Platinum Japan Fund

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Portfolio Manager

The Fund (C Class) returned +5.8% for the quarter and +3.1% for the year. This is against the backdrop of a weak Japanese stock market, with the Index returning 2.3% over the quarter and 0.9% over the year.

The Fund's strong performance over the quarter occurred despite conservative positioning, with an average 65% net invested position. Stocks that provided a positive contribution to performance included **Nintendo** (console games, +25%), **Rakuten** (e-commerce, +22%), **KDDI** (telecommunications, +15%), **DeNa** (internet, +24%) and **Lixil** (housing and bathroom products, +15%).

A stronger Japanese yen, especially relative to the Australian dollar, also contributed to the Fund's performance over the quarter and year.

Japanese government bond prices rose to record highs over the quarter. In a further reflection of general investor nervousness, the gold price reached record highs in some currencies, and the global stock of bonds with negative yields reached new highs, climbing to US$13 trillion. The Japanese market is particularly sensitive to this type of environment due to decades of failed monetary experiments and embedded memory of the country's own debt bubble.

This market environment is presenting many opportunities and the portfolio is gradually shifting to a mix of high quality companies at multi-decade low valuations and reasonably priced growth companies.

Performance

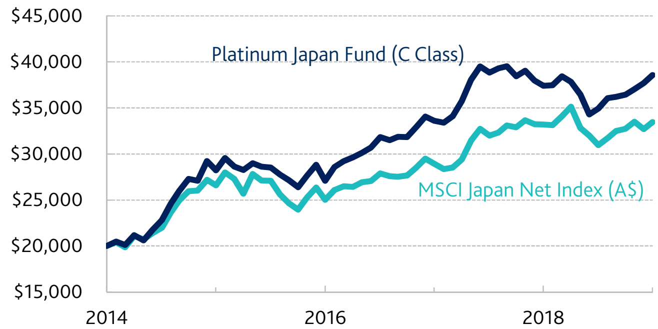
(compound p.a.+, to 30 June 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	6%	3%	12%	14%	14%
MSCI Japan Index^	2%	1%	10%	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.
Historical performance is not a reliable indicator of future performance.
See note 1, page 5. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 June 2014 to 30 June 2019



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.
See notes 1 & 2, page 5.

Disposition of Assets

REGION	30 JUN 2019	31 MAR 2019	30 JUN 2018
Japan	84%	76%	90%
Korea	5%	6%	0%
Cash	11%	19%	10%
Shorts	-26%	-20%	-2%

See note 3, page 5. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures ^

SECTOR	30 JUN 2019	31 MAR 2019	30 JUN 2018
Consumer Discretionary	20%	14%	14%
Communication Services	19%	17%	10%
Information Technology	12%	11%	17%
Industrials	9%	8%	16%
Materials	7%	6%	9%
Energy	3%	4%	8%
Health Care	3%	3%	5%
Financials	3%	3%	9%
Real Estate	<1%	<1%	0%
Consumer Staples	-2%	-5%	-1%
Other	-10%	0%	0%
TOTAL NET EXPOSURE	63%	61%	88%

^ A major GICS reclassification was implemented during the December 2018 quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.
See note 4, page 5. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	30 JUN 2019	31 MAR 2019	30 JUN 2018
Japanese yen (JPY)	97%	98%	94%
US dollar (USD)	15%	29%	4%
Korean won (KRW)	3%	-7%	0%
Australian dollar (AUD)	-16%	-20%	2%

See note 5, page 5. Numbers have been subject to rounding adjustments.
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.

Commentary

The inter-generational conflict in Japan is bubbling to the surface. Even the more rational members of the older generations sometimes express discomfort with the outrageous behaviours of their own generation. They feel conflicted by the dissonance between the past and what the future will bring.

This was clearly on display at the recent Lixil annual general meeting (AGM). In an outstanding result for shareholders, the proposed alternative slate of Directors was elected. Seto-san, the re-instated CEO, was at his desk at six am the next morning. Nevertheless, it was an outcome achieved with compromise, with some of the company's existing Directors also voted onto the Board. Hopefully, they will accept the outcome and work collaboratively for positive outcomes for the company, society and shareholders. Seto-san faces an enormous business challenge, one that he has been pondering from the sidelines. He brings a clear plan and boundless energy to the task. The potential prize is significant, from both the starting valuation, and the long-term business opportunity.

If Lixil's Board changes and executive appointments deliver successful outcomes, the accelerated trajectory towards significantly better corporate governance in Japan is likely irreversible.

Following the recent G20 meeting in Osaka, the upcoming 2019 Rugby World Cup in Japan is already being discussed as a success ahead of the Olympic Games in Tokyo next year. Kerr Neilson and I recently spent eight days in Tokyo and Nagoya with a full schedule of company visits, including many companies currently held in the portfolio. The hotels were busy and staff shortages were evident in some areas of

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Rakuten Inc	Japan	Cons Discretionary	4.5%
Nintendo Co Ltd	Japan	Comm Services	4.2%
NTT	Japan	Comm Services	4.2%
Takeda Pharma Co	Japan	Health Care	4.1%
KDDI Corporation	Japan	Comm Services	3.9%
Itochu Corporation	Japan	Industrials	3.9%
Kangwon Land	Korea	Cons Discretionary	3.9%
Oracle Japan	Japan	Info Technology	3.5%
Kyocera Corp	Japan	Info Technology	3.1%
Japan Physical Gold ETF	Japan	Materials	3.1%

As at 30 June 2019. See note 6, page 5.
Source: Platinum Investment Management Limited.

the economy. The Shinkansen bullet train network is a marvel, as is the range, quality and variety of food on offer across the country. A small earthquake did not disrupt our advances. Similarly, the entrance of private equity has accelerated following broad success by early movers.

However, despite the obvious and profound changes across the country, there is widespread disinterest in the Japanese stock market from most parties. Older portfolio managers are retiring rather than face yet another decade of investing in Japan. It feels like a broad exodus from Japanese equities. Perhaps the most illuminating example was a 7% share repurchase announcement that was greeted with yawning indifference while on the same day, a presentation with a herd of 'unicorns'[1] depicting exponential growth was seen as exciting.

[1] Young start-up companies that have billion-dollar valuations, which are yet to list on the stock exchange or be sold to a larger company.

Japan remains a highly functional and organised constitutional monarchy, similar to the UK. It's interesting to compare and contrast the different outcomes achieved by the two countries. My recent private tours of the Palaces of Westminster and Windsor coincided with the protests in Hong Kong, which highlighted the disparity of institutional strength between the deep and rich history of steadier nations, relative to more disorderly and disjointed historical paths. While it may indeed be the Asian Century, it won't be an uneventful linear path.

With each central bank decision across the globe, their invidious position becomes clearer. The banks are crushed between two main thrusts and a historically high debt burden. On one vector is the large wage differential between the developing and developed world, perhaps an order of magnitude difference. This leads to ongoing pressure on developed world wages, even at the high end, resulting in the proliferation of 'side hustles'. At the same time, low interest rates reduce income for older generations who have saved and are now choosing to extend their working lives. Low interest rates also don't allow banks to adequately price credit risk and thus lead to undesirable outcomes as they chase growth and returns. Economic cycles become asset price cycles.

***Great Wave*, Hokusai, 1801.** https://mag.japaaan.com/archives/62662

The other dynamic is the broad and ever-present disruption. This was clearly evident throughout our meetings in Japan. PKSHA Technology is selling Artificial Intelligence algorithm chat bots, which can reduce call centre staff by 30%. Toyota is leading its extended group through an extensive program of electrification and automation. Komatsu has led the global industry in driverless mining trucks similar to Rio Tinto's achievement in automating its Pilbara rail system. Rakuten is building a next-generation network with broad efficiencies, which will lead to disruptive innovation across a wide range of industries. Similarly, CyberAgent (internet media services), Ocado (online grocery supermarket) and ZoZo (online fashion) are building alternatives to existing networks. Robots and factory automation continue to spread. Oracle is bringing cloud computing to the Japanese enterprise market, while Amazon Web Services is now a US $30 billion business, up from US $1.8 billion in 2012, and growing at an unbelievable rate of 40% p.a.. Japanese companies are helping to bring shale gas and liquids to the world in the form of liquefied natural gas (LNG) and low-cost chemicals, while shale oil production continues to grow. Change has been ever-present over the centuries but it has accelerated in recent decades and its effects are far reaching.

Outlook

Sentiment surrounding the Japanese stock market is undoubtedly weak. Both domestic and international investors are positioned conservatively, and in many cases are completely disengaged. This posture is commensurate with both the current weak global economic environment and the historical context of an almost three decade long bear market.

What is absent so far in this cycle, is complete price and valuation capitulation. Current valuations are not far from prior trough valuations. This is not a baseless conjecture, as the combination of two decades of compounded corporate growth, internal reorganisation and disruptive advances, together with the clearly improved corporate governance environment combine for a completely different outlook compared with prior decades.

The Fund will be taking advantage of any future market weakness to transition the portfolio to being fully invested.

Notes

1. Fund returns are calculated using the net asset value (NAV) unit price (which does not include the buy/sell spread) of the stated unit class of the Fund and represent the combined income and capital returns of the stated unit class over the specified period. Fund returns are net of fees and costs, are pre-tax, and assume the reinvestment of distributions. Returns for P Class are net of any accrued investment performance fee.

   The MSCI Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or expenses. For the purpose of calculating the "since inception" returns of the MSCI Index, the inception date of C Class of the Fund is used. Where applicable, the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then. Fund returns are provided by Platinum Investment Management Limited; MSCI index returns are sourced from FactSet.

   Platinum does not invest by reference to the weightings of the Index. A Fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the Fund's holdings may vary considerably to the make-up of the Index that is used as its reference benchmark. Index returns are provided as a reference only.

   The investment returns shown are historical and no warranty can be 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.

   The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.
2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the specified Fund over the specified period relative to the specified net MSCI Index in Australian Dollars.
3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices.
4. The table shows, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices. In the case of the Platinum Unhedged Fund, the Fund does not undertake any short-selling. Its net exposures are therefore the same as its long exposures.
5. The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards, and derivatives. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
6. The table shows the Fund's top 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.