# Platinum Asia Fund (Quoted Managed Hedge Fund)®

ARSN 620 895 427 | ASX Code: PAXX

# Quarterly Investment Manager's Report

31 December 2022

Platinum®
ASSET MANAGEMENT

# Investment Update

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

**Andrew Clifford**
Portfolio Manager

**Cameron Robertson**
Portfolio Manager

**Kirit Hira**
Portfolio Manager*

## Performance

**(compound p.a.+ to to 31 December 2022)**

| | QUARTER | 1 YR | 3 YRS | 5 YRS | SINCE INCEPTION |
|---|---|---|---|---|---|
| PAXX* | 8.2% | -8.9% | 4.6% | 4.0% | 5.9% |
| MSCI AC Asia ex J Index^ | 5.6% | -13.9% | -0.3% | 2.2% | 3.9% |

+ Excluding quarterly returns.

* 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 Research Systems.

Historical performance is not a reliable indicator of future performance.

See note 1, page 11.

*Effective from 31 October 2022, Kirit Hira joined Andrew Clifford and Cameron Robertson as co-portfolio manager for the Fund. Kirit joined Platinum in 2016 as an investment analyst in the industrials and resources team. In April 2021, he joined the Asia regional team.

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 2022 Quarterly Investment Manager's Report prepared for PAF by its Portfolio Managers. 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.

## In Brief:

- Improving sentiment towards China benefited holdings such as Trip.com and hotel chain H World Group. Other notable performers in China included Ping An Insurance, Weichai Power and Nine Dragons Paper.
- There are seeds of optimism for Asian markets, particularly as most economies appear more resilient versus prior downturns, given more stable political settings, proactive monetary policy combined with sound structural reforms, and China emerging from COVID.
- We continue to find attractive investment opportunities, with valuations across many markets remaining reasonable.

PAXX returned 8.2% for the quarter.[1] **This commentary relates to the underlying fund, the Platinum Asia Fund (PAF).**

Markets grappled with the withdrawal of liquidity, an inverted US yield curve and a potential 2023 US recession. Meanwhile, in Asia, easing core inflation and further central bank interest rate hikes, combined with expectations that the US Federal Reserve is closer to the end of its tightening cycle, led to a bottoming in most Asian currencies against the US dollar in October.

1 References to returns and performance contributions (excluding individual stock returns) in this PAXX report are in AUD terms, unless otherwise specified. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

The uncertain backdrop drove volatile markets across Asia. India (+4%) remained resilient, while Vietnam (-13%) best highlights the impact of tight domestic liquidity conditions. Hong Kong (+3%) remained volatile during the period, selling off ~15% post the 20th National Congress of the Chinese Communist Party (CCP), but subsequently recovering ~35% from the lows, following revised property and COVID measures.[2] Foreign sentiment towards China is recovering, with Hong Kong-listed shares (H-shares) rising more than their mainland China-listed counterparts (A-shares).

Chinese authorities made some adjustments to their zero-COVID policies, which the market took some comfort from. Improving sentiment benefited holdings such as travel website operator **Trip.com** (+26%) and hotel chain **H World Group** (+26%), which were among the biggest contributors to the Fund's performance. **Yum China** (+17%) and **BOC Aviation** (+17%) were also solid performers, albeit they are smaller positions in the Fund. Other notable performers in China included insurers **Ping An Insurance** (+32%) and **AIA Group** (+33%). Heavy-duty truck engine manufacturer **Weichai Power** (+41%) recovered with a bottoming in Chinese truck volumes and forklift/warehouse automation subsidiary KION AG trading well. Paper/containerboard manufacturer **Nine Dragons Paper** (+46%) also benefited from a bottoming in unit margins and hopes for a recovery in end demand.

After being one of the best-performing markets this year, the Indonesian bourse saw profit-taking during the quarter. Automotive holding company **Jardine Cycle & Carriage** (-15%) and paints company **Avia Avian** (-21%) were the weaker performers in this market. Our holdings in Vietnamese retailer **Mobile World Investment** (-33%) and listed fund **Vietnam Enterprise Investments** (-8%) also suffered with the broader sell-off in the local market. Finally, memory semiconductor **SK Hynix** (-10%) was weaker given elevated inventory levels and further DRAM price cuts in light of weak end demand. Our stock-specific short positions modestly cost performance during the quarter. We remain largely unhedged on currency exposures, which modestly detracted from Australian dollar performance.

## Changes to the Portfolio

We continue to refine the portfolio as new ideas are unearthed and portfolio positioning is adjusted. While we have not added to our net position in China, the sell-off in Hong Kong-listed China assets during the quarter presented us with an opportunity to switch our A-share exposure to specific Chinese companies into their respective H-shares, which were trading at significant discounts at the time. By the end of the quarter, discounts had reverted to more

2 MSCI India, MSCI Vietnam, MSCI Hong Kong, respectively, in local currency. Source: FactSet Research Systems.

### Disposition of Assets of PAF

| REGION | 31 DEC 2022 | 30 SEP 2022 | 31 DEC 2021 |
|---|---|---|---|
| China | 52% | 49% | 45% |
| South Korea | 11% | 10% | 10% |
| India | 8% | 10% | 11% |
| Vietnam | 6% | 6% | 6% |
| Taiwan | 5% | 5% | 6% |
| Hong Kong | 4% | 4% | 6% |
| Philippines | 3% | 2% | 2% |
| Macao | 2% | 2% | 1% |
| Singapore | 1% | 2% | 1% |
| Thailand | 1% | 0% | 0% |
| Indonesia | 1% | 1% | 0% |
| Cash | 6% | 8% | 12% |
| Shorts | -1% | -1% | -1% |

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

### Net Sector Exposures of PAF

| SECTOR | 31 DEC 2022 | 30 SEP 2022 | 31 DEC 2021 |
|---|---|---|---|
| Consumer Discretionary | 20% | 22% | 18% |
| Real Estate | 14% | 13% | 13% |
| Industrials | 14% | 14% | 13% |
| Information Technology | 13% | 14% | 16% |
| Financials | 11% | 12% | 12% |
| Materials | 5% | 4% | 3% |
| Communication Services | 4% | 4% | 4% |
| Consumer Staples | 4% | 4% | 3% |
| Other | 4% | 4% | 4% |
| Health Care | 1% | 1% | 1% |
| Energy | 0% | 0% | 0% |
| TOTAL NET EXPOSURE | 92% | 91% | 87% |

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

### Top 10 Holdings of PAF

| COMPANY | COUNTRY | INDUSTRY | WEIGHT |
|---|---|---|---|
| ZTO Express Cayman Inc | China | Industrials | 5.1% |
| Taiwan Semiconductor | Taiwan | Info Technology | 4.8% |
| Ping An Insurance Group | China | Financials | 4.4% |
| Samsung Electronics Co | South Korea | Info Technology | 4.4% |
| Tencent Holdings Ltd | China | Comm Services | 4.3% |
| InterGlobe Aviation Ltd | India | Industrials | 4.2% |
| Vietnam Enterprise Inv | Vietnam | Other | 4.1% |
| China Resources Land Ltd | China | Real Estate | 3.5% |
| Trip.com Group Ltd | China | Consumer Disc | 3.4% |
| JD.com Inc | China | Consumer Disc | 2.9% |

As at 31 December 2022. See note 4, page 11.
Source: Platinum Investment Management Limited.

normal levels, and we commenced the process of switching our dual-listed Chinese holdings back to A-shares.

We started a position in Chinese waterproofing manufacturer **Beijing Oriental Yuhong**. While building material suppliers have struggled with the property downturn, the outlook appears more promising as property starts to bottom, completions drive late-cycle interior waterproof application and suppliers focus on cash collection from developers. Recent policies to improve building quality will see increased requirements for waterproofing with longer warranty periods. Finally, Yuhong has also leveraged its strong distribution channel to enter new building material markets, such as mortars and decorative wall coating.

In India, we exited our position in private bank **ICICI Bank**. ICICI has navigated the COVID period well, booking excess provisions with lower non-performing loans while carrying surplus capital. However, with system credit growth at multi-year highs of ~17%[3] and margins elevated, the positive outlook is well understood, and valuations have become stretched versus other investment opportunities. We also further trimmed our position in automaker **Maruti Suzuki**.

We made a number of other adjustments during the quarter. These included adding to our Korean positions, such as home appliance company **Coway** and specialty chemical producer **Soulbrain**. Foreign ownership in Korea remains at global financial crisis (GFC) lows, valuations look attractive and further steps were taken to improve governance. We reduced our position in Chinese software maker **Kingsoft**. More recently, we also trimmed our exposure to **Trip.com** and **H World** and fully exited our position in Macao casino operator **Melco Crown Entertainment**. We ended the year with a relatively high net invested position of 92%.

## Commentary

The negative **China** headlines reached a crescendo after the closing of the National Congress, where President Xi Jinping was re-elected for an unprecedented third term as General Secretary of the CCP. Concerns mounted that the Standing Committee comprised Xi loyalists, including Shanghai Party Secretary Li Qiang, the likely successor to Li Keqiang as Premier, further consolidating Xi's power. This was complicated by several well-respected members retiring from the Central Committee. The Hang Seng sold off to levels not seen in 13 years, and the A-share/H-share spread reached decade highs of ~50%.[4] Chinese elite politics remains opaque at the best of times. President Xi has had a strong political base for many years and this was a further step in that direction. Nonetheless, markets were alarmed by the latest political developments.

3 RBI, Macquarie Research, December 2022.

4 Source: FactSet Research Systems.

The primary concerns facing China remain the downturn in the property sector, rolling zero-COVID lockdowns and, more recently, weakening exports. These have sent China into a severe economic downturn. An added dimension has been escalating geopolitical tensions with the West, which have seen tail events, such as speculation of an invasion of Taiwan or more widespread secondary sanctions on Chinese businesses/individuals, come to the fore. It was encouraging to see some positive developments addressing all these concerns in recent months.

Having dealt with the initial COVID strains well in 2020, China has struggled to manage the Omicron variant for much of 2022. With an older demographic, relatively ineffective domestic vaccines and poor vaccination rates, authorities have resorted to rolling lockdowns to minimise contagion, most recently, in Beijing, Guangdong, Chongqing and Sichuan during November, culminating in ~25%[5] of China's economy in lockdown and the 'white paper' protests.

In the wake of growing social unrest and severe economic impact, Chinese authorities pivoted from the stringent zero-COVID policies with a 20-point plan announced in early November. While this included a further easing of quarantine rules, of interest, were measures to increase hospital/ICU capacity and build stockpiles of COVID-related treatments, one would assume, ahead of a more formal cessation of lockdowns. More recently, quarantine for inbound travellers will be scrapped early in the new year and outbound travel is opening up. This gives some confidence that a reopening of the last remaining closed economy is on the horizon.

As we have witnessed in other countries, the path to reopening will not be easy. We will see headlines relating to shortages in medical treatments, stretched hospital resources and, unfortunately, higher instances of death over the coming months before either herd immunity is reached or we see widespread inoculation with Western vaccines. How other countries deal with inbound Chinese travellers in the interim should also be closely watched, with a number of countries already reintroducing testing requirements for inbound Chinese travellers.

The contagion from the "Three Red Lines" policy progressively escalated to the wider Chinese property sector over 2022. Given the systemic importance of the sector to the wider Chinese economy, it was only a matter of time before mitigating measures were taken. Authorities extended liquidity to property developers via the "Three Arrows", namely bank credit, bonds and equity issuance. In total, we have seen Rmb4 trillion in credit disbursement and bond issuance to more than 60

5 Source: Nomura, November 2022.

developers, with 19 A-share-listed developers planning to raise equity.[6] Early in the new year, an outright easing of the "Three Red Lines" policy was reported.

With a firmer policy in place, liquidity flowing and high-yield bond spreads narrowing, the immediate financial distress facing Chinese developers has been averted. However, the collateral damage appears to be a crisis of confidence from both developers and property buyers alike. Year-to-date developer land purchases were down 54% year on year to November and contract sales have fallen 43%.[7] Those developers that have defaulted have seen more material sales declines of 70-90%, while state-owned developers have fared better. Previously tight liquidity, COVID lockdowns, property price declines and concerns around stressed developers completing projects have all contributed to the downturn. The path to recovery for the property market still has a long way to play out. While vague, the recent Central Economic Work Conference hinted at new real estate development models, which could point to some forthcoming structural changes.

The G20 Summit, held in Bali in November, marked the first instance President Xi held face-to-face meetings with Western counterparts for three years. A more moderate formal address from Xi combined with one-on-one meetings with Western leaders was viewed as a thawing of geopolitical relations with the West.[8] German Chancellor Olaf Scholz was the first Western leader to travel to Beijing to meet President Xi post the National Congress. While the visit polarised Europeans, the fact that a business delegation of German CEOs accompanied Scholz is a timely reminder of how integrated China remains with the global economy and perhaps how difficult it would be to completely unwind this.[9]

Turning to the rest of the region, **India** deserves a mention given the resilience of the market. After a decade-long deleveraging cycle, loans to Indian corporates grew ~14% year on year in October.[10] With capacity utilisation approaching 75%, a US$1.3 trillion infrastructure pipeline and a resurgent residential property market, there is growing optimism surrounding a forthcoming capital expenditure (capex) cycle. Both factors could prove a powerful combination supporting economic growth and this certainly features in Prime Minister Modi's plans for a US$5 trillion economy by 2025. We have previously mentioned the structural reforms implemented by the prime minister, the most notable of which relates to the Production Linked Incentives Scheme, which will see ~US$28 billion of incentives for manufacturing across 14 sectors. Over the past year, ministries have finalised the awards across multiple industries. While IT services remain India's greatest export, it still only employs 4.5 million people. A vibrant manufacturing sector offers more compelling opportunities for labour upskilling in a country where agriculture still employs 40% of the population. Perhaps the only critique is that policy remains focused on India's indigenous requirements rather than being truly export competitive. While the prospects for India look bright and we remain optimistic regarding our current Indian investments, the elevated valuations do curb some of our enthusiasm for the broader market.

During the quarter, members of our team visited Thailand and Indonesia. **Thailand** is reemerging post-COVID. With a heavy reliance on tourism (~20% of pre-COVID GDP),[11] a less aggressive tightening stance by the Bank of Thailand (BOT) and a general election forthcoming in May 2023, it remains the only ASEAN economy where GDP is still below pre-pandemic levels. However, inbound tourism is recovering quickly from ~10 million in 2022 to as much as 23 million expected in 2023 as Chinese tourists return.[12] **Indonesia** has been one of the region's best-performing economies and markets, supported by a resource-rich trade surplus. Like many Asian countries and with the new business-friendly Omnibus Jobs Creation Bill enacted, Indonesia is also a beneficiary of large foreign direct investment. Specifically, Indonesia is focused on leveraging its vast nickel resources into a vertically integrated electric vehicle industry, with leaders such as LG Energy, Chinese battery maker CATL and Hyundai already committing large sums of foreign direct investment to set up manufacturing. These trips yielded valuable on-the-ground insights after many years between visits. Small positions in a number of new ideas were initiated in the Fund post the trip.

## Outlook

Given an uncertain backdrop, it remains difficult to express absolute confidence about the direction of Asian markets in 2023. While inflation is normalising from its elevated levels and interest rates are getting closer to the end of their tightening cycle, the risk of a US recession is gaining wider acceptance, with possible contagion to some Asian economies. That said, there are seeds of optimism for Asian markets, particularly as most economies appear more resilient versus prior downturns, given more stable political settings, proactive monetary policy combined with sound structural reforms, and China emerging from COVID. We continue to find attractive investment opportunities, with valuations across many markets remaining reasonable.

6 Source: Goldman Sachs.

7 Source: citi.

8 https://www.fmprc.gov.cn/eng/zxxx_662805/202211/t20221115_10975446.html

9 https://www.bundeskanzler.de/bk-en/news/chancellor-guest-article-politico-china-2139576

10 RBI, Macquarie Research, December 2022.

11 https://knoema.com/atlas/Thailand/topics/Tourism/Travel-and-Tourism-Total-Contribution-to-GDP/Contribution-of-travel-and-tourism-to-GDP-percent-of-GDP

12 Source: TISCO, Jefferies.

# Macro Overview: 2023 - A Great Environment for 'True' Investors

by Andrew Clifford, Co-Chief Investment Officer

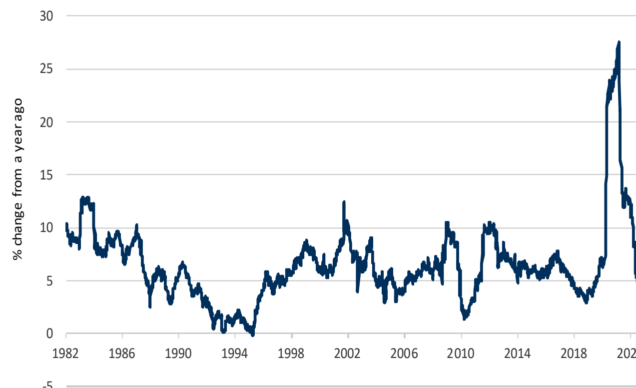
2022 was a dramatic year for markets. CEO and Co-CIO Andrew Clifford sat down with Investment Analyst Julian McCormack in December to share his thoughts on events, covering interest rates, recession fears, China and Europe - and what they all mean for the markets in 2023 and Platinum's portfolios. An edited transcript of the conversation is below.*

**JM: Andrew, markets seem to be pricing in a mild recession. What is your broad overview of interest rates, inflation, recession fears, etc.?**

**AC:** I think we need to get ahead of the game here. It is relatively clear that inflation has probably peaked. You can spend all your life trying to work out how quickly it recedes and when rate cuts will come. Ahead of that, though, I think monetary conditions are a much better indicator to focus on, specifically, in its most simple form, the growth rate of M2, a broad measure of the money supply. In 2022, in the US, the epicentre of the great money printing exercise we've just lived through, M2 is shrinking, and importantly, it's occurring in a nominal economy that is actually growing at a reasonable pace at this point. Essentially, that means monetary conditions are very tight, and you have to get well beyond the rate cuts before that's going to turn around. So, that tells you that inflation is probably going to come down over the next year or so. But for us as investors, that's not the interesting point; it's what it means for markets and asset prices. As I've said on many occasions in our reports and presentations, I think the shrinking of the money supply is a very significant headwind for markets, pushing them to the downside.

**Fig. 1: US Money Supply M2 is Shrinking**

% change on a year ago, weekly




Source: Federal Reserve Bank of St. Louis, 5 December 2022. M2 includes M1 (cash and cash-like, or currency and coins held by the non-bank public, checkable deposits, and travellers' checks [sic]) + savings deposits (including money market deposit accounts), small-time deposits under $100,000, and shares in retail money market mutual funds.

* The full interview is available in audio format on The Journal page of our website https://www.platinum.com.au/Insights-Tools/The-Journal. Interview was recorded on 20 December 2022.

**JM: It's been an interesting reversal of either complacency or comfort in recent weeks. Everyone was expecting some sort of rally, which came and then just wilted away towards the end of the month, at the time of recording (20 December).**

**AC:** Everyone has been expecting inflation to ease off. It looks like that's happening, and everyone appears to be positioned for that. However, the US Federal Reserve (Fed) is telling us it's going to be a while before rates peak, and we start to get those rate cuts. Again, we can spend all our lives trying to predict what will happen, but I think the more important thing is the impact that this will have on company earnings. That's the next focus, and there's a mixed bag there. We're seeing plenty of companies release disappointing numbers, and there have been decent falls in stock prices on the back of that. But at the same time, if you look at the absolute numbers for many companies, they're not all bad, but our job as investors is to think about how things will look 3-5 years ahead. Indeed, combined with coming out of COVID, the COVID beneficiaries, and those who were hurt by COVID, there are some mixed messages. Some companies are going to experience poor earnings just because they've been through an extraordinary boom and their business is coming back to trend, or will probably go below trend, while others that suffered from supply chain problems may yet have many good years ahead of them.

**JM: There have been lots of idiosyncratic events, not least the implosion of speculative parts of the equity market, crypto exchanges, ructions in the UK gilt market, and suspensions in redemptions in captive real estate investment trusts. Do you have any comments about these?**

**AC:** We would expect that after the boom we've been through and the speculative mania that we experienced, there will be some sort of crisis point coming out of this. The blow-up of the crypto market and the exchanges has no doubt caused a lot of pain for people, but it doesn't seem to have had any real flow-on effect on broader markets or the economy for the moment. Similarly, the deflating stock prices of the more speculative stock names have not had any particularly bad impact on the broader economy or market. The UK gilts and the issues that the pension funds had there were the beginning of a concerning event. The fiscally lax mini-budget announced by the UK government in late September, sent bond yields skyrocketing, and forced pension funds, which had taken leveraged positions in gilts and other fixed-interest products, to liquidate their positions. The Bank of England’s intervention in the bond market seemed to have averted a great crisis there. But then, recently, we've had a couple of large, high-profile real estate investment trusts suspend redemptions. It's interesting, of course, as I've said over the last 2-3 years, I do suspect the problems are hidden in the unlisted part of the markets. The promoters of those trusts will tell you that it's all part of normal operations; if redemptions are greater than a certain percentage, they will suspend redemptions. But still, these things tend to become self-perpetuating, where everyone starts lining up for their redemption every month, and on top of that, it's in this unlisted part of the market, where there is an awful lot of debt. It's those sorts of things that could have a bigger or broader impact going forward. And I think there are plenty of places in the unlisted world where that may occur.

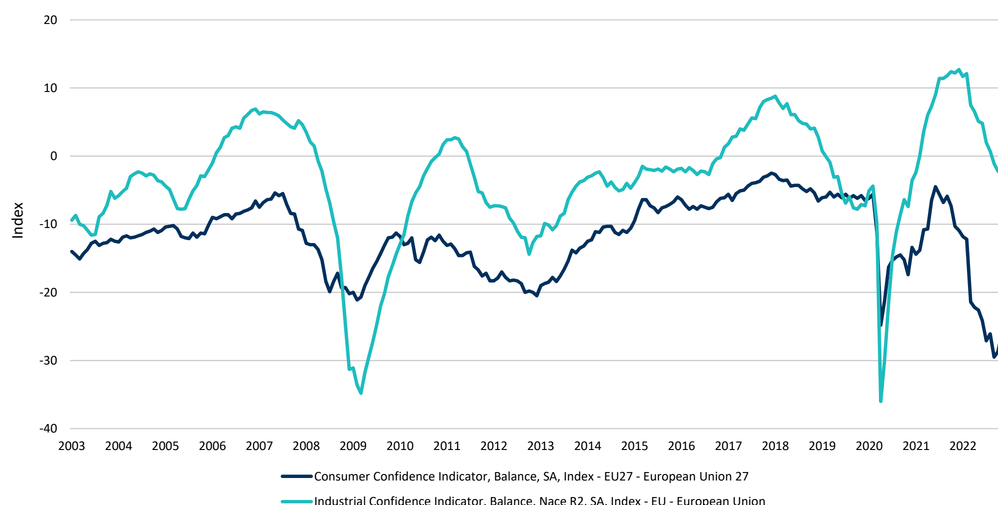
**JM: As that liquidity has been drained, we are seeing the US dollar, which has strengthened all year, weaken in recent weeks and months. What are your thoughts on the US dollar?**

**AC:** I think it was a case of US dollar strength rather than yen or euro weakness, or any of the other currencies. We saw the yen briefly touch 150 in October, this is an extraordinarily low level for that currency. The euro was also hit hard, although it's a more difficult story because of the energy security issue and changing competitiveness. Across the board, other currencies are looking extraordinarily cheap. The US has been increasing rates faster than anywhere else. Rate differentials are often a driver of currency markets, but I do think we are probably approaching the peak in the momentum of that rate differential opening up. The US dollar has already reversed a fairly decent amount of the rally that it had. You can never get the timing of these things right, but over the next 18 months to three years, I expect the US dollar will weaken.

**JM: You mentioned the euro, it's a difficult place to think about given it was all cataclysmic six months ago and has dropped off the headlines now. So, how are you thinking about Europe and its mixed bag of potential outcomes?**

**AC:** At the centre of the problem for Europe is obviously energy. Very little investment in new capacity, whether that's oil, gas or thermal coal, has taken place in recent years. In addition, the energy transition is beginning and people are reluctant to invest in these areas. In the meantime, though, we are still going to need to consume these fossil fuels, so there is this awkward period over the next few years where the supply of energy is likely to be tight. Then, of course, on top of that, and in particular for Europe, we have Russia's invasion of Ukraine, which impacts basically all of those key energy markets. The really important market for Europe is gas, particularly its transportation, which is reliant on Russian pipelines. This fundamentally impacts the competitiveness of Europe, and we've seen industries close down in chemicals, fertilisers, and so on; areas that are heavy users of energy have had to close capacity because they're not competitive. That's a fundamental change, and

**Fig. 2: Consumer and Business Confidence is Incredibly Weak in Europe**




Source: FactSet Research Systems.

we've seen natural gas consumption down 20% in the period August-November versus the same three-month period in 2017-2021, across most of Europe as a result of that.[1] In the very short term, as Europe has scrambled to sort out its energy supplies, it looks like they will get through the winter in fairly good shape without any severe squeeze on supply, with storage levels still good. However, the longer-term issue will be, as the years go by, how quickly they're able to replace that Russian gas. This is the core problem for Europe. Consumer and business confidence is incredibly low (see Fig. 2), with the former even below levels reached during the global financial crisis (GFC), so it's a very difficult environment there.[2] There are a couple of positives, though. The fall in the euro takes away some of that pain. The weaker euro will help industries where energy may not be as important and where Europe is still a big exporter. The other factor that will help on that front is we are at the foothills of the recovery of the Chinese economy. China is an important trading partner for Europe (China was the European Union's third-largest export market in 2021 in US dollars, representing 11% of its exports),[3] so it's another positive that may help to offset the energy supply conundrum.

**JM: You've been building pretty reasonable positions in some energy companies, what are your thoughts on the outlook for energy for 2023 and beyond?**

**AC:** I think there is a really good long-term story for most of the energy markets. However, I think one needs to be a little cautious about getting too enthusiastic at this point; the medium-term story is great, but the short-term one is unknowable. I mean, some things could happen; I'm not predicting them, but if, for example, we were to see the end of the conflict in Ukraine, that could ease market tightness somewhat. The other issue to think about, and we're seeing it in a whole range of industries, is government interference in markets. We have seen price caps on gas in Australia. We've also seen taxes proposed in places like the UK. So, when you're looking at energy supplies, there's a real possibility you're not going to get the entire upside of any shortages that develop, whether it's prices being capped or profits being taxed. While we certainly have some energy positions in our global equity portfolio, they're relatively modest compared to the story that's out there.

**JM: Moving on to China, six months ago, it was at the centre of yet another crisis, which all seemed to have abated by the end of the year. Where are we in terms of the Chinese economy, especially in light of its reopening post-COVID?**

**AC:** Let's take a step back for a moment and think about the last 20-odd years of the commentary around China. There's always been this element that this thing is not real, it's a house of cards, it's a Ponzi scheme, and it's all going to fall apart any moment now. Whenever there is a crisis or an issue in the economy, that's the lens through which many people see it. The problem with that kind of analysis is that it can lead one astray. Just look at the most recent example, President Xi Jinping was heavily criticised in the Western media for the COVID lockdowns. Now that they've been relaxed, he's being heavily criticised for having taken a gamble on the lives of his people. On COVID, we've said all along that China will get through it, as every other country has, and with the tragedy that it involves. But the issue coming back to China more broadly is that the framework I

1 https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20221220-3

2 Source: FactSet Research Systems.

3 https://tradingeconomics.com/european-union/exports-by-country

would use is that this is a very large, dynamic and sophisticated market economy. People worry about the politics there, and there are plenty of reasons to worry about that, but at the end of the day, the political leadership doesn't run the place; the bureaucrats do, as they do in Australia or the US, and this is a very sophisticated bureaucracy. Poor policy decisions led to the situation they have with COVID today, and the same can be said of the property market, which led to a freezing up of the residential property development sector. Where are they now? Well, they will work their way through COVID, and they have come up with an obvious solution to the property market problem, which is to provide liquidity to ensure property developments are completed and apartments are delivered to the buyers. I suspect that once they work their way through that, the next thing they're going to find out is that because of two years of suppressed property sales, they will quite possibly have a shortage of residential apartments by the end of 2023 or going into 2024.

**JM: Any final comments on your outlook for 2023?**

**AC:** In summary, I expect 2023 will be the flip side of what we've had for the last couple of years. I think we will have a Chinese economy that will strongly recover, a US economy that's fading, and a European economy that will be difficult to call. We're going to continue to have these uncertainties around, but as has been the case in the last year or two, there will continue to be opportunities in markets to make money. There are plenty of sectors that have sold off very heavily and are trading at valuation levels that we rarely see. Countries like China are still trading at very attractive valuations, despite the recent market bounce. While I think the overall environment doesn't look great for markets, our focus remains on looking for individual opportunities. The more uncertainty there is, and when that uncertainty changes from one quarter to the next, the more opportunities there are to make money from markets. So, I think it's actually a great environment for 'true' investors.

**MSCI Regional Index**
**Net Returns to 31.12.2022 (USD)**

| REGION | QUARTER | 1 YEAR |
|---|---|---|
| **All Country World** | **9.8%** | **-18.4%** |
| **Developed Markets** | **9.8%** | **-18.1%** |
| **Emerging Markets** | **9.7%** | **-20.1%** |
| **United States** | **7.0%** | **-19.8%** |
| **Europe** | **19.6%** | **-17.0%** |
| Germany | 24.6% | -22.3% |
| France | 22.2% | -13.3% |
| United Kingdom | 17.0% | -4.8% |
| Italy | 26.4% | -14.4% |
| Spain | 22.9% | -7.3% |
| **Japan** | **13.2%** | **-16.6%** |
| **Asia ex-Japan** | **11.4%** | **-19.7%** |
| China | 13.5% | -21.9% |
| Hong Kong | 18.2% | -4.7% |
| Korea | 18.1% | -29.4% |
| India | 2.0% | -8.0% |
| Australia | 15.7% | -5.3% |
| Brazil | 2.4% | 14.2% |

Source: FactSet Research Systems.
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 31.12.2022 (USD)**

| SECTOR | QUARTER | 1 YEAR |
|---|---|---|
| Energy | 17.8% | 33.1% |
| Industrials | 17.5% | -13.1% |
| Materials | 16.2% | -11.6% |
| Financials | 14.3% | -9.8% |
| Health Care | 13.1% | -6.1% |
| Consumer Staples | 11.2% | -6.6% |
| Utilities | 10.3% | -4.7% |
| Real Estate | 5.9% | -24.6% |
| Information Technology | 5.8% | -31.1% |
| Communication Services | 2.4% | -35.5% |
| Consumer Discretionary | -0.7% | -31.8% |

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

# The Journal

Visit www.platinum.com.au/Our-Products/PAXX to find a repository of information about the Platinum Asia Fund (Quoted Managed Hedge Fund) (PAXX), including:

- NAV history and intra-day iNAV
- Distribution history and the Distribution Reinvestment Plan
- ASX releases and financial statements
- Monthly updates on 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**. If you find yourself short on time to read our in-depth reports and articles, check out our brief market updates in **video** format, or have a listen to our **audio podcasts**.

**Recent highlights include:**

- **Article - The Chinese Property Market: The Most Important Industry Globally Which Few Understand.**[1] Investment Analyst Julian McCormack presents a compelling argument why the Chinese property sector provides an apt case study of the reverse of an asset price bubble. Indeed, it looks to us like a good example of an "anti-bubble".
- **Video - Investing in a Bear Market.**[2] CEO and Co-CIO Andrew Clifford provides a timely reminder of Platinum's investment approach as well as his thoughts on markets, performance and portfolio positioning. Many sectors that were left behind in the bull market have extraordinary valuations, and there are many interesting investment thematics playing out..
- **Video - Staying the Course in China.**[3] Co-portfolio manager for our Asia ex-Japan strategy, Cameron Robertson, addresses investors' concerns on China, covering geopolitical concerns, the property sector, and COVID lockdowns. China is a complex place to invest in, and Platinum has been investing there for decades. As bottom-up investors, we invest in companies, not countries. We look for mispriced risks, and we continue to see many great investment opportunities in China.
- **Video - Biotechs Preparing for the Next Chapter of Growth.**[4] Rising interest rates have raised concerns about the ability of biotechs to access capital. Contrary to popular perception, though, the sector is actually quite "healthy", says portfolio manager Dr Bianca Ogden. Dedicated health funds are stepping in to provide support, while biotechs are refocusing and streamlining their product range, and there has been a flurry of mergers and acquisitions.
- **Article - Asia ex-Japan Market Update .**[5] The last 12 months have been a tough period for markets in the Asia region. Portfolio managers for the Asia ex-Japan strategy, Andrew Clifford and Cameron Robertson provide their thoughts on the region and where they are finding investment opportunities.

1 https://www.platinum.com.au/Insights-Tools/The-Journal/Chinese-Property-Market-Anti-Bubble
2 https://www.platinum.com.au/Insights-Tools/The-Journal/Video-Investing-in-a-Bear-Market
3 https://www.platinum.com.au/Insights-Tools/The-Journal/Video-Staying-the-Course-in-China
4 https://www.platinum.com.au/Insights-Tools/The-Journal/Biotechs-Preparing-for-the-Next-Chapter-of-Growth
5 https://www.platinum.com.au/Insights-Tools/The-Journal/Asia-ex-Japan-Market-Update

**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.

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.

1. PAXX's returns are calculated by Platinum using PAXX's net asset value unit price (i.e. excluding the buy/sell spread) and represent the combined income and capital returns over the specified period. PAXX's returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, PAXX's underlying holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is 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. other than "cash" and "shorts") shows PAF's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. Country classifications for securities reflect Bloomberg's "country of risk" designations. "Shorts" show PAF's exposure to its short securities positions and short securities/index derivative positions, as a percentage of its portfolio market value. "Cash" in this table includes cash at bank, cash payables and receivables and cash exposures through long derivative transactions.
3. The table shows PAF's net exposures to the relevant sectors through its long and short securities positions and long and short securities/ index derivative positions, as a percentage of its portfolio market value. 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 table shows PAF's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

**Disclaimers:** This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935, trading as Platinum Asset Management (Platinum®). Platinum is the responsible entity and issuer of units in the Platinum Asia Fund (Quoted Managed Hedge Fund). This publication contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons') investment objectives, financial situation or needs, and should not be used as the basis for making investment, financial or other decisions. You should read the entire Product Disclosure Statement (including any Supplement(s) thereto) for the Platinum Quoted Managed Funds® ("PDS") and consider your particular investment objectives, financial situation and needs before making any investment decision to invest in (or divest from) PAXX. The Fund's target market determination is available at www.platinum.com.au/Investing-with-Us/New-Investors. You can obtain a copy of the current PDS from Platinum's website, www.platinum.com.au or by phoning 1300 726 700 (within Australia), 0800 700 726 (within New Zealand) or +61 2 9255 7500, or by emailing to invest@platinum.com.au. You should also obtain professional advice before making an investment decision.

Neither Platinum nor any company in the Platinum Group®, including any of their directors, officers or employees (collectively, "Platinum Persons"), guarantee the performance of PAXX, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum). To the extent permitted by law, no liability is accepted by any Platinum Person for any loss or damage as a result of any reliance on this information. This publication 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 any Platinum Person as to their accuracy or reliability. This publication may contain forward-looking statements regarding Platinum's intent, beliefs or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. No Platinum Person undertakes any obligation to revise any such forward-looking statements to reflect events and circumstances after the date hereof.

© Platinum Investment Management Limited 2023. All rights reserved.

**MSCI Inc Disclaimer:** The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).

Level 8, 7 Macquarie Place
Sydney NSW 2000

GPO Box 2724
Sydney NSW 2001

**Telephone**
1300 726 700 or +61 2 9255 7500
0800 700 726 (New Zealand only)

**Facsimile**
+61 2 9254 5590

**Email**
invest@platinum.com.au

**Website**
www.platinum.com.au/our-products/paxx