Platinum Asia Fund

Andrew Clifford
Portfolio Manager*

Performance

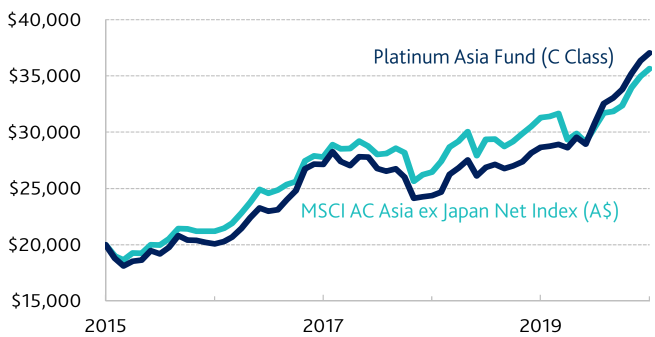
(compound p.a.+, to 31 December 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	10%	29%	11%	13%	15%
MSCI AC Asia ex Jp Index^	10%	14%	9%	12%	11%

+ 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

31 December 2015 to 31 December 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.

The Fund (C Class) returned 9.6% for the quarter and 29.3% for the year.[1]

The December quarter saw further clear evidence that the Chinese economy, and the global industrial economy, had returned to growth.

This has implications for the Fund's portfolio. Our tilt away from cyclical value paid handsomely for the last year, but a resumption of global industrial growth after years of trade wars and a pandemic requires a shift back toward more economically leveraged companies like banks and industrials. This shift comes at the expense of exposure to the Chinese tech giants Alibaba and Tencent, with the added catalyst of Chinese regulatory scrutiny.

Our holdings in semiconductor chip makers and related stocks performed well during the quarter, with **Samsung Electronics** (+39% for the quarter), **SK Hynix** (+41%) and **Taiwan Semiconductor Manufacturing** (+22%) all providing strong contributions to the Fund's performance.

The ongoing economic recovery in China helped our Chinese consumer-related holdings – sporting goods maker **Anta Sports Products** rallied strongly (+53%), as did home appliance manufacturer **Midea** (+36%).

Given increased regulatory scrutiny, **Alibaba** was a detractor from performance for the quarter (-21%). Fellow Chinese tech giant **Tencent**, while well down from its highs in November, was actually a contributor to performance over the quarter (+10%), given its strength in October and early November.

Energy-related holdings detracted from performance, with **CNOOC** (-19% from the Fund's entry point during the quarter) and **Reliance Industries** (-11%) key detractors.

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.

* Andrew Clifford is managing the Asia Fund following the recent departure of Joseph Lai at the end of December 2020. Andrew previously managed the Fund from 2003 until 2014. We will announce the internal replacement(s) shortly and investors will be notified with the issuance of a Supplementary Product Disclosure Statement.

Changes to the Portfolio

Given their strong performance in recent years and the current environment of increased regulatory scrutiny in China, we trimmed our holdings in both **Tencent** and **Alibaba** significantly during the quarter.

We also trimmed our holdings in semiconductor chip makers **SK Hynix** and **Samsung Electronics** given their significant share price rises over the quarter.

We added new holdings in two higher-quality Chinese banks (**Ping An Bank** and **China Merchants Bank**) and increased our holding in Indian bank **HDFC** during the quarter, as we pivot the portfolio toward more value and economically leveraged exposures.

Elsewhere, we initiated a holding in Chinese diesel and hydrogen engine maker **Weichai Power**, along with airline leasing company **BOC Aviation**.

Further context around current portfolio positioning is provided in the Commentary below.

Commentary

As noted above we sold down some of our largest holdings, particularly in the technology sector – including Tencent and Alibaba. We have been oriented toward best-in-class growth businesses in Asia for some time. We have been aware that this orientation would need to change to capture any genuine reflation rally as the global economy returns to life. The time to make this shift has arrived, we believe, with commodity prices, currencies and equity markets all signalling a shift toward value and economically leveraged assets.

A catalyst for action came on 10 November 2020, when China's State Administration for Market Regulation released draft antitrust rules. This followed a revision to anti-monopoly laws earlier this year that specified the monitoring of the impacts of internet companies on outcomes in markets in which they operate. Behaviour targeted by the draft regulation includes: predatory pricing practices; forced exclusivity to gain access to platforms; forced bundling of transactions; and price discrimination using data on individuals. Challengers like ele.me in food and JD.com in goods e-commerce may be advantaged at the cost of incumbents; but more broadly, many as-yet-unknown challengers could erode industry economics. We have no way of knowing whether these measures will be enforced, but we are inclined to take them seriously, hence our move to trim holdings in Chinese tech giants. The situation was further complicated in late December and early January by the possible disappearance of Alibaba founder Jack Ma.

The Trump administration continued its aggressive stance toward not just China but other exporting nations, launching an investigation into the trade practices of Vietnam during the quarter, with particular focus on whether the country is a currency manipulator. The aggressive and bilateral trade policy pursued by the Trump administration has reduced certainty for capital allocators in global supply lines: when Germany, Canada, Mexico, Vietnam, Japan and China have all been threatened with trade sanctions, it is difficult for businesses to know where to invest in global supply chains, particularly as such investments require many years to earn a return on capital. It is unsurprising in this context that we have been in an industrial recession globally for nearly three years, on our analysis.

Disposition of Assets

REGION	31 DEC 2020	30 SEP 2020	31 DEC 2019
China	45%	45%	45%
Korea	13%	13%	11%
India	8%	9%	11%
Hong Kong	7%	8%	9%
Taiwan	7%	9%	7%
Vietnam	3%	3%	3%
Philippines	2%	1%	3%
Thailand	2%	2%	3%
Singapore	1%	0%	0%
Macao	1%	1%	0%
Cash	12%	9%	8%
Shorts	0%	-4%	-1%

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

Net Sector Exposures

SECTOR	31 DEC 2020	30 SEP 2020	31 DEC 2019
Information Technology	22%	23%	19%
Consumer Discretionary	21%	26%	20%
Financials	15%	11%	18%
Communication Services	7%	10%	12%
Industrials	6%	3%	6%
Real Estate	5%	5%	6%
Materials	3%	3%	1%
Energy	3%	3%	3%
Consumer Staples	2%	3%	1%
Health Care	1%	1%	2%
Utilities	0%	0%	0%
Other	3%	-2%	3%
TOTAL NET EXPOSURE	88%	86%	91%

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

We think the evidence is plain that the global industrial economy, and China in particular, are once again growing. China's manufacturing Purchasing Managers' Index (PMI) readings indicate an economy in solid expansion, with readings above 50 since the significant decline in the PMI in March 2020 due to the impact of COVID-19. Moreover, there has been some mild reacceleration since May 2020. Evidence of a strong industrial recovery is apparent globally. Domestic Chinese metallurgical coal prices are near four-year highs; global steel prices are surging – for instance US hot rolled coil prices are at their highest levels since 2018 and Japanese steel prices rose in November for the first time in 29 months; Shanghai Futures Exchange copper inventories are at their lowest levels since 2014; and London Metal Exchange copper prices are near eight-year highs. Moreover, there have been confirming moves in Asia's key trade-related currencies – with the Korean won and Chinese yuan both reaching two-year highs against the US dollar during the December quarter.[2]

Amid this industrial recovery, our quality cyclical exposures in China continue to perform well. As mentioned above, we added **Weichai Power** over the quarter, a leading heavy-duty truck (HDT) engine maker in China. China's HDT recovery is helped by China's upgrade of emission standards and saw 35% p.a. unit growth in the first eleven months of 2020 versus the prior period in 2019.[3]

We have memory exposure through the oligopolistic DRAM makers **Samsung Electronics** and **SK Hynix**. They have shown willingness to reduce capacity by converting excess DRAM capacity to image sensors, and DRAM prices are starting to rebound. Their capacity expansion in coming years also appears highly rational, pointing to further support in memory prices. For Samsung, it is also the beneficiary of Huawei sanctions, as its telco business has been taking market share in the USA with the recent US$6.65 billion deal to build Verizon's 5G network.

We continue to own **Taiwan Semiconductor Manufacturing** (TSMC) alongside Samsung to benefit from the oligopolistic structure of the advanced node semiconductor foundry industry. Both Samsung and TSMC are investing heavily to widen the gap with contenders. In addition, they are benefiting from more companies choosing to bring chip design in-house e.g. Apple with their M1 chip and Amazon with their Graviton cloud computing chip. Further, TSMC is benefiting from the widespread chip shortage as global supply chains restock inventories. As a result, the utilisation for TSMC's highly profitable mature node production line is expected to remain high from the strong demand overflow in the second half of 2020.

In India, the central government introduced further initiatives to promote investment in local manufacturing under its "Make in India" agenda. Prior "Production Linked Incentives" (PLI) were expanded from mobile phone assembly, medical devices and bulk drugs to include a further 10 sectors - automobiles, electric vehicle (EV) batteries, complex pharmaceuticals, telecom equipment, textiles, food products, speciality steel, white goods, electronic products and solar photovoltaic (PV) modules. We are yet to see large capital expenditure (capex) commitments to take advantage of the support for medical devices or bulk drugs. If the full US$20 billion new PLI package was taken up over five years this would equate to 6% of current Indian gross domestic product (GDP). Manufacturing only represents 15% of Indian GDP, employing 12% of the country's labour force, so this would be a meaningful increase. India's economy is dominated by services (50%) and, while the agriculture sector employs 42% of the labour force, it only contributed 16% of India's GDP in 2019. Such policies support the Fund's investment in leading manufacturing businesses such as **Maruti Suzuki India**, which is progressively scaling up exports from new production facilities in Gujarat.[4]

2 Source: PMI: FactSet Research Systems; Industrial recovery: BMO; Commodity prices: Bloomberg; Korean won and China yuan: FactSet Research Systems.

3 Source: Morgan Stanley.

4 Source: Citi, government releases, https://www.makeinindia.com/schemes-for-electronics-manufacturing-in-india#:~:text=The%20Production%20Linked%20Incentive%20(PLI,and%20Packaging%20(ATMP)%20units.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	Info Technology	6.7%
Taiwan Semiconductor	Taiwan	Info Technology	6.0%
AIA Group Ltd	Hong Kong	Financials	4.0%
Tencent Holdings	China	Comm Services	3.7%
SK Hynix Inc	Korea	Info Technology	3.4%
Ping An Insurance	China	Financials	3.0%
Kingsoft Corp Ltd	China	Info Technology	3.0%
LG Chem Ltd	Korea	Materials	2.9%
HDFC Bank	India	Financials	2.8%
Midea Group	China	Cons Discretionary	2.6%

As at 31 December 2020. See note 5, 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.

Another prevailing theme across the Indian market has been the recovery of the banking sector, which has outperformed the Nifty 50 Index by 19% over the last three months.[5] Despite ballooning COVID-19 cases, one of the most severe lockdowns globally, unprecedented economic contraction (-23.9% in the second quarter and -7.5% in the third quarter[6]) and a Reserve Bank of India (RBI)-mandated moratorium on loan repayments (which according to the RBI saw as much as 40% of outstanding loans in the system in deferral at its peak in mid-August), the early signs appear encouraging after the second moratorium was lifted. Banks raised more than US$10 billion in fresh equity to improve capital adequacy in a timely manner and the RBI's Emergency Credit Line Guarantee Scheme (ECLGS) has provided support to the fragile micro, small and medium enterprise (MSME) sector. Following the lifting of the moratorium, collection efficiency has improved to as high as 97% for HDFC Bank, as high as 95% for the more cyclical commercial vehicle market and has remained largely stable for the last three months.

Given the moratorium and the RBI's allowance of one-time restructuring of loans under COVID-induced stress by March 2021, data is yet to reflect stress in terms of an increase in gross non-performing assets. What in hindsight appears a conservative stress test, in its mid-year Financial Stability Report the RBI estimated system gross non-performing assets could increase from 8.5% in March 2020 to 12.5-14.7% by March 2021.[7] Rating agency estimates of loans to be restructured at 5-8% appear conservative compared to initial commentary from individual lenders at 3-5%. For the larger private lenders, such as HDFC Bank, consensus is moving lower towards 2% of assets to be restructured.

The December quarter reporting period will shed more light on credit slippage, restructuring and ultimate credit costs. Nonetheless, many of the leading private banks have emerged from the crisis stronger, with strong liquidity and excess provisioning, and are now refocusing on loan growth, supported by lower funding costs. HDFC reported a 20% year-on-year increase in retail mortgage disbursements in October, which likely reflects pent-up demand due to challenges with credit evaluation at branches during the lockdown as well as a buoyant festive season. While system credit growth has been relatively poor over the immediate years prior to COVID-19, the long-term case for well-run private banks that have appropriately invested in digital platforms remains intact. India still remains a largely under-banked retail market with the penetration of mortgages at less than 10% versus 60-70% in Western markets.[8] As a result, the Fund increased its position in leading Indian bank **HDFC** during the quarter.

The Fund has been well-positioned for the recovery underway in air traffic and progress surrounding vaccine development, with investments in a high-quality online travel agent (OTA) in China, **Trip.com**, a locally dominant and well-capitalised airline in India, **InterGlobe Aviation** and a Chinese hotel group, **Huazhu**. During the quarter, the Fund invested in **BOC Aviation (BOCA),** a top 10 global aircraft lessor. BOCA has a 27-year track record leasing aircraft, originally as a subsidiary within Singapore Airlines and more recently under the ownership of Bank of China. BOCA has one of the longest duration lease portfolios among lessors with an average lease term of 8.5 years with only 2% of leases expiring in each of 2021 and 2022.[9] Its average fleet age is only 3.5 years with a skew towards in-demand narrow body aircraft. BOCA has taken advantage of its A- credit rating and Bank of China parent support to countercyclically increase its asset portfolio at a time where funding options have narrowed for competitors and airlines that had previously funded aircraft via their own balance sheets are forced to turn to the lease market. BOCA's ability to secure higher-returning purchase and leaseback transactions with higher-quality customers, coupled with competitive funding costs, in our view should translate to solid net interest margin growth after 2021, as credit costs normalise.

Outlook

We believe that with a lessening of global trade tensions and the distribution of vaccines over the course of 2021, we are likely to see an ongoing global recovery. We would highlight that the strong data, commodity price and currency movements cited above come amid ongoing lockdowns and disruption in major economies, both in Asia and globally, and the recovery cited is likely to gain momentum as major economies emerge from these disruptions. We are likely to continue to pivot the portfolio toward more value and economically sensitive exposures, such as industrials and financials, with a view to the potential for a robust synchronous recovery globally.

5 Source: FactSet Research Systems, Platinum analysis.

6 Source: FactSet Research Systems.

7 Source: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50122

8 Source: HDFC corporate presentation.

9 Source: BOCA corporate presentation.

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 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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