Platinum Asia Fund

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Disposition of Assets

REGION	DEC 2013	SEP 2013
China (Listed Ex PRC)	25%	24%
China (Listed PRC)	7%	7%
Taiwan	2%	2%
Hong Kong	2%	2%
Greater China total	**36%**	**35%**
Korea	20%	19%
India	14%	11%
Thailand	8%	10%
Philippines	6%	8%
Malaysia	5%	5%
Singapore	4%	5%
Vietnam	2%	2%
Indonesia	1%	1%
Canada	0%	1%
Cash	4%	3%
Shorts	3%	0%

Source: Platinum

Performance

(compound pa, to 31 December 2013)

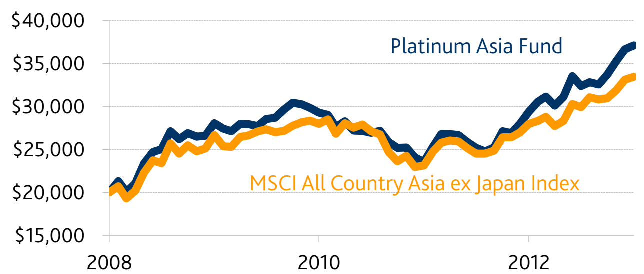
	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Asia Fund	10%	26%	8%	13%	16%
MSCI AC Asia ex Jp Index	8%	20%	6%	11%	10%

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

Asian markets gained around 3% in local currency terms and the depreciation of the Australian dollar added to the return for Australian investors, with the Index returning 8.1%. The Fund's performance was better than the market, up 10%, led by India (up 15%), where an improvement of the current account deficit stabilised the Rupee and the State election results are potentially foreshadowing a return of the Bharatiya Janata Party (BJP) in the coming general election. Optimism centres around the expectation that the BJP, led by Narendra Modi, the Chief Minister of the economically vibrant State of Gujarat, can improve economic prospects for the nation.

Value of $20,000 Invested Over Five Years

31 December 2008 to 31 December 2013



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

Chinese markets started the quarter well as the Economic Plenum Meeting pledged greater economic reforms but ended flat as tensions once again rose in the interbank market. ASEAN market returns were lacklustre for various reasons; Thailand in the throes of yet another political crisis and Indonesia tightened monetary policy further to deal with inflationary and current account issues.

Our Indian holdings which have been strong performers appreciated significantly, namely ICICI Bank (a major private sector bank, up 20%), Jaiprakash Associates (infrastructure and property conglomerate, up 47%), Maruti Suzuki (up 30%). Elsewhere, our internet holdings continued to enjoy pleasing performance with Naver Corp and Tencent Holdings (dominant instant messengers in Japan and China respectively), up 30% and 20%, while E-House (Chinese on-line property broker) up 63%. In addition, minimal exposure to the Australia dollar ensured that the full benefits of depreciation accrued to performance. The most significant drag on Fund performance was the Fund's Thailand holdings, Kasikornbank and Bangkok Bank, both down 10%, and Land & Houses and Amata Corp (property companies) down 20%.

Changes to the Portfolio

The net invested position of the Fund came down from 97% to 93%. While economic prospects for the region remains constructive, as evidenced by the emergence of a mild slowdown in China, equity markets may have expected too much, too soon. We have raised some cash from stocks that we believe have reached our assessment of fair value and added index shorts.

We have deployed some of the cash raised in new positions exposed to the booming Chinese tourism theme. **Shangri-La Asia** is a luxury hotel operator with an enviable portfolio of hotel properties in prime locations in major cities across China and abroad. **China Lodging Group** is the best-in-class operator of the mid-end segment, therefore is often the default choice for domestic Chinese travellers. An over-building of hotels has temporarily reduced pricing power for these operators but these companies, with great positions, were on offer at extremely attractive valuations. With many of the choice locations in the more mature cities already taken, supply growth is moderating and pricing power is returning.

Given a weak Indian economy, we took the opportunity to add to Adani Ports which owns an extensive portfolio of private ports that have been taking market share from the operationally inferior public ports. Ports can be great businesses in burgeoning economies and the company also owns a vast land holding (>6000 hectares) in the Mundra Special Economic Zone, the value of which alone exceeds the market value of the company!

We have taken the opportunity to reintroduce Sohu (Chinese on-line portal, video and search) to the Fund, as we believe its partnership with Tencent in its search business offers significant potential that is currently under appreciated.

Commentary

Both the Chinese and Indian markets have become more optimistic about their economic prospects. We have previously commented on the current Chinese leadership's resolve to undertake reforms necessary to put the economy onto a more sustainable growth path. The main theme that came out of the Third Economic Plenum Meeting, which concluded in November, was to allow the *market* to play a "decisive role in resource allocation". This reverses the previous regime's tendency to increase government intervention. The aim is to transition the economy away from massive government investment and to become more driven by consumption and innovation, while improving social justice and the quality of life.

Among other measures, we can expect:

- Gradual liberalisation of interest rates to improve capital allocation.
- Reforms in local governments to reduce their sole focus on GDP growth.
- Liberalising the trading of rural land-usage rights to unleash land value wealth and to encourage modern farming practices.
- Relaxation of the 'hukou' household registration system that has hindered labour mobility.
- Opening up of State Owned Enterprises for competition.

- More diligent establishment of Free Trade Zones which provides internationally recognised rules for businesses to encourage growth of modern services-based industries.
- A broadening of corruption crackdown.

These moves are positive but they also mean that China is likely to see slower growth in the infrastructure and property-related sectors as factors of production get repriced. Recent spiking of the Shanghai Interbank Overnight Rate (Shibor) is the result of withdrawal of market distortions of the interbank market. The Shibor shot up to 4.5% from 3.4% in the space of one week in mid-December. This time around, the Chinese Central Bank chose to calm markets by injecting liquidity to bring down the overnight rate, leaving the medium-term rate elevated. Some commentators are concerned that this may evolve into a more debilitating financial crisis. We believe this is unlikely. With a strong current and capital account surpluses of around US$500 billion a quarter and significant deposits locked up in Central Bank reserves, the government has ample levers to avert this outcome.

However, a rise in the medium-term interbank rate represents a tightening for the recipient industries which can include local government-backed infrastructure projects and real estate companies. On the other hand, government's intention to increase market orientation makes one more optimistic over the sustainability of the other more interesting parts of the economy. These are developing rapidly as the country rebalances from investment to consumption. One prospective area is the Chinese internet companies.

Chinese internet companies

In Western countries, we may use **Facebook** for social networking, **WhatsApp** for mobile messaging, **PayPal** for on-line transactions and **eBay** or **Amazon** for on-line shopping. In China, social networking is done on Qzone, mobile messaging on WeChat, and on-line transaction and shopping can be done on Tenpay or 51Buy. All these internet properties are operated by one Chinese company, **Tencent Holdings**.

Tencent started life in 1998 with a little-known instant messenger (named QQ) for PCs. Now, QQ is an indispensable communication tool for all, with users numbering 800 million. However, it is best known in China as the dominant PC on-line gaming platform, capturing almost half the market, which generates over US$5 billion revenues a year, and is still growing at 30%. Its 'newer ventures' in e-commerce (51buy.com) and payment system (Tenpay), already major players, are still growing at 100% pa!

Dominance of a handful of titans is a unique characteristic of the Chinese internet industry. Regulatory barriers erected to bar foreign entrants (as Google has learnt), has enabled several domestic operators to mimic and localise foreign offerings for the vast domestic market.

In the migration to mobile devices, Tencent has managed to further cement its dominance. Recognising the importance of the opportunity, it deployed significant software engineering resources to mobile app development with the stunning success of WeChat, a WhatsApp-like mobile messenger. Although the number of users has tripled from a year ago, with (merely) 300 million users, the market is still in its infancy.

WeChat's functionality has expanded far beyond simple text messaging. Users can now send each other voice messages and complex emoticons which offer a richer communication experience. In addition, the social nature of the messenger has lent itself as a powerful mobile games distribution platform. The company has only rolled out a limited number of titles but some are already generating A$20 million in revenues a month! As users get used to its mobile payment system in mobile games, the expectation is that they will use it to pay for real world items too.

Indeed, WeChat is extending into the off-line world thanks to its location specificity. WeChat is growing its subscription accounts platform which links its vast user base to brick-and-mortar businesses. The number of business premises on the platform has reached two million within a year, allowing consumer-facing businesses to conduct more targeted marketing and promotions to their customers. Further, Chinese smartphone users have taken to social networking, with the absence of Facebook in China, WeChat's Facebook-like 'Moments' platform is now the **social network of choice**.

Smartphone growth in China is phenomenal. Although mobile user penetration is close to 100%, only 30% of mobile phones are smartphones. China shipped in excess of 300 million smartphones (mostly lower end) in 2013, having grown 75% from the previous year. This compares favourably against PC annual shipments of 70 million, a growth rate of 3.5%.

Despite the mobility boom, advertisers are only now beginning to migrate budgets to the mobile platform, making up only 4% of total on-line advertising but doubling each year. This is particularly striking when one considers on-line itself is under-represented in the total media marketing pie. We believe growing popularity of mobile advertising will open up tremendous advertising monetisation opportunities for companies with a strong presence. Our holdings in Sina (Twitter of China), Youku (dominant on-line video site), Sohu (Tencent's joint venture in search business) and Baidu (dominant search and map), should be significant beneficiaries.

Mobile exposures outside of China are Naver Corp (instant messenger in Japan) which is seeing a similar evolution to WeChat in China and CJ O Shopping in Korea (TV shopping leader transforming into a mobile shopping network) is witnessing a dramatic tripling of sales on its mobile channel.

Outlook

China and India need reforms to achieve their growth potential. Prospects are improving for both in this regard, however, success cannot be guaranteed as beneficiaries of the status quo can represent staunch opposition to change.

The Chinese leadership appears to have sufficient support from the Party, and more importantly the military, to push through key reforms to restructure the economy and reverse economic distortions. Greater sustainability of the economy will benefit the more consumer-related sectors.

The bull case for India is perhaps easier as it is coming from a much lower base. For example, the passenger car market is less than one fifth that of China! However, given the market's recent enthusiasm for India, delay in the reform process can lead to short-term setbacks.

Despite significant price appreciation of some of our holdings, we remain optimistic about the returns our companies can achieve. Stock prices are not expensive compared to their prospects. We are continuing to find interesting companies that offer superior growth at attractive valuations, so the Fund remains relatively fully invested. Potential market weakness would present interesting opportunities to add to the Fund's holdings.

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$20,000 invested in the relevant Fund over five years from 31 December 2008 to 31 December 2013 relative to their Index (in A$) 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. Long invested position represents the exposure of physical holdings and long stock derivatives. The net invested position represents the exposure of physical holdings and both long and short derivatives.

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