Platinum Asia Fund

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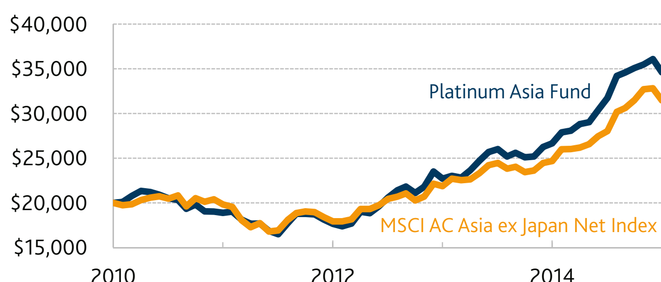
Disposition of Assets

REGION	JUN 2015	MAR 2015
China (Listed Ex PRC)	27%	22%
China (Listed PRC)	11%	15%
Hong Kong	3%	3%
Taiwan	1%	1%
Greater China Total	**42%**	**41%**
India	15%	19%
Korea	11%	12%
Philippines	5%	6%
Thailand	5%	6%
Malaysia	2%	3%
Vietnam	2%	2%
Singapore	1%	2%
Indonesia	0%	1%
Cash	17%	8%

Source: Platinum. Refer to Note 3, page

Value of $20,000 Invested Over Five Years

30 June 2010 to 30 June 2015



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

Performance

(compound pa, to 30 June 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund	-1%	30%	25%	12%	17%
MSCI AC Asia ex Jp Index	0%	28%	21%	9%	11%

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

The MSCI AC Asia ex Japan Index was up 1% in local currency for the quarter, as concerns over Greece and the Chinese stock market contributed to the weakness. The Australian dollar movement resulted in the Index in AUD finishing the quarter flat.

Despite the volatility with Chinese stocks, both the domestic A-share market and the Hong Kong H-share market ended the quarter decent performers, rising 14% and 5% respectively. These markets soared quickly as the People's Bank of China (PBoC) bailed out troublesome local government debts and loosened monetary policies while the residential property market also showed signs of improvements. Concerns over diminished likelihood of further near-term easing by the PBoC and margin lending triggered a sell-off in the A-share market late in the quarter. The PBoC reacted decisively with cuts to both interest rates and banks' reserve requirement ratio, renewing its effort to put a floor on the stock market and to rejuvenate the real economy. The US-listed Chinese stocks (typically in the form of American Depository Receipts or ADRs) enjoyed notable price appreciation as the significant discount from the A-shares narrowed as a result of privatisations and corporate actions.

The Indian market was down 1% for the quarter. Delays in the passing of government reform bills disappointed the market. Performances of other markets in the region were relatively muted. The weakest performing market was Indonesia, which the Fund has minimal exposure to, being down 11% for the quarter as the country was confronted with a slowing economy from the tail-end of the mining boom, a current account deficit and a depreciating Rupiah.

As expected, the Fund's Chinese ADRs were contributors to performance: **Youku Tudou** (the YouTube of China) was up 96%, **Sina** (a key Internet portal and the Twitter of China) was

up 67%, **SouFun** (the country's dominant online real estate portal) was up 40%, and **YY.com** (a popular social networking and entertainment platform) was up 27%. Other China-exposed shares also performed well: **Nine Dragons Paper** and **Lee & Man Paper** (containerboard manufacturers) were up 40% and 32% respectively, **China Lodging Group** (a budget hotel chain) was up 24%, while **Kweichow Moutai** and **Jiangsu Yanghe** (Chinese liquor companies) were up 31% and 19% respectively. The key detractors were the Indian financials.

The main detractors were **Vista Land** (weaker than expected property pre-sales), **Kasikornbank** (concerns over slowdown in Thailand), **Samsung Electronics** (disappointment over smartphone sales) and **Jardine Matheson** (exposure to Indonesia).

Changes to the Portfolio

The Fund's Chinese currency short position was closed given that a major devaluation of the Renminbi was becoming less likely as the property market recovered and the authorities desire for the Renminbi to be accepted as a reserve currency by the International Monetary Fund. We will continue to assess this situation closely.

We sold out of positions that have reached our estimation of fair value: **Yonghui Superstores** (China A-shares), **SAIC** (China A-shares), **Maruti Suzuki** (India), **Adani Enterprises** (India) and **JG Summit** (Philippines). Funds raised were deployed into the more prospective ideas.

We started positions in **Hang Lung Properties** and **Joy City Property**. These companies develop and operate shopping centres located in key retail locations of major Chinese cities. They house global brands such as the likes of Zara and Apple and enjoy blistering traffic on a daily basis. With the structural rise of income among China's middle class, rents are set to rise significantly from their current low levels. These companies' valuations are tantalisingly attractive, trading at significant discounts to their inherent value.

We have also initiated a position in **Reliance Industries**. This is a world class refinery and petrochemical operator based in India and it is embarking on an ambitious expansion into the country's under-served telecommunications market (see the Platinum International Fund report for detail).

The Fund maintained minimal exposure to Australian dollars.

Commentary

We returned from our research trips to Asia, satisfied that key reform steps continued to be taken in both China and India. While for both countries economic weaknesses are yet to be turned around by loosening policies, the authorities still have ample room to provide stimulus.

Relaxation of investment capital flow (capital account liberalisation) out of China was the most notable reform that took place over the quarter. While China engages in trillions of US dollars' worth of trade a year, investment-related capital flow has traditionally been tightly controlled. Buying and selling the Renminbi for investment purpose is still not a straightforward process.

As one of the biggest economies in the world, the opening of China's capital account was long overdue. From our perspective, it is important to be aware that as the Chinese Renminbi moves towards full convertibility, it will lead to interesting investment implications.

For China, the benefit of freer capital flow is that it opens up channels both for domestic investors to diversify their savings and for domestic borrowers to access foreign funding. Diversifying their savings pool into international investments can reduce concentration risk and potentially improve returns. Conversely, foreign capital can enter China to provide additional sources of capital for domestic Chinese borrowers. China will be attractive for global bond and equity investors as it offers investment grade bond yields and economic growth superior to that of most other major economies.

As more capital is allowed to flow more freely, the potential impact of the vast pool of domestic savings in the banking system (which amount to approximately US$20 trillion) on global asset prices cannot be underestimated. The Hong Kong-Shanghai Stock Connect program (which allows investors in one market to invest in the other through brokers in the home market) has been illustrative. Daily trading volume in the Hong Kong market rose fivefold from US$5 billion a day to US$25 billion, with many Hong Kong-listed Chinese securities repriced almost instantaneously to mirror Shanghai prices! Chinese investment flow is expected to be further liberalised via programs such as the Qualified Domestic Institutional Investor 2 program which will allow part of the country's vast savings to be deployed beyond Hong Kong and into the rest of the world. As this occurs, our investments in the attractively valued US-listed Chinese Internet companies are proving to be key beneficiaries.

These links have greatly improved the likelihood of the domestic China A-share market to be included into the important MSCI global indices. MSCI inclusion will attract foreign capital into the domestic stock market, potentially lifting valuations in a market that is currently dominated by domestic investors.

Greater integration with the global financial system, however, comes with some risk. Global market volatility will be directly transmitted through to the domestic market and surges of hot money inflows and outflows can lead to financial instability. To mitigate these risks, the authorities in China are adopting a sequenced approach to liberalisation and are focusing on the development of more robust systems to regulate the financial sector.

As China joins the global financial system, the country's interest rate will become more market determined. Over the past 10 years, it was good enough for banks to lend money mainly to State related entities at relatively low interest rates while paying artificially low deposit rates to consumers with savings in the banks. While the distortion of savers subsidising corporates was obvious and unsustainable over the longer term, it was perhaps tolerable as construction and infrastructure investment was what was needed to drive economic development at the time.

Now that the country needs to shift its focus to consumption and the private sector, market-based interest rate is key. This will lift interest income for the savers as a one percentage point increase in deposit rates can lift spending power by US$200 billion! It will be a boon to the private sector, for many private companies will see bank funding opened to them for the first time. Further, a market based lending rate will encourage funds to be allocated to the right projects at the right cost.

Progress has been made on this front over recent years as bank lending rates have more or less been liberalised. A nascent corporate bond market is developing rapidly and the notorious shadow banking sector is gaining greater degrees of transparency and regulation. While most Chinese banks have lent predominantly to State owned or linked entities, few have experience lending to the private sector. Financial institutions that have built a customer base in the private sector and accumulated relevant experience and know-how will do very well in the new Chinese economic landscape.

The ongoing Chinese public pension fund (PPF) reform also made important advances during the quarter. The authorities released draft legislation in late June, proposing to roll over some Rmb3 trillion (US$485 billion) in provincial public pension funds into investable assets. Commentators anticipate a fast-tracked roll-out of this reform, which is expected to bring Rmb1 trillion to the National Council for Social Security Fund (NCSSF) within the first six months of implementation, with offshore mandates to materialise within 24 months. This landmark reform will accelerate the marketisation of China's public pension assets, with the underdeveloped private pension industry next in focus.

After a prolonged bear market where the domestic A-share market declined on average 15% a year from its 2007 peak, reforms are starting to deliver results. China's coastal areas transformed into modern tertiary industry hubs while more inland cities became industrialised; many of the distortions present in the economy were removed and public sector companies receded while private sector entrepreneurship was unleashed, significantly improving the allocation of resources.

The rapidity of the Chinese share market surge since the fourth quarter last year was a function of two key factors: an extremely cheap starting valuation (we were able to buy stocks on 2-3x free cash flow) and the huge amount of domestic savings in the banking system (around US$20 trillion) relative to a tiny domestic stock market free float (around US$3 trillion).

However, the significant A-share market decline reflected the excessive exuberance among domestic investors which was particularly concentrated on certain sectors of the market. At its peak in early June, the ChiNext Index (the Chinese equivalent of NASDAQ) was up 170% from the start of the year and was trading on a P/E of 130x. Those technology-related and "new-economy" companies that were trading on exorbitant valuations naturally bore the brunt of the damage. Other parts of the market did not escape unscathed, but the outcome of the correction was that the overall market (and the blue-chip stocks in particular) has become attractively priced (the Shanghai Composite Index is now on 15x P/E).

As you would have read over and over in this publication, price is paramount. We are relatively agnostic about which market a company happens to be listed in, preferring to focus instead on the absolute valuations of the living and breathing businesses that we invest in. We have reduced exposures to the A-share stocks when valuation became full and avoided the overly exuberant part of the market. The Fund has instead chosen to invest in attractively valued companies with solid fundamentals which we believe are impeccably positioned in the emergence of this modern and vast economy and are relatively well positioned even in the event of a macro slowdown.

Specifically, the Fund's exposure to China can be approximately divided into three prospective areas:

1. Undervalued China A-shares with structural growth stories – these are best-in-class companies that in many cases trade at a discount to their Hong Kong-listed counterparts or global peers, with long runways of growth ahead of them. Key themes include:
   a. Chinese insurance companies which are seeing their policy premium soar as locals, with increasing wealth, start to buy more insurance products for their growing needs. With increasing government policy support and improved productivity in their sales force, these companies are able to generate additional revenue through cross selling more policies to existing customers. They are being priced at substantial discounts to developed market peers despite much lower insurance penetration in China and a faster growth rate.
   b. Household electrical appliance companies with dominant positions in already consolidated markets – these companies have built up their brands through decades of progress in production know-how and have extensive distribution networks across China that are difficult for competitors to replicate. They are set to benefit from the property cycle recovery that is currently underway and their valuations are undemanding with P/E ratio at around 10x and excess cash on their balance sheets.
   c. Chinese premium liquor companies that are set for a sales inflection point after a multi-year stagnation as a result of the anti-corruption crackdown. With increasing wealth of the middle-class, growing private consumption is beginning to offset the decline in government-related spending. These premium liquor companies with irreplaceable histories and traditions are being priced at a P/E in the mid-teens with visible growth.
2. Hong Kong-listed stocks with strong positions in China – some examples are China Mobile (a dominant telco with an 80% incremental 4G subscriber share on a 7x free cash flow), PICC (a dominant auto insurer on a 13x P/E), and Tencent (the Facebook of China is starting to ramp up its own news feed-like advertising on mobile phones).
3. US-listed Chinese Internet stocks – these are very strong Internet businesses, many of which are growing revenues at around 50% a year as they grow their users and step up monetisation. Valuations are extremely attractive, especially relative to the domestic A-share valuations in the same industry. Steps to open the capital account have resulted in increasing recognition of their merits.

The structural reforms currently being undertaken in China will be transformational, as there are an unprecedented number of aspirational consumers who will demand a host of new goods and services in three to five years' time. Coupled with the stabilisation of the property market (transaction volumes of new properties are up 30-50% from a year ago – see the Platinum International Fund report for detail), these reforms make Chinese equities prospective beneficiaries. The PBoC's program to bail out local government debts to the tune of Rmb2 trillion has significantly reduced risks in the banking system. Real interest rate and reserve requirements (at 30% of China's GDP), which are at or near record levels relative to both their own history and global peers, have ample room to be further relaxed. This transformation is the rebalancing the world has been waiting for and the outcome will be that of an immensely more sustainable, environmental and equitable society.

Outlook

China and India are structurally reforming to improve their longer term outcomes, but one cannot expect a linear trajectory given the inherent difficulties involved.

In India, while economic numbers remain sluggish and reforms take time to bear fruit, it is likely that transformative changes will continue to take place. In China, while the domestic A-share market correction was not entirely unexpected, valuation has become even more attractive as a result. Not only have reform efforts picked up momentum, but the important property market also appeared to have found a more stable footing.

Market weakness is starting to present us with longer term opportunities. As always, we are vigilantly assessing their potential. Starting valuation is a good predictor of investment returns, and we remain optimistic about finding prospective opportunities that are attractively valued on an absolute basis to deploy the Fund's capital, while avoiding the frothy segments of the market.

We are mindful of the rising short-term volatility in the A-share market owing to increasing usage of margin loans by Chinese retail investors and will continue to actively manage our exposure.

Notes

1. The investment returns are calculated using the relevant 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: 28 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

   (NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist.)

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 30 June 2010 to 30 June 2015 relative to its benchmark index (in A$) 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

   The investment returns are calculated using the relevant 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 benchmark 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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