

# Platinum Japan Fund



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Portfolio Manager

## Disposition of Assets

REGION	30 SEP 2017	30 JUN 2017	30 SEP 2016
Japan	93%	95%	92%
Korea	2%	1%	0%
Cash	5%	4%	8%
Shorts	-2%	-2%	0%

Source: Platinum Investment Management Limited. See note 3, page 4.

## Portfolio Position

### Sector Breakdown

SECTOR	30 SEP 2017	30 JUN 2017
Information Technology	27%	29%
Industrials	17%	18%
Consumer Discretionary	15%	14%
Materials	10%	9%
Financials	9%	10%
Energy	7%	6%
Telecommunication Services	5%	6%
Health Care	4%	4%
Consumer Staples	-1%	-2%
TOTAL NET EXPOSURE	93%	94%

Source: Platinum Investment Management Limited. See note 5, page 4.

### Currency Position

	30 SEP 2017	30 JUN 2017
Japanese yen	69%	80%
US dollar	28%	19%
Korean won	2%	1%
Australian dollar	1%	<1%

Source: Platinum Investment Management Limited. See note 6, page 4.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposure, updated monthly, please visit <https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds>.

## Performance

(compound pa, to 30 September 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	6%	21%	19%	27%	15%
MSCI Japan Index	2%	11%	12%	17%	2%

\*C Class – standard fee option. Inception date: 30 June 1998.

Refer to note 1, page 4.

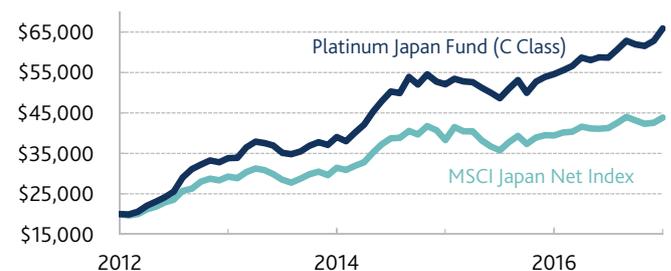
Source: Platinum Investment Management Limited, RIMES Technologies. Historical performance is not a reliable indicator of future performance.

The Fund (C Class) rose 20.6% over the last twelve months and 6.4% for the quarter. Consistent across both periods was the excitement of the lithium ion automotive battery supply chain, the transitions underway in the computer gaming arena and strong demand across the industrial and materials sectors due to surprisingly widespread global economic growth.

The Fund (C Class) is up almost 230% cumulatively over the last five years. This is equivalent to 27% per annum. On some measures, it is the best period of performance since the inception of the Fund around 19 years ago. These numbers naturally raise concerns for both pragmatic noses and long term students of markets. This wariness permeates our daily actions, yet it is possible to argue that the medium to long term opportunity in the Japanese equity market is currently as attractive as any time in the last two decades. There are many signs that the beast is waking from decades of slumber. The Nikkei index remains half of the lofty heights it reached in 1989.

### Value of \$20,000 Invested Over Five Years

30 September 2012 to 30 September 2017



Refer to note 2, page 4.

Source: Platinum Investment Management Limited, RIMES Technologies. Historical performance is not a reliable indicator of future performance.

## Changes to the Portfolio

The refinement of portfolio positioning continues as mentioned in prior reports. Opportunities continue to be identified in misunderstood growth areas and deep value cyclicals.

## Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Nexon	Japan	IT	4.9%
Nintendo	Japan	IT	4.2%
Mitsubishi UFJ Financial	Japan	Financials	3.4%
Inpex Corporation	Japan	Energy	3.4%
Sumitomo Mitsui Financial	Japan	Financials	3.3%
Lixil Group Corporation	Japan	Industrials	3.0%
Kyocera Corp	Japan	IT	3.0%
NTT	Japan	Telecom	2.9%
Itochu Corporation	Japan	Industrials	2.9%
Hogy Medical	Japan	Health Care	2.9%

As at 30 September 2017.

Source: Platinum Investment Management Limited. See note 4, page 4.

## Outlook

The Atlas of Economic Complexity attempts to identify the uniqueness and value added nature of a country's exports. It ranks Japan as number 1 in the world, ahead of Switzerland and Germany. Japan ranks highest in the world in patent families and ahead of all except Korea in R&D spending as a percentage of GDP. When visiting Japan, the high quality of many aspects of the country is in stark contrast to the decay seen in much of the world. It is too uncomfortable for most to accept that Japan's total factor productivity in recent years has been ahead of almost every other country. Both quantitative and qualitative analyses of the country are in stark contrast to much external perception and banter. In a world of increasing homogeneity, this is truly a country as unique as the image of the Samurai visiting Egypt en route to Europe in 1864. The majority of global investors should reflect on their biases and heuristics and reconsider their mental image of Japan and its economy, especially its financial markets, demographics, debt levels, fiscal deficit and capacity for change.

The dominant market rhetoric seems to be shifting from the "fear of missing the next crisis" to the "fear of missing out". Japan's valuation, profit growth and market sentiment are an interesting combination in this context.

## Hybrids

The Prius was launched by Toyota in 1997 following an intense five year research and engineering effort. It featured a four cylinder Atkinson cycle engine, a separate generator and a nickel metal hydride battery. This remains the fundamental configuration for their hybrid vehicles today, a testament to the rigour and foresight of the development team's ground-breaking achievement. Sales were only 123,000 units globally for this early model.

The global trend toward tighter emission standards and fuel efficiency is inexorable. One leading auto catalyst manufacturer estimates that demand for their mainstay product will increase over the next decade in most scenarios, even with the headwind of battery electric vehicles. Similarly, the auto industry is working on a wide range of material, engine efficiency, drivetrain and tyre improvements to meet the dramatic legislative requirement for improved fleet fuel efficiency. Some logos are pushing down the path of low margin electric vehicles in response. European marques had previously been focused on higher compression ratio and efficient diesel engines, but are adjusting course until consumers become more comfortable with *real world* tailpipe emissions.



An 1864 photograph of a group of Japanese Samurai in front of the Sphinx in Egypt. Source: Wikipedia

Goldman Sachs estimates that, in 2010, slightly more than a decade after the birth of the first Prius, the payback period of its third generation model was three years. In effect, the fuel sipping drivetrain configuration paid for the slightly higher sticker cost within a very reasonable time frame, especially in an urban setting comprising many small trips. This real world financial metric has been the exponential demand tipping point for many new technologies and in this case led to a boom in hybrid vehicle sales. The Prius became profitable in 2007 and now has operating margins above the corporate average. It is possible to argue that Toyota is the world's leading electric vehicle company on the basis of the new Prius Prime, their cumulative sales of over 10 million hybrid vehicles and their leading hybrid technology and cost position. Their hybrid output also improves their fleet emissions level and fuel efficiency, which means that they will be able to easily meet global standards well into the future.

Japanese hybrid sales have reached 30% of new vehicles and an increasing percentage of the fleet. This has contributed to a reduction in oil consumption of 25% over the last two decades across the archipelago and particularly in the urban conurbations of Tokyo, Nagoya, Osaka and Yokohama. While the future of personal mobility is undoubtedly electric, the hybrid, of which Toyota produces 70% of the global output, is a more than adequate interim solution to many of the world's current environmental and geopolitical dilemmas.



**Toyota Prius Plug-in Hybrid, 2010.**

Source: Wikipedia

## Notes

1. The investment returns are calculated using the net asset value unit price of C Class (standard fee option) of the relevant Fund and represent the combined income and capital return of C Class for the specified period. Returns are net of fees and costs (excluding the buy/sell spread), are pre-tax, and assume the reinvestment of distributions. 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 MSCI index returns have been sourced from RIMES Technologies. Index returns are in Australian dollars and include dividends, but, unlike the Fund's returns, do not reflect fees or expenses. The net MSCI index is used, except, where applicable, the gross MSCI index was used prior to 31 December 1998 as the net MSCI index did not exist then.

For the purposes of calculating the "since inception" returns of the MSCI index, the inception date of C Class of the Fund is used.

Platinum does not invest by reference to the weighting of the index. Underlying assets are chosen through Platinum's individual stock selection process and, as a result, the Fund's holdings may vary considerably to the make-up of the index. Index returns are provided as a reference only.

2. The investment returns depicted in this graph are cumulative on A\$20,000 invested in C Class of the Fund over the specified five year period relative to the relevant net MSCI index in Australian dollars.

The investment returns are calculated using the net asset value unit price of C Class (standard fee option) of the Fund and represent the combined income and capital return of C Class for the specified period. Returns are net of fees and costs (excluding the buy/sell spread), are pre-tax, and assume the reinvestment of distributions. 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.

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3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the Fund's exposure to physical holdings (equity and corporate fixed income securities) and long derivatives (of stocks and indices) as a percentage of the Fund's net asset value.
4. The table shows the Fund's top 10 long stock exposure (through physical holdings and long derivative positions) as a percentage of the Fund's net asset value.

5. Sector breakdown represents the Fund's net exposure to physical holdings and both long and short derivatives (of stocks and indices) as a percentage of the Fund's net asset value.
6. The table shows the Fund's major currency exposure as a percentage of the Fund's net asset value, taking into account any currency hedging.

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