Platinum Japan Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	DEC 2011	SEP 2011
Japan	90%	87%
Korea	3%	3%
Cash	7%	10%
Shorts	14%	14%

The Fund also has a 14% short position in Japanese Government Bonds.

Source: Platinum

Portfolio Position

Changes in the quarterly long portfolio composition:

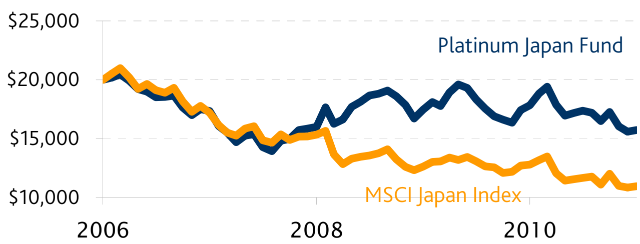
Sector Breakdown

SECTOR	DEC 2011	SEP 2011
DOMESTIC	51%	49%
Retail and Services	19%	19%
Telco, IT and Internet	13%	12%
Financials	12%	11%
Real Estate and Construction	7%	7%
EXPORT	42%	41%
Tech/Capital Equipment	17%	15%
Autos and Machinery	13%	11%
Commodities	8%	10%
Alternative Energy	4%	5%
Gross Long	93%	90%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 December 2006 to 31 December 2011



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

Performance

Over the past 12 months, the Fund fell 11.8% outperforming the MSCI Japan Index (A$) benchmark by 2.5%, and over the past quarter the Fund fell 8.9%, in line with the benchmark. For the quarter, the benchmark fell 8.9% in A$ terms and 4% in Yen terms.

Looking a little more closely at attribution, our best performers were our domestic stock exposures, especially retail and telecoms, not surprising given the defensive nature of their earnings. Our commodities and autos exposure detracted from Fund performance on global economic slowdown concerns.

Changes to the Portfolio

We made relatively minor adjustments to existing positions as choppy markets provided selective opportunities.

Long positions

The composition of our long portfolio remains broadly unchanged from the previous quarter. We have moved to lower our exposure to selected commodity and chemical names and increased exposure to financials slightly.

As highlighted in the last Quarterly Report, we have acted upon a more constructive view on the Japanese banks by raising our weighting in Sumitomo Mitsui Financial Group. We believe the acquisition of consumer lender, Promise, is another sensible move and is clearly accretive to earnings. Additionally, with large European banks steadily withdrawing from lending in Asian markets, Japanese banks are selectively moving in to fill this gap which will further benefit margins.

We also added to our holding in Mitsubishi Electric, where we expect durable earnings growth even with economic uncertainty. The company stands to benefit as product energy efficiency becomes an increasingly important competitive edge. Industrial and consumer products such as locomotives, elevators and air conditioners that use inverters and IGBT modules[1] provide significantly greater energy cost savings than in prior generations. As with other developed economies, Japan is likely to see upgrades to its ageing electricity grid infrastructure augmenting this broader industrial shift towards efficiency.

Short positions

We remain short names where we think the market overvalues corporate prospects and disappointment is likely. We have initiated new shorts in retail, internet gaming and the steel sector.

Currency

The Yen has come off its highs earlier this quarter versus most major currencies. Our Yen exposure has dropped slightly to 39% as we remain of the view that the currency remains fundamentally overvalued. Clearly, the Japanese Ministry of Finance (MOF) is of the same view, having intervened to stem the inexorable appreciation of the currency. More recently, the MOF expanded its currency intervention war chest by ¥30 trillion ($380 billion), which whilst capping further immediate rises, does not represent a proactive effort to weaken the currency.

Commentary and Outlook

The Olympus accounting scandal has dominated Japanese corporate headlines. To recap events briefly, Olympus unceremoniously dumped after only a few months in the position their newly appointed CEO, Michael Woodford, who as his name suggests, happens to be a foreigner. The claim was he was abrasive and did not follow Japanese business cultural norms. As it turns out, Woodford had questioned a series of overpriced or dubious acquisitions over several years and was asking some uncomfortable questions of senior Olympus management. We understand that Woodford became concerned after being made aware of an article published in July by a small, non-mainstream Japanese magazine called *Facta*, which questioned the high fees paid by Olympus for a series of acquisitions. As we now know, *Facta*/ Woodford uncovered a complicated scheme to cover up old 'Zaitech' or financial engineering losses incurred 20 years ago. Equity linked investment products were widely used in

[1] The insulated gate bipolar transistor or IGBT is a three-terminal power semiconductor device primarily used as an electronic switch and in newer devices is noted for combining high efficiency and fast switching.

corporate Japan in the late 1980s stock market bubble as a way for many companies to offset the negative earnings impact of a rising Yen. The collapse of the bubble saw these investments turn into large losses, but most had been resolved over 10 years ago.

We were not holders of Olympus when this scandal surfaced, as we had assessed the market was overpaying for its endoscope business and a simple analysis of the financial accounts suggested something amiss (a growing level of intangible assets and poor cash generation). We had previously shorted the stock on this basis.

As the nature of the revelations came to light, the stock price collapsed by close to 80% as delisting became a real possibility. The stock fell below our very conservative target of what the business may be worth in the hands of competent management only to rebound strongly. We remain interested as the saga is yet to fully play-out and, however unlikely it is, we would view the reinstatement of ex-CEO Woodford in positive manner.

The episode highlights the counter-productive nature of certain Japanese cultural biases as reflected in business practices. The current Anglo-Saxon view of capitalism promotes the idea that the enterprise has the primary purpose (though by no means sole purpose) of maximising profit for the owners of the business, the shareholders. It is a relatively straightforward concept and we cautiously share this view. The orthodox Japanese view of the enterprise is that it exists to serve its stakeholders; namely employees, customers, suppliers, creditors and shareholders – mostly in that order.

From outside Japan, the cover-up by Olympus management is universally seen as corporate malfeasance, a failure of corporate governance and destruction of shareholder value. However, for some inside Japan, particularly those from the establishment, such actions are seen in a less harsh light. By covering up losses, management prevented a systemically important company from potentially being broken up, jeopardising the livelihood of thousands of employees, suppliers and creating confusion for Olympus customers.

These fundamental cultural differences are difficult to bridge, yet it would also be wrong to assume that Japan (or the West) is homogenous, or that such views are unchanging. After all, the uncovering of the Olympus scandal was triggered from within Japan (by *Facta*, even if it took a foreigner to bring it to a head). Further, there are Japanese companies that understand that capital is ultimately scarce, mobile and will seek-out higher returns (just as there are Western management teams that exploit profit maximisation for short-term personal gain). Across all our Funds we seek stocks with a management track record of allocating capital with the respect it deserves and a view to generate long-term shareholder returns, at a share price that fails to fully reflect this long-term value.

More generally on the outlook, real GDP in Japan should rebound to 2.5% growth in 2012, possibly the highest in the G7. This is driven by stronger domestic demand as the economic stimulus effects of post-Tohoku earthquake reconstruction more than offset the expected drag from a slowing export sector. Further, the raising of the consumption tax appears to be gaining traction politically and, as with the previous tax hike in 1997, is likely to see a front-loading of demand prior to its expected introduction in 2013. As the outlook becomes more clouded for the export sector, the relative earnings momentum from domestic sectors is likely to provide a better environment for picking stocks on a tactical basis.

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$20,000 invested in the relevant Fund over five years from 31 December 2006 to 31 December 2011 relative to their Index (in A$) 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.

Disclaimer

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum®). It contains general information only and is not intended to provide any person with financial advice or take into account any person's (or class of persons') investment objectives, financial situation or needs. Before making any investment decision you need to consider (with your financial adviser) whether the information is suitable in the circumstances.

Platinum is the responsible entity and issuer of units in the Platinum Trust Funds® (the Funds). You should consider the PDS and Supplementary PDS in deciding whether to acquire, or continue to hold, units in the Funds. You can obtain a copy from Platinum's website, www.platinum.com.au, or by phoning 1300 726 700 (within Australia), 02 9255 7500, or 0800 700 726 (within New Zealand), or by emailing to invest@platinum.com.au.

No company in the Platinum Group® guarantees the performance of any of the Funds, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum).

MSCI Inc Disclaimer

Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data (contained in this Quarterly Report) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI Inc, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the Index data is permitted without express written consent of MSCI Inc.