Platinum Asia Fund

Andrew Clifford
Portfolio Manager*

Performance

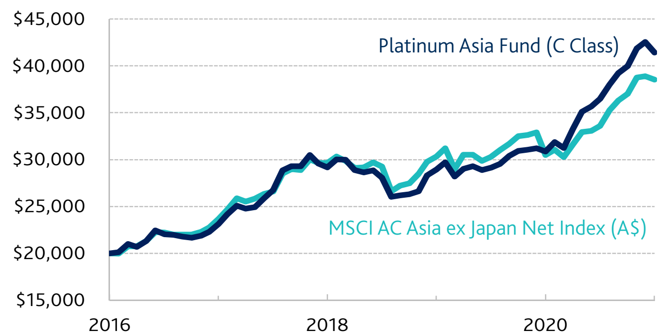
(compound p.a.⁺, to 31 March 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	4%	34%	12%	16%	15%
MSCI AC Asia ex Jp Index^	4%	26%	9%	14%	11%

⁺ 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

31 March 2016 to 31 March 2021



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 3.6% over the quarter and 34.2% over the year.[1]

An interesting factoid helps frame the quarter just past: the USA looks likely to grow faster than China for the first time since 1976.[2]

China is tightening at the margin, while the US is both reopening and providing fiscal stimulus. Indeed, Chinese officials are becoming vocal in their critiques of Western fiscal and monetary largesse: Guo Shuqing, chairman of the China Banking and Insurance Regulatory Commission, warned in February of speculative excess in US and European markets, and spoke of "[reducing] the high leverage within the financial system."[3] We cannot help but be struck by the delicious irony of this, given the Chinese response to the global financial crisis (GFC).

With that in mind, it is understandable that the March quarter saw US dollar strength, commodity prices such as crude oil and copper pause in their ascent and Asian markets weaken in March, albeit posting positive returns over the quarter.

Given the somewhat economically sensitive nature of the portfolio, the Fund's recent strong performance paused in March, again though with positive performance over the quarter as a whole.

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.

2 Minack Advisers.

3 Ollari Consulting.

* Effective from 1 April 2021, Cameron Robertson will join Andrew Clifford as co-manager for the Fund. Cameron joined Platinum in 2010, initially focusing on resources and industrial companies, and later on the technology and communications sectors. Cameron was previously co-manager for the Platinum International Technology Fund (2017-2021).

Once again, **Taiwan Semiconductor Manufacturing** (TSMC) (+11% over the quarter) and **SK Hynix** (+12%) were among our largest contributors, as the semiconductor cycle goes from buoyant to extremely tight globally.

Chinese travel stocks **Huazhou Group** (+22%) and **Trip.com** (+17%) were also major contributors for the quarter, benefiting from strength in China's services sector late in its reopening from COVID-19 restrictions.

Ping An Bank (+14%) and **China Merchants Bank** (+21%) were significant contributors for the quarter, with both beneficiaries of economic resilience and resulting positive net interest margins in China.

China's ongoing recovery from COVID-19 saw Macau lift its final quarantine and travel restrictions for travellers from Mainland China in February, providing a boost to Gaming operators **Melco Resorts & Entertainment** (+7%) and **Galaxy Entertainment** (+16%).

Detractors in the March quarter included Indian holdings **Reliance Industries** (-4% to exit point) and **Maruti Suzuki** (-10%), amid the market impact of India's COVID-19 reacceleration. It is worth noting, Reliance was one of the Fund's top performers over the 12 months to 31 March 2021.

Chinese consumer discretionary-related companies **Midea** (-16%) and **ZTO Express** (-4% from first entry point), a new portfolio inclusion, were weak, fading after a strong January amid concern regarding Chinese tightening.

Changes to the Portfolio

Given the macro setting described above, we increased our exposure to the US dollar and Hong Kong dollar, at the expense of the Chinese yuan and Australian dollar.

We continued trimming our holdings in semiconductor stocks **Samsung Electronics**, **TSMC** and **SK Hynix** amid very strong share price performance and an ongoing global shortage in DRAM chips. These have been excellent investments over the last three years and the story is far from over, but we have lowered overall exposure and breathless headlines about years of chip shortages leave us inclined to believe trimming is the prudent course of action.

We have added significant exposure to high-quality Chinese property developers, namely **China Vanke** and **China Resources Land**, which join fellow developer **China Overseas Land & Investment** in the Fund. We bought a new sizeable position in Chinese logistics firm **ZTO Express**, which stands to benefit from an improved competitive landscape and the ongoing march of Chinese consumption, in our view.

We lowered our exposure to India amid ongoing COVID-19 travails, exiting **Reliance Industries**. We also exited Chinese energy company **CNOOC** and Chinese telecommunications companies **China Telecom** and **China Mobile**.

Disposition of Assets

REGION	31 MAR 2021	31 DEC 2020	31 MAR 2020
China	42%	45%	51%
South Korea	11%	13%	8%
Hong Kong	8%	7%	6%
Taiwan	6%	7%	7%
India	5%	8%	4%
Vietnam	3%	3%	2%
Thailand	2%	2%	0%
Singapore	2%	1%	0%
Philippines	1%	2%	0%
Macao	1%	1%	0%
Cash	19%	12%	22%
Shorts	-8%	0%	-10%

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

Net Sector Exposures

SECTOR	31 MAR 2021	31 DEC 2020	31 MAR 2020
Information Technology	18%	22%	17%
Consumer Discretionary	17%	21%	27%
Financials	13%	15%	7%
Industrials	12%	6%	3%
Real Estate	9%	5%	2%
Materials	3%	3%	1%
Consumer Staples	2%	2%	4%
Communication Services	2%	7%	10%
Health Care	1%	1%	2%
Energy	0%	3%	3%
Other	-5%	3%	-8%
TOTAL NET EXPOSURE	73%	88%	68%

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

Commentary

Despite the pause in the performance of Asian markets and the Fund in March, we do not see this as a turning point – the "value rotation" is far from over.

In the immediate term, there is some cause for concern that central banks globally are tightening at the margin, with the ending of the Supplementary Leverage Ratio (SLR) exemption in the US a particular focus. This allowed banks to hold Treasuries with no capital charge – exempting them from capital requirement calculations.[4] There is the potential for this to see difficult Treasury auctions and rates increasing sharply – indeed we trimmed exposure in the Fund in advance of these concerns, as a yield spike in the US would be an effective global tightening and negative for Asian markets. However, this is not a "show stopper". Firstly, the reopening of the global economy post COVID-19 is likely to continue. Secondly, trade uncertainty is much reduced under the Biden administration. Additionally, fiscal support is likely to continue for years – as we mention in the Macro Overview, US stimulus is likely to assist growth in Asia and Europe. In terms of the likely outcome of a spike in rates following the ending of the SLR exemption – the US Federal Reserve (Fed) is likely to use repos and bond buying – as occurred in late 2019.[5] Put another way – if there is a hiccup, monetary policy officials are likely to run to the rescue. This is a very positive setup for growth-exposed Asian equities, potentially for several years.

While we were reducing exposure during the quarter, we did add notably to Chinese property developers. Investor sentiment toward the sector is negative, with the market appearing to believe that increased regulatory scrutiny on debt levels and home price limitations will hamper the profitability of developers for years to come. We see significant potential for consolidation, with higher-quality operators with stronger balance sheets poised to benefit in our view.

4 For more detail, see https://www.cnbc.com/2021/03/19/the-fed-will-not-extend-a-pandemic-crisis-rule-that-had-allowed-banks-to-relax-capital-levels.html

5 See for instance the response of the Fed in the repo market in late 2019 here: https://fred.stlouisfed.org/series/WORAL

During the quarter, it was announced that 22 cities in China would adopt a new policy to conduct land auctions for property development in three short windows each year. This will require more capital in short periods of time for property developers and may lower land prices – both would be beneficial to the larger property developers, we believe. Moreover, our research indicates the property developers are trading at close to record-low valuations – on low single-digit price-to-earnings ratios (PEs) in many cases. This is an intriguing starting point.

We wrote about the regulatory crackdown on big tech in China in the December 2020 quarterly report.[6] This appears to be affecting the behaviour of Alibaba. Chinese tech majors have long sought to establish "walled gardens" or exclusive ecosystems. Alibaba is now planning to set up a Taobao Deals lite app on Tencent's WeChat service. Selling through WeChat would mean that merchants would be able to accept payments through WeChat Pay, a service that has not previously been available on Alibaba's marketplaces. **Tencent** remains a significant holding and was a positive contributor in the March quarter. We continue to examine the investment case for Alibaba closely.

One slow moving reform program in China appears to be continuing, gradually. The Hukou, or residential permit, system is designed to prevent migrant workers from accessing services such as education or healthcare in any locale save that of their birth – meaning they may have to travel home for medical procedures, or send their children home to the village to be educated, or else pay upfront for such services if they can be accessed.[7] There are an estimated 230 million internal migrants in Chinese cities without an urban Hukou.[8] Recent changes across several Chinese cities have seen a relaxation of strict Hukou rules forcing migrants to stay in the same city for years to obtain an urban Hukou, providing: better access to healthcare for internal migrants in some cities; and exemptions from Hukou restriction for those with higher education.[9] The relaxation of the Hukou system allows for freer movement of labour in China and should be positive for the economy. This will likely apply to China's smaller cities – the so-called second and third tier cities – in our view.

6 https://www.platinum.com.au/PlatinumSite/media/Reports/pafqtr_1220.pdf

7 https://www.economist.com/china/2020/08/19/changes-to-chinas-hukou-system-are-creating-new-divides

8 Ibid.

9 Source: Bernstein.

China's economy continues to expand, as indicated by Purchasing Managers' Index (PMI) data for March. The official manufacturing PMI came in at 51.9 and non-manufacturing was 56.3, Bloomberg reported in early April. China's official PMI survey larger firms and skews more toward the state-owned sector. The Caixin China General Manufacturing PMI, which surveys smaller and more privately-owned firms, indicated a slower expansion with a reading of 50.6, while the non-manufacturing figure was robust at 54.3. Readings above 50 in PMIs indicate expansion.

We reduced exposure to India during the quarter. This is despite the fact that India's Finance Minister Nirmala Sitharaman told India's parliament that the budget deficit target for the year starting April will be 6.8% of GDP versus consensus forecasts of 5.5%. For 2020, the deficit will be 9.5% versus a planned 3.5%.[10] The news saw equity markets respond positively and bond markets sell-off in India amid ongoing optimism about the reopening of the Indian economy and the boost it would receive from the announced fiscal stimulus in early February. By the end of the quarter, this market optimism had faded. Daily COVID-19 cases were running at over 90,000 in early April 2021, near the peaks recorded in India in September 2020.[11] We see potential for meaningful economic interruption as a result. As mentioned earlier, we exited **Reliance Holdings** during the quarter.

Outlook

We see the likelihood of ongoing economic buoyance as high. However, this will be subject to setbacks and policy mistakes. At the time of writing, we may be seeing both, in regard to COVID-19 in India (and Europe), and the potential for interest rate volatility due to the SLR exemption's cessation. At such times, we think it will pay to remember that the drivers of economic recovery are durable – namely the post-pandemic reopening, renewed investment in global supply lines and strong fiscal support. We do not think markets are positioned for ongoing global growth, and we think global growth will prove persistent. This is a very positive setup for the Fund.

10 https://www.aljazeera.com/economy/2021/2/1/hey-big-spender-what-is-the-biggest-surprise-in-indias-budget; https://www.bbc.com/news/world-asia-india-55884215

11 Source: Google data, India covid stats: https://www.google.com/search?q=india+covid+stats&rlz=1C1GCEB_enAU875AU876&oq=india+covid+stats+&aqs=chrome..69i57.2575j0j7&sourceid=chrome&ie=UTF-8

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics Co	South Korea	Info Technology	5.2%
Taiwan Semiconductor	Taiwan	Info Technology	5.0%
AIA Group Ltd	Hong Kong	Financials	3.6%
Ping An Insurance Group	China	Financials	3.2%
SK Hynix Inc	South Korea	Info Technology	3.1%
Weichai Power Co Ltd	China	Industrials	3.0%
China Resources Land	China	Real Estate	2.7%
Vietnam Ent Investments	Vietnam	Other	2.7%
Huazhu Group Ltd	China	Cons Discretionary	2.6%
Kingsoft Corp Ltd	China	Info Technology	2.6%

As at 31 March 2021. See note 5, 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.

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 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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