Platinum®
ASIA INVESTMENTS LIMITED

ANNUAL REPORT 2020

Platinum Asia Investments Limited

ABN 13 606 647 358

Directors

Margaret Towers
Ian Hunter
Malcolm Halstead

Company Secretary

Joanne Jefferies

Investment Manager

Platinum Investment Management Limited
(trading as Platinum Asset Management®)

Platinum Investment Management Limited neither guarantees the repayment of capital nor the investment performance of the Platinum Asia Investments Limited.

Shareholder Liaison

Elizabeth Norman

Registered Office

Level 8, 7 Macquarie Place
Sydney NSW 2000

Phone 1300 726 700 (Australia only)
Phone 0800 700 726 (New Zealand only)
Phone +61 2 9255 7500

Share Registrar

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Phone +61 1300 554 474
Fax +61 2 9287 0303

Auditor and Taxation Advisor

PricewaterhouseCoopers

Securities Exchange Listing

The securities of Platinum Asia Investments Limited are listed on the Australian Securities Exchange (ASX code: **PAI**).

Website

www.platinumasia.com.au

Corporate Governance Statement

The 2020 Corporate Governance Statement can be viewed at https://www.platinum.com.au/PlatinumSite/media/Find-a-form/pai_corp_gov.pdf

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CHAIRPERSON'S REPORT 2020

Summary

Platinum Asia Investment Limited's ("**PAI**" or the "**Company**") investment return was 14.6% for the 12 months ended 30 June 2020, as measured by its pre-tax net tangible asset backing per share. This investment return is very pleasing, in both an absolute sense and when compared to the 3.6% return for the MSCI Asia ex Japan Net Index in A$ terms ("Index") during the same period. The Company's net profit after tax was $38.6 million (2019: loss of $0.2 million).

The 2020 financial year can be broken down into three distinct investment performance periods, as follows:

– **The eight month period from 1 July 2019 to 29 February 2020,** during which the Company's investment return of 8.3% compared favourably to the Index return of 7.8%.

– **The month of March 2020,** during which the Company's investment return was negative 1.2%. There was a steep sell-off in markets, resulting in an Index return of negative 7.4%. Actions taken to protect the portfolio during a highly volatile period, including shorts on stock market indices and higher cash holdings, helped the Company's investment performance.

– **The three month period from 1 April 2020 to 30 June 2020,** during which the Company's investment return of 7.0% exceeded the Index return of 3.7%. The Company's investment portfolio was well positioned for the market recovery during this period.

The Company declared a fully-franked final dividend of 3 cents per share, bringing the total dividends declared for the 2020 financial year to 5 cents per share. This represents a dividend yield of 4.95% based on the closing share price as at 30 June 2020 or 4.27% based on the pre-tax net tangible asset backing per share at 30 June 2020.

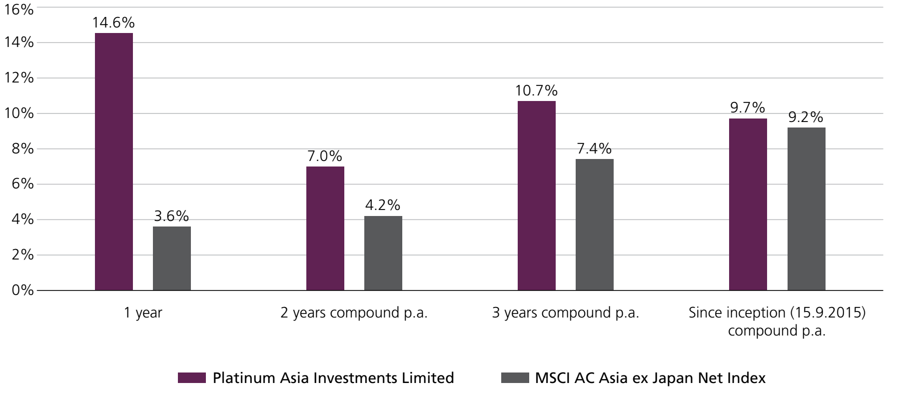
Investment Performance

As mentioned, for the 12 months to 30 June 2020 the Company delivered a return of 14.6% (measured by its pre-tax net tangible assets ("pre-tax NTA") i.e. the combined capital and income return of the Company's investments after the deduction of fees and expenses, adjusted for corporate taxes paid and any capital flows and assuming the reinvestment of all dividends). This is compared to the MSCI Asia ex Japan Net Index in A$ terms, which delivered a positive return of 3.6%[1] for the same period.

Since inception (in September 2015) to 30 June 2020, the Company's annualised compound return (measured by the Company's pre-tax NTA) was 9.7% per annum, compared with an annualised compound return of 9.2% for the Index for the same period.

The Investment Manager noted that *"After the share price declines in March 2020, Asian markets were trading on a significant discount versus their average long-term valuations for very well understood reasons. It would have been remiss not to take advantage. Accordingly, we added to new and existing positions that were on offer at mouth-watering valuations. These are strong businesses backed by good management and healthy balance sheets that we believe will do well upon reopening and over the longer term, irrespective of geopolitical tensions."*

PAI's Pre-Tax Net Tangible Asset (NTA) Return (%) versus Index Return[1] (%) to 30 June 2020



Source: Platinum Investment Management Limited (PAI returns) and FactSet Research Systems (MSCI returns). Returns have not been calculated using the Company's share price. **Past performance is not a reliable indicator of future performance.**

1 MSCI Disclaimer: The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated 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).

It is disappointing to note that the Company's shares, which have traded at a premium to pre-tax NTA, are now trading at a discount to pre-tax NTA. This has resulted in a lower total shareholder return of 1.94% over the year compared to the pre-tax NTA return of 14.6%. The significant factors for the widening of the discount to pre-tax NTA across the broader Listed Investment Company (LIC) market, are the greater investor uncertainty due to COVID-19 and geopolitical tensions. In our opinion a deviation from the underlying asset value as encompassed in the pre-tax NTA is not rational. The Board is continually looking at ways to improve this for shareholders through capital management tools and to this end, announced a buy-back program in 8 April 2020. No shares have been bought-back as at 30 June 2020.

However, the share price discount does present an opportunity for investors to buy shares at a price which is lower than the intrinsic value of the Company's investment portfolio.

CHAIRPERSON'S REPORT 2020

CONTINUED

Statutory Accounts

For the financial year ended 30 June 2020, the Company made a statutory pre-tax operating profit of $55.3 million and a post-tax operating profit of $38.6 million.

Under Australian Accounting Standards, realised profits and losses are added to, or reduced by unrealised changes in the market value of the Company's total assets. This can lead to large variations in recorded statutory profits or losses from any one year to the next.

The Board maintains that a more appropriate measure of the Company's performance is the percentage change in its pre-tax NTA (i.e. after the deduction of fees and expenses, adjusted for corporate taxes paid and any capital flows, and assuming the reinvestment of all dividends). On this measure, the Company's return was 14.6% for the 12 months to 30 June 2020.

To keep shareholders fully informed, PAI releases weekly and monthly calculations of its net tangible asset backing per share to the ASX. Platinum publishes monthly investment performance updates and quarterly investment reports to shareholders.

Dividends

The Company declared a 2020 fully-franked final dividend of 3 cents per share, bringing the total dividends declared for the 2020 financial year to 5 cents per share. This represented a dividend yield of 4.95% based on the 30 June 2020 closing share price of $1.01.

The Company's ability to pay franked dividends is dependent on the Company paying income tax. At 18 August 2020, after allowing for the 2020 fully-franked final dividend of 3 cents per share, the Company has an ability to pay fully-franked dividends of up to 4.41 cents per share. The Board has a policy of dividend smoothing and endeavours to ensure that there are sufficient franking credits available to pay fully-franked dividends in the future.

To the extent that any profits are not distributed as dividends, the Board may set aside some or all of the Company's undistributed profits to a separate dividend profit reserve to facilitate the payment of future fully-franked dividends, subject to the balance of the franking account. The ability to manage the level of fully-franked dividend payments over time is a key strength of the listed investment company structure.

The Company's Dividend Reinvestment Plan ("DRP") provides shareholders with the option to receive some or all of their future dividends as ordinary shares in the Company instead of cash. The relevant issue price will be the volume-weighted average share price of the Company's shares sold on the ASX over the five business days subsequent to the date on which the Company's shares cease to trade cum-dividend. No discount will apply to the DRP issue price.

Capital Management

The Company did not engage in any capital raising activities during the financial year.

On 8 April 2020, the Company announced an on-market share buy-back for up to 10 per cent of PAI's issued share capital to be implemented over a period of up to 12 months. The objective of the share buy-back is capital management. No shares have been bought-back as at 30 June 2020, but the Board continues to monitor this.

Like other listed investment companies, at any time the Company's shares may trade on the ASX at a premium or discount to the pre-tax NTA. The share price is largely determined by the activity of buyers and sellers on the ASX. The Board actively monitors the premium or discount and considers ways to manage these should they become extreme.

Other Corporate Governance Matters

The Company's investments are managed and administered by Platinum Investment Management Limited ("Platinum") through two key agreements previously approved by shareholders: the Investment Management Agreement and the Administration Agreement.

During the financial year ending 30 June 2020 the Board commissioned an independent external legal review of both agreements. This review resulted in a number of amendments being made to those agreements, all of which benefitted shareholders. Of particular note was the change to the circumstances under which a termination fee is payable to Platinum under the Investment Management Agreement. Previously, a termination fee was payable to Platinum upon termination of the Investment Management Agreement, post the initial ten-year term, by either party, whether for cause or for convenience. The Investment Management Agreement has since been amended such that the termination fee will only be payable to Platinum in circumstances where the Company terminates the Investment Management Agreement after the initial ten-year term, for convenience.

Throughout the course of the year there were a number of additional Board meetings held to consider important legal, regulatory and good governance practices in a timely manner. The most significant amongst these covered:

- adopting a new Whistleblower Protections Policy,
- performing an initial review of the Company's non-financial risk practices, following publication of the report from ASIC's Corporate Governance Taskforce on Director and Officer Oversight of Non-financial risk, and
- adopting a new risk appetite statement, risk metrics and Board skills matrix.

The Board met with the Investment Manager, during the Australia-wide stage 3 lockdown as a consequence of COVID-19 in April 2020 to understand their management of investment and operational risks. Pleasingly, the Investment Manager's investment and business functions remained fully operational during the lockdown and continue to do so.

Lastly, the Board continued to monitor the performance of Platinum and its adherence to the investment management and administration agreements with the full and transparent co-operation of Platinum's management team.

Accordingly, I am confident in the integrity and reporting of the Company's financial results to shareholders.

CHAIRPERSON'S REPORT 2020

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Outlook for 2020-2021

As highlighted recently by the Investment Manager, *"Starting valuations are a key determinant of future returns. Asian stocks are currently trading on low valuations versus their long-term averages and economic prospects for the region are favourable.*

Our bottom-up process is hard at work, generating numerous prospective ideas. It is an exciting time for investors like us, as attractive valuations coincide with significant capacity for further policy stimulus in Asia.

PAI will continue to deploy capital in attractive and strong businesses that are under-appreciated by the markets."

Annual General Meeting (AGM)

My fellow Directors and the Investment Manager are pleased to invite you to the Company's Annual General Meeting on 27 October 2020.

Due to COVID-19 and the related health concerns, the Company's AGM will be held live through an online platform where you can attend and participate in the AGM. The AGM Notice, including details on how to join the meeting, will be dispatched to shareholders in the coming weeks.

Finally

On behalf of the Board, I wish to express our appreciation of the excellent work done by Dr Joseph Lai and Platinum's investment team over the last year and I thank Andrew Clifford and the broader team at Platinum.

Finally, on behalf of the Board, I thank shareholders for their support.

Margaret Towers
Chairperson

18 August 2020

FINANCIAL STATEMENTS 2020

Platinum Asia Investments Limited

General Information

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 18 August 2020. The Directors have the power to amend and reissue the financial statements.

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 14 August 2020.

Distribution of Ordinary Shares

Analysis of number of ordinary shareholders by size of holding:

	NUMBER OF HOLDERS OF ORDINARY SHARES
1 to 1,000	281
1,001 to 5,000	1,195
5,001 to 10,000	1,321
10,001 to 100,000	4,798
100,001 and over	407
Total	8,002
Holding less than a marketable parcel (of $500)	139

Twenty Largest Shareholders

The names of the twenty largest shareholders of the Company are listed below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
HSBC Custody Nominees (Australia) Limited	33,965,275	9.34
Platinum Investment Management Limited	30,000,000	8.25
Sysha Pty Limited	17,270,000	4.75
Moya Pty Limited	5,000,000	1.38
Lekk Pty Limited	2,200,000	0.60
Brazil Farming Pty Limited	2,000,000	0.55
BNP Paribas Nominees Pty Limited	1,799,193	0.49
Provedore Holdings Pty Limited	1,500,000	0.41
Invia Custodian Pty Limited	1,216,400	0.33
Avanteos Investments Limited	1,140,888	0.31
Citicorp Nominees Pty Limited	1,003,008	0.28
Jorlyn Pty Limited	1,000,000	0.27
JP Morgan Nominees Australia Pty Limited	980,278	0.27
Netwealth Investments Limited	918,193	0.25
Coolal Pty Limited	900,000	0.25
James & Diana Ramsay Foundation Pty Limited	871,800	0.24
Ra Saywell Investments Pty Limited	832,604	0.23
Mrs Fiona Williams	825,921	0.23
Leanganook Pty Limited	800,782	0.22
Navigator Australia Limited	783,554	0.22
	105,007,896	**28.87**

SHAREHOLDER INFORMATION
CONTINUED

Substantial Shareholders
The substantial shareholders in the Company's register of substantial shareholders at 14 August 2020 are listed below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Platinum Investment Management Limited	30,000,000	8.35%^

^ As at the date of the last substantial shareholder notice lodged with the ASX on 14 December 2017.

Voting Rights
Ordinary shares
Every member is entitled to one vote and upon a poll, each share shall have one vote.

Distribution of Annual Report to Shareholders
The law allows for an "opt in" regime through which shareholders will receive a printed "hard copy" version of the Annual Report only if they request one. The Directors have decided to only mail out an Annual Report to those shareholders who have "opted in".

Financial Calendar

Ordinary shares trade ex-dividend	26 August 2020
Record (books close) date for dividend	27 August 2020
Dividend paid	16 September 2020

These dates are indicative and are subject to change.

Notice of Annual General Meeting (AGM)
The Annual General Meeting of Platinum Asia Investments Limited will be held through an online platform at 10am on Wednesday 27 October 2020. Details of how to join the meeting will be included in the AGM Notice.

Questions for the AGM
If you would like to submit a question prior to the AGM to be addressed at the AGM you may email your question to invest@platinum.com.au.

INVESTMENT STRUCTURE, OBJECTIVES AND METHODOLOGY

Investment Structure

Platinum Asia Investments Limited (the "Company") is a listed investment company or "LIC", whose shares are listed on the Australian Securities Exchange ("ASX") and traded in the same way as other listed shares. Being a LIC, the Company:

- is closed-ended, which means that the underlying portfolio can be managed without concern for fluctuating cashflows;
- is taxed at source and can therefore distribute any available profits to shareholders in the form of dividends, usually fully-franked (depending on the availability of franking credits); and
- has established a dividend profit reserve, which provides the possibility for the smoothing of dividends from year to year, at the discretion of the Board.

Shares in the Company can trade at a premium or discount to their net tangible asset backing per share ("NTA"), which is calculated and announced to the ASX weekly and monthly.

The Company delegates its investment management and administration functions to Platinum Investment Management Limited (trading as Platinum Asset Management) (the "Investment Manager"), which employs a team of experienced investment professionals and administration personnel to perform those services. The Company and the Investment Manager are separate legal entities.

Investment Objective

The investment objective of the Company is to provide capital growth over the long-term through investing primarily in undervalued listed securities of companies in the Asian Region ex Japan across sectors. In doing so, the Company aims to achieve net returns over a five year plus investment horizon that are in excess of the MSCI All Country Asia ex Japan Net Index (in A$).

Investment Methodology

The Investment Manager's index-agnostic investment approach has been well tested over many years through its management of the unlisted Platinum Trust® managed funds, which includes the Platinum Asia Fund. The principles on which its investment approach is based have not varied, although the investment process has evolved and been refined over time.

The Investment Manager seeks to invest in companies in the Asian Region ex Japan whose businesses and growth prospects are, in its view, inappropriately valued by the market. Just as optimism and pessimism ebb and flow in stock markets, similar sentiments also affect individual companies. This means that transitory events often have a disproportionate effect on the share prices of companies, be they positive or negative, and there is thus a tendency for share prices to deviate significantly from their inherent trend line. The Investment Manager's investment methodology seeks to identify and take advantage of the opportunities created by the divergence between a company's share price and its intrinsic value.

INVESTMENT STRUCTURE, OBJECTIVES AND METHODOLOGY
CONTINUED

The Investment Manager uses various methodologies to make sense of the universe of stocks around the Asian Region ex Japan, including using both quantitative and qualitative screening to short-list companies for in-depth study. After identifying key themes and preferred industries, with due consideration of the macro environment, the portfolio is then built up through a series of individual stock selections based on detailed fundamental research. Care is taken to understand and monitor the inter-relationship of stocks within the portfolio.

The Investment Manager's investment team is based in Sydney, Australia. Having a single location facilitates the cross pollination of ideas and free flow of information between analysts with different geographic and industry responsibilities. It has the further benefit that distance acts as a filter, enabling a more objective assessment of "noisy" markets. The research process, however, is well supported by extensive visits to companies.

The wealth of research and detailed analysis that leads to the addition/retention/reduction of a stock in the portfolio takes form in a disciplined process that is subject to the scrutiny of divergent thinking peers. This process serves to challenge and encourage analysts and to "test" investment theses, as well as add accountability to the process.

Managing Currency Exposures
Equity investments in the Asian Region ex Japan create an exposure to foreign currency fluctuations, which can change the value of the equity investments when measured in the reporting currency of the Company's portfolio, which is the Australian dollar. It is part of the Company's investment strategy to assess the potential returns and risks created by currency exposures and to seek to position the portfolio with the aim of capturing those returns while minimising those risks. Currency exposures in the portfolio are actively managed by the Investment Manager.

The Investment Manager may manage the currency exposures of the Company's portfolio using foreign currency forward contracts, currency swaps, non-deliverable forwards and currency options, as well as spot foreign exchange trades.

Strategies Aimed at Mitigating Losses and Delivering Solid Absolute Returns
While generating capital growth over the long-term is the Company's primary objective, the Investment Manager also seeks to mitigate the risk of capital losses and employs a variety of strategies with the aim of achieving this.

Strategies aimed at mitigating capital losses include adjusting cash levels, deploying funds from overvalued to undervalued stocks and short selling (usually through equity derivatives).

Timing the implementation of these strategies is always challenging and, though the rewards can be gratifying, patience is often required. The nature of markets means it can take some time for inappropriately valued regions, industry sectors or individual stocks to become more widely recognised and to revert to prices close to their inherent values.

DIRECTORS' REPORT

In respect of the year ended 30 June 2020, the Directors of Platinum Asia Investments Limited ("PAI" or "the Company") submit the following report prepared in accordance with a resolution of the Directors.

Directors

The following persons were Directors of the Company during the financial year and up to the date of this report:

Margaret Towers – Chairperson and Independent Non-Executive Director
Ian Hunter – Independent Non-Executive Director
Malcolm Halstead – Independent Non-Executive Director

Principal Activities

The Company is a listed investment company established to provide capital growth over the long-term through investing primarily in listed securities of companies in the Asian Region ex Japan that are perceived, by the Investment Manager, to be undervalued. This includes companies listed on securities exchanges outside the Asian Region ex Japan, but whose business is predominantly conducted in or focused on the Asian Region ex Japan. The Company's capital management strategy includes managing the level of dividends over time. There were no significant changes in the nature of the Company's activities during the year.

Operating and Financial Review

The operating profit before income tax of the Company for the year ended 30 June 2020 was $55,278,000 (2019: loss of $268,000). The income tax expense for the year was $16,670,000 (2019: income tax benefit of $110,000). For the year ended 30 June 2020, the operating profit for the Company after income tax was $38,608,000 (2019: loss of $158,000). The Directors have declared a fully-franked final dividend of 3 cents per share, which represents an annual cash dividend yield of 4.95% and a grossed-up dividend yield of approximately 7.07% based on the 30 June 2020 share price. After the payment of this dividend, the Company retains approximately 4.41 cents per share in franked dividend capacity to assist in the payment of future dividends.

For the 12 months ended 30 June 2020, the Company delivered a return of 14.6%[1] (measured by its pre-tax NTA), compared to a return of 3.6% for the benchmark, the Morgan Stanley Capital International All Country Asia ex Japan Net Index (MSCI) in $A terms.

1 Source: Platinum Investment Management Limited (PAI returns) and FactSet Research Systems (MSCI returns). Returns have not been calculated using the Company's share price. **Past performance is not a reliable indicator of future performance.**

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DIRECTORS' REPORT
CONTINUED

The Directors consider that the pre-tax NTA, which is calculated after the deduction of fees and expenses, adjusted for corporate taxes paid and any capital flows, and assumes the reinvestment of dividends ("pre-tax NTA"), is a better measure of performance of the Company than its reported profits. This is because the pre-tax NTA is the most accurate way to assess the investment performance of the Company's investment portfolio. For the 12 months to 30 June 2020, the Company's pre-tax NTA increased from $1.08 to $1.17. This is after the payment of 4 cents per share in dividends and the equivalent of 3 cents per share in taxes paid during the financial year.

Total Shareholder Return ("TSR") for the financial year, based on share price appreciation and dividends paid, between 1 July 2019 and 30 June 2020, was 1.94%. The TSR is less than the pre-tax NTA return of 14.6% primarily due to the share price being below the pre-tax NTA at 30 June 2020.

The Investment Manager commented that *"… the Company's investment portfolio was well positioned for a market recovery after weathering the steep sell-off earlier in the year. With COVID-19, lockdowns, rising geopolitical tensions and protests in different parts of the world, prospects look rather grim. However, it is in these times that attractive investment opportunities emerge. Having reduced our market exposure to sidestep the bulk of the stock market turbulence in the first calendar quarter of 2020, the Company shifted its focus to identifying prospective investment opportunities that had seen their valuations slashed given the overwhelming fear that gripped the market."*

In terms of outlook, the Investment Manager has recently noted that:

"Starting valuations are a key determinant of future returns. Asian stocks are currently trading on low valuations versus their long-term averages and news headlines can be worrisome.

Economic prospects for the region are, however, favourable. The lack of stimulatory policies implemented thus far has given many countries in the region room to enact policy stimulus if needed. The reversal of lockdowns is kickstarting economic activities from depressed levels across the region as people return to shops and back to work. Development of a vaccine appears to be progressing. Given lacklustre growth globally, monetary and fiscal policies are likely to remain loose, which is supportive of stock markets. The Company will continue to deploy capital in attractive and strong businesses that continue to be under-appreciated by the markets".

During the course of the year, discussions have been held with the Investment Manager on their management of the investment portfolio and operations in relation to COVID-19. The Investment Manager noted that COVID-19 may continue to adversely affect the global economy, the economies of certain nations and individual issuers, all of which may impact on investment performance. The Investment Manager has implemented measures to maintain the ongoing safety and well-being of employees including allowing employees to work from home. COVID-19 has not had a direct impact on the ability of the Investment Manager to perform business activities.

The Company has not received any COVID-19 related financial assistance or support.

Dividends

On 18 August 2020, the Directors declared a 2020 fully-franked final dividend of 3 cents per share ($10,913,000), with a record date of 27 August 2020, payable to shareholders on 16 September 2020, out of the dividend profit reserve. This brings the total dividend for the year to 5 cents, which represents a yield of 4.95% based on 30 June share price. After the declaration of the 2020 final dividend, the balance in the dividend profit reserve is $57,028,000, which translates to 15.68 cents per share, based on the shares on issue at the date of this report.

The Company's ability to pay franked dividends is dependent on the Company paying income tax. At 18 August 2020, after allowing for the 2020 fully-franked final dividend of 3 cents per share, the Company has an ability to pay fully-franked dividends of up to 4.41 cents per share. The Board has a policy of dividend smoothing and endeavours to ensure that there are sufficient franking credits available to pay fully-franked dividends in the future.

The Dividend Reinvestment Plan ("DRP") is in operation. Participating shareholders will be entitled to be allotted the number of shares (rounded down to the nearest whole number) which the cash dividend would purchase at the relevant issue price.

The relevant issue price will be the volume-weighted average share price of the Company's shares sold on the ASX over the five business days subsequent to the date on which the Company's shares cease to trade cum-dividend. No discount will apply to the DRP price.

Capital Management

The Board regularly and actively reviews the most efficient manner by which the Company manages its capital, in response to changing market conditions and risks, with the sole aim of enhancing shareholder value, through:

- the management of the level of dividends to shareholders;
- the issue of shares by methods such as rights offers, share purchase plans and/or placements; or
- the use of share buy-backs.

The Company announced a buy back scheme on 8 April 2020. This allows the Company to buy back up to 10% of the issued share of the company within a 12 month period.

Matters Subsequent to the End of the Financial Year

Apart from the dividend declared, no matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

DIRECTORS' REPORT

CONTINUED

Likely Developments and Expected Results of Operations

The Company will continue to pursue its investment objective, which is to provide capital growth over the long-term through investing primarily in undervalued listed securities of companies in the Asian Region ex Japan across sectors. The methods of operating the Company are not expected to change in the foreseeable future.

Environmental Regulation

The Company is not adversely impacted by any particular or significant environmental regulation under Commonwealth, State or Territory laws.

Managing Tax Risk

The Board is committed to acting with integrity and transparency in all tax matters. The Company aims to meet all of its obligations under the law and pay the appropriate amount of tax to the relevant authorities. The Company has established a Tax Risk Management and Governance Policy, which ensures an adequate framework is in place to allow for the effective management of tax risks in an appropriate and consistent manner. The policy describes the Company's approach to managing tax risk including responsibilities, key controls and reporting mechanisms.

Information on Directors

Margaret Towers CA, GAICD
Chairperson, Independent Non-Executive Director and member of the Audit, Risk and Compliance Committee since 31 March 2018.

Ms Towers has over 37 years of experience operating at board and senior management levels, within the wealth management and investment banking sectors of the Australian financial services industry. Ms Towers is a non-executive director of IMB Limited and is Chairperson of Platinum Capital Limited. Ms Towers has also previously been a non-executive director of Platinum Asset Management Limited (ASX code: PTM), chair of PTM's Audit, Risk and Compliance Committee and a member of PTM's Nomination and Remuneration Committee.

Ian Hunter BA, LLB, MBA
Independent Non-Executive Director since 24 June 2015 and Chair of the Audit, Risk and Compliance Committee since 23 July 2015.

Mr Hunter has been in the finance and investment industry since 1975. Mr Hunter worked at several banks, most recently as a director and executive Vice President of Bankers Trust Australia. Mr Hunter has held various directorships of listed companies, including Etrade Australia Limited and Rubik Financial Limited. Mr Hunter is a director of Ironbark Capital Limited.

Malcolm Halstead FCA
Independent Non-Executive Director since 24 June 2015 and member of the Audit, Risk and Compliance Committee since 23 July 2015.

Mr Halstead has worked in the finance and investment industry since 1982. Mr Halstead worked at Price Waterhouse and Bankers Trust Australia prior to joining Platinum Asset Management as a founding member and director in 1994. Mr Halstead was the finance director and company secretary of Platinum Capital Limited from 1994 to 2011 and finance director and company secretary of Platinum Asset Management Limited (PTM) from 2007 to 2011.

Information on Company Secretary

Joanne Jefferies BCOM, LLB
Company Secretary since 17 October 2016.

Ms Jefferies is an English law qualified solicitor with more than 23 years of legal experience in the asset management and securities services sectors, in England and across Asia Pacific.

Ms Jefferies joined Platinum in October 2016 as General Counsel and Group Company Secretary, having spent the previous six years at BNP Paribas Securities Services as Head of Legal Asia Pacific, Company Secretary for all Australian subsidiaries and a member of the Asia Pacific Executive Committee. Ms Jefferies has previously held senior legal positions with Russell Investments, Morley Funds Management (Aviva Investors) and Lord Abbett, and served as the General Counsel for the UK's funds management industry association, the Investment Association. Ms Jefferies is also Company Secretary of Platinum Capital Limited and Platinum Asset Management Limited.

Meetings of Directors

The number of meetings of the Company's Board of Directors (the "Board") held during the year ended 30 June 2020, and the number of meetings attended by each Director were:

	BOARD (8 HELD) ATTENDED	AUDIT, RISK AND COMPLIANCE COMMITTEE (4 HELD) ATTENDED
Margaret Towers	8	4
Ian Hunter	8	4
Malcolm Halstead	8	4

DIRECTORS' REPORT

CONTINUED

Indemnity and Insurance of Directors or Officers

During the year, the Company incurred a premium in respect of a contract for indemnity insurance for the Directors and officers of the Company named in this report.

Indemnity and Insurance of Auditor

The Company has not, during or since the end of the year, indemnified or agreed to indemnify the auditor of the Company against a liability incurred by the auditor. During the year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company.

Non-Audit Services

Details of the amounts paid or payable to the auditor for audit and other (non-audit) services provided during the year by the auditor are outlined in Note 21 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in Note 21 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

– all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and

– none of the services undermine the general principles relating to auditor independence as set out in APES 110: *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board.

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations (*Rounding in Financial/Directors' Reports*) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with this Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 23.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Margaret Towers	**Ian Hunter**
Chairperson	*Director*

18 August 2020
Sydney

DIRECTORS' REPORT
CONTINUED

Remuneration Report (audited)
Executive Summary
– The Company had three key management personnel ("KMP") during the year.

– The annual remuneration paid by the Company to its Chairperson was $65,700 (including superannuation).

– The remuneration paid by the Company to each of the other Non-Executive Directors was $60,225 (including superannuation).

– The Company does not pay bonuses to any of its Directors.

Introduction
The Directors of Platinum Asia Investments Limited present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the year ended 30 June 2020.

The information provided in this Remuneration Report forms part of the Directors' Report and has been audited by the Company's auditor, PricewaterhouseCoopers, as required by section 308 of the *Corporations Act 2001*.

Key Management Personnel ("KMP")
For the purposes of this report, the KMP of the Company in office during the financial year were:

NAME	POSITION
Margaret Towers	Chairperson and Independent Non-Executive Director
Ian Hunter	Independent Non-Executive Director
Malcolm Halstead	Independent Non-Executive Director

Shareholders' Approval of the 2019 Remuneration Report
A 25% or higher "no" vote on the remuneration report at an AGM triggers a reporting obligation on a listed company to explain in its next annual report how concerns are being addressed.

At the last AGM, the Company's Remuneration Report passed on a show of hands after proxies indicated a "for" vote of 92.62%. Despite this outcome, we have set out to fully explain the basis and structure of the remuneration paid to KMP.

Principles, Policy and Components of Director's Remuneration
Remuneration paid to the Directors is designed to ensure that the Company can attract and retain suitably qualified and experienced directors.

It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Directors.

Directors received a fixed fee and mandatory superannuation.

Directors do not receive performance-based or earnings-based remuneration and are not eligible to participate in any equity-based incentive plans.

The remuneration of the Directors is reviewed annually by the Board and is set at market rates commensurate with the responsibilities borne by the Directors. Independent professional advice may be sought. No other retirement benefits (other than mandatory superannuation) are provided to the Directors.

There are no termination payments payable on the cessation of office and any Director may retire or resign from the Board, or be removed by a resolution of shareholders.

Remuneration for Directors
The table below presents amounts received by the Directors.

NAME	CASH SALARY $	SUPER-ANNUATION $	SHORT-TERM INCENTIVES $	LONG-TERM INCENTIVES $	TOTAL $
Margaret Towers					
FY 2020	60,000	5,700	–	–	65,700
FY 2019	60,000	5,700	–	–	65,700
Ian Hunter					
FY 2020	55,000	5,225	–	–	60,225
FY 2019	55,000	5,225	–	–	60,225
Malcolm Halstead					
FY 2020	55,000	5,225	–	–	60,225
FY 2019	55,000	5,225	–	–	60,225
Total remuneration					
FY 2020	170,000	16,150	–	–	186,150
FY 2019	170,000	16,150	–	–	186,150

Employment Arrangements of KMP
The key aspects of the KMP contracts are as follows:

- Remuneration and other terms of employment for Directors are formalised in letters of appointment that all Directors have signed.
- All contracts with Directors include the components of remuneration that are to be paid to KMP and provide for annual review, but do not prescribe how remuneration levels are to be modified from year to year.
- The tenure of the Directors is subject to approval by shareholders at every third AGM or other general meeting convened for the purposes of election of Directors.
- In the event of termination, all KMP are only entitled to receive their statutory entitlements.
- Directors may resign by written notice to the Chairperson and where circumstances permit, it is desirable that reasonable notice of an intention to resign is given to assist the Board in succession planning.

DIRECTORS' REPORT
CONTINUED

Link between the Remuneration of the Directors and Company Performance

	2020	2019	2018	2017	2016
Total investment gain/(loss) ($'000)	**63,942**	6,284	79,884	61,040	(8,466)
Expenses ($'000)	**(8,664)**	(6,552)	(6,940)	(5,508)	(4,326)
Net profit/(loss) after tax ($'000)	**38,608**	(158)	51,478	39,151	(9,049)
Earnings per share (cents per share)	**10.63**	(0.04)	14.32	12.95	(3.97)
Dividends (cents per share)	**5.0**	4.0	10.0	1.0	–
Net tangible asset value (pre-tax) (30 June) ($ per share)	**1.1713**	1.0836	1.1960	1.0920	0.9338
Closing share price (30 June) ($ per share)	**1.01**	1.03	1.26	1.015	0.885
Total fixed remuneration (salary and superannuation) paid ($)	**186,150**	186,150	186,150	186,150	189,729[1]

1 Remuneration was for a period longer than 12 months, being 24th June 2015 (the Company's incorporation date) to 30 June 2016.

The remuneration of the Directors is not linked to the performance of the Company.

Interests of Directors in Shares
The relevant interest in ordinary shares of the Company that each Director held at balance date was:

	OPENING BALANCE	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Margaret Towers	50,000	–	–	50,000
Ian Hunter	200,001	–	–	200,001
Malcolm Halstead	1	–	–	1

AUDITOR'S INDEPENDENCE DECLARATION

pwc

As lead auditor for the audit of Platinum Asia Investments Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

CJ Cummins
Partner
PricewaterhouseCoopers

18 August 2020
Sydney

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO Box 2650, Sydney NSW 2001

T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	**2020 $'000**	2019 $'000
Investment income			
Dividends		**4,960**	5,962
Interest		**332**	432
Net gains on equities and other derivatives		**52,836**	1,732
Net gains/(losses) on foreign currency forward contracts		**3,496**	(3,703)
Net foreign exchange gains on overseas bank accounts		**2,318**	1,861
Total investment income	2	**63,942**	6,284
Expenses			
Management fees	19	**(4,489)**	(4,352)
Performance fees	19	**(1,827)**	–
Custody		**(497)**	(475)
Share registry		**(106)**	(97)
Continuous reporting disclosure		**(165)**	(167)
Directors' fees	20	**(186)**	(186)
Auditor's remuneration and other services	21	**(93)**	(103)
Brokerage and transaction costs		**(964)**	(907)
Other expenses		**(337)**	(265)
Total expenses		**(8,664)**	(6,552)
Profit/(loss) before income tax (expense)/benefit		**55,278**	(268)
Income tax (expense)/benefit	3(a)	**(16,670)**	110
Profit/(loss) after income tax benefit/(expense) for the year attributable to the owners of Platinum Asia Investments Limited	8	**38,608**	(158)
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income/(loss) for the year attributable to the owners of Platinum Asia Investments Limited		**38,608**	(158)
Basic earnings per share (cents per share)	12	**10.63**	(0.04)
Diluted earnings per share (cents per share)	12	**10.63**	(0.04)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	NOTE	**2020 $'000**	2019 $'000
Assets			
Cash and cash equivalents	13(a)	**23,953**	70,181
Receivables	6	**576**	2,166
Financial assets at fair value through profit or loss	4	**405,617**	326,254
Income tax receivable	3(b)	**1,974**	2,621
Total assets		**432,120**	401,222
Liabilities			
Trade and other payables	7	**3,082**	3,512
Financial liabilities at fair value through profit or loss	5	**1,024**	1,702
Deferred tax liability	3(c)	**9,236**	2,686
Total liabilities		**13,342**	7,900
Net assets		**418,778**	393,322
Equity			
Issued capital	11	**352,110**	350,756
Retained earnings	8	**(9,207)**	(9,207)
Capital reserve	9(a)	**7,934**	7,934
Dividend profit reserve	9(b)	**67,941**	43,839
Total equity		**418,778**	393,322

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	ISSUED CAPITAL $'000	RETAINED EARNINGS $'000	RESERVES $'000	TOTAL EQUITY $'000
Balance at 1 July 2018		**348,121**	**(9,049)**	**80,604**	**419,676**
Loss after income tax expense for the year		–	(158)	–	(158)
Other comprehensive income for the year, net of tax		–	–	–	–
Total comprehensive income for the year		–	(158)	–	(158)
Transactions with owners in their capacity as owners:					
Proceeds from the issue of shares associated with the dividend reinvestment plan and unclaimed dividends	11	2,635	–	–	2,635
Dividends paid	10	–	–	(28,831)	(28,831)
Balance at 30 June 2019		**350,756**	**(9,207)**	**51,773**	**393,322**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

	NOTE	ISSUED CAPITAL $'000	RETAINED EARNINGS $'000	RESERVES $'000	TOTAL EQUITY $'000
Balance at 1 July 2019		**350,756**	**(9,207)**	**51,773**	**393,322**
Profit after income tax expense for the year		–	38,608	–	38,608
Other comprehensive income for the year, net of tax		–	–	–	–
Total comprehensive income for the year		–	38,608	–	38,608
Transfer to dividend profit reserve	8	–	(38,608)	38,608	–
Transactions with owners in their capacity as owners:					
Proceeds from the issue of shares associated with the dividend reinvestment plan and unclaimed dividends	11	1,354	–	–	1,354
Dividends paid	10	–	–	(14,506)	(14,506)
Balance at 30 June 2020		**352,110**	**(9,207)**	**75,875**	**418,778**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	**2020 $'000**	2019 $'000
Cash flows from operating activities			
Payments for purchase of financial assets		**(802,228)**	(633,352)
Proceeds from sale of financial assets		**779,002**	681,586
Dividends received		**5,545**	7,053
Interest received		**418**	351
Management fees paid		**(4,458)**	(4,386)
Other expenses paid		**(2,419)**	(2,212)
Income tax refund received		**2,621**	–
Income tax paid		**(11,587)**	(11,142)
Net cash (used in)/from operating activities	13(b)	**(33,106)**	37,898
Cash flows from financing activities			
Dividends paid – net of dividend reinvestment plan	10	**(13,397)**	(26,942)
Proceeds from issue of shares in relation to unclaimed dividends	11	**152**	499
Net cash used in financing activities		**(13,245)**	(26,443)
Net (decrease)/increase in cash and cash equivalents		**(46,351)**	11,455
Cash and cash equivalents at the beginning of the year		**70,181**	57,363
Effects of exchange rate changes on cash and cash equivalents		**123**	1,363
Cash and cash equivalents at the end of the year	13(a)	**23,953**	70,181

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied for all years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on a historical cost basis, except for financial assets and liabilities measured at fair value.

The statement of financial position is presented on a liquidity basis. Specifically, assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current assets and liabilities. The majority of receivables and payables are expected to be recovered or settled within 12 months, whereas tax and investment balances may be recovered after 12 months.

Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events that management believes to be reasonable under the circumstances.

Fair value measurement hierarchy (refer to Note 17)

The Company is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 (if any) is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Recovery of deferred tax assets (refer to Note 3)

Deferred tax assets are recognised for deductible temporary differences only if the Company considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Note 1. Summary of significant accounting policies – continued

Critical accounting judgements, estimates and assumptions – continued

Functional currency (refer to the "foreign currency transactions" accounting policy note)

Items included in the Company's financial statements are measured using the Australian Dollar, which is the currency of the primary economic environment in which it operates (the "functional currency") and reflects the currency of the country in which the Company is regulated, and the currency in which capital is raised and dividends are paid. However, most of the Company's assets and revenues are not denominated in Australian Dollars.

Financial assets/liabilities at fair value through profit or loss

Recognition

The Company recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement and recognises changes in the fair value of financial assets or financial liabilities from this date. Investments are derecognised when the contractual right to receive cash flows from the investments have expired or have been transferred, and the Company has transferred substantially all of the risks and rewards of ownership.

Measurement

The contractual cash flows of equity securities, derivatives and foreign currency forward contracts held by the Company are not comprised of principal and interest. Consequently, these financial assets and financial liabilities are measured at fair value through profit or loss.

At initial recognition, the Company measures financial assets and financial liabilities at fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of profit and loss and comprehensive income.

Subsequent to initial recognition, gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the statement of profit and loss and comprehensive income within "net (losses)/gains in equities and derivatives at fair value through profit or loss" or "net (losses)/gains on foreign currency forward contracts" in the period in which they arise.

Fair value

AASB 13: *Fair Value Measurement* defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The standard prescribes that the most representative price within the bid-ask spread should be used for valuation purposes. With respect to the Company, the exit or "last" price is the most representative price within the bid-ask spread, because it represents the price that the security last changed hands from seller to buyer. The Company has applied last-sale pricing as the fair value measurement basis for equities and derivatives it holds.

The fair value of financial assets and liabilities traded in active markets uses quoted market prices at the reporting date without any deduction for estimated future selling costs.

Note 1. Summary of significant accounting policies – continued

Financial assets/liabilities at fair value through profit or loss – continued

Fair value – continued

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, discounted cash flow techniques or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions. Options are valued with reference to the quoted price of the underlying index or share. If there is no liquid market available, options are valued based on option prices provided by an arm's length broker. These valuations are based on option pricing models.

Participatory notes are sometimes used as a convenient means of investing in local securities by a foreign investor. Participatory notes are generally traded over-the-counter, as they are issued by a counterparty to provide the investor with exposure to an individual equity, basket of equities or an index, in markets where liquidity, custody or other issues make ownership of the local securities sub-optimal. The valuation of participatory notes depends on the level of trading. If the participatory notes are actively traded, then the market price is used. If the participatory notes are not actively traded, counterparties provide a daily valuation that is based on the intrinsic value of the individual security.

Offsetting a financial asset and a financial liability

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Operating segments

Operating segments are presented using a single operating segment. However, AASB 8: *Operating Segments* requires certain entity-wide disclosures. Refer to Note 2 for further information.

Foreign currency transactions

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the country in which the Company is regulated, and the currency in which capital is raised and dividends are paid. The Australian dollar is also the Company's presentation currency.

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance date exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of profit or loss and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Note 1. Summary of significant accounting policies – continued

Investment income

Interest income

Interest income from financial assets at amortised cost is recognised on a time proportionate basis using the effective interest rate method and includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and may include interest from debt securities.

Dividend income

Dividend income is brought to account on the applicable ex-dividend date.

Directors' entitlements

Liabilities for Directors' entitlements to fees are accrued at nominal amounts calculated on the basis of current fee rates. Contributions to Directors' superannuation plans are charged as an expense as the contributions are paid or become payable.

Income tax

The income tax expense or benefit for the year is the tax payable or receivable on that year's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable. Any foreign withholding tax on income, deducted at source or paid, will be included as part of the income tax expense.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Note 1. Summary of significant accounting policies – continued

Receivables

Receivables include proceeds from the sale of financial assets, dividends, GST and interest receivables. All receivables are recognised when a right to receive payment is established. Receivables are generally received within 30 days of being recognised as a receivable.

Due from/due to brokers for unsettled trades

Amounts due from/due to brokers represent receivables for proceeds from the sale of financial assets (as disclosed in Note 6) and payables on purchase of financial assets/liabilities (as disclosed in Note 7) that have been traded, but not yet settled at reporting date. Proceeds from sale of financial assets are usually received between two and five days after trade date. Payables on purchase of financial assets/liabilities are usually paid between two and five days after trade date.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes deposits at call with financial institutions, cash held in margin accounts by derivatives clearing houses and counterparties and other short-term, highly liquid investments and term deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Margin accounts comprise cash held as collateral for derivative transactions.

Payments and receipts relating to the purchase and sale of financial assets are classified as "cash flows from operating activities" as realised and unrealised gains (and losses) on financial assets represent the Company's main source of operating income.

Trade and other payables

These amounts represent liabilities for services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

A provision is recognised if the Directors declare or determine to pay a dividend on or before balance date that has not been paid at balance date.

Expenses

All expenses, including management fees and performance fees (if any), are recognised in the statement of profit or loss and other comprehensive income on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Note 1. Summary of significant accounting policies – continued

Dividend profit reserve

The Company has created a dividend profit reserve. The Board considers transfers of profits to the dividend profit reserve on a semi-annual basis. Dividends are paid from this reserve and undistributed profits are available to be used for dividends in future periods to enable smoothing of dividends for its shareholders. The reserve is included when determining the overall equity of the Company for accounting purposes.

Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the profit attributable to the owners of Platinum Asia Investments Limited, by the weighted average number of ordinary shares outstanding during the year or period.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (*Rounding in Financial/Directors Reports*) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in these financial statements have been rounded off in accordance with this Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New accounting standards and interpretations adopted for the first time

New and amended accounting standards adopted by the Company

There are no new standards, interpretations, or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2019 that have a material impact on the amounts recognised in the prior periods, or will affect the current or future periods.

New Accounting Standards and Interpretations not yet mandatory for the 30 June 2020 reporting period

A number of other new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2020 and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

Note 2. Operating segments

Identification of reportable operating segments

The Company is organised into one main operating segment with the key function of the investment of funds in the Asian Region ex Japan. AASB 8: *Operating Segments* requires disclosure of revenue by investment type and geographical location, which is outlined below:

	2020 $'000	2019 $'000
(a) Investment income by investment type		
Equity securities	**58,073**	8,813
Derivatives	**(1,380)**	(1,120)
Foreign currency forward contracts	**3,496**	(3,703)
Bank accounts	**3,753**	2,294
Total	**63,942**	6,284
(b) Investment income by geographic location		
China	**30,988**	2,170
Hong Kong	**12,858**	1,721
Taiwan	**9,067**	75
Macao	**(189)**	–
Greater China total	**52,724**	3,966
India	**1,208**	(1,584)
Indonesia	**–**	(355)
South Korea	**13,932**	(14)
Malaysia	**(240)**	(298)
Philippines	**(2,148)**	2,848
Singapore	**765**	(5)
Thailand	**(7,720)**	2,405
Australia	**15**	142
Vietnam	**640**	151
North America	**1,270**	2,731
Unallocated investment income – Net (losses) on foreign currency forward contracts	**3,496**	(3,703)
Total	**63,942**	6,284

Please refer to Note 16 for a breakdown of the geographic (physical) and currency exposure of the Company's underlying investments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

	2020 $'000	2019 $'000
Note 3. Income tax		
(a) Income tax (expense)/benefit		
The income tax (expense)/benefit attributable to the operating profit/(loss) comprises:		
Current income tax provision	**(9,613)**	(5,712)
Movement in deferred tax liability	**(6,550)**	6,321
Withholding tax on foreign dividends	**(507)**	(489)
Under provision of previous period tax	**–**	(10)
	(16,670)	110
The income tax (expense)/benefit attributable to the financial year differs from the prima facie amount payable on the operating (loss). The difference is reconciled as follows:		
Profit/(Loss) before income tax (expense)/benefit	**55,278**	(268)
Prima facie income tax at a tax rate of 30%	**(16,583)**	80
Reduce tax payable:		
Tax impact of foreign tax credits	**(87)**	40
Under provision of previous period tax	**–**	(10)
	(16,670)	110
(b) Income tax receivable		
The income tax receivable as disclosed in the statement of financial position is comprised of:		
Current income tax provision (before foreign tax credits)	**(10,024)**	(6,274)
Foreign tax credits utilised	**411**	562
Current income tax provision	**(9,613)**	(5,712)
Income tax instalments paid	**11,587**	8,333
Income tax receivable	**1,974**	2,621

Note 3. Income tax – continued

(c) Deferred tax liability

In line with its existing accounting policy, the Company has exercised judgement in determining the extent of recognition of its deferred tax balance.

The deferred tax liability figure in the statement of financial position is comprised of:

	2020 $'000	2019 $'000
Deferred tax liability on unrealised gains on investments	**(9,158)**	(2,804)
Deferred tax liability on dividends accrued	**(117)**	(292)
Deferred tax asset on expense accruals	**39**	39
Deferred tax asset on costs associated with the Initial Public Offer	**–**	371
Deferred tax liability	**(9,236)**	(2,686)

At 30 June 2020, the Company is in a net deferred tax liability position and this is predominantly because the Company has net unrealised gains on investments of $30,526,000 (2019: $9,347,000). The deferred tax impact of these unrealised gains is $9,158,000 (2019: $2,804,000).

The realised tax balance will depend on the actual gains or losses generated as and when the investments are sold.

Note 4. Financial assets at fair value through profit or loss

Equity securities	**405,617**	325,964
Derivatives	**–**	56
Foreign currency forward contracts	**–**	234
	405,617	326,254

Note 5. Financial liabilities at fair value through profit or loss

Derivatives	**651**	212
Foreign currency forward contracts	**373**	1,490
	1,024	1,702

Refer to Note 17 for further information on the fair value measurement of these financial assets and financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

	2020 $'000	2019 $'000
Note 6. Receivables		
Dividends receivable	**389**	974
Margin account receivable	**–**	659
Proceeds on sale of financial assets	**–**	342
Interest receivable	**–**	86
GST receivable	**42**	42
Prepayments	**145**	62
Other	**–**	1
	576	2,166

Dividends are usually received within approximately 30 days of the ex-dividend date.

	2020 $'000	2019 $'000
Note 7. Trade and other payables		
Trade creditors (unsecured)	**2,430**	558
Payables on purchase of financial assets	**652**	2,858
PAYG tax payable	**–**	3
Unclaimed dividends payable	**–**	93
	3,082	3,512

Trade creditors are payable between 14 and 30 days after receipt of the invoice. These payables are non-interest bearing. Information relating to the Company's exposure of payables to liquidity risk is shown in Note 16.

	2020 $'000	2019 $'000
Note 8. Retained earnings		
Retained losses at the beginning of the year	**(9,207)**	(9,049)
Operating profit/(loss) after income tax (expense)/benefit for the year	**38,608**	(158)
Transfer of operating profit after income tax for the year to the dividend profit reserve	**(38,608)**	–
Retained (losses) at the end of the financial year	**(9,207)**	(9,207)

Note 9. Reserves

Summary of Reserve Balances

	2020 $'000	2019 $'000
Capital reserve	**7,934**	7,934
Dividend profit reserve	**67,941**	43,839
	75,875	51,773

(a) Capital reserve

A total of 226,697,672 options that were issued under the 2015 IPO expired on 15 May 2017 and the total fair value of unexercised options, which was $7,934,419, was transferred to a separate capital reserve. The option fair value reserve entry was the number of unexercised options, which was 226,697,672 multiplied by 3.5 cents per option, which equals the amount that was transferred to the capital reserve.

(b) Dividend profit reserve

The Company may set aside some or all of its undistributed profits to a separate dividend profit reserve, to facilitate the payment of future franked dividends, rather than maintaining these profits within retained earnings. Operating losses are not transferred to the dividend profit reserve. The balance of this reserve is as follows.

	2020 $'000	2019 $'000
Opening balance 1 July 2019 (2018)	**43,839**	72,670
Profit after income tax for the year ended 30 June 2020 (2019)	**38,608**	–
Dividends paid (see Note 10)	**(14,506)**	(28,831)
Closing Balance	**67,941**	43,839

Subsequent to 30 June 2020, the 2020 final fully-franked dividend of 3 cents per share was declared out of this reserve. The balance in the dividend profit reserve after the declaration of the 2020 final dividend is $57,028,000 (15.68 cents per share, based on the current shares on issue).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Note 10. Dividends

Dividends paid

Dividends paid during the financial year were as follows:

	2020 $'000	2019 $'000
Final dividend paid for the 2019 financial year (2 cents per ordinary share)	**7,246**	–
Interim dividend paid for the 2020 financial year (2 cents per ordinary share)	**7,260**	–
Final dividend paid for the 2018 financial year (6 cent per ordinary share)	**–**	21,600
Interim dividend paid for the 2019 financial year (2 cents per ordinary share)	**–**	7,231
	14,506	28,831

The "dividends paid – net of dividend reinvestment plan" figure shown in the statement of cash flows is determined as follows:

Gross dividends (paid) (from above)	**(14,506)**	(28,831)
Decrease in unclaimed dividends payable (Note 7)	**(93)**	(247)
Dividend reinvestment plan allotment (Note 11)	**1,202**	2,136
Dividends paid – net of dividend re-investment plan	**(13,397)**	(26,942)

Franking credits

Franking credits available at the balance date based at a tax rate of 30%	**13,457**	10,708
Franking (debits)/credits that will arise from the tax (receivable)/payable at balance date based on a tax rate of 30%	**(1,974)**	(2,621)
Franking credits available for future dividends based on a tax rate of 30%	**11,483**	**8,087**

Dividends not recognised at year-end

On 18 August 2020, the Directors declared the payment of the 2020 fully-franked final dividend of 3 cents per fully paid ordinary share. The aggregate amount of the dividend expected to be paid on 16 September 2020, but not recognised as a liability at year-end, is $10,913,000. The available franking credits balance after providing for the 2020 final dividend would enable the payment of a fully-franked dividend of up to 4.41 cents per share.

	2020 SHARES	2020 $'000	2019 SHARES	2019 $'000
Note 11. Issued capital				
Ordinary shares – fully paid	**363,750,978**	352,110	**362,297,596**	350,756

Movements in ordinary share capital

DETAILS	DATE/MONTH	SHARES	$'000
Balance	1 July 2018	360,003,594	348,121
Dividend reinvestment plan	17 September 2018	1,329,880	1,569
Reinvestment of unclaimed dividends[a]	26 September 2018	224,850	262
Dividend reinvestment plan	25 March 2019	525,995	567
Reinvestment of unclaimed dividends[a]	27 March 2019	213,277	237
Balance	30 June 2019	362,297,596	350,756
Dividend reinvestment plan	23 September 2019	638,517	584
Reinvestment of unclaimed dividends[a]	2 October 2019	82,629	79
Dividend reinvestment plan	25 March 2020	652,279	618
Reinvestment of unclaimed dividends[a]	31 March 2020	79,957	73
Balance	30 June 2020	363,750,978	352,110

(a) Dividends that remain unclaimed after 6 months from payment date are automatically reinvested into additional shares in the Company.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Every member is entitled to one vote and upon a poll, each share shall have one vote.

Rights issue or share buy-back

There is no rights issue currently in place. On 8 April 2020, the Company announced an on-market share buy-back program, in which shares will be bought-back, should the Company Board consider that such is in the interest of all existing shareholders. No shares have been bought-back as at 30 June 2020.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

	2020 $'000	2019 $'000
Note 12. Earnings per share		
Profit/(loss) after income tax attributable to the owners of Platinum Asia Investments Limited	**38,608**	(158)
	NUMBER	NUMBER
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**363,038,975**	361,415,498
Basic earnings per share (cents)	**10.63**	(0.04)
Diluted earnings per share (cents)	**10.63**	(0.04)

There have been no conversions to, calls of, or subscriptions for ordinary shares during the current or previous period other than those issued under the dividend reinvestment plan and reinvestment of unclaimed dividends. Therefore, diluted earnings per share equals basic earnings per share.

	2020 $'000	2019 $'000
Note 13. Notes to the statement of cash flows		
(a) Components of cash and cash equivalents		
Cash at bank	**5**	116*
Cash on deposit held within the portfolio**	**23,948**	70,065
	23,953	**70,181**

* Includes $93,000 held in respect of unclaimed dividends on behalf of shareholders.

** Includes $7,178,000 (2019: $8,713,000) on deposit to 'cash cover' derivative contracts' deposits and margin calls. These amounts are held by the relevant derivatives clearing houses and counterparties as collateral. If losses are realised, the cash collateral is set off against those losses. If profits are realised on the close out of derivative contracts, the cash collateral is returned to the Company.

Note 13. Notes to the statement of cash flows – continued

The Company maintains bank accounts to enable the settlement of purchases and sales of investments and to conduct other normal banking transactions. These accounts are at call and bear floating interest rates in the range of 0.0% to 0.05% (2019: 0.0% to 1.7%).

	2020 $'000	2019 $'000
(b) Reconciliation of profit after income tax to net cash from operating activities		
Profit/(loss) after income tax for the year	**38,608**	(158)
Adjustments for non-operating and non-cash items:		
Foreign exchange gains	**(123)**	(1,363)
(Increase)/decrease in investment securities and foreign currency forward contracts	**(80,040)**	48,319
Change in operating assets and liabilities:		
Decrease/(increase) in margin account receivable	**659**	(659)
Decrease/(increase) in settlements receivable	**342**	(288)
Decrease/(increase) in interest receivable	**86**	(82)
Decrease dividends receivable	**585**	1,090
Decrease in GST receivable	**–**	6
Increase in prepayments	**(83)**	(3)
Decrease/(increase) in income tax receivable	**647**	(2,621)
(Decrease)/increase in settlements payable	**(2,206)**	2,826
Increase/(decrease) in trade and other payables	**1,869**	(49)
Decrease in income tax payable	**–**	(2,799)
Decrease in deferred tax asset	**371**	377
Increase/(decrease) in deferred tax liability	**6,179**	(6,698)
Net cash (used in)/from operating activities	**(33,106)**	37,898

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

	2020 $'000	2019 $'000
Note 14. Statement of Net Tangible Asset Backing (NTA)		
Reconciling Net Tangible Asset Backing (post-tax) in accordance with Australian Accounting Standards to that reported to the ASX		
Post-tax Net Tangible Asset Backing per statement of financial position	**418,778**	393,322
Realisation costs and accruals*	**–**	(816)
Deferred income tax asset on realisation costs*	**–**	245
Deferred income tax liability and income tax receivable not recognised in Net Tangible Asset backing **	**–**	(177)
Post-tax Net Tangible Asset Backing as reported to the ASX	**418,778**	392,574

Post-tax Net Tangible Asset Backing at 30 June 2020 was $1.1513 per share (2019: $1.0836).

* From 1 December 2019, the ASX Listing Rules were changed to allow for the ASX reporting of Net Tangible Asset Backing per share to be prepared in accordance with Australian Accounting Standards. Therefore, there were no material differences between NTA reported to the ASX and NTA reported in the statement of financial position for 30 June 2020.

** At 30 June 2019, the post-tax NTA reported to the ASX was calculated on a full liquidation basis, therefore any deferred tax asset in excess of the liquidation tax provision and income tax receivable were not recognised.

Note 15. Investment Portfolio

All investments below are ordinary shares, unless stated otherwise.

	QUANTITY	2020 $'000
China		
Alibaba – American Depository Receipt	39,466	12,334
Alibaba	260,933	10,224
A-Living Services	259,067	1,891
Anta Sports	624,779	7,989
Baidu.com – American Depository Receipt	18,784	3,263
China International Travel Service	593,329	18,741
China Jinmao Holdings	6,816,036	6,944
Country Garden Services	880,535	5,926
CStone Pharmaceuticals	874,287	1,807
Focus Media	7,596,041	8,676
Genetron – American Depository Receipt	34,947	611
Huazhu – American Depository Receipt	247,423	12,564
Inner Mongolia Yili Industrial	1,342,992	8,573
Innovent Biologics	456,732	4,909
JD.com – American Depository Receipt	104,903	9,147
Kingsoft Cloud – American Depository Receipt	1,033	47
Kingsoft	1,564,466	10,543
Kweichow Moutai	21,456	6,436
Li Ning	1,692,084	7,781
Meituan Dianping	222,400	7,146
Midea	1,051,404	12,891
Momo – American Depository Receipt	148,284	3,756
Noah Holdings – American Depository Receipt	112,523	4,152
Ping An Insurance – H Shares	256,119	3,711
Sunny Optical Technology	450,190	10,436
Tencent	321,800	29,994
Trip.com – American Depository Receipt	131,841	4,951
Yum China	100,612	7,007
ZTO Express – American Depository Receipt	39,655	2,109
		224,559

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

	QUANTITY	2020 $'000
Note 15. Investment Portfolio – continued		
Hong Kong		
AIA	1,524,010	20,598
Hang Lung Properties	2,612,437	8,966
Melco Resorts & Entertainment – American Depository Receipt	332,677	7,481
		37,045
India		
Ashok Leyland	2,145,537	1,933
HDFC Bank	325,448	6,656
Maruti Suzuki	76,573	8,578
Nifty – Short Index Future July 2020	(1,011)	(231)
Reliance Industries – Deferred rights	36,044	652
Reliance Industries	462,488	15,123
Reliance Industries – Partially paid	36,044	551
		33,262
Korea		
Kospi 20 – Short Equity Swap	(179)	(215)
LG Chem	26,085	15,413
Samsung Electronics	406,544	25,858
SK Hynix	115,966	11,888
		52,944
Singapore		
MSCI Singapore – Short Index Future July 2020	(425)	(90)
		(90)
Macao		
Galaxy Entertainment	413,523	4,078
		4,078
Taiwan		
Largan Precision	44,728	8,955
MSCI Taiwan – Short Index Future July 2020	(241)	(114)
Taiwan Semiconductor	1,583,305	24,288
		33,129

	QUANTITY	2020 $'000
Note 15. Investment Portfolio – continued		
Thailand		
CP ALL	3,145,400	10,008
		10,008
Vietnam		
Tech Comm Bank	97,410	119
Vietnam Enterprise Investments	1,293,611	9,651
		9,770
United States		
Cellular Biomedicine	12,040	261
		261
Total equities and derivatives (Note 4 and Note 5)*		**404,966**

* From Note 4 (financial assets), the total of equity securities was $405,617,000 and from Note 5 (financial liabilities) was $651,000. This results in a total of $404,966,000.

Add:	
Proceeds on sale of financial assets (Note 6)	–
Payables on purchase of financial assets (Note 7)	(652)
Dividends receivable (Note 6)	389
Cash (Note 13)	23,953
Foreign currency forward contracts (Note 4 and Note 5)	(373)
Total investment Portfolio (reconciles to Note 16 foreign exchange risk)	**428,283**

During the year, the number of transactions was 1,316 and the total brokerage paid was $2,617,000 ($964,000 on purchases and $1,653,000 on sales).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Note 16. Financial risk management

Financial Risk Management Objectives, Policies and Processes

In pursuing its investment objectives, the Company is exposed to a variety of financial risks: market risk (including interest rate risk, foreign exchange risk and price risk), credit risk and liquidity risk. The management of these risks is carried out by the Investment Manager under policies approved by the Directors. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Company uses different methods to measure different types of risk to which it is exposed. These methods are explained below.

The Investment Manager's investment style:

- adopts a bottom-up stock selection methodology such that long-term capital growth is sought through investing in undervalued securities across the world;
- seeks absolute returns and not returns relative to any index;
- invests excess funds in cash when undervalued stocks cannot be found; and
- actively manages currency.

The Company uses financial derivative instruments (both Over-the-Counter (OTC) derivatives and exchange traded derivatives) for risk management purposes and to take opportunities to increase returns, including, for example:

- to gain access to markets not readily available to foreign investors;
- to create a short position in a security;
- to build a position in a security as a short-term strategy to be reversed when physical securities are purchased; and
- to aid in the management of the Company's cash flows (e.g. some stock markets require pre-funding of stock purchases that may be avoided through the use of derivatives).

The underlying value of the Company's derivatives positions may not exceed 100% of the Company's net asset value ("NAV"). The underlying value of the Company's long stocks and derivative positions may not exceed 150% of the Company's NAV. Where options are employed, the underlying value will be the delta-adjusted exposure. The Company will typically have 50% or more net equity exposure. The Company's exposures against these limits are regularly monitored by the Investment Manager. In addition, quarterly exposure reports are provided to the Audit, Risk and Compliance Committee. As ordinary shares of the Company are fully paid, a shareholder's exposure to any losses would not exceed the value of their shareholding. In practice, the Company's net equity exposure will rarely exceed 100% of its NAV. The Company's net equity exposure at 30 June 2020 was 77.6% (30 June 2019: 77.3%).

Note 16. Financial risk management – continued

The table below summarises the Company's physical exposure at fair value and its long and short derivatives effective exposures:

2020	PHYSICAL $'000	LONG DERIVATIVES CONTRACTS $'000	SHORT DERIVATIVES CONTRACTS $'000	NET EXPOSURE $'000
China	**224,559**	**–**	**–**	**224,559**
Hong Kong	**37,045**	**–**	**–**	**37,045**
Taiwan	**33,243**	**–**	**(15,109)**	**18,134**
Macao	**4,078**	**–**	**–**	**4,078**
Greater China sub-total	**298,925**	**–**	**(15,109)**	**283,816**
India	**33,494**	**–**	**(30,101)**	**3,393**
Thailand	**10,008**	**–**	**–**	**10,008**
South Korea	**53,159**	**–**	**(15,137)**	**38,022**
Singapore	**–**	**–**	**(13,073)**	**(13,073)**
Vietnam	**9,770**	**–**	**–**	**9,770**
North America	**261**	**–**	**–**	**261**
	405,617	**–**	**(73,420)**	**332,197**

The first column represents the location of the Company's investments. The Investments shown in the first column (totalling $405,617,000) reconciles to the fair value of equity securities disclosed in Note 4.

NOTES TO THE FINANCIAL STATEMENTS

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Note 16. Financial risk management – continued

2019	PHYSICAL $'000	LONG DERIVATIVES CONTRACTS $'000	SHORT DERIVATIVES CONTRACTS $'000	NET EXPOSURE $'000
China	132,403	–	–	132,403
Hong Kong	51,484	–	(17,675)	33,809
Taiwan	15,485	–	–	15,485
Greater China sub-total	199,372	–	(17,675)	181,697
India	49,522	–	(4,060)	45,462
Thailand	15,944	–	–	15,944
South Korea	35,152	–	–	35,152
Malaysia	1,819	–	–	1,819
Philippines	10,610	–	–	10,610
Vietnam	11,646	–	–	11,646
North America	1,899	–	–	1,899
	325,964	–	(21,735)	304,229

The "Long/Short Derivative Contracts" columns include the effective exposure of long/short equity swaps and futures. The "Net Exposure" column represents an approximation of the Company's exposure to movements in markets. This is calculated by making an adjustment to the "Physical" position, by adding any long (bought) derivative positions in shares or share index futures and subtracting the amount of any short (sold) derivative positions in shares or share index futures.

For example, if 5% of the portfolio was invested in India, but there was a 2% short position in Indian futures, then the net exposure column would show 3%. Conceivably, the figure could show a negative exposure, which would indicate that the portfolio was net short the Indian market. All securities, including equity swaps and derivatives, present a risk of loss of capital. For equity securities, this loss is limited to the fair value disclosed in the statement of financial position.

Note 16. Financial risk management – continued

Market risk

Foreign Exchange risk

Foreign exchange risk is the risk the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates in the Asian Region ex Japan and is exposed to foreign exchange risk arising from buying, selling and holding investments denominated in foreign currencies. The Investment Manager selects stocks based on value regardless of geographic location. The Company undertakes a significant number of its transactions denominated in foreign currencies and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Currency management is an integral part of the management of market risk. The Investment Manager may position the Company's portfolio in what it believes will be stronger performing currencies.

The Investment Manager may use foreign currency forward contracts, currency swaps, non-deliverable forwards and currency options, as well as spot foreign exchange trades to position the portfolio in the desired currencies.

Where there have been major currency movements or where currencies are perceived to be over or undervalued, the Investment Manager may look for investments whose operating environment has been distorted by the lower currency as part of the search for undervalued stocks. There may be opportunities to invest in stocks impacted by a lower currency.

NOTES TO THE FINANCIAL STATEMENTS

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Note 16. Financial risk management – continued

Market risk – continued

Foreign exchange risk *– continued*

The tables below summarise the Company's investment exposure at fair value to foreign exchange risk. The total of "Physical" plus "cash" and "Net Exposure" reconciles to the total investment portfolio in Note 15.

2020	CASH $'000	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Chinese Yuan	–	55,318	–	–	55,318
Hong Kong Dollar*	159	139,059	–	–	139,218
Taiwan Dollar	–	33,322	–	–	33,322
United States Dollar**	21,472	67,029	–	(10,627)	77,874
Indian Rupee	908	32,612	–	–	33,520
Thai Baht	386	10,008	–	–	10,394
Korean Won	–	52,944	–	–	52,944
Macao	–	4,078	–	–	4,078
Great Britain Pound	256	–	–	–	256
Vietnam Dong	–	9,770	–	–	9,770
Singapore Dollar	767	190	–	–	957
Australian Dollar	5	–	10,627	–	10,632
	23,953	404,330	10,627	(10,627)	428,283

2019	CASH $'000	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Chinese Yuan	–	7,442	–	(40,312)	(32,870)
Hong Kong Dollar*	5,519	125,836	–	–	131,355
Taiwan Dollar	–	16,003	–	–	16,003
United States Dollar**	62,725	50,187	88,640	–	201,552
Indian Rupee	1,287	50,272	–	–	51,559
Thai Baht	408	15,944	–	(20,014)	(3,662)
Korean Won	–	35,152	–	–	35,152
Malaysian Ringgit	–	1,835	–	–	1,835
Philippines Peso	–	10,610	–	(29,570)	(18,960)
Vietnam Dong	–	11,646	–	–	11,646
Australian Dollar	242	(1,258)	1,256	–	240
	70,181	323,669	89,896	(89,896)	393,850

* The physical exposure is predominantly comprised of Chinese companies listed on the Hong Kong Stock Exchange. The underlying geographic exposure of most of the investments denominated in the Hong Kong Dollar is China.

** The high physical exposure to the United States Dollar is predominantly comprised of Chinese companies listed in the United States, via American Depository Receipts.

Note 16. Financial risk management – continued

Market risk – continued

Foreign exchange risk sensitivity analysis

The table below summarises the sensitivities of the Company's profit to foreign exchange risk. The analysis is based on the assumption that the Australian Dollar strengthened by 10% against the United States Dollar and Hong Kong Dollar (shown in the +10% column) and weakened by 10% against the United States Dollar and Hong Kong Dollar (shown in the -10% column). These two currencies are the two most material foreign currencies to which the Company was exposed at 30 June 2020.

A sensitivity of 10% has been selected as this is considered reasonably possible given current exchange rates and the volatility observed both on a historic basis and after factoring in possible future movements. The sensitivity has been undertaken on a combined basis for both monetary assets and liabilities and financial assets and liabilities measured at fair value through profit or loss, as the Company believes this accurately portrays the Company's exposure to foreign exchange risk.

2020	**% CHANGE**	**AUD STRENGTHENED EFFECT ON PROFIT BEFORE TAX $'000**	**% CHANGE**	**AUD WEAKENED EFFECT ON PROFIT BEFORE TAX $'000**
Hong Kong Dollar	**10%**	**(13,026)**	**(10%)**	**15,922**
United States Dollar	**10%**	**(8,007)**	**(10%)**	**9,786**
Other currencies	**10%**	**(17,959)**	**(10%)**	**21,949**
		(38,992)		**47,657**

2019	% CHANGE	AUD STRENGTHENED EFFECT ON PROFIT BEFORE TAX $'000	% CHANGE	AUD WEAKENED EFFECT ON PROFIT BEFORE TAX $'000
Hong Kong Dollar	10%	(12,168)	(10%)	14,872
United States Dollar	10%	(18,504)	(10%)	22,617
Other currencies	10%	(5,108)	(10%)	6,243
		(35,780)		43,732

The weakening of the AUD will increase the operating profit. A strengthening of the AUD will decrease the operating profit.

The sensitivity analysis shows that the Company is affected by exchange rate movements (other things being equal).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Note 16. Financial risk management – continued

Market risk – continued

Interest rate risk

Interest rate risk is the possibility that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The majority of the Company's financial assets and liabilities are non-interest bearing as the Company has a policy of not borrowing, other than for settlement of trades. Cash holdings are directly affected by interest rate movements, but at balance date, interest rates on these cash accounts were low and range from 0.0% to 0.05% (2019: 0.0% to 1.7%). Therefore, there is minimal direct exposure to interest rate risk on these cash holdings.

Interest rate risk indirectly affects the Company as interest rate movements may affect forward points used in determining gains or losses on foreign currency forward contracts.

At 30 June 2020, if interest rates had changed by +/- 100 basis points with all other variables held constant, the direct impact on interest income would not have been significant for the Company.

Price risk

Market prices fluctuate due to a range of factors specific to the individual investments, or factors affecting the market in general. The Investment Manager's stock selection process is core to the management of price risk. The Investment Manager adopts a thematic stock selection approach and is an "active manager". The Investment Manager seeks a broad range of Asian Region ex Japan investments whose businesses and growth prospects, it believes, are being undervalued by the market. Accordingly, investment holdings in the Company may vary considerably from the make-up of the MSCI Asia ex Japan index on the basis that the Investment Manager remains index agnostic.

As an additional risk management tool, the Company may enter into short equity swaps and futures to protect against market movements.

Note 16. Financial risk management – continued

Market risk – continued

Price risk sensitivity analysis

Price risk exposure arises from the Company's investment portfolio, which comprises investments in securities and derivatives. At 30 June 2020, the markets that the Company had the biggest investment exposure to were the Chinese and Korean markets. The effect on profit due to a possible change in market prices, as represented by a -/+10% movement in these markets with all other variables held constant, is illustrated in the table below:

2020	**INCREASE % CHANGE**	**EFFECT ON PROFIT BEFORE TAX ($'000)**	**DECREASE % CHANGE**	**EFFECT ON PROFIT BEFORE TAX ($'000)**
Greater China	**10%**	**20,938**	**(10%)**	**(20,938)**
Korea	**10%**	**5,316**	**(10%)**	**(5,316)**
All other markets	**10%**	**12,775**	**(10%)**	**(12,775)**
		39,029		**(39,029)**

2019	INCREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX ($'000)	DECREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX ($'000)
Greater China	10%	13,205	(10%)	(13,205)
Korea	10%	3,515	(10%)	(3,515)
All other markets	10%	15,839	(10%)	(15,839)
		32,559		(32,559)

An increase in the above markets may increase the operating profit. A decrease in the above markets may reduce the operating profit.

A sensitivity of 10% has been selected, as this is considered reasonably possible. The markets specified are a reference point only. Actual movements in stocks held in the portfolio may vary significantly to movements in the respective markets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Note 16. Financial risk management – continued

Credit risk

Credit risk relates to the risk of a counterparty defaulting on a financial obligation resulting in a loss to the Company (typically through derivatives transactions, currency forward contracts and or cash holdings).

The exposure to credit risk for cash and cash equivalents, futures, equity swaps, and foreign currency forward contracts is any unrealised profit and collateral paid on the positions (the money the Company would lose if the counterparty defaulted) at reporting date. The table below shows the Company's counterparty credit risk exposure by credit rating:

RATINGS	**2020 $'000**	2019 $'000
A-	**2,550**	8,692
AA-	**15,666**	65,547
BBB+	**5,680**	3,553
Total	**23,896**	77,792

Ratings agencies consider any rating of BBB+ or higher to be investment grade.

The Investment Manager regularly monitors the Company's credit risk exposure to counterparties and seeks to manage this risk by diversifying the Company's exposure to a number of different counterparties. Over-the-Counter derivatives transactions are entered into by the Investment Manager on behalf of the Company under standard ISDA (International Swaps and Derivatives Association) master agreements and English law governed Credit Support Annexes, which employ two-way margining of unrealised profits and losses. The Investment Manager also limits the duration of derivatives contracts to short-term. Transactions in listed securities and investments are entered into with the Investment Manager's approved brokers. Payment for securities purchased is typically only made once a broker has received securities and delivery of securities sold typically only occurs once the broker has received payment.

Liquidity risk

Liquidity risk is the risk the Company will encounter difficulty in meeting obligations associated with financial liabilities. This includes the risk that the Company:

(i) will not have sufficient funds to settle a transaction on the due date; and

(ii) will be forced to sell financial assets at a value which is less than what they are worth.

Note 16. Financial risk management – continued

Liquidity risk – continued

Remaining contractual maturities

The table below details the Company's remaining contractual maturity for its financial and non-financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial and non-financial liabilities based on the earliest date on which the financial and non-financial liabilities were required to be paid.

2020	**WITHIN 3 MONTHS $'000**	**BETWEEN 3 AND 12 MONTHS $'000**	**TOTAL $'000**
Non-financial			
Payables (Note 7)	**3,062**	**20**	**3,082**
Total non-financial	**3,062**	**20**	**3,082**
Financial			
Derivative contractual outflows	**651**	**–**	**651**
Foreign currency forward contractual outflows	**373**	**–**	**373**
Total financial	**1,024**	**–**	**1,024**

2019	WITHIN 3 MONTHS $'000	BETWEEN 3 AND 12 MONTHS $'000	TOTAL $'000
Non-financial			
Payables (Note 7)	3,478	34	3,512
Total non-financial	3,478	34	3,512
Financial			
Derivative contractual outflows (Note 5)	212	–	212
Foreign currency forward contractual outflows (Note 5)	1,490	–	1,490
Total financial	1,702	–	1,702

The Company has sufficient funds to meet these liabilities as the value of net assets realisable in one year or less, excluding brokerage costs, is $430,146,000 (2019: $396,834,000). Assets that are realisable in one year or less include equities, derivatives, cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Note 16. Financial risk management – continued

Liquidity risk – continued

Remaining contractual maturities *– continued*

All securities, including equity swaps and derivatives, present a risk of loss of capital. For equity securities, this loss is limited to the fair value disclosed in the statement of financial position. The risk management guidelines adopted are designed to minimise liquidity risk by:

(i) ensuring that there is no significant exposure to illiquid or thinly traded financial instruments; and

(ii) applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

The Investment Manager prepares daily cash forecasts on behalf of the Company and maintains sufficient cash to meet normal operating requirements. The Company has a policy of not borrowing money, other than on a short-term basis for settlement, trading and like purposes.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Capital risk management

The Company considers its capital to comprise ordinary share capital, reserves and over-time, accumulated retained earnings.

The Company's investment objective is to seek long-term capital growth by investing in undervalued securities across the Asian Region ex Japan across sectors.

The Board regularly and actively reviews the most efficient manner by which the Company manages its capital, in response to changing market conditions and risks, with the sole aim of enhancing shareholder value, through:

– the management of the level of dividends to shareholders;

– the issue of shares by methods such as rights offers, share purchase plans or placements; or

– the use of share buy-backs.

The Company announced a buy back scheme on 8 April 2020. This allows the Company to buy back up to 10% of the issued share of the company within a 12 month period. No shares have been bought back as at 30 June 2020.

The Company is an ASX-listed investment company and is subject to the ASX Listing Rules. The Company complies with all externally-imposed capital requirements.

Note 17. Fair value measurement

Fair value hierarchy

AASB 13: *Fair Value Measurement* requires the Company to classify those assets and liabilities measured at fair value through profit or loss, using the following fair value hierarchy model:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The following table details the Company's assets and liabilities, measured or disclosed at fair value, using the three level hierarchy model.

2020	LEVEL 1 $'000	LEVEL 2 $'000	TOTAL $'000
Assets			
Equity securities	**405,617**	**–**	**405,617**
Derivatives	**–**	**–**	**–**
Foreign currency forward contracts	**–**	**–**	**–**
Total assets	**405,617**	**–**	**405,617**
Liabilities			
Derivatives	**436**	**215**	**651**
Foreign currency forward contracts	**–**	**373**	**373**
Total liabilities	**436**	**588**	**1,024**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Note 17. Fair value measurement – continued

Fair value hierarchy – continued

2019	LEVEL 1 $'000	LEVEL 2 $'000	TOTAL $'000
Assets			
Equity securities	319,254	6,710	325,964
Derivatives	56	–	56
Foreign currency forward contracts	–	234	234
Total assets	319,310	6,944	326,254
Liabilities			
Derivatives	212	–	212
Foreign currency forward contracts	–	1,490	1,490
Total liabilities	212	1,490	1,702

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers from Level 1 to Level 2 for any assets or liabilities measured at fair value through profit or loss during the period.

All figures presented above can be reconciled to Note 4 or Note 5 and the statement of financial position.

There were no Level 3 investments at 30 June 2020 and 2019.

Note 17. Fair value measurement – continued

Fair value hierarchy – continued

Rationale for classification of assets and liabilities as Level 1

At 30 June 2020, 100% (2019: 97.9%) of the equity securities held by the Company were valued using unadjusted quoted prices in active markets and were classified as Level 1 in the fair-value hierarchy model.

Rationale for classification of assets and liabilities as Level 2

There were certain financial instruments that were classified as Level 2, because a degree of adjustment has been made to the quoted price i.e., whilst all significant inputs required for fair value measurement are observable and quoted in an active market, there was a degree of estimation involved in deriving the fair value. Participatory Notes were classified as Level 2 because they were generally traded Over-the-Counter and were often priced in a different currency to the underlying security. Foreign currency forward contracts are classified as Level 2 even though forward points are quoted in an active and liquid market. The forwards themselves are based on interest rate differentials.

Fair value of non-financial instruments

Due to their short-term nature, the carrying amount of receivables and payables were assumed to approximate their fair value.

Note 18. Offsetting of financial assets and financial liabilities

Offsetting and master netting agreements

The Company enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements. In general, under these agreements the amounts owed by each counterparty on a single day in respect of the same transaction type outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other, if:

I. there is a legally enforceable right to set-off the financial asset and financial liability; and

II. the Company intends to settle the financial asset and financial liability on a net basis, or realise the financial asset and settle the financial liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Note 18. Offsetting of financial assets and financial liabilities – continued

Offsetting and master netting agreements – continued

The gross and net positions of financial asset and liabilities that have been offset in the Statement of Financial Position are disclosed in the first three columns of the following table:

	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT SET-OFF IN THE STATEMENT OF FINANCIAL POSITION		
	GROSS AMOUNTS $'000	GROSS AMOUNTS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION $'000	NET AMOUNTS IN THE STATEMENT OF FINANCIAL POSITION $'000	FINANCIAL INSTRUMENT[1] $'000	CASH COLLATERAL $'000	NET AMOUNT $'000
Financial assets						
2020						
Derivatives	**–**	**–**	**–**	**–**	**–**	**–**
Foreign currency forward contracts	**–**	**–**	**–**	**–**	**–**	**–**
2019						
Derivatives	56	–	56	–	–	56
Foreign currency forward contracts	234	–	234	(234)	–	–
Financial liabilities						
2020						
Derivatives	**651**	**–**	**651**	**–**	**(215)**	**436**
Foreign currency forward contracts	**373**	**–**	**373**	**–**	**(277)**	**96**
2019						
Derivatives	212	–	212	–	–	212
Foreign currency forward contracts	1,490	–	1,490	(234)	(1,256)	–

1 Shows the impact of arrangements between the Company and the relevant counterparty on financial instruments that provide a right to set-off that becomes enforceable and affects settlement of individual financial assets and liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of business. These arrangements are not set-off in the Statement of Financial Position, as they are not currently enforceable.

Note 19. Investment Manager fees

The Investment Manager receives a monthly management fee for investment services provided in accordance with the Investment Management Agreement. This agreement provides for a management fee payable monthly and calculated at 1.1% (2019: 1.1%) per annum of the adjusted portfolio value (which includes cash and deposits).

Under the Investment Management Agreement, a termination fee equal to 1.1% of the portfolio value (adjusted for any taxes paid/refunded, dividends paid and capital flows), will only be payable to the Investment Manager in circumstances where the Company terminates the Investment Management Agreement for convenience after the initial ten-year term. No termination fee is payable if the Investment Manager terminates the agreement.

Performance fees

The Investment Manager is entitled to a performance fee of 15% of the outperformance over the Morgan Stanley All Country Asia ex Japan Net Index in A$. The performance fee is calculated annually at 30 June and must recover any underperformance from previous years.

For the 12 months to 30 June 2020, the performance of the portfolio was 14.4%[1] and the performance of the index was 3.6% for the same period. This represents an outperformance of 10.8% against the index for the year ended 30 June 2020. After taking into account the aggregate underperformance of 7.7% from the prior periods, the Company's net cumulative outperformance, for the purposes of calculating the performance fee, was 3.1%. As a result, a performance fee of $1,826,716 was payable at 30 June 2020.

Management fees and performance fees paid and payable for the year ending 30 June 2020 and 30 June 2019 are shown below:

	2020 $	2019 $
Management fee paid	**4,096,866**	3,989,482
Management fee payable	**392,588**	362,436
Performance fee payable	**1,826,716**	–
	6,316,170	4,351,918

1 This figure represents the 12 month return of the "Portfolio Value" (as defined in of the Investment Management Agreement), which is defined as the aggregate value of each asset or investment of the Company's portfolio. This differs from the Company's 12 month pre-tax NTA return of 14.6% referred to in the Directors' Report, which also includes non-portfolio and non-investment related assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Note 19. Investment Manager fees – continued

A summary of the salient provisions of the Investment Management Agreement ("Agreement") are contained below:

(a) The terms of the Agreement require the Investment Manager to, amongst other things:

- (i) invest and manage the portfolio in accordance with the Agreement;
- (ii) keep the portfolio under review and confer with the Board of the Company at regular intervals in respect of the investment and management of the portfolio;
- (iii) exercise all due care and vigilance in carrying out its functions, powers and duties under the Agreement; and
- (iv) promptly notify the Board of any instructions given to it by the Company which have not been complied with.

(b) The initial term of the Agreement is 10 years. However, the Company may terminate the Agreement at any time by written notice to the Investment Manager where:

- (i) a receiver, receiver and manager, administrative receiver or similar person is appointed with respect to the assets and undertakings of the Investment Manager;
- (ii) the Investment Manager goes into liquidation;
- (iii) the Investment Manager ceases to carry on business in relation to its activities as an investment manager;
- (iv) the Investment Manager breaches any material provision of the Agreement, or fails to observe or perform any representation, warranty or undertaking given by it under the Agreement and fails to correct such breach or failure within 10 business days of receiving notice in writing from the Company specifying such breach or failure;
- (v) the Investment Manager sells or transfers or makes any agreement for the sale or transfer of the main business and undertaking given by it or its beneficial interest therein, other than to a related body corporate for purposes of corporate reconstruction on terms previously approved in writing by the Company;
- (vi) the Investment Manager ceases to be licensed under the relevant law or its licence is suspended by ASIC or it is unable to carry out its duties under the Agreement because it has ceased to hold necessary legal authorisations to operate as an investment manager; or
- (vii) relevant law requires the Agreement to be terminated.

Note 20. Key management personnel disclosures

Details of remuneration paid to the Non-Executive Directors are outlined in the statement of profit or loss and other comprehensive income and in aggregate terms was $186,150 (2019: $186,150), with $170,000 (2019: $170,000) paid as cash salary and $16,150 (2019: $16,150) paid as superannuation. Refer to the Remuneration Report for further details.

Interests of Directors in securities

The relevant interest in ordinary shares of the Company that each Director held at balance date was:

	OPENING BALANCE	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Margaret Towers	50,000	–	–	50,000
Ian Hunter	200,001	–	–	200,001
Malcolm Halstead	1	–	–	1

Note 21. Remuneration of auditors

During the year, the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Company:

	2020 $	2019 $
Audit services – PricewaterhouseCoopers		
Audit and review of the financial statements	**71,145**	77,446
Other services – PricewaterhouseCoopers		
Taxation compliance services	**22,230**	25,570
	93,375	103,016

Note 22. Contingent assets, liabilities and commitments to capital expenditure

No contingent assets or liabilities existed at 30 June 2020 or 30 June 2019. The Company has no commitments for uncalled share capital on investments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

Note 23. Related party transactions

Management fees

Disclosures relating to management fees and performance fees paid and payable to the related party, Platinum Investment Management Limited are set out in Note 19.

Administration fees

The Investment Manager provides various administrative services to the Company. These include accountancy, secretarial, performance analytics, taxation, compliance and risk monitoring services. The services provided extend to liaison with the share registry to ensure that accurate share records are maintained and services are provided to shareholders in a timely and efficient manner. In consideration for providing these services, Platinum Investment Management Limited received a payment of $1 from the Company.

Investment

At 30 June 2020, Platinum Investment Management Limited held 30 million ordinary shares in the Company, which represents an interest of 8.2% of the Company's ordinary shares. During the year, Platinum Investment Management Limited received a final 2019 fully-franked dividend of $600,000 and an interim 2020 fully-franked dividend of $600,000.

Key management personnel

Disclosures relating to the aggregate remuneration paid to key management personnel are set out in Note 20 and fully disclosed in the Remuneration Report in the Directors' Report.

Loans to/from related parties

There were no loans to or from related parties at reporting date.

Note 24. Events after the reporting period

Apart from the dividend declared in Note 10, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 25. The Company

Platinum Asia Investments Limited is a company limited by shares, incorporated and domiciled in New South Wales, Australia. Its current registered office and principal place of business is:

Level 8, 7 Macquarie Place
Sydney NSW 2000

A description of the nature of the Company's operations and its principal activities is included in the Directors' Report.

DIRECTORS' DECLARATION

30 JUNE 2020

In the Directors' opinion:

(a) the financial statements and notes set out on pages 24 to 66 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving true and fair view of the Company's financial position as at 30 June 2020 and of its performance for the financial year ended on that date, and

(b) there were reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001.*

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Margaret Towers
Chairperson

Ian Hunter
Director

18 August 2020
Sydney

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM ASIA INVESTMENTS LIMITED

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Platinum Asia Investments Limited (the Company) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2020
- the statement of profit or loss and other comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

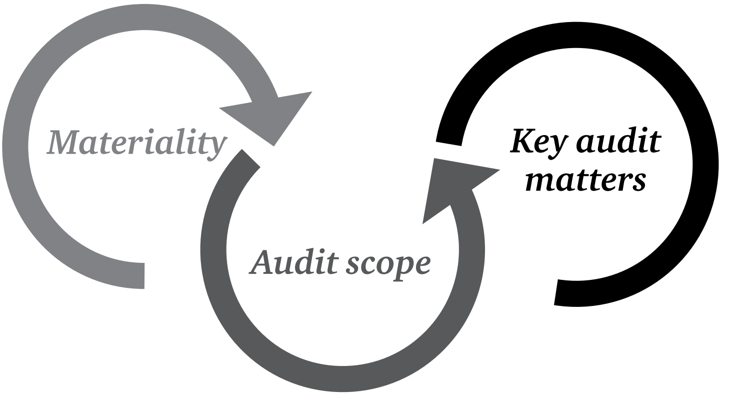
An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Company, its accounting processes and controls and the industry in which it operates.

Platinum Asia Investments Limited is an investment company listed on the ASX. The Company primarily makes investments in Asian equities, excluding in Japan.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM ASIA INVESTMENTS LIMITED



MATERIALITY	AUDIT SCOPE	KEY AUDIT MATTERS
– For the purpose of our audit we used overall materiality of $4.188 million, which represents approximately 1% of the Company's net assets. – We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.	– Our audit focused on where the Company made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. – Our audit approach reflects the nature of the investments held by the Company and the consideration of the work undertaken by third party service providers. The Company outsources certain functions including custody and share registry.	– Amongst other relevant topics, we communicated the following key audit matter to the Audit, Risk and Compliance Committee: • Investment valuation and existence.

MATERIALITY	AUDIT SCOPE	KEY AUDIT MATTERS
– We chose net assets because, in our view: • it is the metric against which the performance of the Company is most commonly measured, and • a generally accepted benchmark for listed investment companies. – We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	– The Company's third party service provider engaged an external auditor to provide assurance reports over the design and operating effectiveness of the third party service providers' key internal controls.	– This is further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM ASIA INVESTMENTS LIMITED

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Investment valuation and existence *Refer to Note 1 (summary of significant accounting policies), Note 4 and 5 (financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss), and Note 17 (fair value measurement).* At 30 June 2020, investments in financial assets at fair value through profit or loss of $405.617 million and financial liabilities at fair value through profit or loss of $1.024 million were comprised primarily of investments in equity securities, futures contracts and foreign currency forward contracts. The existence and valuation of financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss was a key audit matter because financial assets and financial liabilities at fair value through profit or loss represent the principal element of the statement of financial position in the financial statements, accounting for 96.61% of net assets. A discrepancy in the valuation or existence of investments could cause net assets to be materially misstated which could also impact the Company's performance as the valuation of financial assets and financial liabilities is the main driver of movements in the profit of the Company.	Our audit procedures on investment valuation included, amongst others: – We developed an understanding of the Company's pricing policy. – For material investments held by the Company, we obtained price data from third party price vendors and compared it to the prices used by the Company. Our audit procedures over investment existence included, amongst others: – We obtained the most recent System and Organization Controls ("SOC 1") Report issued by the custodian, setting out the controls in place at that service organisation, which included an independent audit opinion over the design and operating effectiveness of those controls. – We assessed our ability to place reliance on the service organisations' independent audit reports by considering the auditors' objectivity, experience, competency and the result of their procedures. – We evaluated the relevant key controls over investment existence, the tests undertaken by the auditor and the results of these tests and the auditor's conclusions on the design and operational controls to the extent relevant to our audit of the Company. This report and audit opinion is comparable to the Australian equivalent, Australian Standards on Assurance Engagement 3402 issued by the Auditing and Assurance Standards Board.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
	– We obtained investment holding confirmations from the custodian as at 30 June 2020 and compared these to the units recorded by the Company. For material differences, we obtained relevant evidence to substantiate the accounting record was correct. We assessed the adequacy of the disclosures to the financial report in light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained include the Corporate directory, Shareholder information, Investment Structure, Objectives and Methodology and Director's Report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM ASIA INVESTMENTS LIMITED

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 20 to 22 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Platinum Asia Investments Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

CJ Cummins
Partner

18 August 2020
Sydney

THE DAM HAS BROKEN

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Article
The Dam Has Broken
By Julian McCormack
Investment Specialist,
Platinum Asset Management

Artwork by
Dan Tague
www.messageinthemoney.com

Nothing
is so permanent
as a temporary
government program.

Milton Friedman

PREFACE

As we heralded in the New Year little did we know what lay ahead. Full of promise, following a long-awaited 'phase one' trade deal between the US and China in December, as well as resolution on the Brexit saga, 2020 looked to be a less troublesome year for investors. The optimism was reflected in equity markets, with the MSCI AC World Index soaring to record highs in February[1].

The arrival of a global health pandemic, however, stopped investors in their tracks. Markets don't like surprises and COVID-19 is as bad as it gets, sending the world into lockdown. We soon grasped the true meaning of 'globalisation', with the disease spreading quickly across the world – bringing the global economy to a standstill virtually 'overnight'.

It was unexpected. So too was the market's response. After the initial shock and sell-off, far from being struck down, markets quickly collected themselves and continued their upward march, to close not far below their February highs by the end of June.

Markets have seemingly ignored the economic reality of collapsing businesses, dissipating earnings and significant job losses. The extraordinary recovery in stock markets amid the most severe economic downturn in modern history is in stark contrast to other periods of economic weakness, such as the global financial crisis (GFC), where even five years later, markets had not recovered to their previous highs.

All is not what it seems though. In reality, it's been a tale of two very different stock markets. The pre-COVID market leaders (i.e. growth stocks) have continued to move from strength to strength, particularly those involved in technology and e-commerce as work and shopping activities increasingly shift online, sending their valuations to exorbitant levels and in some cases to new record highs. Defensive stocks that are benefiting from the pandemic, as we stock up our pantries and buy more hygiene and health-related items, have also rallied hard.

While many of these growth stocks are great companies with promising futures, the current valuations simply can't be justified. At Platinum, we have always maintained that a stock's return is a function of the price you pay – and we believe the price people are paying for some of these stocks right now, make them high-risk investments.

Then we have the 'other' market, where most stocks reside, which has been left behind – performing as expected when faced with such a major economic collapse. While many stocks have bounced from their March lows, they remain well below their pre-COVID highs.

1 Source: FactSet Research Systems.

Record amounts of fiscal and monetary stimulus from governments and central banks have undoubtedly fuelled the rally. The cash has made its way to banks, businesses, households and markets.

As the adage goes though "there is no such thing as a free lunch", and no truer words could be said of the current situation.

Such levels of money creation are inflationary. While it may not be reflected in the prices of goods and services just yet, it is evident in asset prices, notably bonds and selected parts of the equity market. Consumer prices will likely follow in time – as economies recover and demand rebounds.

They could rely forever on central banks – but the implications are almost certainly inflationary. They will need to increase taxes and/or borrow from the public by issuing government bonds. An increased supply of bonds will place downward pressure on bond prices (i.e. long-term yields will rise), which will have implications for equities, particularly those with stretched valuations.

The value of any asset is a function of the future cashflows that it will produce and the appropriate risk-adjusted interest rate. In theory, the lower interest rates are, the higher the value that should be ascribed to an asset for a given set of expected future cashflows. Conversely, the higher interest rates are, the lower the value that should be ascribed.

With 10-year bond yields below 1% and even negative in many countries, and economies floundering, it may be hard to imagine higher interest rates now – but history shows that things can change very quickly.

This pandemic is very much front and centre in our minds currently. However, it's worthwhile stepping back from the events of today and looking to the past.

In our feature article, Julian McCormack, investment specialist at Platinum, argues that the global economy has likely shifted away from an inflation-targeting world with fiscal policy secondary to monetary policy. The emergence of populists in response to anaemic growth and social inequality began the process – history teaches us that populists of all political stripes do not fear spending money.

The massive budget deficits in response to the impact of COVID-19 may prove to be the coup de grâce for the post Reagan-Thatcher period of ever-lower inflation and a belief in the primary efficacy of monetary policy. We may soon have to live with structurally higher inflation amid much higher government deficits.

Andrew Clifford,
Chief Executive Officer & Chief Investment Officer,
Platinum Asset Management
August 2020


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THE DAM HAS BROKEN

By Julian McCormack

The dogmas of the quiet past, are inadequate to the stormy present... As our case is new, so we must think anew, and act anew. We must disenthrall ourselves...

Abraham Lincoln

Markets are behaving as if inflation is dead, growth is and will remain slow, and investors must hew to bond-like equities plus the few technology companies that can promise a future of growth. All else must be left in the dust.

Perhaps this is true – the motto of a new era. A new paradigm, if you will. However, the global political economy has changed markedly in recent years. Populists have taken power in countries across the globe, fiscal rectitude was eroding in that context… and then COVID-19 struck. The world has changed.

Beware the dogmas of the quiet past.

Most readers will be familiar with the 40-year collapse in interest rates globally, summarised in the chart below using the US 10-year Treasury yield[1].

YIELDS ON US 10-YEAR TREASURY NOTES

SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS.

This has coincided with: atomisation of the workforce; installation of independent central banks, which target inflation levels via interest rates; opening of vast new pools of labour globally; decreasing trade barriers; and an anchoring amid elected officials to the notion that government spending is regulated by bond market vigilantes.

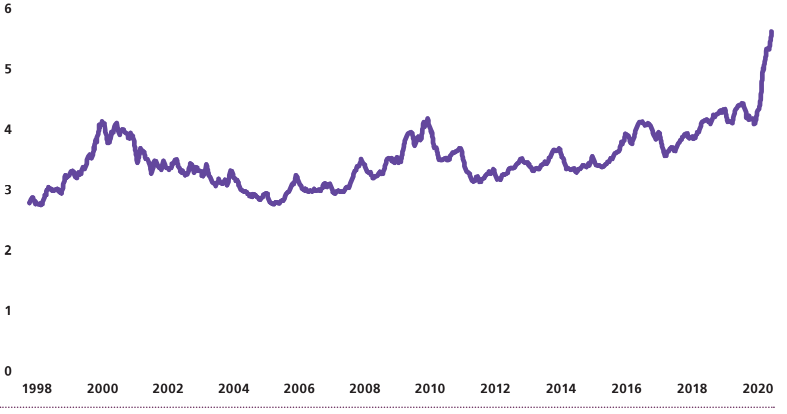
Many of these factors have changed radically, yet markets continue to price ongoing low inflation and market commentary is dominated by the notion that high multiples can be paid for businesses due to low interest rates, especially in a low nominal growth world[2].

This has translated into enormous dispersion in markets – with highly fancied companies reaching new highs of valuation versus those out-of-favour.

The charts below show the dispersion between the highest and lowest price-to-earnings (PE) stocks and price-to-book (PB) stocks around the world. We sort all the stocks in each industry in each country into quintiles based on their PE and PB.

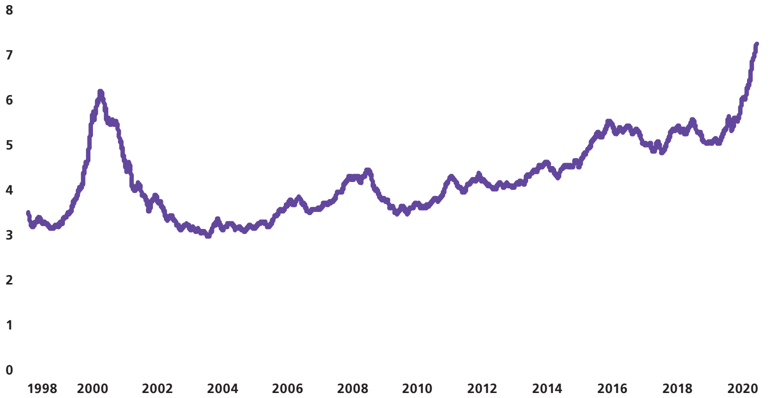
To illustrate, if there are 500 US software stocks and five Australian gold mining stocks, then each quintile will contain 100 US software stocks and one Australian gold mining stock. With thanks to James Bullock, quant analyst at Platinum.

RATIO OF HIGH PE TO LOW PE STOCKS



SOURCE: FACTSET RESEARCH SYSTEMS, PLATINUM INVESTMENT MANAGEMENT LIMITED.

RATIO OF HIGH PB TO LOW PB STOCKS



SOURCE: FACTSET RESEARCH SYSTEMS, PLATINUM INVESTMENT MANAGEMENT LIMITED.

As at all times of extreme valuation, this feels inevitable to many. In truth though, the pre-conditions allowing for the current extremes in markets have been changing for years. The regime of declining rates and tepid fiscal support for economies appears to have ended.

TAKING A STEP BACK

The dollar gold standard of the Bretton Woods period ended in 1971, with the Nixon Shock. Since then we have all navigated a world of currencies tending toward pure fiat or unbacked currency, with no intrinsic worth. However, our institutions and language tend to be anchored in the prior period of notes of exchange backed by, and exchangeable for, gold and/or silver.

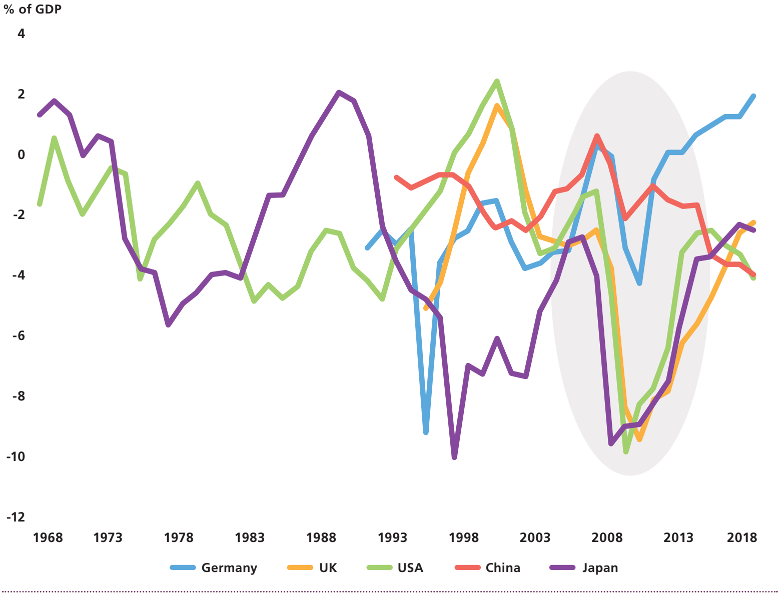
Governments have tended toward attempts, at least superficially, to balance budgets and pay down debt. No more salient example of this is the response of major economies to the recession following the global financial crisis (GFC) of 2008.


JUST CAnt
GET ENOUGH

All major economies saw large increases in budget deficits from 2007-2010. Most major economies then shrank those deficits from 2010 to 2016.

Stated differently, fiscal policy in major economies exercised a drag on gross domestic product (GDP) growth from 2010 onward, rather than adding to it. In the short run, every 1% of GDP by which a government deficit shrinks is a 1% diminution of GDP.

SELECT MAJOR ECONOMY GOVERNMENT SURPLUSES/(DEFICITS)



SOURCE: BLOOMBERG.

Amid the long, but tepid expansion following the GFC, central banks the world over have been suggesting, nay begging, that the governments of their respective countries spend money in order to take up the slack of economies running well below potential for most of the post-GFC period[3]. This is a stark reversal of the purpose of independent central banking, which was to provide an independent counterpoint to spendthrift politicians[4].

Coincident with the slow growth of the post-GFC period, politics in numerous countries was riven by the emergence of potent populist movements, many of which have been elected to power. Populism is nothing new, but more regimes globally can be characterised as populist and more political speech is populist in nature in the wake of the GFC[5]. The focus of attention has been largely on the erosion of institutions and the ugly ethno-nationalist overtones of populists.

We live in a world characterised by stuttering growth in the wake of a GFC, with politics tending toward extremes... sounds familiar. Numerous commentators have drawn parallels with the 1930s, perhaps most notably Ray Dalio[6].

LESSONS ON THE NATURE OF POPULISM FROM THE 1930s

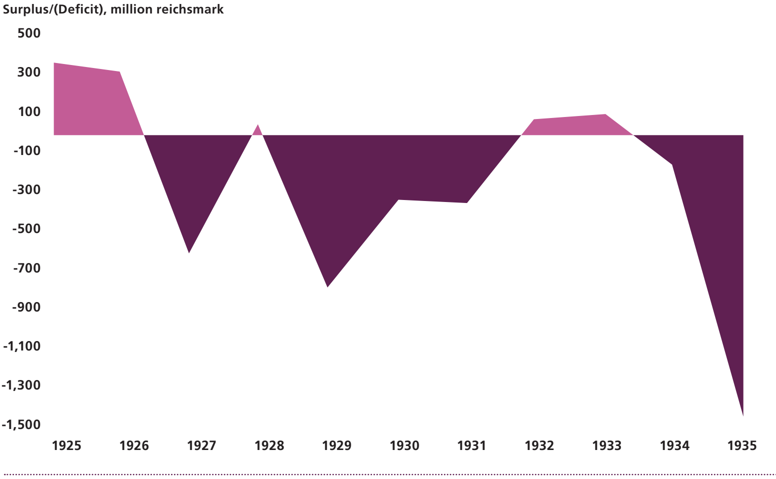
The 1930s saw the aftermath of a global financial crisis, trade wars, geopolitical tension and the emergence of populists on both the Left and the Right… it really does sound familiar. For us, one of the most important lessons of the period appears to have been largely overlooked.

Populists spend money.

Take for example, Germany under Hitler. His regime…

"... suspended the gold standard, embarked on huge public-works programs like autobahns, protected industry from foreign competition, expanded credit, instituted jobs programs, bullied the private sector on prices and production decisions, vastly expanded the military, enforced capital controls, instituted family planning, penalized smoking, brought about national healthcare and unemployment insurance, imposed education standards, and eventually ran huge deficits."[7]

GERMAN GOVERNMENT FISCAL POSITION, 1925-1935

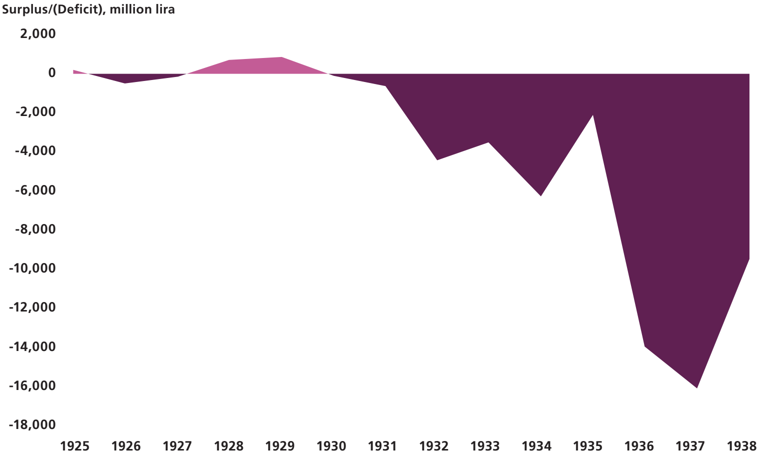


SOURCE: RECONSTRUCTED FROM LEAGUE OF NATIONS ARCHIVES VIA NORTHWESTERN UNIVERSITY, "PUBLIC FINANCE. SUMMARY OF BUDGET ACCOUNTS" SECTION. LATEST REVISIONS USED, LOANS EXCLUDED FROM REVENUE AND REPAYMENTS OF LOANS EXCLUDED FROM EXPENDITURES. NOTE THAT GERMANY CEASED REPORTING PUBLIC FINANCES TO THE LEAGUE OF NATIONS FROM 1935.
HTTPS://WAYBACK.ARCHIVE-IT.ORG/6321/20160901163315/HTTP://DIGITAL.LIBRARY.NORTHWESTERN.EDU/LEAGUE/STAT.HTML

In Mussolini's Italy, similarly, the gold standard was suspended, the lira allowed to depreciate and a wave of public works, social programs and militarisation was undertaken.

For instance, Mussolini spent seven times more on education in the 20 years following 1922 than had been spent in the history of the Italian Republic dating back to 1862… seven times more in a third of the time[8].

ITALIAN GOVERNMENT FISCAL POSITION, 1925-1938



SOURCE: RECONSTRUCTED FROM LEAGUE OF NATIONS ARCHIVES VIA NORTHWESTERN UNIVERSITY, "PUBLIC FINANCE. SUMMARY OF BUDGET ACCOUNTS" SECTION. LATEST REVISIONS USED, LOANS EXCLUDED FROM REVENUE AND REPAYMENTS OF LOANS EXCLUDED FROM EXPENDITURES. *HTTPS://WAYBACK.ARCHIVE-IT.ORG/6321/20160901163315/HTTP://DIGITAL.LIBRARY.NORTHWESTERN.EDU/LEAGUE/STAT.HTML*

In pre-war Japan, the Showa banking crisis of 1927 preceded the Great Depression of the West. It was met by a series of hitherto unorthodox measures by Finance Minister and briefly Prime Minister Takahashi Korekiyo, "Japan's Keynes".

These now read like a standard response to an economic crisis. Takahashi:

1) De-pegged the yen from gold and allowed it to depreciate steeply;

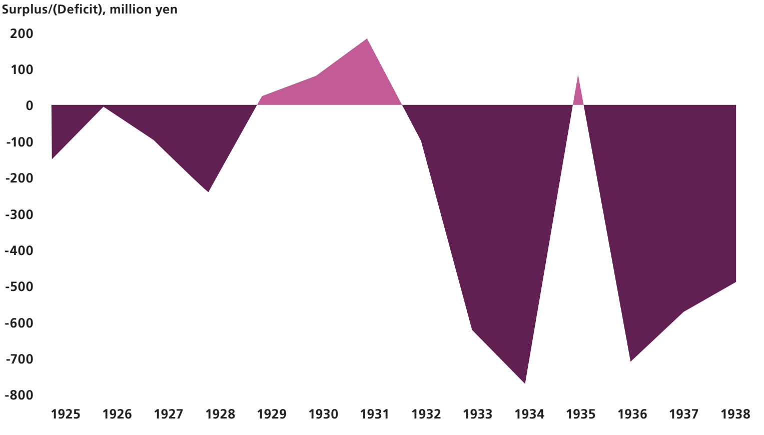
2) Lowered interest rates;

3) Impelled the bank of Japan to buy Japanese government bonds at low rates in order to finance government spending (this is exactly the same as quantitative easing).

The "Takahashi Intervention" appears to have raised Japan out of the Depression by approximately 1933, with the country enjoying strong industrial production growth in the mid- and late-1930s.

For his services, Takahashi was awarded the status of Baron among many other honours. Ultimately, though, he fell afoul of Japan's military by seeking to rein in military spending in Manchuria, and was assassinated in 1936[9].

JAPANESE GOVERNMENT FISCAL POSITION, 1925-1938



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THE FUTURE
IS BRIGHT
1988

Lest we assume that only fascists spent money in response to the Great Depression, let us consider the policies of the great American populist of the Left, Franklin Delano Roosevelt (FDR). He was elected in a landslide in 1932 in response to the tone-deafness and ineptness of the Hoover administration in response to the onset of the Great Depression. He went on to win an unprecedented and never to be matched four elections and died in office in 1945[10].

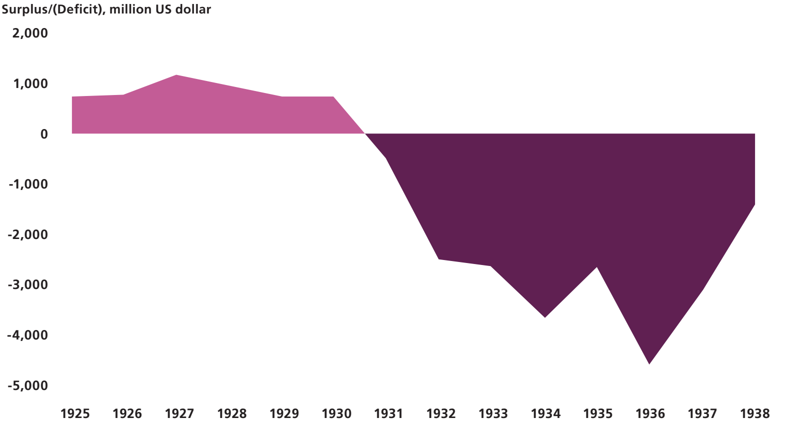
FDR doubled US government debt in his first two terms (before the US entered World War II) from 1933-37 and 1937-41, from US$19 billion to US$42 billion[11]. When he won re-election in 1940 for a record third term, FDR did so in one of the greatest avalanches in US history – he won 38 of 48 states and 449 of 531 electoral college votes: a narrower victory than in 1936, but still a landslide[12].

The lesson is clear – public spending is popular. Remember – the key characteristic of populists is that they spend money.

Perhaps more importantly, the Democratic administration of FDR altered the role of the state in American life forever – it was a genuine institutional revolution. As historian Eric Foner said, the New Deal "made the government an institution directly experienced in Americans' daily lives and directly concerned with their welfare", where it had never been so before[13].

As part of the New Deal, FDR's key collection of policies, a dozen or so bodies were established, such as the National Recovery Administration, the Tennessee Valley Authority, the Securities and Exchange Commission and the Public Works Authority[14].

US GOVERNMENT FISCAL POSITION, 1925-1938



SOURCE: RECONSTRUCTED FROM LEAGUE OF NATIONS ARCHIVES VIA NORTHWESTERN UNIVERSITY, "PUBLIC FINANCE. SUMMARY OF BUDGET ACCOUNTS" SECTION. LATEST REVISIONS USED, LOANS EXCLUDED FROM REVENUE AND REPAYMENTS OF LOANS EXCLUDED FROM EXPENDITURES.
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A KEYNESIAN RESPONSE?

Many readers will identify the deficit spending described above as a 'by-the-book' Keynesian response to a deficiency of aggregate demand… except there was no book. John Maynard Keynes, while many of his ideas had been expressed before and was one of the most famous public intellectuals of his generation, did not publish his most important work, the General Theory, until 1936. This is three years after both Hitler and FDR came to power and 16 years after Mussolini's ascension to rule Italy.

FDR, for example, had very little theoretical understanding of economics, nor much respect for the discipline. He was literally trying things out as he went[15].

As is so often the case, practice led and economic theory followed, seeking to explain or justify that which has already occurred.

ANOTHER REVOLUTION IN ECONOMICS?

A far less famous figure than John Maynard Keynes may have already begun another revolution in economics. Warren Mosler is acknowledged as the father of what is today known as Modern Monetary Theory (MMT). Far from being an ivory tower type, Mosler was a successful macro trader in fixed income markets in the 1990s.

It was his insights into the monetary system that facilitated his career in markets. And it was this understanding that led to him setting out his ideas in two brief, accessible and free-to-download books.

In summary, the key ideas of MMT are:

- There is nothing "debt like" about government debt in its own currency – it can be extinguished instantly and is functionally an offset account to reserves in the banking system – Mosler argues that it might perhaps be better known as the **"Interest Rate Maintenance Account".**
- Taxes are not collected in order to spend the money, as money can be created instantly via issuance or purchase of government bonds (again these are just offset accounts to bank reserves).
- Fiat currency has a value because we have to pay tax in that currency – try not to pay tax in domestic currency and someone will show up at your door with a court order to pay.
- There is no inter-generational burden of government debt in a government's own currency – *remember* – it can be extinguished instantly.
- The limiting factor on government bond issuance (or straight out money creation) is currency weakness and inflation – NOT insolvency.
- Taxation is also useful in order to slow an economy down, in the event that it reaches capacity and inflation begins to rise[16].

While the policy prescriptions of MMT may be controversial, its description of a modern, fiat currency system is not. In our view, it is insightful and useful.

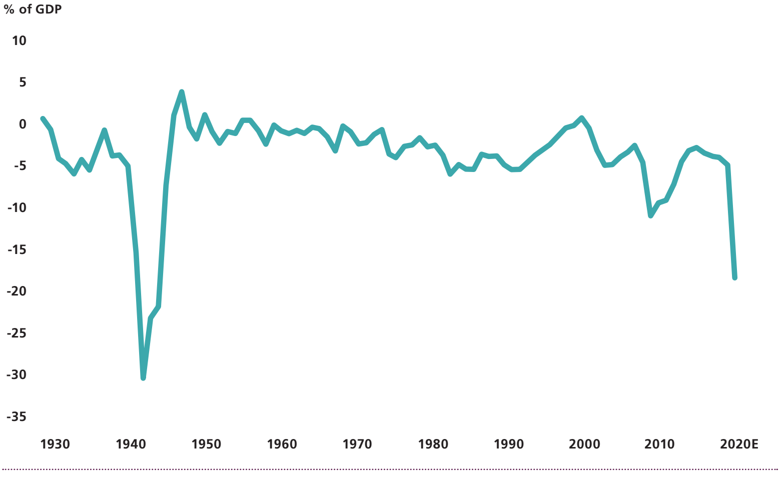
AN UNINTENTIONAL MMT ADVOCATE?

We have an example of an economy which was relatively late in an economic cycle, but growing modestly with spare capacity, which saw a significant fiscal boost: the USA under Donald Trump. The contraction of US deficits of the post-GFC period was reversed by the Trump administration's *Tax Cuts and Jobs Act of 2017,* resulting in a resumption of relatively large deficits in the US. Before the impact of COVID-19 was felt, the Trump tax cuts appeared to have entrenched structural deficits of approximately US$1 trillion, or approximately 4.5% of GDP (in a nominal growth economy of approximately 4.5%)[17].

A long history of deficits in the US provides useful context. While these appear relatively large compared to the 1950s, they are dwarfed by the deficits posted in the 1940s. These deficits were drawn down to fund the US war effort.

The USA's entry into World War II is widely seen as the factor which finally dragged it out of the Great Depression, after a mistaken tightening of monetary and fiscal policy in 1937-38[18].

US FEDERAL GOVERNMENT FISCAL POSITION 1930-2020E, WITH LATEST CONGRESSIONAL BUDGET OFFICE (CBO) ESTIMATE FOR 2020E



SOURCE: *HTTPS://WWW.WHITEHOUSE.GOV/OMB/HISTORICAL-TABLES/*; *HTTPS://WWW.CBO.GOV/PUBLICATION/56335*

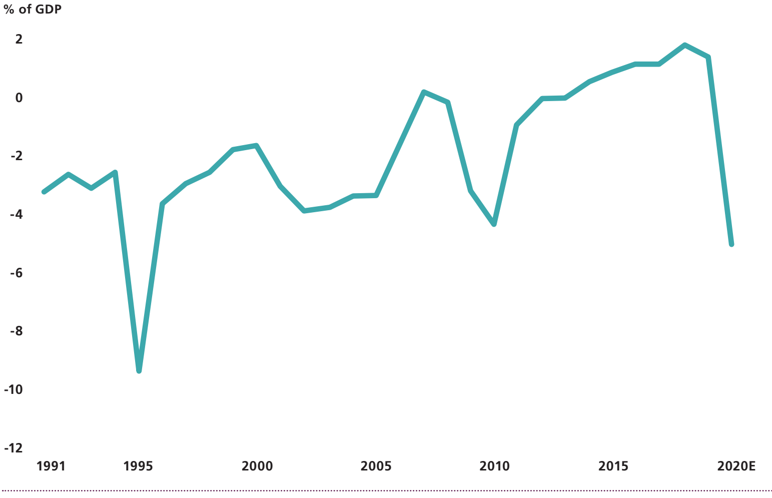
The impact of COVID-19 and the response it forced on policymakers globally has now pushed government budget deficits to levels unprecedented in peace time. In the US for instance, current projections are for a US$3.7 trillion deficit in fiscal 2020 – or 18% of GDP[19].

This pattern is repeated all over the world, but to a lesser degree. Governments are incurring deficits in order to finance their responses to the threat of COVID-19 and ameliorate the damage done to their economies.

Investors might be well served to ask themselves if such stimulus can be rapidly withdrawn by policymakers. When choosing between a double-dip recession and some future inflation, the choice is, in our view, predictable.

As of late May 2020, it is expected that the German federal government budget position will turn from a surplus in 2019 to a deficit of 5% of GDP[20].

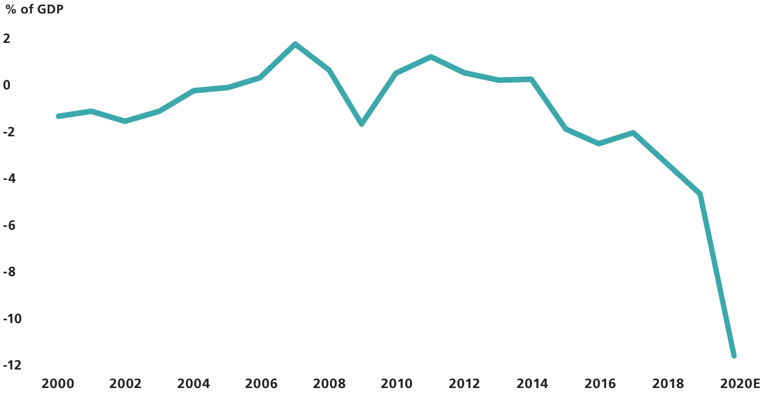
GERMAN FEDERAL GOVERNMENT FISCAL POSITION 1991-2020E, WITH BLOOMBERG ESTIMATE FOR 2020E



SOURCE: BLOOMBERG, OECD.

As of late May 2020, it appears that China will see a consolidated budget deficit (including provincial governments and the central government) of approximately 11% of GDP in 2020[21].

CHINESE CONSOLIDATED FISCAL POSITION 2000-2020E, WITH FITCH ESTIMATE FOR 2020E



SOURCE: FITCH.

As of mid-April 2020, it appears that Japan will record a fiscal deficit of approximately 8% of GDP in 2020[22].

JAPANESE FISCAL POSITION 1960-2020E, WITH FITCH ESTIMATE FOR 2020E

SOURCE: BLOOMBERG, FITCH.

In 2017, the world witnessed a period of gentle economic expansion, heralded at the time as global synchronous growth. The US 10-year Treasury yield exceeded 3%, emerging market and cyclicals performed strongly. Yet that period saw only 3.2% global GDP growth, basically on trend for the last 40 years[23].

Since that time, the world has seen a trade war escalate between its two largest national economies and a global pandemic.

In the immediate term, the impact of the COVID-19 pandemic is likely to remain deflationary, with significant underemployment in all major economies and the cessation of whole areas of economic activity, such as travel and tourism.

In the longer term, one might do well to consider the changes obscured by a deflationary pulse:

- Increasing calls by central banks globally for governments to spend money to support economic activity;
- The emergence of populist political figures globally, many with an overt preference for big spending and tax cuts;
- An emerging, influential body of economic ideas which call for governments to create money and spend, with the only restraint on this being the emergence of inflation – in other words, print and spend until inflation emerges;
- The onset of colossal budget deficits in response to the COVID-19 pandemic, particularly in the US, with the attendant, tricky task of withdrawing this stimulus.


IVING
THE DREAM

There is every chance that the economic context of the post-GFC world has shifted. This may entail higher rates of inflation and nominal growth than previously, along with steeper yield curves and somewhat higher interest rates – certainly higher than those prevailing now.

This may feel a remote prospect, but inflation regimes can change rapidly: In 1915, US consumer price inflation (CPI) was 1% p.a. – in 1917, it was 20% p.a.; in 1945, US CPI was 1% p.a. – in 1947, it was 19% p.a.; in 1972, US CPI was 2% p.a. – in 1975, it was 12% p.a.[24].

Investors who assume that low growth and low inflationary conditions will persist indefinitely, and who therefore seek the safety of bond-like equities and the excitement of profit-free growth may find these assets a poor store of wealth in the years to come. ■

1 *https://fred.stlouisfed.org/series/DGS10*

2 See, for example: *https://www.afr.com/wealth/personal-finance/why-lower-interest-rates-could-boost-equities-20190409-p51ce0*

3 See, for example: *https://www.bloomberg.com/news/articles/2019-11-11/ecb-s-mersch-adds-voice-in-call-for-more-fiscal-stimulus*; *https://www.brookings.edu/blog/ben-bernanke/2020/01/04/the-new-tools-of-monetary-policy/*; *https://www.theguardian.com/australia-news/2019/jul/02/reserve-bank-governor-calls-for-more-federal-spending-to-boost-economy*; *https://www.washingtonpost.com/opinions/2019/03/07/risk-our-economy-secular-stagnation/*; *https://www.afr.com/topic/monetary-policy-5zu*

4 See, for example: *https://www.economist.com/leaders/2019/04/13/the-independence-of-central-banks-is-under-threat-from-politics*

5 For an excellent study of this see *https://www.theguardian.com/world/ng-interactive/2019/mar/06/revealed-the-rise-and-rise-of-populist-rhetoric*

6 *https://www.linkedin.com/pulse/three-big-issues-1930s-analogue-ray-dalio/*

7 *https://mises.org/library/hitlers-economics*

8 See *https://www.cato.org/publications/commentary/economic-leadership-secrets-benito-mussolini* & *https://www.econlib.org/library/Columns/y2015/Samuelsfascism.html*

9 For a fuller understanding of Takahashi, please see Mark Metzler, **"Lever of Empire, The International Gold Standard & Crisis of Liberalism in Prewar Japan"**, University California Press, 2006; Richard J Smethurst, **"From Foot Soldier to Finance Minister: Takahashi Korekiyo, Japan's Keynes"**, Harvard University Asia Center, 2009; for a good, brief discussion of his policies see *http://bilbo.economicoutlook.net/blog/?p=32355* and *https://www.japantimes.co.jp/news/2016/07/19/business/economy-business/helicopter-cash-presents-hopes-japan-history-shows-can-trigger-hyperinflation/*

10 The 22nd Amendment to the US Constitution limits presidential terms at two. It was brought into law in 1947: *https://www.270towin.com/1940_Election/index.html*

11 Jim Rickards, **"Aftermath, Seven Secrets of Wealth Preservation in the Coming Chaos"**, Penguin, New York, 2019, p56

12 *https://www.270towin.com/1940_Election/index.html*

13 Eric Foner, **"FDR and the Evolution of American Freedom in Depression and War"**,1 April 2009; and *https://www.abc.net.au/radionational/programs/saturdayextra/eric-foner---freedom-and-america/3253998*

14 *https://www.newyorker.com/magazine/2013/03/04/how-the-deal-went-down*

15 For more see John Brooks, **"Once in Golconda: A True Drama of Wall Street 1920-1938"**, Wiley & Sons, 1969. John Brooks is one of the best market historians of the twentieth century, and is greatly under appreciated.

16 Warren Mosler, **"Seven Deadly Innocent Frauds of Economic Policy"**, *https://moslereconomics.com/wp-content/powerpoints/7DIF.pdf*; Warren Mosler, **"Soft Currency Economics"**, *http://moslereconomics.com/wp-content/uploads/2018/04/Soft-Curency-Economics-paper.pdf*

17 *https://www.cbo.gov/publication/56309*

18 See, for example: *https://www.thebalance.com/the-great-depression-of-1929-3306033*. However, the position is far from unanimous, see *https://www.forbes.com/sites/peterferrara/2013/11/30/the-great-depression-was-ended-by-the-end-of-world-war-ii-not-the-start-of-it/#1ea84e0657d3*

19 *https://www.cbo.gov/publication/56335*. The US government fiscal year runs from 1 October to 30 September.

20 *https://www.bloomberg.com/news/articles/2020-04-22/german-public-deficit-to-widen-to-more-than-7-of-gdp-this-year*

21 *https://www.fitchratings.com/research/sovereigns/china-npc-signals-restrained-approach-to-policy-stimulus-26-05-2020*

22 *https://www.fitchratings.com/research/sovereigns/japan-coronavirus-response-increases-public-debt-challenge-15-04-2020*

23 *https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG*

24 Quoting Grant Williams; see also Robert Shiller's CPI data *http://www.econ.yale.edu/~shiller/data.htm*