Platinum Asia Investments Limited ASX: PAI

30 September 2020

Facts

Portfolio value	$452.8 mn
Portfolio Inception	15 September 2015
Current share price	$1.115
Pre-tax NTA	$1.2357
Post-tax NTA	$1.1964

Fees

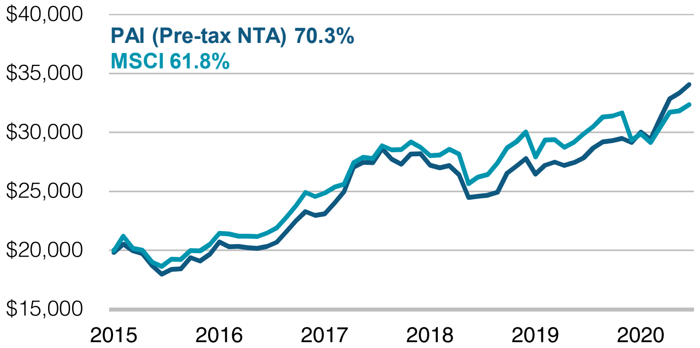
Management fee:	1.1% p.a. of the portfolio value
Performance fee:	15% (excl. GST) of outperformance over benchmark (MSCI All Country Asia Net Index (A$))

Performance [1]

	Company % (Pre-tax NTA)	MSCI %
1 month	2.15	1.63
3 months	9.22	6.30
6 months	16.88	10.29
Calendar year to date	16.69	3.38
1 year	24.11	10.88
2 years (compound pa)	13.51	7.17
3 years (compound pa)	10.89	8.11
5 years (compound pa)	11.44	10.15
Since inception (compound pa)	11.14	10.01

PAI's returns are calculated after the deduction of fees and expenses, adjusted for taxes paid and any capital flows and assume the reinvestment of dividends. **PAI's returns have not been calculated using PAI's share price.**

Performance graph [2]



PAI's returns are calculated after the deduction of fees and expenses, adjusted for taxes paid and any capital flows and assume the reinvestment of dividends. **PAI's returns have not been calculated using PAI's share price.**

Invested positions [3]

	Long %	Short %	Net %	Currency %
Asia-Pacific	91.6	(4.4)	87.2	99.7
Macao	0.9		0.9	0.9
China	45.2		45.2	47.2
Hong Kong	8.2		8.2	8.7
Taiwan	9.4	(2.0)	7.4	7.5
India	9.3		9.3	9.3
Korea	12.7	(2.4)	10.3	12.7
Philippines	1.3		1.3	1.3
Thailand	1.8		1.8	1.8
Vietnam	2.6		2.6	2.6
China Renminbi Off Shore				7.4
Singapore Dollar				0.2
North America				0.2
United States Dollar				0.2
Sub-Total	91.6	(4.4)	87.2	100.0
Cash	8.4	4.4	12.8	
Total	100.0		100.0	100.0

Long - 50 stocks Short - 2 indices

Top ten positions [4]

Stock	Country	Industry	%
Taiwan Semiconductor	Taiwan	Info Technology	7.1
Samsung Electronics Co Ltd	Korea	Info Technology	6.8
Tencent Holdings	China	Comm Services	6.6
Alibaba Group Holding Ltd	China	Cons Discretionary	4.3
AIA Group Ltd	Hong Kong	Financials	4.2
Ping An Insurance	China	Financials	3.5
Huazhu Group	China	Cons Discretionary	3.3
LG Chem Ltd	Korea	Materials	3.0
Li Ning Co Ltd	China	Cons Discretionary	3.0
Reliance Industries Ltd	India	Energy	3.0
		Total	44.6

Industry breakdown [3]

Sector	Long %	Short %	Net %
Consumer Discretionary	26.3		26.3
Info Technology	22.8		22.8
Financials	11.2		11.2
Communication Services	10.1		10.1
Real Estate	5.6		5.6
Industrials	3.0		3.0
Materials	3.0		3.0
Energy	3.0		3.0
Consumer Staples	2.8		2.8
Health Care	1.2		1.2
Other	2.5	(4.4)	(1.9)

NB: With effect from 31 May 2020, our country classifications for securities were updated to reflect Bloomberg's "country of risk" designations, and our currency classifications for securities were updated to reflect the relevant local currencies of our country classifications.

1. & 2. Source: Platinum for portfolio returns and Factset Research Systems for MSCI returns. The returns are calculated relative to the MSCI All Country Asia ex-Japan Net Index in A$. The investment returns in the line graph are cumulative on A$20,000 invested in PAI since inception. Past performance is not a reliable indicator of future returns. Platinum does not invest by reference to the weightings of the index. The index is provided as a reference only.

3. The geographic "Long %" is the exposure to long securities and long securities/index derivative positions, the geographic "Short %" is the exposure to short securities and short securities/index derivative positions and the geographic "Net %" is the difference between the geographic "Long %" and the geographic "Short %", each as a percentage of the market value of the Fund's portfolio. The "Currency %" is the effective currency exposure as a percentage of the market value of the Fund's portfolio taking into account long and short securities, cash, forwards and long and short securities/index derivative positions. The cash "Long %" includes cash at bank, cashflows expected from forwards and effective cash exposures resulting from long securities/index derivative positions, the cash "Short %" includes effective cash exposures resulting from short securities/index derivative positions and the cash "Net %" is the difference between the cash "Long %" and the cash "Short %", each as a percentage of the market value of the Fund's portfolio. For the "Industry breakdown", index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".

4. The "Top ten positions" show PAI's top ten long securities positions as a percentage of PAI's portfolio value (including long securities and long securities derivative positions).

- China's recovery continues apace.
- India's government announced significant labour market reforms.
- We provide updates on key holdings Samsung Electronics and Reliance Industries.

Once again, Asian markets were positive in September, and the portfolio's performance was pleasing. Key drivers of performance for the month included large holdings Taiwan Semiconductor Manufacturing and Samsung.

As we have highlighted in the past, we expect Chinese-US tensions to persist, and that there will be winners from this ongoing tension and industrial displacement. In our view Samsung is a potential beneficiary, given the US-led effort to block Huawei's sales of 5G network equipment. On our analysis, Samsung stands to benefit from momentum in its foundry, or third-party chip-making business, as well as a its network business which can now win share from former Huawei customers. While most consumers know Samsung for its electronics and phones, we are owners of the company for its genuine technological leadership in chip making and fast follower role in telecommunications network equipment. For instance, Samsung is second only to Huawei in 5G related patents (Source: Financial Times).

Underscoring the ongoing economic recovery in China, the official September manufacturing Purchasing Managers' Index (PMI) from the National Bureau of Statistics came in at 51.5, while the non-manufacturing PMI was 55.9 for the month (readings over 50 indicate expansion, (Source: CNBC).

Even the Chinese domestic airline industry is showing distinct signs of life. Domestic arrivals at airports in China reached 86% of 2019 levels in August, while bookings hit 98% of prior year levels and the strength has continued into September, with domestic flights at 99% of 2019 levels in the first week of September (Source: Economic Times of India; JPMorgan).

China's ongoing financial liberalisation process continued in September. Having abolished the Qualified Foreign Institutional Investor quota earlier in 2020, the People's Bank of China stated in a policy document that it would simplify the application process for QFII status and speed turnaround times (Source: Caixin). While progress is slow, liberalising reforms to China's financial system are ongoing. However, September also saw a reminder of the complications of doing business in China. Kweichow Moutai, the largest liquor company in the world and a former longstanding holding of the portfolio, announced that it would buy a stake in Guizhou Expressway Group, a business with no synergy or connection with Moutai apart from being based in the company's home province of Guizhou, in our view (Source: YiCai Global).

September saw the announcement of important labour market reforms in India. These reforms have been a long time coming and effectively consolidate 25 archaic laws into three codes centred around social security, labour relations and occupational health and safety. While the labour reforms expand social security, they dilute collective bargaining rights and allow more flexibility for employers in hiring, firing and the use of fixed term contracts. This latter measure applies particularly to factories with up to 300 employees and it expands on measures introduced at the state level during the impact of COVID-19. On balance these policies should help with regard to the "Make in India" pro-manufacturing policies of the Modi government (Source: India Express; Economic Times of India; BBC; government releases). Labour market reform is a difficult issue in India and there were protests organised by farmers and labour unions late in September, particularly in the states of Haryana and Punjab (Source: BBC).

India has been severely affected by COVID-19 – it is second only to the USA in terms of cases, with over six million reported, and over 100,000 deaths have been recorded (Source: Australian Broadcasting Corporation). During the month we had a call with Indian ride sharing firm Ola which gave us some insight into India's recovery from the effects of COVID-19: activity has recovered to 45% of pre-COVID-19 levels in India, versus approximately 75% across Australia, New Zealand and the UK, according to management.

One of the portfolio's key Indian holdings, Reliance, confirmed that private equity firm Silver Lake will buy a stake in its Reliance Retail business (Source: Financial Times). The company disclosed that Silver Lake will invest approximately US$1bn for a 1.75% stake in Reliance Retail at a pre-money valuation of US$57bn (Source: company releases). This is further validation for us of Reliance's strategy of using its petrochemicals cashflow to roll out telecommunications, retailing and e-commerce businesses early in India's development of a consumer economy.

Source: Chart 1 – IBES consensus, in local currency.
Correct as at 7 October 2020.

Source: Chart 2 – IBES consensus, in local currency.
Correct as at 7 October 2020.

Chart 1 and 2 shows valuations based on sell-side consensus estimates. It is worth noting at this stage, that in our view these earnings forecasts will very likely come down substantially to reflect the impact of the coronavirus-related slowdown on the global economy.