Platinum Japan Fund

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Disposition of Assets

REGION	DEC 2012	SEP 2012
Japan	91%	88%
Korea	5%	5%
Cash	4%	7%
Shorts	5%	8%

The Fund also has a 10% short position in Japanese Government Bonds.

Source: Platinum

Portfolio Position

Changes in the quarterly long portfolio composition:

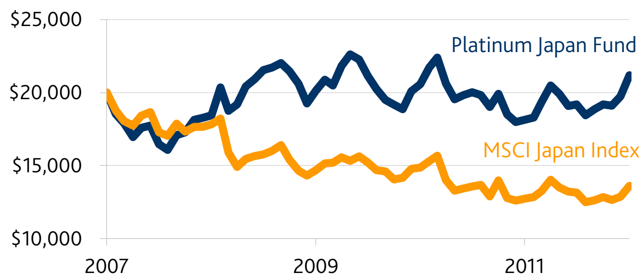
Sector Breakdown

SECTOR	DEC 2012	SEP 2012
DOMESTIC	44%	53%
Retail and Services	14%	21%
Financials	14%	12%
Telco, IT and Internet	8%	12%
Real Estate and Construction	8%	8%
EXPORT	52%	40%
Tech/Capital Equipment	28%	18%
Autos and Machinery	17%	16%
Alternative Energy	5%	4%
Commodities	2%	2%
Gross Long	96%	93%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 December 2007 to 31 December 2012



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

Performance

Over the past 12 months the Fund rose 16.8% outperforming the MSCI Japan Index (A$) benchmark by 10% and over the past quarter the Fund rose 10.4% outperforming the benchmark by 4.4%. Over the quarter the MSCI Japan Index in local currency terms rose 17.6%, topping the country league table; the 9.9% decline in the Yen against the Australian dollar, resulted in a much tamer AUD benchmark return of just 6%, similar to Asia ex-Japan and behind Europe. Whilst the Japanese market's annual local currency return was also impressive at 21.6%, in AUD terms it was a paltry 6.8% versus the global benchmark return of 14.7% and investors realise the comparisons don't get better over longer time periods … Japan potentially has some ground to catch-up.

The trigger for the Yen weakness and surge in reflationary policy beneficiaries (property, financial and exporter stocks) was the 14 November 2012 announcement of a lower house election. Initial scepticism regarding the sustainability of the rally in the face of ongoing likely grid-lock melted in the face of the subsequent landslide victory by the Liberal Democratic Party (LDP), winning 293 out of 480 seats. The LDP has formed a government in coalition with New Komeito and now holds the two thirds lower house majority necessary to enact legislation without the approval of the upper house. This is important; the Japanese electorate has just handed the new government the power/mandate, if they wish to use it, to force the Bank of Japan (BOJ) to adopt aggressive reflationary policy or face a potential legislative end to the Central Bank's independence.

In a reverse of the first nine months of the year, where our best performers tended to be domestic growth stocks, our languishing large-capitalisation automotive (e.g. Toyota Motors, Fuji Heavy Industries), capital equipment/technology (Hitachi, JSR) and financial/property stocks generally (Mega banks, Orix and Kenedix) finally leapt to life. Our significant hedge out of the Yen made a large positive contribution for the quarter and shorts were negative.

Amongst the auto stocks, Fuji Heavy Industries (FHI), the maker of Subaru branded vehicles, ended the year as both the best performing stock in the Nikkei 225 and large-cap stock within the Fund. FHI has developed a loyal following for its offering in the US (and smaller markets such as Australia) of affordable, practical motor vehicles with the safety and performance characteristics of much more expensive European marquee brands. The performance is delivered by a relatively unique combination of all-wheel drive and a boxer engine technology which, together with Porsche, makes it only one of two major companies globally to offer this engine type. The company has a well-rounded offering with the Impreza WRX (and recently launched two door BRZ), the younger person's pocket rocket of choice and the Outback (off-road), Forester (family) and Liberty/Legacy (family-performance) successfully extending the brand to meet the needs of the ageing rev-head/outdoorsman or women.

FHI has also benefited from rising market share and lower incentive spending on the back of a new product cycle and, with little exposure to China, has avoided the disruption caused by the well-publicised Sino-Nipponese territorial dispute. Going forward, we expect the newly launched Forester crossover and upcoming Legacy and Outback launches to further benefit earnings. With 80% of Japanese production exported, earnings are highly sensitive to the level of the Yen, the depreciation of which provided a nice final quarter kicker.

Changes to the Portfolio

The portfolio underwent a reasonable makeover during the quarter where our total long exposure rose by 3% and export exposure rose by 12% funded from a combination of cash deployment and sales of our domestic growth stocks that had reached valuation targets. Complete divestments included Calbee (see Platinum Japan Fund June 2012 quarterly report for investment case) and Arnest One, both significant positive investments for the Fund. We also sold our holding in pharmaceutical wholesaler Suzuken at a loss as erratic government regulation prevents the larger wholesalers from exercising market power against suppliers and smaller competitors.

The 12% increase in export exposure included both new ideas and additions to existing positions e.g. Hitachi. We first wrote about Hitachi's corporate makeover in the Platinum Japan Fund March 2012 quarterly report. Once some of the then enthusiasm expressed in the share price faded, we initiated a position and have added to it on any pull-back. This has proved timely from both the perspective of the Yen weakness and the announcement that Hitachi and Mitsubishi Heavy would merge their power systems divisions and create a global leviathan of similar size to respective divisions within Siemens and GE. The fact that two highest-profile heavy engineering companies in Japan with a history of tribal competition have embarked on this journey is a bellwether event for Japan generally and, more specifically, adds credibility to Hitachi's restructuring rhetoric. If the deal leads to a reduction in Japanese fixed costs and an improvement in their global competitive position, it will be held up as the domestically acceptable template for the broader restructuring of Japan Inc which would lead to further opportunities for the Fund. The Japanese Government appears to endorse these deals, downplaying market concentration concerns, as domestic scale is now seen as a necessary prerequisite to global relevance.

The new ideas that have entered our top ten holdings include Ibiden, globally significant manufacturer of CPU/Application processor packages, PCB's and diesel particulate filters, acquired at around 0.6x P/B with a net-cash balance sheet, a great example of the deep-value that has emerged amongst Japan's leading exporters; and Orix, acquired at 0.7x P/B, for the exposure it provides to Japan's nascent property market recovery.

Currency

Our preference for owning the US dollar, Korean won and Australian dollar over the Yen remains little changed. Whilst additional easing from the BOJ would accelerate Yen weakness, there are sufficient terms of trade headwinds and pressure on the domestic corporate earnings (and tax take) to support an ongoing decline in the currency.

Commentary and Outlook

The return of the LDP to government represents the maintenance of the status quo and protection of corporate and bureaucratic vested interest within Japan. Hence, the proposed solution to Japan's economic stasis (whether real or perceived) is more fiscal stimulus (¥200 trillion over 10 years – 4% of GDP pa) and deficit monetisation by the BOJ. With Japan's gross government debt to GDP approaching 200%, the highest in the G20, more fiscal stimulus seems a tad unimaginative, but unlike the US, Japanese voters seem to have no apparent concern with their fiscal plight.

The Japan Restoration Party (JRP) campaigning on a Western style free market platform (see September 2012 quarterly report) enjoyed moderate success, winning 54 seats, the third largest party in the Diet after the LDP and Democratic Party of Japan (DPJ) - the incumbent party of government was crushed winning only 56 seats. However, this understates the JRP's influence on the campaign as the LDP found it necessary to subsume one of JRP's key election policies as its own, the 2% inflation target, and surprisingly, post-election continued to ramp-up pressure on the BOJ. Whatever the LDP stands for, it would seem a weaker currency to reduce the pressure on the corporate tax-take is central to its agenda. Where this becomes a little tricky is that if Japan continues to run both extremely loose fiscal AND monetary policy compared to the US and Europe, the depreciation in the Yen may be larger than that anticipated by Japanese Government boffins. That is, there doesn't seem to be a brake lever on the Japanese Government debt machine, and if the BOJ's printing becomes synonymous with debt issuance and Yen weakness, at some point imported inflation may spook the Japanese Government Bond (JGB) market, the elephant in the room.

We suspect there will be more than a few investors that will take the recent bounce in the Japanese stock market as a chance to reduce exposure – we think this would be wrong. Now that the appreciating trend of the Yen has been broken, the market should move higher as the vast Japanese household balance sheet moves out of bank deposits and seeks inflation protected assets and a currency hedge i.e. listed property stocks and exporters. A valuation target for the market of 1.3-1.5x P/B (the average of the past ten years is 1.5x) seems reasonable i.e. 30-50% higher.

Toyota Motor, the largest Japanese company and holding in the Fund, as a market proxy is a reasonable test for our target. At ¥90, Toyota should earn EPS of around ¥320; at the current ¥4000 share price that values the stock on a P/E of 12x and 1.1x P/B. Some would argue that versus the global auto sector on a P/E of 9x and 1.2x P/B, this valuation is hardly compelling. However, Toyota is a better than average auto company with a fortress like balance sheet, strong finance/leasing business, world leading hybrid technology and a favourable new product cycle. Netting off cash and investments, the stock is trading on a P/E of 7x – with some return of animal spirits within Japan, it would not take much enthusiasm to see this multiple expand to 9x P/E or 1.5x P/B i.e. 30% higher than the current share price.

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$20,000 invested in the relevant Fund over five years from 31 December 2007 to 31 December 2012 relative to their Index (in A$) 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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