Platinum Japan Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	MAR 2010	DEC 2009
Japan	87%	93%
Korea	5%	4%
Cash	8%	3%
Shorts	16%	18%

The Fund also has a 17% short position on Japanese Government Bonds.

Source: Platinum

Portfolio Position

Changes in quarterly portfolio composition:

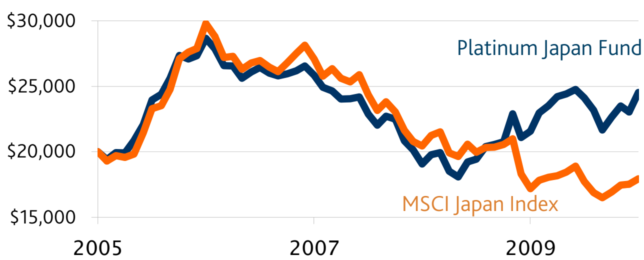
Sector Breakdown

SECTOR	MAR 2010	DEC 2009
DOMESTIC	51%	47%
Retail and Services	15%	13%
Financials	15%	11%
Telco, IT and Internet	13%	14%
Real Estate and Construction	8%	9%
EXPORT	41%	46%
Tech/Capital Equipment	19%	19%
Commodities	8%	9%
Alternative Energy	8%	10%
Autos	6%	8%
Gross Long (ex Long Derivatives)	92%	93%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 March 2005 to 31 March 2010



Source: Platinum and MSCI. Refer to Note 2, page 4.

Performance and Changes to the Portfolio

Over the past 12 months the Fund rose 13.8%, outperforming the MSCI Japan Index (AUD) benchmark by 9.4% and over the past quarter the Fund rose 8.4% outperforming the benchmark by 2.4%. For the quarter the benchmark rose 6% in AUD terms and 9% in local currency.

Quarterly performance was largely attributable to our long holdings and currency. Encouragingly, in a quarter where the market rose, our short book in aggregate did not detract from performance. Whereas in the past two quarters our major long contributors were very select, performance in the March quarter was far broader with both Domestics (financials, construction, IT services) and Exporters (technology components and capital equipment) contributing.

In contrast with the second half of 2009, when Japan underperformed global equity markets by a massive 18%, it has started 2010 on a more promising note as one of the few markets globally to post year-to-date positive returns (measured in AUD). Part of this was driven by funds rotating out of non-Japan Asia into cheap Japanese cyclicals and part was triggered by some weakening of the Yen against the USD. However, based on the view that the European Central Bank (ECB) will have to keep monetary policy loose to accommodate Greece's fiscal woes, the Euro also weakened against the USD and, hence, for the many Japanese capital equipment exporters that compete against the Europeans, no real currency advantage has been gained.

As readers would know, we have positioned the Fund to benefit from looser monetary policy and a weaker Yen. However, standing in the way is a hawkish Governor Shirakawa's Bank of Japan (BOJ) which will deliver only the absolute minimum to "defeat" deflation and weaken the Yen. Finance Minister Kan sensibly prefers a combination of pro-growth fiscal and monetary policies as the best way to reduce Japan's high government debt/GDP ratio and permanently fix the deflationary bias in the economy. The BOJ would rather the government hike taxes aggressively. If the Democratic Party of Japan (DPJ) wins outright control of the Upper House later this year, we suspect Shirakawa's position will become less tenable (or are we dreaming of a country where fiscal and monetary policy seem to be applied in a coordinated manner ie. South Korea – more of that later). In the meantime, we will have to rely on exogenous factors to help Japan along ie. a lopsided global recovery led by monumental Chinese credit expansion.

New long positions

As we detailed last quarter, we like the outlook for technology stocks due to fundamental shortages of electronic components. We continue to find ideas in this area, adding LG Display as another direct play on LCD panel tightness.

We also significantly increased our Bank and Insurance holdings, an area of the market shunned by investors due to what might be described as some ill-advised and executed capital raisings late last year, and ongoing deflation. We continue to see value in our large underperforming Mitsubishi UFJ Financial position as the market capitalisation of Japan's major banks is roughly 34% less than the aggregate market capitalisation of Australia's top major banks – and Japan is still economically five times larger than Australia. For all their perceived management failings, the major problem facing the Japanese banks is the lack of yield curve from which to earn decent lending spreads (and contrast this with the US where the yield curve is at an all time high). It is the same low level of long-term interest rates that makes life difficult for Japanese life insurance companies. Whilst it is tempting to extrapolate current poor macro conditions indefinitely, we can envisage a not too distant scenario where Japanese long-term interest rates materially rise. The trigger is likely to be an external inflation event centred in Asia – and there are some early signs of this happening. As yield curve steepening plays, during the quarter we added positions in Japan's second largest bank, Sumitomo Mitsui Financial Group, and second largest listed life company, T&D Holdings.

We funded these purchases by:

- Reducing commodity stock exposure (eg. Mitsui and Mitsubishi) on the basis that in the short-term much of the positive news regarding iron ore and coking coal negotiations had been priced in.
- Selling out of Sumitomo Electric (primarily an auto-component stock) because on re-visiting the investment case we couldn't see any real progress towards improving a return on capital employed commensurate with other stocks in our portfolio priced at similar valuations eg. Denso.
- Selling out of Kanto Denka Kogyo, a company with an interesting lithium-ion battery precursor material business that had reached our valuation price target.

Shorting

Our total short position fell marginally over the quarter. We took advantage of the mid-February Greek sovereign debt related correction to cover a large part of our Kospi (Korean index) short, replacing this with stock specific shorts where we see near-term triggers for de-rating.

Currency

From point to point over the quarter there was little change in the key currency rates that the Fund is exposed to: Yen, Korean won and USD. We continue to gain confidence that the Yen has entered a prolonged weakening phase, hence, we took advantage of the mid-February market correction to lift our exposure to the AUD from 11% to 14% and KRW from 20% to 25%, cutting exposure to the Yen from 43% to 39%.

Outlook

Given that Toyota is still the largest company in Japan (and we own it), we should offer some commentary on the recent recall headlines. By way of perspective, in the US over the past ten years a total of 148 million vehicles (all manufacturers) were recalled, actually more than the 137 million cars sold. The Big Three (General Motors, Ford and Chrysler) account for a disproportionate share of recalls as a percentage of sales: 151% for GM, 106% for Ford, 126% for Chrysler, 108% for Nissan, and yet just 67% for Honda and 55% for Toyota. At four million cars (and counting) Toyota's current recall is undeniably large, but the company's record would indicate that it remains a highly reliable car maker and we have used recent stock market weakness to add to our position. The situation is not without risk as we can't know the extent to which (if at all) Toyota acted in any cover-up. Unfortunately, Toyota's historical success seems to have bred a certain hubris that possibly fed into some poor strategic decisions eg. obsession with US SUV market share and insufficient investment in markets such as China and India (in contrast with Hyundai Motors). Toyota's March US market share ran at about 18% due to a very aggressive financing-led incentive campaign – we are hoping this represents a short-term stabilisation strategy as longer-term, aggressive incentives will hurt lease residual values and the Toyota brand. We hold our position on the basis that this is a company that should be able to correct its missteps.

We recently spent two weeks visiting companies in both Japan and South Korea. In Japan we visited a combination of macro related ideas (Life Insurance), mid-caps (the part of the market that offers entrepreneurially managed growth companies at cheap valuations) and some of the perennial under-achievers (just in case we were missing the renaissance of the Japanese conglomerate – and we are not). We went to Korea with some scepticism (we have been fans of the currency, but not so much the market) given that the exporters had been aided through the global financial crisis by an unsustainably cheap currency. From our visits, it is clear that the tightness in the technology supply chain will continue to underwrite the performance of many Korean (and Japanese) exporters. Further, some of the gains made by the Korean exporters have been driven by factors other than currency – a spirit of entrepreneurship that makes the typical large Japanese conglomerate look painfully pedestrian. The visit reinforces our view that it doesn't make sense to move down the quality spectrum in Japan to second tier exporters - these stocks are and will continue to be value traps. Accordingly, until we think Yen weakness is set to accelerate, our Japanese holdings will remain focused on globally competitive market leading companies.

It is worth recapping some of our thoughts regarding Japan. We are operating in an environment where:

- Aggregate US$15 trillion of household assets are significantly exposed to nominal fixed income assets (eg. Japanese Government Bonds) with little exposure to real assets such as equities and real estate.
- The government that the households and corporate Japan is funding has an extremely weak fiscal position with gross debt to GDP exceeding 170% and a current year deficit of approximately 7% of GDP.
- Chinese (BRIC - Brazil, Russia, India and China) growth is once again driving up commodity prices and there are some early signs of accelerating Chinese (BRIC) inflation.

We think many of the pre-conditions necessary to trigger a major reallocation of Japanese assets out of cash and fixed income and into equities are falling into place. Whilst timing these things is difficult, we take comfort in that our overall portfolio of Japanese and Korean stocks remains cheap ie. the weighted average forward PE is 16x (and earnings estimates are still too low) and the current Price/Book ratio is 1.3x.

Notes

1. The investment returns are calculated using the Fund's unit price and represent the combined income and capital return for the specific period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that historical performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

   The inception dates for each Fund are as follows:
   Platinum International Fund: 1 May 1995
   Platinum Unhedged Fund: 31 January 2005
   Platinum Asia Fund: 3 March 2003
   Platinum European Fund: 1 July 1998
   Platinum Japan Fund: 1 July 1998
   Platinum International Brands Fund: 18 May 2000
   Platinum International Health Care Fund: 10 November 2003
   Platinum International Technology Fund: 18 May 2000

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 31 March 2005 to 31 March 2010 relative to their Index (in A$) as per below:
   Platinum International Fund - MSCI All Country World Net Index
   Platinum Unhedged Fund - MSCI All Country World Net Index
   Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index
   Platinum European Fund - MSCI All Country Europe Net Index
   Platinum Japan Fund - MSCI Japan Net Index
   Platinum International Brands Fund - MSCI All Country World Net Index
   Platinum International Health Care Fund - MSCI All Country World Health Care Net Index
   Platinum International Technology Fund - MSCI All Country World Information Technology Net Index
   (nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist).

   The investment returns are calculated using the Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

Disclaimer

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum®). It contains general information only and is not intended to provide any person with financial advice or take into account any person's (or class of persons') investment objectives, financial situation or needs. Before making any investment decision you need to consider (with your financial adviser) whether the information is suitable in the circumstances.

Platinum is the responsible entity and issuer of units in the Platinum Trust Funds® (the Funds). You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds. You can obtain a copy from Platinum's website, www.platinum.com.au, or by phoning 1300 726 700 (within Australia), 02 9255 7500, or 0800 700 726 (within New Zealand), or by emailing to invest@platinum.com.au.

No company in the Platinum Group® guarantees the performance of any of the Funds, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum).

MSCI Inc Disclaimer

Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data (contained in this Quarterly Report) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI Inc, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the Index data is permitted without express written consent of MSCI Inc.