

Platinum Japan Fund



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Portfolio Manager

Disposition of Assets

REGION	31 MAR 2017	31 DEC 2016	31 MAR 2016
Japan	94%	95%	80%
Cash	6%	5%	20%
Shorts	-2%	0%	-2%

Source: Platinum. Refer to note 3, page 3.

Portfolio Position

Sector Breakdown

SECTOR	31 MAR 2017	31 DEC 2016
Information Technology	29%	27%
Industrials	16%	13%
Consumer Discretionary	13%	13%
Materials	10%	11%
Financials	9%	13%
Energy	7%	7%
Telecommunication Services	6%	7%
Health Care	4%	3%
Consumer Staples	-2%	1%
TOTAL NET EXPOSURE	92%	95%

Source: Platinum. Refer to note 5, page 3.

Currency Position

	31 MAR 2017	31 DEC 2016
Japanese yen	72%	71%
US dollar	19%	20%
Australian dollar	9%	9%

Source: Platinum. Refer to note 6, page 3.

Performance

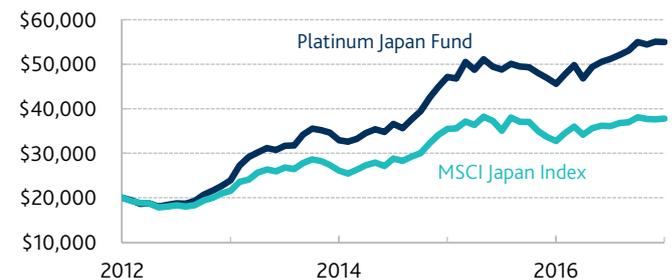
(compound pa, to 31 March 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund	0%	21%	19%	22%	15%
MSCI Japan Index	-1%	15%	13%	14%	2%

Source: Platinum and MSCI Inc. Refer to note 1, page 3.

Value of \$20,000 Invested Over Five Years

31 March 2012 to 31 March 2017



Source: Platinum and MSCI Inc. Refer to note 2, page 3.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Mitsubishi UFJ Financial	Japan	Financials	3.9%
Ushio	Japan	Industrials	3.6%
Nexon Co	Japan	IT	3.6%
Inpex Corporation	Japan	Energy	3.5%
Nintendo	Japan	IT	3.5%
Sumitomo Mitsui Financial	Japan	Financials	3.4%
Lixil Group	Japan	Industrials	3.3%
Ibiden	Japan	IT	3.3%
NTT	Japan	Telecom	3.3%
Kyocera Corp	Japan	IT	3.2%

As at 31 March 2017. Source: Platinum. Refer to note 4, page 3.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit <https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds>.

Performance

The portfolio was up 21% for the year and flat for the quarter. This quarterly progression was against a somewhat more volatile backdrop than overall performance suggests. The US dollar weakened against the Yen after Christmas while the Australian dollar strengthened by a similar amount against the US dollar during the quarter. Japanese Government Bond 10-year yields remain at 0.05%. Within the portfolio there were some significant price moves, both up and down. The Fund owns a group of companies with very low valuations, some of which are now highlighted for improved operational performance. Quite a few large holdings were weak as the focus of the market shifted to a more defensive footing following the excitement around “reflation” towards the end of last year. The Fund’s avoidance of Korea was a missed opportunity with the Korean stock market rising in tandem with the Korean currency.

Changes to the Portfolio

It was an active quarter for the portfolio. **AIN Holdings** (pharmacy chain) was sold after the share price rose 400% over the last three years. **Ube Industries** (chemical company) was sold after a period of strong performance. Other portfolio holdings that have more than doubled in the last twelve months are also being sold. A range of small holdings were sold and some new positions were initiated.

Towards the end of the quarter, Kerr Neilson and I spent seven days in Japan, visiting 34 Japanese companies in Tokyo and Kyoto, including almost all of the Japanese holdings in the Platinum International Fund and roughly half of the Japan Fund. This was partly the impetus for the activity referenced above. Of the 34 visits, almost two-thirds required further work, a percentage indicative of not only the prior work done to identify attractive investments, but also the valuation dispersion evident in the Japanese market.

The key development of the quarter was the refinement of portfolio positioning towards companies with both attractive valuations and medium-term opportunities, particularly relative to current holdings. This process continues.

Outlook

On the recent company visits in Tokyo we met an extensive range of market participants with varied views on the Japanese stock market. This is in addition to our ongoing dialogue through regular company visits in Sydney and our access to a wide range of resources across the global financial markets. As one digs deeper into the psychology of a market priced at the same headline level as in 1990 – almost thirty years ago, a range of subliminal worries become evident. One discussion at the forefront for domestically-biased corporates is demographics, due to government predictions of a base case population decline from 130 million to 60

million over the next four decades. This obviously changes the investment focus for housing, insurance and other domestic industries. Of a more recent nature, the sabre-rattling in North Korea and the Chinese naval excursions are seen as significant reasons for concern. The recent upheavals at Toshiba and Takata as well as older examples such as Olympus bring back residual corporate governance concerns. Obviously, the worry of another large earthquake or tsunami is ever present. Recently, the front page of the newspapers has focused on questions about Prime Minister Abe’s conduct and the potential for his removal, just when political stability in Japan stands in stark contrast to many parts of the world. There are also many discussions of the inheritance tax and the delayed increase to the GST. However, behind these discussions the underlying concern with the most impact is the topic of government debt. This is a topic with an ever-present emotional response at any Japanese entity, especially the banks and insurers, but also for housing, healthcare, consumer and other domestically-focused industries.

A recent survey of Japanese investors highlighted a surprising divergence between younger respondents and their elders who experienced the 1980s’ bull market. The widespread concerns discussed in the paragraph above and the lack of energy in the younger generation of investors seem discordant with our recent experience of improved disclosure, improved balance sheets and ongoing efficiency improvements in many companies. If you visit Tokyo, and we suggest it for an enjoyable interlude, you will find a safe, cheap modern city with some of the best food in the world complete with inspiring architecture in a clean and green environment. We saw widespread signs of fundamental change across the Japanese economy. Beer prices and package delivery tariffs have been stagnant for many decades and now appear to be inflecting. A recent company plan included a product rationalisation from 80,000 varieties to just 8,000, with no loss of market coverage or range. At the centre of this swirling discussion is an unemployment rate close to the lowest ever experienced by the nation. It is hard for many to reconcile these seeming contradictions.

Perhaps the combination of a cyclical improvement in global demand, a new found confidence in Japan’s place in the global manufacturing complex, a growing group of industries with fundamental tightness, surging inbound tourism, the upcoming 2020 Tokyo Olympics, and an ongoing improvement in corporate behaviour is leading to an underlying sense of national confidence after three decades of steady behaviour in the face of grinding deflation. The lack of protest and sense of national cohesiveness is remarkable.

The myriad of debates relayed above won’t be resolved in the near-term. The global economic trends will continue to flow through and across Japan. Given the valuation dispersion evident in the market and the opportunities we can identify, the Fund remains fully invested in Japanese equities.

Notes

- The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specified 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. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Funds' underlying assets 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: 30 April 1995
- Platinum Unhedged Fund: 31 January 2005
- Platinum Asia Fund: 4 March 2003
- Platinum European Fund: 30 June 1998
- Platinum Japan Fund: 30 June 1998
- Platinum International Brands Fund: 18 May 2000
- Platinum International Health Care Fund: 10 November 2003
- Platinum International Technology Fund: 18 May 2000

(NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then.)

- The investment returns depicted in this graph are cumulative on A\$20,000 invested in the relevant Fund over the specified five year period relative to the relevant benchmark index as follows (the "Index"):
 - Platinum International Fund – MSCI All Country World Net Index (\$A)
 - Platinum Unhedged Fund – MSCI All Country World Net Index (\$A)
 - Platinum Asia Fund – MSCI All Country Asia ex Japan Net Index (\$A)
 - Platinum European Fund – MSCI All Country Europe Net Index (\$A)
 - Platinum Japan Fund – MSCI Japan Net Index (\$A)
 - Platinum International Brands Fund – MSCI All Country World Net Index (\$A)
 - Platinum International Health Care Fund – MSCI All Country World Health Care Net Index (\$A)
 - Platinum International Technology Fund – MSCI All Country World Information Technology Net Index (\$A)

(NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then.)

The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specified 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. Platinum does not invest by reference to the weighting of the Index. Underlying assets are chosen through Platinum's individual stock selection process and, as a result, the Fund's holdings may vary considerably to the make-up of the Index. The Index is provided as a reference only.

- Geographic exposures (i.e. the positions listed other than "cash" and "shorts") represent any and all of the Fund's physical holdings, long derivatives (stock and index), and fixed income securities as a percentage of the Fund's net asset value.
- The table shows the Fund's top ten long stock positions as a percentage of the Fund's net asset value. Long derivative exposures are included. However, short derivative exposures, if any, are not.

- Sector breakdown represents the Fund's net exposure of any and all physical holdings and long and short derivatives (stock and index) as a percentage of the Fund's net asset value.
- The table shows the Fund's net currency exposures as a percentage of the Fund's net asset value, taking into account any currency hedging.

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