

PLATINUM JAPAN FUND



Jacob Mitchell
Portfolio Manager

PORTFOLIO POSITION

Changes over the last 12 months to the portfolio composition:

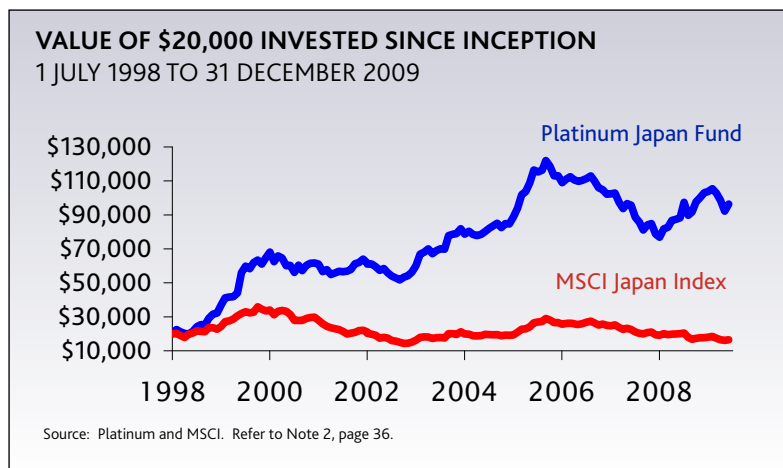
SECTOR BREAKDOWN		
SECTOR	DEC 2009	DEC 2008
DOMESTIC	47%	45%
TELCO, IT AND INTERNET	14%	5%
RETAIL AND SERVICE	13%	14%
FINANCIALS	11%	13%
REAL ESTATE & CONSTRUCTION	9%	13%
EXPORT	46%	41%
TECH/CAPITAL EQUIPMENT	19%	19%
ALTERNATIVE ENERGY	10%	3%
COMMODITIES	9%	10%
AUTOS	8%	9%
GROSS LONG (EX LONG DERIVATIVE)	93%	86%

Source: Platinum

DISPOSITION OF ASSETS		
REGION	DEC 2009	SEP 2009
JAPAN	93%	83%
KOREA	4%	6%
CASH	3%	11%
SHORTS	18%	14%

The Fund also has an 18% short position in Japanese Gov't Bonds.

Source: Platinum



PERFORMANCE AND CHANGES TO THE PORTFOLIO

Over the past 12 months the Fund rose 9%, outperforming the MSCI Japan Index (A\$) benchmark by 27%, and over the past quarter the Fund fell 6% underperforming the benchmark by 1.5%. Point-to-point over the quarter, the market did very little, though two major headwinds drove the Topix back to a low of 811 in late November (having reached an August closing high of 975):

- A significant number of highly dilutive secondary placements, typically by low quality companies with weak balance sheets or by companies with a careless approach to shareholder capital management.
- A spike in the Yen to 86 that has since largely reversed.

Similar to last quarter, there was little place to hide as the Yen strength put pressure on all but the most China centric of the export stocks and the negative feedback into domestic consumption put pressure on the rest of the stock market. Accordingly, our best performers were once again, by nature, very specific stories (CyberAgent, Promise, Nitto Denko) rather than broad sectoral bets. Though our equity and Japanese Government Bond (JGB) shorts detracted marginally, the real damage was on the long-side. Our weakest stocks were concentrated in the mid-cap real estate, construction and specialty retail area. We returned to Japan for two weeks of company visits and were pleasantly surprised by the confidence exuded by many of our large holdings. In the case where certain stories were not on track, we have cut the position (stock count fell from 79 to 67) to refocus the portfolio on higher conviction ideas.

As mentioned last quarterly, we had been finding opportunities in the internet content area with CyberAgent the key Fund investment. Our due diligence on the other stocks in this area was still in progress when the whole sector started to perform (stocks like Mixi, the Japanese equivalent of Facebook and social gaming sites Dena and Gree). Hence, we failed to fully maximise return from our efforts. By way of background, CyberAgent owns the blog site

Ameba, the fifth most visited Japanese website offering a user experience akin to Facebook, Twitter and Second Life, all in one. With a membership base of 7 million growing 70% pa, the company has been quite clever in employing celebrity bloggers to attract interest, dominated by women in their late 20s through to early 40s – a key demographic for advertisers. In early 2009 the company launched a virtual world that is proving extremely popular and adds to advertising revenues by allowing users to buy virtual “experiences” (the Tamagotchi fad is the best analogue for this). CyberAgent is operating at the edge of a new entertainment frontier - we think it will remain high growth for some time to come.

As we could see no real justification for the Yen's spike to 86, we took advantage of the equity sell-off, lifting our gross (net) exposure to the market from 89% (75%) to 97% (79%) by:

- Covering our shorts on certain Japanese export cyclicals and replacing them with a larger short on the South Korean KOSPI Index (increase from 6% to 8%), a country that has benefitted from a large currency devaluation against Japan that should start unwinding (the reason why we own the South Korean currency, the Won, rather than the stock market).
- At a Topix Index level of 839 (versus the recent 811 low), we invested 0.25% of Fund capital in an index call option (ie. simplistically we make money if the index level closes above 950 any time before June 2010 but our downside is limited to the initial investment).
- Adding to our favourite export holdings taking total export exposure from 39% to 46%, including:
 - Technology eg. Ushio (high powered light sources used in LCD and semiconductor production), Nitto Denko (LCD polarising film), Shin-Etsu (semiconductor wafers) and Murata (multi-layer ceramic capacitors used in almost all electronic equipment).
 - Alternative Energy eg. Tokuyama (Polysilicon manufacturer) and Hirano Tecseed (coating equipment used to make lithium ion batteries and industrial films).
 - Autos eg. Toyota Motor.

Whilst limited by space to fully explain the logic behind each of these investments, we will attempt to provide some brief context:

Firstly, most of these exporters are global leaders; secondly, valuations are at discounts to peers for comparable levels of profitability; and thirdly, their end markets are either experiencing cyclical or secular growth. To this last point, we are positive at a global level on continued tightness in the consumer technology supply chain due to:

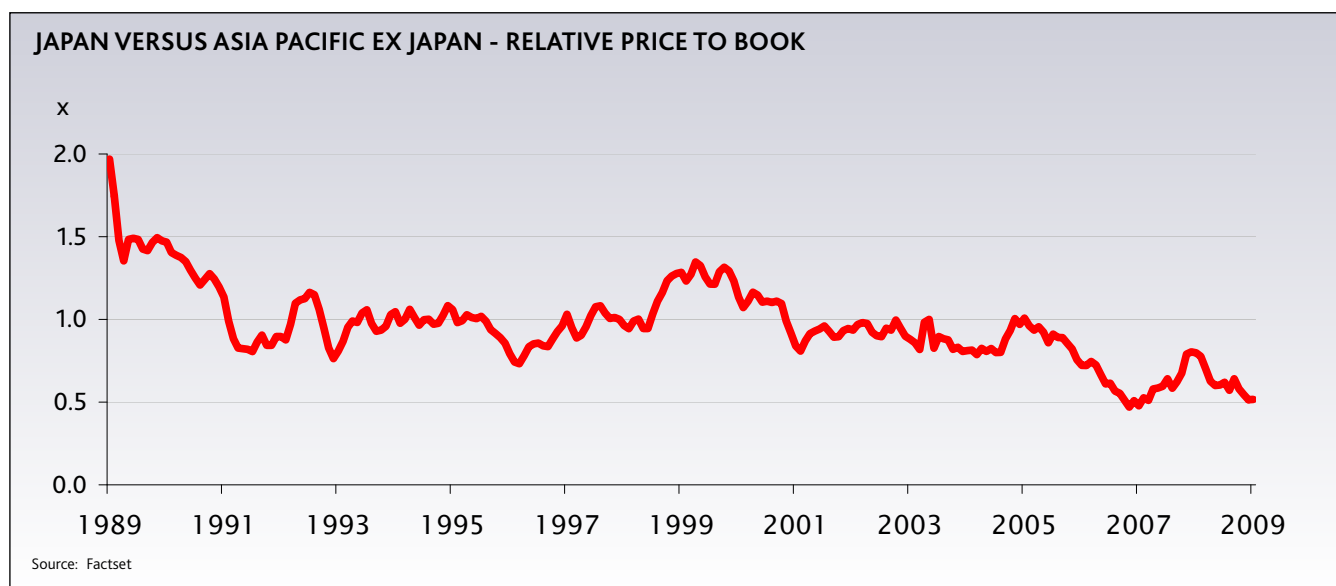
- Proliferation of new products (LED backlit LCDs, smart phones, net-books, tablet PCs, and other mobile internet devices).
- PC upgrade super-cycle driven by Windows 7 and renewed corporate IT spending.
- Brazil, Russia, India and China (BRIC) consumption growth offsetting the worst of the Western world consumer retrenchment.

Within the Japan Fund we have approximately 13% direct exposure to this theme.

On the domestic front, we sold our entire position in KB Financial (leading South Korean bank) not that the stock was over-valued, but rather because we were finding irresistible value in the Japanese consumer finance companies, specifically Promise Company. We will leave this story for another time.

CURRENCY

From point-to-point over the quarter there was very little change in the key currency rates that the Fund is exposed to: Japanese yen, Korean won and the US dollar. However, as the generalised sell-off in the US dollar intensified, we increased our exposure to the US dollar (and its proxies) from 19% to 26%, largely at the expense of the Australian dollar and Korean won. As Kerr elucidates in the Platinum International Fund report, our preference for the US dollar has more to do with our rejection of the emotive arguments regarding the Fed's money printing activities (when all evidence suggests that broad money in the US continues to contract as households pay down debt) rather than having any real confidence in the US dollar; our choice could be described as a least worst alternative. At 43% the Fund remains heavily underweight the Yen as our proprietary models suggest it is over-valued on several fundamental measures, including: purchasing power parity, relative GDP growth and relative money supply growth. Further, momentum factors are also working against it as we think the general sell-off in the US dollar against Western currencies is complete.



OUTLOOK

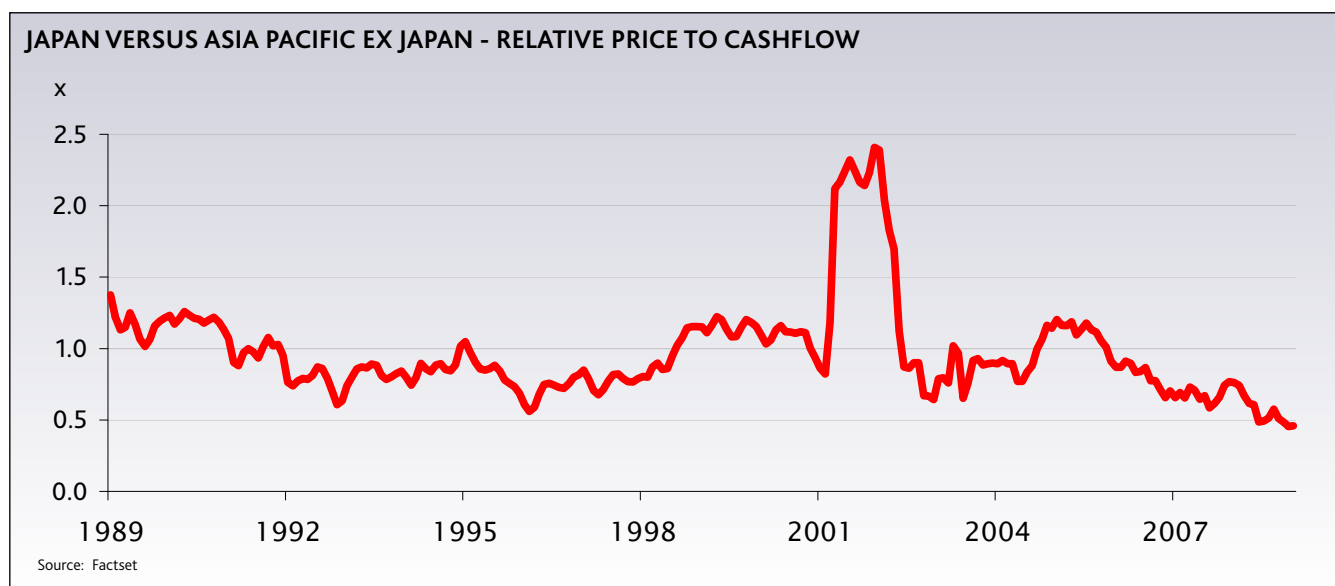
The Nikkei Average Index hit an all time high on 29 December 1989 closing at 38,915.87 – twenty years later (almost to the day), the index is hovering just above 10,000. Unsurprising for long suffering Japanese stock investors, the outlook for Japanese equities remains finely balanced. We continue to operate with a number of potential scenarios in mind and would guide investors to examine the incremental information flow for signs of confirmation or denial rather than being too definitive. We still see an external inflation event as the most likely catalyst for driving domestic investors out of over-valued nominal assets such as government bonds and into what has become a very cheap stock market.

We wrote in the last quarterly that the recently elected DPJ Government would need to loosen monetary policy to combat deflation and the ever strengthening Yen if they wished to win Upper House elections scheduled for the second half of 2010. Our prediction is unfolding with the Government expressing frustration with the Bank of Japan (BOJ) Governor Shirakawa's deflation tolerance. We suspect this will end with the BOJ adopting a more meaningful pro-reflation stance incorporating both inflation targeting and a return to quantitative easing (central bank monetisation of fiscal deficits).

On a longer term basis, Japan desperately needs to adopt rigorous micro-economic reform eg. deregulation of domestic sectors such as health care, transfer of the social safety net from business to government, progressive social and immigration policy and so on. There are some minor encouraging signs on this front from the DJP led coalition Government, including:

- Moves to diminish bureaucratic power: firstly, by preventing/punishing bureaucratic press leaks to key establishment newspapers that has led to an extremely unhealthy relationship between Japan's Fourth Estate and the bureaucracy; secondly, reformation of the law-making process where bureaucrats were responsible for not only drafting laws, but also policy origination, to a more Western style where cabinet has a strong policy role. To the surprise of many, it has now become common for televised parliamentary committees to interrogate bureaucrats on how and why spending programs have been approved and implemented; somewhat of a surprise for a consensus based society.

- The DPJ has appointed Heizo Takenaka to advise them. This is a positive surprise on many levels: firstly, he was a progressive member of Koizumi's LDP Cabinet ie. akin to the Rudd Government inviting Peter Costello to advise on economic policy; secondly, Takenaka was a key advocate of Postal privatisation, a Bank and Life insurance behemoth (controlling US\$3.3 trillion in assets, approximately 20% of total household



savings) that would benefit itself and the country if it was run along commercial lines (rather than a buyer of last resort of Japanese Government paper).

At a global level, extremely contradictory forces are at work: an increasingly pro-inflation environment in the East (or the Emerging World) counterbalanced by a deflationary output gap and unemployment in the West. In this sense, the US and China's inability to agree on climate change policy is a potential precursor to a more dangerous disagreement regarding currency and trade policy. However, we remain hopeful that protectionism and the destruction of global wealth that would ensue, is avoidable by the adoption of enlightened self-interest by the superpowers. With the Western consumer somewhat diminished, China must increasingly rely on domestic sources of demand and the limiting factor to its growth will be inflationary pressures that are best managed via currency appreciation. Hence, global imbalances should be somewhat reconciled by the appreciation of the Renminbi (and other pegged Asian and emerging market currencies) against Western counterparts. Once again, we would urge investors to monitor the information flow on this key issue as signs of failure significantly increase the risks of another deflation debt bust in the West.

It is worth remembering that the flight time from Beijing to Tokyo is 3.5 hours – we don't believe that China (and the BRICs) can undergo a transformational consumption boom without some ray of light reaching Japan. And whilst the Japanese market hasn't missed the obvious BRIC plays eg. Komatsu, the well-known manufacturer of mining heavy equipment, is priced at approximately twice the market multiple, we are finding smaller, less obvious China plays with

extraordinarily cheap valuations. Companies below \$3 billion market capitalisation have almost completely fallen off the radar of most investors. In many ways the environment is reminiscent of early 2003 when we started accumulating Indian mid-caps – many of these companies, lacking any brokerage coverage, shunned by the investment community, became market darlings in the subsequent bull-market. Whilst conceptually similar, in every sense we realise Tokyo is a long way from Mumbai. Whilst we are fully aware of the liquidity risks associated with too much exposure to smaller companies, we won't ignore valuation in our assessment of risk-return. In the interests of disclosure, approximately half the portfolio is invested in companies less than US\$5 billion in market capitalisation which is, incidentally, very similar to the composition of a year ago.

The Federal Reserve balance sheet has now started to shrink on a year-on-year basis ie. US monetary policy is, on the margin, tightening – the free liquidity that has fuelled the global stock market rally is slowly being withdrawn. Clearly, with the official rate close to zero, we are not suggesting US policy is tight, however, with the economy showing some improvement and the return of interest carry at the long end of the yield curve, the dollar is now rebounding. Accordingly, whilst the Japanese have a habit of stealing defeat from the jaws of victory, even a half hearted effort by the BOJ to weaken the Yen may actually work as two large economic blocks (ie. Asia ex Japan and US) are now pursuing some form of tightening. Given its beaten down valuation, any broad devaluation of the Yen would act as a much needed accelerant for the Japanese stock market.

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 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\$20,000 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, 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.

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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