Platinum Asia Fund

Andrew Clifford
Portfolio Manager

Cameron Robertson
Portfolio Manager

Performance

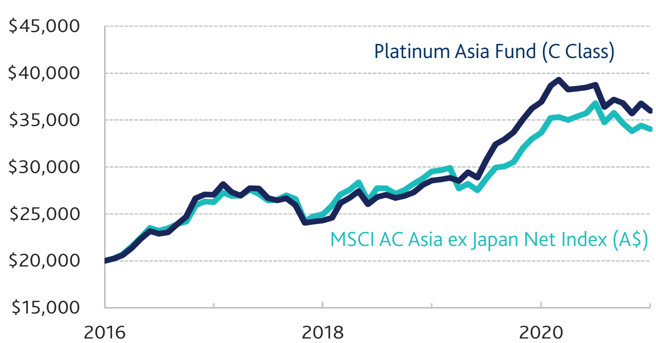
(compound p.a.+, to 31 December 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	-2%	-3%	14%	12%	14%
MSCI AC Asia ex Jp Index^	-2%	1%	11%	11%	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

31 December 2016 to 31 December 2021



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 -2.2% for the quarter and -2.5% for the year.[1]

Most major markets across the region were flat to down during the quarter, with Chinese-related stocks in particular continuing to decline, reflecting poor investor sentiment towards the country.

Our semiconductor holdings **SK Hynix** (+27%), **Taiwan Semiconductor Manufacturing** (+6%) and **Samsung Electronics** (+6%) all provided a positive contribution to the Fund's performance during the quarter. Demand for their products remains strong across a broad range of end markets, while industry supply has been constrained for a range of reasons, including pandemic-related disruptions. Expectations are increasingly reflecting this tight supply/demand outlook across most advanced semiconductors and the share prices have been adjusting to reflect this.

Leader Harmonious Drive (+29%), a smaller position that was added to the portfolio in 2021, continues to execute well on their mission and are seeing those efforts rewarded by the market. Leader Harmonious Drive is the Chinese domestic champion in producing strain wave gears, a small but profitable niche component in the robotics industry. During the quarter, the business grew in excess of 100% and profitability was strong, exceeding market expectations.

Longshine Technology (+43%), another recent smaller addition to the portfolio, also had a good quarter. This company provides software for utilities, particularly billing software for electric utilities. Investors have increasingly recognised the bright outlook for improved billing systems, the adoption of which is a necessary step in China transitioning to market-based electricity pricing and helping with the increasingly tricky task of balancing loads in an intermittent supply world, arising from the greater use of renewable power sources. It appears there has also been growing market enthusiasm for Longshine's electric vehicle charging platform, although the reality is that this is likely to remain only a small part of their business over the near to medium term.

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.

Turning to the weaker performers in the quarter, travel-exposed companies like hotel and flight booking portal **Trip.com** (-20%) and the hotel chain **Huazhu** (-19%), were impacted by the resurgence in COVID case numbers and subsequent lockdowns, leading to reduced growth expectations and lower share prices.

Alibaba's share price also declined during the quarter (-16%). China's e-commerce landscape has been maturing, with the attendant lower growth rates, while competition has increased. Alibaba has had to adapt their business practices after a run-in with the regulator, and with this backdrop, in an attempt to re-accelerate growth, has decided to reduce the fees charged to merchants and invest in new growth avenues, hoping that by reducing profits in the short term they can strengthen their longer-term positioning. The market has focused on the certainty of lower near-term profits, over the as-yet uncertain potential longer-term gains, hence the resultant decline in the share price.

Electric vehicle battery manufacturer, **LG Chem** (-21%), also saw its share price decline during the quarter. They suffered manufacturing quality issues, leading to a product recall for the GM Bolt vehicle platform, as well as general industry headwinds arising from lower car production volumes due to semiconductor shortages, and cyclically lower margins in some of their chemical businesses. At this point, the manufacturing issues leading to that recall appear to be resolved and the recall has been fully provisioned for. Meanwhile, the battery business has been partially listed in the hope that will help highlight the value of those assets on a standalone basis.

Our short positions were fairly small during the quarter and their contribution to performance was negligible.

The Australian dollar (AUD) strengthened modestly during the quarter, presenting a slight headwind to AUD reported performance.

Changes to the Portfolio

During the quarter, we bought a small position in **Estun Automation**. This family-owned and run business has, through a series of small smart acquisitions, built themselves to be a leader in industrial robotics, motion control and welding. The company is taking market share in growing markets, with automation becoming increasingly necessary as populations age and labour costs rise, while they cement their competitive positioning through extensive vertical integration and a lower cost structure. While their robots are used in a broad range of end markets, solar cells and battery manufacturing are two examples of areas where they have particular strength. Estun has been on our radar for a while, but had been trading at levels we were unwilling to pay. Fortunately for us, however, a brief down-cycle in end market demand led to a sell-off in the shares, affording us the opportunity to establish a small position.

We sold out of our position in **CITIC**. Having booked a healthy gain in a relatively short space of time, and in light of some questions we had around certain financial exposures of the group, we felt it was an opportune time to sell. We also sold our remaining small position in the power semiconductor company, **StarPower Semiconductor**, following a strong share price run, taking it to a level we felt was an overly demanding valuation.

Disposition of Assets

REGION	31 DEC 2021	30 SEP 2021	31 DEC 2020
China	45%	48%	45%
India	11%	10%	8%
South Korea	10%	9%	13%
Hong Kong	6%	7%	7%
Taiwan	6%	6%	7%
Vietnam	6%	5%	3%
Philippines	2%	2%	2%
Macao	1%	1%	1%
Singapore	1%	1%	1%
Thailand	0%	0%	2%
Cash	12%	11%	12%
Shorts	-1%	0%	0%

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

Net Sector Exposures

SECTOR	31 DEC 2021	30 SEP 2021	31 DEC 2020
Consumer Discretionary	18%	20%	21%
Information Technology	16%	14%	22%
Financials	14%	15%	15%
Industrials	13%	14%	6%
Real Estate	10%	10%	5%
Other	4%	4%	3%
Communication Services	4%	4%	7%
Materials	3%	4%	3%
Consumer Staples	3%	2%	2%
Health Care	1%	2%	1%
Energy	0%	0%	3%
TOTAL NET EXPOSURE	87%	89%	88%

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

We continued reducing our exposure to sportswear and fashion brand **Li Ning**. This has been an extremely strong performer for the Fund over the past few years, having gone from a lesser-known domestic Chinese brand with an interesting brand heritage, to now being seen on fashion runways around the world and having become an investor favourite trading at a much richer multiple of far higher earnings than when we first purchased our shares. We also continued trimming our position in **Anta Sportwear Products**, another similarly strong performer over recent years, which has seen its shares re-rated dramatically and now prices in a considerably rosier future.

China Merchants Bank was another stock we reduced. The shares of this bank have held up much better than others in the sector, and while still appearing to be well positioned, trades at a substantial premium valuation. This comes at a time when there are some modest concerns about the value of assets sitting on balance sheets across the sector. Hence, we felt it prudent to trim our holding.

Commentary

While **China** continues to capture the bulk of headlines and is still a source of significant concern for many, it feels as though there is little new fuel being added to the fire and some of those concerns may be starting to fade. In the middle of 2021, there was a widespread fixation with the risks emanating from the property developers, and there was a palpable fear from many that the sector was going to imminently implode and take down China's banking system with it. So far, however, the unwind of overindebted developers continues in a relatively orderly fashion, which in our view has always been, and remains, the most likely outcome. While system-wide debt levels are still being constrained, there has been targeted easing, with allowances made for the better-capitalised property developers to once again have greater access to markets, and in certain regions we are seeing a loosening of mortgage availability. Some of the broader concerns had spilled over into other sectors and resulted in a mild economic slowdown. However, we are starting to see some signs of stabilisation there as well, with industrial output rising in November and services output increasing in the December quarter. Even construction materials and residential property sales showed the first signs of possible stabilisation, and while it may yet be too early to call the bottom, the rate of change has been improving. Investors may take some comfort in noting that our holdings in higher-quality and less-indebted property developers held up reasonably well in the December quarter, despite the ongoing sell-off in the Chinese equity market. Perhaps this serves as a good reminder that, as a general rule, by the time an issue is being splashed across the newspaper headlines, the stock market has often already moved. We aren't out of the woods yet, risks remain and we continue to monitor it closely, but the trajectory so far seems consistent with an orderly and reasonable outcome.

Turning to **India**, during the quarter we saw the reversal of some previous agricultural reforms, which had proven unpopular with farmers, in the face of upcoming state elections. While the government may be slightly less confident in their popularity, there are still signs of ongoing reform. For example, they recently privatised the national airline, Air India, which is India's first privatisation in 17 years. Next in focus will be the upcoming power sector reforms, which should help improve energy distribution efficiency and reduce theft.

On the company specific front, it was interesting to see **Tencent** announcing plans to distribute the majority of its shareholding in e-commerce company **JD.com** to Tencent shareholders. It's fairly unusual to see Tencent dispose of major strategic holdings like this, and as such, the action has sparked speculation whether it may be a pre-emptive regulatory-driven move so that they aren't seen to be cooperating to the detriment of fair market competition, or whether it could be the first step in a broad effort to cash out and distribute some of the significant value tied up in Tencent's ~US$200 billion investment portfolio. To date, the companies are suggesting they remain on good terms, and both are largely independent at this point. It has been framed as simply being the right time to distribute that value given JD.com is now mature and no longer needs any financing or support. The President of Tencent, Martin Lau, is also stepping down from the JD.com board. Since that distribution was announced, Tencent further stated they will be modestly reducing their stake in Sea Ltd, selling down ~US$3 billion worth of shares. Meanwhile, Alibaba is also reportedly in talks to sell its stake in "China's Twitter", Weibo. Tencent's investment holdings account for 30%+ of the value of Tencent shares, so if these actions are part of a broader move to disband its competing ecosystems, it could result in a not insignificant realisation of value.

While we're talking about Tencent, one of their subsidiaries, Riot Games, operates what is arguably the world's largest eSport's event, League of Legends world championships. This year's event took place during the quarter and garnered a record peak live audience of nearly 74 million concurrent viewers, up ~60% on the prior year, showing that interest in eSports continues to grow.[2]

2 Source: https://www.sportsbusinessjournal.com/Esports/Sections/Media/2021/11/Worlds-2021-Finals-AMA.aspx

Within the computer game sector there appears to be an emerging use for blockchain, whereby games operate under a model called “play-to-earn” or “play-and-earn”. In this model, the game developer launches their own cryptocurrency alongside a computer game, and the cryptocurrency can be exchanged for in-game items. Players wanting a more powerful character can buy the cryptocurrency and get in-game items, or the process can work in reverse whereby players can essentially earn cryptocurrency through gameplay, which can then be sold to other players who are less patient.

A Vietnamese game developer seems to be currently operating one of the largest of these “play-to-earn” games, and a listed Korean game developer is also actively participating in the space. It appears to be an interesting model to drive user acquisition, as players can have a monetary incentive to encourage their friends to play the same game as them. This business model does have a couple of variations, some strike us as interesting innovations, others appear to have a more Ponzi-scheme nature to them, nevertheless it is an interesting trend to follow.

Outlook

As always, there remains some risks and uncertainties, but we feel we are still able to find compelling new opportunities for the portfolio. The shorter-term economic picture is not entirely clear, but it is clear that opportunities still abound for the more entrepreneurial management teams across the region. At the risk of being repetitive, similar to last quarter, we continue to believe the current valuations across much of Asia ex-Japan are undemanding and should serve as a reasonably attractive level for longer-term investors.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Taiwan Semiconductor	Taiwan	Info Technology	5.5%
Samsung Electronics Co	South Korea	Info Technology	5.1%
Vietnam Ent Investments	Vietnam	Other	4.1%
Tencent Holdings Ltd	China	Comm Services	4.1%
InterGlobe Aviation Ltd	India	Industrials	3.7%
ZTO Express Cayman Inc	China	Industrials	3.5%
SK Hynix Inc	South Korea	Info Technology	3.4%
Ping An Insurance Group	China	Financials	3.4%
Weichai Power Co Ltd	China	Industrials	3.3%
Alibaba Group Holding	China	Cons Discretionary	2.9%

As at 31 December 2021. See note 5, page 44.
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.

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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