Platinum Asia Fund

(Quoted Managed Hedge Fund) - ASX: PAXX

31 October 2020

Facts

Portfolio value	$166.86 mn
Fund commenced	12 September 2017
Fund launch	14 September 2017
Income distribution date	Annual, 30 June
Unit valuation	Sydney Business Day
Net Asset Value ($ per unit)	$5.3720

Fees

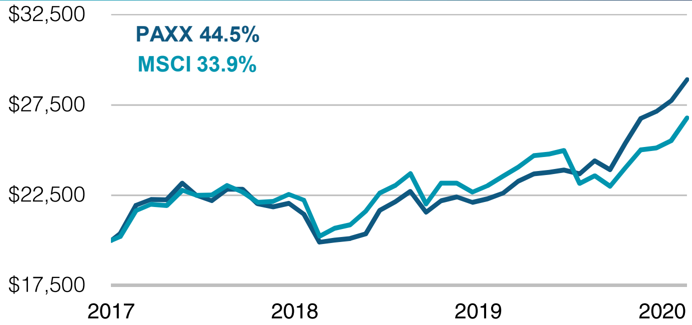
Entry fee	Nil
Buy/sell spread (Platinum Asia Fund)	0.20%/0.20%
Fee:	Investment Management 1.10% p.a.
	Investment Performance 15.00% p.a.

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

Performance [1]

	Fund %	MSCI %
1 month	4.21	4.92
3 months	8.03	7.07
6 months	18.45	13.59
Calendar year to date	22.06	8.47
1 year	27.78	13.66
2 years (compound pa)	20.53	15.07
3 years (compound pa)	9.61	7.35
Since inception (compound pa)	12.46	9.76

Performance graph [2]



Invested positions of Platinum Asia Fund [3]

	Long %	Short %	Net %	Currency %
Asia-Pacific	88.3	(8.0)	80.4	96.9
Macao	0.5		0.5	0.5
China	47.1		47.1	47.1
Hong Kong	7.0		7.0	9.1
Taiwan	7.4	(4.1)	3.3	3.5
India	8.9		8.9	9.2
Korea	11.9	(3.8)	8.1	12.0
Philippines	1.5		1.5	1.5
Thailand	1.6		1.6	1.6
Vietnam	2.5		2.5	2.5
Australian Dollar				0.6
China Renminbi Off Shore				9.3
Singapore Dollar				0.1
North America				3.0
United States Dollar				3.0
Europe				0.1
UK Pound Sterling				0.1
Sub-Total	88.3	(8.0)	80.4	100.0
Cash	11.7	8.0	19.6	
Total	100.0		100.0	100.0

Long - 45 stocks Short - 2 indices

Top ten positions of Platinum Asia Fund [4]

Stock	Country	Industry	%
Tencent Holdings	China	Comm Services	7.2
Taiwan Semiconductor	Taiwan	Info Technology	6.4
Samsung Electronics Co Ltd	Korea	Info Technology	5.6
Alibaba Group Holding Ltd	China	Cons Discretionary	4.9
AIA Group Ltd	Hong Kong	Financials	3.8
LG Chem Ltd	Korea	Materials	3.4
Ping An Insurance	China	Financials	3.3
Reliance Industries Ltd	India	Energy	3.1
Li Ning Co Ltd	China	Cons Discretionary	3.0
SK Hynix Inc	Korea	Info Technology	2.9
		Total	43.7

Industry breakdown of Platinum Asia Fund [3]

Sector	Long %	Short %	Net %
Consumer Discretionary	25.2		25.2
Info Technology	20.1		20.1
Financials	11.3		11.3
Communication Services	10.8		10.8
Real Estate	5.3		5.3
Materials	3.4		3.4
Energy	3.1		3.1
Industrials	3.0		3.0
Consumer Staples	2.5		2.5
Health Care	1.2		1.2
Other	2.4	(8.0)	(5.5)

Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935, trading as Platinum Asset Management ("Platinum") is the responsible entity of the Platinum Asia Fund (Quoted Managed Hedge Fund) (the "Fund"). The Fund's latest Product Disclosure Statement (the "PDS") provides details about the Fund. You can obtain a copy of the PDS from Platinum's website www.platinum.com.au, or by contacting Investor Services on 1300 726 700 (Australian investors only), or 0800 700 726 (New Zealand investors only), or 02 9255 7500, or via invest@platinum.com.au. This information is general in nature and does not take into account your specific needs or circumstances. You should consider your own financial position, objectives and requirements and seek professional financial advice before making any financial decisions. Numerical figures have been subject to rounding. Platinum does not guarantee the performance of the Fund, the repayment of capital or the payment of income. The market commentary reflects Platinum's views and beliefs at the time of preparation, which are subject to change without notice. No representations or warranties are made by Platinum as to their accuracy or reliability. To the extent permitted by law, no liability is accepted by Platinum for any loss or damage as a result of any reliance on this information.

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 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 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

- Asia's strong performance continued in October.
- China's recovery appears on a solid footing.
- Amid slack global growth our portfolio is tilted toward large cap quality in Asia for now.

October saw another strong performance for the Fund and Asian equity markets in general. Strong performers for the month included Chinese internet giants Tencent and Meituan Dianping, while Chinese travel-related stocks Huazhu and Trip.com detracted.

China's ongoing recovery

It is becoming increasingly clear to us that China's industrial recovery is solid and the consumer economy is following. Early October saw the release of Chinese GDP figures for the quarter to 30 September 2020: China's GDP grew 4.9% versus the year prior, industrial production grew 6.9% versus the year prior, fixed asset investment was up 0.8% on the year prior, and retail sales grew 3.3% on 2019 levels (Source: Bloomberg). These official statistics are corroborated in currency markets, with the Chinese yuan and Korean won strengthening appreciably against the US dollar in recent months.

It is worth noting that this relative strength is at a time of very weak demand globally. This highlights the reality that China's direction is toward less reliance on trade, more internal demand and building its internal technological skills and capital base to lessen dependence on external parties, in our view.

Perhaps as a result of the relative strength of its economy, China has been sufficiently confident in recent weeks to pass a law permitting legislators to curtail rare earths exports. "China may take countermeasures against any country or region that abuses export-control measures and poses a threat to China's national security and interests, according to the law," the official Xinhua News Agency reported (Source: Nikkei).

Trade tension continues

Meanwhile, the Trump administration continued its aggressive stance toward not just China but other exporting nations, launching an investigation into the trade practices of Vietnam, with particular focus on whether the country is a currency manipulator (Source: Wall Street Journal). The effect of aggressive and bilateral trade policy pursued by the Trump administration has been to lessen certainty for capital allocators in global supply lines: when Germany, Canada, Mexico, Vietnam, Japan and China have all been threatened with trade sanctions, it is difficult for businesses to know where to invest in global supply chains, particularly as such investments require many years to earn a return on capital. It is unsurprising in this context that we have been in an industrial recession globally for nearly three years, on our analysis.

Our tilt toward quality in Asia

As a result of trade tensions and the resultant lack of dynamism in the industrial economy globally, coupled with investor aversion to China in particular and emerging markets in general, we shifted the portfolio in 2018 to focus largely on high-quality, domestic companies in the region. As a result, as we have indicated in prior months, we do not currently have a portfolio of deep value stocks: the forward price-earnings ratio of the portfolio as a whole is approximately 21 times. However, we do not think we are overpaying for the region's best companies, when these trade on heavy discounts to comparable companies in other regions, in our view.

As the global economy returns to work in a post-Covid world, we will likely need to pivot the portfolio to include more economic leverage given the exceptional value apparent, particularly as this might well occur in the presence of substantial fiscal support in major economies. Given our experience in the 2016-17 recovery in Asia, when large, liquid names led equity markets until late in 2017, and given ongoing lockdowns and disruption in Europe and the Americas, we believe we have ample time to make this adjustment as needed.

Source: Chart 1 – IBES consensus, in local currency.
Correct as at 5 November 2020.

Source: Chart 2 – IBES consensus, in local currency.
Correct as at 5 November 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.