Platinum®
ASSET MANAGEMENT

Platinum Asia Fund

(Quoted Managed Hedge Fund)®

(ARSN 620 895 427 | ASX Code: PAXX)

Quarterly Investment Manager's Report

31 December 2018

Platinum®
ASIA FUND
(QUOTED MANAGED HEDGE FUND)

Investment Update

Platinum Asia Fund (Quoted Managed Hedge Fund) (PAXX)

Joseph Lai
Portfolio Manager

Performance

(to 31 December 2018)

	QUARTER	6 MTHS	1 YEAR	SINCE INCEPTION PA
PAXX	-6.3%	-8.8%	-9.7%	0.4%
MSCI AC Asia ex J Index	-6.1%	-5.6%	-4.9%	3.3%

PAXX's returns are net of accrued fees and costs, are before tax, and assume the reinvestment of distributions. Inception date: 12 September 2017. Index returns are those of the MSCI All Country Asia ex Japan Net Index in AUD. Source: Platinum Investment Management Limited, FactSet. Historical performance is not a reliable indicator of future performance. See note 1, page 11.

The Platinum Asia Fund (Quoted Managed Hedge Fund) (ASX code: PAXX) is a feeder fund that primarily invests into Platinum's flagship Asian equity fund, the Platinum Asia Fund ("PAF"), which was established on 3 March 2003.

The following is the 31 December 2018 Quarterly Investment Manager's Report prepared for PAF by its Portfolio Manager. Please note that in this report, the "Fund" refers to PAF and portfolio details, such as portfolio disposition, top 10 holdings and currency exposure, pertain to PAF's portfolio. Please be aware that PAXX and PAF (C Class - standard fee option) have different fee structures and therefore different returns. PAXX's returns may also vary from PAF's performance fee class (P Class) returns due to different cash holdings as well as gains and losses arising as a result of PAXX's market making activities.

With a growing number of indicators pointing to a global economic slowdown and further US interest rate rises potentially on the horizon, this quarter was a difficult one for global markets with most major indices down significantly. Although generating a negative return in absolute terms, the Asia ex-Japan market outperformed the global index by 4% over the quarter,[1] suggesting that the Asian market may be close to bottoming, given the steep declines already experienced in the last 12 months.

In this difficult market environment, stocks that contributed positively to PAF's performance this quarter largely consisted of sectors and companies with specific contrarian stories. One such example is Chinese real estate, a sector that had been out of favour with investors for some time but which performed particularly well this quarter, with China Overseas Land & Investment up 10% and Longfor Properties up 16%. Another area with positive return was Indian infrastructure, which benefited from the improved liquidity conditions in India's corporate bond market following additional cash injections by the Reserve Bank of India and a decline in oil prices. Adani Ports rose 18%, and IRB Infrastructure Developers was up 20%.

Cyclical companies and large cap stocks suffered as concerns of a global slowdown mounted. Samsung Electronics, Kasikornbank, Naver and Taiwan Semiconductor (TSMC) were key detractors.

Changes to the Portfolio

PAF has a net invested position of around 70% as at the end of December, with a minimal exposure to the Australian Dollar. The prolonged market weakness has given us an opportunity to acquire some strong, growing businesses in the Asian region, some of which had previously been too expensive. As stock prices change, so does our opportunity set. We have and will continue to respond to market movements to optimise the portfolio.

We remain cognisant of the conditions in the world's major developed economies, particularly the US, which appear to have peaked in terms of growth and companies have started

1 The MSCI All Country Asia ex-Japan Net Index returned -8.9%, versus -12.5% by the MSCI All Country World Net Index (in local currency terms).

to downgrade their earnings estimates. However, while some developed market stocks have fallen, many continue to trade at elevated valuations, suggesting that further adjustments in stock prices may be yet to come. In contrast, the Asian ex-Japan markets have already seen extensive earnings downgrade and stock prices have adjusted significantly in response. The risk for us is that market volatility in developed economies may, in the near-term, continue to negatively impact the Asian markets and hence PAF's portfolio. We are therefore maintaining a conservative net exposure.

What we aim to do is to deploy cash into quality prospective businesses as the opportunity arises. This quarter, we made a number of new additions to the portfolio, including:

- **Hong Kong Exchanges & Clearing Ltd** – The operator of the Hong Kong Stock Exchange and the Hong Kong Futures Exchange has seen its share price suffer over the last year in a bear market. However, in our view, the company continues to have a distinct structural growth trajectory as an important conduit for China's capital markets. As China gradually opens up its financial markets (equities, bonds, commodities, currency) to foreign investors, the stock and futures exchanges of Hong Kong should see their securities and derivatives trading volumes expand enormously over the long-term. The recent market turbulence gave us an opportunity to buy this monopoly business on its trough valuation.
- **Sany Heavy Industry** – This company is China's champion in construction equipment manufacturing and a leading example of Chinese companies successfully climbing the technology ladder. It specialises in making high-quality excavators, cranes and concrete machinery, and its value-for-money proposition has enabled it to gain significant domestic market share. As Chinese authorities once again turn to infrastructure projects as one of the stimulatory measures to counter slowing economic growth, we think Sany will benefit.

On the short side, we initiated several positions in the biotech and related areas during the quarter. While the Asian stock markets overall have been characterised by widespread sell-offs and deteriorating sentiment over the last year, investors crowding towards certain seemingly 'safe' sectors amidst a downturn has driven some overvalued companies to ever more excessive valuations. Some of the companies added to our short book are yet to turn a profit and, in our view, lack any compelling competitive advantages to justify their extravagant prices.

Commentary

This time last year, most major economies were tightening their monetary policy and markets felt bullish. What followed, however, were declines in one stock market after another. Today, sentiment is at the opposite end to where it

Disposition of Assets of PAF

REGION	31 DEC 2018	30 SEP 2018	31 DEC 2017
China^	33%	41%	51%
Hong Kong	4%	4%	3%
Taiwan	0%	2%	2%
India	16%	11%	10%
Korea	11%	13%	12%
Thailand	4%	5%	4%
Philippines	3%	2%	3%
Vietnam	2%	1%	2%
Malaysia	<1%	1%	<1%
Singapore	0%	1%	1%
Indonesia	0%	<1%	<1%
Cash	26%	19%	11%
Shorts	-4%	-1%	0%

^ Inclusive of all mainland China-based companies, both those listed on exchanges within mainland China and those listed on exchanges outside of mainland China.

See note 2, page 11. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures of PAF ^

SECTOR	31 DEC 2018	30 SEP 2018	31 DEC 2017
Financials	21%	25%	21%
Communication Services	11%	13%	11%
Consumer Discretionary	9%	6%	14%
Industrials	8%	6%	8%
Energy	6%	10%	5%
Consumer Staples	5%	<0%	6%
Real Estate	4%	6%	6%
Information Technology	3%	6%	5%
Materials	2%	2%	6%
Other	2%	1%	1%
Utilities	1%	1%	2%
Health Care	-1%	4%	3%
TOTAL NET EXPOSURE	70%	80%	89%

^ A major GICS reclassification was implemented during the quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.

See note 3, page 11. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

was a year ago – this quarter saw developed markets falling in the footsteps of emerging markets, and investors are generally bearish across global equity markets. There are, however, some signs suggesting that the Fed may slow its pace of interest rate hikes, and some countries, such as China, have started implementing stimulatory policy (albeit with moderate intensity). Against this backdrop, how should one position one's portfolio?

Let's first recap on how 2018 unfolded. At the beginning of the year China was booming, which gave the authorities an opportunity to tackle a difficult reform agenda – to clean up the shadow banking system. This led to a tightening in credit availability, some loan defaults, and a moderate slowdown in economic activity. Then, the US Federal Reserve lifted interest rates, which is generally seen as a negative for equity markets. Finally, we had the US-China trade war which escalated throughout the year.

Markets tumbled and investors lost confidence. The Chinese A-market fell 25% in 12 months or 45% from its peak in late January 2018. Things felt pretty bad.

Looking ahead, what is important to note is that Chinese authorities have realised that they had inadvertently over-tightened credit conditions and are now actively putting in loosening measures.

- The People's Bank of China (PBoC), China's central bank, cut banks' reserve requirement ratios four times in 2018 (and again in January 2019), to free up liquidity in the banking system. By October, the 1-month Shanghai Interbank Offered Rate (SHIBOR) had dropped to 2.7% from 4.7 % at the start of the year.
- The PBoC has also taken steps to encourage lending to private enterprises, including setting numerical targets as well as accepting additional debt to small and medium businesses as collateral when funding commercial banks.
- With greater funding being secured for approved projects, infrastructure spending has once again returned to positive growth after falling to negative territory in August.
- The Chinese government is also seeking to boost growth by lowering the tax burden for businesses and households. Income tax cuts and reduction in value-added tax (VAT, similar to GST) have been announced, which are estimated to exceed 1% of GDP.
- Government policy on the property market is also beginning to ease. Some regional government measures were so tight that families were only allowed to purchase one apartment, which must be owner-occupied and were prohibited from re-sale within three years. We are now beginning to see some municipal governments gradually loosening these restrictions.

Chinese authorities have been very clear that their intention is to reverse the over-tightening caused by the credit reform efforts, not to massively stimulate growth, and that it would avoid piling on huge amounts of debt in the process.

The policy easing will likely have a stabilising effect on China's domestic economy. While it is early days to assess the impact, we have seen some anecdotal evidence of improving activity, such as a pick-up in construction machinery sales and utilisation rate towards the end of the year. What's more,

Net Currency Exposures of PAF

CURRENCY	31 DEC 2018	30 SEP 2018	31 DEC 2017
US dollar (USD)	41%	17%	12%
Hong Kong dollar (HKD)	27%	27%	38%
Indian rupee (INR)	17%	15%	11%
Chinese yuan (CNY)	15%	15%	14%
Korean won (KRW)	10%	13%	12%
Thai baht (THB)	4%	5%	5%
Philippine piso (PHP)	3%	2%	3%
Vietnamese dong (VND)	2%	1%	2%
Australian dollar (AUD)	1%	2%	1%
Malaysian ringgit (MYR)	<1%	<1%	<1%
Taiwan new dollar (TWD)	0%	2%	2%
Chinese yuan offshore (CNH)	-20%	0%	0%

See note 4, page 11. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings of PAF

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	3.7%
Tencent Holdings	China	Communication Services	3.1%
Kasikornbank PCL	Thailand	Financials	3.0%
Axis Bank Ltd	India	Financials	2.7%
Ayala Land Inc	Philippines	Real Estate	2.4%
Alibaba Group	China	Consumer Discretionary	2.4%
Naver Corporation	Korea	Communication Services	2.1%
Reliance Industries	India	Energy	2.0%
AIA Group	Hong Kong	Financials	2.0%
Anta Sports Products	China	Consumer Discretionary	2.0%

As at 31 December 2018. See note 5, page 11.
Source: Platinum Investment Management Limited.

the Chinese economy is still growing in excess of 6% in real terms despite the recent slowdown. Its banking system has cleaned up much of the off-balance sheet speculative lending and should be more resilient as a result. China's debt-to-GDP ratio has stopped growing for almost two years!

The long-term fundamental drivers propelling the region's growth remain present – investment in education and technology, and entrepreneurs exploiting new business opportunities.

With respect to trade, China has been proactive in its efforts to resolve the stand-off with the US, including by making concessions to meet US demands. It is actively encouraging foreign companies to invest in China without forming joint ventures with local partners, a former requirement that has been criticised as a means for Chinese companies to access Western companies' valuable know-how. The bastions of Western industries old and new have embraced the change and announced multi-billion dollar projects in China, all to be wholly owned by the foreign parent. German chemical giant BASF plans to build a US$10 billion plant in Guangdong province, ExxonMobil a US$10 billion petrochemical plant, and Tesla has commenced construction of its US$5 billion Gigafactory 3 in Shanghai. In insurance, Allianz and AXA are each forming wholly owned subsidiaries in China, for the first time. BMW is in the process of buying out its Chinese joint venture partner. Given China's little-publicised but significant opening-up efforts so far, it should not come as a surprise that President Trump agreed to a 3-month truce in the tariff war.

Since early 2018, stock valuations in the region have fallen a long way. Industry champions and quality companies are now trading on highly attractive valuations. Our team is devoting considerable time studying and gaining a deeper understanding of these companies.

Kweichow Moutai is the undisputed champion amongst Chinese white spirit (*baijiu*) companies. Demand for its premium products is so high that they frequently sell out and consumers have a hard time getting their hands on them. No other domestic liquor brand comes close to Moutai in terms of prestige or exclusivity. The brand only has a low single digit market share, thus has a lot of room for growth. We have owned Kweichow Moutai in the past and made handsome gains for PAF in 2017, selling after its share price had had an impressive run. The stock is now trading on 16 times price-to-earnings (P/E) while seeing 20% growth in sales volume. We took this opportunity to re-introduce a position in the portfolio.

Anta Sports is one of China's most recognised domestic brands in sports apparel. Catching on the growing trend in fitness and leisure, the locals are taking up sports from soccer to running to skiing. Anta produces high quality products which are sold at more affordable prices than Western brands like Nike and Adidas. The company has well-executed marketing strategies, such as sponsoring various domestic sporting teams, including the Chinese National Olympic team. Anta is looking ahead. It is in the process of acquiring Finnish company Amer Sports, which owns brands such as Salomon, Peak Performance, Atomic Skis, Arc'teryx and Wilson. Amer's authentic brands and high performance products will appeal to China's increasingly sophisticated middle-class consumers, and it will also equip Anta with deeper operating know-how to compete in the sports apparel and equipment space. The company is seeing healthy growth and the stock is trading on 17x P/E. We added to our position during the recent sell-off.

Outlook

Some of the key concerns troubling the Asian markets are starting to ease. As most Asian countries rely on energy imports, a lower oil price is generally a positive for the region. Since there are now concerns of an economic slowdown facing both the US and China, the incentives to reach a trade deal have arguably increased for both sides. Finally, with growth slowing, we may see a pause in US interest rate hikes.

In spite of a turbulent 2018, we remain optimistic about Asia's long-term prospects. When the dust settles, China, or for that matter, Asia, is expected to continue to grow at a faster pace than most other economies. India offers many opportunities as its banking system has cleaned up and is ready to reboot. Korea still has strong industry champions like Samsung Electronics, which remains a key holding in PAF's portfolio and is on 6x P/E. Vietnam is attracting significant foreign investment, growing its exports at around 20% a year, and seeing its GDP grow at 6.8% a year. The Vietnamese stock market has sold off in the last nine months along with other emerging markets, throwing up a multitude of opportunities. There are companies with earnings growth of 20% and trading on single digit P/Es.

We have raised cash for the portfolio, and will continue to deploy capital into quality companies with resilient characteristics.

Macro Overview

by Andrew Clifford, CIO, Platinum Investment Management Limited

2018 – Year in Review

As we entered 2018, the prospects for the global economy were as bright as they had been since the onset of the Global Financial Crisis (GFC) over a decade ago. The US economy was growing from strength to strength, with tax cuts on the way that promised an additional boost. China had recovered well from its investment slump of 2014-15. Economic momentum was building in Europe and Japan.

There were a number of risks on the horizon. Many stemmed from rising US interest rates, especially as there were fears of inflation being fuelled by the tax cuts which added stimulus to what was already a buoyant economy. Another concern was how funding the increased fiscal deficit would impact on the US bond market. Further on the horizon remained the question of how the world's central banks would extricate themselves from their money printing exercises or "quantitative easing" (QE). There was also President Trump's threat of a trade war, along with other politically inspired skirmishes such as Brexit.

Under the radar of most Western media and commentators were the developments of China's financial reform. The reform essentially aimed to bring securitised assets – the so-called shadow banking activities – back onto the balance sheets of banks. The goal of the authorities was to tighten up on the speculative use of credit outside of the regulated banking environment. While to our minds this was good policy, we did highlight in our March 2018 Macro Overview[1] that the reform process gave rise to a risk of tightened credit availability which could potentially impact the economy. Our base case at the time was that, as China's economy was undergoing robust growth, the system should absorb and cope with the impact reasonably well.

This assumption turned out to be overly optimistic. The Chinese economy did progressively slow throughout 2018 in response to tighter credit conditions, with notable credit losses occurring in unregulated peer-to-peer lending networks, impacting consumer spending. The slowdown was further exacerbated by the commencement of President Trump's "trade war" in July. As we have highlighted in past reports, while the impact of the tariffs imposed to date has been relatively minor, they have certainly damaged business confidence and resulted in cut-backs in investment spending in China's manufacturing sector. The slowdown in China has continued throughout the latter months of the year, with passenger vehicle sales down 13% and 16% from a year ago in October and November 2018 respectively, and the first 11 months of the year registering a 2.8% decline from the same period in 2017.[2] Similarly, mobile phone sales volume in China in Jan-Nov 2018 decreased by 8% year-on-year.[3] Other indicators, such as the Purchasing Managers' Index (PMI), also registered declines over the last quarter.

The impacts of China's slowdown have been felt far beyond its borders. While China today is the world's second largest economy (US$12 trillion versus the US at US$19 trillion), it is for many goods the world's largest market. Not only is this the case for commodities and raw materials, such as iron ore and copper, it is also the case for many manufactured goods, from cars to smartphones to running shoes. Indeed, it would be difficult to think of a physical good for which China is not the biggest consumer in volume terms. As a result, China's slowdown has been felt globally and has been a significant factor in the loss of economic momentum in Europe, Japan and many of the emerging economies. The one country that has so far appeared immune to China's slowdown is the US, which was growing faster in the first instance, but also had the benefit of a fortuitously timed fiscal stimulus in the form of tax cuts.

Prospects for 2019

What does the year ahead hold in store?

Reasons for Caution

The loss of momentum in China, together with the trade war, will continue to cause a significant deal of uncertainty. Many companies entered 2018 with strong order books. As is typical in times of boom, customers were likely double-ordering components or items which they thought might be in short supply. When business slowed, these customers would have found themselves cutting back on new orders aggressively. In addition, the trade war also led some

1 www.platinum.com.au/Insights-Tools/The-Journal/Macro-Overview-March-2018

2 www.marklines.com/en/statistics/flash_sales/salesfig_china_2018, based on data compiled by the China Association of Automobile Manufacturers.

3 www.counterpointresearch.com/china-smartphone-share/

companies to bring forward orders to avoid the added cost of tariffs. All of this has created a significant amount of noise in sales outcomes for many businesses and it may well be some time into the new year before one has a clear sense of where demand has settled for many goods. And, of course, we are yet to see whether the US and China can negotiate a compromise on trade prior to the 1 March deadline – when, absent an agreement, US tariffs on a further US$200 billion of Chinese imports will take effect.

More importantly, the greatest risk facing the global economy is that the last driver of growth, the US, is now poised to slow. Housing and auto sales have fallen in response to higher interest rates. The benefits of the tax cuts have for the main part been expressed. The impact of tariffs on business is now being felt. While their direct impact on the US economy is perhaps not significant, the tariffs and the broader trade tension likely have begun to affect both consumer and business confidence, particularly as we await the outcome of the US-China negotiations.

Furthermore, the political environment in the US post the mid-term elections is also likely to be a drain on confidence, and the partial shutdown of the US government over funding debates may well be a prelude for what is to come. While similar shutdowns have occurred in the past with relatively minor disruptions, they certainly add to the distractions faced by both businesses and consumers. President Trump's infrastructure program could potentially be the next boost to growth, though it is unlikely to have much impact within the next 12 months even if it were to eventuate. As for interest rates, while the Federal Reserve has signalled that it will slow the pace of rate hikes, rate cuts appear a distant prospect. Many commentators have been focusing on the likelihood of a US recession, but it is beside the point. The conditions are in place for a progressively slower environment in the US throughout the course of 2019.

An important lesson from the last four years is that a maturing Chinese economy has become more responsive to domestic interest rate movements and credit condition. As the financial reform started to take hold in 2017, interest rates did rise and the Chinese Yuan appreciated, which subsequently saw economic activity slow in 2018. This is not dissimilar to what happened in 2015 when a recovery in activity from the prior investment slowdown was building momentum, only to be extinguished as capital outflows under the country's managed exchange rate mechanism led to tightened monetary conditions. Absent a more flexible exchange rate mechanism, China will likely remain susceptible to these mini booms and busts.

Another lesson from 2018 was how important China had become to the global economy. For the last 30 years or more, the US economy and financial markets have been at the centre of every analysis of global markets. It has long become a cliché to say that "when the US sneezes, the rest of the world catches a cold". In 2018, the US economy was in great shape, and yet the rest of the world slowed, because of China.

Reasons for Optimism

Applying these lessons to the year ahead, we would make the following observations. In order to alleviate the stress the financial reform has placed on the system, China has pushed out the deadlines for banks to comply with the requirement to bring their shadow banking assets back onto the balance sheet. Banks' capital reserve ratios have been cut to free up lending capacity, and funding has been assured for approved infrastructure projects. By October 2018, the 1-month Shanghai Interbank Offered Rate (SHIBOR) had fallen to 2.7% from 4.7% at the start of the year, and anecdotally the availability of credit for companies with strong balance sheets has improved dramatically. Tax cuts are on the way for households and businesses, which are estimated to be in the order of 1% of GDP.

These are important developments that are worth paying attention to. **If China's economy slowed in response to a tightening of credit conditions, one should also expect to see activity gradually pick up as policy loosening takes effect.** As it happens in any economic downturn, there will be debates around whether enough has been done and how long before the economy responds. Nevertheless, policy is clearly moving in a direction to, at least, gently encourage growth. Certainly, the broader economic data is yet to show any obvious signs that a bottom has been found, though some "green shoots" can be observed in improving construction equipment sales and a pick-up in infrastructure investment.

Besides the potential for a recovery in China, the other positive that may unfold is a resolution, at least in part, to the trade conflict between the US and China. In our last quarterly report we discussed in some detail the reasons that we believed there were significant incentives for both sides to find a compromise. Subsequently, the 1 January increase in US tariffs from 10% to 25% on US$200 billion of Chinese imports has been deferred while the two sides look to negotiate a deal. In our view, the need for both countries to find a middle ground is compelling, and it also appears that post the mid-term elections in the US, there is now an imperative for President Trump to win a domestic political victory. However, given the innumerable unknowns around the incentives on both sides of the negotiating table, it is difficult to have a strong level of conviction in this view. Presumably, we will be entertained by a "made for TV" style drama as the 1 March deadline approaches.

Market Outlook

As we observed in last quarter's Macro Overview, the slowdown in China, the uncertainty around trade, and rising interest rates in the US, had resulted in falling stock prices across the sectors that are sensitive to economic growth or exposed to trade issues. On the other hand, companies that were perceived to be immune to these concerns had performed strongly. These good performers were found primarily amongst high-growth companies in sectors such as software, e-commerce and biotech. Again, as we noted, these high-growth stocks were either at or approaching valuations that were exceedingly high by historical standards. Through the first nine months of 2018, the performance of these sectors accounted for much of the performance differential between the US market, which had continued to reach new highs, and the world's other major markets, which had been in steady declines since February. In the last quarter, in response to higher interest rates and tightening liquidity, this pattern changed with the US selling off in line with or even more fiercely than other major markets, led by the highly valued tech and biotech names.

Recently Bloomberg recorded an interview with Stan Druckenmiller, one of the most successful hedge fund managers of all time. The hour-long interview covered a wide range of topics, but of particular interest is Druckenmiller's observation that the signals he has relied on over the last 40 odd years to make calls on markets are no longer working. Druckenmiller noted that interest rate moves during a period of quantitative easing and very low rates, as well as stocks' price movements in response to news, could no longer be reliably reverse-engineered to give readings on what is happening in the economy. The result has been a higher degree of difficulty in extracting returns from markets. His comments echo those we have read from other experienced fund managers, and indeed in recent years many managers with strong long-term records have performed poorly with quite a number of them choosing to close shop and cease managing money. It is part of the phenomenon of active managers struggling to outperform the market and what some have referred to as the "death of value investing".

Various reasons have been offered for this idea that markets aren't behaving quite as one expects. At the top of this list of

MSCI Regional Index Net Returns to 31.12.2018 (USD)

REGION	QUARTER	1 YEAR
All Country World	**-12.8%**	**-9.4%**
Developed Markets	**-13.4%**	**-8.7%**
Emerging Markets	**-7.5%**	**-14.6%**
United States	**-13.8%**	**-5.0%**
Australia	-10.0%	-12.0%
Europe	**-12.5%**	**-14.8%**
Germany	-15.5%	-22.2%
France	-15.0%	-12.8%
United Kingdom	-11.8%	-14.2%
Italy	-11.8%	-17.8%
Spain	-8.7%	-16.2%
Russia	-9.0%	-0.7%
Japan	**-14.2%**	**-12.9%**
Asia ex-Japan	**-8.7%**	**-14.4%**
China	-10.7%	-18.9%
Hong Kong	-4.5%	-7.8%
Korea	-13.1%	-20.9%
India	2.5%	-7.3%
Brazil	13.4%	-0.5%

Source: FactSet.
Total returns over time period, with net official dividends in USD.
Historical performance is not a reliable indicator of future performance.

MSCI All Country World Sector Index Net Returns to 31.12.2018 (USD)

SECTOR	QUARTER	1 YEAR
Utilities	0.8%	1.4%
Communication Services	-6.2%	-10.9%
Consumer Staples	-6.6%	-10.5%
Health Care	-9.6%	1.7%
Financials	-11.9%	-15.7%
Materials	-13.4%	-16.0%
Consumer Discretionary	-14.4%	-8.3%
Industrials	-15.6%	-14.4%
Information Technology	-17.1%	-5.8%
Energy	-20.2%	-13.3%

Source: FactSet.
Total returns over time period, with net official dividends in USD.
Historical performance is not a reliable indicator of future performance.

reasons is the impact of QE and low interest rates. Especially topical at the moment is the question of how the reversal of QE, with the Federal Reserve reducing its holding of US Treasuries, particularly at a time of rising fiscal deficits, is impacting on markets. Another oft-cited reason for recent market "anomalies" is the "rise of the machines" – be they high-frequency algorithmic trading or quant-based investment strategies. Furthermore, with the rise of populist governments across the world, political risk, at face value, is much greater than it has been. Accumulation of high levels of debt in certain sectors of the global economy may also be playing a role, though this is hardly a new phenomenon. It may simply be that China is having a much greater influence on the global economy and on markets than ever before.

We would broadly agree with the claim that markets are not behaving quite as one expects. However, the reality of markets is that they often don't behave in line with investors' expectations, and the patterns that investors think they see are only temporary. So, as investors, how should we navigate our way through this environment? There are two core principles which underpin Platinum's investment approach. First is the belief that **the best opportunities are often found by looking in the out-of-favour areas** and avoiding the popular ones. Secondly, **the price we pay for a company is the single most crucial determinant of the return** that we will earn on the investment.

Guided by these core principles, we would make the following observations about the current state of the markets. Investor sentiment has deteriorated significantly over the last quarter. Sentiment is difficult to gauge with precision, but a number of the quantitative indicators that we use to objectively measure sentiment are certainly pointing to a bearish stance by equity investors. Our more qualitative assessment is that across the markets the level of bearishness varies dramatically by region and by sector. For example, North Asian domestic investors are generally very negatively disposed towards their own markets, and investors are quite fearful of certain sectors, such as autos, semiconductors and commodities, as they are perceived to be more prone to the cyclicality of economic activity. Such observations lack precision and certainty. Of course, if the US economy deteriorates significantly or if the trade talks fall over, it is readily conceivable that markets will fall further. Nevertheless, it is in these periods of great uncertainty that one should be looking for opportunities to buy markets. Our sense is that markets may not have quite bottomed just yet.

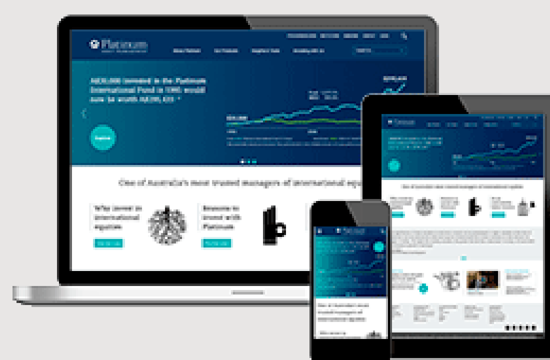
At turbulent times like this, we will fall back to an assessment of the potential returns implied by the valuations of our holdings. Simply put, we will consider the earnings or cash flow yields that our companies will provide investors with over the next five years and beyond. While there is no certainty regarding these future earnings, and the prospects of some of our holdings over the next one to two years may have diminished from what might have otherwise been expected, the valuations across these out-of-favour sectors are highly attractive today.

Attractive valuations (i.e. low prices relative to prospective earnings) are not a guarantee that stock prices will not fall further, especially over the short-term. However, the expected returns from an investment are not some ethereal concept – returns will flow to investors' pockets where companies pass their earnings onto shareholders in the form of dividends and/or stock buy-backs. Alternatively, at the right price, knowledgeable buyers may appear and buy out the company from shareholders. In short, based on our assessment of the current valuations across the companies we own, we believe that our portfolio offers good prospects of favourable returns. What we feel less certain about, however, is the time frame over which these returns will be realised, which is difficult to assess given the numerous challenges facing the market today.

The Journal

Visit www.platinum.com.au/our-products/paxx to find a repository of information about PAXX, including:

- Real-time intra-day indicative NAV per unit
- Distribution history and Distribution Reinvestment Plan
- ASX releases and financial statements
- Monthly updates on PAXX's investment performance, portfolio positioning and top 10 holdings



You can also find a range of thought-provoking articles and videos on our website. For ad hoc commentary on the latest market trends and investment themes, look up **The Journal** under **Insights & Tools**.

Recent highlights include:

- **Andrew Clifford's interview with Livewire**[1] –
  In this video interview Andrew Clifford, Platinum's CEO and CIO, has a frank and in-depth discussion with James Marlay, Co-Founder and Executive Director of Livewire Markets, about Platinum's investment philosophy and process, how it has stood the test of time and what challenges it faces in the current market environment. Andrew takes us back to the 'great dramas' of the late 1980s and the lessons learned, the founding of Platinum and the firm's unwavering mission of looking after our clients' money ably and responsibly.
- **A video interview with Kerr Neilson**[2] –
  While he has taken a step back from running the company, Platinum's founder and former CEO, Kerr Neilson, continues to analyse businesses and markets with rigour and focus. In this video interview, Kerr offers his insights on the fundamentals of investing in the stock market as well as where he sees opportunities today.
- **Why fintechs struggle to change banking**[3] –
  Philip Ingram, Investment Analyst at Platinum, explains why banks have shown such resilience in the face of disruption from fintechs, and why the thrill of the new doesn't always translate into the best investments.
- **Book review – Ray Dalio's *A Template for Understanding Big Debt Crises***[4] –
  Julian McCormack, Investment Specialist at Platinum, gives his take on an important new work by legendary investor, Ray Dalio.

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1 www.platinum.com.au/Insights-Tools/The-Journal/Video-Andrew-Clifford-interview-with-Livewire

2 www.platinum.com.au/Insights-Tools/The-Journal/Video-Interview-with-Kerr-Neilson

3 www.platinum.com.au/Insights-Tools/The-Journal/Why-Fintechs-Struggle-to-Change-Banking

4 www.platinum.com.au/Insights-Tools/The-Journal/A-Template-for-Understanding-Big-Debt-Crises

Notes

Unless otherwise specified, all references to "Platinum" in this report are references to Platinum Investment Management Limited (ABN 25 063 565 006 AFSL 221935). "PAXX" refers to the Platinum Asia Fund (Quoted Managed Hedge Fund) (ARSN 620 895 427, ASX Code: PAXX). "PAF" refers to the Platinum Asia Fund (ARSN 104 043 110), the unlisted underlying fund into which PAXX invests primarily.

1. PAXX's returns are calculated using PAXX's net asset value (NAV) unit price (which does not include the buy/sell spread) and represent PAXX's combined income and capital returns over the specified period. PAXX's returns are pre-tax, assume the reinvestment of distributions, and are net of fees and costs as well as any accrued investment performance fee.

   PAXX's returns have been provided by Platinum Investment Management Limited. The MSCI All Country Asia ex-Japan Net Index (A$) returns have been sourced from FactSet. Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or expenses. For the purpose of calculating the "since inception" returns of the Index, PAXX's inception date (12 September 2017) is used. Platinum does not invest by reference to the weightings of the Index. PAXX's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, PAXX's holdings may vary considerably to the make-up of the Index. Index returns are provided as a reference only.

   The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in PAXX's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.
2. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of PAF's net asset value, PAF's exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices.
3. The table shows, as a percentage of PAF's net asset value, PAF's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices.
4. The table shows the effective net currency exposures of PAF's portfolio as a percentage of PAF's net asset value, taking into account PAF's currency exposures through securities holdings, cash, forwards and derivatives. The table may not exhaustively list all of PAF's currency exposures and may omit some minor exposures.
5. The table shows PAF's top 10 long equity positions as a percentage of PAF's net asset value, taking into account direct securities holdings and long stock derivatives. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

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Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

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