# Platinum Asia Fund

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## Performance

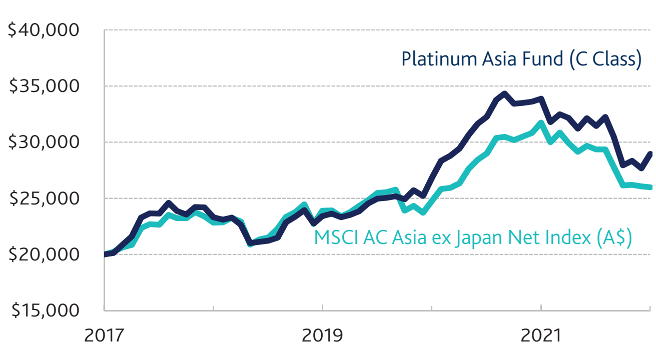
### (compound p.a.⁺, to 30 June 2022)

| | QUARTER | 1YR | 3YRS | 5YRS | SINCE INCEPTION |
|---|---|---|---|---|---|
| Platinum Asia Fund* | 4% | -15% | 7% | 8% | 13% |
| MSCI AC Asia ex Jp Index^ | -1% | -18% | 3% | 5% | 9% |

⁺ 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

30 June 2017 to 30 June 2022




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 3.7% for the quarter and -14.5% for the year.[1]

This quarter was somewhat the reverse of what we had seen recently, with Chinese assets generally performing reasonably well while most other markets across the region were weak. In China, the market responded to an economy that was starting to show signs of improvement as the latest wave of Covid lockdowns eased, while the government increasingly turned its attention to stimulating the economy. Meanwhile, in most other countries across the region, the impact of the broader global slowdown and withdrawal of global liquidity dragged on asset prices.

Many of our slightly faster-growing, more-innovative companies across China saw their shares perform well, including companies such as prosthetic joint manufacturer **AK Medical** (+26% over the quarter), online grocery delivery company **Dingdong** (+56%), robotics manufacturer **Estun Automation** (+22%), e-commerce platform **JD.com** (+8%) and computer game and office software maker **Kingsoft** (+20%).

Having moved past the latest round of relatively harsh Covid-induced lockdowns in China, there was also a renewed sense of optimism in the market around the reopening of travel and in-store retail, as people took heart from government actions like the reduction in quarantine requirements. This change in sentiment benefited portfolio holdings such as hotel chain **H World Group** (formerly known as Huazhu, +15%), travel website operator **Trip.com** (+19%) and fast-food chain **Yum China** (+10%).

The Indonesian market, while volatile through the quarter, also largely managed to hold its ground. Some of our investments exposed to that market benefited, including investment holding company **Jardine Cycle & Carriage** (+13%) and paints company **Avia Avian** (+4%).

Finally, in India, our holding in **Maruti Suzuki** (+12%) performed well on the back of news around much-anticipated SUV model launches.

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.

The biggest detractors from performance for the quarter were our semiconductor holdings **Samsung Electronics** (-18%), **SK Hynix** (-23%) and **Taiwan Semiconductor Manufacturing** (-20%), which all declined as the global economic environment weakened and fears rose around the shorter-term outlook for major end markets like smartphones, laptops and PCs. Filipino property developer **Ayala Land** (-27%) also declined, likely largely in response to the rising interest rate environment but potentially also reflecting some hesitancy towards the country from global investors, given the recent election result. The final detractor worth highlighting is our holding in Indian airline **InterGlobe Aviation** (-20%), whose share price fell primarily in response to higher oil prices, as well as potentially some concerns around the capacity discipline of the industry as competitors placed orders for new aircraft.

Our index and stock-specific short positions all made modest positive contributions to performance during the quarter.

Similar to last quarter, we maintained a currency exposure largely in line with our underlying assets. As such, the performance of the Fund benefited from a weakening Australian dollar, which was weighed down by global growth fears.

## Changes to the Portfolio

Given the relatively more stable market backdrop in Asia this quarter, portfolio turnover returned to more normal levels as we continued our 'business as usual' process of refining and tweaking the portfolio positioning. It's also worth noting that our index short positions on the South Korean and Indian markets were closed, booking modest profits.

We exited the last of our position in strain wave gear manufacturer **Leader Harmonious Drive** during the quarter. We were increasingly coming across signs of potential for rising competitive intensity in the industry, both from the Japanese market leader keen to win back share and from new Chinese entrants who hoped to carve out positions for themselves. Some industry participants spoke bluntly about a desire to encourage or pursue price-based competition in an effort to shift market share. Leader Harmonious Drive remains a company we have been impressed by, and we will continue to monitor the industry dynamics, but for the moment, it seems prudent to watch from the sidelines.

Our holdings in Chinese property developers **China Vanke** and **China Overseas Land & Investment** were also reduced during the quarter. These stocks held up well over recent months, providing an opportunity to redeploy some of that capital into more prospective areas. While the Chinese property market is not completely out of the woods yet, the government has been making significant efforts to stabilise and re-start activity in the sector through relaxation of policy measures, leading to improved market sentiment towards our holdings, as well as signs of tangible improvements in underlying sector activity and transactions starting to show through in the month of June.

Early in the quarter, we also modestly reduced our holdings in semiconductor companies **Samsung Electronics** and **Taiwan Semiconductor Manufacturing**. Our investment thesis around both these companies is focused on attractive supply-side industry dynamics, which we believe remain intact; however, with poor smartphone, laptop and PC sales, end demand is feeling more vulnerable, with enterprise and cloud markets the remaining primary areas of strength. We

### Disposition of Assets

| REGION | 30 JUN 2022 | 31 MAR 2022 | 30 JUN 2021 |
|---|---|---|---|
| China | 48% | 44% | 43% |
| India | 9% | 10% | 7% |
| South Korea | 8% | 10% | 10% |
| Vietnam | 6% | 6% | 4% |
| Taiwan | 5% | 6% | 5% |
| Hong Kong | 4% | 4% | 7% |
| Philippines | 2% | 2% | 1% |
| Macao | 2% | 1% | 1% |
| Singapore | 1% | 1% | 1% |
| Thailand | 0% | 0% | 1% |
| Cash | 14% | 14% | 18% |
| Shorts | -1% | -6% | -9% |

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

### Net Sector Exposures

| SECTOR | 30 JUN 2022 | 31 MAR 2022 | 30 JUN 2021 |
|---|---|---|---|
| Consumer Discretionary | 20% | 18% | 19% |
| Information Technology | 14% | 15% | 17% |
| Real Estate | 13% | 13% | 9% |
| Industrials | 12% | 12% | 12% |
| Financials | 10% | 10% | 13% |
| Communication Services | 4% | 4% | 2% |
| Other | 4% | 0% | -6% |
| Consumer Staples | 4% | 3% | 2% |
| Materials | 3% | 3% | 3% |
| Health Care | 1% | 1% | 1% |
| TOTAL NET EXPOSURE | 85% | 80% | 72% |

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

retain meaningful positions in both companies and still believe they are well positioned, but given how well their shares had held up in the face of deteriorating global demand, they were no longer quite the outstanding relative value they had previously been.

In India, we trimmed our holding in **Maruti Suzuki**, as the market welcomed news around their SUV model launches with great enthusiasm, sending the share price to levels we felt no longer presented such compelling value.

As you may have heard us discuss previously, we believe there remains a significant opportunity to invest in emerging leaders and interesting smaller businesses across the region that may be off the radar of most global investors. One new holding we introduced during the quarter is a dominant manufacturer and distributor of water and air purifiers, holding more than 50% market share in their home market and growing rapidly into other countries across Asia. The company earns strong returns on capital, bears only a modest debt load, and yet we were able to purchase shares in this company for just ten times their prior years' earnings, while the company's earnings are expected to continue to deliver healthy growth.

Another new name we added to the portfolio is the recently listed leader in the Chinese public cloud call centre software market, **TI Cloud**. Unlike many of their global peers in the cloud software space, TI Cloud has well and truly proven their ability to generate healthy profit margins while growing. Their customer list is a "who's who" of corporates across China, including the likes of car manufacturers BMW and Toyota, ICBC bank, insurance provider PICC, and tech leaders like Alibaba, ByteDance and JD.com. We are investing alongside the founder, who still runs the business, and we are paying just a fraction of the price that comparable businesses in Western markets command. We believe we've been given this opportunity as their headline revenue growth has slowed over the past couple of years, deterring many investors. However, the slowdown in sales appears to have been driven by external factors that impacted their customer base and will not be repeated, so our expectation is that the company's headline growth rate should improve once again. As the leader in a fragmented and consolidating market, with three-quarters of their target customer base yet to migrate to the public cloud and certain parts of the portfolio showing relatively explosive growth, we are excited about the prospects for TI Cloud over the coming years.

We also took the opportunity to continue adding to positions in Indonesian paints company **Avia Avian**, Filipino property developer **Ayala Land** and Chinese grocery delivery company **Dingdong**. During the quarter, it was encouraging to see Dingdong making meaningful continued progress towards proving out their business model, with sizeable improvements in things like average order size, gross margins, and various measures of operational efficiency. It will be particularly interesting to see how the company has fared throughout and following the Covid-induced lockdowns across some of their core markets, as there are signs this may have encouraged a large number of new customers to try out their offering. The scepticism around Dingdong's business model is such that if they can demonstrate even a moderate degree of continued operational success, we believe it could result in a substantial re-evaluation of their shares by many market participants.

During the quarter, we also modestly added to our position in parcel delivery company **ZTO Express**. Through the first half of the year, results and feedback across the sector have been painting a consistent picture of increasingly favourable dynamics. The industry has long benefited from rapid e-commerce-driven volume growth, but this historically attracted a steady stream of competition with seemingly endless amounts of money being thrown at players trying to carve out a position. More recently, however, some less-efficient players have finally reached their limits, unable to achieve a competitive cost structure. The regulator has also become increasingly vocal about the negative impacts of such severe price competition and the corresponding downstream effects of this on worker safety and pay, demanding companies resolve these issues. These factors led to rationalisation in the competitive environment, and we have seen pricing and profits improve dramatically. There remains a degree of caution in the market about whether these newly improved conditions are here to stay or simply a temporary reprieve. We believe this could be the start of a new, more stable phase of relative maturity for the industry, with the enormous scale and corresponding efficiency of the dominant players now essentially beyond dispute. Should these conditions hold, we have high hopes for our position in ZTO.

## Commentary

The market environment within and outside of China has been consistently moving to the beat of different drums. For most markets across the region, ex-China, the focus tended to be on inflation, interest rates, and the impact these factors were having on global demand. Interestingly, by some measures, many of these countries actually experienced slightly more muted inflationary impulses than what certain developed countries have experienced. Central banks across the region have tended to be more on the front foot, maintaining positive real yields. Nevertheless, many countries responded with protectionist measures in an effort to try and cushion their own population from some of the price swings. For example, Indonesia severely restricted palm oil exports, India imposed duties on steel exports, and China put export controls on petroleum products. There are concerns that rising rates may dent demand, slow the global economic environment, and raise the cost of capital, while the spectre of quantitative tightening hangs over global capital markets, sapping some enthusiasm out of asset prices.

Across the region, **Indonesia** has been perceived as the 'winner of the moment', given its import/export mix. As such, many investors scrambled to buy Indonesian assets. Meanwhile, markets considered more sensitive to global economic conditions, like **South Korea**, have been shunned.

The **Philippines** also perhaps deserves mention for the resounding win the electorate handed to new President Marcos Jr. Some observers point out that the election may have suffered from significant amounts of misinformation spread through online channels. There are also reservations held by those international observers who remember his father's rule in a different light to how the newly elected President portrayed it throughout the campaign. The new government's actions will likely be scrutinised closely as people try to ascertain the similarities and differences of approach from those of years past. This may have also contributed to weakness in that market.

Meanwhile, **China's** markets and economy have been moving fairly independently of other markets. The domestic economy was already weak and had been slowing for a while, with labour slack in the system and not having had any real stimulus or quantitative easing over recent years in response to Covid. This setup is in stark contrast to the starting point for most developed markets. As such, after Covid lockdowns started easing in late May, the Chinese government began forcefully trying to re-invigorate the economy and stimulate activity. Hence Chinese markets, coming from low valuation levels, actually rose reasonably meaningfully throughout June, despite global headwinds.

## Outlook

As always, it is near impossible to opine with any confidence about the future direction of broad markets. That said, for the moment at least, in many markets, inflation and interest rate rises appear set to remain for a little longer yet, and that's likely a challenging setup for global markets. Fortunately, it appears most countries across the Asian region are a little ahead of the curve compared to developed markets and so may fare better. Valuations obviously vary across the region by market, sector and company but largely remain reasonable, which portends well for our ability to continue finding attractive investment opportunities. Also, as discussed above, the setup in the Chinese market is somewhat different from elsewhere, and this may actually prove to be a more stable foundation for positive market performance, although only time will tell.

### Top 10 Holdings

| COMPANY | COUNTRY | INDUSTRY | WEIGHT |
|---|---|---|---|
| Taiwan Semiconductor | Taiwan | Info Technology | 4.7% |
| ZTO Express Cayman Inc | China | Industrials | 4.3% |
| Tencent Holdings Ltd | China | Comm Services | 4.1% |
| Vietnam Ent Investments | Vietnam | Other | 4.1% |
| Ping An Insurance Group | China | Financials | 4.0% |
| Samsung Electronics Co | South Korea | Info Technology | 3.8% |
| Alibaba Group Holding | China | Cons Discretionary | 3.5% |
| InterGlobe Aviation Ltd | India | Industrials | 3.5% |
| China Resources Land Ltd | China | Real Estate | 3.3% |
| Trip.com Group Ltd | China | Cons Discretionary | 2.8% |

As at 30 June 2022. 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



## MSCI Disclaimer