



# Platinum Asia Fund

(Quoted Managed Hedge Fund) - ASX: PAXX

31 December 2019

## Facts

Portfolio value	\$153.56 mn
Fund commenced	12 September 2017
Fund launch	14 September 2017
Income distribution date	Annual, 30 June
Unit valuation	Sydney Business Day
Net Asset Value (\$ per unit)	\$4.4955

## Fees

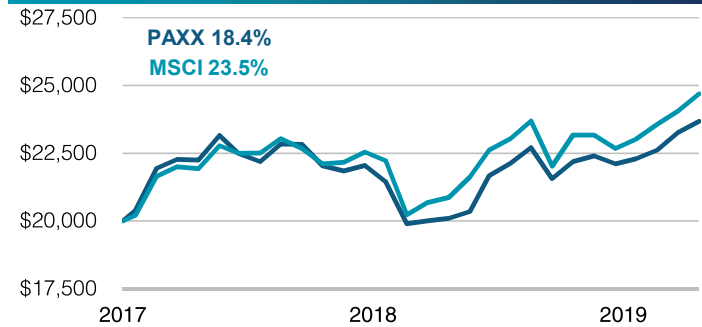
Entry fee	Nil
Buy/sell spread	0.20%/0.20%
(Platinum Asia Fund)	
Fee:	Investment Management 1.10% p.a. Investment Performance 15.00% p.a.

## Performance <sup>1</sup>

	Fund %	MSCI %
1 month	1.77	2.63
3 months	6.19	7.25
6 months	6.74	6.57
Calendar year to date	17.82	18.35
1 year	17.82	18.35
2 years (compound pa)	3.17	6.11
Since inception (compound pa)	7.61	9.59

\*of the amount by which the Fund's return exceeds its index return

## Performance graph <sup>2</sup>



## Invested positions of Platinum Asia Fund <sup>3</sup>

	Long %	Short %	Net %	Currency %
<b>Asia-Pacific</b>	<b>92.1</b>	<b>(0.8)</b>	<b>91.3</b>	<b>62.8</b>
China	8.6		8.6	8.6
China Ex PRC	37.1		37.1	
Hong Kong	8.7	(0.8)	7.9	27.9
Taiwan	6.7		6.7	6.8
India	10.7		10.7	11.0
Korea	11.0		11.0	11.0
Malaysia	0.4		0.4	0.4
Philippines	2.8		2.8	2.8
Thailand	3.4		3.4	3.4
Vietnam	2.6		2.6	2.6
China Renminbi Off Shore				(11.8)
<b>North America</b>				<b>37.1</b>
United States Dollar				37.1
<b>Europe</b>				<b>0.1</b>
UK Pound Sterling				0.1
<b>Sub-Total</b>	<b>92.1</b>	<b>(0.8)</b>	<b>91.3</b>	<b>100.0</b>
<b>Cash</b>	<b>7.9</b>		<b>8.7</b>	
<b>Total</b>	<b>100.0</b>		<b>100.0</b>	<b>100.0</b>

Long - 54 stocks Short - 1 swap

## Top ten positions of Platinum Asia Fund <sup>4</sup>

Stock	Country	Industry	%
Tencent Holdings	China	Comm Services	6.0
Alibaba Group Holding Ltd	China	Cons Discretionary	5.7
Samsung Electronics Co Ltd	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
<b>Total</b>			<b>43.5</b>

## Industry breakdown of Platinum Asia Fund <sup>3</sup>

Sector	Long %	Short %	Net %
Consumer Discretionary	20.4		20.4
Info Technology	18.6		18.6
Financials	17.9		17.9
Communication Services	12.3		12.3
Industrials	5.9		5.9
Real Estate	5.6		5.6
Energy	3.0		3.0
Other	2.6		2.6
Health Care	2.2		2.2
Consumer Staples	2.1	(0.8)	1.3
Materials	0.9		0.9
Utilities	0.5		0.5

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1. & 2. Source: Platinum for Fund returns and Factset Research Systems for MSCI returns. Investment returns are calculated using the Fund's NAV unit price (i.e. exclude a buy/sell spread), and represent the combined income and capital returns in the specified period. All returns are pre-tax, net of fees (including any accrued performance fee) and costs and assume the reinvestment of distributions. The returns are calculated relative to the MSCI All Country Asia ex-Japan Net Index in A\$. The investment returns depicted in the graph are cumulative on A\$20,000 invested in the Fund since inception. Past performance is not a reliable indicator of future returns. Platinum does not invest by reference to the weightings of the index. The index is provided as a reference only.

3. The "Long %" is the exposure to long securities and long securities/index derivative positions, the "Short %" is the exposure to short securities and short securities/index derivative positions and the "Net %" is the exposure to long and short securities and long and short securities/index derivative positions, each as a percentage of the market value of Platinum Asia Fund's ("PAF's") portfolio. The "Currency %" is the effective currency exposure of PAF's portfolio as a percentage of the market value of its portfolio, taking into account long and short securities, cash, forwards and long and short securities/index derivative positions. For the "Industry breakdown", 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".

3. and 4. China generally refers to securities or derivatives over securities, which securities are listed on the Shanghai or Shenzhen stock exchange. China Ex PRC generally refers to securities or derivatives over securities, which securities are listed outside of the PRC but provide exposure to PRC companies.

4. The "Top ten positions" show PAF's top ten long securities positions as a percentage of the market value of PAF's portfolio (including long securities and long securities derivative positions).

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This commentary relates to the underlying fund, the Platinum Asia Fund.

- December saw Asian markets outperform, possibly on relief around trade.
- Valuations remain attractive in the region after two years of underperformance versus the rest of the world – see Chart 1.
- Issues remain, but we expect Asia’s growth to remain resilient over the long-term.

December saw ongoing strong performance for the fund and Asian markets in general, as fears regarding trade tension were quashed by an apparent “phase one” resolution in early December. This news came against a background of global monetary easing and US Treasury deficits effectively being monetised by the Federal Reserve via large repurchase operations and quantitative easing in all but name. The combination of all this has encouraged strong asset price performance globally over 2019. That said, the US dollar remains strong, precluding the kind of outperformance of emerging markets in general, and Asia in particular, seen in the early 2000’s and in 2017. In this environment, where growth is hard won, we are hewing to quality companies which can grow, while seeking to avoid valuation extremes.

Over the month we added to SK Hynix, one of three dominant memory chipmakers globally. While semiconductor chips remain a cyclical business, this industry is now an oligopoly in both DRAM (for computer operating systems) and NAND (for phones) – see Chart 2 and Chart 3. In DRAM there are three dominant producers, in NAND memory there are five. Ongoing content growth due to streaming services, e-commerce, artificial intelligence and the advent of 5G give us confidence that the long-term growth outlook for semiconductor chips is strong. Samsung, the largest producer of DRAM and NAND globally, is also a major holding in the fund (Source: company filings).

With the imminent release of 5G phones we think that smart phone sales may reaccelerate as consumers seek to replace handsets in order to benefit from greater speeds and functionality. With that in mind we initiated a position in a handset component maker during the month, which we are still building a position in.

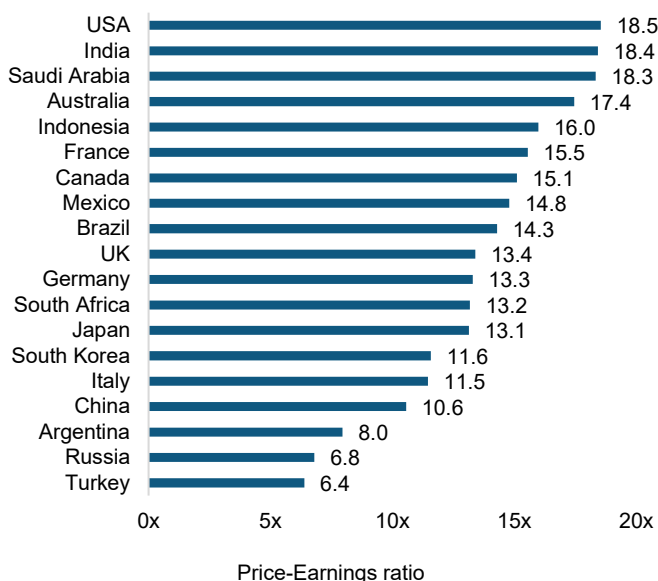
We have trimmed our Indian exposure slightly, selling down a holding of one of the major telcos in that country, whose balance sheet and lack of diversification leave it more vulnerable than its major competition – Reliance Industries. We continue to like the emerging industry structure of mobile telephony in India – with few dominant players and very rapid subscriber and content growth. The two major telcos are adding 6-7 million 4G subscribers per quarter at present. However, the land-grab phase of the industry’s evolution has led to substantial losses for industry players. We like the fact that Reliance has an excellent refining business, with the world’s largest refining complex at Jamnagar, which is crucial to India’s energy requirements. Furthermore we are encouraged by statements from Reliance’s Chairman Mukesh Ambani that the company is aiming to be debt free within 18 months (Source: company filings).

Issues such as trade friction between China and the US and unrest in Hong Kong will be ongoing. We are reminded of the trade friction between the US and Japan in the 1980s – this was an ongoing issue for years. We believe the same will be true between the US and China in coming years. As a result, we hold no basic Chinese manufacturers which may be substituted by migration to locations such as Vietnam or Mexico.

As far as Hong Kong is concerned, again we think problems may linger. Much of this we believe may be attributed to the extreme wealth inequality and intergenerational unfairness of a system which boasts some of the world’s most expensive real estate, plus a minimum wage of less than US\$5 per hour (Source: Hong Kong Labour Department). This is in addition to concerns regarding Chinese encroachment on the liberties of Hong Kong’s people. These issues will not be resolved swiftly. However, from an investment perspective, Hong Kong is a tiny part of the Chinese economy and we own no direct exposure to its economy.

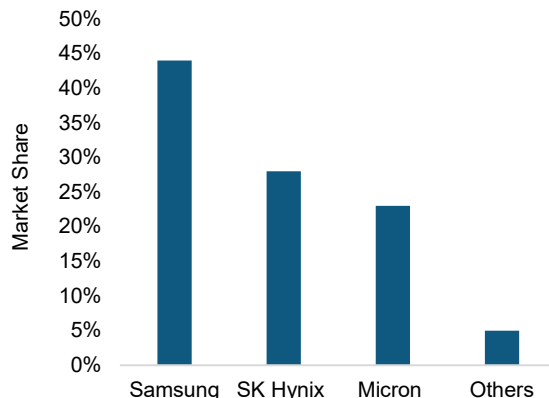
Despite these issues, we believe Asian economies will continue to grow by simply catching up to the productivity levels of the more developed countries, given their high savings rates and focus on long-term investment. The key focus for us is to find domestically oriented companies that can effectively tap into this resilient growth trajectory.

Major market price-earnings ratios - Next 12 months



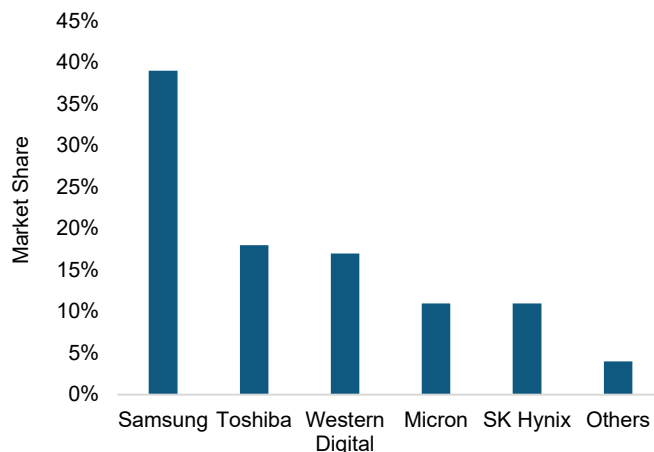
Source: Chart 1 – FactSet, Correct as at 31 December 2019.

DRAM market share, \$ basis



Source: Chart 2 – Nomura, Correct as at 31 December 2019.

NAND market share, \$ basis



Source: Chart 3 – Nomura, Correct as at 31 December 2019.