Platinum Asia Investments Ltd ASX PAI

31 October 2017

Facts

Portfolio value	$454.06 mn
Portfolio inception	16 September 2015
Current share price	$1.1950
Pre-tax NTA	**$1.2599**
Post-tax NTA	$1.1962

Fees

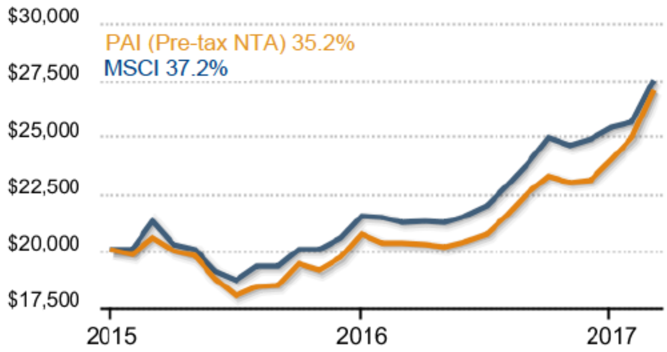
Management fee:	1.1% p.a. of the portfolio value
Performance fee:	Payable at 15% of the amount by which the portfolio's annual performance exceeds the return achieved by the MSCI All Country Asia ex Japan Net Index

Performance[1]

	FUND % (Pre-tax NTA)	MSCI %
1 month	8.28	7.16
3 months	17.07	10.35
6 months	20.17	15.44
Calendar year to date	34.13	29.50
1 year	33.01	29.46
2 years (compound pa)	14.77	13.74
Since inception (compound pa)	15.25	16.03

The Pre-tax NTA return is calculated on net assets after the deduction of fees & costs and assumes the re-investment of any dividends

Performance graph[2]



The Pre-tax NTA return is calculated on net assets after the deduction of fees & costs and assumes the re-investment of any dividends

Top ten positions[4]

STOCK	COUNTRY	INDUSTRY	%
Alibaba Group ADR	China Ex PRC	Info Technology	3.9
Midea Group Co PN exp	China	Cons Discretionary	3.3
Ping An Insurance Grp Co H	China Ex PRC	Financials	3.2
Jiangsu Yanghe Brewery J PN	China	Consumer Staples	3.1
Axis Bank Ltd	India	Financials	3.1
China Merchants Bank Co Ltd	China Ex PRC	Financials	3.0
Kasikornbank PCL Foreign	Thailand	Financials	2.9
Samsung Electronics Co Ltd	Korea	Info Technology	2.9
Ayala Corp	Philippines	Financials	2.8
Tencent Holdings Ltd	China Ex PRC	Info Technology	2.5

Industry breakdown[3]

SECTOR	LONG %	NET %
Financials	21.3	21.3
Info Technology	19.3	19.3
Cons Discretionary	14.9	14.9
Industrials	9.1	9.1
Materials	7.6	7.6
Consumer Staples	6.4	6.4
Real Estate	6.0	6.0
Energy	4.6	4.6
Health Care	3.5	3.5
Utilities	3.0	3.0
Telecom Services	2.0	2.0

Invested positions[3]

	LONG %	NET %	CURRENCY %
China	8.1	8.1	7.8
China Ex PRC	50.1	50.1	
Hong Kong	3.1	3.1	42.5
Taiwan	2.1	2.1	2.1
India	11.2	11.2	11.2
Indonesia	1.0	1.0	1.0
Korea	10.4	10.4	10.4
Malaysia	0.5	0.5	0.5
Philippines	4.2	4.2	4.2
Singapore	0.9	0.9	
Thailand	4.6	4.6	4.6
Vietnam	1.5	1.5	1.5
	97.7	97.7	
United States Dollar			14.2
Cash	2.3	2.3	
Total	100.0	100.0	100.0

Long - 80 stocks, 2 swaps

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1. Source: Platinum for PAI returns and RIMES Technologies for MSCI returns. Performance results have been calculated using the pre-tax net tangible asset value as released to the ASX and represent the combined income and capital return of the investments for the specified period. Please note that the results are not calculated from the share price of PAI. The returns are calculated relative to the MSCI All Country Asia ex Japan Net Index in A$. Past performance is not a reliable indicator of future results.

2. Source: Platinum for PAI returns and RIMES Technologies for MSCI returns. The investment returns depicted in this graph are cumulative on A$20,000 invested in PAI since inception relative to the MSCI All Country Asia ex Japan Net Index in A$ ("Index"). Performance results have been calculated using the pre-tax net tangible asset value as released to the ASX and represent the combined income and capital return of PAI's investments for the specified period. Please note that the results are not calculated from the share price of PAI. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably from the make-up of the Index. The Index is provided as a reference only. Past performance is not a reliable indicator of future results.

3. The "Long %" represents the exposure of physical holdings and long stock derivatives as a percentage of PAI's portfolio value. The "Net %" represents the exposure of physical holdings and both long and short derivatives as a percentage of PAI's portfolio value. The "Currency %" represents the currency exposure for PAI as a percentage of PAI's portfolio value, taking into account currency hedging.

4. The "Top ten positions" shows PAI's top long share exposure positions as a percentage of PAI's portfolio value. Long derivative exposures are included. However, short derivative exposures are not.

Market update and commentary

Dr. Joseph Lai, Portfolio Manager addressed investors at the Platinum Asia Investments Limited (PAI) AGM on 1 November in Sydney, and made the following key points.

- Despite the rise in Asian stock markets, we continue to find many prospective investments.
- Re-weighting away from India and towards China has aided the performance of the portfolio.

Firstly, looking at China, which makes up 63% of the portfolio:

- The root of many of the well-documented problems in China stems from an unhealthy link between state owned banks and state owned enterprises.
- This had functioned well, until a few years ago, as China needed the capacity, local governments cheered the employment and economic activity and many officials "did well".
- It created, however, three big problems.

    1. Too much capacity in the materials industry (steel, cement, etc) depressing profits.
    2. Pollution which led to poor air quality and health problems.
    3. Inferior products due to cost cutting and poor safety controls.

- The vested interests who profited from the status quo resisted change, but this is changing, and this is very significant for us, as investors.
- We are seeing a consolidation of power, and a deepening of reform under President Xi; not being a democracy is helpful here.
- Change is about breaking the nexus between the state owned banks and state owned enterprises.
- There is now a focus on profitability, on the environment, on corruption and on cleaning up the banking system.
- The market is not appreciating the importance of these changes – healthier banks, stronger companies and less pollution. This is showing up here in Australia in resources prices.
- Valuation of strong Chinese companies is attractive even after the market has moved up.
- Key outcome will be economic growth driven by more productive workers – this shows up via investment in infrastructure, technology and education.

    1. Example of infrastructure is a 22,000KM High Speed Rail network that exceeds the rest of the world combined. Similar story across eg roads, subways, water treatment etc. State of the Art investment.
    2. In technology, huge investment in automation and robotics – some factories are almost human free – world leading companies like ZTE and Huawei clustered in Shenzhen.
    3. More than 7 million university graduates per year, more than 2X America, and 50% of them in STEM fueling China's technology leap forward.

- Future growth to be slower (~6%) but higher quality and services meeting needs of middle class consumers (hundreds of millions of them) will grow multiples of this.

And a brief look at India (now 11% of the portfolio):

- Asia's second biggest market has been terrific but valuations of many stocks expensive, even bubble-like, which has led us to reduce exposure, though there are still some opportunities.
- Banks are very much out-of-favour with loan growth the weakest since 1949 in a system clogged up by bad loans.
- Lack of an effective bankruptcy law until now has been a barrier, and this has changed.
- The pick-up in credit could be explosive after a prolonged malaise and we can pick-up solid banks with competent management on less than 10X earnings.

Elsewhere in the region, highlights include technology leaders in Korea, driven by Samsung Electronics' OLED screens and smartphones and LG (electric vehicle). We believe North Korean escalation is a low probability event.
Growth in the Philippines, driven by BPO growth and exports out of Thailand into a strong global economy are two key drivers of our ASEAN exposure. All in all, the strategy continues to capitalise on others' fears.