

Platinum Asia Fund



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Performance

(compound p.a.⁺, to 30 September 2022)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	-9%	-18%	4%	4%	12%
MSCI AC Asia ex Jp Index [^]	-8%	-20%	0%	3%	8%

+ Excludes quarterly returns

* C Class – standard fee option. Inception date: 4 March 2003.

After fees and costs, before tax, and assuming reinvestment of distributions.

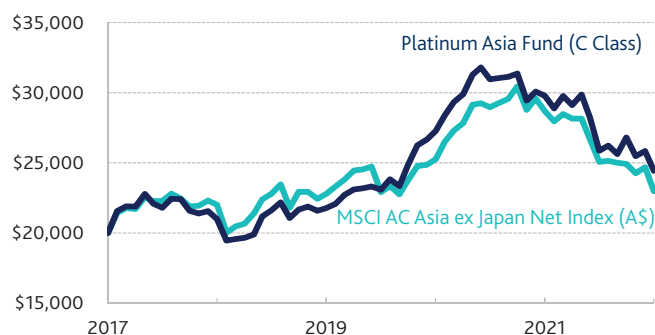
[^] Index returns are those of the MSCI All Country Asia ex Japan Net Index in AUD. Source: Platinum Investment Management Limited, FactSet Research Systems.

Historical performance is not a reliable indicator of future performance.

See note 1, page 5. Numerical figures have been subject to rounding.

Value of \$20,000 Invested Over Five Years

30 September 2017 to 30 September 2022



After fees and costs, before tax, and assuming reinvestment of distributions.

Historical performance is not a reliable indicator of future performance.

Source: Platinum Investment Management Limited, FactSet Research Systems. See notes 1 & 2, page 5.

The Fund (C Class) returned -8.8% for the quarter.¹

As the world grapples with inflation and rising interest rates, questions have started to arise about the sustainability of the global economic expansion. Meanwhile, we have seen a withdrawal of liquidity from major global markets, and many stock markets have been falling. The Asia region was generally weak, although India and Indonesia stood out as notable exceptions.

Despite the overall declines, there were a handful of bright spots in the portfolio during the quarter. Indian low-cost airline **InterGlobe Aviation** was the biggest contributor to performance (+16%), gaining on the back of good passenger volumes coming into the seasonally weak third quarter. **Jardine Cycle & Carriage** (+19%) was embraced by investors due to improving prospects for their commodity and automotive operations in Indonesia and Vietnam. Our holding in Indian bank **ICICI** (+22%) also performed well, driven by foreigners scrambling to deploy money into the Indian market. **AK Medical** (+31%), a Chinese manufacturer of prosthetic joints, picked up market share in the domestic industry, and its profit results came in ahead of investors' expectations, driving the share price higher.²

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

² For more details on AK Medical refer to the Platinum Global Fund (Long Only) report.

On the negative side of the ledger, the sell-off was fairly broad-based. Concerns about weak demand and inventory destocking weighed on semiconductor holdings such as **SK Hynix** (-9%) and **Taiwan Semiconductor Manufacturing** (-11%).

Companies exposed to China generally declined, as economic challenges remained unresolved. **Alibaba** (-30%), **JD.com** (-21%), and **AIA** (-23%) all saw their shares marked down.

Foreign sentiment towards China seemingly continues to fall, with the Hong Kong-listed shares (H-shares) falling more than their mainland China-listed counterparts (A-shares) and are now trading at substantial discounts. For example, **Weichai Power's** H-shares declined 40% during the quarter, while the A-shares fell 23%, leaving the Hong Kong listing trading close to a 30% discount. **Ping An Insurance** experienced a similar divergence between H-shares (-27%) and A-shares (-11%).

We remained essentially unhedged on the currency, which helped reported Australian dollar performance.

Changes to the Portfolio

As markets sold off, we modestly increased our exposure to take advantage of the improving value on offer. In China, we added to **China Merchants Bank**, grocery delivery company **Dingdong**, and financial services company **Noah Holdings**. In Korea, we added to our small position in home appliances company **Coway**, a company that was introduced to the portfolio last quarter. In the Philippines, we also added to our holding in property developer **Ayala Land**.

Disposition of Assets

REGION	30 SEP 2022	30 JUN 2022	30 SEP 2021
China	49%	48%	48%
India	10%	9%	10%
South Korea	10%	8%	9%
Vietnam	6%	6%	5%
Taiwan	5%	5%	6%
Hong Kong	4%	4%	7%
Philippines	2%	2%	2%
Macao	2%	2%	1%
Singapore	2%	1%	1%
Indonesia	1%	1%	0%
Cash	8%	14%	11%
Shorts	-1%	-1%	0%

See note 3, page 5. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

We reduced our holdings in Hong Kong-listed life insurance company **AIA**, Chinese property developer **China Vanke**, and Chinese hotel operator **H World Group**, as market moves made them relatively less interesting propositions than other options available to us. We also continued to reduce positions in Indian bank **ICICI** and car manufacturer **Maruti Suzuki**, as valuations have been elevated.

Commentary

The recent poor performance in Asia has coincided with a relentless stream of negative headlines about China.

China has seen its economy face significant headwinds, stemming most notably from the property sector and the periodic and disruptive COVID lockdowns across the country. Debt levels have risen over the past decade or so. Meanwhile, a slew of regulatory changes led to an oft-voiced fear that the private sector could be in structural retreat. Add to this, the geopolitical backdrop of tensions on multiple fronts.

We would prefer it if many aspects of the current setup were different. Nevertheless, for the moment, we maintain a meaningful investment in the country. These topics are complex and varied. Our discussion here will necessarily be simplified, but hopefully it will provide a sense of our thinking.

Net Sector Exposures

SECTOR	30 SEP 2022	30 JUN 2022	30 SEP 2021
Consumer Discretionary	22%	20%	20%
Industrials	14%	12%	14%
Information Technology	14%	14%	14%
Real Estate	13%	13%	12%
Financials	12%	10%	13%
Consumer Staples	4%	4%	2%
Communication Services	4%	4%	4%
Materials	4%	3%	4%
Health Care	1%	1%	2%
Energy	0%	0%	0%
Other	4%	4%	4%
TOTAL NET EXPOSURE	91%	85%	89%

See note 4, page 5. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

As a starting point, it's important to acknowledge that it's easy to bring a perspective to this topic shaped by Australia's changing relationship with China. To see this in action, a recent survey run by the Australia Institute showed nearly one in four Australians think China will attack Taiwan soon, compared to only 5% of Taiwanese.³

While on the topic, a war over Taiwan is clearly one of the most concerning scenarios to contemplate for any investment in the region. After Russia's invasion of Ukraine, territorial battles have once again entered the collective consciousness. Nancy Pelosi's visit to Taiwan led to increased tensions and military demonstrations. The consequences for the world of such a conflict are almost too horrific to contemplate. The media gravitates towards amplifying sensationalist opinions, but the more prosaic and sanguine views expressed by the active intelligence community barely get a mention.

No one has a crystal ball, and there is no way to categorically rule out worst-case scenarios. However, our base case is that a war over Taiwan in the near term is unlikely. The economic ramifications of a war for China and the world would be enormous. China's economy remains tightly integrated into global supply chains. Despite efforts to reduce interdependence, the scale of the task is such that it is impossible to achieve within any reasonable period of time without drastic reductions in the quality of life for populations on both sides. After decades of trade surpluses, China holds trillions of dollars of international assets. If they took actions that resulted in widespread sanctioning, it could effectively mean that they would never be repaid for much of those net exports of the past two decades.

Our sense is that recent economic challenges in China may have actually provided a check to hardliners and a timely reminder that in the modern world, prosperity relies on relatively peaceful coexistence and cooperation.

Turning to the economic issues, from a short-term perspective, there are two primary culprits for the weak conditions in China: regulations around the property sector and its zero-COVID policy.

Property regulations were put in place to constrain surging house prices. Property in China was viewed by many as a one-way bet, which led to bad behaviour. Certain developers, like Evergrande, adopted ponzi-like business models built on leverage rather than focusing on construction. Consumers were engaging in creative practices to increase their own

exposure to this "sure path to riches". The government saw issues accumulating and decided to crack down on it. They limited the leverage available to developers to stop land-banking, thus forcing developers to construct the projects they took on. There were also tweaks to the land auction system and a range of other measures. Developers who had decided it was easier to bet on land price appreciation rather than the hassle of construction now find themselves in trouble.

Comparisons with the US housing crisis ring a little hollow for us. In the US, demand was not real, as buyers couldn't afford the houses (remember the "NINJA" loans = No Income, No Job, and No Assets). Secondly, derivatives were the "weapons of mass destruction", resulting in people taking on credit risk without appreciating the risks they were assuming, instead relying on the imprimatur of ratings agencies (e.g. the AAA-rated "CDO-squared" securities of the mid-2000s). In China, the end consumer has been in better financial health, and the bulk of loans sit with large financial institutions who are conservatively capitalised, taking and provisioning for risks under the watchful eye of regulators.

Of course, as the saying goes, when the economic tide goes out, some will be caught swimming naked. We have seen small financial institutions exposed for engaging in fraud. There have also been some developers defaulting, but the scale of losses – while not small – is not yet unmanageable.

Finally, you may have heard of consumers refusing to pay their mortgages. In China, when a property is purchased off the plan, the consumer takes out a loan for the full amount early in the construction process. These funds are supposed to be used for the construction of that project. In some cases, however, developers used those funds to purchase other land or engage in other projects, meaning consumers are left paying a mortgage on a property they do not yet own and are now uncertain when (or if) they will get the property. The developers who engaged in these practices are now facing solvency issues. This last aspect is an issue, which still needs a proper resolution.

On top of the challenges from the property sector, China's zero-COVID policy has also impacted economic activity. This shows up periodically in supply chain disruptions as well as consumer demand for things like local services and travel. It's surprising they have continued holding on to this policy, and our base case remains that at some point they will move on. The timing is uncertain, but as of today, most restrictions remain in place.

³ <https://australiainstitute.org.au/post/research-shows-impact-of-fearmongering-australians-more-frightened-of-china-than-taiwanese/>

Clearly, there are aspects of all this that are uncomfortable. It is a situation we monitor closely and debate regularly. In the past three or four decades, the Chinese government has drawn credibility from the fact that it did improve living standards for the populace. With a weak economy and rising unemployment, our expectation is that this will sharpen its focus back on the basics of lifting living standards for the hundreds of millions of people still waiting to enter the middle class. If the government fails to respond to the economic challenges in the not-too-distant future, we would be concerned, but our expectation is that the current situation will serve as a reminder that the people of the country still want a better life. Where many observers see worrying trends of encroachment on the private sector, we largely see a government trying to work out how to achieve its social goals of securing and spreading wealth. These efforts are not always successful or effective, but the intent and direction still seem clear. Having had such a long period of unfettered growth, it took its eye off the ball, but we expect economic development will once again be re-prioritised.

All that said, we would highlight that despite the sharp sell-off in Chinese assets over the past year, we have not materially added to our position. While we remain optimistic that our investments in China should yield attractive returns, there are other attractive markets and assets across the region, and we continue to search broadly for opportunities.

During the quarter, members of our team visited Vietnam and Korea. Vietnam is a great economic story, still early in its development. Korea, meanwhile, is a technologically advanced country with a vibrant domestic economy. Historically, one challenge of investing in Korea has been poor corporate governance. However, legal and regulatory changes have been slowly improving these issues. New holdings were added to the portfolio as a result of this recent research trip, and we hope to tell you more about these opportunities in the near future.

Outlook

Looking at the broader macroeconomic environment, inflation remains an issue globally, but there are signs that rising rates may be starting to have their desired effect. If central banks around the world wish to continue shrinking their balance sheets, this could present headwinds to asset prices for a while yet. However, as we've noted in the past, many markets across Asia appear relatively better placed in this regard. We are finding promising businesses to invest in at valuations that appear attractive. Short of extreme scenarios, we would expect the portfolio to deliver healthy returns over the medium-to-longer-term horizon.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
InterGlobe Aviation Ltd	India	Industrials	4.8%
Taiwan Semiconductor	Taiwan	Info Technology	4.8%
ZTO Express Cayman Inc	China	Industrials	4.8%
Vietnam Ent Investments	Vietnam	Other	4.3%
Samsung Electronics Co	South Korea	Info Technology	4.0%
Ping An Insurance Group	China	Financials	4.0%
Tencent Holdings Ltd	China	Comm Services	3.8%
China Resources Land Ltd	China	Real Estate	3.5%
Trip.com Group Ltd	China	Cons Discretionary	3.4%
Alibaba Group Holding	China	Cons Discretionary	3.0%

As at 30 September 2022. See note 5, page 5.

Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit <https://www.platinum.com.au/our-products/paf>.

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).

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. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund 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, the Fund's 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 the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The investment returns depicted in the graph are cumulative on A\$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows the Fund'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. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "Shorts" show the Fund'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 derivative transactions.
4. The table shows the Fund'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".
5. The table shows the Fund'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

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