Platinum Asia Fund
(Quoted Managed Hedge Fund) - ASX: PAXX

31 October 2019

Facts

Portfolio value	$150.59 mn
Fund commenced	12 September 2017
Fund launch	14 September 2017
Income distribution date	Annual, 30 June
Unit valuation	Sydney Business Day
Net Asset Value ($ per unit)	$4.2943

Fees

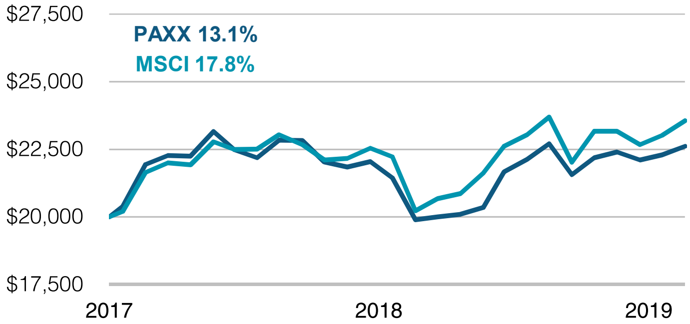
Entry fee	Nil
Buy/sell spread (Platinum Asia Fund)	0.20%/0.20%
Fee:	Investment Management 1.10% p.a.
	Investment Performance 15.00% p.a.

*of the amount by which the Fund's return exceeds its index return

Performance [1]

	Fund %	MSCI %
1 month	1.43	2.35
3 months	0.97	1.68
6 months	(0.41)	(0.56)
Calendar year to date	12.55	12.94
1 year	13.69	16.49
2 years (compound pa)	1.52	4.33
Since inception (compound pa)	5.94	7.98

Performance graph [2]



Invested positions of Platinum Asia Fund [3]

	Long %	Short %	Net %	Currency %
Asia-Pacific	88.0	(1.0)	86.9	49.4
China	6.5		6.5	6.5
China Ex PRC	37.1		37.1	
Hong Kong	7.8	(0.5)	7.3	28.9
Taiwan	5.2		5.2	5.3
India	10.6	(0.6)	10.1	11.5
Korea	11.2		11.2	11.2
Malaysia	0.4		0.4	0.4
Philippines	3.0		3.0	3.0
Thailand	3.3		3.3	3.3
Vietnam	2.8		2.8	2.8
China Renminbi Off Shore				(23.5)
North America	0.2		0.2	50.5
United States	0.2		0.2	50.5
Sub-Total	88.2	(1.0)	87.1	100.0
Cash	11.8		12.9	
Total	100.0		100.0	100.0

Long - 59 stocks Short - 1 swap, 1 index

Top ten positions of Platinum Asia Fund [4]

Stock	Country	Industry	%
Samsung Electronics Co Ltd	Korea	Info Technology	5.8
Alibaba Group Holding Ltd	China	Cons Discretionary	5.5
Tencent Holdings	China	Comm Services	5.3
Taiwan Semiconductor	Taiwan	Info Technology	5.2
AIA Group Ltd	Hong Kong	Financials	4.0
Ping An Insurance	China	Financials	3.7
Midea Group	China	Cons Discretionary	3.6
Meituan Dianping	China	Cons Discretionary	3.0
Axis Bank Limited	India	Financials	3.0
Autohome Inc	China	Comm Services	2.9
		Total	42.0

Industry breakdown of Platinum Asia Fund [3]

Sector	Long %	Short %	Net %
Consumer Discretionary	20.3		20.3
Financials	17.0		17.0
Info Technology	16.5	(0.6)	15.9
Communication Services	15.5		15.5
Industrials	6.3		6.3
Real Estate	5.8		5.8
Other	2.8		2.8
Health Care	2.2		2.2
Energy	0.8		0.8
Materials	0.7		0.7
Utilities	0.5		0.5
Consumer Staples		(0.5)	(0.5)

1. & 2. Source: Platinum for Fund returns and Factset Research Systems for MSCI returns. Investment returns are calculated using the Fund's NAV unit price (i.e. exclude a buy/sell spread), and represent the combined income and capital returns in the specified period. All returns are pre-tax, net of fees (including any accrued performance fee) and costs and assume the reinvestment of distributions. 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 the Fund 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 "Long %" is the exposure to long securities and long securities/index derivative positions, the "Short %" is the exposure to short securities and short securities/index derivative positions and the "Net %" is the exposure to long and short securities and long and short securities/index derivative positions, each as a percentage of the market value of Platinum Asia Fund's ("PAF's") portfolio. The "Currency %" is the effective currency exposure of PAF's portfolio as a percentage of the market value of its portfolio, taking into account long and short securities, cash, forwards and long and short securities/index derivative positions. 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".

3. and 4. China generally refers to securities or derivatives over securities, which securities are listed on the Shanghai or Shenzhen stock exchange. China Ex PRC generally refers to securities or derivatives over securities, which securities are listed outside of the PRC but provide exposure to PRC companies.

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

Market update and commentary

This commentary relates to the underlying Fund, the Platinum Asia Fund.

- Trade relief appears to have driven markets higher.
- Non-Japan Asia valuations remain attractive.
- We reduced our cash position over the month from approximately 20% to 13%.

Asian markets traded up in October amid optimism regarding a trade deal in some form between China and the US. A general sense of relief appears to have emerged that global industrials and emerging markets are not as bad as feared – and they are cheap (see Chart 1, Price to Earnings Ratios). For instance global PMIs (Purchasing Managers' Index) show some signs of having bottomed (see Chart 2, Global PMIs). The Fund participated in this rally, albeit with performance muted to a degree by our holding of 10-20% cash throughout the month.

A new top ten holding for the Fund is home appliance manufacturer Midea. This is a mid-teens price to earnings stock, growing earnings at better than 10%, even in a tough market for appliances such as air conditioners or fridges in China (Source: FactSet). We think the company's largest competitor Gree has really dropped the ball on e-commerce penetration and product improvement cycles and is stuck with high inventory levels as a result. So while the industry is seeing pricing pressure as a result of competitors' inventories, Midea is drawing ever further ahead by developing better products with rapid innovation cycles and migrating to online sales for approximately 30% of its sales, versus Gree at 10% (our estimates, based on company filings).

Ping An Insurance posted another strong quarterly result during October. The company's third quarter operating profit rose 21.5% year on year. Ping An Insurance is gradually improving its business quality rather than chasing growth, with a slowdown in Value of New Business growth to 4.5%, which we like. As a reminder, Ping An Insurance trades on 9 times 2019 earnings (Source: company filings and Factset).

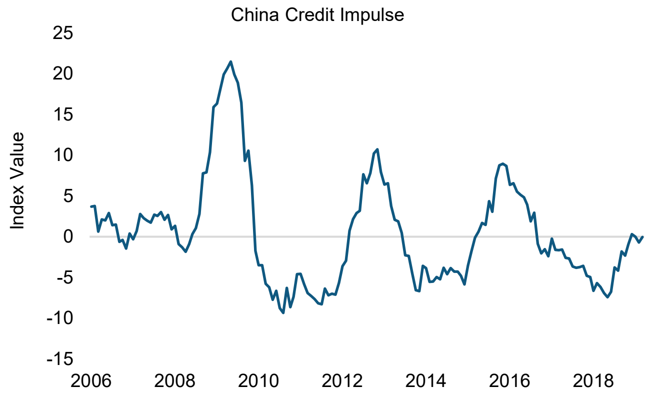
We have a large exposure to global semiconductors via SK Hynix, Samsung and TSMC. In common with the Platinum International Fund, we see a consolidated industry, with structural growth driven by 5G, autonomous driving, factory automation and cloud computing. Market fear of anything cyclical gives us the opportunity to own chip makers at exceptional valuations, despite their high returns through-cycle and ability to grow over the long term.

Our largest detractor in performance terms for the month was Kasikornbank, based in Thailand. At the end of October Kasikorn reported Q3 results and announced 2020 targets. The stock was very weak following this as the market was worried about the guidance for 2020 non-interest income – "down 5% to down 17%". However the stock rebounded approximately 13% in early November back to pre-announcement levels. This bank trades at 9 times 2019 earnings (Source: FactSet) amid fears for the Thai economy with business confidence shaken by the trade war and the resultant global industrial slowdown. Longer term we see a well-managed bank posting solid returns on assets in a high growth potential economy.

As we have written in prior months, China has stimulated its economy moderately, apparently aiming for stabilisation rather than acceleration (see Chart 3, the China Credit Impulse Chart). Prior surges in Asian markets, such as in 2015 and 2017 appear unlikely in this context. As a result we have upgraded the portfolio to adhere to higher quality and less economically exposed companies in general, with long term growth potential, such as Midea, Ping An Insurance and the chip makers. Alongside these, we think many companies in Asia like Kasikornbank, which are cyclically exposed, are nonetheless well managed, have good balance sheets and are simply too cheap. We are confident this combination of quality and value within the portfolio has the potential to deliver good returns to investors.

Source: Chart 1 – FactSet, Correct as at 31 October 2019.

Source: Chart 2 – Bloomberg, Correct as at 31 October 2019.



Source: Chart 3 – Bloomberg, Correct as at 31 October 2019.