Platinum Asia Fund

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Performance

(compound pa, to 30 June 2014)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund	6%	17%	12%	9%	16%
MSCI AC Asia Jp Index	5%	13%	8%	8%	10%

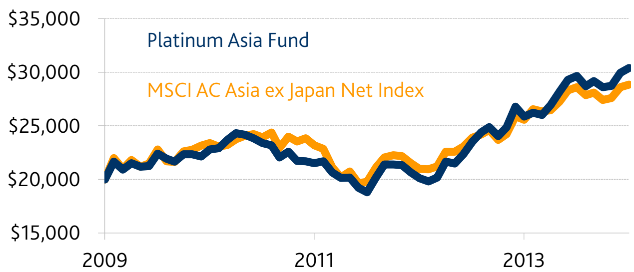
Source: Platinum and MSCI. Refer to Note 1, page 4.

Over the quarter, the Indian market was the outstanding performer (up 13%) although the Chinese markets were weak. Both the Chinese A-share market (flat) and H-share market (up 2%) were weak performers as the Chinese property market weakened under tight mortgage policies. The Thai market was up 7%, as a series of backed-up infrastructure projects were greenlighted. Elsewhere, the Asian markets were little changed.

The Fund's performance at 6.2% was ahead of the market. In local currency terms, Asian markets returned 5.8% for the quarter.

Value of $20,000 Invested Over Five Years

30 June 2009 to 30 June 2014



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

Disposition of Assets

REGION	JUN 2014	MAR 2014
China (Listed Ex PRC)	24%	24%
China (Listed PRC)	6%	6%
Hong Kong	2%	1%
Taiwan	1%	2%
Greater China Total	**33%**	**33%**
India	20%	18%
Korea	15%	16%
Thailand	9%	9%
Phillipines	6%	6%
Malaysia	4%	5%
Singapore	4%	4%
Vietnam	2%	2%
Indonesia	2%	1%
Cash	5%	6%
Shorts	0%	0%

Source: Platinum. Refer to Note 3, page 4.

The Fund's Indian holdings contributed the most to the rise in performance. Unitech (properties) was up 120%, IRB Infrastructure (toll roads) up 100%, Housing Development (properties) up 56% and Sobha Developers (properties) up 38%. The Fund's holding of SK Hynix (semiconductors), jumped 75%, as the industry enjoyed better pricing and greater capital discipline. Not surprisingly, the biggest drag on performance were the Chinese investments.

Changes to the Portfolio

The Fund remains fully invested at 95%. We started buying Weichai Power, China's dominant heavy duty truck engine manufacturer. With a 30% market share, it is well-placed to exploit the expanding forklift and logistics services sectors which are showing strong growth. At 7 times price earnings, the shares more than discount mid-cycle pricing power.

China Pacific Insurance, based in Shanghai, was also introduced. It is the third biggest life insurer in a country whose burgeoning middle class is underserved by life insurance products. The appetite for protection is increasing with rising wealth. With its 300,000 strong agency force, China Pacific is primed to capture the emerging demand. Valuation merely reflects its existing book of business and with virtually nothing assumed for the immense opportunity ahead, it's a most attractive proposition!

A position in Daum Communications was also started following the transformational merger between Daum and KakaoTalk in Korea. Post transaction, Daum's strong on-line advertising properties can leverage KakaoTalk's dominant instant messenger user base, cementing its position in the vibrant Korean mobile Internet space.

Commentary

Since commencing economic liberalisation some 30 years ago, the Chinese economy has undergone an incredible transformation beyond the imagination of even the most optimistic pundits. Movement of cheap labour to urban centres and private sector entrepreneurship turned China into the factory of the world. Metropolises sprang up across the country driven by rapid urbanisation and income growth. Urbanisation rose to 50% of the population and the gap widened further between urban and rural incomes.

Gross domestic product grew at an average of 10% over the last 30 years. Exporting US$2.2 trillion of goods, China accounts for 12% of the world's total export market. At the same time, property market sales volume has grown at a breakneck pace of 18% pa for the last 15 years! The associated steel and cement capacities also climbed relentlessly in response to this insatiable demand.

Recent data coming out of China has been lacklustre. Much of the concern centres around China's shadow banking system which grew in excess of 30% in the last five years post the global financial crisis. Trust Products, worth around US$2 trillion was one of the major components and the recipient of disbursements were property developers and local government (related) entities. Given the boom in credit creation, the credit quality was likely suboptimal. More borrowers will default but we believe the eventuality of a debilitating systemic crisis is highly unlikely.

One has to bear in mind that the Chinese shadow banking system is implicitly or explicitly backed by the Central Government. Its balance sheet is robust with total government debt-to-GDP ratio sitting at a reasonable 50%. The country is still growing at a decent pace, lessening the debt burden over time. Further, most debt is denominated in the Renminbi, money printing is a potential policy lever.

What is important is to halt the continual accumulation of low quality lending. From this perspective, the banking regulator has strengthened the risk management process for financial institutions and encouraged the development of the more transparent corporate bond market.

The latest sign of weakness emanates from the property market. Lending controls have reduced buyer appetite. The volume of property transactions year-to-date is down 9% from a year ago. Prices in many cities are edging down, with the smaller second and third tier cities reporting more significant declines than the bustling cities of Beijing, Shanghai and Guangzhou. Instead of rushing in to buy properties, many prospective buyers are now waiting.

Despite mild easing of monetary conditions, a devaluation of the Chinese currency and incremental relaxation of the restrictive property purchase rules, property investment will become less fashionable, particularly with a large stock of near complete residential blocks.

We have often commented on the unsustainable nature of China's investment-led growth and the structural economic slowdown that can be expected out of China as the country shifts away from this growth model. We, however, urge readers to avoid premature judgement. This is now a vast, complex economy with many choices lying open to policy makers.

China is taking various steps to encourage the ***market*** to participate more in resource allocation, reducing the influence of State-owned Enterprises (SOEs) while favouring private enterprise. As the economy changes from export and investment, to consumption, the energetic market-oriented operators, responsible for the bulk of jobs created, are taking full advantage.

Importantly, at the same time, tightness in the labour market and rising productivity have pushed wages higher. Financing for consumer goods, a fuel to consumption, is merely a fraction of that of developed economies!

The locals are seeing their wages rising, job opportunities are abundant and consumer credit (car loans predominantly) are growing in significance. These newly minted aspirational consumers like to travel the world, connect to the Internet, and buy the latest brands. It is not a surprise that Chinese car sales are growing nicely at a 15% clip! (see the Platinum International Brands Fund quarterly report).

"*Reading ten thousand books is not as useful as travelling ten thousand miles*" is a renowned Chinese proverb. With increasing wealth, China has well and truly picked up the travel bug. Last year, 98 million outbound trips and 3.2 billion domestic trips were made by Chinese nationals. Modern lodging facilities, ranging from the budget to the luxurious, are springing up across the country to satisfy the voracious demand. Our Chinese hotel (China Lodging) and on-line travel websites (Ctrip and Qunar) are seeing an amazing upsurge in bookings.

The rise of China's Internet population is staggering especially considering as recently as 15 years ago, most did not even have access to fixed line telephony. Today close to half of the population, more than 500 million, have access to the Internet and this is growing even faster now thanks to the mobile Internet!

Shopping over the Internet (e-commerce), which offers superior price and range is leaving the under-developed off-line retail and logistic sector in its dust. E-commerce sales value in China is around US$295 billion a year, growing at a 40% rate, equivalent to 7.9% of total retail sales. This figure is low compared with the more mature markets (South Korea at 16% and still growing), suggesting vast potential in China. Our exposure to the key Internet properties (search, social networks and on-line video) will undoubtedly benefit.

E-commerce in China is competitive and many e-commerce players in China are building their own logistic platforms to be best-in-class in delivery. JD.com, the 'Amazon' of China, has more than 86 warehousing centres across the country, close to 1620 distribution stations and more than 214 pickup stops in 495 cities. Its competitor, Alibaba Group, is teaming up with the major express delivery companies and aims to build a super logistics network over the next 8-10 years that will eventually ensure delivery within 24 hours across the country, supporting trillions of US dollar on-line sales a year.

Logistics is important, not only in the on-line world. Consumer goods need to be transported across this vast country. The Chinese logistics sector is backward and inefficient. Logistic related costs in China represents 18% of GDP compared to below 10% for more developed peers! It is little surprise that this industry is catching up fast.

The modern logistics industry is opening up the country for consumer goods and along with it palletised transport. Over the last six years, pallet usage, still at its infancy, has grown a remarkable sixfold. Forklift sales have also taken off over the same period. Weichai Power, with its dominant truck engine business and owner of 25% of Linde (forklift), is exposed favourably to this trend.

Outlook

China is undergoing a major transformation where significant progress is already being made. We are now entering the fourth chapter of SOE reform. Resistance is being met with a clamp-down on featherbedding and graft. Audit teams swarm over recalcitrant organisations and name-and-shame is the order of the day. The objective is to move these organisations further along the capitalist path of management independence and greater public share ownership. At the same time, over-reaching tentacles will be severed to give much more space to private entrepreneurs to offer services in hitherto restricted 'zones'. The unleashing of this energy should be not be under-estimated.

Elsewhere, the general election result has given the Indian Government an extremely strong mandate for change. We can expect to see much-needed investment in basic infrastructure and policy reforms, unleashing vast productivity improvement and economic development.

We continue to find interesting opportunities with robust growth potential and will deploy capital towards these stocks as opportunities present themselves.

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$20,000 invested in the relevant Fund over five years from 30 June 2009 to 30 June 2014 relative to their Index (in A$) 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.

3. Invested position represents the exposure of physical holdings and long stock derivatives.

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