Platinum Japan Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	JUN 2011	MAR 2011
Japan	89%	89%
Korea	2%	1%
Cash	9%	10%
Shorts	13%	14%

The Fund also has an 11% short position in Japanese Government Bonds.

Source: Platinum

Portfolio Position

Changes in the quarterly long portfolio composition:

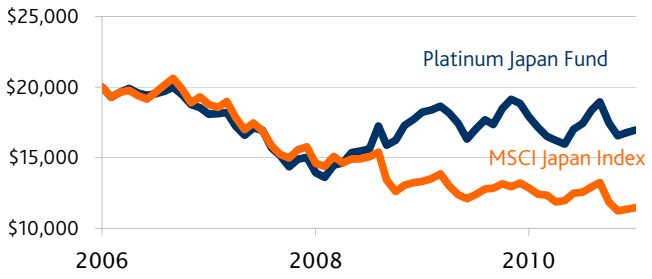
Sector Breakdown

SECTOR	JUN 2011	MAR 2011
DOMESTIC	43%	41%
Retail and Services	14%	12%
Financials	12%	12%
Telco, IT and Internet	10%	10%
Real Estate and Construction	7%	7%
EXPORT	48%	49%
Tech/Capital Equipment	14%	12%
Commodities	13%	14%
Autos and Machinery	13%	13%
Alternative Energy	8%	10%
Gross Long	91%	90%

Source: Platinum

Value of $20,000 Invested Over Five Years

30 June 2006 to 30 June 2011



Source: Platinum and MSCI. Refer to Note 2, page 5.

Performance

Over the last 12 months the Fund fell 5.3%, outperforming the MSCI Japan Index (A$) benchmark by 5.6% and over the past quarter the Fund fell 2.8%, almost in line with the benchmark. For the quarter, the benchmark fell 3.2% in A$ terms and 2.4% in Yen terms.

After the volatile earthquake-induced March quarter, the Japanese equity market returned to its more usual status of marginal rather than lead player in global equity affairs. The ineffectual nature of Japanese political leadership hasn't changed, though the earthquake and nuclear emergency has heightened the opportunity cost of this directionless system. Against the parlous state of government finances, the earthquake serves to highlight the lack of flexibility Japan faces when dealing with such exogenous events.

Quarterly attribution wise, shorts and currency were roughly neutral and our longs performed just ahead of the market.

Changes to the Portfolio

We made few significant changes to the portfolio during the quarter. Having travelled twice to Asia during the preceding quarter, we focused our energies on deepening our understanding of some of the more prospective opportunities.

Long Positions

Whilst we reweighted some positions based on new information and changes in confidence level, there were no new stocks added to the portfolio, nor were there any complete sales and the gross long position stayed relatively steady at just over 91%.

Short Positions

We used the recent market pull-back to cover some of the more cyclical shorts, a combination of Korean and Japanese steel, ship building and construction equipment companies, aggregating to just over 3% of the Fund. We partially replaced these with shorts that are yet to discount any demand slow-down and are priced for relative perfection; Korean auto makers come to mind. In aggregate, the short position fell slightly, to just under 13%.

Currency

In keeping with our view that the Yen is overvalued, we marginally cut exposure from 37% to 35%; we also cut exposure to the US$ from 27% to 20% in preference for the Korean won and Taiwanese dollar. These currencies have been quite weak relative to the Yen over both the short and long-term and, in the case of Korea, the Central Bank is now raising rates to combat domestic inflation. In the past, both the Won and the Taiwanese dollar have behaved in a somewhat pegged manner against the US$, however, ever so slowly these pegs seem to be breaking as disparate domestic situations call for independent policy settings; we think this trend will accelerate.

Commentary and Outlook

The Tohoku earthquake and subsequent Fukushima nuclear incident has also served to highlight the aging nature of the G7s nuclear fleet, with the bulk of capacity built-out pre-1980. Until the recent unfortunate events, the working assumption has been that due to nuclear generation's greenhouse friendly nature, that this old, second generation capacity (characterised by active cooling systems that failed in the recent Tsunami) would be replaced by far safer, third generation reactors (with passive cooling). However, with the current swing in public opinion globally against nuclear power, but most intensely in Japan and Germany, this replacement cycle has now been thrown into doubt.

This has significant implications for global energy markets, equipment suppliers and currencies. Whilst both Japan and Germany are considering "clean" coal, natural gas and renewable alternatives, one expects that natural gas will be the fuel of choice.

By way of context, globally, if we include transport requirements, gas provides approximately 24% of the world's primary energy demand, that is, we consume around 2.4 billion tonnes pa. 71% of this gas is produced close to where it is consumed; pipe imports account for 21% and seaborne Liquefied Natural Gas (LNG) 8% (or 233 million tonnes with Qatar and Australia the largest producers with capacity of 60 million tonnes and 20 million tonnes respectively).

Prior to the Fukushima nuclear incident, most analysts were forecasting some near-term weakness in the LNG prices as new capacity came on-stream, the US ramped up shale gas production and European power demand remained subdued with Russian and Norwegian supply sufficient. Further, the elephant in the room when it comes to any commodity discussion, China (962GW of electricity generation), has showed very little interest in growing the LNG component i.e. it remains heavily reliant on coal. The view within China is that gas represents a high cost alternative as coal capacity (due to scale of production) can be built at approximately the same capital cost of a modern gas combined cycle plant, but with a fuel cost advantage. Whilst there is currently a lot of commentary regarding Chinese coal and power shortages, it would seem the real issue is that the central government in its so-called fight against inflation won't allow power tariffs to rise to the point where power demand and supply clears. Further, as inflexible coal based generation is used to produce peaking power, thermal capacity utilisation remains a low 60%. This issue is further complicated by China's apparent lack of merit based time-of-day power pricing. By not providing incentives to include a more flexible source of generation for peaking power, the overall utilisation of the coal capacity will remain low – a large opportunity cost. Whilst regulatory change will come slowly, by the end of the decade China will likely ramp-up gas based electricity production and a component of this will be fed by imported LNG.

Fukushima has punctured the LNG markets' complacency. Only 37% of Japan's 48GW nuclear fleet is currently operational, with 30% shut indefinitely due to the quake and 32% due to routine inspection. Further, the nuclear operators are governed by voluntary safety agreements with both local and prefecture level governments that require their approval before a reactor can be restarted. In the current environment, even though local rulings can be overturned by the central government, the routine restart of reactors has become highly politicised.

If we take the extreme scenario of Japan (48GW of nuclear power) and Germany (20GW) replacing this entire capacity with gas, based on the trend output from these reactors (Japan between 260-300TWh pa and Germany 160TWh), this aggregates to incremental gas demand of roughly 80 million tonnes[1]. Even if on the basis of alternative fuel use and energy conservation we halve this number, if Germany and Japan go down the path of no new nuclear plants, their longer-term incremental gas requirements are significant. The size of the global nuclear fleet is 374GW (average age of 26 years, EU accounts for 35% and the US 27%); the implications of the no new nuclear plants trend spreading to other jurisdictions is immense. The question then becomes, where will the gas come from? We suspect that with high conventional gas field decline rates, supply growth will require significant new LNG and unconventional (coal bed methane, shale and tight) gas investment.

In the case of LNG, based on projects nearing completion, Qatar will soon expand capacity to just under 80 million tonnes and Australia to around 56 million tonnes by 2015 (Pluto 1, Gorgon, GLNG T1-2 and QCLNG T1-2). Including the projects that are likely to be approved in 2011 (GLNG T1-2, Pluto T2 and Ichthys), Australia's capacity should accrue to just under 70 million tonnes by 2017. These forecasts build in some contingency for delays triggered by labour and material shortages. Clearly, Australia is embarking on a nationally significant investment cycle. At $90 oil per barrel, 70 million tonnes equals $53 billion in export sales and would propel LNG to rank alongside iron ore and coal in significance.

Whilst we have had long-term exposure to this theme, late last year we took advantage of market concerns regarding near-term LNG prospects to accumulate more exposure at very cheap valuations. Our favoured companies are the EPC (engineering, procurement, construction) firms that will build-out capacity and equipment suppliers (e.g. large capacity compressors and cryogenic pumps required for liquefaction). The Fund now has over 5% direct exposure via stocks such as JGC and Inpex, and another 4% indirect exposure via the trading houses.

[1] It typically takes 0.18 million tonnes of LNG to produce 1TWh of electricity.

In the case of JGC, the company has participated in the design and/or construction of approximately 40% of all existing LNG capacity and is well-positioned to win a decent share of new-builds. LNG capacity growth forecasts, based on projects that should reach FID (Final Investment Decision) by end of 2012, imply 64 million tonnes or $160 billion of work up for grabs. Relative to JGC's current order book of $14 billion this is a sizable opportunity. Further, in the face of stiff competition from Korean contractors, JGC has expanded margins to industry top-quartile levels. Whilst this is a "theme" that Australian investors would be acutely aware of, the valuation of stocks such as JGC at 13x current year earnings implies we are a long way from the excitement levels one would typically associate with a high growth opportunity. Now macro events will clearly play a role in how this investment cycle plays out i.e. a major China slow-down or Western "sovereign" event would defer many FIDs, however, we suspect these episodes should be used to add quality exposure to an enduring trend.

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: 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

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 30 June 2006 to 30 June 2011 relative to their Index (in A$) 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.

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