

Platinum Asia Fund



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Portfolio Manager

Performance

(compound p.a.⁺, to 30 June 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	8%	15%	10%	8%	14%
MSCI AC Asia ex Jp Index [^]	4%	4%	7%	7%	10%

⁺ Excludes quarterly returns

* C Class – standard fee option. Inception date: 4 March 2003.

After fees and costs, before tax, and assuming reinvestment of distributions.

[^] Index returns are those of the MSCI All Country Asia ex Japan Net Index in AUD. Source: Platinum Investment Management Limited, FactSet Research Systems.

Historical performance is not a reliable indicator of future performance.

See note 1, page 5. Numerical figures have been subject to rounding.

Value of \$20,000 Invested Over Five Years

30 June 2015 to 30 June 2020



After fees and costs, before tax, and assuming reinvestment of distributions. Historical performance is not a reliable indicator of future performance.

Source: Platinum Investment Management Limited, FactSet Research Systems. See notes 1 & 2, page 5.

The Fund (C Class) returned 7.7% for the quarter and 14.6% for the year.¹

After a volatile start to the year, it was an exciting quarter for the Fund, which was well positioned for a market recovery after weathering the steep sell-off earlier in the year.

At the beginning of the quarter, the narrative around “flattening the curve” was well understood. Post the lockdown, returning to work has rejuvenated economic activists. This, coupled with aggressive monetary and fiscal loosening, ignited a truculent rebound in equities.

Stocks in the Fund are predominantly strong Asian companies that we believe will likely be resilient in an obviously difficult environment. **Reliance Industries** (4G operator in India transforming itself into an internet platform) was up 55% over the quarter in local currency terms. **LG Chem** (premier electric vehicle battery manufacturer in South Korea) was up 61% and **Sea Ltd** (internet games and e-commerce player in South East Asia) was up 96% from our entry point to exit point during the quarter. Stocks that are benefiting from a recovery in Chinese domestic tourism also performed well, with **China International Travel Services** (duty free operator) up 129% and **Huazhu** (leading hotel operator in China) up 22%.

The significant recovery in the Australian dollar detracted from our local currency return during the quarter.

Changes to the Portfolio

At the beginning of the quarter, we significantly added to our long exposures, increasing the Fund’s net invested position from 64% in early April to above 90% by mid-April. Given the myriad of prospective ideas on offer, the Fund will seek to deploy cash when the risk/reward is right.

After the share price declines in the March quarter, Asian markets were trading on a significant discount versus their average long-term valuations for very well understood reasons. It would have been remiss not to take advantage.

¹ References to returns and performance contributions (excluding individual stock returns) in this Platinum Asia Fund report are in AUD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

Accordingly, we added to new and existing positions that were on offer at mouth-watering valuations. These are strong businesses backed by good management and healthy balance sheets that we believe will do well upon reopening and over the longer term, irrespective of geopolitical tensions. We discuss some of these opportunities in the Commentary section below.

Towards the end of the quarter, index shorts were tactically added to protect a portion of the portfolio, given the increasing prospect of a second wave of COVID-19 in certain countries, reducing the Fund's net invested position to 79% by 30 June. We are of the view that while longer-term fundamentals are still attractive, there is a possibility of shorter-term adjustments, given how far the markets have rallied thus far. This position will be reviewed regularly as fundamentals and market conditions change.

Commentary

With COVID-19, lockdowns, rising geopolitical tensions and protests in different parts of the world, prospects look rather grim. However, it is in these times that attractive investment opportunities emerge. Having lightened our exposure to sidestep the bulk of the stock market turbulence a quarter ago, the Fund shifted its focus to identifying prospective investment opportunities that had seen their valuations slashed given the overwhelming fear that gripped the market.

The investment methodologies that we have always employed are proving to be effective during this time of turbulence. When the market was seeking to sell, we took the opportunity to reverse our shorts. When the valuations of some amazing companies were depressed, we spent our time picking through them meticulously to add to our portfolio.

Our view is that our time-tested investment methods are particularly well suited to these turbulent times and strong companies in Asia are attractively valued given the favourable economic prospects they are facing.

The key pillars of our approach are:

- **We take a long-term view and ignore short-term noise.** We consider how businesses or industries will evolve in three to five years. When one looks far ahead, the picture becomes considerably clearer.
- **We adopt a contrarian approach.** Being open to out-of-favour opportunities, when there is a great deal of fear in the market, can often be the best opportunities.
- **We generate insights.** With great insights, we can overlook the market's current dislike of a stock and make a more accurate assessment of the future potential of a business. Insight also reduces the chance of falling into a value trap and buying companies just because they are cheap. We strive to balance the potential upside with potential risks.

Disposition of Assets[^]

REGION	30 JUN 2020	31 MAR 2020	30 JUN 2019
China	53%	51%	33%
Korea	12%	8%	9%
Hong Kong	9%	6%	13%
Taiwan	8%	7%	4%
India	8%	4%	12%
Thailand	2%	0%	4%
Vietnam	2%	2%	2%
Macao	1%	0%	0%
Philippines	0%	0%	3%
Cash	5%	22%	19%
Shorts	-16%	-10%	-6%

[^] With effect from 31 May 2020, our country classifications for securities were updated to reflect Bloomberg's "country of risk" designations. These changes have been backdated to prior periods.

See note 3, page 5. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 JUN 2020	31 MAR 2020	30 JUN 2019
Consumer Discretionary	30%	27%	16%
Information Technology	21%	17%	10%
Communication Services	11%	10%	14%
Financials	9%	7%	20%
Consumer Staples	6%	4%	0%
Energy	4%	3%	0%
Real Estate	4%	2%	10%
Materials	4%	1%	1%
Industrials	3%	3%	4%
Health Care	2%	2%	2%
Utilities	0%	0%	1%
Other*	-14%	-8%	-2%
TOTAL NET EXPOSURE	79%	68%	75%

* Includes index shorts and other positions.

See note 4, page 5. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

Good bottom-up work requires us to think about companies as if we were business owners, so that we can interpret the nuances correctly, given the vast amount of information available. Each stock idea needs to be interrogated by an experienced team of investors who have been doing this for a long time.

Our bottom-up approach helped us to manage the portfolio effectively during the March quarter COVID-related market volatility. Our insight was that only a few countries would be spared from going into lockdown, resulting in a collapse in economic activity, which the market was being too complacent about. We took an aggressive approach to shorting by moving the Fund's net invested position from around 90% at the beginning of the year to mid-50% by the end of February.

This approach also helped us to identify various key themes and stock ideas when it was the right time to buy.

Key themes and examples:

- 1. Digitalisation of Indian consumers:** Reliance Industries was traditionally an oil refiner and petrochemical producer. Over the last 10 years, it has built the biggest 4G network in India, growing its user base from zero to around 400 million in just four years.² The company recently embarked on an ambitious journey to link online and offline shops to Indian consumers via the smartphone. Facebook, for instance, is working in partnership with **Reliance** to link WhatsApp users to grocery stores. In fact, Facebook was so excited about the opportunity that it invested ~US\$6 billion in Reliance's telco business, Jio Platforms. We added significantly to Reliance during the recent market sell-off, before Facebook invested in this highly prospective asset.
- 2. Camera lenses for mobile handsets:** Cameras on mobile handsets are a key selling point these days. Smartphone component makers have been out-of-favour with the market because of flat smartphone sales growth. A huge camera upgrade cycle is, however, giving us cause for excitement. Video conferencing has highlighted the importance of having a good camera. We are seeing more camera modules installed in these phones and the resolution of these modules is also getting upgraded. As the number of megapixels and camera modules per device increases, the lens companies are expected to start growing again. **Sunny Optical Technology** (China) and **Largan Precision** (Taiwan) are the dominant lens and camera suppliers to mid- and high-end smartphones. We have taken the opportunity to add to these positions during market weakness.

² Source: Reliance Industries.

Net Currency Exposures[†]

CURRENCY	30 JUN 2020	31 MAR 2020	30 JUN 2019
Chinese yuan (CNY)	53%	51%	47%
US dollar (USD)	15%	12%	29%
Korean won (KRW)	12%	7%	9%
Hong Kong dollar (HKD)	9%	10%	14%
Taiwan dollar (TWD)	4%	6%	4%
Thai baht (THB)	2%	0%	-1%
Vietnamese dong (VND)	2%	2%	2%
Indian rupee (INR)	1%	0%	13%
Australian dollar (AUD)	0%	10%	2%
Chinese yuan offshore (CNH)	0%	0%	-15%
Philippine peso (PHP)	0%	0%	-5%

[†] With effect from 31 May 2020, our currency risk exposure classifications for securities were updated to match the relevant local currencies of the relevant Bloomberg "country of risk" classifications. These changes have been backdated to prior periods.

See note 5, page 5. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Tencent Holdings	China	Comm Services	7.1%
Samsung Electronics Co	Korea	Info Technology	6.0%
Taiwan Semiconductor	Taiwan	Info Technology	5.7%
Alibaba Group Holding	China	Cons Discretionary	5.3%
AIA Group Ltd	Hong Kong	Financials	4.8%
China International	China	Cons Discretionary	4.3%
Reliance Industries Ltd	India	Energy	3.8%
LG Chem Ltd	Korea	Materials	3.6%
Midea Group	China	Cons Discretionary	3.0%
Huazhu Group ADR	China	Cons Discretionary	2.9%

As at 30 June 2020. See note 6, page 5.

Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit <https://www.platinum.com.au/our-products/paf>.

3. Food delivery: Food delivery has been growing but many investors have shunned this sector due to profitability concerns. Our insight on this sector is that food delivery is the extreme version of “economics of the last mile”. Food must be delivered to the customer within 30 minutes in China. A dense network of customers means that more meals can be delivered each run. More deliveries per run, means higher profitability. China has two food delivery operators, **Meituan Dianping** and Ele.me. Meituan has a dominant market share, giving it a significant cost advantage that is insurmountable by the smaller players. With Meituan’s food delivery business growing by more than 30%,³ we expect this advantage to skyrocket. This dynamic is under-appreciated by the market. We are happy owners of Meituan.

These companies are leaders in their fields because they have invested billions of dollars in research and infrastructure over many years. They have invested in their long-term future and kept investing while others cut their research budgets and focused on buying back shares or paying out dividends.

Apart from the companies highlighted above, we also own companies like **AIA Insurance, LG Chem** for EV batteries, **Samsung Electronics, Taiwan Semiconductor Manufacturing, Trip.com, JD.com** and **ZTO Express**. All these companies have invested diligently and wisely to secure their leading positions in their respective fields.

³ Source: Meituan Dianping 2019 Annual Report.

Outlook

Starting valuations are a key determinant of future returns. Asian stocks are currently trading on low valuations versus their long-term averages and news headlines can be worrisome.

Economic prospects for the region are, however, favourable. The lack of stimulatory policies implemented thus far has given many countries in the region room to enact policy stimulus if needed. The reversal of lockdowns is kickstarting economic activities from depressed levels across the region as people return to shops and back to work. Development of a vaccine appears to be progressing. Given lacklustre growth globally, monetary and fiscal policies are likely to remain loose, which is supportive of stock markets.

Our bottom-up process is hard at work, generating numerous prospective ideas. The difficulty now, is ranking which ones are the greatest prospects, rather than searching the list for potential gems. It is an exciting time for investors like us, as attractive valuations coincide with significant capacity for further stimulation in Asia.

The Fund will continue to deploy capital in attractive and strong businesses that continue to be under-appreciated by the markets.

Notes

Unless otherwise specified, all references to "Platinum" in this report are references to Platinum Investment Management Limited (ABN 25 063 565 006, AFSL 221935).

Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, the Fund's holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The investment returns depicted in the graph are cumulative on A\$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows the Fund's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "Shorts" show the Fund's exposure to its short securities positions and short securities/index derivative positions, as a percentage of its portfolio market value. "Cash" in this table includes cash at bank, cash payables and receivables and cash exposures through derivative transactions.
4. The table shows the Fund's net exposures to the relevant sectors through its long and short securities positions and long and short securities/index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".
5. The table shows the Fund's net exposures to the relevant currencies through its long and short securities positions, cash at bank, cash payables and receivables, currency forwards and long and short securities/index derivative positions, as a percentage of its portfolio market value. Currency classifications for securities reflect the relevant local currencies of the relevant Bloomberg country classifications. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
6. The table shows the Fund's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

Disclaimers

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