Platinum Asia Fund

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Markets across Asia were lacklustre over the quarter as a result of concerns over rising interest rates in the US, with the Philippines (-8%), India (-5%), Korea (-1%) and Hong Kong (-1%) all posting weak returns (in local currency terms). The Fund (C Class) had a flat performance over the quarter and returned 26% over the last 12 months.

Among the stocks that fared well were companies that are strategically positioned to service the burgeoning Chinese middle class consumer, particularly the Chinese healthcare stocks (United Labs +28%, 3SBio 15%) and gas utilities (ENN Energy +26%). Mining group MMG rose +23%, encouraged by recovering copper prices.

Our Indian, Philippines and Korean holdings detracted from performance, including the Indian banks (Axis Bank -9% and Yes Bank -3%), Philippines developer Ayala Land (-8%) and Korean internet search portal Naver (-9%). Their weak performance this quarter has not changed our investment thesis for these companies, which we continue to regard as quality businesses in the region and which we expect will rebound when market volatility recedes.

Performance

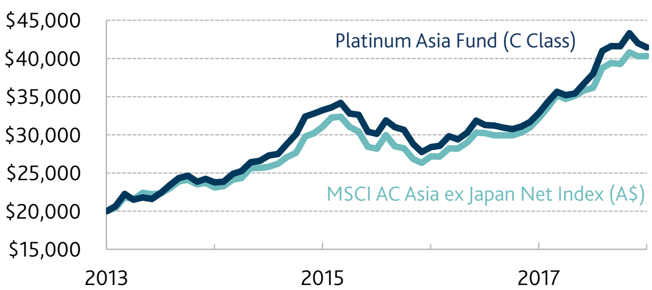
(compound pa, to 31 March 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	0%	26%	8%	16%	15%
MSCI AC Asia ex Jp Index	3%	25%	9%	15%	11%

*C Class – standard fee option. Inception date: 4 March 2003.
Net of accrued fees and costs. Refer to note 1, page 4.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

Value of $20,000 Invested Over Five Years

31 March 2013 to 31 March 2018



Net of accrued fees and costs. Refer to note 2, page 4.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017	31 MAR 2017
China^	45%	51%	44%
Hong Kong	5%	3%	1%
Taiwan	2%	2%	4%
India	13%	10%	14%
Korea	10%	12%	11%
Thailand	5%	4%	6%
Philippines	2%	3%	4%
Vietnam	1%	2%	3%
Singapore	1%	1%	2%
Malaysia	<1%	<1%	1%
Indonesia	<1%	<1%	0%
Cash	16%	11%	10%
Shorts	-2%	0%	0%

^ Inclusive of all China-based companies, both those listed on exchanges within China and those listed on exchanges outside of China.
Source: Platinum Investment Management Limited. See note 3, page 4.

Commentary

During the quarter, the issue of increasing trade confrontation between the United States and China came to the fore. These certainly aren't easy negotiations to have and there has been much tough rhetoric over tariffs from both sides. Nevertheless, a full-blown trade war is probably unlikely to eventuate, mainly because both parties recognise the negative impacts it would have on their respective economies, an outcome that neither wants. So far, the US has proposed tariffs on about US$50 billion worth of Chinese imports. The Chinese side reciprocated with proposals for an equivalent amount over US imports, plus some vague promises of further opening-up of its domestic markets to foreign competition. US$50 billion is no negligible amount, but put in context, it represents less than 3% of China's total annual exports. It is worth remembering that while the US still makes up a significant 19% of China's exports, **nearly half of China's total exports are going to other Asian trade partners!**

We are further comforted by the belief that the impact of the current trade friction on the medium- to long-term earnings power of our portfolio companies will be limited. Our key Chinese holdings are businesses that are strong beneficiaries of China's growing middle class, domestic consumption upgrades and ongoing urbanisation. The portfolio is positioned to benefit from the continuation of China's economic reform measures, such as those focused on reducing environmental pollution and providing more sustainable growth, improving the health of the banking system, and delivering better healthcare for the people. Indeed, the recent constitutional amendment to remove the presidential term limit may be a positive for China's economic development as it cements President Xi's position and allows him to pursue his reform agenda with greater certainty.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China	IT	3.5%
Axis Bank Ltd	India	Financials	3.2%
Samsung Electronics	Korea	IT	3.1%
Ping An Insurance Group	China	Financials	3.0%
Kasikornbank PCL	Thailand	Financials	2.8%
China Overseas Land & Invt	China	Real Estate	2.8%
China Oilfield Services	China	Energy	2.6%
Yes Bank Ltd	India	Financials	2.5%
Tencent Holdings Ltd	China	IT	2.4%
Jiangsu Yanghe Brewery	China	Consumer Staples	2.1%

As at 31 March 2018.

Source: Platinum Investment Management Limited. See note 4, page 4.

Worth highlighting are some of the interesting changes we see taking place on the ground in China, and how the reality may be different to the picture painted by Western media.

You may remember watching a *60 Minutes* report on China's "ghost cities" back in 2013 – empty apartments with no one living in them. That was not exactly fake news, but it is certainly old news. If one can picture nearly 20 million people, almost the population of Australia, moving from rural villages to the cities every year, one can appreciate the scale of this migration. Empty apartments, to the extent that they exist, get filled up pretty quickly.

The truth is that instead of empty streets we see traffic jams, instead of unsold apartments we see a severe shortage of supply – so much so that buyers are going into lottery draws to get theirs hands on them. To meet this demand, developers are buying land and starting construction again!

You may have also read about the glut in China's supply of steel, aluminium, cement and so on. But that, too, is yesterday's news as the government has closed down numerous loss-making or polluting plants and factories over the last few years. As supply shrank, commodity prices recovered. Australian coal and iron ore producers have reported how their profitability improved out of sight! The CEOs of the remaining Chinese companies in these industries are telling us the same thing. With improving profitability, not only are they now able to keep up with the interest payments on their debt, they are also paying down the debt. The positive repercussions on the banking system cannot be under-estimated.

Moving onto the environment – China is more focused than ever on this issue. The drive comes from both the people and the top. "To bring back the blue sky!" hasn't been an empty political slogan; there has been real government action in enforcing the environment standards and regulations. Academic studies done by groups outside of China are reporting improvements in air quality in some Chinese cities by as much as 40% between 2013 to 2017.

We are living in exciting times in which the world is generating remarkable businesses through technological change. This is especially so in China because it is pursuing new technologies at a scale and pace that is unrivalled by most other countries. China has put in place first-class infrastructure and invested heavily in education (this includes both government funding and private spending), producing four million STEM (science, technology, engineer and maths) graduates a year. If you are an entrepreneur wanting to open a smartphone or electric vehicle factory, China is unique in its offering of an abundance of cheap and experienced engineers, an unparalleled supply chain and a huge domestic market to sell into. This is exactly what the assembler of the iPhone (Hon Hai Precision Industry) has managed to do, adding a hundred thousand people to its smartphone factory within a year.

Since China is brimming with entrepreneurs, competition is intense. But competition forces innovation and accelerates the iteration of products. Alibaba and Tencent have been locked in a race to win market share in mobile payments, each offering low fees and continuously improving their services. The result of this race is the growing number of Chinese cities that are fast becoming cashless. Mobile payment volume in China grew from zero to US$9 trillion in just three years – 10 times the volume in the US!

Building on its popular digital payment app Alipay, Alibaba now offers the largest cash management product in the world, with more than US$300 billion under management. The Fund has owned Tencent and Alibaba for several years and they have generated good returns for our investors. The point is that China's vibrant private sector is capable of creating vast new businesses and tremendous value.

The growing power of the Chinese consumer is a well-told investment story. What may be less obvious is that while more and more Chinese are car owners and almost every adult has a smartphone, they are yet to take up the more intangible products that will improve the quality of life. Healthcare and insurance are prime examples.

The Chinese healthcare market is a quarter of the size of the US or European market by value, while its population is four times bigger. One of the Fund's holdings, 3SBio, makes a drug called Enbrel, which is a biologic drug for the treatment of rheumatoid arthritis. Enbrel is the seventh top selling drug in Australia and a top 10 drug in most developed countries. But Enbrel doesn't even rank in the top 100 in China, because domestically 3SBio only has 30,000 patients at present. Among a population of 1.3 billion people, many sufferers of rheumatoid arthritis are not diagnosed and treated. But this is now changing as healthcare coverage expands.

Insurance has been another area of interest for the Fund. We own Ping An Insurance, an industry leader in China. Ping An has a superb sales force and has invested billions of dollars in technology with great foresight. Its system allows auto insurance customers to lodge claims on their smartphones by simply submitting a photo of the accident, and Ping An's artificial intelligence algorithms will assess the damage and provide an estimate of the cost of repair in a matter of minutes.

The companies mentioned above are industry leaders with strong earnings power. Yet, we were able to purchase their shares at very attractive valuations. We are optimistic about their growth potential as China's consumers upgrade their spending.

Changes to the Portfolio

Given the enthusiasm of the market at the beginning of the year, the Fund has taken the opportunity to book profits in the stocks that have reached our estimate of fair value. Net invested position has been reduced to around 82%.

With a focus on industries and companies that are well positioned to benefit from the economic reforms taking place in China and India, as well as the cyclical recovery across the Asian region, we are deploying cash to buy companies that have strong long-term fundamentals but whose valuation is depressed amidst short-term market volatility.

Outlook

With the recent correction in the markets, the outlook may in fact be looking more sanguine. Notwithstanding the present concerns with rising interest rates in the US and deteriorating US-China trade relations, the Asian region continues to provide a fertile ground for interesting ideas.

Notes

1. Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of the stated unit class of the fund and represent the combined income and capital returns of the stated unit class over the specified period. Returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be 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.

   Index returns are in Australian dollars and assume the reinvestment of dividends from constituent companies, but do not reflect fees and expenses. For the purpose of calculating the "since inception" returns of the MSCI index, the inception date of C Class of the fund is used. Where applicable, the gross MSCI indices were used prior to 31 December 1998 as the net MSCI indices did not exist then. Fund returns have been provided by Platinum Investment Management Limited; MSCI index returns have been sourced from RIMES Technologies.

   Platinum does not invest by reference to the weightings of any index or benchmark, and index returns are provided as a reference only. A fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the fund's holdings may vary considerably to the make-up of the index that is used as its reference benchmark.

   The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the fund over the specified five year period relative to the relevant net MSCI index in Australian dollars.

   Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of C Class of the fund and represent the combined income and capital returns of C Class over the specified period. Returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be 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.

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3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the fund's exposure to physical holdings and long derivatives (of stocks and indices) as a percentage of the fund's net asset value.
4. The table shows the fund's top 10 long stock positions (through physical holdings and long derivatives) as a percentage of the fund's net asset value.
5. Sector breakdown represents the fund's net exposure to physical holdings and both long and short derivatives (of stocks and indices) as a percentage of the fund's net asset value.
6. The table shows the fund's major currency exposure as a percentage of the fund's net asset value, taking into account currency hedging.

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

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