Platinum Asia Fund

Joseph Lai Portfolio Manager

Disposition of Assets

REGION	SEP 2015	JUN 2015
China (Listed Ex PRC)	29%	27%
China (Listed PRC)	5%	11%
Hong Kong	3%	3%
Taiwan	2%	1%
Greater China Total	**39%**	**42%**
India	19%	15%
Korea	11%	11%
Thailand	6%	5%
Philippines	4%	5%
Vietnam	2%	2%
Singapore	2%	1%
Malaysia	2%	2%
Cash	15%	17%

Source: Platinum. Refer to Note 3, page 5.

Performance

(compound pa, to 30 September 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund	-8%	10%	19%	8%	16%
MSCI AC Asia ex Jp Index	-9%	9%	14%	7%	10%

Source: Platinum and MSCI. Refer to Note 1, page 5.

In local currency terms, Asian markets were down -14% for the quarter. Depreciation of the Australian dollar eased the declines for local investors, and the MSCI AC Asia Ex Japan Index was down -9% for the quarter in AUD terms.

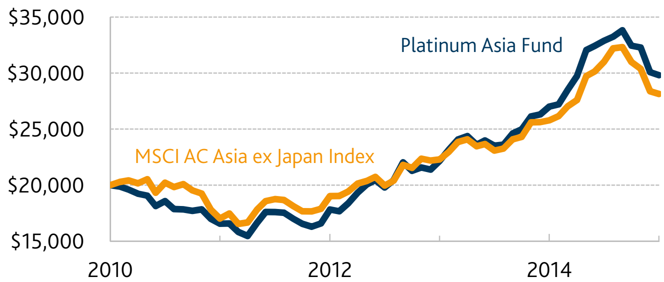
Markets in the Asian region were weak. The Chinese domestic A-share market was down -29% and the Hong Kong H-share market was down -21%. The Indian market saw better performance, but was still down -5%. ASEAN markets were not spared, with Indonesia down -14% (and its currency down -9% against the USD) and Malaysia down -5% (and its currency down -14%). The Fund maintained minimal exposure to Indonesia and Malaysia and a relatively big exposure to India.

Although outperforming the Index by 1.1%, the Fund's return for the quarter was down -8%, giving back some of the gains enjoyed in the preceding 12 months. With virtually no exposure to the Australian dollar, the Fund's performance benefited from the fall in the Australian dollar.

The Chinese share market descended from its dizzying heights as the country reported weak economic data. Elsewhere in the region markets were caught up in weakening commodity prices and the prospect of rising US interest rates.

Value of $20,000 Invested Over Five Years

30 September 2010 to 30 September 2015



Source: Platinum and MSCI. Refer to Note 2, page 5.

Economies with weak fundamentals, characterised by current and capital account deficits and negative flows, were particularly vulnerable, with adjustments occurring in both stock market valuations and their respective currencies.

Changes to the Portfolio

Earlier in the quarter, the Fund's invested position was reduced to ride out market volatilities. The bulk of the Fund's China A-share exposures were swapped into the Hong Kong market, where practicable, as Hong Kong listings' discount to their A-share counterparts opened up. Positions that have reached our estimate of fair value were also sold (China Vanke, Brilliance China Automotive, IDFC, United Spirits).

Towards the end of the quarter, we took advantage of stock price weakness and added to companies with strong market positions and growth. Given the low growth environment we are confronted with globally, companies that are able to grow earnings look particularly compelling. Net exposure settled at around 85%, leaving some room to further upgrade holdings when opportunities emerge.

We initiated a position in **China Resources Gas**, a major downstream gas distributor with interests in 213 urban gas monopolies across China. Natural gas consumption is growing rapidly in China as the country shifts to a cleaner energy mix. Given the relatively small proportion of households connected to town gas networks at present, the company is expected to continue to see significant growth ahead.

The Fund also added **Heilan Home**, a fast expanding retailer of men's fashion that offers quality, fashionable and value-for-money apparel coupled with impeccable in-store customer service that is unique among competitors. It is growing sales at more than 50% by rolling out its proven and successful formula across cities in China.

We have put on a hedge against the Renminbi as further depreciation of the Chinese currency is expected with more stimulatory policy.

Commentary

It was an eventful quarter which started with declines in the exalted China A-share market, followed by mild depreciation of the Chinese Renminbi against the US dollar and jitters around the prospect of interest rate rise out of the US.

The 3% depreciation of the Renminbi in itself was a non-event. The Chinese currency had been one of the strongest currencies in the world since the GFC, having appreciated 30-45% against its major trading partners (e.g. Europe and Australia, and in the case of Japan, more than 50%) over the last five years, in stark contrast to the Japanese yen and the Euro. The prospect of the US Federal Reserve lifting interest rates puts further pressure on weakening the still-strong currency while defending the Renminbi has had a draining effect on China's foreign reserves.

Given China's sizable foreign reserves (some US$3.5 trillion), it does not lack the ability to defend against the depreciating pressure on the Renminbi for a considerable while. The issue is more that defending the currency against devaluation may turn out to be a policy mistake as it is incompatible with the easing of monetary conditions. Lowering interest rates will almost certainly put downward pressure on the currency. It will prove very difficult to simultaneously cut rates and defend against currency depreciation.

A stopgap solution perhaps is to tighten up on the ability of private citizens to move money out of the country, thereby reducing the depreciation pressure, potentially allowing the country to stimulate its economy without drastically depleting its foreign reserves. Evidently, the regulators have placed more stringent limits on the amount citizens can withdraw from ATMs overseas through the UnionPay system (China's version of a Visa/MasterCard network), and anecdotally, moving money out of China has already become more difficult and costly. This may have a side effect, which is yet to be seen, on Chinese investment activities in offshore markets (property markets, for instance).

During the quarter, we were presented again with evidence of weak economic numbers out of China. The numbers typically relate to a slow-down in secondary industries, such as power generation and the Manufacturing Purchasing Managers' Index (PMI). The Services PMI, however, has shown continuing strength, demonstrating that an economic rebalancing from manufacturing to the services industry is indeed taking place.

New starts in residential property have declined by 15-20% a year for the last two years as authorities tightened the overheated property market. This year's number of residential new starts is back near the level last seen in 2009! Associated construction machinery sales and land sales have declined in greater magnitude.

The interesting point is that a great deal of adjustment has been made, and the surprising outcome is the stability of the economy outside of the construction sector. The Chinese economy is complex and dynamic, with new industries growing and the old stagnating.

The employment picture looks stable, with wages still growing at 5-10% a year. New industries and jobs are being created to offset declines in manufacturing jobs. Consumption-related metrics are still growing, though a slowdown on the margin is starting to emerge. Internet/e-commerce gross merchandise volume (GMV) is growing at more than 40% year-on-year while China's 4G smartphone network is adding a staggering 20 million subscribers a month, enabling a host of new Internet-based companies to flourish. The chart below showing holiday spending figures from the October "Golden Week" suggests that consumption demand remains robust.

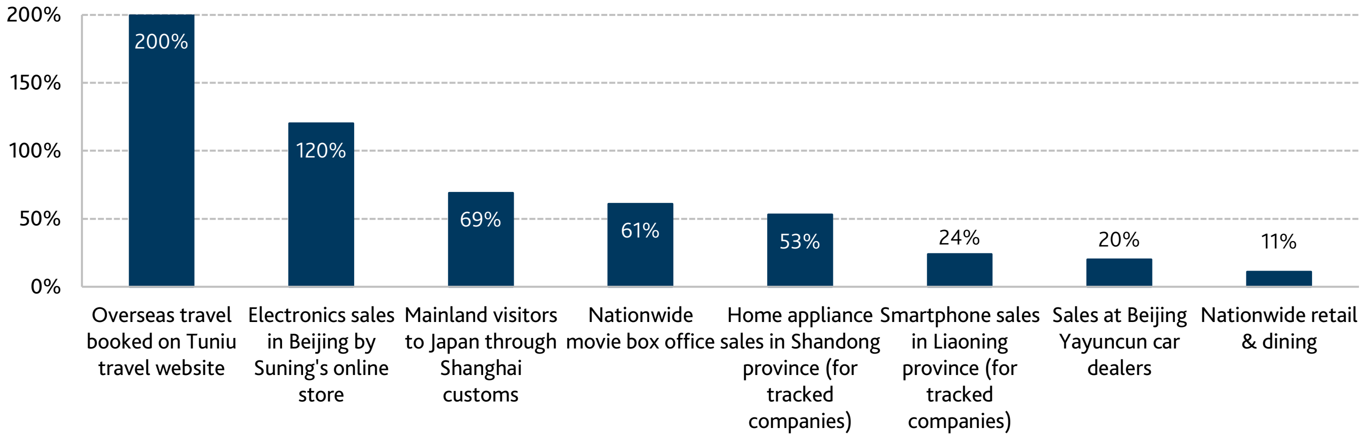
Nonetheless, as these new industries are still small in comparison to traditional secondary industries, they are not yet able to completely offset the slowdown of the old economies. Signs of slowdown are beginning to show up in job losses while the government seeks to stimulate the economy via tax cuts on autos and by reducing the down-payment requirement in property purchase. More stimulatory policies are expected. The aim of the authorities is to stabilise traditional industries and provide time for economic reforms to lift the quality and pace of growth for China's new economy.

High margin lending levels, touted as the culprit of the A-share sell-off, have come down significantly – to a manageable level (from a record high of RMB2.3 trillion to less than RMB1 trillion currently). Valuations of H-shares and A-shares are very attractive – both near historical lows, factoring in a great deal of market concerns. In this environment, opportunities exist for stock pickers to acquire growing businesses with impeccable positions at attractive prices. The Fund owns the following positions:

- **China Mobile** is the dominant mobile network operator in China. It has invested tens of billions of dollars to gold-plate its 4G data network, and Chinese mobile users are flocking to sign up – with 20 million subscribers each month, consuming four to five times more data, and paying 60% more a month for the benefits! Among China Mobile's subscriber base of more than 800 million, only 200 million are currently on the 4G network, meaning that most of the other three-quarters are expected to switch over in the next two to three years. Trading on 7x free cash flow, its earnings will grow as its 4G user base expands.
- As the leading social-network technology company in China, **Tencent** is in a prime position to benefit from the country's mobile data explosion. Its mobile messaging app, WeChat, has 600 million monthly active users and this app alone accounts for half of total mobile Internet time spent by the Chinese population. Around WeChat, Tencent has developed an impregnable ecosystem that transforms the smartphone into a gateway for social activities, media consumption and e-commerce. Whilst Tencent's stock may not appear optically cheap at 27x earnings, many of WeChat's services and functions are at

China's Golden Week Consumption Trend

1-7 October 2015 (year-on-year growth)



Source: China Ministry of Commerce, Tuniu Travel, Suning, Shanghai Tourism Administration, Goldman Sachs.

a very nascent phase of monetisation with ramp-up in advertising and payments on the horizon.

- **JD.com** is China's second largest e-commerce platform. Considered by some to be the "Amazon of China", JD.com offers unparalleled same-day delivery service in many cities and guarantees the authenticity of its merchandise. In the last year alone, JD.com grew its number of customers by 50 million. Goods sold through its web platform jumped 82% from a year ago to around US$19 billion a quarter! With only 100 million customers, opportunity for growth is immense. The company is only valued at 0.5x GMV – forecast value of goods estimated to be sold through its platform in 2016. The current market turmoil presented an opportunity to invest in this rapidly growing consumer franchise in China.
- **PICC** is the biggest auto insurer in China, which is the biggest car market in the world, adding 25 million new passenger cars a year to its fleet (China has 6 cars per 100 people, compared to 60 for Korea). PICC is a state-owned company that is focused on profitability rather than market share, and it has IT systems to segment its vast customer base to price policies more effectively and to sell via the low cost Internet channel. Non-auto lines, such as home and contents insurance accounts, are a vast opportunity still nascent in China, accounting for merely 5% of premiums (compared to approximately 25% in developed countries). Valuation is attractive, trading on 11x earnings and making a 21% return on equity.

Outside of China, India presents interesting opportunities. India has kept a relatively high interest rate policy to control inflation, which has been a perennial problem for the country's economy. Inflation rate is now well under control, having come down from levels of 10%+, which the country had grown used to, to less than 4%. A net consumer of commodities rather than a net producer, India benefits from falling commodity prices. A US$10 fall in oil price reduces its trade deficit by around US$10 billion, not an insignificant 0.45% of the country's economic output! Lower commodity prices are enabling the Indian Government to cut subsidies at a quicker pace and deploy the savings to infrastructure projects which are gaining momentum. Better policies under the current government have already led to a significant pick-up in coal production, a key fuel previously in short supply for the important power sector.

- **NTPC** is a state-owned power generator which accounts for 16% of India's total installed capacity and 25% of all its power generation. Reform-led improvements to the power sector supply chain will directly improve NTPC's profitability. NTPC's regulated capital base is set to grow by 75% by 2019, earning at least 15% return on equity. At 1x net asset value, the stock is attractively priced.
- **PC Jeweller** is one of the fastest growing wedding jewellery retailers in India with 54 showrooms across 45 cities and 17 states and adding 15 large format shops this year. With more than 10 million weddings every year in India and 47% of its population below 25 years of age, the company, with its superior product offering and authenticity, has potential for growth in a fragmented market currently dominated by mum-and-pop operators. The valuation is undemanding – at 12x earnings – if the company successfully executes its expansion strategy.

Outlook

The road of economic restructuring is rarely a smooth one. It will take time for reforms to come to fruition, and policy mistakes can occur along the way. Our view is that the direction taken by policymakers in the region is generally positive and, notwithstanding moderation in economic growth, Asia will still enjoy a superior rate of growth than the rest of the world.

The Chinese leadership continues to implement reformative measures to reduce economic distortions which have led to resource misallocation and to steer the nation onto a more sustainable path. The journey has been turbulent thus far, challenged by the need to balance many difficult considerations. However, this also presents the stock market with opportunities for superior growth in the long run.

The Indian reform story is ongoing, with key bills for land acquisition and the goods and services tax pending passage through its parliament. Interest rate cuts and increased government spending can help kick-start a build-out of the infrastructure the country sorely needs.

With these observations in mind, we are confident that the Fund is well positioned to reap the rewards as the companies we have invested in will almost invariably grow in scale and profitability in the next three to five years. We also continue to find new interesting companies with strong growth prospects at extremely attractive valuations. As such opportunities present themselves, we will add them to the Fund's holdings.

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$20,000 invested in the relevant Fund over five years from 30 September 2010 to 30 September 2015 relative to its benchmark index (in A$) 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.

Disclaimer

MSCI Inc Disclaimer