



# **Quarterly Investment Manager's Report**

Platinum World Portfolios - Asia Fund

**30 September 2020**

# Contents

<b>Performance</b>	<b>3</b>
--------------------	----------

<b>Macro Overview</b>	<b>4</b>
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by Andrew Clifford, Chief Investment Officer

<b>Fund Update</b>	
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PWP - Asia Fund	8
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# Performance

## to 30 September 2020

SUB-FUND	PORTFOLIO VALUE (US\$ MIL)	QUARTER 6 MONTHS	1 YEAR	2 YEARS COMPOUND PA	3 YEARS COMPOUND PA	SINCE INCEPTION COMPOUND PA	INCEPTION DATE	
Platinum World Portfolios - Asia Fund								
Class A (USD)	21.5	13.6%	36.4%	31.9%	13.5%	8.0%	13.3%	10 Mar 2017
Class D (USD)	21.8	13.7%	37.4%	32.9%	13.6%	7.9%	11.9%	16 Nov 2015
Class F (EUR)	0.2	9.0%	29.2%	-	-	-	-	3 Feb 2020
Class G (GBP)	1.7	9.1%	31.5%	25.2%	-	-	20.3%	19 Feb 2019
Class I (USD)	185.0	13.7%	36.6%	31.9%	13.7%	8.2%	14.2%	19 Jan 2017
MSCI AC Asia ex Japan Net Index (USD) <sup>(1)</sup>		10.7%	29.2%	17.8%	6.7%	4.9%	10.1%	16 Nov 2015
MSCI AC Asia ex Japan Net Index (USD) (EUR) <sup>(2)</sup>		6.0%	20.8%	-	-	-	-	3 Feb 2020
MSCI AC Asia ex Japan Net Index (USD) (GBP) <sup>(2,3)</sup>		5.8%	23.9%	12.3%	-	-	10.1%	19 Feb 2019

(1) For the purpose of calculating the "since inception" returns of the Index in USD, the inception date of Class D of the Fund is used, since Class D was the first USD-denominated share class activated.

(2) The MSCI Index returns in USD have been converted into the specified currency (EUR or GBP, as the case may be) using the prevailing spot rate.

(3) For the purpose of calculating the "since inception" returns of the Index in GBP, the inception date of Class G of the Fund is used, since Class G was the first GBP-denominated share class activated.

Fund returns are net of accrued fees and expenses, are pre-tax, and assume the accumulation of net income and capital gains. Where a particular share class is not denominated in USD, the net asset value per share in USD, being the Fund's base currency, is converted into the denomination currency of that share class using the prevailing spot rate.

**Historical performance is not a reliable indicator of future performance. See note 1, page 12.**

Source: Platinum Investment Management Limited for Fund returns; FactSet Research Systems for MSCI Index returns.

# Macro Overview

by Andrew Clifford, CIO, Platinum Investment Management Limited

Over the last three months, stock markets have continued to rally strongly as economic activity started to recover from the depths of the COVID-induced recession. As a result of the lockdowns that have been put in place to control the spread of the virus, there have been significant changes in spending and working patterns across economies.

These changes, together with rapid and large increases in money supply, have unleashed a speculative mania in 'high growth' companies and other beneficiaries of the changing environment, while the balance of the market remains mired in a traditional bear market. **We believe extreme caution is warranted in regards to the market's current 'high flyers', while opportunities abound elsewhere.**

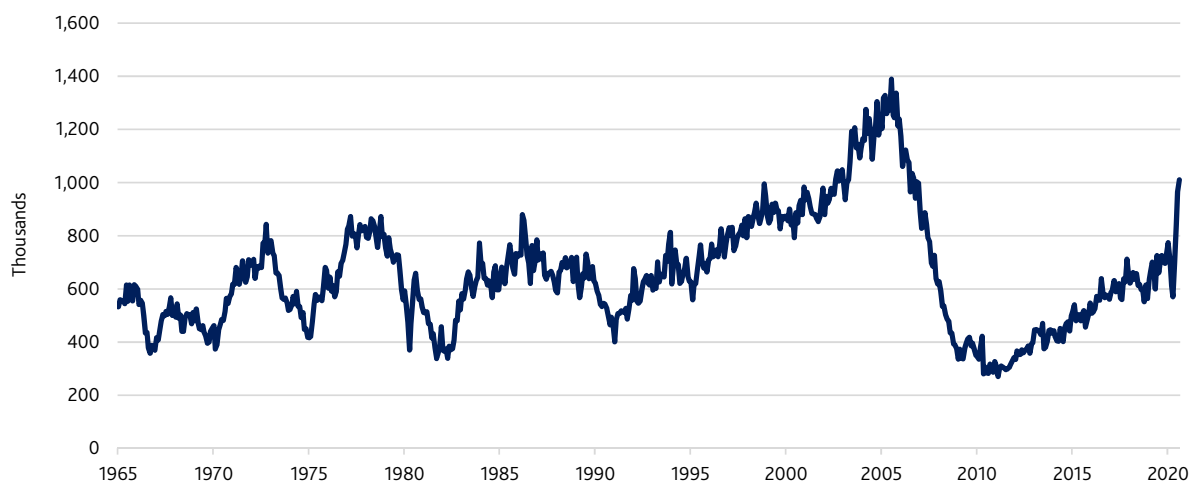
## Not all changes in spending patterns will be sustained.

Many changes in our patterns of behaviour make entire sense given the circumstances. Faced with being either unable or not wanting to leave the house to shop, many consumers have taken to ordering groceries online for the first time. In many locations there is evidence of new adopters continuing to use such services, even as restrictions have eased. There are numerous examples that fit into this category, including video streaming services, such as Netflix or video conferencing products, such as Zoom.

Other changes have perhaps been somewhat more surprising. For example, in the US, we have seen extraordinarily strong new home sales (see Fig. 1). In one sense, the lift in home sales is understandable, as people opt for a different location and type of residence in an era of more flexible working arrangements, particularly the ability to work from home. The cost of financing major purchases, such as homes and cars, has fallen with lower interest rates. However, for households to be taking on such major financial commitments in the midst of a deep recession and extraordinary uncertainty is concerning.

What is often overlooked when observing these changing spending patterns is that they have been funded by the collapse in spending elsewhere, such as travel and restaurants. In a post-COVID environment, when people can once again spend money on such activities, the boost in spending in other areas will likely wane. For some areas, where activity has simply transferred from offline to online, such as grocery shopping, this may hold up, but even here, growth rates are likely to fade, as these businesses will have moved closer to maturity.

Fig. 1: New One-Family Houses Sold: United States



Source: Federal Reserve Bank of St Louis.

One area of changed spending that will likely persist for some time, is government spending. However, the emphasis of government spending will likely shift from shorter-term support measures, such as lump sum government stimulus payments and/or additional unemployment benefits, to longer-term projects, such as infrastructure and incentives for investment. Environmental initiatives to reduce the use of fossil fuels and plastics for instance, are likely to be an ongoing part of government spending in much of the world.

### **Changes in spending patterns have often reinforced investors' views of different sectors held prior to the pandemic.**

Businesses that have benefited from changes in consumer behaviour were in many cases ones that were already growing quickly. Examples include most forms of e-commerce from online shopping to food delivery services, online computer games, and video streaming services. Other favoured investments prior to the pandemic included defensive investments, such as consumer staples, that have seen sales grow not only from stocking up pantries as the lockdowns came into effect, but from greater consumption as people spent more time at home. On the other side, more cyclical businesses that were already struggling as a result of the US-China trade war and low growth, such as commodity producers, have suffered even further due to the collapse in economic activity.

Over the last two years, we have discussed on numerous occasions how investors, faced with low interest rates, have sought better returns from asset classes that they might otherwise have avoided, such as equities. As this has come at a time when there was already great uncertainty, such as rising geopolitical tensions and with many traditional businesses disrupted by e-commerce and other technology, investors have shown a strong preference for perceived 'low-risk' businesses. Predominantly, these were in high-growth areas (i.e. e-commerce, payment systems and software as a service), as well as defensive businesses (i.e. consumer staples, real estate, utilities and infrastructure). At the same time, investors were avoiding businesses with any degree of uncertainty or cyclical.

While some businesses (e.g. those in the travel-related sector including infrastructure such as airports, real estate such as CBD offices and shopping malls) have changed sides from being in the loved 'high growth and certainty' grouping to the neglected 'cyclical and uncertainty' grouping, by and large the economic impacts of the pandemic have reinforced investors' pre-existing views and preferences.

### **This is a particularly dangerous environment for investors as our cognitive biases come to the fore.**

It is well documented that our cognitive biases<sup>1</sup> play a major role in our decision making, and when it comes to investing we are deeply exposed to the role these biases play. Our short summary is that investors tend to over-emphasise and over-extrapolate the short-term trends and events - both the good and the bad.

This makes the current moment in time particularly worrisome. Prior to the pandemic, investors already held enthusiastic views of the prospects of many of the fast-growing companies. These views have now been reinforced even further by the additional boost to revenues they have received. As share prices move rapidly higher, this further reinforces the idea that these companies make great investments.

Ultimately, the value of a business is determined by the entirety of its future profits, for 10 years and beyond. The question is whether the boost to the short-term picture justifies the significant share price rises that have occurred? In some cases, it may well do. We have seen some companies that were expected to be lossmaking for a number of years turn profitable far sooner. However, there is plenty of complexity in assessing the prospects of fast-growing companies, especially when one must make assessments of revenues and profits into the distant future.

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<sup>1</sup> Cognitive biases are the systematic ways in which we frame and process information, which can lead to irrational judgements and decision making. For a comprehensive read on the topic, please see Daniel Kahneman's *Thinking Fast and Slow*. Or for a much briefer overview, see our publication *Curious Investor Behaviour* as well as various other articles and materials at: <https://www.platinumworldportfolios.ie/Insights/Curious-Investor-Behaviour>

## **The role of excess money creation provides an alternate story for why share prices of growth stocks are running hard.**

While there is much discussion around the potential of the 'new economy' at the moment, the other factor at play in the rebound in markets is the rapid growth in money supply. As we discussed in our last quarterly update,<sup>2</sup> this increase in money circulating in the economy reflects the way governments have funded their monetary and fiscal policy initiatives. When the growth in money supply exceeds economic output, it will necessarily result in inflation. Although inflation has not yet appeared in goods and services (or the consumer price index), it has appeared in asset prices, such as bonds and some parts of the stock market. Is it the bright prospects of the growth stocks that have driven markets or the inflationary effects of the printing presses?

We would answer this question by looking at valuations. What we see across many of the much-loved stocks of the moment are valuations that are hard to justify no matter how bright their prospects are. As one example, the market value of Tesla today is around US\$400 billion and the company is expected to sell in the order of 480,000 vehicles this year. This compares with Toyota, which is valued at just under US\$200 billion and will likely sell around 9.5 million vehicles i.e. around 20 times more than Tesla.<sup>3</sup>

Of course, this simple comparison doesn't do justice to Tesla's achievements in leading the electric vehicle revolution and the developments they are driving in battery technology. Still it could be argued that Toyota, having launched the first hybrid electric vehicle, the Prius, in 1997, knows a thing or two about making and selling electric cars. The prospects for Tesla are most certainly bright in our view and ultimately, they may achieve enough to justify this lofty valuation. However, the company must still jump a huge hurdle just to meet current market expectations.

<sup>2</sup> [https://www.platinumworldportfolios.ie/PlatinumSite/media/Fund-Updates-and-Reports/pwpqtr\\_0620.pdf](https://www.platinumworldportfolios.ie/PlatinumSite/media/Fund-Updates-and-Reports/pwpqtr_0620.pdf)

<sup>3</sup> Source: FactSet Research Systems, company reports, Platinum Investment Management Limited.

The run-up in the market is not just about the valuations of one or two hot stocks that are inconsequential in size. There are many stocks, and in aggregate the market capitalisations of these high flyers readily run into hundreds of billions, even trillions of dollars. This phenomenon is of course well understood and splashed across the front pages of the financial press, and yet it continues. Perhaps equally disturbing, is that the safe and comfortable option to invest in growth has been in companies such as Microsoft, Facebook, Alphabet and Apple. These are fine companies with good prospects (ignoring any anti-trust concerns), however, they have steadily revalued over time and now trade at generous valuations, though nowhere near as challenging as Tesla.

This brings us back to the question of money printing. If it is the inflationary effects of money printing that has driven stocks to these lofty levels, then it probably needs to continue to keep the market rally going. At the time of writing, additional stimulus measures are being debated in the US. Whether there is an agreement before the 3 November US election or not, it is probably a reasonable assumption that over the course of the next 18 months, governments around the world will continue to increase their spending, and it will probably be funded by borrowing from the banking system. However, as economies start growing again, the excess of money creation over economic output will most likely reduce.

## **The risk for investors in equity markets today is the highly valued growth stocks. The opportunity is in companies that will benefit as we move into the post-COVID environment.**

There is much discussion about a new world for investing, or a new paradigm if you will, marked by interest rates at or around zero for the foreseeable future and the never-ending march of new technology continually changing the business landscape. This new environment renders all the old rules of investing null and void. Perhaps? Or is this just another version of the four most expensive words in investing: This time is different? Alternatively, it may just be a good old-fashioned bull market, driven by a great story and excess money supply, reinforced by our cognitive biases that lead us to emphasise recent events and trends.

There are plenty of warning signs to suggest what we have here is simply a speculative mania:

- A buoyant market for new listings with companies often debuting on the market at prices as high as 50% or more above their issue price.
- High levels of retail investor activity, not just in shares but also in the options market.
- The stories of fortunes made and lost overnight by small investors that are regularly shared on internet blogs and even in the traditional financial press.
- And every good bull market needs an innovative financing vehicle and this time we have Special Purpose Acquisition Companies (SPACs). The premise here is that investors invest their cash in a SPAC and the promoters will find a great company to buy from the private markets with the funds. For those who have been around long enough, it sounds very similar to the 'cash box' listings in the bull market of the 1980s, and most of these didn't end well for investors.

What brings it to an end and when that happens are the great unanswerable questions, as has been the case in past speculative markets. One thing we do know though, is that manias tend to end suddenly and abruptly. The significant bull markets of the last 40 years have come to an end when monetary conditions tightened. Typically, this has been marked by rising interest rates, which for the moment seems inconceivable. Perhaps a slowing of money creation at a time when economic activity is rising will represent the tightening in liquidity, even if interest rates do not budge significantly. Perhaps it will simply be when we are clear of the lockdowns and restrictions and the level of permanent business closures and job losses is much greater than thought and prospects for listed companies are much bleaker than expected.

Despite these unusual times, it is important to remain committed to our long-standing and consistent investment approach. We will focus on companies that others prefer to avoid, assess their potential over the medium term, and buy where their stock price implies an attractive return.

## MSCI Regional Index Net Returns to 30.9.2020 (USD)

REGION	QUARTER	1 YEAR
All Country World	8.1%	10.4%
Developed Markets	7.9%	10.4%
Emerging Markets	9.6%	10.5%
United States	9.5%	16.4%
Europe	4.2%	-1.5%
Germany	8.3%	10.0%
France	2.8%	-6.2%
United Kingdom	-0.2%	-15.8%
Italy	1.3%	-10.1%
Spain	-3.8%	-21.0%
Russia	-4.7%	-16.0%
Japan	6.9%	6.9%
Asia ex-Japan	10.7%	17.8%
China	12.5%	33.6%
Hong Kong	1.6%	-1.6%
Korea	12.8%	18.6%
India	15.0%	0.5%
Australia	2.8%	-7.7%
Brazil	-3.3%	-32.5%

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 30.9.2020 (USD)

SECTOR	QUARTER	1 YEAR
Consumer Discretionary	17.9%	29.2%
Information Technology	12.7%	44.8%
Materials	11.7%	11.7%
Industrials	11.2%	3.3%
Communication Services	7.3%	16.5%
Consumer Staples	7.2%	3.3%
Health Care	4.6%	21.6%
Utilities	4.0%	-3.7%
Real Estate	2.0%	-11.2%
Financials	1.4%	-15.5%
Energy	-12.8%	-39.0%

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.



# Platinum Asia Fund



Joseph Lai  
Portfolio Manager

## Performance

(compound p.a.<sup>+</sup>, to 30 September 2020)

SHARE CLASS	QUARTER	1 YR	2 YRS P.A.	3 YRS P.A.	SINCE INCEPTION P.A.
PWP Asia Fund Class A USD	14%	32%	14%	8%	13%
PWP Asia Fund Class D USD	14%	33%	14%	8%	12%
PWP Asia Fund Class F EUR	9%	-	-	-	-
PWP Asia Fund Class G GBP	9%	25%	-	-	20%
PWP Asia Fund Class I USD	14%	32%	14%	8%	14%
MSCI AC Asia ex Jp Index <sup>^</sup>	11%	18%	7%	5%	10%

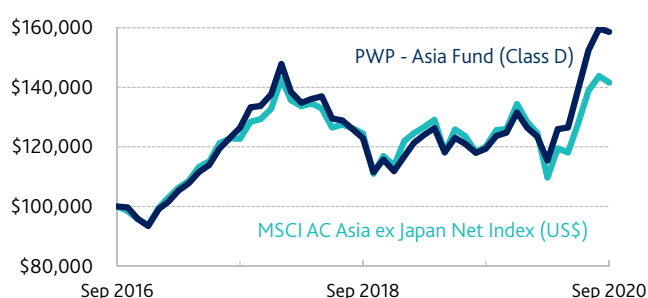
<sup>+</sup> Excluding quarterly returns

Fund returns are net of accrued fees and costs. Class D inception date (16 Nov 2015) is used for Index "since inception" returns.

<sup>^</sup> Index returns are those of the MSCI All Country Asia ex Japan Net Index in USD. Source: Platinum Investment Management Limited, FactSet Research Systems.

## Value of US\$100,000 Invested Since Inception

16 November 2015 to 30 September 2020



After fees and costs. See notes 1 & 3, page 12.

**Historical performance is not a reliable indicator of future performance.**

Source: Platinum Investment Management Limited, FactSet Research Systems.

Most Asian economies witnessed a robust rebound in activity over the quarter. The Fund (Class D) remained relatively fully invested throughout the period and achieved a 13.7% return for the quarter.<sup>1</sup>

The re-opening of economies post lockdown has affirmed our belief that strong companies would emerge stronger while the weaker competitors would dwindle, and that working from home would accelerate some inexorable trends driven by internet connectivity.

The stocks we added to during the sell-off reflected this conviction and indeed, many have delivered remarkable returns. **Reliance Industries** (4G operator that is transforming itself into an internet platform in India) was up 31% over the quarter, after a 55% appreciation in the prior quarter. **LG Chem** (premier electric vehicle battery manufacturer in South Korea) was up 33%, following a 61% rise in the prior quarter. **Taiwan Semiconductor Manufacturing** (leading global microchip manufacturer) was up 38% due to its position in today's age of almost insatiable demand.

Stocks that benefited from the re-opening of economies included **China Tourism Group** (duty free operator, up 45%), **Focus Media** (outdoor advertising, up 45%), **Huazhu** (leading hotel operator in China, up 23%) and **Li Ning** (a domestic Chinese sportswear champion, up 46% as domestic youngsters continued to snap up its products).

Stocks that detracted from performance primarily reflected idiosyncratic reasons, such as **China Jinmao**, which fell 22% on mild Chinese property tightening measures.

## Changes to the Portfolio

Towards the end of the quarter, index shorts were placed and some profits were tactically booked in the Fund to protect the portfolio, with the view that the developed markets may be over-extrapolating the durability of the re-opening rebound, particularly with the increasing prospect of a second wave of coronavirus in the northern hemisphere winter.

<sup>1</sup> References to returns and performance contributions (excluding individual stock returns) in this PWP - Asia Fund report are in USD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.



Irrespective of the headlines, Asia is demonstrating remarkable economic resilience, valuations are generally lower than those of developed markets<sup>2</sup> and reforms are positioning the region in good stead over the next five to 10 years.

We expect further volatility in the markets may once again provide us with an opportunity to accumulate interesting names in Asia.

## Commentary

Asian economies have generally managed the pandemic well and a less aggressive monetary and fiscal response has thus been warranted. Their equity markets have rebounded mainly on improving earnings prospects rather than ever-increasing valuations driven by the printing of money. This bodes well for Asia's regional markets, as unlike its developed market peers, many of their valuations are not expensive and more stimulatory firepower is available, if needed, in the future.

Given the dynamism of the region, new sustainable trends that can prove fruitful for the Fund continue to emerge. We continue to stick to our time-tested investment approach, remaining focused on:

1. The identification of the long-term trends.
2. Being contrarian in our approach to take advantage of opportunities or protect the portfolio.
3. Generating significant insights through in-depth bottom-up work.

<sup>2</sup> Source: IBES consensus, in local currency, as at 7 October 2020.

## Disposition of Assets

REGION	30 SEP 2020	30 JUN 2020	30 SEP 2019
China	45%	53%	39%
Korea	13%	12%	10%
Taiwan	9%	8%	5%
India	9%	8%	9%
Hong Kong	8%	9%	7%
Vietnam	3%	2%	3%
Thailand	2%	2%	4%
Philippines	1%	0%	3%
Macao	1%	1%	0%
Cash	9%	4%	20%
Shorts	-4%	-17%	0%

See note 4, page 12. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

Change brings opportunities. Identification of the durable changes ahead of the market can generate significant investment returns. The abundance of these opportunities is why we are excited about Asia over the long term, despite the geopolitical noise.

The rational base case remains. We believe the reforms undertaken will likely lead to an inexorable growth trajectory, and strong companies should thrive in their respective environments, irrespective of the macro concerns. Indeed, market volatility and insightful bottom-up work has enabled us to time and again take advantage of the wonderful opportunities on offer.

In **India** for instance, reforms have improved its Ease of Doing Business ranking from 130 in 2016 to 63 in 2019 according to the World Bank.<sup>3</sup> Bureaucratic red tape and the associated self-enrichment have historically been hindrances to entrepreneurship. These are getting dismantled one by one.

Recently, India passed agricultural reforms aimed at unshackling the sector and encouraging private enterprise to invest to improve efficiency and reduce waste. Allowing farmers to sell directly to private enterprises other than the state-mandated traders has the advantage of removing the middle-man who added inefficiencies to the system. This will allow contract farming to take place, allowing bigger companies to source produce directly from the farmers. The reduction in the restrictions on agriculture produce storage is likely to encourage increased private investment in logistics and storage to reduce wastage, which has been a big problem

<sup>3</sup> Source: <http://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>

## Net Sector Exposures

SECTOR	30 SEP 2020	30 JUN 2020	30 SEP 2019
Consumer Discretionary	26%	31%	17%
Information Technology	23%	22%	15%
Financials	11%	8%	16%
Communication Services	10%	11%	15%
Real Estate	6%	4%	5%
Industrials	3%	3%	5%
Materials	3%	4%	1%
Energy	3%	4%	1%
Consumer Staples	3%	6%	0%
Health Care	1%	2%	2%
Utilities	0%	0%	1%
Other	-2%	-15%	3%
TOTAL NET EXPOSURE	87%	79%	81%

See note 5, page 12. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

for India. This will allow the market to have a bigger say in the allocation of resources in the sector.

Labour market reform is another achievement. The new laws consolidate decades-old and outdated central government legislation and override the disparate and chaotic state government laws into a comprehensive set of legislation. Previously, companies with more than 100 workers required government permission to lay-off employees or close plants, now that cap has increased to 300. It requires unions to provide prior notice and attempt conciliation before strike actions. Some states, such as Rajasthan, implemented some elements of the labour laws in 2014 and have subsequently seen a significant pick-up in business investment and average employee numbers. These benefits should now spread to the rest of India.

Together with reforms, the continual spend on infrastructure is also accretive to growth. **Reliance Industries** was traditionally an oil refiner and petrochemical producer. In the last 10 years, it has managed to build the largest 4G network in India, growing its user base from zero to around 400 million in just four years.<sup>4</sup> It then embarked on an ambitious journey to link online and offline shops to Indian consumers via the smartphone. Facebook, Google and other US-based companies have recently invested billions of dollars in these assets. We added significantly to Reliance during the sell-off, before these tech giants invested in this highly prospective asset. Indeed, the Fund has lifted its net exposure to Indian equities from around 1% to around 9% over the quarter (as we reduced our shorts from 7% to zero), adding to strong businesses with solid balance sheets during the market volatility.

**China** has remained a contrarian but highly prospective investment opportunity. Geopolitics can be worrying and distracting. Ultimately, the Asia region is dynamic and its countries are responding to changing circumstances.

Recently, Chinese authorities have pivoted to a new direction, dubbed "Dual Circulation". It is a development model that will tilt towards greater reliance on domestic sources for raw materials (food and energy for instance) and end markets (more domestic consumers rather than export markets). Exports are not currently a huge driver of the Chinese economy (contributing approximately 20% to China's national output vs. 80% for domestic consumption and investment).<sup>5</sup> The intention of the reform process is to improve capital allocation to research and development, much-needed infrastructure, and the people, so that

## Net Currency Exposures

CURRENCY	30 SEP 2020	30 JUN 2020	30 SEP 2019
Chinese yuan (CNY)	47%	53%	39%
Korean won (KRW)	13%	12%	10%
Indian rupee (INR)	9%	1%	10%
Hong Kong dollar (HKD)	9%	9%	12%
Chinese yuan offshore (CNH)	7%	0%	-24%
Taiwan dollar (TWD)	7%	4%	7%
Vietnamese dong (VND)	3%	2%	3%
Thai baht (THB)	2%	2%	1%
Philippine peso (PHP)	1%	0%	3%
Macanese pataca (MOP)	1%	1%	0%
US dollar (USD)	0%	14%	38%

See note 6, page 12. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

## Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Taiwan Semiconductor	Taiwan	Info Technology	7.1%
Samsung Electronics Co	Korea	Info Technology	6.8%
Tencent Holdings	China	Comm Services	6.6%
Alibaba Group Holding	China	Cons Discretionary	4.3%
AIA Group Ltd	Hong Kong	Financials	4.2%
Ping An Insurance	China	Financials	3.5%
Huazhu Group ADR	China	Cons Discretionary	3.3%
LG Chem Ltd	Korea	Materials	3.0%
Reliance Industries Ltd	India	Energy	3.0%
Li Ning Co Ltd	China	Cons Discretionary	3.0%

As at 30 September 2020. See note 7, page 12.

Source: Platinum Investment Management Limited.

<sup>4</sup> Source: Reliance Industries.

<sup>5</sup> Source: <https://www.cia.gov/library/publications/resources/the-world-factbook/geos/ch.html>

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit [www.platinumworldportfolios.ie/The-Funds/PWP-Asia-Fund](http://www.platinumworldportfolios.ie/The-Funds/PWP-Asia-Fund).

productivity of the economy can be increased. Improving productivity will boost incomes and help realise the potential of its huge domestic consumer market.

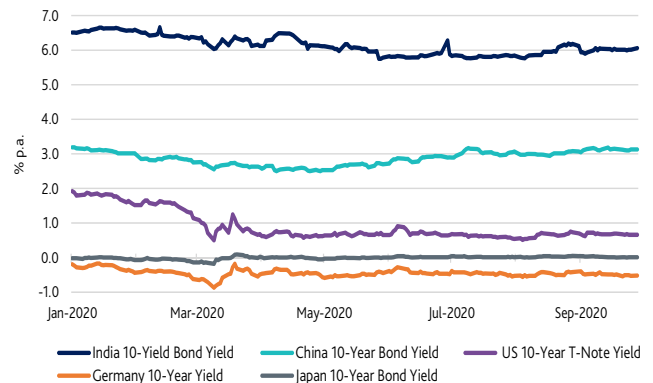
Wealthier consumers who spend more domestically can create long-term opportunities. The Chinese passion for spending on luxury handbags overseas is well known. Chinese consumers make up 30-40% of global luxury spend but most of this has occurred outside of China.<sup>6</sup> There is a significant change in consumer behaviour that is not being broadly recognised – luxury consumption is moving onshore to China. Product prices, which have traditionally been higher in China than overseas, have been coming down.<sup>7</sup> We expect domestic luxury sales in China will likely double in the next few years. Recent numbers reported from Tiffany, Gucci and LVMH are showing very strong sales in domestic China in recent months. They are running out of room in their shops and are asking for little back rooms to store their inventory.

As part of its reforms to improve capital allocation, China is reforming its financial markets to meet global best practice. China's bond market is already sizeable (~US\$13 trillion).<sup>8</sup> Major global financial firms have established majority-owned offices in China in recent months, including S&P, Morgan Stanley, Goldman Sachs, JP Morgan, BlackRock and State Street. Various global bond indices have started including Chinese bonds, such as FTSE, Bloomberg and JP Morgan.

Given the lack of growth opportunities globally, Chinese financial assets (and to some extent, other Asian assets) that are hitherto under-owned may prove highly attractive, with Chinese government bonds offering significantly higher yields than those of most major economies (see Fig. 1), partly reflecting expected higher growth prospects. These opportunities, it appears, are simply too big to ignore.

Another element of the reform is China's commitment to having a net zero carbon output by 2050. This will translate to a significant reduction in the usage of fossil fuels, and a gargantuan deployment of alternative energy sources. As one of the world's largest industrial economies, this move, if it comes to fruition, is extremely meaningful in dealing with climate change. Of course, one side benefit for China will be a reduced reliance on imported oil and coal. As one of the world's lowest-cost producers of solar panels, wind turbines and batteries, its renewables industry is set to blossom, as it skyrockets from 15% to 75% of its total energy mix.

**Fig. 1: China's 10-Year Bond Yields Are Attractive vs. Most Major Markets**



Source: FactSet Research Systems, Platinum Investment Management Limited.

India, China and indeed the rest of Asia have more than four billion people. The region is dynamic. We have an opportunity to own companies that are leaders in their fields. They have invested billions of dollars in research and infrastructure over many years and as a result of the investment, they seize greater control over their destiny in these changing times.

## Outlook

With the pandemic probably past its first innings, ongoing stimulus and a vaccine likely forthcoming, the question perhaps is where to from here?

Developed economies have spent a great deal of firepower on stimulus, further burdening the system's indebtedness. The economic recovery we are enjoying is unlikely to continue forever without a stronger dose of stimulus, which may not be as forthcoming as before.

The Fund's exposure has been pre-emptively reduced to take into account the possibility of a broader market consolidation. Economic prospects for the Asia region are, however, uniquely favourable. Reforms are taking place. The pandemic is well controlled. Stimulatory policies have thus far been limited and the local authorities will hence have significant flexibility on the policy front if needed.

It is an exciting time for stock investors like ourselves, as the combination of attractive valuations coincides with significant capacity for further stimulation in Asia. The Fund will continue to deploy capital in attractive and strong businesses that we believe are still under-appreciated by the markets.

<sup>6</sup> Source: *China Luxury Report 2019*, McKinsey & Company, April 2019; *What's Powering China's Market for Luxury Goods?* Bain & Company.

<sup>7</sup> *What's Powering China's Market for Luxury Goods?* Bain & Company.

<sup>8</sup> Source: <https://am.jpmorgan.com/au/en/asset-management/adv/insights/market-insights/market-bulletins/a-guide-to-the-chinese-fixed-income-markets/>

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- Fund returns are calculated by Platinum using the Fund's net asset value per share (i.e. excluding the anti-dilution levy) attributable to the specified share class. Where a share class is not denominated in USD, the net asset value per share in USD, being the Fund's base currency, is converted into the denomination currency of that share class using the prevailing spot rate. Fund returns are net of fees and expenses, pre-tax, and assume the accumulation of the net income and capital gains, each as attributable to the specified share class. The MSCI index returns are in USD, 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.
- The portfolio inception dates for each active share class of the Fund are as follows:
  - Platinum World Portfolios - Asia Fund:
 

Class A USD (Accumulating) (ISIN: IE00BYRGR522): 10 March 2017	Class B USD (Accumulating) (ISIN: IE00BYRGR639): 5 June 2020
Class D USD (Accumulating) (ISIN: IE00BYRGRD06): 16 November 2015	Class F EUR (Accumulating) (ISIN: IE00BYRGR969): 3 February 2020
Class G GBP (Accumulating) (ISIN: IE00BYRGRB81): 19 February 2019	Class I USD (Accumulating) (ISIN: IE00BYMJ5524): 19 January 2017

 For the purpose of calculating the "since inception" returns of the MSCI index, the inception date of Class D of the Fund, being 16 November 2015, is used (as Class D was the first share class activated).
- The investment returns depicted in this graph are cumulative on US\$100,000 invested in Class D of the specified Fund over the specified period relative to the specified net MSCI Index in US Dollars.
- 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.
- 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".
- The table shows the Fund's net exposures to the relevant currencies through its long and short securities positions, cash at bank, cash payables and receivables, currency forwards and long and short securities/index derivative positions, as a percentage of its portfolio market value. Currency classifications for securities reflect the relevant local currencies of the relevant Bloomberg country classifications. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
- 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.

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