Platinum Asia Fund

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Portfolio Manager

Performance

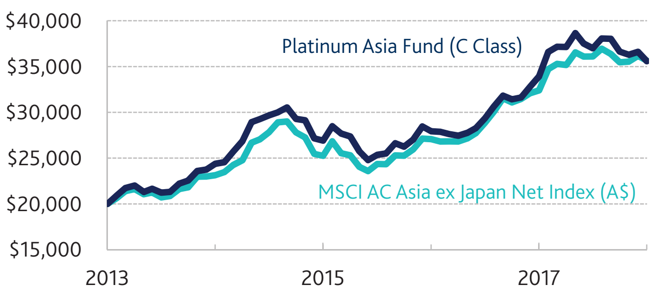
(compound pa, to 30 September 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	-3%	5%	10%	12%	15%
MSCI AC Asia ex Jp Index^	1%	10%	12%	12%	10%

* C Class – standard fee option. Inception date: 4 March 2003.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are in AUD and are inclusive of net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 1, page 5. Numbers are subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 September 2013 to 30 September 2018



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.
Refer to note 2, page 5.

The Asian market (ex Japan) was down 1% over the quarter in local currency terms. This was mainly the result of concerns over rising US interest rates and the escalating trade dispute between China and the US.

Stocks that contributed positively to the Fund's performance this quarter largely consisted of companies with strong market positions to service Asia's burgeoning middle class, such as India's Axis Bank (+20%), China Merchants Bank (+16%, A-share), and Ping An Insurance (+17%, A-share). Oil refinery companies also did well as crude oil prices continued to rise. Reliance Industries and S-Oil were up +29% and +25% respectively. In spite of the weakness across emerging markets, our Philippines and Thai holdings generally added to performance, including Ayala Land (Philippines property developer, +6%) and Kasikornbank (+11%).

Cyclical stocks generally detracted from performance, with MMG (copper miner) and Yanzhou Coal down significantly. On the whole, it was a challenging quarter for investors, with industry champions such as Tencent and Alibaba (marque internet darlings in China) both down in excess of 10%.

Changes to the Portfolio

Weakness in the share market over the quarter gave us further opportunities to reposition our portfolio, adding to domestically-focused champions and cushioning the Fund against the direct impact of the ongoing trade friction.

The Fund's net invested position is around 80% as at the end of September, with a minimal exposure to the Australian Dollar. We have very limited exposure to the regions that are most susceptible to the rising US Dollar and oil price (Indonesia, Malaysia, Philippines), with positions in a few select domestically-focused companies.

As valuations in the region are becoming more and more attractive, particularly in China, we have cut positions that we believe to have reached their fair value and used the cash to add to the following key positions:

- **Reliance Industries** – an Indian conglomerate that owns the world's largest oil refinery and India's newest and largest 4G mobile network that is set to dominate the country's mobile internet and associated services.

- **Geely Auto** – one of China's fastest-growing home-grown car makers and the owner of Volvo, Geely's affordable, high-quality cars are geared for China's mass market and the company's sales volume is growing at 30-40% a year.
- **AIA Group** – the leading life insurer in Asia, with a dominant position in the huge Chinese market.
- **3SBio** – a leading biologics manufacturer in China, 3SBio is growing 30% a year in earnings and, in our view, has considerable growth potential for years to come as it expands to meet the needs of a still under-penetrated Chinese healthcare market.

While the Chinese stock market has overall been rather out of favour with investors, there are some extravagantly valued companies. The Fund initiated a short position in a well-liked Chinese consumer goods stock during the quarter. Trading on an unjustifiably lofty valuation, the company's narrative of rapidly expanding margins, in our view, is going to be very difficult to fulfil in China's highly competitive market with numerous foreign and domestic brands fighting fiercely for market share.

Disposition of Assets

REGION	30 SEP 2018	30 JUN 2018	30 SEP 2017
China^	41%	45%	54%
Hong Kong	4%	6%	3%
Taiwan	2%	1%	2%
Korea	13%	11%	10%
India	11%	12%	11%
Thailand	5%	4%	5%
Philippines	2%	2%	4%
Vietnam	1%	1%	3%
Singapore	1%	1%	1%
Malaysia	1%	<1%	1%
Indonesia	<1%	1%	<1%
Cash	19%	16%	6%
Shorts	-1%	-3%	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.

See note 3, page 5. Numbers are subject to rounding adjustments.
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.

Net Sector Exposures

SECTOR	30 SEP 2018	30 JUN 2018	30 SEP 2017
Financials	25%	22%	20%
Information Technology	20%	18%	20%
Energy	9%	9%	4%
Industrials	6%	8%	7%
Real Estate	6%	6%	6%
Health Care	4%	3%	2%
Consumer Discretionary	4%	7%	15%
Materials	2%	4%	6%
Telecom Services	2%	2%	2%
Other	1%	-3%	1%
Utilities	1%	2%	4%
Consumer Staples	<0%	3%	7%
TOTAL NET EXPOSURE	80%	81%	94%

See note 4, page 5. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	30 SEP 2018	30 JUN 2018	30 SEP 2017
Hong Kong dollar (HKD)	27%	33%	34%
US dollar (USD)	17%	15%	16%
Indian rupee (INR)	15%	13%	12%
Chinese yuan (CNY)	15%	14%	13%
Korean won (KRW)	13%	11%	10%
Thai baht (THB)	5%	4%	5%
Philippine piso (PHP)	2%	2%	4%
Australian dollar (AUD)	2%	5%	<1%
Taiwan new dollar (TWD)	2%	1%	2%
Vietnamese dong (VND)	1%	1%	3%
Malaysian ringgit (MYR)	<1%	<1%	1%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	4.1%
AIA Group	Hong Kong	Financials	3.7%
Ping An Insurance Group	China	Financials	3.6%
China Merchants Bank	China	Financials	3.5%
Kasikornbank PCL	Thailand	Financials	3.4%
Alibaba Group	China	IT	3.0%
China Oilfield Services	China	Energy	2.8%
Naver Corporation	Korea	IT	2.4%
Tencent Holdings	China	IT	2.4%
China Overseas Land & Investment	China	Real Estate	2.3%

As at 30 September 2018. See note 6, page 5.
Source: Platinum Investment Management Limited.

Commentary

It has been a challenging quarter, and the selling pressure was particularly acute for the Chinese stock market. Three factors coincided to create a perfect storm.

1. **A strong US Dollar and rising US interest rates have been negative for emerging market stocks.**

The US Dollar went from strength to strength in the year to date. However, given that most Asian currencies have already depreciated against the very strong US Dollar, the extent to which the US Dollar will appreciate further is not at all a certainty. The US government's fiscal stimulus plans, which will increase the country's fiscal deficit and necessitate the raising of more debt, may indeed tamper, if not reverse, the US Dollar strength.

2. **Signs of a consumption slowdown started to emerge.**

Consumption weakness has so far been most evident in the sales of cars and household appliances, while consumption numbers in most other areas have remained generally healthy. Car sales in China this year are down about 10% as some government subsidies began to phase out. The drop also came from a rather high starting point as the year 2017 saw particularly high sales volumes, thanks to the generous subsidies given to consumers.

Another reason for the mild consumption slowdown is the de-leveraging or de-risking effort undertaken by the Chinese central bank (the People's Bank of China or "PBoC") over the last two years. Loan growth in China has slowed from round 15% in 2017 to 8% so far this year – quite a dramatic slowdown considering that the economy is growing at about 9% or so.

Growth in infrastructure spending has also slowed from some 20% in 2017 to around 5% in 2018, another unsurprising sign that the PBoC's credit tightening efforts are having an effect on the broader economy.

Despite the drastic slowdown in loan growth and infrastructure spending, macroeconomic numbers in China have generally held up well. Concerned by the incipient slowdown in consumption, infrastructure and other segments of the economy, the PBoC began to put in place a series of loosening measures since July. It cut banks' capital reserve requirements and lowered the 1 month Shanghai interbank rate from about 4.5% a few months ago to around 2.5% of late! By late September, the PBoC has lent an equivalent of A$150 billion to banks, on track to be the largest net liquidity injection in two years. September also saw China's government bond issuance reach an equivalent of A$120 billion, the largest monthly issuance since July 2017. All of these monetary easing policies, we expect, will translate into greater economic activity and will likely portend at least a short-term improvement for China's stock markets.

3. **Increased trade tension with the United States.**

The imposition of tariffs by President Trump on Chinese exports has dominated media headlines over the past months. While the headlines look shocking, in our view, the bark is likely louder than the bite.

Firstly, while China remains a big export country, its economy has been gradually shifting away from export-dependence towards greater domestic consumption. Exports as a proportion of economic output have shrunk dramatically to around 20%. Secondly, exports to the US only account for 18% of China's total exports (which translate to approximately 4% of GDP or US$505 billion). Of the US$505 billion, the percentage of value-added exports is likely to be quite low. For instance, while all Apple iPhones are made in China, the Chinese contract manufacturers only capture low single digit margins, with the vast majority of value captured by Apple as well as key component manufacturers like Samsung and chip makers in South Korea, Taiwan and the US. Therefore, the US$505 billion headline number gives a somewhat inflated picture of reality by counting the full contract manufacturing price.

Overall, while the escalating US-China trade tension is no doubt a source of concern, it is worth remembering that 80% of China's exports are destined for countries other than the US, and its vast export sector will not disappear overnight following President Trump's latest tariff-threatening Tweets.

However, it cannot be denied that prolonged trade stand-offs will likely lead to an increase in unemployment, and the likely response, which we are already seeing, will be greater policy relaxation domestically in order to ameliorate the slowdown in economic activity.

The upshot

The Chinese markets have come off significantly since their peak in January. Price-to-book (P/B) ratio is down to around 1.5 times, and price-to-earnings (P/E) ratio is down to about 11 times estimate 2018 earnings. Strong internet companies, the darlings of investors, have taken sizeable falls in the year to date, with Tencent down 32% and Alibaba down 20% from their respective peaks in January. Many stocks are now on "recessionary" valuations, in other words, their prices imply that investors are expecting the onset of a recession in China.

The good news is that the Fund has been booking profits and raising cash over the course of the year, and is ready to deploy capital into some of the very interesting opportunities that have unveiled themselves during the recent sell-off, upgrading the portfolio in the process. While still holding a fair proportion of the portfolio in cash, it would be remiss to focus too much on the short-term market weakness and forego the opportunity to invest in some very attractive companies.

We are focused on finding companies with extremely attractive valuations and promising long-term growth potential and, moreover, companies that are unlikely to suffer significant direct impact from the trade problems. Apart from China, where the Fund has an approximately 41% exposure, we are also finding plenty of opportunities in other Asian countries such as India, Vietnam and Korea, each with their own interesting and sustainable growth dynamics.

The following table sets out the key valuation metrics of several of the Fund's top holdings:

COMPANY	P/E	EARNINGS GROWTH	P/B	ROE
China Merchants Bank (H-share)	7.9x	14.6%	1.5x	15.8%
Ping An Insurance (H-share)	10.4x	22.0%	2.6x	20.6%
Weibo Corp (ADR)	22.3x	38.1%	19.3x	36.4%
AIA Group	17.2x	23.0%	2.3x	15.9%
China Overseas Land & Invt	6.3x	18.9%	1.0x	16.7%
Geely Automobile Holdings	7.9x	25.7%	5.9x	35.7%
Samsung Electronics	6.6x	1.0%	1.7x	21.0%
Kasikornbank PCL	12.5x	13.3%	1.6x	10.2%

Source: FactSet

Outlook

It is possible that US interest rates and oil prices will continue to rise in the coming months, and no imminent resolution is yet in sight for the US-China trade dispute. We should therefore expect to see market volatility persist in the near term. However, we are encouraged by the number of attractive long-term opportunities that we are finding, and we will continue to deploy the Fund's capital with a view to carefully capture those potential long-term winners.

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 long 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 effective net exposures 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).

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

6. 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.

Disclaimers

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