on China, it is probably more obvious what it will do to China's export markets in the West.

China's policy approach during this cycle has differed markedly from the previous brush with inflation in 2007. While on both occasions there has been some strengthening of the currency against the US dollar, it has clearly been at a slower rate than in 2007/08 and indeed it has depreciated against other major currencies. At the time of writing, the People's Bank of China had increased interest rates a further 0.25%, taking the total lift in rates to 1.00%, but in comparison with the previous cycle they have been much slower to act. For whatever reason, this cycle policy makers have preferred to rely more heavily on administrative measures such as loan quotas for the banks and restrictions on the property market than in the past.

As noted earlier, for the moment this approach appears to be working. However, there tends to be flaws with the administrative approach which gives us little confidence that the inflation problem has been dealt with. For example, the recent restrictions on the property market are the third set of measures that have been put in place in the last 12 months. Having had some success with this approach in 2007, it has not been as effective this time as potential buyers have worked out the pattern. Once the market has a set back it is time to buy, which they will do once they work out a way around the rules (see chart below). A similar example occurred in the banking system last year where loan quotas encouraged banks to set-up off balance sheet entities so they could continue to lend as they pleased. Then there are conflicting policies such as the massive investment in public housing that is planned which may suppress residential prices but will only add further pressure on building material prices.

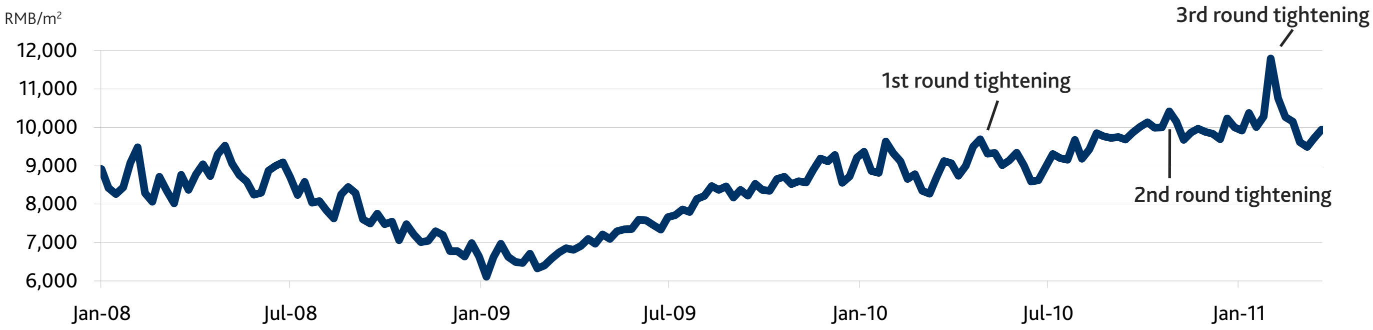
At the end of the day, if depositors can only get 3% for a bank deposit while observing prices rising steadily at a higher rate, they have a strong incentive to consume now and save less. It is this simple mechanism that will ultimately drive inflation higher in China. If policymakers do not take a firmer course of action it is hard to see how inflationary pressures will not return, although the time period in which this will occur is difficult to assess.

Volume Sales of New Residential Properties Across 35 Major Chinese Cities



Source: Deutsche Bank

Average Selling Price for New Residential Properties Across 35 Major Chinese Cities



Source: Deutsche Bank

Outlook

The accepted wisdom is that inflation is "bad" for equities; a position which is hard to argue against. If inflation is perceived to have moved to a permanently higher level, the discount (or interest) rate which investors use to value companies will rise resulting in lower share prices[3]. Inflation ultimately will discourage savings and investment, and thus ultimately impact the long-term growth of an economy and company profits.

However, in practice the situation is more complicated. Over the last year Chinese shares (listed in both Shanghai and Hong Kong) have been the weakest performers in the region. We can observe and indeed own companies that are trading at valuations that are very low relative to their history. To some extent the markets may have already adjusted for higher levels of inflation. Then there is the fact there will be winners and losers from inflation and indeed there has been significant divergence of performance in Chinese stocks recently. Even fairly obvious approaches such as buying commodity producers may not have worked as price controls have been put in place for some commodities. Ultimately the greatest difficulty is in assessing the path Chinese policy makers will take. If there is a change in heart and more draconian measures are taken to deal with inflation then we will be in an environment of slowing growth and inflation protected plays may not be where one wants to be invested.

Meanwhile, the rest of the region which typically has more flexible exchange rate regimes and exhibited a greater willingness to put up interest rates, have outperformed over the past year. Nevertheless these markets remain very sensitive to China's growth prospects as can be seen in the early parts of the quarter as they sold-off in the face of fears that China would tighten further. If such fears return, a similar sell-off across the region should be expected.

[3] This can be the case even if actual interest rates are held artificially low by Central Banks.

Notes

1. The investment returns are calculated using the Fund's unit price and represent the combined income and capital return for the specific period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that historical performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

   The inception dates for each Fund are as follows:
   Platinum International Fund: 30 April 1995
   Platinum Unhedged Fund: 31 January 2005
   Platinum Asia Fund: 4 March 2003
   Platinum European Fund: 30 June 1998
   Platinum Japan Fund: 30 June 1998
   Platinum International Brands Fund: 18 May 2000
   Platinum International Health Care Fund: 10 November 2003
   Platinum International Technology Fund: 18 May 2000

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 31 March 2006 to 31 March 2011 relative to their Index (in A$) as per below:
   Platinum International Fund - MSCI All Country World Net Index
   Platinum Unhedged Fund - MSCI All Country World Net Index
   Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index
   Platinum European Fund - MSCI All Country Europe Net Index
   Platinum Japan Fund - MSCI Japan Net Index
   Platinum International Brands Fund - MSCI All Country World Net Index
   Platinum International Health Care Fund - MSCI All Country World Health Care Net Index
   Platinum International Technology Fund - MSCI All Country World Information Technology Net Index
   (nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist).

   The investment returns are calculated using the Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

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