



Platinum Asia Fund

(Quoted Managed Hedge Fund) - ASX: PAXX

29 February 2020

Facts

Portfolio value	\$147.28 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)	\$4.5369

Fees

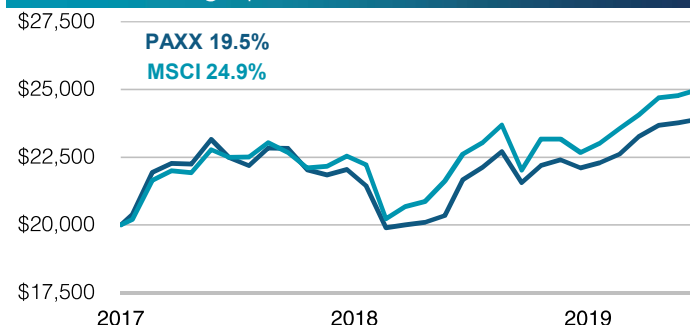
Entry fee	Nil
Buy/sell spread	0.20%/0.20%
(Platinum Asia Fund)	
Fee:	Investment Management 1.10% p.a. Investment Performance 15.00% p.a.

Performance ¹

	Fund %	MSCI %
1 month	0.54	0.85
3 months	2.70	3.84
6 months	8.11	10.22
Calendar year to date	0.92	1.19
1 year	10.31	10.47
2 years (compound pa)	3.08	5.38
Since inception (compound pa)	7.49	9.45

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

Performance graph ²



Invested positions of Platinum Asia Fund ³

	Long %	Short %	Net %	Currency %
Asia-Pacific	73.3	(19.1)	54.3	61.5
China	11.9		11.9	12.0
China Ex PRC	27.1		27.1	
Hong Kong	6.2	(2.5)	3.7	27.3
Taiwan	8.0	(4.9)	3.0	3.0
India	8.2	(3.9)	4.3	5.3
Korea	8.5	(4.8)	3.7	9.4
Philippines	0.5		0.5	1.2
Singapore		(3.0)	(3.0)	0.0
Thailand	0.5		0.5	0.7
Vietnam	2.4		2.4	2.4
Australian Dollar				0.1
North America				38.5
United States Dollar				38.5
Sub-Total	73.3	(19.1)	54.3	100.0
Cash	26.7	19.1	45.7	
Total	100.0		100.0	100.0

Long - 47 stocks Short - 4 indices

Top ten positions of Platinum Asia Fund ⁴

Stock	Country	Industry	%
Taiwan Semiconductor	Taiwan	Info Technology	5.2
Tencent Holdings	China	Comm Services	5.0
Samsung Electronics Co Ltd	Korea	Info Technology	4.7
Alibaba Group Holding Ltd	China	Cons Discretionary	4.5
AIA Group Ltd	Hong Kong	Financials	3.9
Midea Group	China	Cons Discretionary	3.8
Largan Precision	Taiwan	Info Technology	2.8
Inner Mongolia Yili	China	Consumer Staples	2.6
Vietnam Enterprise	Vietnam	Other	2.4
China International Travel Services	China	Cons Discretionary	2.3
Total			37.1

Industry breakdown of Platinum Asia Fund ³

Sector	Long %	Short %	Net %
Info Technology	17.6		17.6
Consumer Discretionary	15.6		15.6
Financials	11.3		11.3
Communication Services	8.6		8.6
Consumer Staples	4.3		4.3
Real Estate	3.1		3.1
Industrials	2.9		2.9
Health Care	2.9		2.9
Materials	2.4		2.4
Energy	1.9		1.9
Utilities	0.4		0.4
Other	2.4	(19.1)	(16.7)

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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 written 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 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".

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).

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

- China outperformed Western markets in February.
- China's banking system is undergoing much needed reform, but provides a perverse benefit at present.
- We lowered exposure to market greatly in February.

Asian equity markets and the Fund posted positive returns for the month of February. Investors may be surprised to see performance for the month of February positive in Asia, in China in particular, just as coronavirus becomes the most-discussed issue in financial market commentary and as global indices of manufacturing activity have plummeted (see the accompanying global manufacturing PMI chart). Some of this is timing – with China ahead of the rest of the world in terms of case recognition and reaction to the disease.

Additionally, in our view a portion of China's financial market outperformance relates to the nature of Chinese financing. Simply put, while China's banking system is prey to cronyism and poor capital allocation, it is relatively robust to shocks. To explain why, consider the example of a steel mill financial controller calling their liaison at, say, Bank of China, to explain that an interest payment will not be met this month. The loan will almost certainly not be called in the current environment due to government directions to this effect, in our view.

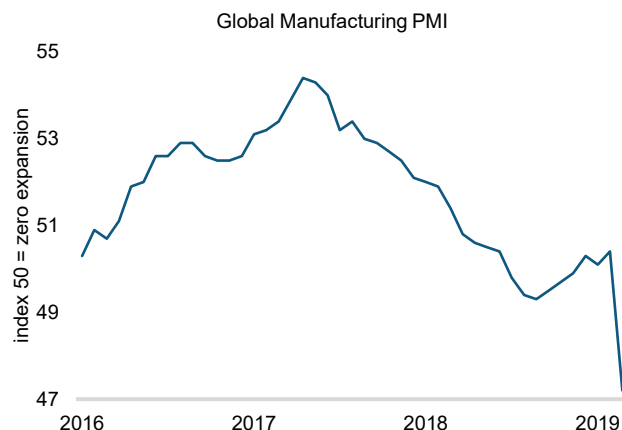
To be clear, this is not a positive under normal circumstances – but these are not normal circumstances. Further – the reform of this bank-mediated credit system is one of the main reasons that Chinese economic growth has been sluggish for years, and that reform program is ongoing. But for now, the legacy of the system's design is relative robustness to shocks (for a more detailed discussion of Chinese systemic reforms see <https://www.platinum.com.au/Insights-Tools/The-Journal/China-is-not-in-Crisis.-it-is-reforming>).

To complete the thought experiment, compare this to a company failing to meet a coupon on a bond – they will be in immediate default. Hence the spread of fear to markets in Europe and the US, where spreads widened significantly in recent weeks and equities sold off sharply.

It appears that Covid-19 is contained in Hubei, with most provinces reporting zero additional cases for the five days to 3 March (Source: CICC). The disease remains a serious epidemic in Hubei, and its now-rapid spread in countries outside China is of intense concern.

New Top Ten holdings this month include Chinese dairy producer Inner Mongolia Yili. The company is a leading dairy player in China's consolidating market: two national players now hold 70% of the UHT segment. Diversified Vietnam play Vietnam Enterprise, also a new Top Ten, holds stakes in a range of high-quality Vietnamese companies, leveraging the benefits for Vietnam of the trade war migration of some manufacturing capacity out of China. We took the opportunity of a sharp fall in share price to buy China International Travel Service (CITS), an exceptional growth story driven by Chinese people's increased propensity to travel.

We sharply reduced exposure to markets during the month in advance of the deep market declines in late February, using index shorts against the Korean, Hong Kong, Chinese and Indian markets. Please note that we will add and close shorts rapidly in times of elevated market volatility such as at present.



Source: Chart 1 – Global Manufacturing PMI – Source Bloomberg, data to February 2020.



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



Source: Chart 3 – IBES consensus, in local currency. Correct as at 2 March 2020.