Platinum Asia Investments Ltd ASX PAI

31 October 2018

Facts

Portfolio value	$367.0 mn
Portfolio inception	15 September 2015
Current share price	$1.055
Pre-tax NTA	$1.0122
Post-tax NTA*	$1.0122

*liquidation basis

Fees

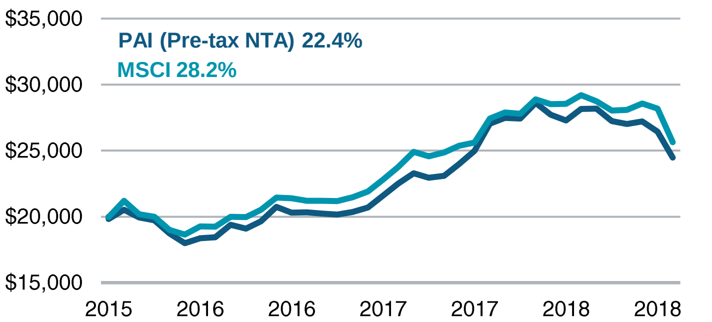
Management fee:	1.1% p.a. of the portfolio value
Performance fee:	Payable at 15% of the amount by which the portfolio's annual performance exceeds the return achieved by the MSCI All Country Asia ex Japan Net Index

Performance[1]

	Company % (Pre-tax NTA)	MSCI %
1 month	(7.38)	(8.99)
3 months	(9.37)	(8.73)
6 months	(13.08)	(12.20)
Calendar year to date	(10.77)	(7.77)
1 year	(9.48)	(6.56)
2 years (compound pa)	9.73	9.99
3 years (compound pa)	6.04	6.53
Since inception (compound pa)	6.68	8.27

The Company's return is calculated after the deduction of fees and expenses, adjusted for taxes paid and any capital flows, and assumes the reinvestment of dividends. Returns are not calculated using the Company's share price.

Performance graph[2]



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Top ten positions[4]

STOCK	COUNTRY	INDUSTRY	%
Samsung Electronics Co Ltd	Korea	Info Technology	4.1
Kasikornbank PCL	Thailand	Financials	2.9
AIA Group Ltd	Hong Kong	Financials	2.8
China Oilfield Servies Ltd	China	Energy	2.3
Naver Corporation	Korea	Info Technology	2.3
China Overseas Land & Invst.	China	Real Estate	2.1
3SBio Inc	China	Health Care	2.0
Ayala Land Inc	Philippines	Real Estate	2.0
Reliance Industries Limited	India	Energy	2.0
LG Corp	Korea	Industrials	1.8

Industry breakdown[3]

SECTOR	LONG %	NET %
Financials	18.2	18.2
Info Technology	12.7	12.7
Energy	7.5	7.5
Real Estate	5.5	5.5
Industrials	4.8	4.8
Health Care	4.2	0.9
Cons Discretionary	3.4	2.8
Consumer Staples	1.7	(0.3)
Materials	1.7	1.7
Telecom Services	1.7	1.7
Other	1.5	1.5
Utilities	1.0	1.0

Invested positions[3]

	LONG %	NET %	CURRENCY %
China	2.7	2.7	2.7
China Ex PRC	25.0	23.6	
Hong Kong	3.5	1.5	43.2
India	10.4	10.4	9.5
Korea	12.8	10.4	10.4
Malaysia	0.5	0.5	0.5
Philippines	2.4	2.4	2.4
Thailand	4.5	4.5	4.6
Vietnam	2.0	2.0	1.5
	64.0	58.1	
Australian Dollar			0.2
UK Pound Sterling			(0.1)
United States Dollar			25.1
Cash	36.0	41.9	
Total	100.0	100.0	100.0

Long - 61 stocks Short - 6 stocks

1. & 2. Source: Platinum for PAI returns and RIMES Technologies for MSCI returns. The returns are calculated relative to the MSCI All Country Asia ex Japan Net Index in A$. The investment returns depicted in the graph are cumulative on A$20,000 invested in PAI since inception. Past performance is not a reliable indicator of future returns. 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.

3. The "Long %" represents the exposure to direct securities holdings and long stock/index derivatives as a percentage of PAI's portfolio value. The "Net %" represents the exposure to direct securities holdings and both long and short stock/index derivatives as a percentage of PAI's portfolio value. China refers to securities or derivatives over securities, which securities are listed on the Shanghai or Shenzhen stock exchange. China Ex PRC refers to securities or derivatives over securities, which securities are listed outside of the PRC but provide exposure to PRC companies. The "Currency %" represents the effective currency exposure of PAI's portfolio as a percentage of its PAI's portfolio value, taking into account currency exposures through securities holdings, cash, forwards and long and short derivatives.

4. The "Top ten positions" show PAI's top ten long positions as a percentage of PAI's portfolio value. Direct securities holdings and long stock/index derivatives are included. However, short stock/index derivatives are not included.

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

October was a bad month for equities globally in and Asia, and the portfolio, was no exception. Given very poor returns in Asia, let down by Chinese equities, it is worth reiterating that what we are observing in China is a moderate economic slowdown.

The primary cause of this slowdown is a sensible package of financial reforms designed to limit corporate and consumer credit availability via informal channels and to force credit provision to occur through banks and bond markets. In addition, uncertainty in the export sector is an additional drag on an already-slowing economy. For context, when threats are made to place tariffs on all US$500 billion exports from China to the US, this is relative to a US$12 trillion economy in China in 2017 (Source: IMF and US Census Bureau figures). Simply put, China is no longer a trade-driven economy. However, trade uncertainty comes on top of credit tightening and disruptive reform.

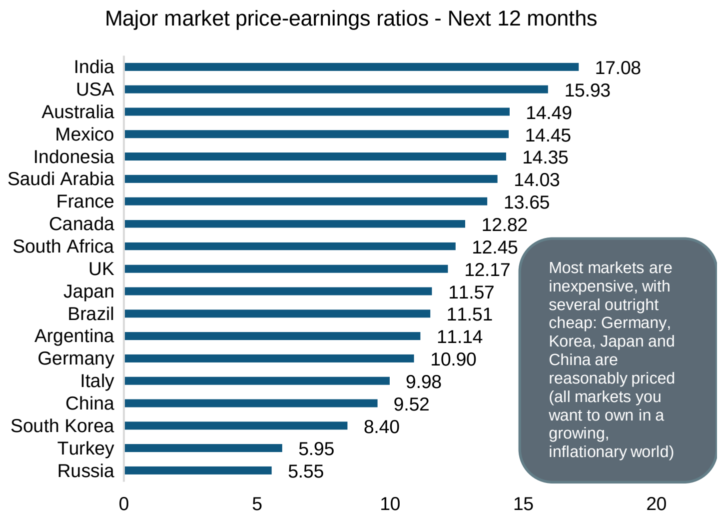
We must emphasise that we do not observe economic collapse in China. The economy has slowed, but remains in reasonable shape. Consumer spending continues to be solid. For instance domestic tourist volume grew 9.4% YoY during the Golden Week holiday (Oct.1-7) according to the Ministry of Culture & Tourism. Outlook statements from luxury good makers such as Kering, LVMH and Moncler indicate continuing resilient demand in China.

On the industrial side of the economy, the unofficial Caixin Purchasing Manager's Index (PMI) suggests marginal growth in October, with the headline figure coming in at 50.1, with 50 being a neutral reading (Source: BMO). Chinese trade data showed that copper imports in September were up 24% from August (Source: Scotia). Iron ore prices, thermal coal prices, metallurgical coal prices and bulk freight rates all remain at levels we see as strong. Outlook statements from industrial firms such as Caterpillar, Komatsu and SKF in recent weeks also indicate a moderation of Chinese demand versus previous expectations, but also ongoing solid demand growth.

In response to the slowdown in the Chinese economy, policy makers have responded. The reserve ratio requirement was lowered in early October by 1% for most banks, tax cuts and offsets have been announced and a Politburo meeting in late October emphasised the need for local governments to accelerate infrastructure investment, which has been weak in recent months.

In summary, markets have been jolted by evidence of a slowdown in China and lower confidence and liquidity. We see no reason for panic. Over the course of the month we lowered our exposure to markets via some selling and adding some shorts to the portfolio. We began buying cautiously in early November subsequent to month end.

Chart[1] – Major market EPS growth



Chart[2]– Major market P/E ratios

Source: Chart[1]: MSCI, Credit Suisse correct as at 6/11/2018
Chart[2]: MSCI, Credit Suisse correct as at 6/11/2018