Platinum Asia Investments Ltd ASX PAI

31 August 2018

Facts

Portfolio value	$430.2 mn
Portfolio inception	16 September 2015
Current share price	$1.18
Pre-tax NTA ex-dividend*	$1.1317
Post-tax NTA ex-dividend*	$1.1037

*The 30 June 2018 final dividend was 6 cents per share.

Fees

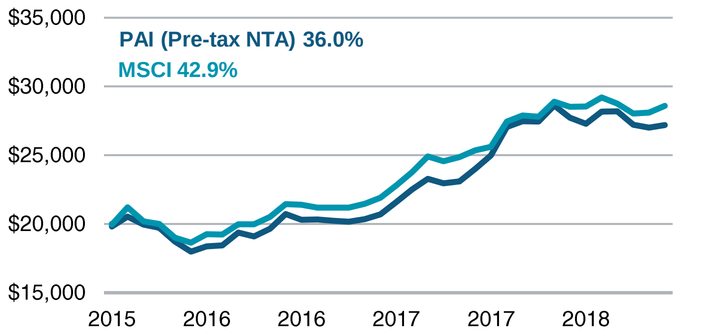
Management fee:	1.1% p.a. of the portfolio value
Performance fee:	Payable at 15% of the amount by which the portfolio's annual performance exceeds the return achieved by the MSCI All Country Asia ex Japan Net Index

Performance[1]

	FUND % (Pre-tax NTA)	MSCI %
1 month	0.70	1.74
3 months	(3.49)	(0.58)
6 months	(1.87)	0.21
Calendar year to date	(0.86)	2.81
1 year	13.36	12.70
2 years (compound pa)	14.56	15.45
Since inception (compound pa)	10.95	12.82

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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Invested positions[3]

	LONG %	NET %	CURRENCY %
China	3.7	3.7	3.7
China Ex PRC	25.3	25.3	
Hong Kong	4.5	4.5	41.6
Taiwan	1.6	1.6	1.6
India	17.2	17.2	17.1
Indonesia	0.4	0.4	0.4
Korea	11.3	11.3	11.3
Malaysia	0.5	0.5	0.5
Philippines	2.3	2.3	2.3
Singapore	0.7	0.7	
Thailand	4.6	4.6	4.7
Vietnam	0.9	0.9	0.8
	73.0	72.9	
Australian Dollar			0.1
United States Dollar**			15.8
Cash	27.0	27.1	
Total	100.0	100.0	100.0

Long - 62 stocks

Top ten positions[4]

STOCK	COUNTRY*	INDUSTRY	%
Axis Bank Ltd	India	Financials	4.0
Samsung Electronics Co Ltd	Korea	Info Technology	4.0
Yes Bank Ltd	India	Financials	3.2
Kasikornbank	Thailand	Financials	3.1
AIA Group Ltd	Hong Kong	Financials	2.9
Ping An Insurance Grp	China	Financials	2.9
China Merchants Bank	China	Financials	2.8
Naver Corporation	Korea	Info Technology	2.5
China Overseas Land & Invst.	China	Real Estate	2.3
China Oilfield Servies Ltd	China	Energy	2.3

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

Industry breakdown[3]

SECTOR	LONG %	NET %
Financials	26.8	26.8
Info Technology	11.7	11.7
Energy	8.9	8.9
Industrials	6.9	6.9
Real Estate	5.0	5.0
Cons Discretionary	3.5	3.5
Health Care	3.4	3.4
Materials	2.3	2.3
Telecom Services	2.0	2.0
Utilities	0.9	0.9
Consumer Staples	0.9	0.8
Other	0.9	0.9

**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.

Market update and commentary

- Macro-economic and trade fears dominate
- China is responding to boost domestic demand with tax cuts and loosening credit conditions
- Economic data indicate a mild slowdown in a reasonably healthy Chinese economy
- Corporate earnings are growing and stocks appear very reasonably priced

Regional markets recovered somewhat in August following months of weak performance. The portfolio recovered but lagged the market over the month, with some energy and materials stocks weighing on performance. Sentiment remains weak and valuations remain low.

Meanwhile economic data indicate a Chinese economy which has certainly slowed, but appears sound. In our view, policy makers are indicating they would like to see an acceleration of activity and are loosening financial conditions and cutting personal income taxes by raising the equivalent of the tax fee threshold in China. See the accompanying chart of the Shanghai Interbank Offered Rate (Shibor) to get a sense of how much liquidity has been provided to the interbank market in China. Loan growth accelerated to 13.2% YoY in July from 12.7% YoY in June (CICC).

China's July industrial enterprise profit growth was 16.2% p.a. in July (CICC). This follows a strong reporting season for Chinese companies in June: of 4,040 Chinese companies which reported results to June (3,332 listed in mainland China, 635 in HK and 73 in US) profit increased by 18% p.a. (Credit Suisse).

China's official August manufacturing Purchasing Manager's Index (PMI) edged up to 51.3, mainly driven by the notably higher upstream prices (readings above 50 indicate expansion; below 50, contraction).

July property sales were up 8.3% YoY (Bloomberg, Northern Trust). Headline industrial production (IP) growth stayed flat at 6.0% YoY in July (CICC). Meanwhile, electricity production growth slowed to 5.7% YoY in July (CICC). Nominal retail sales growth was 8.8% YoY in July (CICC).

Chinese July imports grew 27.3% YoY compared with 14.1% in June; export growth edged up to 12.2% YoY (CICC).

July apparent oil demand in China saw the second highest annual growth rate since 2010 at 12.9% YoY (Bloomberg, Northern Trust). Coal imports increased 9.5m tonnes, or 49% YoY to 29m tonnes in July, the highest since January 2014, yet inventory at major power plants fell 3% month on month in July (CICC).

However, there are clear signs of slowing in some areas of the economy. For instance, China's July auto sales fell 5.3% YoY to 1.59m units (Bloomberg) and infrastructure investment contracted by 5.3% YoY in July (CICC).

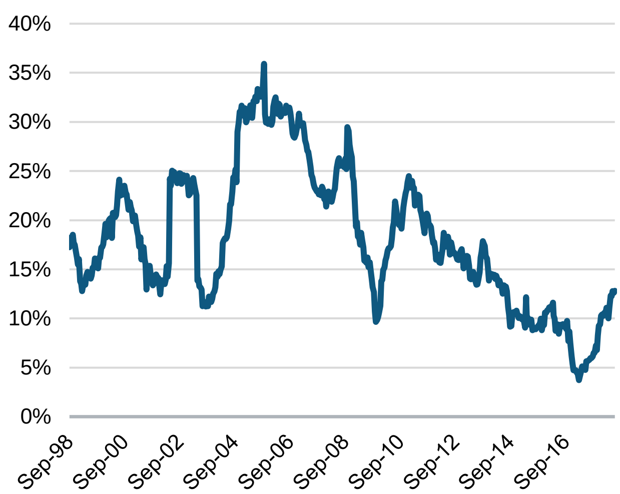
Overall, China looks to us to be an economy which has slowed under ongoing reform efforts, but where aggregate demand is holding up reasonably well. Most importantly, valuations are cheap and corporate earnings are growing.

Elsewhere in Asia, India's GDP grew by 8.2% in Q1FY19 due to a pickup in manufacturing activity, helped by a lower base during the same period a year ago. Economic growth had dipped to 5.6% in Q1FY18 due to destocking by companies ahead of the implementation of the GST from July 2017 (State Bank of India). Credit growth is beginning to recover (see accompanying chart) after a period of protracted weakness with very significant credit losses due to poor/corrupt lending standards in India, which we think are being addressed.

Another recent development which struck us as important is that India's financial regulator is set to launch an 'on tap' bond market. This will mean once a company has filed the necessary paperwork, it will be able to tap the bond market whenever it wants. This is likely to be a significant step in the deepening of India's bond markets. Corporate bond market growth is around 15% to 20% p.a. depending on how it is measured (Platinum estimate from company filings).

"Shibor" falling: Indicative of monetary loosening[1]

Indian credit growth (% change, p.a.)[2]



Source: Chart[1]: Bloomberg
Chart[2]: Central Bank of India