Platinum Asia Fund

Andrew Clifford Portfolio Manager

Disposition of Assets

REGION	DEC 2011	SEP 2011
China (Listed Ex PRC)	17%	16%
China (Listed PRC)	6%	5%
Taiwan	5%	6%
Hong Kong	1%	1%
Greater China total	**29%**	**28%**
Korea	18%	18%
Thailand	14%	12%
India	7%	9%
Philippines	6%	5%
Singapore	6%	5%
Malaysia	5%	4%
Indonesia	2%	2%
Vietnam	1%	1%
Canada	1%	1%
Cash	11%	15%
Shorts	2%	4%

Source: Platinum

Performance

Performance (compound pa, to 31 December 2011)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Asia Fund	-7%	-20%	6%	2%	15%
MSCI AC Asia ex Jp Index	-2%	-17%	5%	-3%	8%

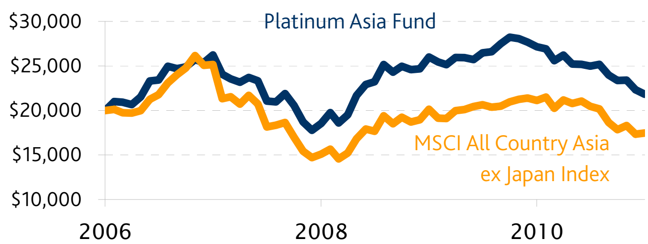
Source: Platinum and MSCI. Refer to Note 1, page 3.

Over the course of 2011, Asian stocks fell almost 15% led by falls in the key markets of China (A shares and H shares down 22%) and India (down 25%). The strength of the Australian dollar over the year reduced returns to Australian investors by a further 2% and over the quarter by more than 5%. Other regional markets performed somewhat better, in particular the SE Asian markets of Thailand, Malaysia, Indonesia and the Philippines, which were flat to slightly positive for the year.

Over the last five years since the end of 2006, Chinese A shares have fallen 18%, Hong Kong H shares are flat and the Indian market has returned just over 12%. These poor stock market returns have come in spite of these economies strong growth over that period.

Value of $20,000 Invested Over Five Years

31 December 2006 to 31 December 2011



Source: Platinum and MSCI. Refer to Note 2, page 3.

In addition to the concerns surrounding indebtedness of the developed economies, the ongoing tightening of monetary policy in both China and India has weighed on their stock markets over the last 12 months. Both these economies are now slowing and as such there is some uncertainty about the year ahead. However, it is likely that monetary policy will reverse course in China and India, and together with attractive valuations of stocks, we would expect a better year.

The Fund's performance has lagged that of the market in the past year, in particular during the last quarter. The poor performance can primarily be attributed to Fund's holdings in Chinese and Indian shares which have experienced significant declines. We still, however, expect these investments to ultimately perform well for the Fund, particularly from current prices. Please refer to the article titled 'Why Valuation Matters'.

Changes to the Portfolio

During the most recent period, the Fund's net invested position has moved from 81% at the end of September to 87%. The Fund has taken advantage of lower stock prices across the region to add to a range of the Fund's existing holdings, as well as adding a small number of new names. In addition, short positions in individual stocks have also been further reduced.

New names in the portfolio include Hyundai Department Store, a Korean department store operator. Korean department stores have been through a long period of consolidation which is now resulting in improving profitability and an opportunity to expand floor space to take advantage of growing Korean consumption. Similarly, the Fund also added to Lotte Shopping, another Korean retailer. China Zhengtong is a strong operator of luxury car dealerships across China representing a range of automakers including BMW and Audi. The company is benefitting from the desire of the luxury car companies to expand their distribution in China. China Telecom, having re-entered the portfolio, has fast growing businesses in its 3G mobile phone operation as well as its broadband services.

The Fund also added to existing positions in China Life (life insurance), our Chinese internet plays Sina (its Weibo service is the Twitter of China) and Youku (an internet TV service), as well as IDFC (an Indian finance company specialising in infrastructure funding) and PLDT (Philippines telecom operator).

Commentary

Signs that China's economy is continuing to slow emerged throughout the quarter. Various indicators such as purchasing managers surveys, construction equipment and auto sales, and sales of new residential apartments all point to an economy that is losing steam. Exports are showing clear signs of being impacted by the slowdown in Europe and the US, and only grew 13.8% year-on-year in November, the lowest since December 2009. Most importantly though, is the slowdown in the use of credit, with estimates of all credit extended (i.e. bank loans and estimates of those extended outside the banking system) pointing toward lending growth falling below 10%, the lowest level since 2008.

The slowdown that is occurring is the natural consequence of the various policies put in place by the People's Bank of China (PBOC), such as increased reserve requirements for banks (to restrict loan growth) and various measures to restrain lending to the property sector. The goal of this engineered slowdown was to reduce inflationary pressures in both goods and services, and property. On this front there are good signs with food price inflation already retreating from its highs. The most recent CPI reading had prices rising 4.2%, down from a peak of 6.5%, with expectations that this will readily retreat to around 4% in the early part of 2012. Property prices have also been easing off.

The question now is how significant the slowdown becomes and when will policymakers act to take the brakes off the economy? However, as noted in our last Quarterly Report, the measure of the investment boom in China, whether by level of residential construction, the consumption of cement or steel, or uptake of debt, has been by any comparison an extraordinary expansion. The pattern in history after such rapid growth is usually for a fairly sharp setback before a growth path can be re-established. Unlike the developed world today where indebtedness of governments and the private sector are limiting factors in responding to economic weakness, this is not the case in China. Our suspicion is that removal of lending restrictions and cuts in interest rates will result in a reasonably rapid response by companies and individuals to invest. In particular, the oversupply of residential property that would likely be cleared if potential buyers were granted access to credit.

The PBOC has made one small reduction to the banking system reserve requirements which occurred as part of a co-ordinated response by global central banks to liquidity concerns in Europe. Otherwise, for the moment, there are no clear signs that the Chinese authorities are about to act, though public comments of various leaders acknowledge the slowdown is occurring. Our sense is that China's leaders have relatively little appetite for a significant reduction in growth, especially if employment is impacted. Thus we would expect that any further deterioration in growth, especially if accompanied by falling inflationary pressures, will result in an easing of monetary policy and new spending initiatives by the central government. We therefore suspect that post-China's investment boom, the landing may not be so hard, at least this time around.

India has also been facing rising inflationary pressures over the last two years, and although this has been in part driven by food prices, there has been a significant rise in other prices. In part, this can be attributed to various government policies such as the National Rural Employment Guarantee Act that guarantees every rural household a minimum of 100 days of paid labour at the rate of 130 Rupees ($2.50) a day (up from 100 Rupees in 2010) which has had the effect of increasing wage rates for unskilled labour across the country. Measures put in place to waive loan repayments for farmers during 2008 ignited a subsequent credit boom in the agricultural sector as banks and borrowers saw the government as underwriting their position. Recently, the government proposed the National Food Security Bill, which if enacted, will increase food subsidies to the rural sector by $7 billion and would push the fiscal deficit up from 5.6% to 6% of GDP.

As a result, the Reserve Bank of India (RBI) has had to pursue much higher interest rates than would have otherwise been likely in order to get inflation under control. Since the start of 2010, the RBI has steadily increased its repo (interest) rate from 5% in early 2010 to 8.5% at the end of 2011. Typically, Indian companies today are paying 13% or more on their borrowings. In addition to high rates, the various corruption scandals around the 2010 Commonwealth Games and mobile telephone licensing has frozen government decisions on all levels as the courts and the public push for greater transparency in government. Ultimately, any improvements in this area will be of long-term benefit to the country, but in the short-term, little is happening in critical areas such as infrastructure development or reforms of the taxation system.

Not surprisingly all this has brought growth to a grinding halt with the October industrial production figures showing a fall of 5% from the 2010 level, and along with this slowdown, the first signs of inflationary pressures easing. At the RBI's last meeting, it was signalled that they were looking for opportunities to relax monetary policy and as such we would expect to see reductions in interest rates and banking reserve requirements in the early months of 2012.

Outlook

Over the course of 2012, our expectations would be that in the key economies of China and India, policymakers will be starting to take the brakes off as inflation starts to recede. It is likely that the process will start slowly. In China, the massive response of government spending and credit expansion to the 2008 slowdown that sowed the seeds of today's inflation, will probably temper policymakers initial response. In India, the risk is that government fiscal policy further exacerbates inflation and restricts the RBI's ability to reduce rates. During this period there are likely to be concerns about just how severe the slowdown in each economy may become.

However, the stock markets in both these economies have already suffered significant falls with Chinese A shares and H shares down 37% and 28% from their post-2008 highs, and the Indian market down 24%. Indeed these strongly growing economies have seen their stock markets make little progress over the last five years (China's markets are flat to negative, and the Indian market is up around 12%). The result is that the valuation of many of the stocks in these markets, and certainly the ones held by the Fund, are very attractive given our assessment of their prospects over the next five years. We expect that the easing of monetary policy over the course of 2012 will be a catalyst for better returns from these key regional markets in the year ahead.

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$20,000 invested in the relevant Fund over five years from 31 December 2006 to 31 December 2011 relative to their Index (in A$) 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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