

Platinum Asia Fund

(Quoted Managed Hedge Fund) - ASX: PAXX



MONTHLY REPORT 31 July 2021

FACTS

Portfolio value	\$147.08 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)	\$4.7491

PERFORMANCE¹

	Fund %	MSCI %
1 month	(6.1)	(5.5)
3 months	(5.0)	(1.7)
6 months	(5.7)	(1.3)
Calendar year to date	(1.2)	3.3
1 year	12.3	16.2
2 years (compound pa)	15.8	12.0
3 years (compound pa)	11.2	9.5
Since inception (compound pa)	11.0	10.1

INVESTED POSITIONS OF PLATINUM ASIA FUND³

	LONG %	SHORT %	NET %	CCY %
Asia-Pacific	83.7	(0.2)	83.4	95.1
Australia				1.2
China	42.4		42.4	42.9
Hong Kong	7.5		7.5	16.9
Taiwan	5.5		5.5	5.6
India	9.1		9.1	9.2
Japan		(0.2)	(0.2)	0.2
Macao	0.8		0.8	0.8
Philippines	1.5		1.5	1.5
Singapore	1.4		1.4	1.4
South Korea	10.0		10.0	10.0
Thailand	0.9		0.9	0.9
Vietnam	4.5		4.5	4.5
Europe				0.8
United Kingdom				0.8
North America				4.1
United States of America				4.1
Sub-Total	83.7	(0.2)	83.4	100.0
Cash	16.3	0.2	16.6	
Total	100.0		100.0	100.0

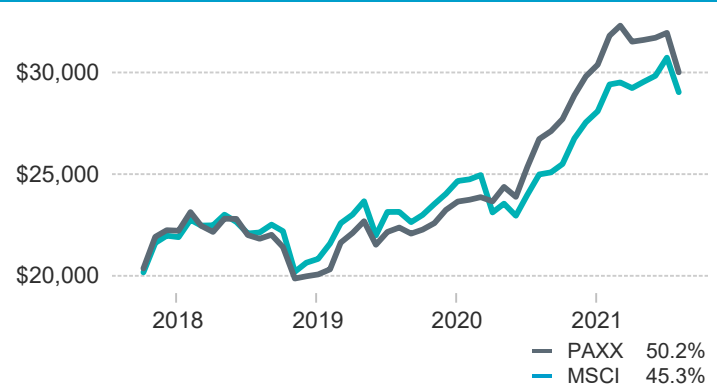
Long - 59 stocks, 1 swap Short - 1 swap

FEES

Entry fee	Nil
Buy/sell spread	0.20%/0.20%
(Platinum Asia Fund)	Investment management 1.10% p.a.
	Investment performance 15.00% p.a.*

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

PERFORMANCE GRAPH²



TOP TEN POSITIONS OF PLATINUM ASIA FUND⁴

STOCK	COUNTRY	INDUSTRY	%
Taiwan Semiconductor	Taiwan	Info Technology	4.9
Samsung Electronics Co	South Korea	Info Technology	4.8
AIA Group Ltd	Hong Kong	Financials	3.5
Vietnam Ent Investments	Vietnam	Other	3.4
ZTO Express Cayman Inc	China	Industrials	3.2
Weichai Power Co Ltd	China	Industrials	3.2
Tencent Holdings Ltd	China	Comm Services	3.0
Alibaba Group Holding Ltd	China	Cons Discretionary	3.0
InterGlobe Aviation Ltd	India	Industrials	2.7
Ping An Insurance Group	China	Financials	2.7
Total			34.5

INDUSTRY BREAKDOWN OF PLATINUM ASIA FUND³

SECTOR	LONG %	SHORT %	NET %
Consumer Discretionary	18.6		18.6
Information Technology	14.9		14.9
Financials	13.5		13.5
Industrials	12.5		12.5
Real Estate	9.0		9.0
Materials	4.3	(0.2)	4.1
Communication Services	3.0		3.0
Consumer Staples	2.6		2.6
Health Care	1.7		1.7
Other	3.4		3.4

Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935, trading as Platinum Asset Management ("Platinum") is the responsible entity of the Platinum Asia Fund (Quoted Managed Hedge Fund) (the "Fund"). The Fund's latest Product Disclosure Statement (the "PDS") provides details about the Fund. You can obtain a copy of the PDS from Platinum's website www.platinum.com.au, or by contacting Investor Services on 1300 726 700 (Australian investors only), or 0800 700 726 (New Zealand investors only), or 02 9255 7500, or via invest@platinum.com.au. This information is general in nature and does not take into account your specific needs or circumstances. You should consider your own financial position, objectives and requirements and seek professional financial advice before making any financial decisions. Numerical figures have been subject to rounding. Platinum does not guarantee the performance of the Fund, the repayment of capital or the payment of income. The market commentary reflects Platinum's views and beliefs at the time of preparation, which are subject to change without notice. No representations or warranties are made by Platinum as to their accuracy or reliability. To the extent permitted by law, no liability is accepted by Platinum for any loss or damage as a result of any reliance on this information.

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 geographic "Long %" is the exposure to long securities and long securities/index derivative positions, the geographic "Short %" is the exposure to short securities and short securities/index derivative positions and the geographic "Net %" is the difference between the geographic "Long %" and the geographic "Short %", each as a percentage of the market value of the Platinum Asia Fund's ("PAF's") portfolio. The "Currency %" is the effective currency exposure as a percentage of the market value of PAF's portfolio taking into account long and short securities, cash, forwards and long and short securities/index derivative positions. The cash "Long %" includes cash at bank, cashflows expected from forwards and effective cash exposures resulting from long securities/index derivative positions, the cash "Short %" includes effective cash exposures resulting from short securities/index derivative positions and the cash "Net %" is the difference between the cash "Long %" and the cash "Short %", each as a percentage of the market value of the PAF's portfolio. 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".

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). All data where MSCI is referenced is the property of MSCI. No use or distribution of this data is permitted without the written consent of MSCI. This data is provided "as is" without any warranties by MSCI. MSCI assumes no liability for or in connection with this data. Please see full MSCI disclaimer in <https://www.platinum.com.au/Special-Pages/Terms-Conditions>

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MARKET UPDATE AND COMMENTARY

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

- Chinese economic moderation induces a response.
- China regulatory measures cause consternation.

July was a difficult month for non-Japan Asian equities in general and the Fund. All of the Fund's major detractors for the month were Chinese stocks. Of note, we had built a moderate position in education provider TAL Education, the value of which has been severely impaired by an effective ban on private provision of after-school tutoring services for profit. Similarly, our property development stocks and Tencent were among our larger detractors from performance for the month – all affected by Chinese regulatory announcements. We discuss Chinese reforms below.

Several Indian holdings were strong contributors for the month, demonstrating the market's willingness to look through current COVID-19 travails in that country. Domestic Chinese sporting apparel brands Li Ning and Anta Sports also contributed strongly, as the market embraced the potential of these companies in a China that is more focused on the health of its youth and more willing to embrace local, in addition to foreign, brands.

Chinese regulatory pushes in context

For many anglophone observers accustomed to decades of the primacy of markets, Chinese regulatory initiatives may appear heavy-handed in the extreme. This is certainly how we perceive much of the press reporting that we encounter on the topic. We would suggest that readers attempt a mental experiment – substitute European Union (EU) for China in the reporting of anti-pollution, anti-corruption, pro-competition, anti-gaming addiction and other regulations, and then see if the measures reported seem so foreign, so shocking. As a reminder, Margrethe Vestager, the EU Competition Commissioner, has imposed billions of euros in fines against tech companies and has been labelled "big tech's fiercest opponent" (Source: Deutsche Welle).

We take China's regulators seriously. In November 2020, we wrote that we were cutting our holdings in Chinese tech firms amid serious regulatory scrutiny. Unfortunately, we saw a small loss from our view that the better private education providers would still have a business following regulation of the sector. This was a calculated risk around a binary outcome that went against us – far from some indicator that China is "uninvestable".

It is important to impress upon investors that China's regulatory and juridical frameworks, while different to those we are accustomed to in Australia and the West – are both functional and amenable to analysis. We dispute the assertion that China has no rule of law, or that the Chinese state is engaged in a war on everything (Source: Australian Broadcasting Commission). China, as with other markets like Japan, South Korea or Germany, has deeply different commercial and regulatory institutions from those in the anglophone West. This is simply part of the analytical task in assessing risk and reward when investing in any country.

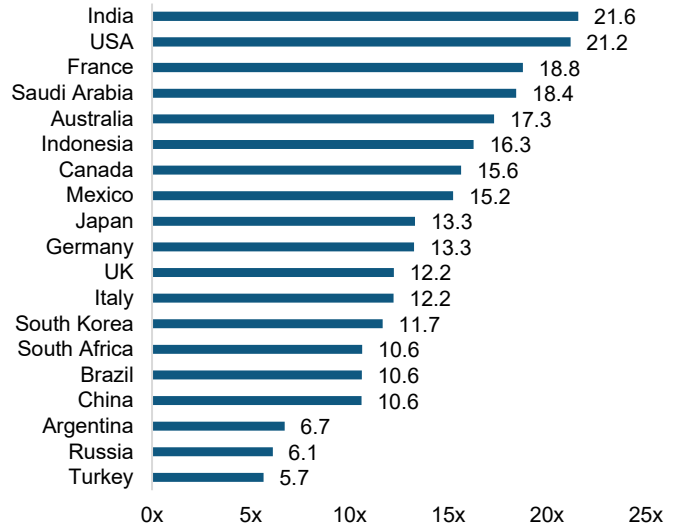
We view the current consternation and selling as an opportunity. For more, see here: <https://www.platinum.com.au/Insights-Tools/The-Journal/China-Time-to-Run-or-Time-to-be-Bold>.

China's slowing economy prompts an official response

China's GDP grew 7.9% versus a year ago in the quarter to June, implying a two-year compound annual growth rate (CAGR) of 5.5% (Source: CICC). China's fixed asset investment rose 12.6% versus a year ago in the first-half of 2021, implying a two-year CAGR of 4.4%; residential property completions grew at 66.5% in June versus June 2020, implying a two-year CAGR of +24.7%; and China produced 33,000 robots in June, up 61% year-on-year and a 56% CAGR from June 2019 (Source: Morgan Stanley). This is clearly an economy that is not collapsing in our view. However, it is slowing, as we have written in previous months. China's official July manufacturing purchasing managers' index (PMI) fell to 50.4 from 50.9 in June, while the non-manufacturing PMI declined to 53.3 from 53.5 (Source: Northern Trust. Readings above 50 indicate expansion). These are the weakest PMI readings of the post-COVID recovery period – further corroboration of an economy operating at a reasonable level but slowing, in our view.

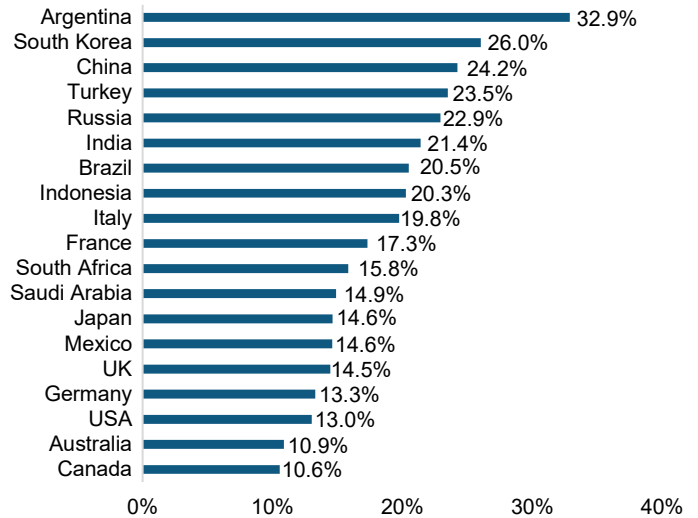
This has prompted a response. The People's Bank of China cut the Reserve Ratio Requirement by 0.5% in mid-July, freeing an estimated one trillion yuan within the banking system for lending (Source: Northern Trust). Further, in the first week of August, the quarterly Politburo meeting hinted at infrastructure spending to support Chinese economic growth in the second-half of 2021 and 2022, funded by local government bond issuance (Source: South China Morning Post). This saw strong positive share price reactions amid civil engineering equipment makers, including portfolio holding Weichai Power. At present, markets are pricing a sharp deterioration in nominal growth globally, in our view. We think nominal growth is likely to be higher for longer than markets anticipate, which creates significant opportunities for investors in rapidly growing Asia.

Major market price-earnings ratios - Next 12 months



Source: Chart 1 – IBES consensus, in local currency. Correct as at 5 August 2021.

Earnings per share growth - Next 12 months



Source: Chart 2 – IBES consensus, in local currency. Correct as at 5 August 2021.