Platinum Asia Fund

Joseph Lai
Portfolio Manager

Performance

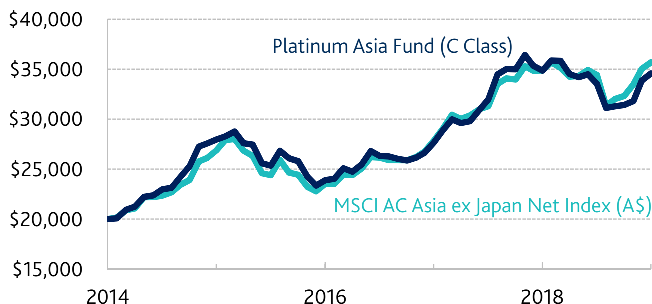
(compound pa, to 31 March 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	10%	-1%	13%	12%	14%
MSCI AC Asia ex Jp Index^	10%	2%	15%	12%	10%

* 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.
Historical performance is not a reliable indicator of future performance.
See note 1, page 6. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 March 2014 to 31 March 2019



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.
See notes 1 & 2, page 6.

It has been a positive quarter for global markets, particularly for Chinese equities with the Chinese A-share market[1] rising 29% over the period.

Considering the general negative sentiment which lingered after the heavy sell-off late last year, many may be surprised by how well the market has fared in the year to date. For those who took a contrarian view, though, it was perhaps to be expected, as extreme bearish sentiment met with a synchronised loosening of interest rates across all major economies.

In particular, China's efforts to clean up its shadow banking sector have largely drawn to a close and economic activity has once again begun to pick up, which was a major factor spurring this quarter's strong recovery in stock markets globally.

It should therefore come as no surprise that this quarter's top contributors to the Fund's performance were mostly Chinese companies, including Alibaba (e-commerce platform, +31%), Sany Heavy Industry (industrial equipment manufacturer, +47%), Anta Sports (sports apparel brand, +42%), and Ping An Insurance (+30%). Elsewhere, our private Indian bank holdings also performed well – Axis Bank was up 25%, IDFC First Bank up 27% – as corporate loan growth began to pick up after years of stagnation, perhaps a sign of better times to come for the Indian economy. The Fund's short positions generally detracted from performance in this rising market.

Changes to the Portfolio

After trimming our net exposure late last year, we seized the market trough and began adding significantly to our China positions since early January. Many Chinese companies with strong market positions and a long runway of growth ahead were trading on attractive valuations. Quality was on sale!

The Fund's net invested position has increased to 83%, including a 4% aggregate short exposure.

We have sold positions that have reached their fair value based on our assessment (Reliance Industries, Jiangsu Yanghe Brewery, ZTO Express) or whose fundamentals have deteriorated (Adani Ports, Edelweiss Financial).

1 CSI 300 Index (local currency).

The cash raised was deployed into new positions in Asian companies that we believe to be of very high quality, including:

- **Autohome** – China's leading online car portal. Consumers are accustomed to comparing the features of various models on Autohome's platform before making a purchase. In turn, the platform uses the data it collects from users to analyse consumer preference. This information is highly valuable to car manufacturers and distributors. Autohome's large-and-still-rapidly-growing user base makes the company a very attractive investment opportunity in our view.
- **ASM Pacific Technology** – the world's largest supplier of back-end semiconductor equipment. Increasing miniaturisation in the microchips built into our smart devices is driving demand for ASM's advanced microchip processing equipment, which gives the company a lot of pricing power. Concerns over a cyclical slowdown in semiconductor manufacturing led the stock price to decline over the last 12 months, which gave us an opportunity to initiate a position at a very reasonable valuation.
- **Taiwan Semiconductor Manufacturing Co (TSMC)** – a global leader in outsourced manufacturing of computer chips. TSMC manufactures a large proportion of the world's high-end microchips, particularly those found in smartphones. With the advent of 5G telecommunication technology, the proliferation of the "Internet of Things" and machine-to-machine communication, chip demand is set to increase and TSMC, in our view, will be a likely beneficiary of this secular trend.
- **Meituan Dianping** – a popular Chinese internet platform for lifestyle services. The company is one of the two dominant players in the duopolistic online food delivery market and a leader in online and in-store booking services for hotels, restaurants, entertainment, and more. Meituan Dianping has garnered some 400 million users and merchants onto its platform, and continues to expand its service categories as well as geographic coverage.

Commentary

China

Our team's recent research trips to China confirmed our view that there are many innovative private companies working to improve the way we live, work and consume through clever applications of technology such as artificial intelligence (AI), mobile internet connectivity, cloud computing and biotech. By way of illustration:

- Apps on smartphones are now able to link patients to the entire clinical experience in hospitals, from the initial appointment to consultation, to drug prescription and delivery, lowering costs while improving efficiency.

Disposition of Assets

REGION	31 MAR 2019	31 DEC 2018	31 MAR 2018
China^	43%	33%	45%
Hong Kong	10%	4%	5%
Taiwan	4%	0%	2%
India	12%	16%	13%
Korea	8%	11%	10%
Thailand	4%	4%	5%
Philippines	3%	3%	2%
Vietnam	2%	2%	1%
Malaysia	<1%	<1%	<1%
Singapore	0%	0%	1%
Indonesia	0%	0%	<1%
Cash	13%	26%	16%
Shorts	-4%	-4%	-2%

^ Inclusive of all mainland China-based companies, both those listed on exchanges within mainland China and those listed on exchanges outside of mainland China.
See note 3, page 6. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures ^

SECTOR	31 MAR 2019	31 DEC 2018	31 MAR 2018
Financials	25%	21%	23%
Consumer Discretionary	18%	9%	10%
Communication Services	15%	11%	10%
Information Technology	9%	3%	6%
Real Estate	6%	4%	6%
Industrials	3%	8%	8%
Consumer Staples	3%	5%	3%
Health Care	2%	-1%	4%
Energy	1%	6%	6%
Materials	1%	2%	6%
Utilities	1%	1%	2%
Other*	-1%	2%	-1%
TOTAL NET EXPOSURE	83%	70%	82%

^ A major GICS reclassification was implemented during the December 2018 quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.
* Includes index shorts and other positions.
See note 4, page 6. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

- Processing huge amounts of data (typically hosted on the cloud) at unprecedented speed, AI is helping clinicians with disease diagnosis and prevention, as well as with drug discovery.
- Supported by policy reforms and unprecedented access to capital, more and more Chinese pharmaceutical and biotech companies are leapfrogging generic drugs to research and develop innovative drugs in cutting-edge areas ranging from immuno-oncology to cell and gene therapies.
- AI is also helping insurance companies with claim processing and assessments, both lowering processing costs and reducing fraudulent claims.
- Commercial banks are widely utilising AI to assist with (but not dictate) credit assessments and lending decisions.
- Subscription-based online services (think Netflix and Spotify) that have hitherto been dismissed as unviable in China due to the prevalence of piracy and the cultural expectation of digital content being free, are now steadily shaping up as a new business model across categories ranging from books to music to movies.

Having witnessed and studied these exciting developments, driven by entrepreneurial companies undertaking interesting innovations, we find it perplexing that all that one can find about China in Western media is doom and gloom. Indeed, there appears to be a rather large disconnect between reality and the popular narrative.

Perhaps this is where the opportunity lies for those willing to take a different perspective and seek out a more logical explanation of reality.

From the perspective of China's policymakers, the focus for the past four decades has been on fostering economic development and lifting the standard of living for the people. This focus remains today. The Chinese leaders' modus operandi has been "crossing the river by feeling the stones", as propounded in the late 1970s by Deng Xiao Ping – the architect of China's economic reform and opening-up policy.

"Crossing the river by feeling the stones" roughly entails a gradual transition towards adopting the market mechanisms of capitalism, letting market forces dictate prices and direct resource allocation. Capitalism works, but from time to time it leads to excesses or the creation of "bubbles", especially when the regulatory framework is immature. This has been the case with China. When regulators detect excesses in an area, they have historically sought to contain them by "popping the bubble", taking the view that short-term pain will deliver long-term gain.

Casting our minds back over the years, one realises that we have witnessed many such "crackdowns": the shut-down of excess capacity in coal, steel and other heavy industries; the revamp of environmental standards to tackle pollution; the clean-up of shadow bank lending; the credit tightening following the initial stimulus prompted by the global financial crisis; and the stringent macro-prudential measures to cool the property market… ***It felt bad each time.***

Net Currency Exposures

CURRENCY	31 MAR 2019	31 DEC 2018	31 MAR 2018
US dollar (USD)	41%	41%	16%
Hong Kong dollar (HKD)	28%	27%	37%
Chinese yuan (CNY)	17%	15%	12%
Indian rupee (INR)	10%	17%	13%
Korean won (KRW)	8%	10%	11%
Thai baht (THB)	4%	4%	4%
Taiwan new dollar (TWD)	3%	0%	2%
Philippine piso (PHP)	3%	3%	2%
Vietnamese dong (VND)	2%	2%	1%
Australian dollar (AUD)	<1%	1%	<1%
Malaysian ringgit (MYR)	<1%	<1%	1%
Chinese yuan offshore (CNH)	-19%	-20%	0%

See note 5, page 6. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China	Consumer Discretionary	4.8%
Ping An Insurance	China	Financials	3.8%
Tencent Holdings	China	Communication Services	3.8%
Taiwan Semiconductor	Taiwan	Information Technology	3.7%
Samsung Electronics	Korea	Information Technology	3.5%
AIA Group	Hong Kong	Financials	3.5%
Axis Bank	India	Financials	2.7%
Kasikornbank PCL	Thailand	Financials	2.7%
58.com Inc	China	Communication Services	2.6%
Ayala Land Inc	Philippines	Real Estate	2.6%

As at 31 March 2019. See note 6, page 6.
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.

China's policymakers have endeavoured to engender long-term growth, typically by introducing more effective regulations and improving the economic infrastructure. However, reform rarely succeeds at the first attempt, over-correction can occur, and it may take years of trial and error (or "feeling the stones") before getting things more or less right.

More importantly for investors, when the regulator is in "clean-up" mode, economic activity tends to slow. When policies are relaxed, the economy tends to pick up again. This has been a recurrent pattern over the last 40 years, although the duration of each cycle varied.

What should be of interest to investors is the phenomenon that, once the rules of engagement are clarified, private enterprises will become active again, sometimes even getting into a frenzy. Because the prize is big, there is no shortage of smart and driven entrepreneurs battling to win.

It is this continual, interactive process of the government improving on the rules of engagement catalysed by the unleashing of the animal spirits that has created the economic miracle that is modern China.

With this context in mind, we can re-examine some of the commonly held conceptions (or misconceptions) about China. The dominant narrative in the press at the end of last year was that China's economy was in trouble and it was heading into a major recession. In fact, most of the gauges of economic activity were still quite robust.

While car sales fell 7% in 2018, and the second half of last year being particularly weak, it was by no means a major slowdown. However, given that China is now the world's largest auto market by a wide margin, selling 23 million cars a year, a mild slowdown was enough to lead to a significant de-stocking of unsold cars and components all along the supply chain, so much so that the impact was quite palpable in economies outside of China, such as Japan and Europe.

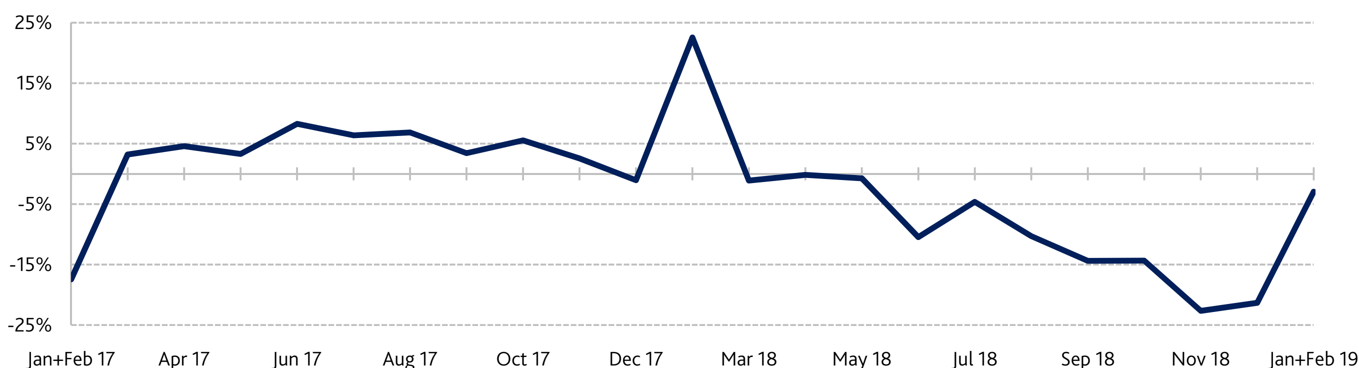
It was in fact an engineered slowdown which came as a result of regulators putting a brake on the risky shadow bank lending activities which, among other things, funded some of the car purchases during the boom. Regulators wanted to clean house and auto makers (and the entire supply chain) got caught up in the process. Recent data on car retail sales volume shows that we are already seeing clear signs of stabilisation, with January and February numbers only 2.9% lower than the peak of a year ago (see Fig 1 below). The ending of last year's major credit tightening has allowed car sales to grow again.

Another commonly touted opinion is that China is a debt-fuelled bubble economy that is about to implode. We simply cannot find any convincing evidence to support the claim. What we have observed from historical experience is that China's regulators regularly pop the bubbles in their own economy. Compared to policymakers in major developed economies, Chinese authorities are often more likely to intervene and rein things in when they see an area of the economy getting out of control.

For an economy that has been growing on average at 10-15% per annum nominally for 15 years, China's property price appreciation has in fact been rather lacklustre – particularly when compared to that experienced in many Australian cities over the last 10 years, despite Australia's average income growth being far slower. The reason for China's more modest property price increase is that Chinese regulators have been tightly controlling mortgage credit over the years, requiring significant down-payments and during particularly heated periods or locations even resorting to draconian policies such as limiting purchases to "one household one property".

Debt growth over the last 10 years has in fact been at a reasonably measured pace, more or less in line with nominal GDP growth. As a result, China's debt-to-GDP ratio is comparable to that of the US and Europe, and much lower than Japan's debt levels.

Fig 1: Car Retail Sales Volume in China, Year-on-Year Change



Source: CAM, Bernstein, Platinum Investment Management Limited.
Note: January and February sales were aggregated for seasonal adjustment to account for Lunar New Year.

Looking ahead, having now concluded the clean-up of the shadow banking sector, Chinese regulators have evidently re-focused their attention on economic growth, and policies are once again supportive of growth and expansion for private enterprises.

China has a strong private sector, which has for some time been the growth engine of the economy, employing some 80% of the urban workforce. The private sector is getting lots of help from the government this year. The cost of doing business is being reduced by cuts to fees and charges. Tax cuts for businesses and households to the tune of 3% of GDP are being rolled out. Banks are once again being encouraged to lend to private enterprises.

These are all significant measures, and China's A-share market has responded enthusiastically, up 29% year to date while trading volumes have exceeded the RMB 1 trillion (A$200 billion) mark.

We are comfortable with the Fund's China exposure which includes many quality companies that are leaders in their respective industries and have promising growth prospects (such as the above-mentioned Alibaba, Meituan Dianping, Anta Sports, and Ping An Insurance).

India

After years of waiting, investors may finally be seeing a nascent capital expenditure cycle brewing in India. Notably, the industrial sector, which had been paying down debt, started to borrow again in the last six months.

The story is not a straightforward one, however, as the exciting germination of the capital expenditure cycle happens to coincide with a necessary adjustment in the non-bank financial sector. The last few years saw a rapid rise of a group of non-bank lending companies which filled some of the void left by the banks by providing loans for, among other things, home and auto purchases. As is often the case, loan growth in under-regulated sectors entailed some bad lending.

Over the next few quarters, we expect to see more bad debt being recognised while sales of housing, auto and other consumption categories which benefited from financing will likely weaken as this recognition comes to pass.

The Fund's Indian holdings have been positioned with these concerns and opportunities in mind. We have avoided exposure to the expensive consumer-related stocks which have been very popular with many of them trading on price-to-earnings multiples in excess of 40x. Instead, we have significant exposure to India's private sector banks which we believe will benefit from market share gains.

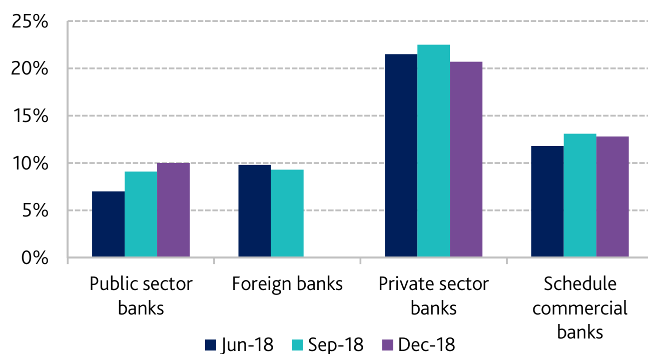
Indian private banks are taking an overwhelming share of the new lending (as can be seen in their faster growth rate in Fig 2 below), while the stale public sector/state-owned banks and the non-bank lenders are both struggling to keep up due respectively to poor service and capital constraints. As well as gaining market share, the private sector banks are also seeing their cost of bad debt fall (see Fig 3 below for their gross non-performing asset ratio), creating the right conditions to generate earnings growth. We are optimistic that these private banks will become the key pillars of India's gradually maturing banking system.

Outlook

As discussed in our previous report, key concerns over the Asian markets are easing. Apprehensions of an economic slowdown facing both the US and China led to a synchronised (intentionally or coincidentally) policy loosening globally, particularly from the two largest economies. Trade talks between the two countries are also close to reaching a resolution at the time of writing.

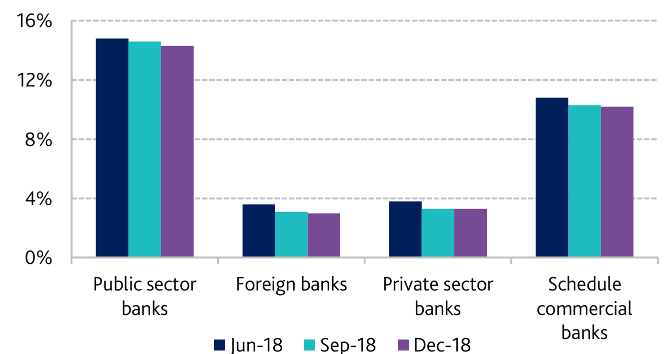
As the recovery of this past quarter shows, the Asian stock markets still hold much promise and investor interest has returned as soon as the macroeconomic and geopolitical concerns abated. We continue to find interesting companies in the region and will add to positions when valuations are attractive.

Fig 2: Year-on-Year Credit Growth of Indian Banks



Source: RBI FSR 2018, IDFC FIRST Bank Economics Research, Platinum.

Fig 3: Gross Non-Performing Asset Ratio of Indian Banks



Source: RBI FSR 2018, IDFC FIRST Bank Economics Research, Platinum.

Notes

1. Fund returns are calculated using the net asset value (NAV) unit price (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. Fund returns are net of fees and costs, are pre-tax, and assume the reinvestment of distributions. Returns for P Class are net of any accrued investment performance fee.

   The MSCI Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or 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 Index was used prior to 31 December 1998 as the net MSCI Index did not exist then. Fund returns are provided by Platinum Investment Management Limited; MSCI index returns are sourced from FactSet.

   Platinum does not invest by reference to the weightings of the Index. 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. Index returns are provided as a reference only.

   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.

   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 specified Fund over the specified period relative to the specified net MSCI Index in Australian Dollars.

3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices.

4. The table shows, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices. In the case of the Platinum Unhedged Fund, the Fund does not undertake any short-selling. Its net exposures are therefore the same as its long exposures.

5. The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards, and derivatives. 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 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

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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.

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