Platinum Asia Investments Ltd ASX PAI

31 May 2018

Facts

Portfolio value	$447.8 mn
Portfolio inception	16 September 2015
Current share price	$1.28
Pre-tax NTA	$1.2398
Post-tax NTA	$1.1936

Fees

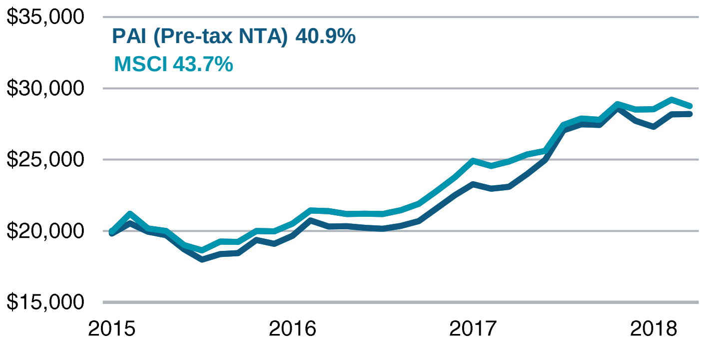
Management fee:	1.1% p.a. of the portfolio value
Performance fee:	Payable at 15% of the amount by which the portfolio's annual performance exceeds the return achieved by the MSCI All Country Asia ex Japan Net Index

Performance[1]

	FUND % (Pre-tax NTA)	MSCI %
1 month	0.07	(1.56)
3 months	1.67	0.80
6 months	2.61	3.08
Calendar year to date	2.73	3.41
1 year	21.09	15.38
2 years (compound pa)	20.60	19.92
Since inception (compound pa)	13.51	14.34

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]



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Top ten positions[4]

STOCK	COUNTRY*	INDUSTRY	%
Alibaba Group	China	Info Technology	3.8
Axis Bank Ltd	India	Financials	3.2
Ping An Insurance Grp	China	Financials	3.1
Samsung Electronics Co Ltd	Korea	Info Technology	3.1
Jiangsu Yanghe Brewery	China	Consumer Staples	2.7
China Overseas Land	China	Real Estate	2.7
Yes Bank Ltd	India	Financials	2.7
Kasikornbank PCL	Thailand	Financials	2.7
China Oilfield Servies Ltd	China	Energy	2.4
China Merchants Bank	China	Financials	2.4

*China includes exposure to Chinese A shares, H shares and ADRs.

Industry breakdown[3]

SECTOR	LONG %	NET %
Financials	23.4	23.4
Info Technology	17.2	17.2
Industrials	8.7	8.7
Energy	8.5	8.5
Cons Discretionary	7.6	7.6
Materials	6.5	6.5
Real Estate	5.3	5.3
Health Care	5.2	5.2
Consumer Staples	3.3	3.3
Utilities	2.1	2.1
Telecom Services	1.5	1.5
Other*	0.0	(3.0)

* Includes index short position

Invested positions[3]

	LONG %	NET %	CURRENCY %
China	8.7	8.7	8.7
China Ex PRC	42.6	42.6	
Hong Kong	5.8	5.8	46.1
Taiwan	1.8	1.8	1.9
India	12.8	9.8	10.0
Indonesia	0.7	0.7	0.7
Korea	9.6	9.6	9.6
Malaysia	0.5	0.5	0.5
Philippines	1.9	1.9	1.9
Singapore	0.6	0.6	
Thailand	4.3	4.3	4.4
	89.4	86.4	
Australian Dollar			0.2
United States Dollar**			16.2
Cash	10.6	13.6	
Total	100.0	100.0	100.0

Long - 77 stocks, 1 swap Short - 1 index

**Figure includes exposure to USD through USD cash, USD denominated stock and derivatives over such stocks.

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 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 bottom up 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.

- Most Asian markets were weak in May, as were European and emerging markets
- Investors seem to have engaged in a "flight to quality" with the US outperforming
- We see ongoing economic strength in major Asian markets, notably China and a reaccelerating India

The month of May saw Asian markets pause, as did most markets globally outside the US. Throughout 2018 it appears that economies in Europe, Asia ex-Japan, Japan and many emerging markets lost the growth momentum which was so apparent in late 2017. This may be in part due to tightening financial conditions in China, amid ongoing financial system reforms in that country. Also, readers will be all too familiar with the litany of geopolitical and trade stories which may have dented consumer and business confidence somewhat. However, we continue to see solid growth in China, while the Indian economy appears to have rebounded from a slowdown in recent quarters.

Recent data in China is strong. Power station coal consumption was up 28% year on year at the end of May, driven in part by hot weather. May's manufacturing purchasing manager's index (PMI) rose to 51.9 from 51.4 in April (with values over 50 representing expansion). May heavy duty truck sales were up 17% on a year ago. And streel production in mid-May was up 9% on last year.[1]

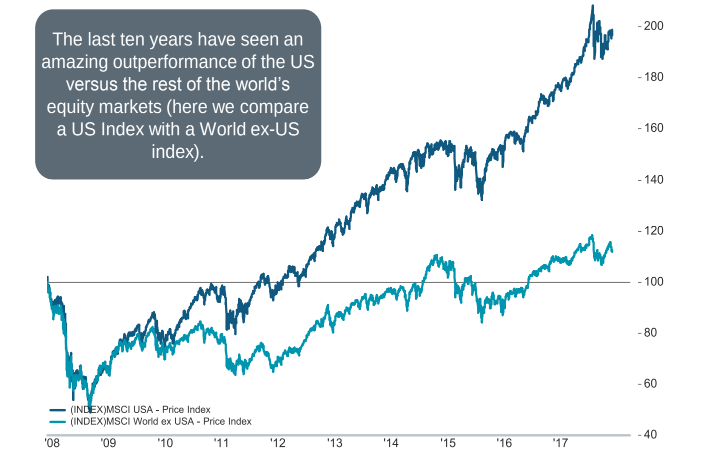
Financial sector reforms continue apace in China. Thus far in 2018 there have been 20 cases of corporate bond defaults, with a nominal value of RMB16.7bn (A$3.4bn) according to Chinese broker CICC. We believe the main driver of this is tightening of financial regulations. Financial institutions are pulling back from off-balance sheet activities and slowing their investments in non-standard credit assets. With tighter financing conditions, spreads widened and defaults have become more frequent. None of this looks out of control – spreads over Chinese government bonds have widened only mildly. We have already seen one lowering of China's reserve ratio requirement, which increases the amount of liquidity available to the banking system, so far this year, showing that regulators are willing to offset the tightening impact of their reform efforts. Longer term, the importance of allowing firms to default is to buttress the functioning of credit markets in China, with market participants being moved to price credit risk appropriately, as implicit guarantees are removed.

Labour market tightness seems to be driving increasing corporate investment in China. Survey data from broker CLSA indicates that small and medium enterprise capex intentions were at their highest level in four years in the March quarter – we think this is tied to rising wages in China and further evidence of the modernisation of that economy.

In India, March quarter GDP growth accelerated to its highest in two years at 7.7% per annum. GDP growth was 6.1% p.a. one year ago, as the elimination of large denomination banknotes affected the economy. Credit growth has also reaccelerated to some degree, to 12.1% p.a. in the March quarter – the highest level in three years. Private sector banks are driving Indian credit growth – they have increased their market share by 6% to 31% of banking system assets over the last three years – comfortably outgrowing their state-owned peers which have been beset by poor lending standards and scandal in recent years. While the Indian equity market is generally quite expensive, the portfolio has extensive holdings in private sector Indian banks.[2]

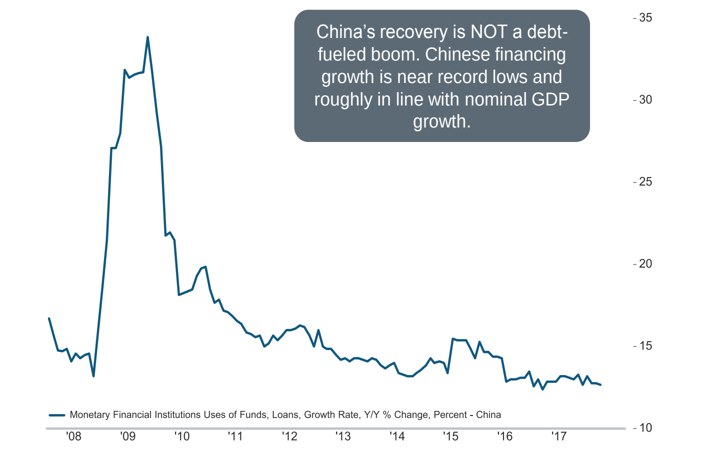
Source:[1]Data in this paragraph from CICC.
[2]Data in this paragraph from Kotak Bank.

US vs. non-US performance: an extraordinary decade



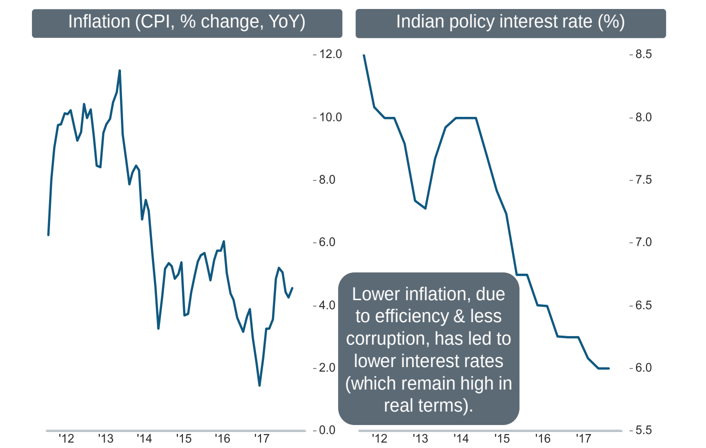
Source: FactSet

Chinese financing growth (% change YoY)



Source: PBOC, FactSet

India: moderating inflation and falling rates



Source: FactSet