

# PLATINUM JAPAN FUND



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Portfolio Manager

## PORTFOLIO POSITION

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

Domestic related 45% (47%), including

14% (13%) Financials.

12% (13%) Defensive (eg. food, telecommunications, services).

10% (11%) Real estate, retail.

4% (8%) Construction.

Export related 41% (36%), including:

18% (10%) Technology (including specialty materials) and machine tools.

9% (9%) Autos.

9% (6%) Commodity producers.

5% (7%) Global energy and infrastructure capital equipment.

Gross long stocks 86% (83%); short stocks 16% (15%); net stocks 70% (68%).

### DISPOSITION OF ASSETS

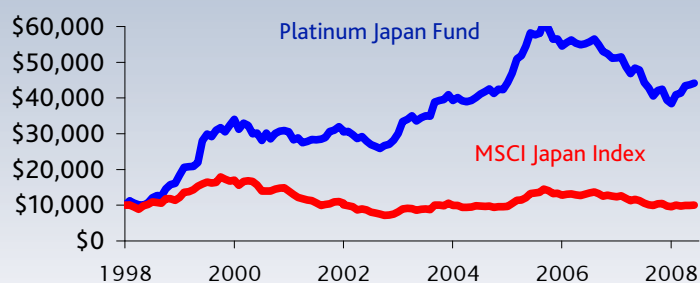
REGION	DEC 2008	SEP 2008
JAPAN	80%	78%
KOREA	6%	5%
CASH	14%	17%
SHORTS	16%	15%

The Fund also has a 9.7% short position in Japanese Gov't Bonds.

Source: Platinum

### VALUE OF \$10,000 INVESTED SINCE INCEPTION

1 JULY 1998 TO 31 DECEMBER 2008



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

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

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Over the past 12 months the Fund fell 7.7% outperforming the MSCI Japan Index (A\$) benchmark by 3%, and over the past quarter the Fund rose 6.8%, outperforming the benchmark by nearly 4%. Over the quarter the benchmark fell 22% in Yen terms, but was up 3% in A\$ terms.

The 6.8% quarterly gain for the Fund comprised a:

- Long gain of 5%
- Short gain of 3.5%
- Cash and other loss of 1.7%

Another way of expressing the attribution is that in A\$ terms, our average long stocks rose 6%, whilst our average short stocks fell approximately 22% ie. we generally shorted the correct stocks.

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

1. Shorts on certain Japanese “defensive” and/or “domestic stocks” – explained in more detail below.
2. On the long side, the generalised Yen strength contributed to the outperformance of domestic sectors relative to export sectors. In this vein, our best performing stocks were in the property, construction and telecommunications area.

The major investments/ideas that cost money this quarter were:

1. Our export exposures (technology, machine tools and commodities) – these stocks were hit hard by the perfect storm of deteriorating Western world consumer demand, loss of competitiveness due to Yen strength, especially against the Euro and Asian currencies like the Won and, in the case of the commodity stocks, falling oil and metal prices.
2. Over the quarter the A\$ depreciated 24% against the Yen and as the sell-off intensified we bought A\$, increasing our exposure from 18% to 27% by quarter end. Clearly, given the extent the A\$ fell against the Yen, we were a little premature in lifting the A\$ exposure – though, with a 65% weighting, we are still very long Yen.

The major change in the composition of the long side of our portfolio was the reduction of our large construction sector bet and some of our more defensive stocks (Sumitomo Warehouse and Ajinomoto) in favour of significantly oversold consumer electronic (see below) and commodity names (Mitsubishi Corp). As we detailed last quarter, whilst we think the domestic construction pricing cycle has changed for the better, we also recognise that these companies are heavily exposed to the rapid deterioration in capital spending by business (for example, the recent 40% global capex cut announced by Toyota). Whilst the construction companies are not directly hurt by the Yen strength, many of their customers are.

During the quarter we reviewed the 1997 Asian credit crisis to gain greater understanding of what may happen to global business capex (business spending on its own capital stock) as a result of the current global credit crisis. In the Asian ex-Japan region, the consumer durable (autos, consumer electronics etc) companies cut their capex by an astounding 50% from the 1996 peak, taking seven years to recover this prior level. This is highly relevant to Japan as many of its flagship companies are capital equipment suppliers (eg. Komatsu, Fanuc, Tokyo Electron) or consumer durable producers (Toyota, Sony, etc). We came to the general conclusion that with many of the consumer durable producers already priced at significant discounts to tangible book value (ie. discounts to their own investment in capital equipment), and the potential for an elongated capital spending drought, we would prefer greater exposure to the “owners” of capital equipment, rather than the suppliers. Accordingly, we sold our position in SMC (supplier of pneumatic production equipment to the auto and electronics industries) and added Sony, Rohm (consumer electronic chip producer), Nippon Electronic Glass (LCD glass producer) and Nikon (for its camera exposure). The first three of these purchases were priced at 0.5-0.7x book value; Nikon was a little more expensive at 0.9x book; SMC was sold at approximately 1.3x book. We still have significant exposure to capital equipment suppliers (eg. Tokyo Electron, Disco and THK) as we think the “drought” has been priced-in.

Our decision towards the end of last quarter to orient the shorts towards the outperforming and expensive so-called “defensive” stocks proved a partial success. We had two big wins (shorts on Yakult and Shiseido), both stocks with large foreign-sourced profits that have been hurt by the strength of the Yen. However, our shorts on stocks with pure domestic exposure (largely retailers) are yet to make a positive contribution; in fact, the retailers have been outperforming as perceived beneficiaries of the Yen strength and declining oil prices. We have retained these positions as we think the specific stocks are significantly over-valued and domestic consumption will come under pressure as declining export activity filters through to deteriorating employment and bonus trends. With the general bounce in the market, we reinitiated a couple of cyclical shorts that we think remain overvalued and vulnerable to earnings downgrades.

## OUTLOOK

Clearly, unhedged foreign investors in Japanese equities have had a large part of the equity market decline offset by the appreciation of the Yen against every other major currency. Such has been the move in the currency that over the last quarter (annual

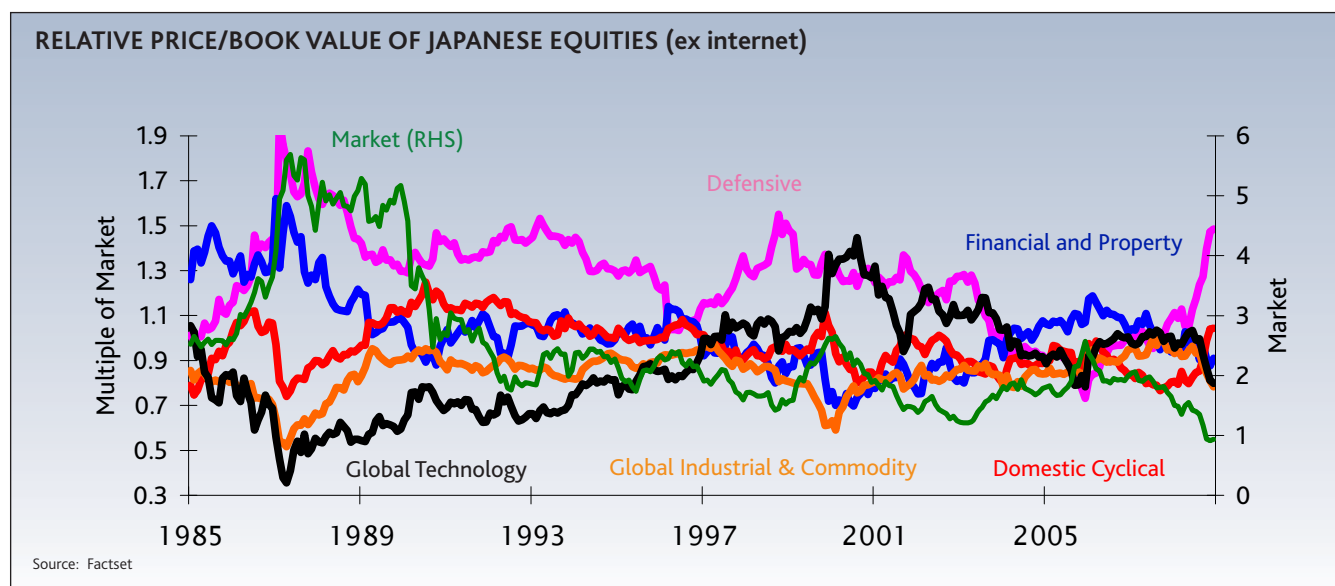
numbers in brackets), in common currency terms, Japanese equities finally started to solidly outperform global equities – a 9% (29%) decline in the MSCI Japan Index (US\$) versus a 22% (42%) decline in the MSCI World Index (US\$). Japan, having led the world into the bear market, may be the first market to find a bottom. The optimists would suggest that the outperformance reflects Japanese household and corporate balance sheet strength relative to much weaker Western counterparts.

Regardless of the reason, in the short-term we think the Japanese equity market has bottomed - this begs two major questions:

1. Why do we only have 70% net exposure to the market?
2. Will a rebound in the market be associated with a major reversal of the Yen appreciation trend and hence, should we have less than 65% Yen currency exposure?

We will attempt to address these two issues.

The chart below provides a view of the relative price to book valuations of Japanese equities across five broad, somewhat arbitrarily, defined Platinum sectors. We had to exclude a narrow group of internet stocks from the analysis as the extreme valuation premium achieved in the 1999-00 bubble was too distorting to



the overall analysis. We have also provided a table below that shows our weightings in the same sectors versus a Platinum defined benchmark. The benchmark is simply our view of the population of opportunities. The valuation chart shows that group of stocks that we have defined as “defensive” (eg. health care, consumer non-durables - Proctor and Gamble type companies, utilities and communications) are close to their all time valuation premium. We have close to zero net exposure to this sector versus a 30% weight in the benchmark; that is, we are significantly “underweight” the defensive stocks. The “domestic cyclicals” (eg. retail, media/entertainment, transport and commercial services) have also achieved a valuation premium, though somewhat less extreme than the defensives. In stark contrast, the financial/property stocks, global industrials/commodities (eg. capital equipment, autos, chemicals, commodities) and global technology (eg. consumer electronics, semiconductors, etc) stocks are all trading at significant valuation discounts to the broader market; we are significantly exposed to these three sectors.

When interpreting the above chart, it is worth noting that the absolute price to book valuation of the market has fallen through time, hence, using the global industrial/commodity as the example, whilst the relative valuation extremes discounts of 1987 and 2000 of 0.5x and 0.6x are lower than today's 0.8x, in absolute terms, these stocks have never been cheaper: the 1987 price/book low was 2.9x, 2000 at 1.6x and today at 0.7x – these stocks are very cheap.

In summary, we would like investors to understand that whilst we may only have 70% net exposure to the market, we are not wasting ammunition on those areas that have been the defensive hiding places during the severe sell-off.

We find the issue of the optimum currency exposure more difficult to resolve than the stock selection. Clearly, the Yen has served us well. For the A\$ to rebound significantly against the Yen, we would need a solid rebound in the China/Emerging Markets growth story and commodities complex. In the short-term, commodities do look extremely oversold and ready for a rebound and, hence, we have partially positioned the Fund for a trading rally in the A\$. Further, our stock selection within the Fund is heavily biased towards the exporters who would benefit from a weaker Yen. The current fall in Japanese exports is quite alarming (October and November down 8% and 27% respectively, after growing 1.5% in September). Accordingly, some of the Yen's strength against the US\$ may reverse as its safe haven status is tarnished by a deteriorating external position – we would not expect a large reversal.

The Western world financial crisis will not be resolved by one new President and the marginal economic data is still deteriorating; we are optimistic because we think, in the short-term, the market has discounted the worst. If we are wrong, the remaining Yen currency exposure should provide some protection.

INDUSTRY PORTFOLIO COMPOSITION VERSUS BENCHMARK						
SECTOR	BENCHMARK <sup>1</sup>	PLATINUM JAPAN FUND		VERSUS BENCHMARK		
		GROSS EXPOSURE	NET EXPOSURE	GROSS EXPOSURE	NET EXPOSURE	
DEFENSIVE	29.7%	5.9%	1.2%	-23.8%	-28.5%	
DOMESTIC CYCLICAL	12.0%	17.5%	11.6%	5.5%	-0.4%	
DOMESTIC INTERNET	3.3%	1.2%	1.2%	-2.1%	-2.1%	
FINANCIAL AND PROPERTY	17.3%	21.8%	21.8%	4.5%	4.5%	
GLOBAL INDUSTRIAL AND COMMODITY	27.9%	25.2%	19.7%	-2.7%	-8.2%	
GLOBAL TECHNOLOGY	9.8%	14.0%	14.0%	4.2%	4.2%	
<b>TOTAL</b>	<b>100.0%</b>	<b>85.6%</b>	<b>69.5%</b>	<b>-14.4%</b>	<b>-30.5%</b>	

<sup>1</sup> Platinum defined benchmark, not unlike the MSCI, but tailored to Platinum's investment style  
Source: Platinum

## 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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The Platinum Trust Product Disclosure Statement No. 8 (PDS), is the current offer document for the Funds. You can obtain a copy of the PDS from Platinum's website, [www.platinum.com.au](http://www.platinum.com.au), or by contacting Investor Services on 1300 726 700 (Australian investors only), 02 9255 7500 or 0800 700 726 (New Zealand investors only) or via [invest@platinum.com.au](mailto:invest@platinum.com.au).

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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