Platinum Asia Fund

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Performance

(compound pa, to 30 September 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	8%	21%	12%	16%	15%
MSCI AC Asia ex Jp Index	4%	20%	12%	14%	10%

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

Disposition of Assets

REGION	30 SEP 2017	30 JUN 2017	30 SEP 2016
China (Ex PRC Listed)	44%	35%	30%
China (PRC Listed)	10%	8%	9%
Hong Kong	3%	1%	3%
Taiwan	2%	4%	2%
India	11%	14%	18%
Korea	10%	10%	9%
Thailand	5%	6%	6%
Philippines	4%	4%	5%
Vietnam	3%	3%	3%
Singapore	1%	2%	<1%
Malaysia	1%	1%	1%
Indonesia	<1%	0%	<1%
Cash	6%	12%	14%

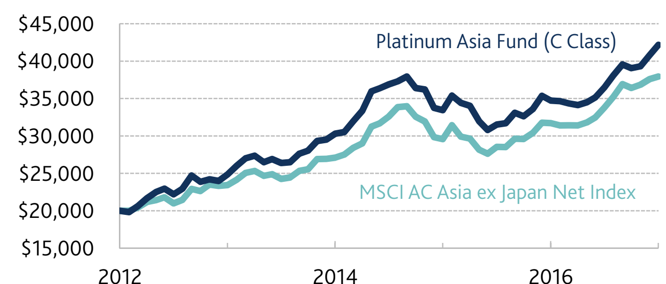
Source: Platinum Investment Management Limited. See note 3, page 4.

The Fund (C Class) rose 8.0% over the quarter, with the mild appreciation of the Australian dollar detracting somewhat from performance. The MSCI Asia ex-Japan Index (A$) returned 4.2% over the same period.

Markets across Asia continued their positive performance from the last quarter. The Thai market was up 8% (in local currency), as the country's export sector strengthened with the global economic recovery. The Indian and the Philippines markets rose 4% and 3% respectively for the quarter (in local currency), as economic activity continued to pick up.

Value of $20,000 Invested Over Five Years

30 September 2012 to 30 September 2017



Refer to note 2, page 4.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China Ex PRC	IT	3.8%
Ping An Insurance Group	China	Financials	3.2%
Ayala Corp	Philippines	Financials	3.1%
CNOOC Ltd	China Ex PRC	Energy	3.1%
Jiangsu Yanghe Brewery	China	Consumer Stap	3.0%
Midea Group	China	Consumer Disc	3.0%
Kasikornbank PCL	Thailand	Financials	2.9%
Axis Bank Ltd	India	Financials	2.8%
Samsung Electronics	Korea	IT	2.7%
China Merchants Bank	China Ex PRC	Financials	2.6%

As at 30 September 2017.
Source: Platinum Investment Management Limited. See note 4, page 4.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposure, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

China, in particular, continued to surprise with the rigour of its reform. The evident recovery in corporate profitability and the resilience in consumer spending indicate that a rebalancing of the country's economy is well and truly under way. China's H-Share and domestic A-Share markets were up 6% and 5% respectively (in local currency). Chinese internet stocks were again the key contributors to the Fund's performance this quarter, with 58.com (online property and classifieds) up 43%, Alibaba (e-commerce platform) up 22%, and Sina and Weibo (social media) up 35% and 48% respectively. ZTE (telco equipment supplier) and Midea (white goods and robotics manufacturer) also contributed to performance, up 38% and 2% respectively.

Commentary

Several members of the investment team took a field trip to China this quarter, visiting dozens of companies in different cities and speaking with numerous industry participants. Apart from the general zeal and buzz felt in all parts of the economy, we witnessed many concrete examples of leaps in productivity improvement driven by infrastructure investment, automation, education and innovation. If productivity (in terms of output per time unit) is a key indicator and determinant of economic growth, China's massive productivity growth is what has strengthened our conviction about the country's long-term prospects. The last five years have been a bumpy period of transition for China, which gave investors cold feet. What most haven't realised is how much the country has adjusted through tough policy moves, serious investments in R&D and infrastructure, and real productivity gains, and as a result, how well it is positioning itself for the next wave of development.

First class infrastructure: We went on a journey on the high speed rail along the east coast of China, and found the service punctual, comfortable and efficient, notwithstanding the high passenger volume. China has the world's largest high speed rail network by distance – more than 22,000 km in total, and it is proving very effective in transporting large numbers of people around this populous country.

To put things in context, the Sydney-Melbourne air route is one of the busiest in the world. With a plane departing every 10-15 minutes, flights only manage 6 million passengers a year. The Beijing-Shanghai line has a high speed train departing in each direction every 20 minutes, moving nearly 160 million passengers a year! At 350 km/hr, the 1318 km journey takes as few as 4.5 hours and a second class ticket costs just CNY 553 (about A$105). Commentators in the West like to remark on China's over-spending on infrastructure and the associated credit concerns, while overlooking the very tangible long-term benefits that these infrastructure investments bring. Transporting so many people around such a vast country would simply have been impossible without the high speed rail system.

In addition to upgrading its inter-state rail system, China is also busy putting in much-needed urban infrastructure to meet the needs of the ever-expanding urban population and improve the ease of doing business. Metropolitan subway systems are being built for the first time in many cities, and China has more than 20 cities with a population of 5 million or more! Water and waste treatment plants are being added and upgraded to deal with the pollution problems. 4G telecommunication systems are being optimised continually, with the implementation of a 5G network scheduled to start in 2019.

When it comes to the debate about China's residential property market, we are of the view that it is simply not true that there is an over-supply. While there are inevitably some pockets of speculative developments, many cities are in fact seeing a shortage, so much so that local authorities have had to put in ever more stringent measures to suppress demand (such as forbidding owners to sell within two to five years post purchase). Indeed, what we are not seeing in many big cities in China are the mass of construction cranes that have been dominating the skylines of Australian cities!

Automation: Private Chinese companies are investing in automation and robotics in earnest, as we have witnessed on our recent visits to several logistics and electrical appliances companies. E-commerce is propelling the growth of the logistics industry, accelerating the process towards increasing automation throughout warehouses and logistic centres. When we arrived at a logistic centre of a major e-commerce operator last month, we were astounded by how much things have changed since our last visit four years ago. The implementation of sorting machines has reduced the number of human workers in a line by some 80%! Instead of finding thousands of workers dashing around to pick up boxes and parcels, as we did last time, we now found the task almost entirely carried out by industrial robots. Rising labour costs, demand for superior and consistent quality in products and services, and the sheer scale of China's consumer demand, indeed, call for automation, and this process of upgradation is only just beginning. Despite all the talk in the press about the demographic cliff that China is facing, the country is adjusting well, and it will require fewer, not more, manual labourers.

Education and innovation: More than 7 million university graduates are minted each year in China (twice as many as in the US), and more than half of those graduates are from science and engineering disciplines. The number of tertiary students has grown explosively over the last 10 years as the government increased university intake. While manual

workers are being incrementally replaced by machines, the country is both demanding and producing more skilled workers, and this highly skilled workforce is fuelling China's rapid technological advancement.

With the pace of technological innovation accelerating, more than one "innovation hub" has sprung up in China. Among them, Shenzhen, a city of 12 million people and situated just north of Hong Kong, is probably the most worthy of the title "the Silicon Valley of China". It is a city which combines inexpensive engineering talents, a comprehensive supply chain and a dynamic ecosystem. A number of leading Chinese technology companies are headquartered in Shenzhen, some of which are already serious competitors, if not leaders, globally. These include, for example, Huawei and ZTE, two of the world's top four telecommunication equipment makers and well-positioned to lead in the next generation 5G wireless technologies, and drone maker DJI, which has a 75% market share in consumer drone market globally.

In addition to the government's direct and indirect support for research and development (e.g. increased R&D spending and generous tax incentives) and a vibrant venture capital scene, China's enormous consumer base and well-established supply chains in hubs like Shenzhen give its companies the advantage of being able to innovate more quickly through faster consumer feedback loop and product iteration. The scale of its market allows products to be produced in huge quantities and cheaply.

Supply side reform: This is a phrase now familiar to most China observers. The crux of this policy is the closure of unprofitable, excess production capacity of steel, coal, cement and other such commodities. These industries have been propped up by local banks, but oversupply has depressed prices and erased profitability for the entire industry, in turn threatening the stability of the banking system with non-performing loans. In some cases, the production plant is illegal and fails to meet safety and environmental standards. Governments used to turn a blind eye to these operations for the sake of saving jobs, but things have changed. The central government is enforcing environmental standards with rigour, demanding the closure of unlicensed plants and offending polluters, and holding local government officials to account. As a result of the extensive supply cuts, we are seeing commodity prices (steel, coal, aluminium) recover strongly, leading to significantly improved profits for the remaining producers, and this is gradually restoring health to banks' balance sheets. Most importantly, many Chinese cities are beginning to see blue sky again!

All of the above are very real drivers of improved productivity and they are taking place in China today. These productivity gains are in turn lifting income and boosting consumption. Consumption patterns of the Chinese population are also shifting. Innovative companies are starting to provide consumer loans to many who have hitherto not had access to credit. Car loans as a percentage of new car sales are only around 30%, and lenders typically demand a minimum up-front payment of 30%. Considering that in countries like Australia and the US buyers are used to "drive-away with $0 up-front payment", consumer lending in China is clearly in its nascency and has much potential to grow.

Changes to the Portfolio

We have been studying these secular trends intensely, and the Fund has exposure to all of the major themes, from automation to robotics, from fintech to consumer credit.

The Fund took advantage of some sectoral share price weakness this quarter and deployed some cash into the longer-term ideas, mostly in the Chinese financials sector.

The Fund has reduced its exposure to the Australian dollar to a negligible level.

Outlook

It is difficult to convey in a few brief paragraphs the sense of energy and vibrancy that we experienced during our recent field trips to China, and the range and pace of activity that we observed taking place there. (Please refer to Kerr's feature piece *The Rise of Asia,* available on our website, for a more extensive discussion on the country's transformation and ongoing reform. Andrew's *Macro Overview* provides a more detailed examination of the impact of the supply side adjustments.) We are confident that China's investments in education, infrastructure and innovation are driving real productivity growth which will translate into higher income and stronger consumption, sparking a virtuous cycle of growth for years to come.

The level of concern over China's debt problems has subsided, and investors have shown more enthusiasm. In the short-term, the market may consolidate around these current levels to digest the recent advances. Looking further afield, we are positioning the Fund's portfolio to be exposed to a wide range of private Chinese companies across industries that are swiftly climbing up the technological ladder.

Notes

1. The investment returns are calculated using the net asset value unit price of C Class (standard fee option) of the relevant Fund and represent the combined income and capital return of C Class for the specified period. Returns are net of fees and costs (excluding the buy/sell spread), 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.

   The MSCI index returns have been sourced from RIMES Technologies. Index returns are in Australian dollars and include dividends, but, unlike the Fund's returns, do not reflect fees or expenses. The net MSCI index is used, except, where applicable, the gross MSCI index was used prior to 31 December 1998 as the net MSCI index did not exist then.

   For the purposes of calculating the "since inception" returns of the MSCI index, the inception date of C Class of the Fund is used.

   Platinum does not invest by reference to the weighting of the index. Underlying assets are chosen through Platinum's individual stock selection process and, as a result, the Fund's holdings may vary considerably to the make-up of the index. Index returns are provided as a reference only.

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class of the Fund over the specified five year period relative to the relevant net MSCI index in Australian dollars.

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3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the Fund's exposure to physical holdings (equity and corporate fixed income securities) and long derivatives (of stocks and indices) as a percentage of the Fund's net asset value.

4. The table shows the Fund's top 10 long stock exposure (through physical holdings and long derivative positions) as a percentage of the Fund's net asset value.

5. Sector breakdown represents the Fund's net exposure to physical holdings and both long and short derivatives (of stocks and indices) as a percentage of the Fund's net asset value.

6. The table shows the Fund's major currency exposure as a percentage of the Fund's net asset value, taking into account any currency hedging.

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