



# Platinum Asia Fund

(Quoted Managed Hedge Fund)<sup>®</sup>

(ARSN 620 895 427 | ASX Code: PAXX)

## Quarterly Investment Manager's Report

31 December 2020

# Investment Update

## Platinum Asia Fund (Quoted Managed Hedge Fund) (PAXX)



**Andrew Clifford**  
Portfolio Manager\*

### Performance

(compound p.a.\* to to 31 December 2020)

	QUARTER	1 YR	2 YRS	3 YRS	SINCE INCEPTION
PAXX*	9.6%	28.4%	23.0%	11.0%	13.5%
MSCI AC Asia ex J Index <sup>^</sup>	10.2%	13.9%	16.1%	8.6%	10.9%

\* Excluding quarterly returns.

\* PAXX's returns are net of accrued fees and costs, are before tax, and assume the reinvestment of distributions.

Inception date: 12 September 2017.

<sup>^</sup> 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 11.

### In Brief:

- Stock markets continued their strong run over the quarter, particularly those companies with economically sensitive (cyclical) businesses. A broad range of commodities also experienced strong price moves over this same period. The commencement of these price moves aligned with the US election and the announcement of successful COVID-19 vaccine trials.
- The Fund's holdings in semiconductors and related stocks performed well during the quarter (Samsung Electronics +39%, SK Hynix +41%, Taiwan Semiconductor Manufacturing +22%). The ongoing economic recovery in China helped our Chinese consumer-related holdings (Anta Sports Products +53%, home appliance manufacturer Midea +36%).
- Given their strong performance in recent years and the current environment of increased regulatory scrutiny in China, we trimmed our holdings in Tencent and Alibaba significantly.
- We added new holdings in Ping An Bank, China Merchants Bank, Chinese diesel and hydrogen engine maker Weichai Power, and airline leasing company BOC Aviation.
- We expect to continue pivoting 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.

\* Andrew Clifford is managing the Platinum Asia Fund following the recent departure of Joseph Lai at the end of December 2020 (for further details please refer to: [https://www.platinum.com.au/PlatinumSite/media/ASX-Releases/ptm\\_announcement\\_20201229.pdf](https://www.platinum.com.au/PlatinumSite/media/ASX-Releases/ptm_announcement_20201229.pdf)). 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.

The Platinum Asia Fund (Quoted Managed Hedge Fund) (ASX code: PAXX) is a feeder fund that primarily invests into Platinum's flagship Asian equity fund, the Platinum Asia Fund ("PAF"), which was established on 3 March 2003.

The following is the 31 December 2020 Quarterly Investment Manager's Report prepared for PAF by its Portfolio Manager. Please note that in this report, the "Fund" refers to PAF and portfolio details, such as portfolio disposition, top 10 holdings and currency exposure, pertain to PAF's portfolio. Please be aware that PAXX and PAF (C Class - standard fee option) have different fee structures and therefore different returns. PAXX's returns may also vary from PAF's performance fee class (P Class) returns due to different cash holdings as well as gains and losses arising as a result of PAXX's market making activities.

PAF (C Class) returned 9.6% for the quarter and 29.3% for the year.<sup>1</sup>

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.

## 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**.

<sup>1</sup> References to returns and performance contributions (excluding individual stock returns) in this PAXX report are in AUD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

## 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

## Disposition of Assets of PAF

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 2, page 11. Numbers have been subject to rounding.  
Source: Platinum Investment Management Limited.

## Net Sector Exposures of PAF

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 3, page 11. Numbers have been subject to rounding.  
Source: Platinum Investment Management Limited.

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 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.

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;

### Top 10 Holdings of PAF

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics Co	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 4, page 11.

Source: Platinum Investment Management Limited.

Shanghai Futures Exchange copper inventories are at their lowest levels since 2014; and London Metal Exchange copper prices are near eight-year highs. Moreover, the Korean won and Chinese yuan both reached two-year highs against the US dollar during the December quarter.<sup>2</sup> 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 its upgrade of emission standards and saw 35% p.a. unit growth in the first eleven months of 2020 versus the prior period in 2019.<sup>3</sup>

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,

<sup>2</sup> Source: PMI: FactSet Research Systems; Industrial recovery: BMO;

Commodity prices: Bloomberg; Currencies: FactSet Research Systems.

<sup>3</sup> Source: Morgan Stanley.

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.<sup>4</sup>

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.<sup>5</sup> 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<sup>6</sup>) 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.<sup>7</sup> 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.<sup>8</sup> As a result, the Fund increased its position in **HDFC Bank** during the quarter.

The Fund has been well-positioned for the recovery underway in air traffic and progress surrounding vaccine development, with investments in **Trip.com**, **InterGlobe Aviation** and 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.<sup>9</sup> 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.

4 Source: Citi, government releases.

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](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50122)

8 Source: HDFC corporate presentation.

9 Source: BOCA corporate presentation.

# Macro Overview

by Andrew Clifford, CIO, Platinum Investment Management Limited

## Regulation, Rates and Inflation - Risks to Watch in 2021?

While stock markets continued their strong run over the last quarter, from early November it was notable that many companies with economically sensitive (cyclical) businesses experienced strong stock price performance. Similarly, there were strong price moves across a broad range of commodities (particularly iron ore and copper) over this same period. These moves in markets are consistent with investors pricing in continuing improvement in the global economic outlook for the year ahead. The commencement of these stock and commodity price moves aligned with the US election and the announcement of successful COVID-19 vaccine trials.

While the high-flying growth stocks continued to perform well, the continued economic recovery potentially poses a threat via higher inflation and interest rates. Similarly, the 'anti-monopoly' movement is gaining momentum, not only in the US and Europe, but also in China, which represents a potential risk to the business models of many of the popular growth names. It is certainly too early to make such bold predictions about either interest rates or changes in regulatory regimes, but the unfolding of events over recent weeks lead us to restate our conclusion from last quarter that: ***We believe extreme caution is warranted in regards to the market's current 'high flyers', while opportunities abound elsewhere.***

**The election of Joe Biden as the next US President is likely to reduce the uncertainty around the US-China relationship generally and trade and tariffs in particular.** While the complaints around China's behaviour on various fronts, from the South China Sea to unfair trade practices, had strong bipartisan support in Washington and within the US government, it appeals to us that President-elect Biden is a far more conventional politician than his predecessor. As such, we would expect a more traditional negotiated approach to the various issues rather than random decrees issued via Twitter.

Such a considered approach is likely to recognise the deep interdependence of the US and China economies, especially in industries such as semiconductors and electronics, where neither side can operate without the other in the medium term. From a political point of view, we acknowledge that it would be difficult for President-elect Biden to outright reverse the bans on Huawei or lift recent sanctions on Chinese companies linked to the People's Liberation Army (PLA), potentially these measures can be quietly diluted over time. However, even if they stand, a more reasoned approach to trade and tariffs is likely. The importance of this, is the certainty that it brings both to businesses in making long-term investment decisions and for investors in assessing the long-term potential of companies.

At the time of writing, the Georgia Senate run-off elections were about to take place. Success in both seats would result in Democrats having effective control of the Senate and the potential for Biden's policies on infrastructure spending (including green initiatives), expansion of the Affordable Care Act (designed to provide affordable health insurance coverage for all Americans), funded by a reversal of some of Trump's tax cuts, to be put into place. Whether this result unfolds (the polls and betting markets suggest a very tight race), it is highly likely that substantial ongoing fiscal stimulus will occur. In the final days of 2020, the US Congress passed a stimulus bill valued at US\$900 billion, or 4.4% of GDP. By any standard this is a significant fiscal spend, particularly when considered in light of the previous US\$2 trillion of stimulus that is still flowing through the system and an economy that by all measures is recovering very quickly.<sup>1</sup>

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<sup>1</sup> Source: Congressional Budget Office, EY.

**The news of successful COVID-19 vaccine trials and subsequent regulatory approvals reduces uncertainty on the pathway out of the pandemic.** The day-to-day news regarding new COVID-related lockdowns in Europe (as well as locally), together with rising infections in the US make for sombre reading. However, the beginning of vaccination programs in the US and Europe offer a very clear light at the end of the tunnel. While there remain unanswered questions around the longevity of the immune response, new variants of the virus are developing, and there are significant logistical issues in dealing with the vast numbers involved, it is highly likely that substantial portions of the US and European populations will be immunised by the end of 2021. China has also approved a locally developed vaccine for use in the general population, which is likely to be used broadly in the developing world. It should also be noted that there are numerous other vaccines in late stages of development and through time, individual vaccines will be refined in response to outcomes of current programs.

While we have been of the view that the development of an effective vaccine was highly likely (as discussed by portfolio manager and resident virologist, Dr Bianca Ogden in the article "*COVID-19: Demystifying this Frightening Disease*<sup>2</sup>"), the start of the vaccination programs significantly reduces the risk of shutdowns and travel restrictions continuing beyond the end of 2021. Again, this reduces the long-term uncertainty faced by businesses, particularly those impacted directly, such as travel-related industries. Of course, the year ahead remains difficult, but in the context of the stock market, the value of companies is determined by at least a decade of future profits, not just the next six to 12 months.

<sup>2</sup> <https://www.platinum.com.au/Insights-Tools/The-Journal/COVID-19-Demystifying-this-Frightening-Disease>

**The 'anti-monopoly' movement has also continued to gain momentum not only in the US but also China.** In the US, the Federal Trade Commission and 48 states filed two antitrust lawsuits against Facebook, focused on acquisitions and the impact on competition. The Department of Justice filed a case against Google claiming they used anti-competitive tactics to protect its monopoly over search. These cases join various actions in the European Union and Australia's move to make the likes of Facebook and Google pay other media outlets for the use of their content. In China, regulators outlined restrictions on how consumer data can be used in relation to anti-competitive practices. Investigations have also commenced into suspected anti-competitive practices at Alibaba, financial regulators having earlier suspended the initial public offering (IPO) of their financial arm, Ant Group.

The dominant e-commerce and technology giants have amassed huge user numbers over the last decade, providing them with enormous market power and highly profitable business models. Indeed, social media platforms have been seen as responsible for swaying elections and enabling uprisings. Our key point is that governments the world over will attempt to rein in this power, and as such there is a genuine risk of additional regulation for dominant players in e-commerce, payments and social media.

**One interesting development has been shortages in a range of commodity products from steel to electronic components and silicon wafers, despite the global economy remaining at pre-COVID levels.** The explanation behind these shortages is likely multifaceted. The demand for goods (electronics, autos, home furnishings and renovations) has been strong while services (travel, eating out and

**Fig. 1: Strong Recovery in Commodity Prices Post COVID-19 Lockdowns**



Source: Copper: High Grade Copper (NYM \$/lbs) from FactSet Research Systems (to 31 December 2020), Steel: US Midwest Domestic Hot-Rolled Coil Steel (CRU) Index (NYM \$/st) from FactSet Research Systems (to 31 December 2020).

entertainment) has been weak. Thus, there has been a short-term boost in demand while suppliers of inputs potentially cut output on initial expectations of reduced demand or COVID-enforced closures. Potentially, these shortages and the associated higher prices may be relatively short-lived, however, a lack of significant investment in new capacity for a period of time in many of these industries may see longer-term shortages developing.

This has all occurred before any economic benefit that may accrue from the continued post-pandemic opening or improving business optimism following the US election. With governments around the world likely to continue spending to accelerate the economic recovery, this could potentially exacerbate the shortages over the course of 2021. While there is no evidence of a rise in inflation in goods and services in the major economies yet, it is easy to see an inflation scare unfolding as the year progresses.

**The stock market bull run has continued, though the better performance of economically sensitive stocks is an interesting development.** In most respects, the stock price recovery of these 'real world' businesses is hardly surprising. Economic activity continues to recover and vaccinations provide a pathway to full recovery over the course of 2021. The potential for better trade relations between the US and China under a Biden presidency point to less risk of the world slipping back into tariff-inspired manufacturing recessions, as experienced in 2018-19.

Governments continue to promise more spending, focused on real world activities, such as infrastructure and 'decarbonising' projects (i.e. renewable energy and electric vehicles). Additionally, valuations were generally deeply depressed, as investors avoided companies facing any uncertainty in their future earnings.

On the other hand, the speculative mania in growth stocks has continued to a large extent unabated. The market for new listings has remained excitable with many stocks continuing to debut at prices of 50% or more above their issue price. Issuance of special purpose acquisition companies (SPACs)<sup>3</sup> continue, as have elevated levels of retail participation in the market. Valuations have moved from extraordinary to even higher. The one area that has slowed somewhat are the 'megacap' FAANG stocks (Facebook, Amazon, Apple, Netflix and Google owner Alphabet), perhaps in response to the various antitrust initiatives, or possibly reflecting the beginnings of a loss of momentum for growth stocks more generally.

As we have stated in previous reports, manias tend to end abruptly. The significant bull markets of the last 40 years have come to an end when monetary conditions tighten. While it is hard to imagine a traditional central bank tightening cycle currently, potentially a slowing of the printing presses may be enough. Alternatively, an inflation scare could push long-term interest rates higher with ramifications for stocks whose valuations are based on the premise of near-zero interest rates.

***When a collapse in the stock prices of growth stocks comes, it too should not come as a surprise.*** When companies are valued on multiples of sales (not profits) of 20 times or more, the probability that their business will meet investor expectations on growth rates and profitability, to justify the valuation, is simply remote. A select few may achieve what is needed to provide investors with a reasonable return, but in aggregate one should ultimately expect substantial losses on the holding of a portfolio of such stocks.

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<sup>3</sup> SPACs raise funds from investors and use those funds to acquire existing, privately held companies with the intention of taking them public via an IPO.

2020 was certainly a most unusual year and perhaps doubly so in the stock market. However, the two bedrocks of our investment approach remain. Firstly, **investors' cognitive biases will cause them to overemphasise recent events and news**. This means the best investment opportunities can often be found in areas the crowd is avoiding; while those investments the crowd is embracing are best avoided. There is nothing to suggest that 2020 has changed basic human psychology. Indeed, the evidence shows quite the contrary, with significant returns achieved in unpopular areas, such as semiconductors and commodities.

Our second fundamental investment principle is that **the price you pay for an asset will determine your return**. While you may buy overvalued stocks that move higher, over time this approach is unlikely to yield good returns, as ultimately the stock price will reflect assessments of future profits and cashflows from the business.

Of course, we know that speculative bull markets can run for a long time, but the pain for those investors who don't exit the party in time can be significant.

### MSCI Regional Index Net Returns to 31.12.2020 (USD)

REGION	QUARTER	1 YEAR
All Country World	14.7%	16.3%
Developed Markets	14.0%	15.9%
Emerging Markets	19.7%	18.3%
United States	13.0%	20.7%
Europe	15.8%	4.7%
Germany	11.5%	11.5%
France	20.4%	4.1%
United Kingdom	16.9%	-10.5%
Italy	22.4%	1.8%
Spain	27.7%	-4.8%
Russia	21.6%	-12.5%
Japan	15.3%	14.5%
Asia ex-Japan	18.6%	25.0%
China	11.2%	29.5%
Hong Kong	15.5%	5.8%
Korea	38.3%	44.6%
India	21.0%	15.6%
Australia	22.9%	8.7%
Brazil	37.0%	-19.0%

Source: FactSet Research Systems.  
 Total returns over time period, with net official dividends in USD.  
 Historical performance is not a reliable indicator of future performance.

### MSCI All Country World Sector Index Net Returns to 31.12.2020 (USD)

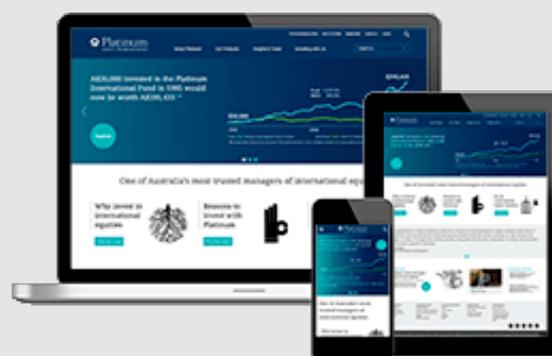
SECTOR	QUARTER	1 YEAR
Financials	24.1%	-3.8%
Energy	23.9%	-28.6%
Materials	18.4%	20.9%
Industrials	15.7%	11.3%
Information Technology	15.2%	45.6%
Communication Services	14.9%	23.7%
Consumer Discretionary	14.5%	36.7%
Utilities	10.2%	3.8%
Real Estate	8.4%	-6.4%
Health Care	7.4%	14.9%
Consumer Staples	7.4%	8.1%

Source: FactSet Research Systems.  
 Total returns over time period, with net official dividends in USD.  
 Historical performance is not a reliable indicator of future performance.

# The Journal

Visit [www.platinum.com.au/Our-Products/PAXX](http://www.platinum.com.au/Our-Products/PAXX) to find a repository of information about the Platinum Asia Fund (Quoted Managed Hedge Fund) (PAXX), including:

- NAV history and intra-day iNAV
- Distribution history and the Distribution Reinvestment Plan
- ASX releases and financial statements
- Monthly updates on performance, portfolio positioning and top 10 holdings.



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## Recent highlights include:

- **Video - Sector Convergence Empowering Consumers & Healthcare.**<sup>1</sup> From electronic devices to digital surgery, e-scripts and buying used cars online delivered right to your door, technology has been the great enabler of all aspects of our life. In this panel discussion, portfolio managers Dr Bianca Ogden, James Halse and Cameron Robertson discuss how the increasing convergence between the healthcare, consumer brands and technology sectors is improving life experiences and health outcomes for consumers.
- **Article - Legacy Automakers Rising to the Emissions Challenge.**<sup>2</sup> Strict new European emissions standards have raised many existential questions for the auto industry and increased earnings uncertainty. To the surprise of many, legacy automakers have risen to the challenge, with most hitting the targets at a better-than-expected rate of profitability. Investment analyst, Nicholas Markiewicz shares his insights.
- **Article - mRNA Technology Delivers Vaccine Breakthrough.**<sup>3</sup> In times of crisis it is often the case that innovation strives. This time, the biotech and pharma industry has stepped up, and Dr Bianca Ogden explains why it very much looks like it will deliver the goods.
- **Video - Investing for the Long Haul.**<sup>4</sup> Long-term structural growth, favourable industry dynamics and a lucrative income stream on after-market servicing are just a few reasons why investment analysts, Kirit Hira and Jodie Bannan are attracted to the high-tech aero engine sector.

1 <https://www.platinum.com.au/Insights-Tools/The-Journal/Video-Sector-Convergence-Empowering-Consumers>

2 <https://www.platinum.com.au/Insights-Tools/The-Journal/Automakers-Rising-to-the-Emissions-Challenge>

3 <https://www.platinum.com.au/Insights-Tools/The-Journal/mRNA-Technology-Delivers-Vaccine-Breakthrough>

4 <https://www.platinum.com.au/Insights-Tools/The-Journal/Video-Investing-for-the-Long-Haul>

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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.

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4. The table shows PAF's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

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