Platinum Asia Fund

Andrew Clifford Portfolio Manager

Disposition of Assets

REGION	JUN 2012	MAR 2012
China (Listed Ex PRC)	17%	17%
China (Listed PRC)	6%	6%
Taiwan	5%	5%
Hong Kong	2%	2%
Greater China total	**30%**	**30%**
Thailand	17%	16%
Korea	15%	17%
India	9%	9%
Philippines	8%	7%
Singapore	6%	6%
Malaysia	5%	5%
Indonesia	1%	2%
Vietnam	1%	1%
Canada	1%	1%
Cash	7%	6%
Shorts	1%	2%

Source: Platinum

Performance

Performance (compound pa, to 30 June 2012)

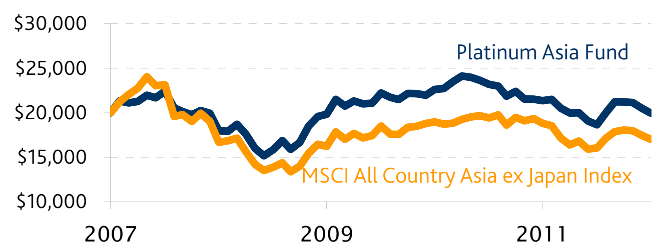
	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Asia Fund	-6%	-7%	0%	0%	15%
MSCI AC Asia ex Jp Index	-6%	-10%	2%	-3%	8%

Source: Platinum and MSCI. Refer to Note 1, page 36.

Asian stock markets fell almost 6% during the quarter, erasing almost half their gains from the previous three months. While the People's Bank of China and the Reserve Bank of India did cut interest rates and banking reserve requirements, the markets had been hoping for more definitive action, which was not forthcoming. Meanwhile, signs of momentum in both these key economies continued to weaken over the period. The European debt crisis also played a role in dampening regional markets with the region's exports also slowing notably.

Value of $20,000 Invested Over Five Years

30 June 2007 to 30 June 2012



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

The Fund's performance was essentially in line with the market over the quarter. Among the better performers were the holdings in the Chinese life insurance companies, China Life and Ping An Insurance, which were up 25% and 12% respectively (in the A share market), as China prepares to roll-out new pension rules which will create significant new business opportunities for the life insurance companies. Dragging down performance once again were our Indian and Chinese stocks which fell back with the market's general disappointment over a lack of interest rate cuts.

Changes to the Portfolio

During the quarter, the Fund added to positions in its holdings of Chinese Internet companies. These include 51job, an online employment classifieds site (similar to Seek here in Australia); Sina, which operates the leading microblogging site (the Twitter of China) and a leading portal site, Youku which has a YouTube-like service though unlike YouTube, focuses on both professionally developed content as well as user uploaded videos. Each of these have suffered from not only the general malaise around Chinese stocks but also concerns around a US-China dispute that may leave Nasdaq listed Chinese companies without auditors, a situation we would expect to be resolved in time to avoid any issues with year end accounts. The Fund also increased its position in China Life Insurance ahead of the potentially beneficial changes that are coming as a result of Chinese pension reform. Funding for these came from the sale of stocks such as KB Financial, and Samsung Fire and Marine which we view as having lower prospective returns, as well as from stocks that performed well over the past 12 months such as Airports of Thailand, Ayala Land (Philippines) and Bangkok Bank.

Commentary

Over-investment in a range of related areas, from property to infrastructure through to steel and cement, is behind China's current loss of economic momentum. Much of the investment boom has been financed by bank debt (at least over the last four years or so) and many of the entities (private and state owned) now find themselves with stretched balance sheets. There is some evidence coming through of non-performing loans in the banking system. Meanwhile observers and markets await action from policy makers to release restrictions on the property market, announce infrastructure spending programs or ease monetary policy. The Chinese government is clearly of the view that the aggressive policy stance taken in response to the GFC in 2008 was an error and as such there has been much disappointment to date on this front.

India is not faring any better. Unlike China where inflation is easing with the slowing economy, this has not been the case in India where inflation has been much more persistent. The best explanation for the stubbornness of inflation, in the face of a clearly slowing industrial sector, is the continued expansion by government of various subsidies to support the rural sector. (Some may say cynically, in an attempt to shore up electoral support for an unpopular government). At the same time as the government fiscal position has blown out so too has the current account, driven to a large extent by the country's imports of energy. The result is downward pressure on the Indian rupee creating another source of inflationary pressure. The end result is that the Reverse Bank of India (RBI) has been reluctant to reduce interest rates despite an economy that is fast losing momentum. Together with the government's lack of progress on infrastructure development or dealing with critical issues such as a looming coal shortage, you have a picture that is far from encouraging for business investment.

In the short-term, it is not hard to see how the picture might improve. In China, there have been two cuts in the banking system's reserve requirements and the first interest rate cut. Banks are being encouraged to lend to new home buyers. There have been announcements that approval of rail projects and water-related infrastructure will be brought forward. There has in fact already been a pick-up in residential property sales and prices. In India, the RBI has cut interest rates once, and although they made no further cuts at their last meeting, one would reasonably expect more cuts are in the pipeline. And the oil price has fallen reducing the current account burden. A little enthusiasm about a return to former growth rates that might be created by continued easing of policy restrictions (and a little good fortune on energy prices), together with the fact that stocks remain well-down from the highs reached back in 2007 (particularly in China's case), could readily see markets move higher. But there are distortions that need to be addressed.

China's growth over the last decade or so has primarily been driven by investment. In past reports we have made the point that whether it be the number of residential apartments under construction, or the consumption of steel and cement, China has (adjusted for population) seen numbers that, by standards of other similar investment booms, are high. This is not to say that China doesn't require ongoing investment in residential property or infrastructure. Clearly it does. The issue is whether the 10 million plus housing construction starts of last year will grow to 15 million over the next few years; or whether the two billion tonnes of cement consumed will grow to three billion. To our thinking, this is very unlikely, with a good result being that spending in these areas fluctuate around current levels for some while.

If investment is likely to be subdued, what will drive China onward? The simple answer is the household, where consumption of a wide range of goods remains at relatively low levels. For example, the passenger vehicle fleet is estimated at two cars per 100 people. This compares with Korea and Taiwan at 20 plus, which given the population densities of the cities in these countries, are probably reasonable comparisons. While the Chinese auto fleet may never achieve these levels, it certainly suggests that the auto market can continue to grow and prosper for some time to come. Other examples include spending on healthcare or insurance premiums, which are a fraction of the levels seen in the more developed economies of the region.

For the investor, the message is simply to look for the companies that will benefit from ongoing growth in household spending and to avoid yesterday's stories of steel, cement and construction-related plays. Many of the Fund's major holdings in China such as Guangzhou Auto (Honda and Toyota joint venture partner), China Life and Ping An Insurance, China Mobile, Sina and Youku (Internet) and Gome Electrical (retail) fit nicely into the category of household spending beneficiaries. What is more, because of the depressed market for Chinese stocks generally, each of these is available at a very attractive price today.

In India the story is simpler, but more problematic. The country still requires major investment in power generation, transmission and distribution, as well as in roads, rail, ports, and airports. Also in need of attention is the development of the country's coal resources. But with government beset by various corruption scandals, any major project attracts enormous scrutiny, particular when many will involve relocation of people. As such, the progress on this front has slowed dramatically. Meanwhile, to keep the economy moving (and to support its popularity) the government continues to expand subsidy programs and by doing so continues to expand the budget deficit.

It would seem the likelihood of the current Congress government changing course is low. The next election is not until 2014 and even then it would probably require either the major opposition party, the BJP or Congress, to win a decisive victory for much change to occur. At the moment in state elections neither Congress nor the BJP are faring well with smaller parties grabbing votes as a result of the electorate's disenchantment with both sides of politics. Recent announcements by Coke and Ikea that they wish to make significant investments in India, $5 billion and $2 billion respectively, over the next few years, suggest the country is not without any hope. Certainly the story could be much better if progress could be made on critical infrastructure.

Relative to China, Indian shares have been much better performers with many of the consumer type companies faring quite well, not surprising given the growth in government spending. As such, we see the opportunities in the areas hurt by high interest rates and lack of progress on the infrastructure development. These include stocks such as ICICI (bank), IDFC (infrastructure finance), Housing Development & Infrastructure (property development) and Jaiprakash Associates (property development, toll roads, power stations and cement).

Outlook

The outlook remains much as it did at the end of the March quarter. The valuations of the Fund's holdings remain attractive, giving us confidence that good returns are likely over the next three years and beyond. In the short-term, easier monetary policy in China or India could spur a rally in regional stock markets. However, the potential for continued volatility remains. As the end of China's investment boom unfolds, it is likely to result in some unpleasant discoveries for markets and in India the current inflationary policies of the government are likely to persist for some time yet.

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$20,000 invested in the relevant Fund over five years from 30 June 2007 to 30 June 2012 relative to their Index (in A$) 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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