

# Platinum Asia Fund



**Andrew Clifford**  
Portfolio Manager



**Cameron Robertson**  
Portfolio Manager



**Kirit Hira**  
Portfolio Manager\*

## Performance

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

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	8%	-9%	5%	4%	13%
MSCI AC Asia ex Jp Index <sup>^</sup>	6%	-14%	0%	2%	9%

\* Excludes quarterly returns

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

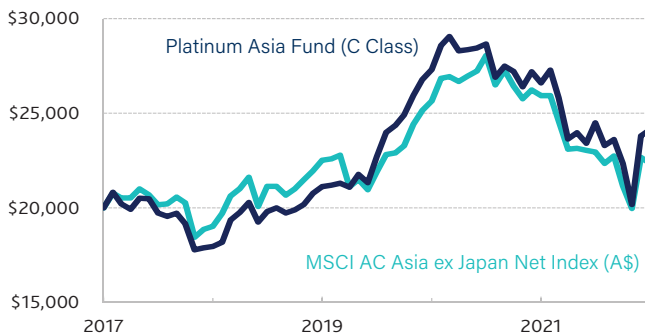
After fees and costs, before tax, and assuming reinvestment of distributions.

<sup>^</sup> 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

31 December 2017 to 31 December 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 8.2% for the quarter.<sup>1</sup>

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. 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 20<sup>th</sup> National Congress of the Chinese Communist Party (CCP), but subsequently recovering ~35% from the lows, following revised property and COVID measures.<sup>2</sup> 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%)

<sup>1</sup> 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.

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

\*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.

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 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%<sup>3</sup> 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**.

<sup>3</sup> RBI, Macquarie Research, December 2022.

## Disposition of Assets

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

## Net Sector Exposures

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

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%.<sup>4</sup> 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.

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%<sup>5</sup> 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 developers, with 19 A-share-listed developers planning to raise equity.<sup>6</sup> 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%.<sup>7</sup> 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. Our feature article in the December 2022 Platinum Trust Funds quarterly report, "*The Chinese Property Market: The Most Important Industry Globally Which Few Understand*" by Investment Analyst Julian McCormack, addresses these questions in more detail.<sup>8</sup>

<sup>6</sup> Source: Goldman Sachs.

<sup>7</sup> Source: citi.

<sup>8</sup> [https://www.platinum.com.au/PlatinumSite/media/Reports/ptqtr\\_1222.pdf](https://www.platinum.com.au/PlatinumSite/media/Reports/ptqtr_1222.pdf)

<sup>4</sup> Source: FactSet Research Systems.

<sup>5</sup> Source: Nomura, November 2022.

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.<sup>9</sup> 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.<sup>10</sup>

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.<sup>11</sup> 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),<sup>12</sup> 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.<sup>13</sup>

**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.

<sup>13</sup>Source: TISCO, Jefferies.

## Top 10 Holdings

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 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>.

<sup>9</sup> [https://www.fmprc.gov.cn/eng/zxxx\\_662805/202211/t20221115\\_10975446.html](https://www.fmprc.gov.cn/eng/zxxx_662805/202211/t20221115_10975446.html)

<sup>10</sup> <https://www.bundeskanzler.de/bk-en/news/chancellor-guest-article-politico-china-2139576>

<sup>11</sup> RBI, Macquarie Research, December 2022.

<sup>12</sup> <https://knoema.com/atlas/Thailand/topics/Tourism/Travel-and-Tourism-Total-Contribution-to-GDP/Contribution-of-travel-and-tourism-to-GDP-percent-of-GDP>

## 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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "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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