Platinum Asia Fund

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Rising interest rates in the US and the uncertainties created by trade friction continued to weigh on the Asian markets over the quarter, with the Philippines (-10%), Malaysia (-9%), Indonesia (-6%) and Korea (-5%) all posting weak returns. The Fund (C Class) was down -1.0% over the quarter and returned +16.5% over the last 12 months.

Although performance was weakened by a sell-off towards the end of the quarter, some stocks contributed positively to the Fund's returns. Unsurprisingly, the key contributors were once again the companies that are benefiting from the secular consumer trends of China's rising middle class. Healthcare stocks, such as Guangzhou Baiyunshan (pharmaceuticals and herbal tea manufacturer) rose +43% (H-share) and MicroPort Scientific Corporation (maker of heart stents, pacemakers and orthopaedic prostheses) was up +11%. A strong beneficiary of China's booming e-commerce market, ZTO Express (logistics) was up +33%, while Baidu (search engine) gained +9%. Consumer stocks Jiangsu Yanghe Brewery and Anta Sports (dominant Chinese sportswear) were up +22% and +5% respectively.

Mining stocks also performed well as China's economic recovery and expansion continued to support commodity prices. MMG (copper) was up +15%, CNOOC (oil) gained +17% and PT Vale Indonesia (nickel) rose +45%. Our Indian

Performance

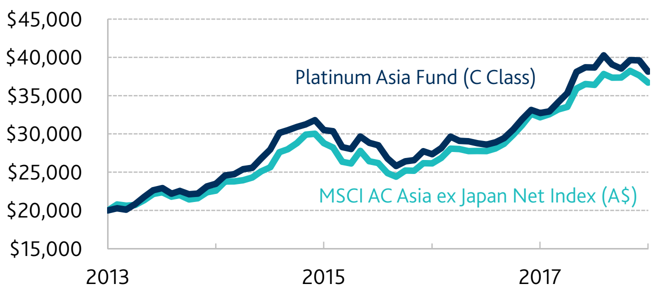
(compound pa, to 30 June 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	-1%	17%	8%	14%	15%
MSCI AC Asia ex Jp Index	-2%	14%	8%	13%	11%

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

Value of $20,000 Invested Over Five Years

30 June 2013 to 30 June 2018



Fund returns are net of accrued fees and costs. Refer to note 2, page 4.
Source: Platinum Investment Management Limited, FactSet.
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 exposures, updated monthly, please visit https://www.platinum.com.au/our-products/paf.

Disposition of Assets

REGION	30 JUN 2018	31 MAR 2018	30 JUN 2017
China^	45%	45%	43%
Hong Kong	6%	5%	1%
Taiwan	1%	2%	4%
India	12%	13%	14%
Korea	11%	10%	10%
Thailand	4%	5%	6%
Philippines	2%	2%	4%
Vietnam	1%	1%	3%
Singapore	1%	1%	2%
Indonesia	1%	<1%	0%
Malaysia	<1%	<1%	1%
Cash	16%	16%	12%
Shorts	-3%	-2%	0%

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

banking stocks displayed better form than last quarter, with Yes Bank up +11%.

Our Philippines and Korean holdings generally detracted from performance, with Ayala Land (Philippines developer) down -8% and Naver (Korean internet search portal) down -4%. Despite this recent price weakness, the fundamentals have not changed and we continue to believe that these are quality businesses that will do well in the long run.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	3.4%
Ping An Insurance Group	China	Financials	3.4%
Axis Bank Ltd	India	Financials	3.1%
Alibaba Group	China	IT	3.0%
Kasikornbank PCL	Thailand	Financials	2.8%
China Overseas Land & Invt	China	Real Estate	2.7%
Yes Bank Ltd	India	Financials	2.7%
China Oilfield Services	China	Energy	2.6%
CNOOC Ltd	China	Energy	2.4%
Naver Corporation	Korea	IT	2.3%

As at 30 June 2018.

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

Changes to the Portfolio

Weakness in the share market over the quarter gave us an opportunity to further reposition our portfolio towards more domestically-focused champions, cushioning the Fund against the impact of the ongoing trade friction. The repositioning also aims to maximise the Fund's exposure to the benefits flowing from the economic recovery and reform in the Asian region.

The Fund has upped its cash holdings (with a net invested position at around 81% as at the end of June) and kept its Australian dollar exposure to a minimal level, both of which helped to lessen the impact of the overall market weakness experienced during the quarter. We also have very limited exposure to the regions that are most susceptible to a strong US dollar and rising oil prices (Indonesia, Malaysia, Philippines). To the extent that the Fund is exposed to these headwinds, particularly in India, we have put in a 3% short position on the market for protection. India appears to be on a gradual economic ramp-up and it would be remiss not to invest in some of the well-managed and growing businesses that are trading on extremely attractive valuations.

More specifically, we have cut positions that we believed to have reached their fair value and took advantage of the market volatility over the quarter to deploy the cash into the following key positions:

- **China Merchants Bank** – in our view, the best bank in China, with a strong wealth management arm that has a dominant industry position and is well placed to take advantage of the burgeoning wealth management needs of the country's growing middle class.
- **AIA Group** – the leading and, in our view, most well-run life insurer in Asia, with a dominant position in the huge Chinese market.
- **ZTO Express** – one of the most competitive low-cost parcel delivery operators in China, ZTO emerged a winner as it rode the waves of the country's e-commerce boom and is now consolidating the market.

Commentary

India

During the quarter, several members of our team visited India and China, and we came away from both countries with positive but different observations.

In India, we were pleasantly treated to superfast mobile internet service. The upload and download speed is similar, if not superior, to what we are used to in Australia. Reliance Jio entered the mobile network business only several years ago. Its efforts to ramp up a gold-plated 4G network in a vast country like India from scratch were dismissed by many as a daft idea. We disagreed with this assessment because we believed the country, hitherto under-served by poor fixed line services and slow mobile networks, would see significant demand unleash with an efficient and affordable internet offer. We first invested in Reliance Industries, the parent company of Reliance Jio, in the second quarter of 2015, when the Jio mobile network was yet to launch. 18 months after launch, Reliance Jio has accumulated a gargantuan 180 million 4G subscribers, enticing users with offers of virtually unlimited data usage for US$2 a month! This is a boon to consumers who are getting ready access to the full gamut of online activities and services literally at their fingertips 24 hours a day. As mobile internet becomes increasingly affordable, Indians are buying about 120 million smartphones a year.

Faced with an aggressive competitor with a deep pocket, some smaller operators are exiting the market. With the number of mobile network providers in India having reduced from half a dozen to effectively just three players, the level of competition will eventually ease, restoring profitability for the remaining big operators like Bharti Airtel (in which we have a position).

Another encouraging sign observed in India is that for the first time in half a decade, some construction-related sectors are running high on rising utilisation rates. Some steel makers are operating at 85% utilisation rates and cement producers are starting to ramp up too. Commercial truck and passenger car sales are also running hot. All this while the rate of credit growth is only beginning to recover from some of the lowest levels since the times of Indira Gandhi. As the utilisation rates continue to increase, corporates are starting to add capacity. India appears to be on the cusp of the long-awaited revival of a private sector capital expenditure cycle. Business confidence is high.

What has been driving demand so far are government-led infrastructure programs which are bearing fruit. India needs infrastructure improvements to reduce the cost of transporting goods around the country. The authorities have approved 13,000 km of road construction for two consecutive years, a doubling of length compared to just a few years ago. Other infrastructure projects, such as airports, railway and social housing, also continue apace.

Various reform measures are starting to have a meaningful impact. The implementation of a national goods and services tax has reduced the complexity of state-based taxes. India's new bankruptcy law is getting tested and it is evidently working. For the first time, assets are being transferred from insolvent founders to new owners through bankruptcy proceedings. The significance of this new law is that it prevents founders of companies from getting out of their debt repayment obligations by dragging out the court process and wearing out the creditors, which had traditionally been the norm. Instead, the new law forces defaulting founders to either fix the problem or face the loss of their assets to the banks or new owners. This is beginning to have a profound impact on the behaviour of founders, some of whom might have chosen in the past to wilfully default on their debt given how powerless the banks were at recovering it. This is no longer the case! The new bankruptcy law represents an important structural change to Indian banks (including several of the Fund's holdings), and we cannot overstate the significance of its benefits. Our holdings in the Indian banking sectors are what we believe to be the best-in-class operators, and we expect them to reap additional rewards if the Indian capital expenditure cycle finally launches into full swing.

China

Our visit to Beijing, Shanghai and Hong Kong was literally a "breath of fresh air"! China's infamous air pollution truly has improved. Although we concede that air quality can and does fluctuate daily, it was nevertheless impressive to be able to enjoy five consecutive days of blue sky, a first in many years since our Asia team started visiting China.

China's relentless ascendance along the technology ladder has primarily been driven by an energetic private sector. Meeting with various industry heads shone a light on how ambitious the Chinese electric car makers are. In the near future, we will see many local competitors to Tesla, retailing at affordable prices of US$30,000 to US$60,000. These cars are designed from the ground up for electrification. With the battery pack situated at the bottom of the chassis, the centre of gravity is extremely low, allowing the electric motor to bring the vehicle into exhilarating acceleration from a standing start.

Observations from the trip also reinforced our view that there is enormous demand for life insurance products. Despite the authorities' ongoing efforts to improve the quality of healthcare, access to publicly funded medical care remains limited for patients suffering from serious illnesses such as cancer and coronary heart disease. As the cost of healthcare rises and the average life expectancy increases, the issue is becoming more acute. This has made insurance policies for "critical illnesses" extremely attractive. These policies cover a range of major illnesses and will pay out a lump sum (say US$30,000) in the event of the insured contracting one. The overall penetration of life insurance remains very low in China vis-à-vis the developed world. Products are immature and highly profitable. We can see this industry continue to grow for years to come. Ping An and AIA, two of the Fund's holdings, are the leaders in this market. They have what we believe to be the most experienced sales force and the most advanced IT system in the industry, which will play a crucial role in getting their products into the hands of the eager consumers.

Indeed, the Chinese economy continues to recover and expand despite the difficult job of cleaning up the shadow banking sector. The authorities are not afraid of pulling the many levers that they have to ensure that a decent level of economic activity is maintained. China is not blindly following the US Fed's move to raise interest rates. Its government continues to push ahead with its infrastructure programs, from the inter-state high-speed rail network to metropolitan underground metro systems, water treatment plants, and new healthcare facilities. In the property market, despite the authorities' draconian measures to curb demand and limit purchase, the market is holding up. We continue to witness a shortfall in supply and new construction starts are supporting economic activity.

Outlook

Given the market volatility, we have increased the Fund's net exposure to China as it tends to be more resilient against the impact of rising US interest rates and oil prices than ASEAN economies. India holds promise, particularly if and when the long-awaited capital expenditure cycle truly kicks off.

We are encouraged by the number of attractive long-term opportunities that we are finding, and many of these businesses are not expected to be directly impacted by the trade friction. The Fund will continue to invest in reasonably valued companies with strong growth prospects .

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. Fund 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 has been 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 FactSet.

   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 specified Fund over the specified period relative to the specified 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. Fund 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 effective exposures to the relevant countries/regions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions (stocks and indices).

4. The table shows the Fund's top 10 long stock positions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions. 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.

5. The table shows the Fund's effective net exposure to the relevant sectors as a percentage of the Fund's net asset value, taking into account direct stock holdings and both long and short derivative positions (stocks and indices).

6. The table shows the Fund's effective exposures to the relevant currencies as a percentage of the Fund's net asset value, taking into account stocks holdings, cash and the use of derivatives.

Disclaimers

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