Platinum Japan Fund

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Portfolio Manager

Performance

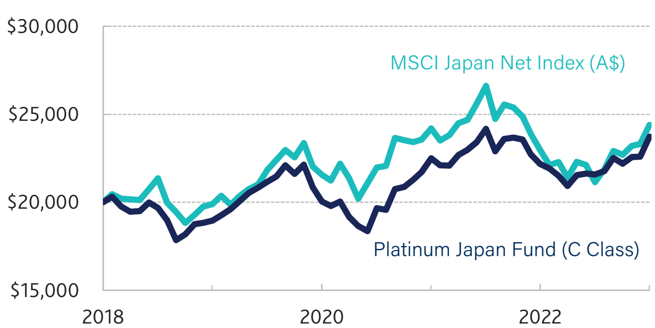
(compound p.a.+, to 31 March 2023)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	7%	7%	6%	3%	13%
MSCI Japan Index^	8%	6%	4%	4%	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 2018 to 31 March 2023



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) delivered a solid 6.9% return during the quarter, boosted by general strength in the Japanese equity market.[1]

The rise in the broader market was primarily driven by a rebound in growth stocks, particularly in technology-related areas. Meanwhile, financials reversed much of their gains from the December quarter as the issues in the US banking system stoked recession fears and led to downward pressure on rates globally. This reduced pressure on the yen and thus makes it less likely the Bank of Japan will be forced to abandon its controversial yield curve control policy, which in turn reduced hopes of Japanese banks being able to invest their low-cost deposits at higher rates of return.

The issues in the US likely also caused investors to turn their eyes to the asset side of the balance sheets of Japanese financial institutions and to note their large holdings of low-yielding government bonds. The danger here is that should rates rise, the market value of these holdings will fall. These assets are not required to be marked-to-market unless sold, but if depositors withdraw funds in large enough numbers, capital positions can begin to look precarious as assets are sold to meet withdrawals, thus crystallising losses and stimulating more withdrawals and a disastrous feedback loop; exactly what happened with Silicon Valley Bank (SVB). This outcome seems much less likely in the Japanese context as the deposit base is diversified, whereas SVB's clients were typically loss-making, venture capital-funded corporates, which had account balances that were rapidly declining as the normal source of replenishment, the venture-funding market, had dried up. Nevertheless, the change in investor perceptions of this risk factor sent financials stocks, particularly regional bank stocks, lower. The Fund had minimal exposure to this area, so was only slightly affected.

Strong contributors to the Fund's performance in the quarter included semiconductor equipment maker **Tokyo Electron** (+24% in the quarter) and silicon wafer producer **Sumco** (+13%), as well as memory chip makers **SK Hynix** (+18%) and **Samsung Electronics** (+16%). These stocks all rebounded in line with the broader technology sector.

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.

Semiconductor stocks also bounced following commentary from various management teams suggesting that the bottom of the current downturn in the cycle may occur in the first half of 2023. Additionally, our large position in precision manufacturer **MinebeaMitsumi** rose 27% from depressed levels on indications demand may have bottomed in several of its businesses, and two of our small-cap Korean holdings performed strongly. **Doosan Bobcat** (+26%) gained on continued strong demand for its small excavators in North America, and semiconductor equipment maker **HPSP** (+87%) became a local favourite after parallels were drawn to industry leader ASML by certain local commentators.

Detractors from performance included **Toho Titanium** (-21%), which declined due to investor concerns over its ability to pass on input cost increases to customers, and software as a service (SaaS) provider **Hennge K.K**. (-21%), which sold off as its earnings fell by more than the market expected. The stock remains interesting as a small but growing player in digital security with a significant opportunity to increase its pricing. Baby bottle maker **Pigeon** fell 5% after providing a weak near-term outlook as birth numbers in China continue to be impacted by pandemic effects. Coating machine manufacturer **Hirano Tecseed** fell 10% as earnings weakened because of input cost increases. Our short positions detracted 0.7% from performance.

Disposition of Assets

REGION	31 MAR 2023	31 DEC 2022	31 MAR 2022
Japan	84%	83%	68%
South Korea	9%	9%	7%
Cash	7%	9%	24%
Shorts	-7%	-6%	-4%

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

Net Sector Exposures

SECTOR	31 MAR 2023	31 DEC 2022	31 MAR 2022
Information Technology	28%	27%	17%
Industrials	22%	19%	19%
Materials	18%	19%	13%
Consumer Staples	8%	6%	6%
Consumer Discretionary	4%	6%	6%
Communication Services	3%	4%	6%
Health Care	3%	3%	2%
Financials	2%	0%	2%
Real Estate	-3%	0%	0%
TOTAL NET EXPOSURE	85%	85%	72%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Toyo Seikan Group	Japan	Materials	8.0%
Fuji Soft Inc	Japan	Info Technology	4.8%
MinebeaMitsumi Co Ltd	Japan	Industrials	4.6%
Fujitec Co Ltd	Japan	Industrials	4.2%
Pigeon Corp	Japan	Consumer Staples	4.0%
DTS Corp	Japan	Info Technology	3.9%
Lixil Group Corp	Japan	Industrials	3.3%
Oyo Corp	Japan	Industrials	3.2%
SHIFT Inc	Japan	Info Technology	2.9%
Doosan Bobcat Inc	South Korea	Industrials	2.8%

As at 31 March 2023. 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

Changes to the Portfolio

We added new holdings in **Digital Garage** and **MS&AD Insurance** in the quarter. Digital Garage holds a portfolio of assets that include a large stake in online price comparison site Kakaku.com and also owns one of Japan's leading payment processing businesses. It is well-placed to continue benefiting from an ongoing shift to cashless payments and is attractively valued. MS&AD is an attractively valued and conservatively run insurer that has significantly overprovisioned for potential future natural catastrophe losses despite having reduced much of its risk via reinsurance arrangements. This causes its valuation to be even further understated.

Additionally, we took advantage of price weakness to add to our positions in IT services firm **DTS**, seismic consultant **Oyo** and software testing firm **SHIFT**, while trimming several stronger performers, including personal hygiene brand owner **Unicharm**, **Fujitec**, **Samsung**, **MinebeaMitsumi** and **Tokyo Electron**.

We exited our holding in power semiconductor manufacturer **Rohm** as we feared significant destruction of shareholder value as a result of the use of its cash balance to potentially join a private equity-led syndicate to take conglomerate Toshiba private. While a merger with Toshiba's chip business would make a lot of strategic sense for Rohm, the use of its sizeable cash balance to assume a role as a minority owner of a conglomerate would be far from optimal. We await further details of how this may play out. We also exited our holding in paper manufacturer **Hokuetsu** (+29% from our first purchase in May 2021 to our final sale price) following solid relative performance and what we viewed as a peak in its relative cost advantage versus competitors.

Commentary

A big story in Japanese markets during the quarter was the move by the Tokyo Stock Exchange (TSE) to attempt to push companies to focus more on their cost of capital and stock prices via a 'name and shame' approach. This culminated at the end of the quarter with a (non-mandatory) request that companies trading below 1x price-to-book (P/B) should publish detailed plans as soon as possible on how they expect to achieve a 1x level or better and to continue updating those plans each year.

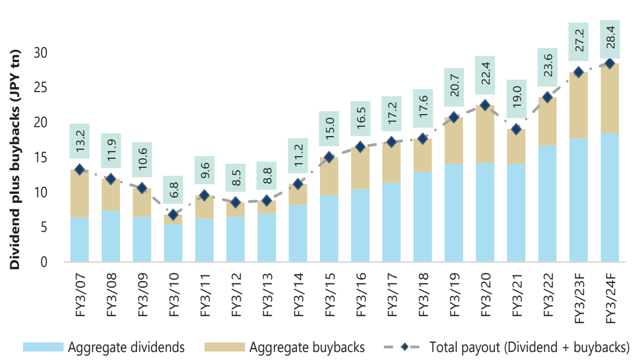
The TSE's move appeared to already have had some effects even prior to their request being officially made, with Citizen Watch citing it as a core reason for announcing a buyback of 25% of its outstanding shares, causing its stock to jump 27% over the next two trading days.[2] The TSE's pronouncements, along with the disclosure of a ~5% stake by an activist investor, may also have had an impact on Dai Nippon Printing's decision to announce a buyback of ¥300 billion (A$3.4 billion) of stock over three years, amounting to around a third of its total market value. This buyback is planned to be partially funded by the sale of a large portion of its ¥400 billion in cross-shareholdings in other Japanese-listed companies.[3]

It appears likely that cash distributions from Japanese corporations will continue to increase from current record levels, spurred by growing shareholder activism amid the ongoing push by the TSE, Financial Services Authority, and Ministry of Economy, Trade and Industry for corporates to improve their profitability. In turn, this should drive an improvement in stock performance for two main reasons. The first reason is that a company buying back stock priced at levels below 1x P/B actually increases its book value per share as a result of the transaction. The second is that a reduction in excess cash holdings leads to an improvement in return on equity (ROE), which tends to increase the valuations at which stocks trade.

2 Source: https://www.citizen.co.jp/cms/cwc/global/files/FY22_3QPse.pdf

3 Source: https://www.global.dnp/news/detail/20168984_4126.html

Fig. 1: Topix - Aggregate Dividend and Buybacks Trend Since FY3/07



Source: FactSet Research Systems, Bloomberg, Jefferies.

Therefore, we could see a double-whammy effect of buybacks driving a solid increase in book value per share, coupled with a market trading at a higher average P/B ratio. Indeed, Jefferies estimates[4] that if the MSCI Japan's ROE increases to 13% from its current 10% level, the P/B ratio of the index could increase by 50%, to 1.9x (see Fig. 2), which would drive stocks upward well in excess of any underlying earnings growth.

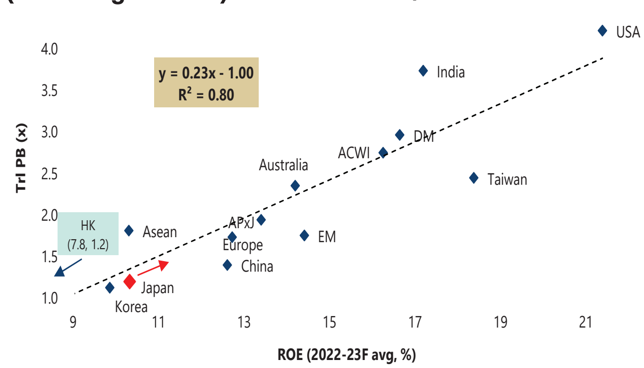
Regular readers may recall that the Fund has a large weighting to companies where there is an opportunity to enhance shareholder value via improvements in governance and capital allocation. During the quarter, one of our large holdings, Fujitec, saw major changes to its board of directors following an extraordinary meeting called by an activist to propose new independent director candidates. Following the partial success of the activist's slate, the company removed its unelected chairman and another existing director resigned, indicating the activist achieved a broader victory than initially suspected. Fujitec returned 10% for the quarter and has appreciated 40% from our initial purchase in May 2021.

Outlook

We see the outlook for Japanese stocks as very positive. With a starting point of low valuations and a tailwind of rising buybacks and dividends driven by the government and activists pushing to improve profitability, it is relatively easy to envision a golden period for the market going forward. Of course, Japan would not be immune from a US-led global downturn, but the economy is seeing a somewhat independent boost from corporate investment in the reshoring of production and wages that have begun to grow. Meanwhile, interest rates remain low and the currency appears to have stabilised, which reduces imported inflation. The Fund is thus positioned quite bullishly so as to benefit from these dynamics.

4 Source: *Quantamentals, Japan Microstrategy: TSE Reform Beneficiaries, 23 March 2023,* Jefferies.

Fig. 2: MSCI Global Regions and Markets (including finance) – ROE versus P/B



Source: Jefferies, FactSet Research Systems, Bloomberg.

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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "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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