

PLATINUM JAPAN FUND



Jacob Mitchell
Portfolio Manager

PORTFOLIO POSITION

PERFORMANCE (compound pa, to 30 June 2009)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
PLATINUM JAPAN FUND	12%	31%	-3%	5%	16%
MSCI JAPAN[*] INDEX	6%	-9%	-13%	-4%	-1%

Source: Platinum and MSCI. Refer to Note 1, page 6.

Some of the themes/large positions contained in the current portfolio, measured on a gross long basis, include (position prior quarter):

Domestic related 48% (42%), including:

- 17% (16%) Defensive (eg. telecommunications, services).
- 12% (12%) Financials.
- 9% (8%) Real estate.
- 9% (6%) Smaller-caps (primarily retail and services).

Export related 41% (43%), including:

- 16% (14%) Commodity/energy related.
- 13% (15%) Technology (including specialty materials) and machine tools.
- 8% (9%) Autos.
- 4% (5%) Global capital spending related.

Gross long stocks 88% (85%); short stocks 18% (19%); net stocks 70% (66%).

DISPOSITION OF ASSETS

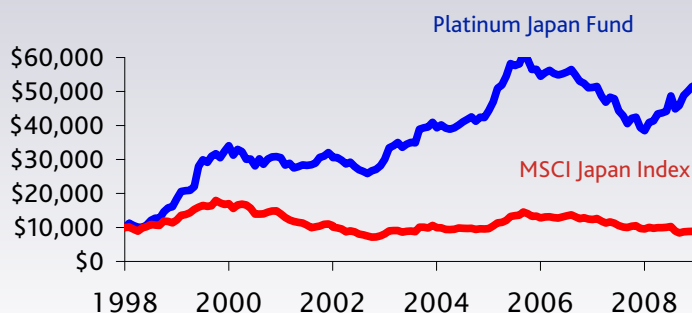
REGION	JUN 2009	MAR 2009
JAPAN	82%	79%
KOREA	6%	6%
CASH	12%	15%
SHORTS	18%	19%

The Fund also has a 13% short position in Japanese Gov't Bonds.

Source: Platinum

VALUE OF \$10,000 INVESTED SINCE INCEPTION

1 JULY 1998 TO 30 JUNE 2009



Source: Platinum and MSCI. Refer to Note 2, page 6.

PERFORMANCE AND CHANGES TO THE PORTFOLIO

Over the past 12 months the Fund rose 31%, outperforming the MSCI Japan Index (expressed in A\$) benchmark by 40% and over the past quarter the Fund rose 12%, outperforming the benchmark by 6%. It was another good quarter for the Fund. Over the past 12 months the benchmark fell 30% (Yen) and 9% (A\$), and over the past quarter rose 20% (Yen) and 6% (A\$).

The 12.3% quarterly gain for the Fund comprised roughly:

- Long gain of 14.0%
- Short loss of 4.5%
- Cash and other gain of 2.8%

Another way of expressing the attribution is that in A\$ terms, our average long rose roughly 16%, versus a 6% rise in the market, whilst our average short rose roughly 24%. Whilst disappointed that the shorts have cost money, the overall quarterly result represented a solid absolute and relative return ie. in any portfolio, individual positions may cost money in the short-term.

The major investments/ideas that made money this quarter included:

- Small-caps. As we hinted in the last quarterly report, we have been finding excellent value in this area. Given there are roughly 2,700 Japanese stocks with market capitalisation less than US\$1bn and greater than US\$20mn, one needs to be selective. The fact that there are so many companies does NOT reflect the vibrancy of Japanese venture capital markets or an unbridled entrepreneurial spirit; rather it reflects the fact that listed entities pay a significantly lower corporate tax rate than private companies. However, when it comes to communication and distribution policy, most of these public companies behave in a very private manner. The good news is that we managed to find some winners amongst the plethora of dead-ends. The quarterly return from our average small-cap was around 50%.
- Residential real estate. Throughout the global credit crunch, the Japanese authorities have remained incredibly “micro” in their approach – no sweeping

fiscal stimulus, no funky monetary policy/quantitative easing – one gets the sense that having lived through close to two decades of asset/consumer price deflation that the Japanese have reached the point of policy surrender. One of the few areas of government action has been their attempt to stimulate domestic housing demand – policies include:

- The largest ever tax breaks on home mortgages (relief of up to ¥5mn over 10 years).
- An increase in the tax free threshold on monetary gifts used to purchase or renovate residential property.
- A reduction in the down payment requirement (from 10% to 0%) on low-income mortgages offered by the Japan Housing Finance Agency.

These initiatives ignited interest in our extremely bombed-out property developers who target the low end of the housing market, which along with our holding in Japan’s leading real estate agent, were some of our star performers for the quarter.

- Technology. With the biggest contribution from the specialty chemicals/materials names (eg. Nitto Denko, JSR, Asahi Kasei, Kanto Denka Kogyo). These companies have benefitted as material suppliers to the LCD TV industry where volume growth has remained in the 10-15% range (thanks in part to Chinese/Japanese subsidies targeting rural/green consumer electronic purchases – April unit sales +77% in China and +18% in Japan).

Kanto Denka Kogyo has performed as one of only three companies globally that can make lithium hexafluorophosphate, a key input to the manufacture of electrolytes for lithium ion batteries. The Chinese battery makers have admitted that they will be dependent on Japanese production of this material for some time to come. The Japanese have spent the last thirty years perfecting the cost effective handling of this highly corrosive material. This is the sort of long-term sustainable advantage that we look for when investing in a sunrise industry such as this.

The major investments/ideas that cost money this quarter were our shorts. Our shorts in the utilities and private railways behaved well; it was the exposure to two “perceived” alternative energy plays that cost money. As we noted in the last quarterly, alternative

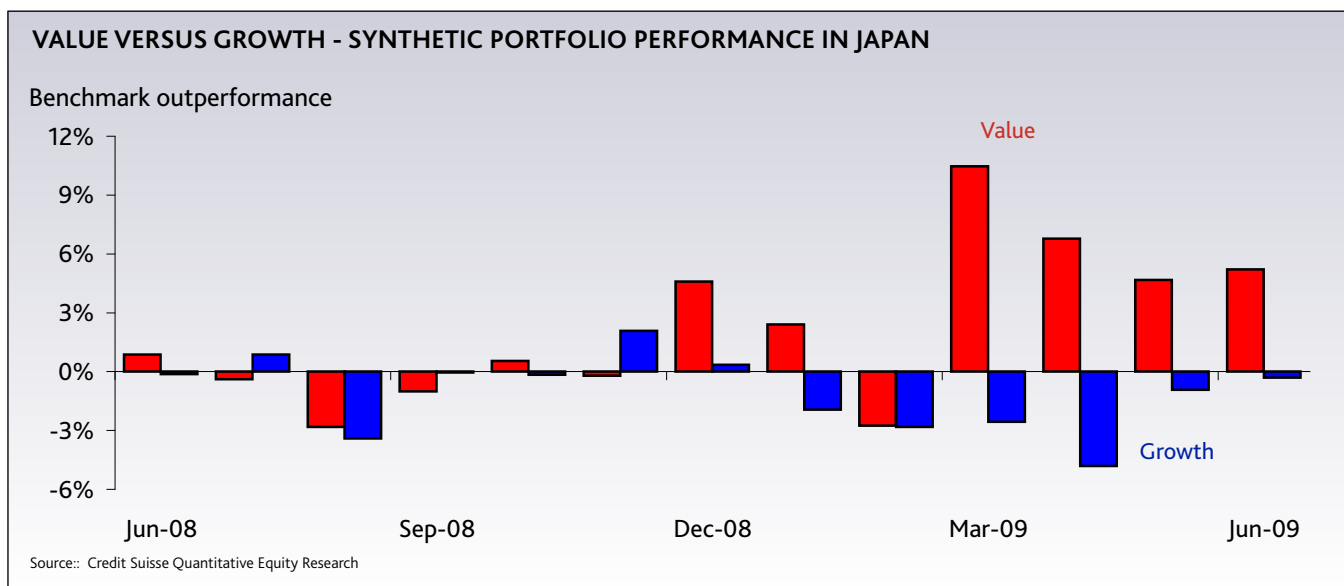
energy had all the hallmarks of an asset bubble in the early stages of formation – we should have paid more heed to this idea. We continue to hold these positions with a view that both stocks are significantly over-valued/hyped and face major competitive and demand headwinds. The most costly was GS Yuasa, a lead acid car battery maker that has announced various JVs for the supply of lithium-ion car batteries. Whilst we have fairly strong views on the likely winners in the lithium-ion game, at this point the stock market remains indiscriminating. Simplistically, we think the material and component suppliers (electrolytes, cathodes, separators, etc) are much more likely to earn sustainable returns than the battery assemblers – battery assembly looks about as interesting as car assembly – every other day a new entrant based in South Korea, Taiwan or China announces a new plan. Furthermore, in the short-term the Chinese (via BYD) may have a competitive advantage as they have access to cheaper, more efficient cathode materials that are not available to the Japanese due to patent issues.

We spent the last quarter casting our net extremely wide in searching for new opportunities for the Fund – this included two weeks of company visits in Japan and a week and a half in China (we think getting China right is extremely important for many of our

investments in Japan). Over the course of the last quarter we estimate that we met with (or conference called) approximately seventy Japanese companies.

The major changes in the composition of the long side of the portfolio include:

- The domestic exposure rose from 42% to 48% with the addition of a sizable position in the IT services industry (eg. Itochu Techno-Solutions, NSD). These stocks kept popping-up on our various screens as being quite cheap. Following the completion of an industry study, we couldn't find any real fundamental explanation for the "cheapness" – in fact, we found a couple of extremely sound companies. If you would like to construct a theme around this, you could argue that as Japan's workforce shrinks relative to dependents, the need for productivity growth via the application of software will only increase. These stocks have performed extremely well since purchase and remain undervalued.
- The export exposure fell slightly from 43% to 41%; we continued to reduce the technology, auto and machine tool bet, not because we think the stocks are over-valued, but rather, in some cases we think the earnings recovery will be far rockier than the market expects, and hence, there'll be cheaper re-entry points.



We added a stock that, among other things, sells consumables to the semiconductor wafer manufacturing industry that has recently launched a breakthrough product targeting the high growth solar wafer market – suffice to say, the stock has thus far been overlooked by the alternative energy zealots.

- The major change on the short side was the opening of a 5% short position on the Kospi and a small increase in the JGB (Japanese Ten Year Government Bond) short.

- On the currency front, our Yen exposure remained relatively unchanged at 47%; however, we increased our exposure to the South Korean won from 14% to 23% at the expense of the A\$ and US\$. Our Won preference reflects our view that the South Korean economic recovery is grounded on far stronger foundations than the alternatives. In part, the strength of the South Korean recovery reflects the undervalued nature of its currency.

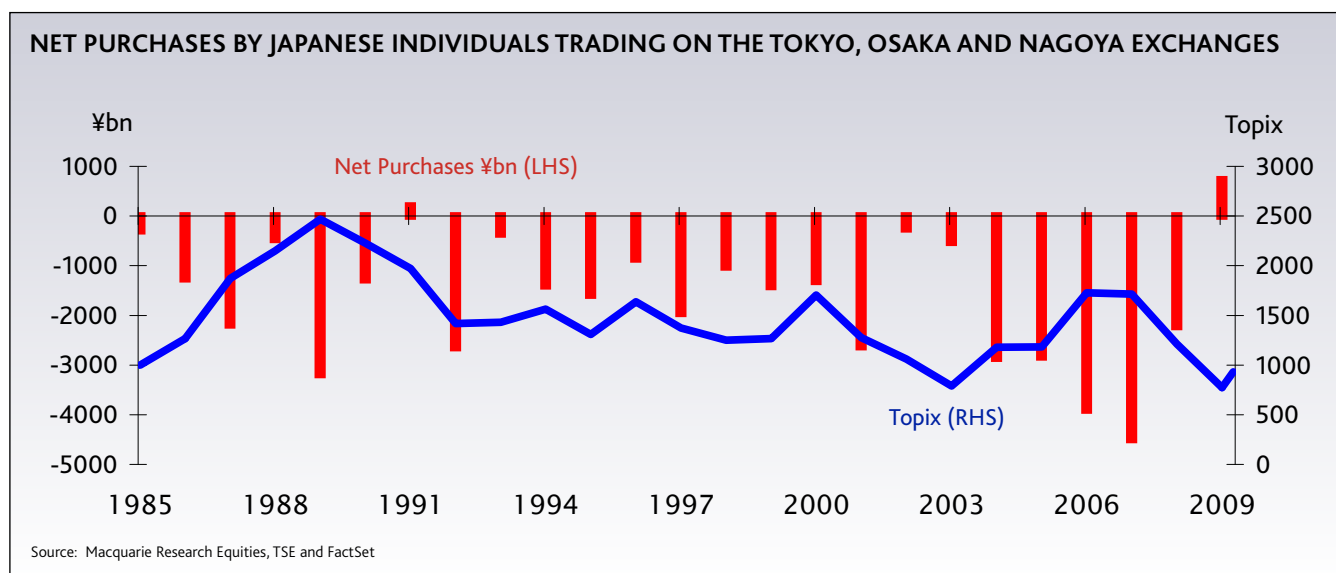
OUTLOOK

As the inventory re-stocking cycle gathered pace, “value” or “cyclical” stocks continued to outperform “growth” or “defensive” stocks, but towards the end of the quarter, this clear distinction began to fade. Whilst

personally disliking these tags, they do provide insights on market behaviour at any point in time. The clear evidence of the “re-emergence” of growth stock investing was the sharp outperformance of alternative energy stocks in Japan or property stocks in China. We will continue to monitor these trends, for both long and short opportunities.

We continue to think there are five big picture issues/questions relevant to investors in Japan – they are:

1. The conservative/deflation positioning of the Japanese household balance sheet.
2. Unsustainability of the Japanese Government’s fiscal position.
3. Sustainability of robust growth in the BRICS (Brazil, Russia, India, China) – we think some of the cheapest China plays are to be found in the Japanese stock market.
4. Aging Japanese population – far from being a “problem”, this provides a significant catalyst for change in Japanese thinking and there are many companies that are direct beneficiaries of the demographic changes.
5. A major deleveraging cycle in the US and Europe and the unintended consequences of extremely loose developed world (led by the US) monetary and fiscal policy.



Over the next few quarterlies we will separately analyse each of these issues and the opportunities and challenges they represent for investors in Japanese equities.

Regarding the conservative positioning of the Japanese household balance sheet, the good news is that in the last 12 months the Japanese household became a sustained net buyer of domestic equities for the first time since March 1991. Mrs Watanabe is finally having a flutter, however, instead of punting a foreign currency margin account, she is buying GS Yuasa. This is significant. To remind investors, the Japanese household holds financial assets of US\$15tr, equivalent to 3x GDP AND currently only 3.5% of this is invested in the Japanese stock market. The market capitalisation of the Japanese stock market is US\$3.3tr – every 1% allocation of household assets towards equities is equivalent to buying 4.5% of the entire Japanese stock market ie. a small change in domestic investor risk preference could have a massive impact on the market. The potential for a household asset shift towards equities is NOT available in many economies or stock markets as it reflects the historically high savings rate that Asia has supported relative to large parts of the Western world (US, Australia and most of Europe).

Clearly the question remains whether this change in risk preference is temporal or structural. In the short-term, we think Japanese investors are simply responding to the once in a generation “value” that has been available in the market over the past 12 months. For this move to become a self-reinforcing trend, we think households would be acting to protect themselves from the risk of government actions that may devalue their savings ie. monetisation of deficits. At the margin, this may be playing on domestic investors minds – clearly this would be incredibly bullish for Japanese equities, and incredibly bearish for Japanese government bonds – hence, our portfolio positioning.

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 past 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).

2. The investment returns depicted in the graphs are cumulative on A\$10,000 invested in the relevant Fund since inception relative to their Index (in A\$) as per below:

Platinum International Fund:
Inception 1 May 1995, MSCI All Country World Net Index

Platinum Unhedged Fund:
Inception 31 January 2005, MSCI All Country World Net Index

Platinum Asia Fund:
Inception 3 March 2003, MSCI All Country Asia ex Japan Net Index

Platinum European Fund:
Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:
Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:
Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:
Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:
Inception 18 May 2000, MSCI All Country World Information Technology 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.

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Before making any investment decision you need to consider (with your financial adviser) your particular investment needs, objectives and financial circumstances. You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds.

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