Platinum Japan Fund

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Performance

(compound pa, to 30 June 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund	6%	24%	19%	25%	15%
MSCI Japan Index	5%	16%	13%	16%	2%

Source: Platinum and MSCI Inc. Refer to note 1, page 4.

Disposition of Assets

REGION	30 JUN 2017	31 MAR 2017	30 JUN 2016
Japan	95%	94%	88%
Korea	1%	0%	0%
Cash	4%	6%	12%
Shorts	-2%	-2%	-1%

Source: Platinum. Refer to note 3, page 4.

The Portfolio rose 24% for the financial year and 5.6% for the quarter. The performance table really highlights the great importance of treating the Fund as a long-term investment vehicle.

Changes to the Portfolio

The refinement of portfolio positioning towards companies with both attractive valuations and medium-term growth prospects continues. A multitude of opportunities are evident across Japan and Korea in a wide range of industries. The Fund remains effectively fully invested in Japanese equities.

Portfolio Position

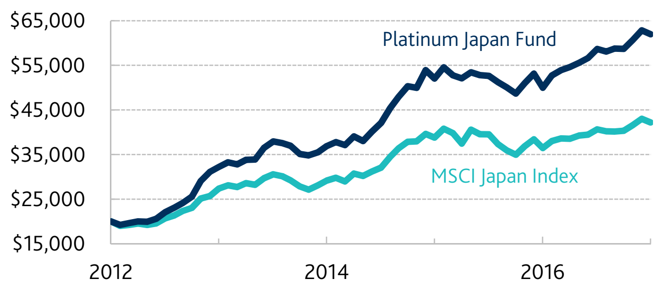
Sector Breakdown

SECTOR	30 JUN 2017	31 MAR 2017
Information Technology	29%	29%
Industrials	18%	16%
Consumer Discretionary	14%	13%
Financials	10%	9%
Materials	9%	10%
Telecommunication Services	6%	6%
Energy	6%	7%
Health Care	4%	4%
Consumer Staples	-2%	-2%
TOTAL NET EXPOSURE	94%	92%

Source: Platinum. Refer to note 5, page 4.

Value of $20,000 Invested Over Five Years

30 June 2012 to 30 June 2017



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

Currency Position

	30 JUN 2017	31 MAR 2017
Japanese yen	80%	72%
US dollar	19%	19%
Korean won	1%	0%
Australian dollar	<1%	9%

Source: Platinum. Refer to note 6, page 4.

Outlook

Electrons versus Molecules

Steam is an Englishman, yet Winston Churchill converted the Navy to imported oil. Energy transitions take time. They are both risky and expensive. They require difficult choices. The main transition from wood/biofuels to fossil energy occurred from 1850 to 1900, yet the world runs predominantly on a shifting mix of fossil coal, oil, natural gas and nuclear power just as it has done for over a century.

The trend towards electrification has been inexorable since it was introduced commercially in the 1880s. Electricity has become pervasive in our homes, offices, cities and industries. In 1900, 38% of American vehicles were electric, but the discovery of cheap oil quickly reduced them to a rounding error in the overall mix as the internal combustion engine rose to dominate with the launch of Ford's Model T in 1908.

Solar panel installations in rural India are growing like weeds. Global photovoltaic capacity is now over 300 GW, having grown at 30% per annum for the last five years. Global wind power is now over 460 GW, having grown at 22% per annum for the last decade. In total, renewable energy – including solar, wind, geothermal and biomass – now produces 8% of global electricity generation, but has contributed 40% of the growth in recent years.

Energy transitions take decades partly because the incumbent innovates and shifts. The phenomenon of fracking tight oil and gas reservoirs is now common knowledge. Nevertheless it is astounding that one current oil well design nicknamed "Prop-a-geddon" involves pumping 1,000 truckloads or 25,000 tons of sand down a 200 mm diameter production casing which is a few kilometres deep and three kilometres long laterally. North America is now awash in cheap natural gas, cheap chemical feedstocks, heavy oil from Canada and tight oil focused on the Permian Basin.

The five decades following the oil crises of the 1970s have seen development of a wide range of energy technologies which are now maturing and having real world impacts on incumbent industries. The current mania for electric vehicles and battery storage appears to be more substantial and pervasive than most prior attempts to transition away from oil as the primary transportation fuel. China's widespread efforts should not be underestimated, but Korean and Japanese firms will also play leading roles in solving the complex problems of battery assembly, anodes, cathodes, separators, electrolytes and pack design.

The ever-present risk for the oil industry is severe disruption in the Middle East or the broader OPEC & Russia complex where tensions have been fraught for centuries but seem particularly fragile right now. Their travails are reminiscent of upheavals experienced centuries ago in the West as civil wars changed the directions of nations. Higher oil prices and patchwork subsidies will only accelerate the inevitable waves of adoption of cleaner energy sources and the eventual electrification of the global transport system.

While the ancient enjoyment of the puckering flames of an open fire can wash away the problems of a chilly winter day, the chores of fuel gathering and ash disposal result in many unused chimneys.

Nintendo

Rigorous scientific analysis hardly seems to fit with the fun and excitement of computer games, yet both Nintendo and Nexon bring a range of mental models, psychology and algorithms to their software and customer interaction. In both cases, their approach has been underestimated by outsiders. Nintendo's new console, the Switch, remains sold out even after expanding production capacity in China. This outcome stands in stark contrast to the expectation of most commentators, many of whom wanted Nintendo to discontinue hardware development. Perhaps it was just luck, perhaps it was part genius part hard work, perhaps it was a change in the company's view of their place in the world, but Nintendo now stands at a juncture where mobile networks, CPU and GPU capability, manufacturing costs, and screen quality are melding to delight human desires and needs. Nintendo seems focused on bringing their industry leading Entertainment Properties to all the world's billions through mobile, console and handheld. The Switch launched as a home console with 80 software titles from over 50

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Nintendo	Japan	IT	4.3%
Nexon Co	Japan	IT	4.2%
Mitsubishi UFJ Financial	Japan	Financials	4.0%
Sumitomo Mitsui Financial	Japan	Financials	3.7%
Inpex Corporation	Japan	Energy	3.5%
NTT	Japan	Telecom	3.4%
Ushio	Japan	Industrials	3.2%
Lixil Group	Japan	Industrials	3.2%
Ibiden	Japan	IT	3.1%
Kyocera Corp	Japan	IT	3.1%

As at 30 June 2017. Source: Platinum. Refer to note 4, page 4.

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.

developers/publishers. The level of support has doubled in the subsequent six months as hardware sales momentum has accelerated. It now seems likely that the Switch is a hybrid handheld/home console which might see purchases of multiple units per household.

Nexon

Nexon's key Entertainment Property now has a higher lifetime gross revenue than Star Wars, Hollywood's leading franchise which has grossed US$7.6 billion across eight movies since 1977. Nexon's Dungeon Fighter has grossed over US$8 billion since it was first released in Korea in 2005. It is one of the top games in China where Tencent is the publisher. For many years, Nexon's CEO Owen Mahoney has talked extensively about games as art. Recently he elaborated on the background to this incongruous statement. He presented four mental models:

1. Games that maintain engagement as an interactive product rather than a static presentation;
2. Creation of joy and happiness through games which fulfil basic human needs;
3. Advertising and marketing methods which emphasise lifecycle cash flow; and
4. Innovative and fun games which push the boundaries of what is possible within the constraints of current hardware.

He describes an analytical pathway to customer engagement and enjoyment. Nexon's key games have lifecycles measured in years or decades, rather than a hit based cycle. Over the last two decades, Nexon's profits have risen spectacularly with margins that would cause most to salivate. They have done this by ignoring much industry convention and by innovating. The current valuation of Nexon is low in a global context, but the real attraction lies in the 35 innovative games in development, any one of which could be a hit large enough to change the trajectory of the company.

Left: The Legend of Zelda by Nintendo. Source: www.zelda.com
Right: Dungeon Fighter Online by Nexon. Source: www.wikipedia.com

Tokyo Election

One of the pillars of Japan's recent progress has been the stability of its political system, in stark contrast to other parts of the world. The Liberal Democratic Party's (LDP) historic loss in the recent Tokyo Metropolitan Assembly election seems on surface to be a repudiation of the overwhelming support for Prime Minister Abe, under whose leadership the LDP has dominated the nation's legislative agenda since late 2012. Indeed, the leader of the winning political party in the recent Tokyo election is Yuriko Koike, the first female Governor of Tokyo and a former member of PM Abe's Cabinet where she served as the Minister of Defense. She presents a fresh face and a sense of openness and accountability which seems to have resonated with the residents of Tokyo. She has served a long apprenticeship, having worked for Prime Minister Koizumi for many years.

Japanese unemployment is at multi-decade lows. The jobs-to-applicant ratio is at levels not seen since the Bubble years of the late 1980s. Overall, corporate profitability and margins appear to have moved structurally higher. Inbound tourism is at record levels and high quality Japanese products are in high demand across Asia. To the amazement of most, Japanese real per capita GDP has grown faster than almost all Western developed nations over the last two decades, a testament to their innate strengths and longer-term investment horizon. It hardly seems like an environment conducive to revolution or revision of political structures that have stood the test of decades. Yet, there is slow but steady change across the nation and it would not be surprising to see another experiment with a more progressive political agenda, most likely a negotiated subtle shift of direction.

Currency

The Japanese government estimates that the total value of all assets in the Japanese financial system is US$90 trillion. This number dwarfs most widely used financial statistics in Japan where GDP is roughly US$5 trillion, stock market capitalisation is US$5 trillion, government debt is US$10 trillion and customer deposits are US$12 trillion. The banking system loan-to-deposit ratio is one of the lowest in the developed world at 66%. The value of the Yen and the direction of the stock market can be trampled if a small set of asset owners change their outlook or risk preferences. At the moment, the Yen is slightly cheap on the standard metrics. The outlook is for continued loose monetary policy, somewhat in contrast to the tightening biases being uttered in many other parts of the world.

Notes

1. 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 Funds' inception dates 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.)

2. 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.

3. Geographic exposures (i.e. the positions listed other than "cash" and "shorts") represent any and all of the Fund's exposure to company securities and long derivatives (stock and index) as a percentage of the Fund's net asset value (before annual cash distribution).

4. The table shows the Fund's top ten long stock positions (including any company securities and long derivatives) as a percentage of the Fund's net asset value (before annual cash distribution).

5. Sector breakdown represents the Fund's net exposure to any and all company securities and both long and short derivatives (stock and index) as a percentage of the Fund's net asset value (before annual cash distribution).

6. The table shows the Fund's net currency exposures as a percentage of the Fund's net asset value (before annual cash distribution), taking into account any currency hedging.

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