Platinum Asia Fund

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Portfolio Manager

Performance

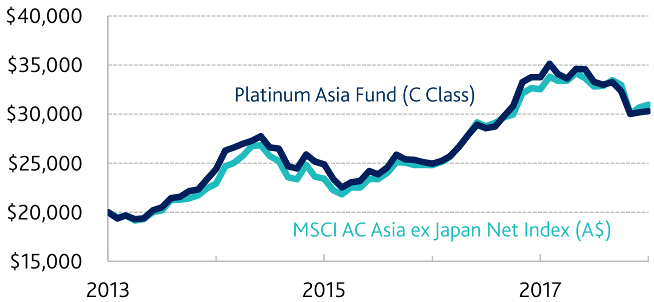
(compound pa, to 31 December 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	-6%	-10%	7%	9%	14%
MSCI AC Asia ex Jp Index^	-6%	-5%	10%	9%	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 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. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 December 2013 to 31 December 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.
See notes 1 & 2, page 5.

With a growing number of indicators pointing to a global economic slowdown and further US interest rate rises potentially on the horizon, this quarter was a difficult one for global markets with most major indices down significantly. Although generating a negative return in absolute terms, the Asia ex-Japan market outperformed the global index by 4% over the quarter,[1] suggesting that the Asian market may be close to bottoming, given the steep declines already experienced in the last 12 months.

In this difficult market environment, stocks that contributed positively to the Fund's performance this quarter largely consisted of sectors and companies with specific contrarian stories. One such example is Chinese real estate, a sector that had been out of favour with investors for some time but which performed particularly well this quarter, with China Overseas Land & Investment up 10% and Longfor Properties up 16%. Another area with positive return was Indian infrastructure, which benefited from the improved liquidity conditions in India's corporate bond market following additional cash injections by the Reserve Bank of India and a decline in oil prices. Adani Ports rose 18%, and IRB Infrastructure Developers was up 20%.

Cyclical companies and large cap stocks suffered as concerns of a global slowdown mounted. Samsung Electronics, Kasikornbank, Naver and Taiwan Semiconductor (TSMC) were key detractors.

Changes to the Portfolio

The Fund has a net invested position of around 70% as at the end of December, with a minimal exposure to the Australian Dollar. The prolonged market weakness has given us an opportunity to acquire some strong, growing businesses in the Asian region, some of which had previously been too expensive. As stock prices change, so does our opportunity set. We have and will continue to respond to market movements to optimise the portfolio.

We remain cognisant of the conditions in the world's major developed economies, particularly the US, which appear to have peaked in terms of growth and companies have started

1 The MSCI All Country Asia ex-Japan Net Index returned -8.9%, versus -12.5% by the MSCI All Country World Net Index (in local currency terms).

to downgrade their earnings estimates. However, while some developed market stocks have fallen, many continue to trade at elevated valuations, suggesting that further adjustments in stock prices may be yet to come. In contrast, the Asian ex-Japan markets have already seen extensive earnings downgrade and stock prices have adjusted significantly in response. The risk for us is that market volatility in developed economies may, in the near-term, continue to negatively impact the Asian markets and hence the Fund. We are therefore maintaining a conservative net exposure.

What we aim to do is to deploy cash into quality prospective businesses as the opportunity arises. This quarter, we made a number of new additions to the portfolio, including:

- **Hong Kong Exchanges & Clearing Ltd** – The operator of the Hong Kong Stock Exchange and the Hong Kong Futures Exchange has seen its share price suffer over the last year in a bear market. However, in our view, the company continues to have a distinct structural growth trajectory as an important conduit for China's capital markets. As China gradually opens up its financial markets (equities, bonds, commodities, currency) to foreign investors, the stock and futures exchanges of Hong Kong should see their securities and derivatives trading volumes expand enormously over the long-term. The recent market turbulence gave us an opportunity to buy this monopoly business on its trough valuation.
- **Sany Heavy Industry** – This company is China's champion in construction equipment manufacturing and a leading example of Chinese companies successfully climbing the technology ladder. It specialises in making high-quality excavators, cranes and concrete machinery, and its value-for-money proposition has enabled it to gain significant domestic market share. As Chinese authorities once again turn to infrastructure projects as one of the stimulatory measures to counter slowing economic growth, we think Sany will benefit.

On the short side, the Fund initiated several positions in the biotech and related areas during the quarter. While the Asian stock markets overall have been characterised by widespread sell-offs and deteriorating sentiment over the last year, investors crowding towards certain seemingly 'safe' sectors amidst a downturn has driven some overvalued companies to ever more excessive valuations. Some of the companies added to our short book are yet to turn a profit and, in our view, lack any compelling competitive advantages to justify their extravagant prices.

Commentary

This time last year, most major economies were tightening their monetary policy and markets felt bullish. What followed, however, were declines in one stock market after another. Today, sentiment is at the opposite end to where it

Disposition of Assets

REGION	31 DEC 2018	30 SEP 2018	31 DEC 2017
China^	33%	41%	51%
Hong Kong	4%	4%	3%
Taiwan	0%	2%	2%
India	16%	11%	10%
Korea	11%	13%	12%
Thailand	4%	5%	4%
Philippines	3%	2%	3%
Vietnam	2%	1%	2%
Malaysia	<1%	1%	<1%
Singapore	0%	1%	1%
Indonesia	0%	<1%	<1%
Cash	26%	19%	11%
Shorts	-4%	-1%	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 have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures ^

SECTOR	31 DEC 2018	30 SEP 2018	31 DEC 2017
Financials	21%	25%	21%
Communication Services	11%	13%	11%
Consumer Discretionary	9%	6%	14%
Industrials	8%	6%	8%
Energy	6%	10%	5%
Consumer Staples	5%	<0%	6%
Real Estate	4%	6%	6%
Information Technology	3%	6%	5%
Materials	2%	2%	6%
Other	2%	1%	1%
Utilities	1%	1%	2%
Health Care	-1%	4%	3%
TOTAL NET EXPOSURE	70%	80%	89%

^ A major GICS reclassification was implemented during the quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.

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

was a year ago – this quarter saw developed markets falling in the footsteps of emerging markets, and investors are generally bearish across global equity markets. There are, however, some signs suggesting that the Fed may slow its pace of interest rate hikes, and some countries, such as China, have started implementing stimulatory policy (albeit with moderate intensity). Against this backdrop, how should one position one's portfolio?

Let's first recap on how 2018 unfolded. At the beginning of the year China was booming, which gave the authorities an opportunity to tackle a difficult reform agenda – to clean up the shadow banking system. This led to a tightening in credit availability, some loan defaults, and a moderate slowdown in economic activity. Then, the US Federal Reserve lifted interest rates, which is generally seen as a negative for equity markets. Finally, we had the US-China trade war which escalated throughout the year.

Markets tumbled and investors lost confidence. The Chinese A-market fell 25% in 12 months or 45% from its peak in late January 2018. Things felt pretty bad.

Looking ahead, what is important to note is that Chinese authorities have realised that they had inadvertently over-tightened credit conditions and are now actively putting in loosening measures.

- The People's Bank of China (PBoC), China's central bank, cut banks' reserve requirement ratios four times in 2018 (and again in January 2019), to free up liquidity in the banking system. By October, the 1-month Shanghai Interbank Offered Rate (SHIBOR) had dropped to 2.7% from 4.7 % at the start of the year.
- The PBoC has also taken steps to encourage lending to private enterprises, including setting numerical targets as well as accepting additional debt to small and medium businesses as collateral when funding commercial banks.
- With greater funding being secured for approved projects, infrastructure spending has once again returned to positive growth after falling to negative territory in August.
- The Chinese government is also seeking to boost growth by lowering the tax burden for businesses and households. Income tax cuts and reduction in value-added tax (VAT, similar to GST) have been announced, which are estimated to exceed 1% of GDP.
- Government policy on the property market is also beginning to ease. Some regional government measures were so tight that families were only allowed to purchase one apartment, which must be owner-occupied and were prohibited from re-sale within three years. We are now beginning to see some municipal governments gradually loosening these restrictions.

Net Currency Exposures

CURRENCY	31 DEC 2018	30 SEP 2018	31 DEC 2017
US dollar (USD)	41%	17%	12%
Hong Kong dollar (HKD)	27%	27%	38%
Indian rupee (INR)	17%	15%	11%
Chinese yuan (CNY)	15%	15%	14%
Korean won (KRW)	10%	13%	12%
Thai baht (THB)	4%	5%	5%
Philippine piso (PHP)	3%	2%	3%
Vietnamese dong (VND)	2%	1%	2%
Australian dollar (AUD)	1%	2%	1%
Malaysian ringgit (MYR)	<1%	<1%	<1%
Taiwan new dollar (TWD)	0%	2%	2%
Chinese yuan offshore (CNH)	-20%	0%	0%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	3.7%
Tencent Holdings	China	Communication Services	3.1%
Kasikornbank PCL	Thailand	Financials	3.0%
Axis Bank Ltd	India	Financials	2.7%
Ayala Land Inc	Philippines	Real Estate	2.4%
Alibaba Group	China	Consumer Discretionary	2.4%
Naver Corporation	Korea	Communication Services	2.1%
Reliance Industries	India	Energy	2.0%
AIA Group	Hong Kong	Financials	2.0%
Anta Sports Products	China	Consumer Discretionary	2.0%

As at 31 December 2018. 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.

Chinese authorities have been very clear that their intention is to reverse the over-tightening caused by the credit reform efforts, not to massively stimulate growth, and that it would avoid piling on huge amounts of debt in the process.

The policy easing will likely have a stabilising effect on China's domestic economy. While it is early days to assess the impact, we have seen some anecdotal evidence of improving activity, such as a pick-up in construction machinery sales and utilisation rate towards the end of the year. What's more, the Chinese economy is still growing in excess of 6% in real terms despite the recent slowdown. Its banking system has cleaned up much of the off-balance sheet speculative lending and should be more resilient as a result. China's debt-to-GDP ratio has stopped growing for almost two years!

The long-term fundamental drivers propelling the region's growth remain present – investment in education and technology, and entrepreneurs exploiting new business opportunities.

With respect to trade, China has been proactive in its efforts to resolve the stand-off with the US, including by making concessions to meet US demands. It is actively encouraging foreign companies to invest in China without forming joint ventures with local partners, a former requirement that has been criticised as a means for Chinese companies to access Western companies' valuable know-how. The bastions of Western industries old and new have embraced the change and announced multi-billion dollar projects in China, all to be wholly owned by the foreign parent. German chemical giant BASF plans to build a US$10 billion plant in Guangdong province, ExxonMobil a US$10 billion petrochemical plant, and Tesla has commenced construction of its US$5 billion Gigafactory 3 in Shanghai. In insurance, Allianz and AXA are each forming wholly owned subsidiaries in China, for the first time. BMW is in the process of buying out its Chinese joint venture partner. Given China's little-publicised but significant opening-up efforts so far, it should not come as a surprise that President Trump agreed to a 3-month truce in the tariff war.

Since early 2018, stock valuations in the region have fallen a long way. Industry champions and quality companies are now trading on highly attractive valuations. Our team is devoting considerable time studying and gaining a deeper understanding of these companies.

Kweichow Moutai is the undisputed champion amongst Chinese white spirit (*baijiu*) companies. Demand for its premium products is so high that they frequently sell out and consumers have a hard time getting their hands on them. No other domestic liquor brand comes close to Moutai in terms of prestige or exclusivity. The brand only has a low single digit market share, thus has a lot of room for growth. We have owned Kweichow Moutai in the past and made handsome gains for the Fund in 2017, selling after its share price had had an impressive run. The stock is now trading on 16 times price-to-earnings (P/E) while seeing 20% growth in sales volume. We took this opportunity to re-introduce a position in the portfolio.

Anta Sports is one of China's most recognised domestic brands in sports apparel. Catching on the growing trend in fitness and leisure, the locals are taking up sports from soccer to running to skiing. Anta produces high quality products which are sold at more affordable prices than Western brands like Nike and Adidas. The company has well-executed marketing strategies, such as sponsoring various domestic sporting teams, including the Chinese National Olympic team. Anta is looking ahead. It is in the process of acquiring Finnish company Amer Sports, which owns brands such as Salomon, Peak Performance, Atomic Skis, Arc'teryx and Wilson. Amer's authentic brands and high performance products will appeal to China's increasingly sophisticated middle-class consumers, and it will also equip Anta with deeper operating know-how to compete in the sports apparel and equipment space. The company is seeing healthy growth and the stock is trading on 17x P/E. We added to our position during the recent sell-off.

Outlook

Some of the key concerns troubling the Asian markets are starting to ease. As most Asian countries rely on energy imports, a lower oil price is generally a positive for the region. Since there are now concerns of an economic slowdown facing both the US and China, the incentives to reach a trade deal have arguably increased for both sides. Finally, with growth slowing, we may see a pause in US interest rate hikes.

In spite of a turbulent 2018, we remain optimistic about Asia's long-term prospects. When the dust settles, China, or for that matter, Asia, is expected to continue to grow at a faster pace than most other economies. India offers many opportunities as its banking system has cleaned up and is ready to reboot. Korea still has strong industry champions like Samsung Electronics, which remains a key holding in the Fund and is on 6x P/E. Vietnam is attracting significant foreign investment, growing its exports at around 20% a year, and seeing its GDP grow at 6.8% a year. The Vietnamese stock market has sold off in the last nine months along with other emerging markets, throwing up a multitude of opportunities. There are companies with earnings growth of 20% and trading on single digit P/Es.

We have raised cash for the Fund, and will continue to deploy capital into quality companies with resilient characteristics.

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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