Platinum Asia Fund

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Portfolio Manager

Performance

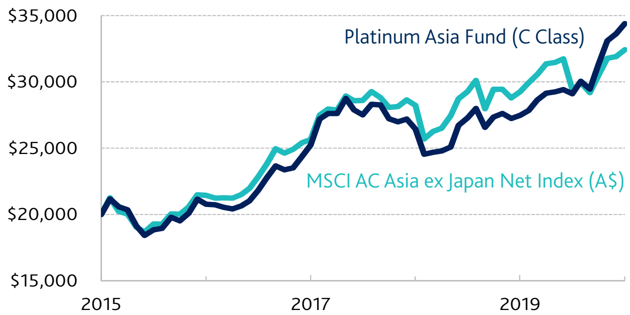
(compound p.a.+, to 30 September 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	10%	25%	11%	11%	15%
MSCI AC Asia ex Jp Index^	6%	11%	8%	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 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 September 2015 to 30 September 2020



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.

Most Asian economies witnessed a robust rebound in activity over the quarter. The Fund (C Class) remained relatively fully invested throughout the period and achieved a 9.7% return for the quarter.[1]

The re-opening of economies post lockdown has affirmed our belief that strong companies would emerge stronger while the weaker competitors would dwindle, and that working from home would accelerate some inexorable trends driven by internet connectivity.

The stocks we added to during the sell-off reflected this conviction and indeed, many have delivered remarkable returns. **Reliance Industries** (4G operator that is transforming itself into an internet platform in India) was up 31% over the quarter, after a 55% appreciation in the prior quarter. **LG Chem** (premier electric vehicle battery manufacturer in South Korea) was up 33%, following a 61% rise in the prior quarter. **Taiwan Semiconductor Manufacturing** (leading global microchip manufacturer) was up 38% due to its position in today's age of almost insatiable demand.

Stocks that benefited from the re-opening of economies included **China Tourism Group** (duty free operator, up 45%), **Focus Media** (outdoor advertising, up 45%), **Huazhu** (leading hotel operator in China, up 23%) and **Li Ning** (a domestic Chinese sportswear champion, up 46% as domestic youngsters continued to snap up its products).

Stocks that detracted from performance primarily reflected idiosyncratic reasons, such as **Sunny Optical** (down 5% on smartphone cycle weakness) and **China Jinmao** (down 22% on mild Chinese property tightening measures).

Changes to the Portfolio

Towards the end of the quarter, index shorts were placed and some profits were tactically booked in the Fund to protect the portfolio, with the view that the developed markets may be over-extrapolating the durability of the re-opening rebound, particularly with the increasing prospect of a second wave of coronavirus in the northern hemisphere winter.

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.

Irrespective of the headlines, Asia is demonstrating remarkable economic resilience, valuations are generally lower than those of developed markets[2] and reforms are positioning the region in good stead over the next five to 10 years.

We expect further volatility in the markets may once again provide us with an opportunity to accumulate interesting names in Asia.

Commentary

Asian economies have generally managed the pandemic well and a less aggressive monetary and fiscal response has thus been warranted. Their equity markets have rebounded mainly on improving earnings prospects rather than ever-increasing valuations driven by the printing of money. This bodes well for Asia's regional markets, as unlike its developed market peers, many of their valuations are not expensive and more stimulatory firepower is available, if needed, in the future.

Given the dynamism of the region, new sustainable trends that can prove fruitful for the Fund continue to emerge. We continue to stick to our time-tested investment approach, remaining focused on:

1. The identification of the long-term trends.
2. Being contrarian in our approach to take advantage of opportunities or protect the portfolio.
3. Generating significant insights through in-depth bottom-up work.

2 Source: IBES consensus, in local currency, as at 7 October 2020.

Change brings opportunities. Identification of the durable changes ahead of the market can generate significant investment returns. The abundance of these opportunities is why we are excited about Asia over the long term, despite the geopolitical noise.

The rational base case remains. We believe the reforms undertaken will likely lead to an inexorable growth trajectory, and strong companies should thrive in their respective environments, irrespective of the macro concerns. Indeed, market volatility and insightful bottom-up work has enabled us to time and again take advantage of the wonderful opportunities on offer.

In **India** for instance, reforms have improved its Ease of Doing Business ranking from 130 in 2016 to 63 in 2019 according to the World Bank.[3] Bureaucratic red tape and the associated self-enrichment have historically been hindrances to entrepreneurship. These are getting dismantled one by one.

Recently, India passed agricultural reforms aimed at unshackling the sector and encouraging private enterprise to invest to improve efficiency and reduce waste. Allowing farmers to sell directly to private enterprises other than the state-mandated traders has the advantage of removing the middle-man who added inefficiencies to the system. This will allow contract farming to take place, allowing bigger companies to source produce directly from the farmers. The reduction in the restrictions on agriculture produce storage is likely to encourage increased private investment in logistics and storage to reduce wastage, which has been a big problem

3 Source: http://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf

Disposition of Assets

REGION	30 SEP 2020	30 JUN 2020	30 SEP 2019
China	45%	53%	39%
Korea	13%	12%	10%
Taiwan	9%	8%	5%
India	9%	8%	10%
Hong Kong	8%	9%	7%
Vietnam	3%	2%	3%
Thailand	2%	2%	4%
Philippines	1%	0%	3%
Macao	1%	1%	0%
Cash	9%	5%	20%
Shorts	-4%	-16%	-1%

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

Net Sector Exposures

SECTOR	30 SEP 2020	30 JUN 2020	30 SEP 2019
Consumer Discretionary	26%	30%	17%
Information Technology	23%	21%	14%
Financials	11%	9%	15%
Communication Services	10%	11%	15%
Real Estate	5%	4%	5%
Industrials	3%	3%	5%
Materials	3%	4%	1%
Energy	3%	4%	1%
Consumer Staples	3%	6%	0%
Health Care	1%	2%	2%
Utilities	0%	0%	1%
Other	-2%	-14%	3%
TOTAL NET EXPOSURE	86%	79%	80%

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

for India. This will allow the market to have a bigger say in the allocation of resources in the sector.

Labour market reform is another achievement. The new laws consolidate decades-old and outdated central government legislation and override the disparate and chaotic state government laws into a comprehensive set of legislation. Previously, companies with more than 100 workers required government permission to lay-off employees or close plants, now that cap has increased to 300. It requires unions to provide prior notice and attempt conciliation before strike actions. Some states, such as Rajasthan, implemented some elements of the labour laws in 2014 and have subsequently seen a significant pick-up in business investment and average employee numbers. These benefits should now spread to the rest of India.

Together with reforms, the continual spend on infrastructure is also accretive to growth. **Reliance Industries** was traditionally an oil refiner and petrochemical producer. In the last 10 years, it has managed to build the largest 4G network in India, growing its user base from zero to around 400 million in just four years.[4] It then embarked on an ambitious journey to link online and offline shops to Indian consumers via the smartphone. Facebook, Google and other US-based companies have recently invested billions of dollars in these assets. We added significantly to Reliance during the sell-off, before these tech giants invested in this highly prospective asset. Indeed, the Fund has lifted its net exposure to Indian equities from around 1% to around 9% over the quarter (as we reduced our shorts from 7% to zero), adding to strong businesses with solid balance sheets during the market volatility.

China has remained a contrarian but highly prospective investment opportunity. Geopolitics can be worrying and distracting. Ultimately, the Asia region is dynamic and its countries are responding to changing circumstances.

Recently, Chinese authorities have pivoted to a new direction, dubbed “Dual Circulation”. It is a development model that will tilt towards greater reliance on domestic sources for raw materials (food and energy for instance) and end markets (more domestic consumers rather than export markets). Exports are not currently a huge driver of the Chinese economy (contributing approximately 20% to China’s national output vs. 80% for domestic consumption and investment).[5] The intention of the reform process is to improve capital allocation to research and development, much-needed infrastructure, and the people, so that

4 Source: Reliance Industries.

5 Source: https://www.cia.gov/library/publications/resources/the-world-factbook/geos/ch.html

Net Currency Exposures

CURRENCY	30 SEP 2020	30 JUN 2020	30 SEP 2019
Chinese yuan (CNY)	48%	53%	39%
Korean won (KRW)	13%	12%	10%
Indian rupee (INR)	9%	1%	10%
Hong Kong dollar (HKD)	9%	9%	11%
Taiwan dollar (TWD)	7%	4%	5%
Chinese yuan offshore (CNH)	7%	0%	-24%
Vietnamese dong (VND)	3%	2%	3%
Thai baht (THB)	2%	2%	1%
Philippine peso (PHP)	1%	0%	3%
Macanese pataca (MOP)	1%	1%	0%
US dollar (USD)	0%	15%	41%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Taiwan Semiconductor	Taiwan	Info Technology	7.0%
Samsung Electronics Co	Korea	Info Technology	6.8%
Tencent Holdings	China	Comm Services	6.6%
Alibaba Group Holding	China	Cons Discretionary	4.4%
AIA Group Ltd	Hong Kong	Financials	4.2%
Ping An Insurance	China	Financials	3.4%
Huazhu Group ADR	China	Cons Discretionary	3.3%
LG Chem Ltd	Korea	Materials	3.0%
Li Ning Co Ltd	China	Cons Discretionary	3.0%
Reliance Industries Ltd	India	Energy	2.9%

As at 30 September 2020. 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.

productivity of the economy can be increased. Improving productivity will boost incomes and help realise the potential of its huge domestic consumer market.

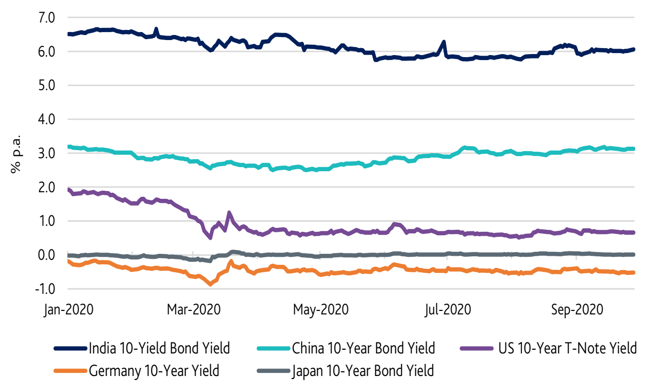
Wealthier consumers who spend more domestically can create long-term opportunities. The Chinese passion for spending on luxury handbags overseas is well known. Chinese consumers make up 30-40% of global luxury spend but most of this has occurred outside of China.[6] There is a significant change in consumer behaviour that is not being broadly recognised – luxury consumption is moving onshore to China. Product prices, which have traditionally been higher in China than overseas, have been coming down.[7] We expect domestic luxury sales in China will likely double in the next few years. Recent numbers reported from Tiffany, Gucci and LVMH are showing very strong sales in domestic China in recent months. They are running out of room in their shops and are asking for little back rooms to store their inventory.

As part of its reforms to improve capital allocation, China is reforming its financial markets to meet global best practice. China's bond market is already sizeable (~US$13 trillion).[8] Major global financial firms have established majority-owned offices in China in recent months, including S&P, Morgan Stanley, Goldman Sachs, JP Morgan, BlackRock and State Street. Various global bond indices have started including Chinese bonds, such as FTSE, Bloomberg and JP Morgan.

Given the lack of growth opportunities globally, Chinese financial assets (and to some extent, other Asian assets) that are hitherto under-owned may prove highly attractive, with Chinese government bonds offering significantly higher yields than those of most major economies (see Fig. 1), partly reflecting expected higher growth prospects. These opportunities, it appears, are simply too big to ignore.

Another element of the reform is China's commitment to having a net zero carbon output by 2050. This will translate to a significant reduction in the usage of fossil fuels, and a gargantuan deployment of alternative energy sources. As one of the world's largest industrial economies, this move, if it comes to fruition, is extremely meaningful in dealing with climate change. Of course, one side benefit for China will be a reduced reliance on imported oil and coal. As one of the world's lowest-cost producers of solar panels, wind turbines and batteries, its renewables industry is set to blossom, as it skyrockets from 15% to 75% of its total energy mix.

Fig. 1: China's 10-Year Bond Yields Are Attractive vs. Most Major Markets



Source: FactSet Research Systems, Platinum Investment Management Limited.

India, China and indeed the rest of Asia have more than four billion people. The region is dynamic. We have an opportunity to own companies that are leaders in their fields. They have invested billions of dollars in research and infrastructure over many years and as a result of the investment, they seize greater control over their destiny in these changing times.

Outlook

With the pandemic probably past its first innings, ongoing stimulus and a vaccine likely forthcoming, the question perhaps is where to from here?

Developed economies have spent a great deal of firepower on stimulus, further burdening the system's indebtedness. The economic recovery we are enjoying is unlikely to continue forever without a stronger dose of stimulus, which may not be as forthcoming as before.

The Fund's exposure has been pre-emptively reduced to take into account the possibility of a broader market consolidation. Economic prospects for the Asia region are, however, uniquely favourable. Reforms are taking place. The pandemic is well controlled. Stimulatory policies have thus far been limited and the local authorities will hence have significant flexibility on the policy front if needed.

It is an exciting time for stock investors like ourselves, as the combination of attractive valuations coincides with significant capacity for further stimulation in Asia. The Fund will continue to deploy capital in attractive and strong businesses that we believe are still under-appreciated by the markets.

6 Source: *China Luxury Report 2019*, McKinsey & Company, April 2019; *What's Powering China's Market for Luxury Goods?* Bain & Company.

7 *What's Powering China's Market for Luxury Goods?* Bain & Company.

8 Source: https://am.jpmorgan.com/au/en/asset-management/adv/insights/market-insights/market-bulletins/a-guide-to-the-chinese-fixed-income-markets/

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 net exposures to the relevant currencies through its long and short securities positions, cash at bank, cash payables and receivables, currency forwards and long and short securities/index derivative positions, as a percentage of its portfolio market value. Currency classifications for securities reflect the relevant local currencies of the relevant Bloomberg country classifications. 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 ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

Disclaimers

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