Platinum Asia Investments Ltd ASX PAI

28 February 2019

Facts

Portfolio value	$396.4 mn
Portfolio inception	15 September 2015
Current share price	$1.135
Pre-tax NTA ex-dividend*	$1.0728
Post-tax NTA ex-dividend*	$1.0640

*The 31 December 2018 interim dividend was 2 cents per share

Fees

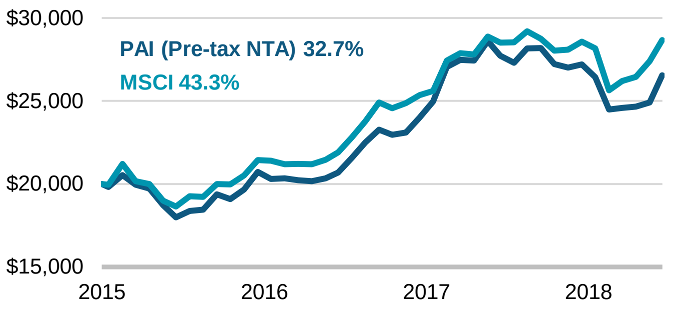
Management fee:	1.1% p.a. of the portfolio value
Performance fee:	Payable at 15% of the amount by which the portfolio's annual performance exceeds the return achieved by the MSCI All Country Asia ex Japan Net Index

Performance[1]

	Company % (Pre-tax NTA)	MSCI %
1 month	6.55	4.63
3 months	7.98	9.40
6 months	(2.41)	0.31
Calendar year to date	7.62	8.40
1 year	(4.24)	0.53
2 years (compound pa)	13.27	14.39
3 years (compound pa)	13.85	15.44
Since inception (compound pa)	8.54	10.98

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	%
Alibaba Group	China	Cons Discretionary	4.5
Samsung Electronics Co Ltd	Korea	Info Technology	3.8
Ping An Insurance Grp	China	Financials	3.1
Kasikornbank PCL	Thailand	Financials	2.9
Tencent Holdings Ltd	China	Communication Serv.	2.9
Axis Bank Ltd	India	Financials	2.8
58.COM Inc	China	Communication Serv.	2.4
Vietnam Enterprise	Vietnam	Other	2.2
Melco Resorts	Hong Kong	Cons Discretionary	2.2
Anta Sports Products Ltd	China	Cons Discretionary	2.1

Industry breakdown[3]

SECTOR	LONG %	NET %
Financials	24.7	24.7
Cons Discretionary	17.2	17.2
Communication Services	13.7	13.7
Consumer Staples	6.5	6.5
Industrials	6.5	6.5
Info Technology	6.2	5.4
Real Estate	5.6	5.6
Other	2.2	2.2
Health Care	1.8	0.6
Energy	1.1	1.1
Materials	1.0	1.0
Utilities	0.8	0.8

Invested positions[3]

	LONG %	NET %	CURRENCY %
China	13.5	13.5	13.5
China Ex PRC	33.2	32.3	
Hong Kong	7.7	7.7	29.4
India	12.8	11.9	15.1
Korea	9.6	9.3	9.5
Malaysia	0.5	0.5	0.5
Philippines	3.0	3.0	3.0
Thailand	4.5	4.5	4.6
Vietnam	2.7	2.7	2.7
	87.5	85.4	
China Renminbi Off Shore			(19.3)
United States Dollar			41.0
Cash	12.5	14.6	
Total	100.0	100.0	100.0

Long - 76 stocks Short - 2 stocks, 1 index

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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. 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 "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. The "Currency %" represents the effective currency exposure of PAI's portfolio as a percentage of PAI's portfolio value, taking into account currency exposures through securities holdings, cash, forwards and long and short stock/index 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 derivatives are included. However, short stock derivatives are not included.

Market update and commentary

After a frustrating year the portfolio performed more satisfactorily in February, returning 6.5% for the month, led by very strong performance from our Chinese holdings, in particular tech and related holdings such as Alibaba, 58.com and Autohome, as well as long term holding Ping An Insurance.

Problematic stocks over the last year have been: YES! Bank and Bharti in India; Chinese internet companies Sina and Weibo; and resources companies Yanzhou Coal and MMG.

Yes! Bank was struck by regulatory interference when its CEO was not granted a permit required to remain as head of the bank. This appears to us to relate to somewhat arbitrary classifications of loans as being “in arrears” or “delinquent”. Meanwhile total credit growth in India is approximately 10% p.a. and nimble private sector banks can be expected to grow faster than system.

Bharti, meanwhile, is engaged in a price war with other Indian telco operators (notably Mukesh Ambani-led Jio), which while difficult in the near term, we see as likely to become more rational with time in the world’s fastest growing and second-largest mobile phone market.

The weakness in several of our Chinese internet holdings appears due to sentiment rather than imperilled business models. This has improved in recent weeks: for instance Weibo is up over 35% from recent lows.

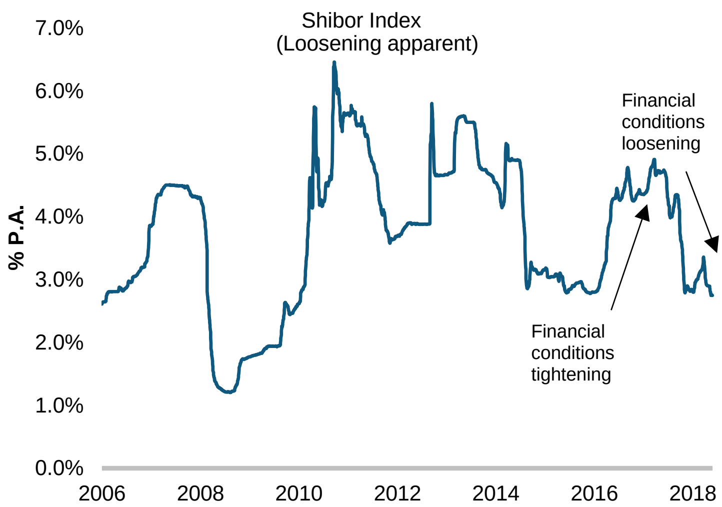
Our mining holdings have come under pressure, in line with many mining stocks outside of the global diversifieds, as markets have fretted about demand for commodities such as coal and copper. In our view the longer term outlook for these commodities, and by extension Yanzhou and MMG, is strong. MMG was one of the portfolios best performing holdings in the month of February, incidentally.

News came from MSCI during the month that the index provider will include China as 20% of emerging markets indices moving forward, a move likely to see foreign buying of Chinese equities. We regard this as a pleasant tangent to the underlying reasons for owning Chinese stocks, which is that they are cheap, with good growth prospects and generally clean balance sheets in the private segment of the economy (as opposed to China’s generally heavily indebted state owned enterprises).

Investors may be asking if it is time to take profits after a rapid recovery in Chinese shares. Our inclination is that this is not the time to sell. After ten years of weak performance and an appalling 2018, Chinese shares remain cheap, even after the recent rally. And the Chinese government has clearly signalled that growth will be prioritised in the near term, as a response to the excessive tightening of monetary and fiscal conditions in the last year.

As we have written previously, given the underlying resilience we see in the dominant economy in Asia, China, and the exceptional value presented by cyclicals, we continue to hold a portfolio dominated by cyclicals. Given valuations and our outlook for reasonable global demand growth, plus Chinese stimulus and a Fed pause, we are confident regarding the positioning of the portfolio.

Source: Bloomberg, correct at 4 March 2019.



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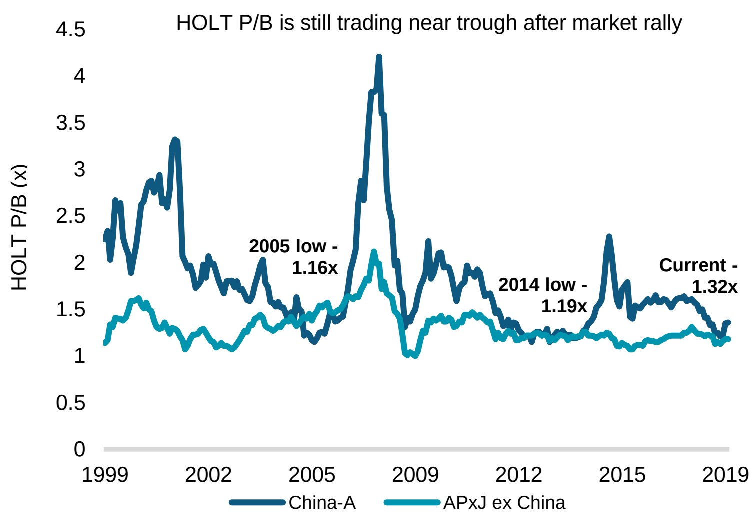

Source: Credit Suisse HOLT lens™