Platinum Asia Fund

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Portfolio Manager

Disposition of Assets

REGION	31 DEC 2017	30 SEP 2017	31 DEC 2016
China^	51%	54%	35%
Hong Kong	3%	3%	1%
Taiwan	2%	2%	3%
Korea	12%	10%	9%
India	10%	11%	17%
Thailand	4%	5%	7%
Philippines	3%	4%	4%
Vietnam	2%	3%	3%
Singapore	1%	1%	2%
Malaysia	<1%	1%	1%
Indonesia	<1%	<1%	<1%
Cash	11%	6%	18%

^ Inclusive of all China-based companies, both those listed on exchanges within China and those listed on exchanges outside of China.
Source: Platinum Investment Management Limited. See note 3, page 4.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China	IT	3.3%
Axis Bank Ltd	India	Financials	3.1%
Ping An Insurance Group	China	Financials	3.1%
Kasikornbank PCL	Thailand	Financials	2.9%
China Merchants Bank	China	Financials	2.9%
Tencent Holdings Ltd	China	IT	2.8%
Samsung Electronics	Korea	IT	2.7%
Ayala Land Inc	Philippines	Real Estate	2.5%
China Overseas Land & Invt	China	Real Estate	2.5%
Jiangsu Yanghe Brewery	China	Consumer Staples	2.4%

As at 31 December 2017.
Source: Platinum Investment Management Limited. See note 4, page 4.

Performance

(compound pa, to 31 December 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	9%	35%	11%	16%	16%
MSCI AC Asia ex Jp Index	9%	31%	12%	14%	11%

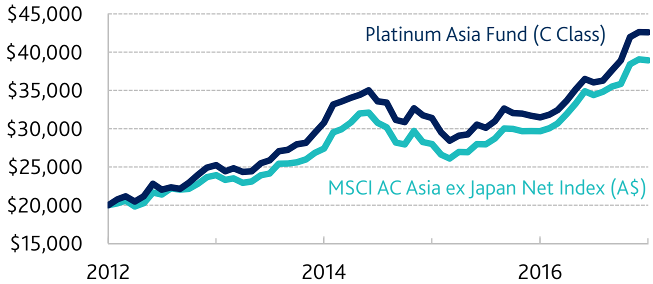
*C Class – standard fee option. Inception date: 4 March 2003.
Refer to note 1, page 4.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

The Fund (C Class) rose 9.5% over the quarter and 35.3% over the year. The MSCI Asia ex-Japan Index (in AUD) returned 8.6% and 31.2% over the same respective periods.

Markets across Asia took a slight breather to digest the gains from the last few quarters, nonetheless, still delivering positive performance. The Hong Kong market was up 6% (in local currency) and the domestic Chinese A share market was up 5%, as the market gradually starts to appreciate China's reform efforts. The Indian market rose 9% for the quarter (in local currency), as economic activity continues to pick up.

Value of $20,000 Invested Over Five Years

31 December 2012 to 31 December 2017



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

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

Our Chinese holdings made a significant contribution to performance. Strong companies positioned to service the burgeoning Chinese middle class consumers fared well, with China Merchants Bank (a premier retail bank) up 13% (H-share), Tencent up 21%, Jiangsu Yanghe (Chinese liquor producer) up 13%, and Midea (home appliance maker) up 25%. Healthcare stocks also performed well, with 3SBio (biologics company) up 22% and Shanghai Fosun Pharmaceutical Group (healthcare conglomerate) up 55% (H-share). Other strong performers include Tingyi (instant noodle maker) up 29%, BAIC (large auto maker with joint ventures with Mercedes and Hyundai, among others) up 37%, and Ping An Insurance up 29% (A-share). Elsewhere, banks across the Asian region are starting to pick up steam as economic recovery takes hold in India, Thailand and Korea.

Commentary

China

All eyes were on the Chinese National Congress during the quarter, which takes place once every five years. As per usual, Western press coverage focused on the consolidation of power and leadership succession plans (or, in this particular instance, the apparent lack thereof). While political intrigue may be of interest to some, what we are more interested in, as investors, is China's economic goal and the path it decides to adopt in order to reach it.

China's per capita GDP has grown from US$200 almost 40 years ago to US$8,500 today.[1] The "Reform and Opening-up" of its economy, coupled with the entrepreneurialism of its people, has already lifted hundreds of millions of people out of poverty. Deng Xiaoping's initial goal for the country in the 1980s was to grow the economy and ensure enough food and clothing for all. That goal was achieved within 10 years! His longer term goal was to achieve the level of prosperity of moderately developed countries by 2050.

In contrast, China's current leader, President Xi Jinping, appears more ambitious. He aims for China to become a "moderately prosperous society" by 2020 and a "modern socialist country" by 2035. The path which he laid out for China's development focuses on managing key risks, fighting poverty and pollution, and investing in technological innovation. We are pleased to find the Fund's China exposure broadly in sync with the direction the country is taking, with the major themes being consumption upgrade, robotics, fintech, healthcare and the emergence of industry champions.

1 Gross domestic product per capita, current prices (US$). Source: IMF, World Bank, The Guardian.

You may find our upbeat pitch at odds with much of what you have read and heard in the media about the 19th National Congress. Some suggested that President Xi wants to steer the country back to the old (and failed) planned economy. We find this unduly pessimistic. Given Xi's aspirations for the country and the fact that the country's prosperity today is indisputably the result of market-oriented reforms, why would he want to backtrack?

Speculations that economic activity would drastically slow down post the Congress also proved to be ill-founded. Rather, we are seeing construction activity rebounding, with new construction starts measured by floor area growing by nearly 19% in November from a year ago, after falling 4.3% in October.[2] (Remember, as we have written in previous reports, China's property demand in fact outweighs supply.) Building machinery and equipment sales were very robust, with November's excavator and truck crane sales jumping more than 100% year-on-year.[3] This is not to suggest that we expect a dramatic pick-up in activity, but rather, that investors should not let their judgment be clouded by exaggerated fear and bias so as to lose sight of the real opportunities on offer.

Vietnam & Thailand

Several members of our investment team took a field trip to Thailand and Vietnam in November, visiting a number of companies.

Vietnam's economic growth has been picking up pace, with its GDP running at more than 6% p.a. and income growing at more than 5% p.a.[4] The reality is perhaps more nuanced than these headline numbers reveal. Vietnam can be thought of as a dual-economy. There is an uncompetitive domestic economy which still employs many people and runs a trade deficit. The more interesting part is a very competitive, fast-growing export economy that has no debt and is generating a sizeable trade surplus with very high profitability. This is the result of improving infrastructure, cheap labour, and foreign investment from countries like South Korea and China where labour costs are higher and continue to rise. Samsung Electronics, for instances, accounts for some 25% of Vietnam's exports which grew close to 20% in the first nine months of 2017 from a year earlier while foreign direct investment rose more than 13%.[5]

We were able to identify several fast-growing, well-managed companies in Vietnam which have healthy balance sheets

2 Source: Reuters.

3 Source: CICC Research; Citigroup.

4 Source: World Bank.

5 Source: Bloomberg.

and are trading at attractive valuations. Vietnam's ongoing privatisation is not dissimilar to what some other Asian countries have undergone in the past where outsize returns were available to stock pickers who were willing to perform diligent investigation.

Coming to the second leg of our trip, the valuations of most Thai stocks are reasonable, but their growth prospects are understandably less exciting than those in less-developed Vietnam. This is also why Thai companies have been looking for foreign opportunities to grow and expand, mostly in the Indochina region (Vietnam, Laos and Cambodia). For example, ThaiBev recently paid US$5 billion to acquire a majority stake in Vietnam's largest brewer, outbidding Anheuser-Bush InBev and Kirin.

There has been little investment in infrastructure in Thailand since former Prime Minister Thaksin Shinawatra was ousted in 2006, owing in no small part to the fact that subsequent governments struggled to stay in power for more than two years and that they favoured populist shotgun policies that focused on boosting consumption. However, the current military government does seem to have a genuine interest in reform.

Investors are sceptical of whether the government's promised investments will materialise, but from our meetings with Thai companies we did see signs of change:

- We learned from contractors that the tendering process for some government mega-infrastructure projects is well underway. Businesses like Siam Cement (a major construction material producer) are making preparations to meet growing demand ahead.
- Big companies and foreign corporations are starting to invest more.
- Factory utilisation rates are picking up.
- Retail sales are starting to rise after prolonged stagnation.

The most puzzling observation from our trip was a paradoxical expectation by most managements that we met with in both countries that inflation and interest rates would remain low while hiring and retaining staff are becoming increasingly difficult. The former assumption is unlikely to hold if the latter continues.

Thailand's banking sector is in good shape. Thai banks have in recent years suffered from tepid loan growth, low interest rates which depressed margins, and ongoing provisioning charges for bad loans made half a decade ago. There are signs that all three metrics are beginning to improve as the economy steadies and gradually rebounds, which bodes well for our exposure to the Thai banking sector.

Changes to the Portfolio

The economic reforms that are taking place in China and India, together with the cyclical recovery across the Asian region, are producing rich pickings of investment ideas that are currently out of favour, hence cheap, but highly attractive over the longer term.

Given our Chinese stocks' strong performance over the past year, the Fund has trimmed some positions while deploying some of the cash to take advantage of the sectoral price weakness emanating from the excessive concerns over the slow-down of China's economy, mostly in the financials and other cyclical sectors.

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

Outlook

With the market having consolidated around the current levels, the outlook is perhaps becoming more sanguine. With an abundance of prospective ideas generated by the team, we are busy making risk-reward evaluations to prioritise the most attractive opportunities for the Fund.

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. 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 is 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 RIMES Technologies.

   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 fund over the specified five year period relative to the relevant 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. 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 exposure to physical holdings 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 positions (through physical holdings and long derivatives) 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 currency hedging.

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Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock performance are in local currency terms, unless otherwise specified.

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