Platinum Asia Fund

Joseph Lai
Portfolio Manager

Performance

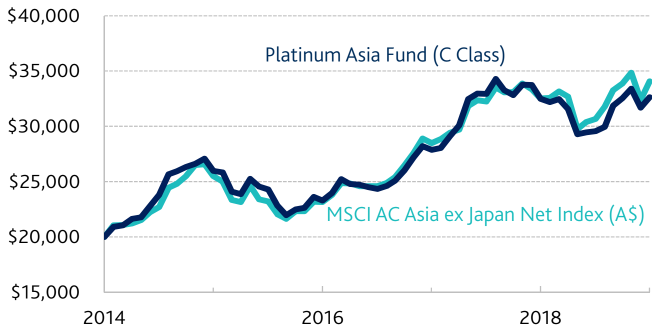
(compound p.a.+, to 30 June 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	0%	0%	12%	10%	14%
MSCI AC Asia ex Jp Index^	1%	5%	14%	11%	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.
Historical performance is not a reliable indicator of future performance.
See note 1, page 5. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 June 2014 to 30 June 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 5.

After a strong start to the year, it was a somewhat lacklustre quarter for Asia markets. The Fund (C Class) has however returned 10.3% for the calendar year-to-date.

Given the negative market narrative of trade wars and a slowing global economy, the market has perhaps performed better than expected. Stabilisation of the Chinese economy, coupled with expectations of a synchronised easing in global interest rates is proving to be a much-needed tonic for the economic ills. These periods of market uncertainty provide contrarian investors like ourselves, with the perfect opportunity to acquire stocks at attractive prices.

Stocks that contributed positively to the Fund's performance during the quarter were largely Asian companies with strong balance sheets, which are proving to be remarkably resilient in a generally slower economic environment. **Meituan Dianping** (Chinese internet platform for lifestyle services) was up 29% over the quarter in local currency terms and **Ayala Land** (dominant Philippines property developer) was up 13%. Stocks that detracted from the Fund's performance were mainly US-listed Chinese stocks (ADRs[1]). While fundamentally robust and resilient, these companies were impacted by negative sentiment towards Chinese stocks. We expect some of these companies will opt for a secondary listing on the Hong Kong Stock Exchange, which should be positive for their valuations.

During the quarter, in anticipation of market volatility, we pre-emptively initiated short positions on the Korean and Taiwan equity markets, which helped to cushion some of the market weakness that resulted from the escalation in the trade war between the US and China.

Changes to the Portfolio

At the beginning of the quarter, we took the opportunity to sell down a number of our strong performing stocks to lock in profits, which proved beneficial. The Fund's net invested position fell from 83% to a low of around 60% in May.

Following share price weakness, the Hong Kong and Chinese markets were trading on valuations significantly below their 15-year averages. We took advantage of the situation mid-way through the quarter and employed some of the cash

1 American Depositary Receipts

by adding to existing positions in high-quality companies, which were trading on exceptionally low valuations. These included, **Tencent** (value-added services and online advertising), **Samsung Electronics** and **SK Hynix** (semiconductor).

We also initiated new positions in various Hong Kong real estate companies, including **Sun Hung Kai Properties**, **New World Development**, and **Wheelock and Company**. These are premier Hong Kong based companies, which typically have very resilient and growing rental property businesses and enviable exposure to the Greater Bay Area in the southern part of China. These firms are expected to benefit from the Chinese government's plans to transform this area into the 'Silicon Valley' of China. Trading at significant discounts to book value and on high single digit price to earnings multiples, with dividend yields of around 4% p.a. (supported by recurrent rental income), these stocks are incredibly cheap, especially in a falling interest rate environment.

Overall, given the uncertainty surrounding the outcome of the trade war between the US and China and global markets, the Fund adopted a prudent approach over the quarter, holding an average of around 23% in cash and 4% short positions in stock indices, which we will continue to reduce at an appropriate time.

Commentary

Investing in Asia in recent years has felt very similar to the metaphor "The Road Less Travelled". To invest in interesting and attractively valued opportunities, we have needed to think differently from the crowd, especially during times of uncertainty and fear, and remain vigilant for opportunities. We have sought to lock in profits when sentiment was elevated.

In 2016, the UK's decision to exit the European Union (Brexit) following a referendum in June, and weak global growth weighed on markets. The extremely negative sentiment prompted the Chinese government to relax its policies to encourage infrastructure spending, property investment and consumption. At that time of market weakness, we increased our exposure to Asian equities and captured the rally in equity markets that unfolded in 2017. We generated a 35% return for our investors in the Fund in 2017.

The market's positive tone continued in the first half 2018 and we gradually took profits and reduced our exposure.

However, the optimism ended in the second half of 2018 with the Asian markets[2] producing a dismal return. China slowed down as the shadow banking reforms, which restricted lending, began to impact the economy and the trade war erupted. By October 2018, when pessimism was at its worst,

2 MSCI AC Asia Ex Japan Index

Disposition of Assets

REGION	30 JUN 2019	31 MAR 2019	30 JUN 2018
China^	34%	43%	45%
Hong Kong	13%	10%	6%
Taiwan	4%	4%	1%
India	12%	12%	12%
Korea	9%	8%	11%
Thailand	4%	4%	4%
Philippines	3%	3%	2%
Vietnam	2%	2%	1%
Malaysia	<1%	<1%	<1%
Singapore	0%	0%	1%
Indonesia	0%	0%	1%
Cash	19%	13%	16%
Shorts	-6%	-4%	-3%

^ 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 5. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures ^

SECTOR	30 JUN 2019	31 MAR 2019	30 JUN 2018
Financials	20%	24%	21%
Consumer Discretionary	16%	18%	10%
Communication Services	14%	15%	12%
Information Technology	10%	9%	5%
Real Estate	10%	7%	7%
Industrials	4%	3%	6%
Health Care	2%	2%	3%
Utilities	1%	1%	4%
Materials	1%	1%	4%
Consumer Staples	0%	3%	3%
Energy	0%	1%	9%
Other*	-2%	<1%	-2%
TOTAL NET EXPOSURE	75%	83%	81%

^ 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 5. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

we felt it was time to add stocks again. We enjoyed a brief, but powerful rally in equities in early 2019.

As mentioned above, we reduced our exposures again recently as we felt the market was too bullish as trade relations between US and China deteriorated.

The question today is - where to from here?

With regards to the US and China trade conflict, it's worth noting that China's exports to the US only represent 4% of China's national output (i.e. GDP). US-imposed tariffs on China therefore in themselves do not have a major ***direct*** impact on the Chinese economy. China has a huge domestic market and 96% of China's output goes to markets outside the USA.

However, trade uncertainty is having an ***indirect*** impact nonetheless on business confidence and consumer sentiment. It not only impacts China, but also the rest of the world. The inter-connectivity of the global economy means there is a huge third-order effect to other countries that supply and manufacture goods and parts for Chinese and US products. Businesses are unlikely to invest when the demand for their products is uncertain. Likewise, consumers will be hesitant to spend (i.e. buy a new car or mobile phone) if they are uncertain about their job.

In this complex situation, there will emerge winners and losers. To the extent some of the factories will migrate out of China, it will be a small loss for China, but it will represent large gains for surrounding countries with low labour costs. Vietnam for example, is seeing double-digit growth for the same types of Chinese products that the US had imposed tariffs on. We added to our positions in Vietnam during the quarter.

At a company level, the US government's decision to add Chinese telecommunications company, Huawei to an "Entity List", which prohibits US companies from conducting business with it, presented opportunities for other companies to benefit. Samsung Electronics for instance, which was trading on book value and 13x price to earnings based on cyclical depressed earnings – offered great value. To the extent Huawei could lose market share in smartphones in Europe, Samsung is ready to capture it. We added to our position in Samsung at lower prices.

One of the major constants in Asia is change. Change can create opportunities. When there is fear in the market, we try to think differently i.e. we take the road less travelled.

The two main themes we are focusing on are:

1. Beneficiaries of the trade conflict.
2. Good quality companies with inherent growth - even in a slowing global economy.

Let's be clear. Taking the road less travelled does not simply mean positioning towards adventure and risk. In most cases, it means buying what we believe are companies with strong balance sheets at cheap prices.

The prospect of a slow growing global economy due to trade uncertainty, and global central banks cutting rates aggressively to zero in the absence of inflation, is a reality we face.

Net Currency Exposures

CURRENCY	30 JUN 2019	31 MAR 2019	30 JUN 2018
US dollar (USD)	41%	41%	15%
Hong Kong dollar (HKD)	31%	28%	33%
Chinese yuan (CNY)	18%	17%	14%
Indian rupee (INR)	13%	10%	13%
Korean won (KRW)	9%	8%	11%
Taiwan new dollar (TWD)	4%	3%	1%
Vietnamese dong (VND)	2%	2%	1%
Australian dollar (AUD)	2%	<1%	5%
Malaysian ringgit (MYR)	<1%	<1%	<1%
Thai baht (THB)	-1%	4%	4%
Philippine piso (PHP)	-5%	3%	2%
Chinese yuan offshore (CNH)	-15%	-19%	0%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China	Cons Discretionary	4.7%
Tencent Holdings	China	Comm Services	4.5%
Samsung Electronics	Korea	Info Technology	4.2%
Taiwan Semiconductor	Taiwan	Info Technology	3.9%
AIA Group Ltd	Hong Kong	Financials	3.7%
Ping An Insurance	China	Financials	3.7%
Meituan Dianping	China	Cons Discretionary	2.9%
Kasikornbank PCL	Thailand	Financials	2.9%
Axis Bank Limited	India	Financials	2.8%
Autohome Inc	China	Comm Services	2.5%

As at 30 June 2019. 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.

However, the longer-term fundamentals are still very favourable in the Asia region. With income per capita still very low in China (around US$10,000 per person in 2018) and India (around US$2,000 per person) versus an average of US$40,000 for OECD members[3], it will take a great deal to disrupt growth in these countries' living standards. Both governments are investing heavily in infrastructure, education and technology off a relatively low base, driving economic growth and subsequently higher income levels for many years to come.

India has cleaned up its banking system, implemented the goods and services tax (GST) and introduced a workable bankruptcy code. Reforms to open up the economy are continuing and these will drive internally generated growth.

In 10 years' time, the banking industry landscape in India will likely be akin to that of Australia, in which a handful of well-run private banks will dominate the market. One stock held in the Fund that is benefiting from the bank reforms, is **Axis Bank**. Axis is one of India's private banks that is taking market share, competing against the less-than-competent state-owned banks. We expect Axis Bank's earnings will increase significantly over the next three years, and is trading on just 20x earnings and 2.5x book value.

China continues to reform its economy by cleaning up the banking system, opening up industries to foreign competition and encouraging technology development.

Life insurance company, **AIA** is a good example of a company that we expect will benefit from China opening up its market. At present, AIA only operates in five out of the 36 Chinese provinces. It is growing insurance premiums by 25% a year and its expansion into the remaining 31 provinces is expected to provide significant upside to growth. It has done very well selling quality products that understand the needs of customers. We estimate earnings will continue to grow at double digits for a long time, and is trading on just 15x earnings.

3 Source: World Bank, 2018

Outlook

While uncertainty and risks always exist in investing, what is certain is that valuations of Asian stocks are attractive again.

A trade truce was reached between the US and China at the 2019 G20 Summit in Osaka at the end of June, with both superpowers agreeing to recommence trade negotiations. China's Huawei also received a reprieve on some of the trade restrictions imposed by the US. Uncertainty has paralysed decision making for businesses and consumers alike. While it is unlikely to supercharge the economic cycle, these developments reduce the prospect of a stalling in economic activities in the region.

With decelerating economic growth globally, central banks in many countries have started cutting interest rates. This marks an interesting turning point for the region. With many of its currencies linked to the US dollar, the region's interest rate policies reflected the US policies, which has been tightening over the last three years. The US Federal Reserve has shifted its stance in recent months away from further tightening, with the markets now pricing in interest rate cuts in 2019. This reversal is a positive for the region's asset markets and currency value.

Given the likelihood of improving economic prospects and attractive valuations, the Fund has deployed some of the cash raised into existing and new stock positions, and plans to continue to invest in quality companies with resilient characteristics. **Taking the road less travelled may make a difference**.

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.

Disclaimers

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935, trading as Platinum Asset Management (Platinum®). Platinum is the responsible entity and issuer of units in the Platinum Trust® Funds (the "Funds"). This publication contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons') investment objectives, financial situation or needs, and should not be used as the basis for making investment, financial or other decisions. You should read the entire Product Disclosure Statement (including any Supplement(s) thereto) for the Platinum Trust® Funds ("PDS") and consider your particular investment objectives, financial situation and needs before making any investment decision to invest in (or divest from) a Fund. You can obtain a copy of the current PDS from Platinum's website, www.platinum.com.au or by phoning 1300 726 700 (within Australia), 0800 700 726 (within New Zealand) or +61 2 9255 7500, or by emailing to invest@platinum.com.au. You should also obtain professional advice before making an investment decision.

Neither Platinum nor any company in the Platinum Group®, including any of their directors, officers or employees (collectively, "Platinum Persons"), guarantee the performance of any of the Funds, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum). To the extent permitted by law, no liability is accepted by any Platinum Person for any loss or damage as a result of any reliance on this information. This publication reflects Platinum's views and beliefs at the time of preparation, which are subject to change without notice. No representations or warranties are made by any Platinum Person as to their accuracy or reliability. This publication may contain forward-looking statements regarding Platinum's intent, beliefs or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. No Platinum Person undertakes any obligation to revise any such forward-looking statements to reflect events and circumstances after the date hereof.

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.

MSCI Inc Disclaimer

All data where MSCI is referenced is the property of MSCI Inc. No use or distribution of this data is permitted without the written consent of MSCI Inc. This data is provided "as is" without any warranties by MSCI Inc. MSCI Inc assumes no liability for or in connection with this data. Please see full MSCI Inc disclaimer at www.platinum.com.au/Terms-Conditions.