

Platinum Asia Fund



Andrew Clifford
Portfolio Manager



Cameron Robertson
Portfolio Manager



Kirit Hira
Portfolio Manager

Overview

- After a tough period, prospects for the semiconductor sector appear bright as recovering demand for smartphone and PC chips coincides with soaring demand for the high-end chips needed by AI-focused technologies. Three key Fund holdings – Korea's **Samsung Electronics** and **SK Hynix** as well as **Taiwan Semiconductor** – can profit from this recovery.
- During the quarter we trimmed two Indian stocks that have done well for investors. **InterGlobe**, an airline and **Macrotech**, a property developer, are well-managed businesses with attractive positions in their sectors. However their share prices have run up with the Indian market and so we are trimming our positions.
- In 2024 there will be a series of elections in Asia's fast-growing democracies – Taiwan, Indonesia, South Korea and India. These election races – which will be tight and in many cases dominated by younger voters – may force the rollout of some election sweeteners. However, in our view, the momentum behind ongoing structural reforms is strong and this underpins the prospects of the region.

Performance

compound p.a.⁺, to 31 December 2023

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	-2%	-1%	-4%	6%	12%
MSCI AC Asia ex Jp Index [^]	1%	5%	-3%	4%	8%

+ 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.

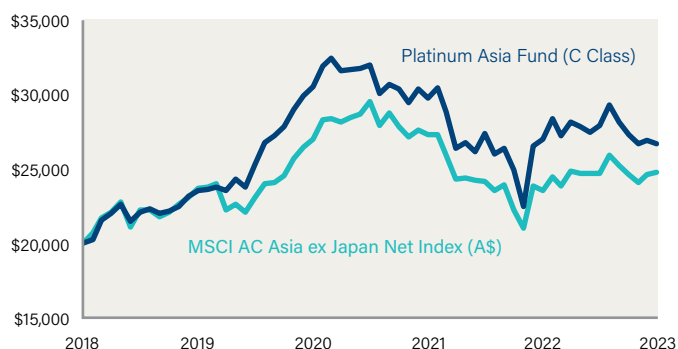
Source: Platinum Investment Management Limited, FactSet Research Systems.

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 2018 to 31 December 2023



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.

In a vast and diverse region like Asia it's often hard to find a single over-arching theme that explains stock market performance over the quarter. For the Asia Fund a recovery in Asia's chipmaker stocks was important, we saw continued strength in India and mixed results from Chinese holdings. On a broader level, the region is benefitting from ongoing economic and market reforms (which we explore more below and in this Quarterly's feature article).

The Fund's semiconductor holdings **TSMC** (up around 12%), **SK Hynix** (up 22%) and **Samsung Electronics** (up 14%) performed well, thanks to recovering prospects for their end-markets and growing enthusiasm surrounding generative AI-related applications. Indian holdings, including airline InterGlobe (up 24%) and property developer **Macrotech** (up around 28%), were also strong contributors. Philippine property developer **Ayala Land** also did well (up 16%) after it disclosed plans for more project launches.

In China, our holding in e-commerce company **PDD** (up 45%) appreciated due to strong domestic profitability and growing enthusiasm around TEMU, its international offering.

Weakness in the property market offset some of these gains. Property developers **China Resources Land** and **China Overseas Land and Investment** both fell over 10% as property sales remained subdued. Outside of China, Vietnamese retailer **Mobile World** (down around 19%) was weak on subdued demand for consumer electronics.

Commentary

Global smartphone and PC shipments are expected to post a third year of decline in 2023 before recovering in 2024.

That's good news for our longstanding positions in South Korean memory chip makers Samsung Electronics and SK Hynix as well as leading semiconductor foundry **Taiwan Semiconductor (TSMC)**. For memory chip makers, 20-30% production cuts led by Samsung mean PC/smart-phone related inventory is now reaching normal levels. This is likely to continue well into 2024 and further drive down supplier inventory. As a result, memory pricing is now starting to stabilise and increase off a low base.

A recovery in chip markets

In November, Korean DRAM¹ exports increased by 28% YoY, after contracting for 16 consecutive months.² Future capex is now being directed at leading edge nodes, such as High-Bandwidth Memory (HBM) or DDR5 modules rather than legacy capacity.

While memory demand for traditional server markets remains weak, this has been offset by strong generative AI investment by cloud service providers. The race to supply HBM to integrate with graphics processing units (GPUs) for generative AI applications is now on, with supply struggling to keep up with demand.³

A typical NVIDIA H100 GPU uses 80-100GBs of HBM3 memory. SK Hynix had taken the early lead supplying HBM3 to NVIDIA but Samsung has now also started supplying the US AI leader.

The opportunity in Generative AI continues to grow (see [Funds in Focus: PITF](#)).⁴ Potential use cases are expanding out from data centres and cloud service providers to include areas such as AI-enabled PCs/smartphones and to embedded AI in automotive and industrial markets.⁵

1 Dynamic random-access memory (dynamic RAM or DRAM) is a type of random-access semiconductor memory

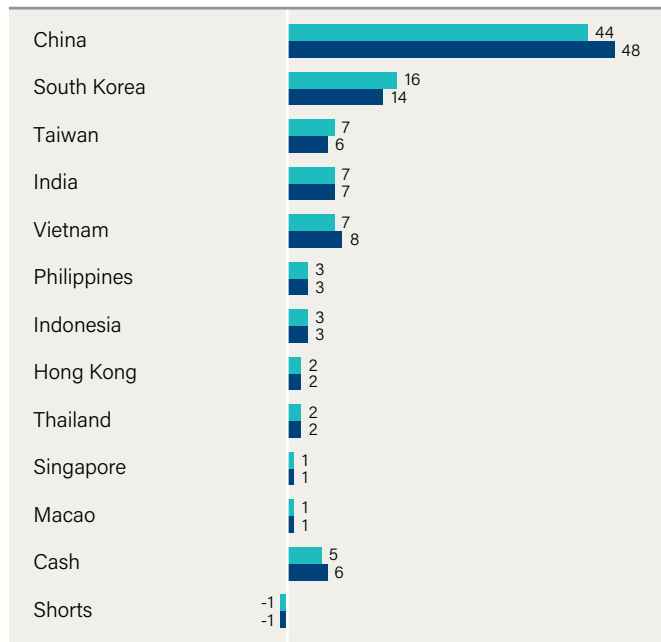
2 Source: Goldman Sachs

3 GPUs were originally focused on graphics and video rendering but are now increasingly important in AI and machine learning

4 www.platinum.com.au/insights-tools/the-journal/funds-in-focus-platinum-international-technology-fund

5 www.computerworld.com/article/3689872/generative-ai-will-change-pcs-and-smartphones-making-one-or-both-obsolete.html

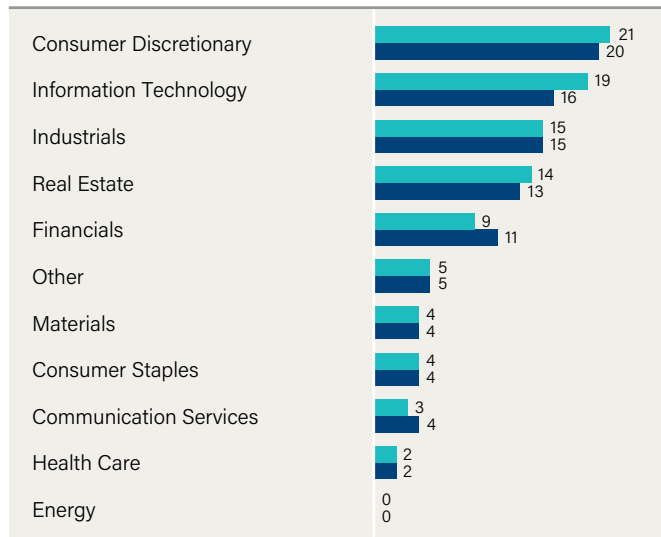
Disposition of Assets %



31 DEC 2023 30 SEP 2023

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

Net Sector Exposures %



31 DEC 2023 30 SEP 2023

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Taiwan Semiconductor	Taiwan	Info Technology	6.2%
Samsung Electronics Co Ltd	South Korea	Info Technology	6.2%
SK Hynix Inc	South Korea	Info Technology	5.6%
Vietnam Enterprise Inv	Vietnam	Other	5.0%
InterGlobe Aviation Ltd	India	Industrials	4.5%
ZTO Express Cayman Inc	China	Industrials	4.3%
Ayala Land Inc	Philippines	Real Estate	3.2%
China Resources Land Ltd	China	Real Estate	3.2%
JD.com Inc	China	Cons Discretionary	3.1%
Tencent Holdings Ltd	China	Comm Services	2.9%

As at 31 December 2023. See note 5, page 5.

Source: Platinum Investment Management Limited.

SK Hynix expects 100-200% HBM growth in 2024 with compound annual growth of 60-80% over the next five years. Given this positive outlook, SK Hynix is doubling capacity and Samsung expects to expand supply by 2.5x times in 2024. All the major players are also developing next generation technologies with even higher peak bandwidth and improved power consumption to match NVIDIA's ambitious AI roadmap.⁶ While Samsung and SK Hynix have performed well this year they are still trading at fair valuations of 1.5x and 1.7x trailing book value, respectively.⁷

TSMC is also a beneficiary from a cyclical recovery in PC/smartphone shipments given these markets represent around 50% of its revenue base. Growing replacement demand for high-end smartphones and PCs should drive strong demand for leading edge nodes. TSMC is currently ramping up capacity with a sizeable share of this capacity booked by Apple for its next generation of devices. TSMC is also the exclusive foundry for NVIDIA's high performance GPUs and is doubling its advanced packaging capacity to alleviate this critical bottleneck.⁸

Currently, high performance AI-related GPU represents 6% of TSMC revenue, however the company expects revenue in this segment to grow by an extraordinary 50% compound per annum over the next five years. TSMC is trading on just 15x 2024 earnings-per-share, which appears attractive for a business surfing both cyclical and structural tailwinds.

⁶ tomshardware.com/news/samsung-expects-hbm4-memory-to-arrive-by-2025#:~:text=HBM3E%20is%20good%2C%20but%20HBM4%20will%20be%20even%20better.&text=We've%20heard%20about%20HBM4,wide%20as%20HBM3's%201024%2Dbit

⁷ Source: Factset Research Services

⁸ technode.com/2023/09/25/tsmcs-advanced-packaging-capacity-under-strain-as-nvidia-amd-and-amazon-increase-orders-for-ai-chips-report/

Trimming Indian stocks

During the quarter we continued to reduce our positions in Indian stocks, namely property developer **Macrotech Developers** and low-cost airline **InterGlobe Aviation**. Both have been profitable investments for the Fund.

InterGlobe emerged from COVID with a 60% domestic market share and a growing international business. Profitability has also improved significantly as the market is now a more rational one after a decade of industry losses, numerous airline bankruptcies and COVID. While there are some operational challenges on the horizon, the company is trading on approximately 10x our assessment of normalised earnings. This is an undemanding price so we are happy to maintain a sizeable position.

The Fund invested in Macrotech as an anchor in its initial 2021 listing. At the time the company was working through modestly elevated leverage with a reasonable level of doubt about how the Mumbai property market, India's largest, would perform post-COVID and after a previous four-year downturn.

Macrotech has successfully reduced debt levels with unit pre-sales and pricing recovering to beyond our original expectations. Nonetheless, with property developers among the best performing sectors in India this year, valuations are edging higher, hence the decision to reduce the position. We are still comfortable owning the company as there is little evidence of overexuberance in the Mumbai property market – such as excessive price increases or high investor participation.

Outlook

Calendar 2024 will see elections across the region, spanning Taiwan, Indonesia, South Korea and India. The electorates in India and Indonesia, the world's #1 and #3 largest democracies, are increasingly skewed to a younger demographic, with Gen Zs and Millennials making up >90%⁹ and 54%¹⁰ of the voting base, respectively.

Given close polling we are likely to see some temporary tailoring of policies to gain votes. One example was the South Korean Financial Services Commission's decision to ban short-selling until June 2024. This is widely viewed as a move to appease the 14 million retail investors in the country ahead of the elections. This is a step back from the Yoon Government's market reforms designed to attract foreign investment and to see South Korea promoted to developed market status by index providers.

Nonetheless, assuming elected parties retain legislative majorities, we expect the region's focus on sensible economic and market reforms to re-emerge once elections are behind us. That could underpin stronger economic growth in the medium term.

Some optimism in China

We retain a sizeable exposure in China, a market that continues to divide opinion. Exports and industrial production remain among the bright spots, supported by autos and better US retail end-demand.

The government has rolled out a steady stream of policy adjustments designed to address the challenging property market:

- a relaxation of property down-payment minimums in Beijing and Shanghai
- RMB 1 trillion of state-directed lending to a whitelist of 50 developers
- renewed focus on affordable housing and urban village renovation projects.

At some point these policies should help distressed developers to complete projects, thus restoring consumer confidence and stabilising pricing.

While there is prolonged weakness in some pockets of the Chinese economy, the Fund is invested in companies, both in China and across the region, where the prospects for growth are attractive and valuations extremely compelling. As a result, the portfolio is relatively fully invested.

While 2023 was a challenging year, we believe the underlying dynamics of the Asian region – and the availability of high quality stocks at reasonable prices – are likely to reward investors in the medium term.

⁹ ecommercedb.com/insights/gen-y-and-gen-z-in-india-examining-their-online-behavior/4665

¹⁰ lowyinstitute.org/the-interpreter/how-will-voters-swing-indonesia-s-2024-general-elections

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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "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

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935, trading as Platinum Asset Management (Platinum®). Platinum is the responsible entity and issuer of units in the Platinum Asia Fund (the "Fund"). This publication contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons') investment objectives, financial situation or needs, and should not be used as the basis for making investment, financial or other decisions. You should read the entire Platinum Trust® Product Disclosure Statement (including any Supplement(s) thereto) ("PDS") and consider your particular investment objectives, financial situation and needs before making any investment decision to invest in (or divest from) the Fund. The Fund's target market determination is available at www.platinum.com.au/Investing-with-Us/New-Investors. You can obtain a copy of the current PDS from Platinum's website, www.platinum.com.au or by phoning 1300 726 700 (within Australia), 0800 700 726 (within New Zealand) or +61 2 9255 7500, or by emailing to invest@platinum.com.au. You should also obtain professional advice before making an investment decision. Neither Platinum nor any company in the Platinum Group®, including any of their directors, officers or employees (collectively, "Platinum Persons"), guarantee the performance of the Fund, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum). To the extent permitted by law, no liability is accepted by any Platinum Person for any loss or damage as a result of any reliance on this information. This publication 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 any Platinum Person as to their accuracy or reliability. This publication may contain forward-looking statements regarding Platinum's intent, beliefs or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. No Platinum Person undertakes any obligation to revise any such forward-looking statements to reflect events and circumstances after the date hereof.

© Platinum Investment Management Limited 2024. All rights reserved.

MSCI Disclaimer

The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).