Platinum Japan Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets *

REGION	SEP 2013	JUN 2013
Japan	91%	90%
Korea	8%	5%
Cash	1%	5%
Shorts	14%	11%

The Fund also has a 12% short position in Japanese Government Bonds.

* The invested position represents the exposure of physical holdings and long stock derivatives.

Source: Platinum

Portfolio Position

Changes in the quarterly long portfolio composition:

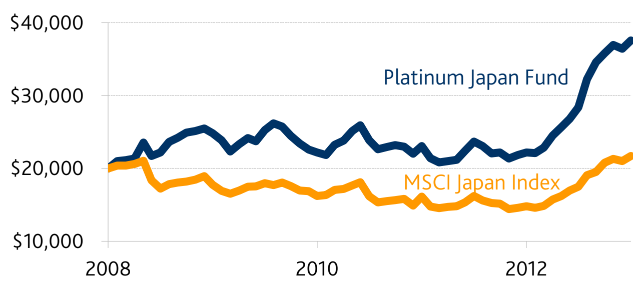
Sector Breakdown

SECTOR	SEP 2013	JUN 2013
DOMESTIC	58%	49%
Financials	15%	16%
Consumer and Retail	15%	14%
Services	11%	5%
Healthcare	8%	4%
Telco and Utilities	5%	6%
Property and Construction	4%	4%
EXPORT	41%	46%
Tech/Capital Equipment	24%	22%
Durables	13%	16%
Commodities	4%	8%
Gross Long	99%	95%

Source: Platinum

Value of $20,000 Invested Over Five Years

30 September 2008 to 30 September 2013



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

Performance

(compound pa, to 30 September 2013)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Japan Fund	5%	69%	19%	13%	14%
MSCI Japan Index	4%	46%	10%	2%	0%

Source: Platinum and MSCI. Refer to Note 1, page 5.

June's extreme market volatility subsided and over the quarter market drivers transitioned away from macro factors to the stock specific. In keeping with this, there was little to link our individual contributors of stocks such as Topcon +52%, Sumitomo Electric +21% and Cyberagent +45% or detractors such as Yamada Denki -28%.

Changes to the Portfolio

Longs

We took advantage of the general rebound to exit our large holding in life insurance company T&D Holdings. From our original purchase in early 2010, the case had weakened as management actively increased the duration of the fixed income portfolio at a time of record low yields (high valuations) and reduced exposure to Japanese equities at a time of record low valuations; whilst management believe this will reduce their regulatory capital requirements, the timing was questionable.

Our recent trip to Japan focused on a number of prospective areas:

- Emergent industrials with leading global positions.
- Corporate revitalisation, industry reorganisation and potential merger and acquisition targets.
- Potential policy change beneficiaries (e.g. industry deregulation, labour market reform, tax reform, new business incubation incentives).
- Internet 2.0 and service sector growth opportunities.
- Emergent energy management opportunities (smart cities/grids, smart buildings).

Almost all of the new holdings added during the quarter represent investment opportunities relating to one of the above areas. Many are mid-capitalisation stocks, an area of the market that still offers, in certain cases, extreme undervaluation, and whilst historically this value has been difficult to unlock, there are tentative signs of change. We are still accumulating holdings in many of these stocks.

We also added to our holdings in Panasonic and NTT as conviction levels improved. Our initial rationale for buying Panasonic was based on the work already completed to right-size the workforce (roughly 25% reduction over the prior three years) and a commitment to shrink the business down to the few remaining areas of relevance – that is appliances, auto-components and Japanese housing related components. Following the end of year results, we took heart from the company's new-found cash management ability with a $3 billion or 33% reduction in net debt achieved in the final quarter – this significantly reduced the financial risk profile of our investment.

After two years of South Korean stock market underperformance relative to Japan and an almost 180% reversal in sentiment (i.e. Japan warming up on Quantitative Easing (QE) and Korea deemed vulnerable to emerging market growth downgrades), we added to our KB Financial holding and acquired Naver (see the current Platinum Asia Fund quarterly report). Similar to Japan, we think Korea is ripe for a rebound in residential investment and KB Financial represents a high quality and extremely cheap beneficiary of such a trend.

Shorts

We covered all of our China related shorts as negativity on the growth outlook became universally accepted and towards the end of the quarter increased our Nikkei Index short as a basic hedge for the portfolio.

Currency

Our buying of Korean stocks has resulted in a moderately higher Korean won weighting at the expense of the US dollar; otherwise our currency positioning remains relatively unchanged.

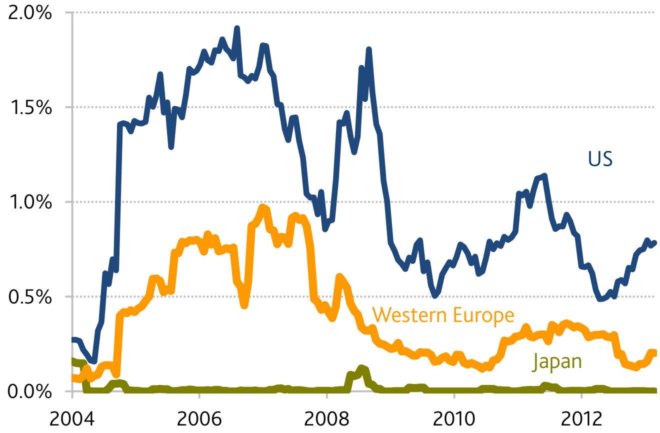
Commentary and Outlook

As expected, the Liberal Democratic Party-New Komeito coalition won the Upper House election in a landslide and more recently, the endlessly discussed increase in the consumption tax from 5% to 8% was finally confirmed for April next year. We have received inquiries from investors as to whether Japan is really changing and what is the real nature of "Abenomics"? Whilst it is the right time to be asking this question, it remains difficult to answer as the substance around the "Third Arrow" is largely yet to be revealed. Regular readers will appreciate our interpretation of Japan's "structural" issue as a basic lack of respect for shareholders. We have more broadly discussed this as a corporate culture of insularity, inflexibility and consensus that is inconsistent with a globalised meritocracy. The absence of creative destruction has cost Japan dearly from marginalisation in consumer electronics and entertainment (e.g. Sony, Sharp and Nintendo) to the stifling service sector growth (staffing, aged care, tourism and real estate services are some obvious examples).

In case you think we are exaggerating this, please consider the following facts:

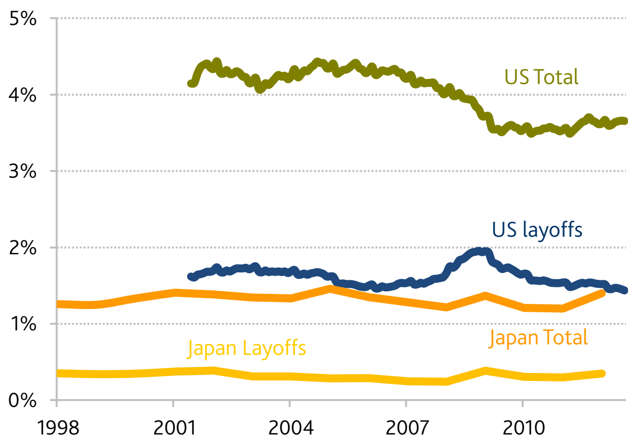
- Extremely low levels of domestic merger and acquisition activity. For example in a typical year less than 0.05% of Japanese market capitalisation is subject to a takeover or merger proposal compared to over 10 times and 5 times that level in the US and Europe respectively (see first chart); Japan is also found wanting in comparisons of new business establishment rates.
- Low levels of full-time employee turnover as the job for life mentality permeates – in a typical year 1.4% of the fulltime workforce is subject to either voluntary or involuntary redundancy compared to 3.7% in the US (see second chart).
- Turnover in the residential real estate secondary market is almost non-existent – in a typical year less than 0.3% of the stock changes hands versus 4-5% in the US and 2-3% in Australia.
- Tourism arrivals are pitifully low: Japan 66 per thousand people versus US 191, Canada 516, UK 495 and Germany at 302[1].

Regional M&A (12mth trailing sum to current mkt cap)



Source: Factset

Full Time Employee Turnover (12mth)



Source: US Bureau of Labour Statistics, Japan MHLW, Employment Trend Survey

As the true nature of "Abenomics Third Arrow" is slowly revealed, our critique for individual polices is simple: will this lead to a more flexible, accountable Japanese corporate culture, one that celebrates return on investment as the fuel necessary to drive innovation? Specifically, policies that make it easier for corporates to shed excess labour, build scale in their domestic market and generally lead to less, rather than more regulation.

[1] World Tourism Organisation, Yearbook of Tourism Statistics, Compendium of Tourism Statistics and data files.

But don't get us wrong, no major socio-economic system is perfect. The reason we engage with Japan is that it remains an advanced economy comprising enterprises, that when operating at their best, are capable of producing world beating products and services and in spite of Japan's structural issues, trend productivity growth is very similar to Europe and the US. Hence, the above data points reinforce our view that if we reach a tipping point where change accelerates, the emergence of new companies tapping into growth in the service sector or the revitalisation of existing franchises that are simply under-managed, throws-up significant opportunities for all investors. Opportunities that don't necessarily exist elsewhere in the developed world where the dogma of "shareholder value" was accepted decades ago.

By the same token, rapid change presents attendant risks for those companies with little real position – their marginalisation will accelerate as open competition is embraced. The beginning of a bankruptcy cycle combined with an aggressive merger and acquisition cycle where Japanese companies turn on each other rather than always buying offshore would be a sign that creative destruction had finally returned to Japan.

Without reform there is a real risk that the Bank of Japan's (BOJ) massive monetary easing will result in a liquidity driven property market recovery without any real improvement in the long-term productive potential of the economy. Further, many long-term investors, including ourselves, still struggle with the idea that Japanese politicians and bureaucrats could enact policies that would ultimately reduce their influence over the economy. However, we are keeping an open mind as valuations are still cheap and many may be underestimating the political capital the ruling coalition has tied up in the revitalisation process. Further, based on his recent US speeches, Prime Minister Shinzo Abe's recent pronouncements have been far from timid:

- *The traditional and inflexible large corporations might need to be roused. I would like to turn Japan into an entrepreneurial powerhouse brimming with the entrepreneurial spirit, just like the United States.*
- *I consider regulatory reform to be the key change that will break through obstacles in the private sector's way in every area.*
- *I will transform dramatically the Japan that is grappling with the feeling of being caught in an impasse because it "still limits its executive talent pool to the male, 50 percent of its population."*
- *As soon as I return to Japan, I will be firing the next arrow within my Growth Strategy. I will assertively push through a bold tax reduction in order to stimulate investment.*
- *And the third arrow, which we are shooting now, wants you, Uncle Sam. Because it will make Japan more open to foreign investment … a country that will be like a city, shining upon a hill, with free ports humming with commerce and creativity, ... to go on sounding Reaganesque.*

Clearly we are hoping that Abe is not suffering a reverse "lost in translation" moment. It is somewhat concerning that in a recent *Financial Times* interview he placed speedy labour market reform in the too hard basket; from our perspective, this is at the core of what is required. As we wait for major policy announcements, small changes continue to be implemented, for example:

- Growth in fixed 35 year mortgages (possibly more than just the consumption tax pre-buy).
- NISA[2] accounts go active 1 January 2014 and this follows on from the liberalisation of retail margin accounts at the beginning of 2012.
- East Asian tourist visa liberalisation.
- Corporate revitalisations led by a growing list of companies: Hitachi, Panasonic and Tokyo Electron as they constructively respond to exogenous threats to their survival.

In conclusion, though cautiously optimistic on the outlook for Japanese equities, especially the ones we own, we would also expect the market to exhibit volatility as the reform process by nature remains difficult.

[2] Japan's Nippon Individual Savings Account – Tax free investment accounts for investing in domestic mutual funds and equities which permit contributions of up to ¥1 million per year up to an overall upper limit of ¥5 million. Any dividends and capital gains from listed shares or mutual funds will be allowed to grow completely free of tax during the tax free period of up to five years after initial investment is made.

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$20,000 invested in the relevant Fund over five years from 30 September 2008 to 30 September 2013 relative to their Index (in A$) 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.

3. Long invested position represents the exposure of physical holdings and long stock derivatives. The net invested position represents the exposure of physical holdings and both long and short derivatives.

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