# Platinum Asia Fund

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Portfolio Manager

## Performance

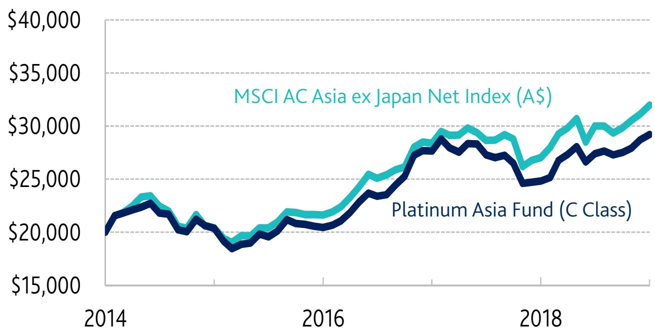
### (compound p.a.+, to 31 December 2019)

| | QUARTER | 1YR | 3YRS | 5YRS | SINCE INCEPTION |
|---|---|---|---|---|---|
| Platinum Asia Fund* | 6% | 18% | 13% | 8% | 14% |
| MSCI AC Asia ex Jp Index^ | 7% | 18% | 14% | 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

31 December 2014 to 31 December 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.

The Fund (C Class) returned 6.1% for the quarter and 17.6% for the year.

It was a stronger quarter in an otherwise lacklustre year for Asian markets. Given the attractive valuations in the region, a partial resolution of the trade dispute in mid-December was sufficient to prop up the equity markets.

An improvement in investor sentiment assisted the Fund's performance over the quarter with our fast-growing Chinese internet stocks making a positive contribution. Key contributors included **58.com** (classified advertising, +31% in local currency terms over the quarter), **Meituan Dianping** (food delivery, +27%), and **Alibaba** (e-commerce, +27%). Chinese property developers also performed well, benefiting from the incremental relaxation of the very strict property purchase policies. **China Jinmao** gained 35% and **China Overseas Land & Investment** rose 23%.

Elsewhere, with the arrival of 5G, semiconductor names continued to perform well. **Taiwan Semiconductor Manufacturing** (semiconductor foundry) and **Samsung Electronics** (DRAM) rose 22% and 14% respectively over the quarter. **Bharti Airtel** (Indian Telco) rose 24%, benefiting from an increase in mobile user tariffs (charges).

## Changes to the Portfolio

We added to our exposures in the region when opportunities presented themselves. The Fund's net invested position has risen from a low of 63% in May to 91% by the end of the December quarter.

We are particularly interested in companies that are investing in research and development (R&D) or infrastructure, and can set themselves apart from their competitors, gain market share and become industry champions in due course.

One such example is **Reliance Industries**, a new position in the Fund during the quarter. Based in India, its traditional business is in oil refining and petrochemicals. Over the last decade, it has invested ~US$45 billion to build a brand new pan-Indian 4G mobile network. Reliance started with zero customers and in just three years has accumulated 400 million users. It has become the dominant 4G operator in India and is still capturing the lion's share of new subscribers.

The company has very ambitious plans of being the dominant player in the cloud, internet and mobile payments businesses in India. Given its dynamic and capable management, and the nascency of these businesses in India, we believe it has incredible potential. Earnings growth is in its early stages and the stock is only trading on a price-to-earnings (P/E) multiple of 16x.

## Commentary

There were a number of topical issues during the quarter.

Firstly, the trade war that has plagued the Asian markets over the last 18 months is finally seeing some resolution. This is clearly a positive development as it reduces uncertainty (to some degree) in business decision making.

While welcomed, it may be too optimistic to assume this is a permanent end to the strategic competition between these two superpowers. Some of our readers may remember members of the US Congress using a sledgehammer to destroy a Toshiba radio on top of Capitol Hill in the late 1980s, when significant tariffs were levied on Japanese electronics and automobiles exports. The Japanese yen strengthened against the US dollar, reducing the competiveness of Japan's exports. Despite this, the Japanese economy continued to grow, and its stock market enjoyed a raging bull run, culminating in a bubble, which subsequently burst. This was a decade of intense trade friction between the US and Japan. Unlike Japan, the Chinese stock market is far from a being a bubble and we believe strong domestic businesses can do well even in the face of severe trade tensions.

Secondly, the Hong Kong protests continued throughout the quarter. From our perspective, the situation is complex and is most likely rooted in severe wealth disparity, lack of opportunities for the youth, and perhaps missteps made by the Hong Kong authorities in effectively dealing with the concerns of its people. As many of the issues are structural in nature, it is likely that the protests and unease will persist for some time, which will negatively impact Hong Kong's economic prospects, particularly in the tourism and retail trade sectors.

From an investment perspective, the impact is relatively minor. Hong Kong is only ~3% of the Chinese economy, and there is little prospect of the unrest spilling over to the mainland. We have no exposure to assets directly linked to the Hong Kong economy.

Often it is during these periods of turbulence and macroeconomic uncertainties that provide us with rare opportunities to acquire good and strong businesses at exceptional prices, for the longer term.

Despite these issues, Asian economies will continue to grow by simply catching up to the productivity levels of the more developed countries, to the point that they will be too big to ignore. For example, in 10 years' time, three Asian economies (China, India and Indonesia) will rank amongst the top five economies in the world in terms of economic output (i.e. gross domestic product).

### Disposition of Assets

| REGION | 31 DEC 2019 | 30 SEP 2019 | 31 DEC 2018 |
|---|---|---|---|
| China^ | 46% | 39% | 33% |
| Hong Kong | 9% | 7% | 4% |
| Taiwan | 7% | 5% | 0% |
| Korea | 11% | 10% | 11% |
| India | 11% | 10% | 16% |
| Thailand | 3% | 4% | 4% |
| Philippines | 3% | 3% | 3% |
| Vietnam | 3% | 3% | 2% |
| Cash | 8% | 20% | 26% |
| Shorts | -1% | -1% | -4% |

^ 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 | 31 DEC 2019 | 30 SEP 2019 | 31 DEC 2018 |
|---|---|---|---|
| Consumer Discretionary | 20% | 17% | 9% |
| Information Technology | 19% | 14% | 3% |
| Financials | 18% | 15% | 20% |
| Communication Services | 12% | 15% | 11% |
| Industrials | 6% | 5% | 8% |
| Real Estate | 6% | 5% | 5% |
| Energy | 3% | 1% | 6% |
| Health Care | 2% | 2% | -1% |
| Consumer Staples | 1% | 0% | 5% |
| Materials | 1% | 1% | 2% |
| Utilities | 0% | 1% | 1% |
| Other* | 3% | 3% | 2% |
| TOTAL NET EXPOSURE | 91% | 80% | 70% |

* Includes index shorts and other positions.
See note 4, page 5. Numerical figures have been subject to rounding.Source: Platinum Investment Management Limited.

The key focus for us, is to find domestically oriented companies that can effectively tap into the resilient growth trajectory. Below are the key themes and companies the Fund has exposure to.

**China** - We have exposure to the 'best-in-class' **life insurance** companies – AIA Group and Ping An Insurance. Life insurance in China is under penetrated, and the best players will take the lion's share of this growing market as people seek to protect their emerging wealth. For example, despite the concerns over China slowing down, AIA grew its Chinese business by about 40% in the first half of the year. Currently, AIA is only operating in four regions in China, and the opening up of the financial services sector will allow AIA to provide insurance cover for the entire Chinese market i.e. six times more people then they can currently sell their products to.

**Internet companies** - All of the internet companies that we are invested in are industry champions with large under-penetrated markets to tap into, which are growing by at least 20% p.a., for example:

- **Momo** – the 'Tinder of China' - is growing by 25% p.a. and trading on a P/E multiple of 12x .
- **Meituan Dianping** – the 'Uber Eats of China' – is growing by 40% p.a..
- **Trip.com** – the 'Bookings.com of China' – is growing by 20% p.a. (as it benefits from outbound tourism) and is trading on a P/E of 21x.

**Healthcare companies** – A range of innovative domestic companies are supplying, or seeking to supply, the latest in medical devices, immunotherapy and gene therapy in a grossly under-served Chinese market. Their products are world class – with some Chinese companies working with reputable Western companies, while others have acquired the necessary technologies or invested heavily in R&D. China has a long way to go to catch up to the level of healthcare provisioning required. The market is nascent. The ramp up of medical coverage will create an enormous market for those companies that have good products and are well positioned.

**India** – We have exposure to **telecom companies,** including Reliance Industries (mentioned above). Investment in telecom infrastructure is a 'game changer' in India. The problem has been that tariffs are too cheap – with customers paying just US$2 per month on average for unlimited access to the internet. The industry has consolidated with only three players left, and all of them are now raising prices. The impact will result in a drastic improvement in profitability, which should be favourable for the companies we are invested in.

## Net Currency Exposures

| CURRENCY | 31 DEC 2019 | 30 SEP 2019 | 31 DEC 2018 |
|---|---|---|---|
| US dollar (USD) | 37% | 57% | 41% |
| Hong Kong dollar (HKD) | 28% | 29% | 27% |
| Indian rupee (INR) | 11% | 10% | 17% |
| Korean won (KRW) | 11% | 10% | 10% |
| Chinese yuan (CNY) | 9% | 5% | 15% |
| Taiwan dollar (TWD) | 7% | 5% | 0% |
| Thai baht (THB) | 3% | 1% | 4% |
| Philippine peso (PHP) | 3% | 3% | 3% |
| Vietnamese dong (VND) | 3% | 3% | 2% |
| Australian dollar (AUD) | 0% | 0% | 1% |
| Chinese yuan offshore (CNH) | -12% | -24% | -20% |

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

## Top 10 Holdings

| COMPANY | COUNTRY | INDUSTRY | WEIGHT |
|---|---|---|---|
| Tencent Holdings | China | Comm Services | 6.0% |
| Alibaba Group Holding | China | Cons Discretionary | 5.7% |
| Samsung Electronics Co | Korea | Info Technology | 5.6% |
| AIA Group Ltd | Hong Kong | Financials | 4.9% |
| Taiwan Semiconductor | Taiwan | Info Technology | 4.7% |
| Midea Group | China | Cons Discretionary | 3.8% |
| Ping An Insurance | China | Financials | 3.5% |
| SK Hynix Inc | Korea | Info Technology | 3.4% |
| 58.com Inc | China | Comm Services | 3.0% |
| Reliance Industries Ltd | India | Energy | 3.0% |

As at 31 December 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.

**Korea** - We like **semiconductors**. There are three memory chip producers in the world and demand for these products continues to grow, especially with the advent of 5G, iPhone 11, Internet of Things (IoT) and the cloud. The industry had been over-supplied but has recently reduced its capacity. Trading on around 1.4x price-to-book (P/B), Samsung Electronics is set to grow its earnings by 30% p.a. for a few years – that's not even assuming enthusiastic memory prices, and it is trading on a P/E of only 13x. It is very attractively valued in this secular growth oligopolistic industry.

**Vietnam/Philippines** – These economies have been beneficiaries of the US-China trade dispute. Their incomes are still very low but growing and economic prospects are improving. We continue to hold a position in two Vietnam companies, Tech Comm Bank and Vietnam Enterprises, and two Philippines companies, Ayala Land and SM Investments.

## Outlook

The best predictor of returns is the starting valuation, and valuations in the Asian markets are very attractive with share prices weighed down by concerns over global economic prospects. Yet curiously, the fundamental drivers of economic development in Asia are, and continue to be, firmly entrenched in the region.

The markets are grappling with the gradual reconfiguration of the uni-polar world towards a multi-polar one, and this seismic change is understandably creating uncertainty in the markets. The most likely outcome is an inexorable rise of Asian economies encompassing not just China, but an amazing mix of diverse and dynamic economies like India and Asean economies, constraining and collaborating with one another. The region has more than half of the world's population, and their industrialisation will catch up with the developed countries. This will usher in a true realisation of the Asian century and we believe Asia's longer-term prospects look bright.

Regardless, the economic outlook has improved with a trade deal reached between the two superpowers, signs that global monetary policy loosening is having a positive effect on the global economy, and most importantly, leading economic indicators suggesting that the manufacturing slowdown has bottomed.

The easing of the uncertainty brought about by the trade dispute may reinvigorate economic activity. As the market is not positioned for a pick-up in activity, any upturn could surprise the market in terms of its magnitude and duration. We see this as a positive development for the region's attractively valued asset markets.

In Asia, we have been able to identify a large number of strong businesses with resilient characteristics that are cheap in absolute terms and relative to most other global markets.

Given the likelihood of improving economic prospects and extremely attractive valuations, the Fund 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 market value of the Fund's positions, the Fund's effective exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices. "Shorts" relates to the effective exposures to short securities and short securities/index derivative positions.

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



## MSCI Inc Disclaimer