

# PLATINUM JAPAN FUND



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Portfolio Manager

## PERFORMANCE

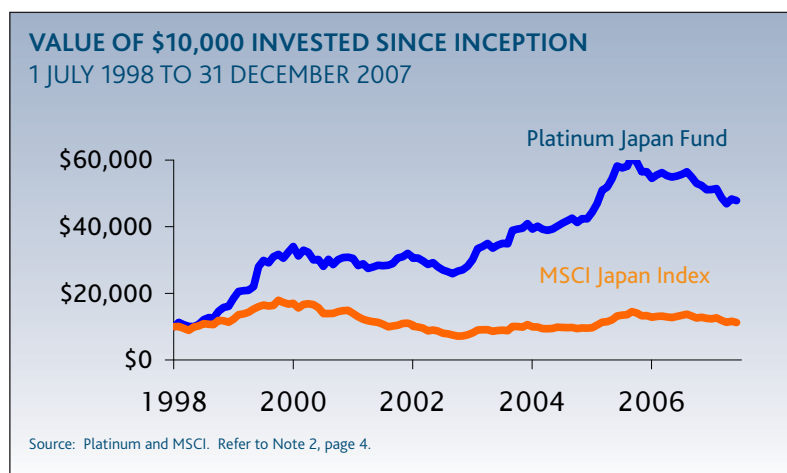
Fund performance continued to suffer, falling by 1.7% over the quarter to cap a year in which the Fund fell by 13.3%. On a positive note the relative performance of the Fund has continued to improve throughout the year with the MSCI Japan index falling by 5.3% for the quarter. Whilst every sector in Japan fell this quarter, it was the commodity and real estate related sectors that bore the brunt of the selling. As we have stated previously we had been underweight the commodity space for some time. Additionally, some of our larger positions stood up quite well against the market retreat, including West Japan Railway, Inpex and Nitto Denko.

## COMMENTARY

There is a trick marketing people sometimes pull to get their audiences' attention at financial seminars. Across the top they list say ten stock markets and down the columns the returns of each market for each of the last 10 or 15 years. There is nothing more tantalising than to be denied one of these rows and being asked to identify the best performer in that year. So begins the sermon.

DISPOSITION OF ASSETS		
REGION	DEC 2007	SEP 2007
JAPAN	96%	97%
CASH	4%	3%

Source: Platinum

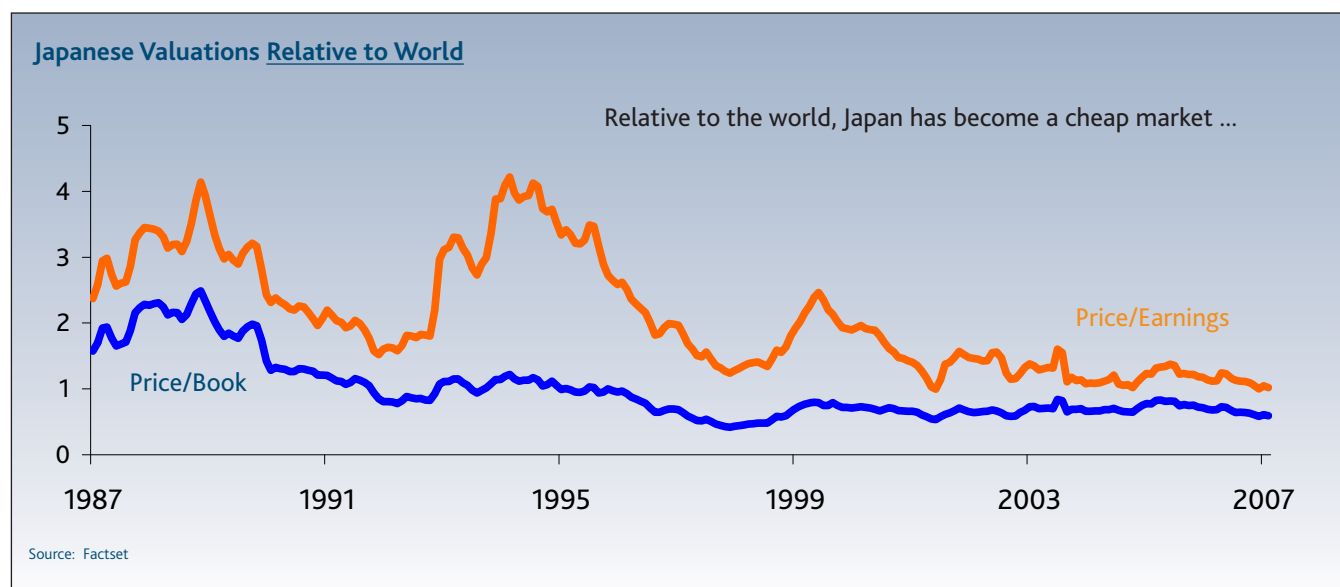


Fund management is no different from any other activity; the diagnosis can be correct but the timing is usually problematical. That is how we see the Japanese market today. Profit recovery in the last five years has been on par with the other Western markets yet the derating has been so much more severe.

Being among the few developed markets with vast domestic savings, one might have thought at the outset that the Japanese market would have been buoyed by these surplus savings as professionals, saddled with the responsibility of protecting those heading for retirement, might have preferred to purchase **growing income streams offered by equities over nominal assets such as cash or Government bonds**. Well, it has not happened that way and instead, the pros have found a host of reasons to avoid the market. We sometimes describe this as finding the words to fit the music. These words include population shrinkage, weak domestic demand, inept government, clannish corporates and disrespect for shareholders. We agree totally with this script. We would also like to suggest that each of these charges can be levied to the heartland of capitalism on different occasions. Many European countries are, for example, facing stagnant population growth or even declines but you wouldn't know it from their stock markets'

behaviour. As for slow growth or growth dependent on external stimuli, we can again point to several European countries including that powerhouse, Germany. Thirdly, inept government might be considered the norm rather than the exception and on the fourth charge of clannish corporates, there are examples in virtually every country in which we invest; think the Chinese tentative bid for Unocal, directed mergers in France and foreign ownership laws in general. As for the last charge of disrespect for shareholders, the most flagrant example of this was the option debauchery in the US some years back in the name of co-incident interests. There was also the accompanying muddled thinking about the accounting treatment involved. Where optimists do have a case to answer is that **Japan faces all these charges at once!!** This is unforgivable to foreigners (and domestics alike) and they have seen selling to a position where they are now a third underweight. This suggests to us that the first correction in the bull market that began in 2002 is pretty mature.

More credible than the above observations is the reality that a representative *portfolio* of shares in Japan would be on a PE of 16 times ie. an earnings yield of 6 to 7% after tax in a country where the cost of money is say 1% after tax. This wide carry would make most infrastructure funds or REITS look



extremely pedestrian!! The missing ingredient is CONFIDENCE and of course the fact that earnings do not equate with immediate cashflow.

The above notion may be considered hypothetical but even with only 50% leverage, the interest would be easily covered by dividends and the geared portfolio could yield a total real return of perhaps 14% **pa real return** in the event of the Japanese market reverting to its 105 year trend of REAL arithmetic mean return.\*

Yes, you can dismiss this as nonsense but one needs the perspective of time to be a sound investor and it has been the root to the making of great fortunes when risks were being disproportionately valued over reward.

In today's hot commodity boom, investors seem to have forgotten how miserable they were in 2003. At that time investors in Australian resources faced exactly this test of confidence and perspective, and fared miserably when they allowed Mount Isa Mines to be bought for a pittance. That company now earns, in a single year, what the bidder paid for the entire entity. (Importantly, the re-emergence of China didn't begin in 2003.)

Our portfolio comprises a wide range of interesting companies. Some relatively dull on the outside like Sumitomo Chemical except for its unusually attractive joint venture that gives it privileged access to cheap Saudi gas in an energy deprived world; or West Japan Railway that looks to have a locked in growth rate of 10% plus. There are other domestically orientated companies like the Obayashi construction group that is selling for less than its portfolio of leading Japanese blue chips, and yet faces an improving outlook for its construction business. Having felt the initial assault from the recently privatised Japanese postal service, Yamato, the dominant express delivery company is recovering its poise and yet is on its lowest rating in 25 years.

Alternatively there are high technology plays like Nitto Denko, Tokyo Electron, Ulvac and Ushio with world leading positions in each of their speciality fields with market shares variously at 30% or more and profitability to match. We also own the most

successful car maker in the world, Toyota, and its component making shadow, Denso, who are sweeping all before them.

We like what we own and see these companies growing whether the Japanese population shrinks or not and whether the government governs well or not. As history will attest, only in the most dire of circumstances do these factors really matter. So long as the leaders of a capitalist enterprise know where they are trying to head, they have seldom been thwarted. The companies that we own fall into such a category where they have few fires to fight and clear strategies that are being executed with energy and efficiency. As an *equity investor* one can't ask for more unless the shares are expensive. This is not the case in Japan today.

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## CHANGES TO THE PORTFOLIO

Stocks Bought: Mitsubishi Rayon, Sumitomo Electric, Ulvac, Mitsui Fudosan

Stocks Sold: Chiyoda, Dowa, Tokuyama

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## OUTLOOK

We refer to our September 2007 quarterly report outlook which states the case for Japan. Clearly what has changed since then is that the world is becoming a nastier place due to a rolling credit crunch. However, we would reiterate that Japan should remain a safe haven in these times because it has external surpluses as a country and internally personal and corporate leverage remains at moderate levels due to after effects of the Japanese recession. Japan should outperform in down markets.

\* Dimson, Marsh & Staunton (ABN AMRO)

## NOTES

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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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