Platinum Asia Fund

Andrew Clifford Portfolio Manager

Disposition of Assets

REGION	MAR 2012	DEC 2011
China (Listed Ex PRC)	17%	17%
China (Listed PRC)	6%	6%
Taiwan	5%	5%
Hong Kong	2%	1%
Greater China total	**30%**	**29%**
Korea	17%	18%
Thailand	16%	14%
India	9%	7%
Philippines	7%	6%
Singapore	6%	6%
Malaysia	5%	5%
Indonesia	2%	2%
Vietnam	1%	1%
Canada	1%	1%
Cash	6%	11%
Shorts	2%	2%

Source: Platinum

Performance

Performance (compound pa, to 31 March 2012)

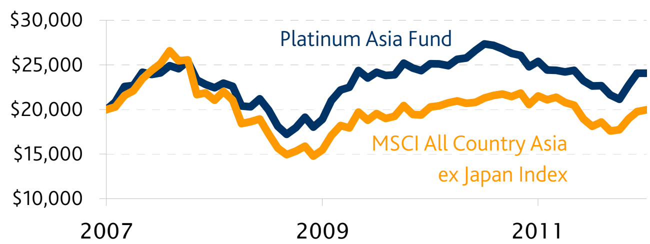
	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Asia Fund	14%	-5%	8%	4%	16%
MSCI AC Asia ex Jp Index	13%	-7%	9%	0%	9%

Source: Platinum and MSCI. Refer to Note 1, page 4.

Asian stock markets staged a good rally during the quarter rising 13% (in both local and Australian dollar terms) driven by a combination of factors. While there was some degree of anticipation that policy may be eased in China and India as inflation in both countries appears to have peaked, there was goods news from the US where the economy continues to improve, and relief that the problems in Europe were subsiding - at least for the moment. Most of the regions markets participated in the gains with the main exception being the Chinese market where the Shanghai composite index managed a relatively paltry 2.9% gain, a particularly weak result given the long-term underperformance of this market.

Value of $20,000 Invested Over Five Years

31 March 2007 to 31 March 2012



Source: Platinum and MSCI. Refer to Note 2, page 4.

The Fund's performance was a little better than the market for the period, with strong performances from many of the Fund's largest stock holdings. Among the bigger contributors to performance were Bangkok Bank (Thai bank, up 20%) and Ayala Land (Philippine property company, up 37%), as both companies have shown steady earnings progress and the market has steadily re-rated these companies. Our Indian stocks have been good performers, with many of the companies whose performance detracted heavily from performance last year, bouncing back. Prime examples were our property companies, Housing Development and Infrastructure, and Unitech, where there has been some light at the end of the tunnel with respect to interest rates in India. The stocks that continue to lag significantly are our Chinese A share holdings such as China Life and Ping An Insurance which have been held back with the whole of the Chinese market.

Changes to the Portfolio

The Fund's net invested position increased from 87% to 92% over the quarter as cash was put to work in both new and existing holdings. Amongst the portfolio's new positions was 51job, a Chinese internet job board (similar in nature to Australia's Seek.com) but with an additional social network element where job seekers place their CVs for general viewing by recruitment agencies. The Fund re-entered CITIC Securities, the leading Chinese investment bank, which we expect to benefit from the eventual easing of monetary conditions in China. Otherwise, toward the end of the quarter we started to reduce holdings in a number of the Fund's better performers such as Samsung Electronics, Bangkok Bank, Ayala Land, and our India cement stocks, Madras and Ambuja Cement.

Commentary

In early March we went on one of our regular trips to China making stops in five provincial cities; Hefei, Zhengzhou, Chengdu, Chongqing, and Kunming. Meetings were held with a variety of local companies, entrepreneurs, various experts and the occasional government official. The picture that unfolded was a country which has reached a medium-term peak in construction activity with all segments of the property sector either overbuilt or on their way, and significant infrastructure construction having already taken place. If correct, this will have significant implications for construction related commodities such as steel and cement, and for the Australian dollar.

We last wrote in detail in the September 2011 quarterly report about the take-off in residential apartment starts compared to sluggish sales. In China, the business model for developers is to use proceeds from pre-selling the apartments to fund construction, however, a pre-sale certificate is not issued until several floors of the superstructure (the rules vary by city) have been built. Surveying the cities as we travelled through them, there were an extraordinary number of building sites where little activity appeared to be occurring. Certainly crane movements were hard to spot, and trucks rolling into or out of the sites, the usual cloud of dust and the noise of construction work, often seemed to be absent! Of course, one should put a low value on this type of anecdotal observation, but through the course of our meetings over the week it was generally accepted that construction had slowed substantially. So it would appear that many developers, having rushed to build to the pre-certification level in the hope of selling down their land bank and improving their balance sheets, have not been able to make adequate pre-sales to keep the site moving along and for the moment are stuck with half built sites and plenty of debt.

However, this is not really news as markets have been concerned about a slowdown in construction activity since mid-2011. The general view has been that once the pain from the slowdown became great enough, that policymakers would unwind the restrictions on lending to property buyers, and soon enough it would be 'back to the races'. This does not appear to be happening quite on cue. Indeed some people we talked to see the central government as having taken a philosophical view that residential property was an 'end user' asset and not for 'hoarding'; terms that were mentioned a number of times in property related discussions. The expectation is that measures will continue to aim at restricting how much property individuals can accumulate and capping price appreciation. This points to a much slower recovery in activity in this important sector than might otherwise be expected.

Elsewhere, the retail and office property markets look well on their way to significant oversupply. In Chengdu, we heard from one of the major international property agents, that three million m^2 of A grade office space is expected to come on the market in the next three years. This compares with current annual take up of around 250,000 m^2 of office space. Of course, take up of new space might accelerate as rents fall, but still there will be significant vacancies for some time to come. In the retail property market, the pattern has become one of 'winner takes all', with the malls that attract the right tenants (Zara, H&M, Apple, Uniglo, and Muji at the top of the list) receiving significant foot traffic, while those next door, without the name tenants, receive a fraction of the traffic. In Chengdu, this hasn't stopped developers starting work on up to 2.6 million m^2 of retail space which will be delivered over the next two years. This new supply alone would put Chengdu in line with typical European countries in terms of mall space per capita. Interestingly, construction continues on these office and retail projects, presumably because funding is in place, but ultimately at some point the looming oversupply will see a significant cutback in activity.

The other area of concern is infrastructure, where one can observe the number of airport terminals, rail lines, roads, bridges and tunnels, which were simply not there when visiting these cities several years ago. Getting a sense of how much is enough is difficult, but one Yunnan government official responsible for infrastructure development remarked that the major road and rail links in his province were either complete or on the way to completion. In the short-term, funding has become an issue because infrastructure projects have traditionally been funded via the sale of land to developers!

Construction activity is typically estimated to be around 10% of the Chinese economy, though some would argue it is potentially closer to 25% when one includes the industries that supply goods and services to this sector. Clearly a slowdown in construction will impact headline figures such as GDP growth, but for some fast growing industries we would expect any impact to be muted. For example, many consumer related goods are likely to continue to grow at good rates even in a downturn. The country is in the process of rolling out a nationwide health insurance system that should help underpin the growth of the healthcare industry. We would expect the growth of many internet related businesses in China would be barely, if at all, affected by a construction slowdown. If there is a simple message, it is to avoid investments that will be driven by Chinese construction and look elsewhere.

At the end of our trip we made a detour to Burma (Myanmar). The country sits in a strategic position, potentially connecting China and Indochina to the Indian Ocean by road and rail, cutting transport times significantly to markets in Europe, and for that matter, India. In particular this would be the case for Western China where goods are typically shipped to the coast before being exported. The country is well endowed with natural resources and pipelines will connect the region to Burma's (Myanmar's) oil and gas reserves. The country also has significant potential to develop as a tourist destination.

The political change that has taken place in many respects seems too good to be true. However, there does appear to be evidence of real change taking place with monopolies being broken-up and senior military officers being arrested for corruption. Ultimately though, the most important development has been Aung San Suu Kyi's endorsement of the changes taking place through her participation in the recently held elections. The key to the country's economic development will be the lifting of the US and EU sanctions that is expected post a fair and free election. This potentially opens the way for significant foreign direct investment. Though there are no significant ways of investing directly in the country, it is likely that many of our Thai companies, in particular the banks, will derive some benefit from the development of their Northern neighbour.

Outlook

Markets have moved well-off the lows of 2011 but our observation would be that valuations across the portfolio remain attractive, giving us confidence that good returns are likely over the next three years and beyond. In the short-term, news of easier policy in China or India has the possibility to push markets higher but we suspect that given neither country is likely to pursue such policies with the same enthusiasm as they did in 2009, this may not be quite the boost investors are hoping for. The risks remain a much harder downturn in China unfolding (a prospect we would rate as likely) and the ongoing problems of the indebted developed economies.

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$20,000 invested in the relevant Fund over five years from 31 March 2007 to 31 March 2012 relative to their Index (in A$) 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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