Platinum Asia Fund

Andrew Clifford Portfolio Manager

Disposition of Assets

REGION	JUN 2011	MAR 2011
China (Listed PRC)	7%	7%
China (Listed Ex PRC)	16%	18%
Hong Kong	1%	3%
Taiwan	7%	7%
Greater China total	**31%**	**35%**
Korea	19%	19%
Thailand	11%	12%
India	9%	10%
Malaysia	5%	5%
Singapore	5%	5%
Philippines	4%	3%
Indonesia	2%	3%
Vietnam	1%	1%
US/Canada	1%	1%
Cash	12%	6%
Shorts	12%	13%

Source: Platinum

Performance

Performance (compound pa, to 30 June 2011)

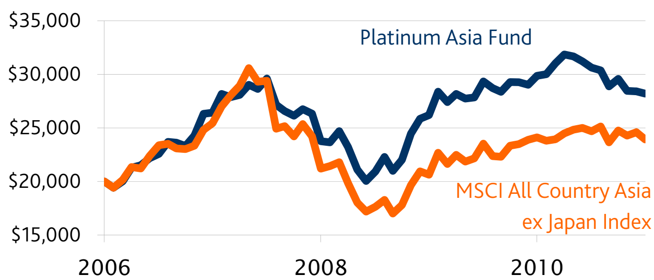
	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Asia Fund	-5%	-6%	6%	7%	17%
MSCI AC Asia ex Jp Index	-3%	-1%	4%	4%	11%

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

Optimism that China's inflationary pressures were receding, which sent markets on a strong run at the end of March, faded over the course of the quarter with Chinese related stock markets falling considerably during the period. The Hong Kong H share index fell 4.8% and the Shanghai A share market fell 5.6%. Also struggling with inflation and ongoing monetary tightening by the Reserve Bank of India, Indian stocks retreated 3.2%. Other regional markets typically fared better registering smaller declines, or in the case of Indonesia and the Philippines, gains of over 5%. These other markets have typically seen much greater strength in their exchange rates during the recovery from the global financial crisis and as such the inflationary issues are not as significant in these economies as they are for China and India. The continued appreciation of the A$ reduced returns to Australian investors by 2% in the last quarter and by 19% in the last 12 months.

Value of $20,000 Invested Over Five Years

30 June 2006 to 30 June 2011



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

The Fund continued to lag the performance of the index in the current quarter despite its conservative positioning with a net invested position over the period that has ranged from 81% at the start of the quarter to 76% at the end. The relative underperformance can primarily be attributed to the Fund's exposure to the weaker performing markets of China and India. In addition, the Fund has had minimal exposure to the A$ and thus returns have been reduced by the significant appreciation of our currency. However, the value we see in the Fund's underperforming investments gives us confidence that in time, returns will improve. In the short-term, as we outline in our commentary below, the environment remains difficult and the ride is unlikely to be smooth.

Changes to the Portfolio

The major change to the portfolio has been to increase cash holdings in the Fund from 6% to 12%. This has been achieved through the trimming of positions in some of the better performing holdings such as Jardine Matheson (regional conglomerate), Sina (Chinese Internet portal) and Chunghwa Telecom (Taiwan), as well as long-held holding Henderson Land (Hong Kong/China property) which has failed to meet expectations. While short positions have been maintained in aggregate, specific stock shorts have been introduced across a range of industries that we see as vulnerable to setbacks in growth prospects for China and the rest of the world.

Commentary

The People's Bank of China have continued to tighten monetary policy through the quarter via the mechanism of increasing the banking system's reserve requirement. Increasing the amount of funds that the banks are required to leave fallow in the hands of the Central Bank restricts bank's ability to increase lending and indeed bank credit growth has slowed dramatically in recent months. However, the rising use of off-balance sheet mechanisms in the Chinese financial system (if you like the Chinese version of securitisation) has meant that total lending in the system has slowed only a little.

Nevertheless there are a number of indicators that suggest money is relatively tight. Perhaps the most obvious of these are inter-bank interest rates, which are set by market forces, and have been on the rise and are now at levels reached during the last tightening cycle. Anecdotal evidence from companies suggests that loans have become much harder to access and that debtors have become slower to pay. Demand deposits in the banking system used to fund day-to-day operations of businesses have stopped growing. Recently, there have been a growing number of frauds revealed amongst listed Chinese entities. In a fast growing economy such as China this is hardly a surprise, but it is often the case that frauds are revealed when money starts to become scarce. (As an aside, a number of these frauds have occurred amongst US NASDAQ listed companies that use a complex mechanism referred to as a "variable interest entity" to achieve listing outside of China).

In developed economies, after a prolonged period of monetary policy tightening, one would expect a slowing of economic growth and it would seem reasonable to expect likewise in China. Indeed, as we have mentioned in the last quarterly report, auto sales had already started to fall, as had sales of new residential properties, and this trend has continued this quarter. Some of our discussions with companies also suggest that even in areas such as infrastructure spending there is a slowdown in some regions occurring. This is not inconsistent with renewed concerns over the ability of local government to service bank loans as land sales, a key revenue source, fall away due to lending restrictions in the property sector.

What is most problematic though, is that in the face of all of this aggressive tightening of policy there appears to be a renewal of the inflationary pressures. While rising food prices are once again a focus, inflation is broader than this with the non-food CPI rising at levels not seen in over a decade. As discussed in our last report, we suspect that inflation is underpinned to an extent by labour shortages. It was interesting to hear from apparel and footwear manufacturers that they were passing on a range of higher costs to export customers resulting in 10%-15% higher prices. For as long as we can remember, China's light manufacturers have found ways to absorb cost increases rather than raise prices. Although the CPI overall remains at a relatively modest level of around 5%-6%, the fact that it is still rising suggests the end of the policy tightening is not around the corner.

Meanwhile, electricity shortages are occurring in a number of provinces well-ahead of the usual peak demand period in summer. The price paid by the grid to power producers has not kept up with increases in the cost of coal and as such some generators are refusing to supply. Though this situation can, and is, being relieved by incremental increases in electricity prices, what has been highlighted is the slowdown in investment in power generation that has occurred as a result of this approach to setting electricity prices. More significant shortages of power appear likely in 2012 and beyond if demand continues to grow at current rates. So a policy aimed at protecting the economy from the rising cost of electricity will result in the economy receiving its marginal kilowatts of power from much higher cost diesel generators and may cause inflation elsewhere through general shortages of production!

There is also evidence that despite the closed nature of China's capital accounts, an increasing flow of funds is passing around these restrictions. In Hong Kong, corporate loan growth has been growing over the last year, after having barely grown over much of the last decade. A not insignificant amount of this growth is attributed to Chinese state owned entities who are then exchanging these funds for Renmimbi and transferring them into China. Although the quantum of loans involved is not that large in the context of China, if there are leaks springing in the capital account, it is likely that this is not the only place funds are being accessed. Given the relatively fixed nature of the exchange rate, this results in the creation of more Renmimbi and adds further to the inflationary pressure in the economy. It is our best guess that the war on inflation in China has someway to run as yet.

China's mercantilist economic model appears to be fast approaching its limitations. While it is tempting to expect that policy makers will be forced to make changes, most notably to a floating exchange rate, the country has typically been heading away from market based outcomes that were the hallmark of its success up until 2008. The power shortages discussed earlier are a typical example of policy maker's direction in recent years to revert to a more command economy approach. Predictions are fraught with danger but it seems that China's growth is likely to disappoint both in the short and medium-term.

Outlook

As we concluded last quarter, we continue to see good value in the shares that the Fund owns. Companies such as China Mobile or Guangzhou Auto are strongly positioned businesses with good profitability and little debt, and over the next five years we would expect them to grow at rates in excess of 10% pa on average. Both these companies trade at less than 10x 2011 earnings. Of course, while our assessment of any particular business may be incorrect, we see such value across much of the portfolio. Over a three to five year period, it is hard to see how these shares will not make us good returns. However, as the last three months have proven, this need not translate into good outcomes in the short-term. Until the inflationary issue has been dealt with in China, it is hard to see Chinese shares (whether listed in China, Hong Kong or elsewhere) performing well.

India continues to fight its own battle against inflation that has seen lending rates rise from a low of 2% to 7% currently. In addition, the corruption scandals that have engulfed the government, while potentially creating a positive long-term outcome for a more transparent government, has created a gridlock in the approval process for a range of industries such as infrastructure and property. The rest of the region has also seen interest rates moving up in response to price pressures but for the moment performance of these stock markets seem to be more closely linked to developments in the economies of their export markets in North America and Europe.

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$20,000 invested in the relevant Fund over five years from 30 June 2006 to 30 June 2011 relative to their Index (in A$) 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.

Disclaimer

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum®). It contains general information only and is not intended to provide any person with financial advice or take into account any person's (or class of persons') investment objectives, financial situation or needs. Before making any investment decision you need to consider (with your financial adviser) whether the information is suitable in the circumstances.

Platinum is the responsible entity and issuer of units in the Platinum Trust Funds® (the Funds). You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds. You can obtain a copy from Platinum's website, www.platinum.com.au, or by phoning 1300 726 700 (within Australia), 02 9255 7500, or 0800 700 726 (within New Zealand), or by emailing to invest@platinum.com.au.

No company in the Platinum Group® guarantees the performance of any of the Funds, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum).

MSCI Inc Disclaimer

Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data (contained in this Quarterly Report) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI Inc, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the Index data is permitted without express written consent of MSCI Inc.