Platinum Japan Fund

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Performance

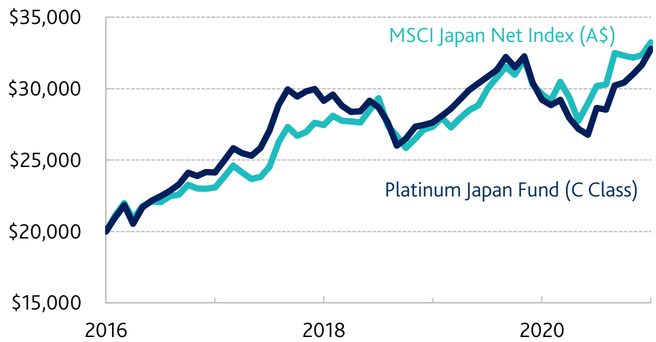
(compound p.a.+, to 31 March 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	8%	12%	4%	10%	14%
MSCI Japan Index^	3%	12%	7%	11%	3%

+ Excludes quarterly performance.
* C Class – standard fee option. Inception date: 30 June 1998.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI Japan Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet Research Systems.
Historical performance is not a reliable indicator of future performance. See note 1, page 4. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

31 March 2016 to 31 March 2021



After fees and costs, before tax, and assuming reinvestment of distributions. Historical performance is not a reliable indicator of future performance. Source: Platinum Investment Management Limited, FactSet Research Systems. See notes 1 & 2, page 4.

The Fund (C Class) returned 7.7% for the quarter and 12.2% for the year.[1]

Key contributors to performance over the quarter included **MinebeaMitsumi** (+38%), **Rakuten** (+33%), **Inpex** (+36%) and **Lixil** (+38%).

Key detractors included **Oracle** (-20%), **Nintendo** (-6%), **Gree** (-8%) and **Nihon Unisys** (-16%).

During the quarter, a range of existing positions were added to the portfolio, including **Takeda**, **Mitsubishi Corp** and **Kyocera**. New positions included **Mitsubishi UFJ Financial**, **Ube Industries** and **Nikon**, while **Rakuten**, **Oracle** and **Iida** were reduced.

The portfolio has been positioned conservatively for the last two years but is now fully invested. It's a diversified portfolio across industries, including: industrials, internet, semiconductors, health, games, autos, trading houses, consumers and financials.

From a valuation perspective, 28% of the stocks in the portfolio are at or near all-time highs (MinebeaMitsumi, Tokyo Electron), 12% are lower than three years ago (Doosan Bobcat) and 9% are below five years ago (Astellas Pharma, Sosei), while half of the stocks in the portfolio are priced below where they were 15 years ago (Toyota, Takeda). These companies have grown sales and earnings since 2005 and have good outlooks.

A few examples of the portfolio's holdings are noted below:

- The largest position in the portfolio is **MinebeaMitsumi**, a diversified engineering company focused on integrating mechanical, electrical and precision engineering at scale. The company produces 300 million miniature ball bearings per month, with a global market share of 60%. The management team is one of the best in Japan and their M&A execution has been superb. While they are looking for the next transformational product, it could well be their periscope lens for smartphones, perhaps for the iPhone.

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum Japan Fund report are in AUD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

Disposition of Assets

REGION	31 MAR 2021	31 DEC 2020	31 MAR 2020
Japan	90%	89%	79%
Korea	8%	11%	3%
Cash	2%	1%	19%
Shorts	0%	-1%	-24%

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	31 MAR 2021	31 DEC 2020	31 MAR 2020
Information Technology	26%	31%	8%
Industrials	19%	15%	9%
Consumer Discretionary	19%	17%	14%
Health Care	13%	15%	13%
Communication Services	8%	9%	14%
Materials	6%	5%	3%
Financials	4%	2%	0%
Energy	3%	3%	0%
Consumer Staples	1%	1%	-3%
Real Estate	0%	0%	0%
TOTAL NET EXPOSURE	98%	98%	57%

See note 4, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
MinebeaMitsumi Co	Japan	Industrials	5.7%
Rakuten Inc	Japan	Cons Discretionary	5.2%
Toyota Motor Corp	Japan	Cons Discretionary	4.8%
Takeda Pharma Co	Japan	Health Care	3.7%
Nintendo Co Ltd	Japan	Comm Services	3.4%
GMO Internet Inc	Japan	Info Technology	3.4%
Samsung Electronics Co	South Korea	Info Technology	2.9%
Eisai Co Ltd	Japan	Health Care	2.8%
Mitsubishi Corp	Japan	Industrials	2.8%
Itochu Corporation	Japan	Industrials	2.7%

As at 31 March 2021. See note 5, page 4.
Source: Platinum Investment Management Limited

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pjf.

- **Takeda** is Japan's leading pharmaceutical company that has transformed into a global biotech platform with deep roots in Boston, Massachusetts and the West Coast in the USA.
- The trading houses are valued at historically low valuations. **Itochu** is superbly managed, while **Mitsubishi Corp** has very high-quality assets. We have owned these stocks prior to Warren Buffett. **Daiwa Securities** has turned around its investment banking business over the last 10 years and is currently transforming its retail distribution business. The valuation reflects little to no success with these efforts.

Commentary

A useful framework for thinking about Japan at the moment:

- Japan has changed rapidly many times over its long history;
- There is abundant evidence that Japan is changing; and
- The outcome will surprise most, and perhaps even astound.

This situation is out in the open. It's discussed in many forums and well understood by some. Most will miss the opportunity due to a combination of being distracted by other opportunities and their backward-looking assessment of Japan.

One such 'missed' opportunity is **Toyota**, a well-known company with highly regarded products. The wider group produces 16 million vehicles per annum and the core group employs hundreds of thousands of people. Over the last decade, President and CEO Akio Toyoda, the grandson of the founder, has reorganised and refocused the business, which has resulted in sales growth through the current downturn, unlike the previous one.

Order and process can often impede progress, but Toyota seems to have achieved a decent balance between the two. The product range has been rejuvenated and recent models are receiving excellent consumer reviews with Lexus in the vanguard. Recent financial results confirm the progress and illustrate the potential for growth in Europe and China, together with an impressive foothold in India.

The market's perception of Toyota's prospects leads to a low valuation, with a single-digit earnings multiple, despite a 15% Treasury note shareholding and an enormous amount of surplus cash on the balance sheet. This dour view could change, as deep internal drivetrain electrification plans become more widely known and it becomes clearer that Toyota is very well-placed against their traditional peers, Tesla, Apple and a swarm of new electric vehicle competitors. Further, there is a misguided belief that transportation technology shifts happen quickly, when it has historically been a multi-decade process. With Toyota's share price at the same level as it was in 2006, despite higher sales, a much stronger balance sheet and an improved organisational coherency, set against a backdrop of investor disinterest, it presents an extremely attractive investment opportunity.

The historical context of the current Japanese market is worthy of a brief discussion. The major indices are below their levels of the late 1980s. Recently, the indices in Taiwan and Korea have risen to new highs, while the Japanese indexes have risen to multi-decade highs. Long-term charts like this are very rare. It has been a long 'bear market' in Japan, spanning more than 30 years. The current conditions are reminiscent of what is described in Russell Napier's book *Anatomy of the Bear: Lessons from Wall Street's Four Great Bottoms*. Today, Japan is analogous to the USA in 1921, 1932, 1949 and 1982. This is a broadly North Asian phenomenon due to the long duration deflationary impulse, after China entered the global market, combined with Taiwanese technology and Korean persistence. Japan of today has been forged in the furnace of North Asian competition.

Underlying the broad indices described above, there has been dramatic change in the composition with significant portions of the market listed in the last two or three decades. While many problems remain (demographics, debt, Bank of Japan balance sheet structure, to name just a few), these are broadly well-understood and debated.

Innovation and engineering are intertwined. In some ways, engineering is the more significant at most stages of the economic cycle and this is where Japan excels. Japan has maintained its manufacturing base on the back of continued engineering excellence and the Japanese economy, particularly technology and physical goods, remain important to employment and wage levels.

Global industrial production has been weak for three to four years on the back of supply chain reorganisation, destocking and global funding cycles. Historically, this pause has led to periods of above-trend growth, particularly for newer areas of the economy, notably during technological transitions such as today. It's possible that the many problems across the global economy (debt levels, geopolitical tension, trade imbalance, social dislocations and the ongoing pandemic to name but a few) lead to more years of below-trend growth.

Outlook

Technological revolutions and transitions receive a lot of discussion in the current market environment. Broadly, the changes are good for Japan due to their focus on energy efficiency, materials science and high-quality manufactured products. On a more practical basis, the end results of the initial framework and the subsequent discussion can be seen clearly in Japan. Profit margins have been increasing across companies and record profits can be seen in many of the recent results. Corporate governance has been on an improving trend for decades and recent levels of shareholder activism has increased further and is now above levels seen in many Western countries. It is clear that a digital transformation is underway, which can be seen in the small but thriving start-up ecosystem. Most importantly, the whole system is aligned behind improved corporate performance. After decades of low interest rates and no sign of a change, constituents just want higher investment returns.

North Asia has been a global deflationary impulse for many decades. Perhaps the worst of this has passed, which in combination with significant change across the Japanese market, society and economy will likely result in a change of mode. The outcome will surprise most, perhaps even astound. This opportunity is out in the open but poorly and narrowly understood. It's easy to get distracted by other seemingly more exciting opportunities. It's also uncomfortable for historical reasons, as the situation preys on many human biases. Sometimes great opportunities, such as what we are witnessing in Japan today, just pass by.

Notes

Unless otherwise specified, all references to "Platinum" in this report are references to Platinum Investment Management Limited (ABN 25 063 565 006, AFSL 221935).

Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. [The gross MSCI index was used prior to 31/12/98]. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, the Fund's holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The investment returns depicted in the graph are cumulative on A$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows the Fund's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "Shorts" show the Fund's exposure to its short securities positions and short securities/index derivative positions, as a percentage of its portfolio market value. "Cash" in this table includes cash at bank, cash payables and receivables and cash exposures through derivative transactions.
4. The table shows the Fund's net exposures to the relevant sectors through its long and short securities positions and long and short securities/index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".
5. The table shows the Fund's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

Disclaimers

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