Platinum Asia Fund

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Portfolio Manager

Performance

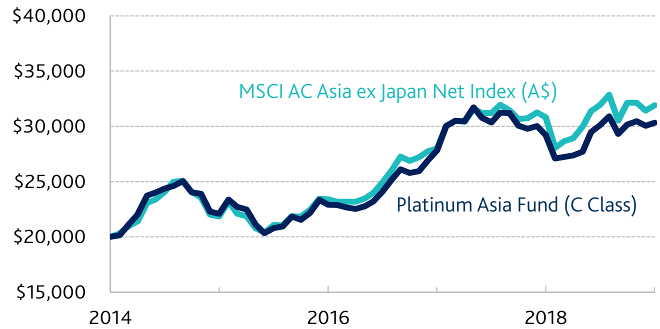
(compound p.a.+, to 30 September 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	0%	4%	10%	9%	14%
MSCI AC Asia ex Jp Index^	-1%	4%	11%	10%	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. Numerical figures have been subject to rounding..

Value of $20,000 Invested Over Five Years

30 September 2014 to 30 September 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.

It was a lacklustre quarter for Asian markets with the continuing trade dispute between the US and China sapping business confidence.

The Fund (C Class) returned 0.5% over the quarter.

The semiconductor sector was a key contributor to the Fund's performance over the quarter, benefiting from the advent of 5G. Stocks that performed well included **Taiwan Semiconductor Manufacturing** (semiconductor foundry, +14% in local currency terms), **ASM Pacific Technology** (semiconductor equipment manufacturer, +25%) and **SK Hynix** (DRAM manufacturer, +18%).

Stocks that displayed resilient growth characteristics also provided a positive contribution to performance. These included **MicroPort Scientific** (Chinese cardiac stent manufacturer, +22%), **Country Garden Services** (Chinese property management company, +25%) and **Anta Sports Products** (Chinese sports apparel brand, +21%).

The Fund's holding in bank stocks generally detracted from performance, notably **Kasikornbank** (-17%) and **Axis Bank** (-15%), reflecting a global decline in interest rates, impacting their profitability.

Changes to the Portfolio

With many stock markets in Asia trading on attractive valuations, this has opened up a more interesting opportunity set for investors.

During the quarter, the Fund's net invested position increased from 75% to 80% by the end of September (up from a low of 63% in May), as we took advantage of the attractive valuations on offer for very strong secular growth businesses.

A new position was established in Midea Group (biggest home appliances company in the world) during the quarter. Existing stocks added to the Fund included Tencent, Samsung Electronics, Taiwan **Semiconductor Manufacturing**, Axis Bank (India) and Kasikornbank (Thailand). We expect these companies to deliver strong earnings growth even in a difficult global environment.

We exited our positions in Hong Kong related assets (real estate companies, Sun Hung Kai, New World Development and Wheelock & Co, plus Hong Kong Exchange) early in the quarter before the significant sell-off in the market, as we had concluded that the volatile situation in Hong Kong was likely to persist for a while, potentially dimming long-term economic prospects.

Commentary

During the quarter, we undertook an extensive research trip, meeting with numerous companies in China. The key takeaway from the trip was that the pace of reform is accelerating. While the days of rampant growth are over, the more moderate pace of growth is of significantly better quality. *A brief summary of key insights on market trends from our trip is provided at the end of this fund commentary.*

The Fund has accumulated very attractive names that are exposed to the region's growth themes. The companies we have invested in are typically leaders in their respective fields, and are taking market share from competitors. This includes companies in the consumption, internet, insurance, food delivery, sports apparel and financial sectors. They are domestic-oriented businesses and are therefore less impacted by the trade war than export-facing businesses and we expect that they will continue to grow in the next three to five years, irrespective of the global economic environment.

One sector that is the exception though is semiconductors – an export-facing sector that is actually benefiting from the trade war. The deployment of 5G base stations throughout China is evidently starting an 'upcycle' in semiconductors. Smartphone sales have been declining in recent years, as users stretch out their replacement cycle – why replace a perfectly good handset? The arrival of 5G is likely to change this trend however, as it will prompt many to upgrade their handsets.

In addition to the upgrade cycle, developing economies are continuing their take-up of smartphones reflecting falling prices and investment in network infrastructure. Now that the 4G network has been rolled-out, India is adding circa 180 million new smartphone users each year. The same dynamic is driving smartphone adoption elsewhere.

While the global smartphone market has been stagnant over the last few years, it may indeed start to grow again. At present, there are about 3.6 billion smartphone users in the world, and this is expected to grow to 5 billion by 2025, representing 38% growth over the period.[1]

On this basis, we believe the semiconductor cycle can persist for quite a while. Our key exposures are at the epicentre of this huge dynamic - Taiwan Semiconductor (leader in a global duopoly in semiconductor manufacturing), Samsung Electronics (leader in an oligopolistic manufacturing of smartphones and memory), SK Hynix (memory) and ASM Pacific (leader in semiconductor equipment manufacturing).

Disposition of Assets

REGION	30 SEP 2019	30 JUN 2019	30 SEP 2018
China^	39%	33%	41%
Hong Kong	7%	13%	4%
Taiwan	5%	4%	2%
India	10%	12%	11%
Korea	10%	9%	13%
Thailand	4%	4%	5%
Philippines	3%	3%	2%
Vietnam	3%	2%	1%
Singapore	0%	0%	1%
Cash	20%	20%	19%
Shorts	-1%	-6%	-1%

^ 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. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures ^

SECTOR	30 SEP 2019	30 JUN 2019	30 SEP 2018
Consumer Discretionary	17%	16%	6%
Financials	15%	20%	24%
Communication Services	15%	14%	13%
Information Technology	14%	10%	6%
Real Estate	5%	10%	7%
Industrials	5%	4%	5%
Other	3%	-2%	1%
Health Care	2%	2%	4%
Energy	1%	0%	10%
Materials	1%	1%	2%
Utilities	1%	1%	1%
Consumer Staples	0%	0%	0%
TOTAL NET EXPOSURE	80%	75%	80%

^ 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. Numerical figures have been subject to rounding.Source: Platinum Investment Management Limited.

Outlook

Many central banks have eased interest rates in recent months, including the US Federal Reserve, which is an interesting turning point for the region. The Asian region's interest rate policies are influenced by US policies, and as such, rate cuts there are positive for the region's asset markets and currency values. China has been relaxing monetary and fiscal policies, which is gradually translating into a stabilisation in economic activity.

It is unclear at this stage to what degree the policy changes will stimulate growth. The Fund remains conservatively positioned and we will continue to deploy capital into strong companies with resilient characteristics when appropriate opportunities arise.

Net Currency Exposures

CURRENCY	30 SEP 2019	30 JUN 2019	30 SEP 2018
US dollar (USD)	57%	41%	17%
Hong Kong dollar (HKD)	29%	31%	27%
Indian rupee (INR)	10%	13%	15%
Korean won (KRW)	10%	9%	13%
Taiwan dollar (TWD)	5%	4%	2%
Chinese yuan (CNY)	5%	18%	15%
Philippine peso (PHP)	3%	-5%	2%
Vietnamese dong (VND)	3%	2%	1%
Thai baht (THB)	1%	-1%	5%
Chinese yuan offshore (CNH)	-24%	-15%	0%
Australian dollar (AUD)	0%	2%	2%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	Info Technology	5.8%
Tencent Holdings	China	Comm Services	5.5%
Taiwan Semiconductor	Taiwan	Info Technology	5.1%
Alibaba Group	China	Cons Discretionary	5.0%
Ping An Insurance	China	Financials	3.4%
AIA Group Ltd	Hong Kong	Financials	3.0%
Meituan Dianping	China	Cons Discretionary	2.9%
Vietnam Enterprise	Vietnam	Other	2.9%
Kasikornbank PCL	Thailand	Financials	2.8%
Axis Bank Limited	India	Financials	2.7%

As at 30 September 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.

China Research Trip

Economic transformation continues apace

During September, members of the Platinum Asia team travelled to China to meet with a number of companies and industry contacts as part of our extensive research program. Our observation was that economic activity remains robust, particularly in investment in urbanisation and consumption growth.

Across China, **intra-city rail and road investments** are connecting various cities, forming highly efficient 'city clusters' such as the Greater Bay area in the south, and Beijing-Tianjin-Hebei area in the north, with each supporting hundreds of millions of people and generating significant economic output.

In Changsha, we visited Jinmao's **Meixi Lake City Operations** project, where it converted 1,800 hectares of vineyards and wetlands into prime real estate. The new district houses half a million inhabitants, replete with 11 schools, four hospitals, shopping malls, offices and an iconic opera house. Due to a much-improved city planning process, the apartments typically sell for double the price of apartments in surrounding areas. Investment in these large urbanisation projects is also evident in cities like Chongqing and Chengdu.

Not only has the quality of investment improved, a focus on the environment is also apparent. Water mist sprinklers and noise reduction walls were installed on a number of construction sites, and thanks to the nationwide upgrade of emission standards, the older polluting factories were retired early.

The **technology** sector is developing quickly. China's 5G deployment has begun in earnest, despite a restriction on semiconductor exports from the US, as alternative component providers have been found. Performance of these alternatives is comparable to the US product and the cost may actually be lower as volume ramps up. This is fuelling a rapid development of the domestic supply chain.

On the **consumption** front, there is greater effort to improve the consumer experience and encourage domestic consumption. The diagou channel (where syndicated groups of exporters outside of China purchase goods for customers in China) has been popular for Chinese consumers to access foreign products in the past, but it has struck a few hurdles – mainly product authenticity, tax avoidance and empty shelves in foreign shops, upsetting the locals.

To reduce the volume of goods sold via the daigou channel, customs officials are now screening inbound parcels more vigorously. Import duties have been reduced across many categories, especially on luxury cosmetics, to encourage imports via formal channels. Foreign brands are also opening stores more aggressively in China, with US brands such as **Estee Lauder** and **Tiffany & Co** establishing a local presence. In particular, Tiffany & Co unveiled its largest exhibition store in Shanghai in September and opened its first online store in China.

In the era of **e-commerce**, the sustainability of brick-and-mortar stores could be questioned. However, we visited a newly refurbished RT-Mart store in Shanghai that is combining the best of what online and offline has to offer. RT-Mart is the largest 'hypermarket' (supermarket and department store combined) chain in China with 485 big-box stores. The extensive product range includes fresh food, groceries and other consumer items.

RT-Mart has partnered with **Alibaba**, thereby gaining access to Alibaba's user data, customer insights, supply-chain management, retail technologies and the powerful electronic payment system Alipay. This allows them to gain insights into products that local consumers want, maximising their sales per square metre. It also helps the e-commerce experience by setting aside an area for products that allow customers to 'touch and feel' (e.g. private label homeware and baby products).

Products can be purchased in store or delivered home. The store layout is designed for this flexibility, with overhead conveyer rails carrying electronically tagged bags of groceries or fresh food for packing and delivery, like a conveyor belt. Most orders are typically **shipped within 10 minutes of ordering**, and one-hour delivery is offered for orders within a 3-kilometre radius.

The refurbished stores are showing 10% year-over-year same-store sales growth, and double-digit growth in fresh food segments. Bearing in mind that only less than half of fresh food purchased is done via modern channels, this new store format shows a great deal of promise, revolutionising the idea of what wet markets (fresh meat, fish and other perishables) look like in this rapidly transforming country.

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

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