Platinum Asia Fund

Andrew Clifford Portfolio Manager

Disposition of Assets

REGION	SEP 2011	JUN 2011
China (Listed PRC)	5%	7%
China (Listed Ex PRC)	16%	16%
Hong Kong	1%	1%
Taiwan	6%	7%
Greater China total	**28%**	**31%**
Korea	18%	19%
Thailand	12%	11%
India	9%	9%
Singapore	5%	5%
Philippines	5%	4%
Malaysia	4%	5%
Indonesia	2%	2%
Vietnam	1%	1%
Canada	1%	1%
Cash	15%	12%
Shorts	4%	12%

Source: Platinum

Performance

Performance (compound pa, to 30 September 2011)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Asia Fund	-6%	-17%	4%	4%	16%
MSCI AC Asia ex Jp Index	-13%	-15%	2%	0%	9%

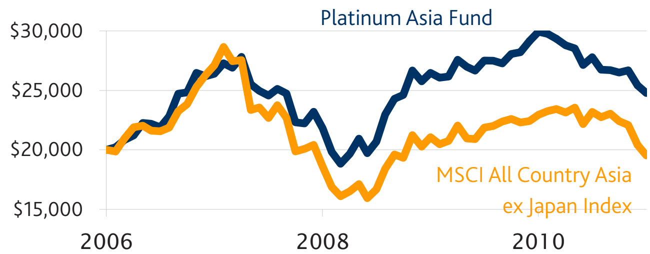
Source: Platinum and MSCI. Refer to Note 1, page 4.

While concerns about European and US indebtedness were a major factor in driving Asian stock markets lower during the quarter, increasing evidence that China's frantic growth rate was slowing also contributed to falling stock prices.

During the quarter, Asian stock markets fell 17%, though the depreciation of the Australian dollar reduced losses to the Australian investor to less than 13%. The benefit of the falling Australian dollar was not as significant as one may have expected as many of the regional currencies also suffered setbacks as export prospects have diminished. Hong Kong (down 20%) and Chinese H shares (down 29%) were the weakest of the region's markets.

Value of $20,000 Invested Over Five Years

30 September 2006 to 30 September 2011



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

The Fund's outperformance during the quarter can primarily be attributed to the relatively conservative net invested position of the portfolio during the quarter. Short positions made a strong positive contribution to performance, particularly positions in Chinese cement companies which were significantly impacted by falling cement prices. On the long side of the portfolio, our Indian holdings were among our weakest performers as ongoing interest rate rises continued to place pressure on the balance sheets of our Indian property developers. While it is disappointing to continue to experience losses on these and other holdings, the value we see in these underperforming investments give us confidence that in time, returns will improve.

Changes to the Portfolio

The most significant change was an increase in the Fund's net invested position from 76% to 81% toward the end of the quarter. This was achieved through a combination of a reduction in short positions from 12% to 4%, partially offset by an increase in the Fund's cash position from 12% to 15%. The increase in cash came primarily from the sale of a number of positions such as Astra International (Indonesian autos and heavy equipment) due to its strong performance, and Bank of China Hong Kong (HK Bank) and KT Corporation (Korean Telecom) where a reassessment of their medium-term prospects prompted the sale.

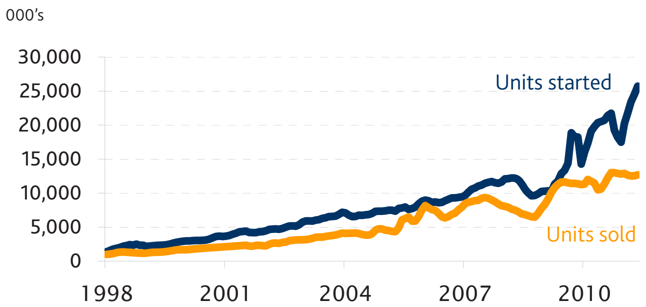
Youku, a recent Chinese internet listing that provides a service that is "part Youtube, part video-on-demand service" is a new holding for the Fund. The fragmented nature of the TV industry in China is allowing Youku to effectively position itself as the leading distributor of high-rating TV series in China. Although a highly competitive business, Youku has a strong position and concerns around US listings of Chinese stocks (please see our previous quarterly report) have allowed us to acquire an initial position at a very interesting valuation. Other new holdings include Fraser and Neave, a Singaporean based regional conglomerate with interests in property development, brewing and beverages; Jaiprakash, an Indian construction company with a portfolio of infrastructure and property developments; and IDFC, an Indian provider of infrastructure finance.

Commentary

It would appear that the tightening of monetary policy in China over the last 18 months has started to have an impact with a number of indicators in parts of the economy suggesting a slowing of growth. Monthly sales of heavy trucks and construction equipment have fallen 9% and 12% respectively from their levels a year ago. Cement volumes have eased-off slightly in recent months, which have resulted in cement prices in some regions falling by several percent since June. Sales of residential property appear to be peaking, while monthly auto sales have continued to languish below peak levels of late 2010. Likely to arrive soon is a slowdown in exports as European and the US governments struggle to deal with their indebtedness. None of these indicators per se suggest much more than a lull in China's frenetic growth rate but there are a number of reasons to be concerned that this may be the beginning of a bigger setback in the economy.

Foremost amongst these are residential construction starts, which in recent months have been running at almost twice the current level of sales (see chart below). What is more, starts have been well-above sales since the second half of 2009 implying an ongoing build-up in unsold inventories of housing. It should be noted that the current level of sales of new housing are hardly subdued - running at a rate of approximately 12.5 million units a year with housing starts at over 25 million! If you want a benchmark for comparison, US housing starts peaked at 2.5 million units in the early 1970s; a rate of one house built for every 85 people. So while current sales may not be out-of-line with this, with around one home sold for every 104 people, actual starts are at twice this level.

China Residential Units (3 month average annualised)



Source: Wigram Capital, CEIC

It must be said, this has all occurred in the one sector where the People's Bank of China (PBOC) has focused its efforts on restricting the availability of financing! Of course making such simple comparisons can be misleading. How does one account for the fact that the construction of modern housing stock is a relatively new phenomenon in China, starting less than a decade ago, or adjust for differing levels of income? The data itself will not be entirely reliable. What probably can be safely concluded is that China is building an extraordinary number of new housing units and it is difficult to see how this can be maintained over time.

Residential construction may be only one sector of the economy (though probably accounting for around 10% of economic activity) but it is not hard to find corroborating evidence elsewhere. Cement consumption at over 2.1 billion tonnes over the last 12 months or 1.6 tonnes per person, exceeds the previous record holder, Korea, which peaked in the mid-90s at 1.4 tonnes per person. The rapid rise in sales of excavators, up almost four fold in the last three years, or heavy duty truck sales up over 2.5 times in the same period, also illustrate the extraordinary rise in investment activity in China.

The observations we make above are also consistent with a change in the Chinese economy's usage of credit. In the period from the beginning of last decade to 2008, debt to GDP was relatively stable and in fact had been falling since 2004, and yet these were years of strong economic growth. By the end of 2011, credit will have expanded by RMB 39 trillion (US$ 6 trillion) over the prior three years, an increase that represents 60% of GDP. By comparison, in the five years leading up to the sub-prime crisis in the US, debt to GDP increased by only 40% of GDP.

Of course, China has been growing strongly for much of the last 15 years but what is important to appreciate is the extraordinary take-off in investment in the three years since the GFC as a result of the expansionary policies put in place by the Chinese government. Not only has investment activity expanded from already high levels achieved by 2008, it has, by most measures, exceeded investment booms achieved anywhere in history. When we compare housing starts with the US, or cement consumption in Korea, these were not levels that were maintained for long periods of time but represent peak levels reached momentarily from which the decline to longer term sustainable levels were significant.

So now that some cracks are appearing in China's growth story, will this snowball into a greater setback revealing the over-investment of the last three years or so? When there are further signs of deterioration, policy makers will likely attempt to turn things around through relaxation of monetary policy and possibly new infrastructure spending initiatives. This may be problematic if we have not seen some relief from inflationary pressures in the economy. Nevertheless it seems reasonably clear that Chinese leadership wish to keep the game going and are unlikely to not at least try.

For the rest of the region, a slowdown in China will compound the weakness in export markets they are facing as a result of slowing European and US economies. As the export sector dominates many of the ASEAN economies, it is likely to have a not insignificant impact on their economic prospects. Having said that, offsetting these pressures to some extent may be relief from rising inflation, particularly for India where the Reserve Bank of India has continued to tighten monetary policy.

Outlook

The conundrum for investors is that usually the stock market is a good place to be during investment and credit booms. During the US housing boom, US housing shares appreciated strongly as did the shares of the companies that provided the finance; until it all fell apart. In the case of China, however, the Shanghai market and the Hong Kong H share markets have been poor performers over the last three years. Within these markets, the worst place to be has been in the real estate and banking stocks whose businesses have been front and centre in China's growth story. Usually at the peak of an investment cycle such as the one China has experienced (which is probably a few months behind us now), one would expect to find stocks trading at record high valuations, while in fact valuations on most criteria are at historically low levels.

So have stock prices adjusted enough for a potential change in China's prospects? To our mind it is likely that in most cases they have. A greater risk is present in other regional markets where stocks prices have performed better since the GFC, have fallen less in recent months, and generally trade at more generous valuations than their Chinese counterparts.

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

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