Platinum Japan Fund

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Performance

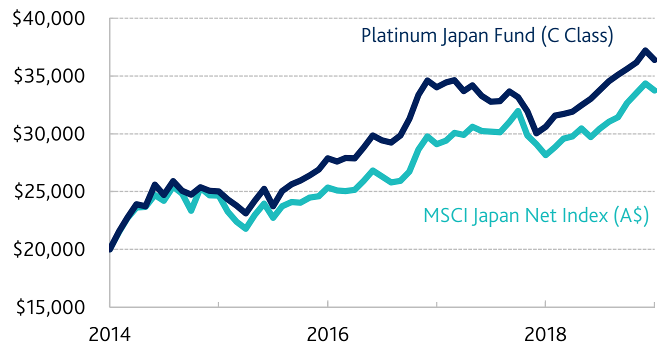
(compound p.a.+, to 31 December 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	2%	19%	9%	13%	14%
MSCI Japan Index^	3%	20%	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 4. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

31 December 2014 to 31 December 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 4.

The Fund (C Class) returned 2.2% for the quarter and 18.9% for the year.

Key contributors to performance over the quarter included, **MinebeaMitsumi** (+33% in local currency terms), **Takeda Pharmaceutical** (+17%), **Inpex** (+15%), and **Kyocera** (+12%).

A weaker Japanese yen pared the Fund's performance during the quarter. There are no currency hedges in place. The short positions used to hedge against the high valuations of some parts of the market have been a minor detractor from performance over the last 18 months.

The valuation dispersion continued to widen during the quarter and there are no signs of a psychological shift in investor preferences, with investors willing to pay ever-higher prices for assets with visible and reliable long-term growth prospects.

During the quarter, the Fund added to a range of existing positions, including Takeda, Minebea, Toyota and Samsung Electronics, while a number of short positions were reduced. New positions included Hitachi and Ajinomoto, while Canon and the holding of physical gold were sold.

There are broad swathes of the Japanese stock market, which are valued at historically low valuations, despite good medium- to long-term prospects. The Fund has continued to shift toward these investments and is now effectively fully invested in a diversified portfolio.

Corporate Governance

Corporate governance in Japan has been on a multi-decade arc of improvement. The current stable, domestic political environment is leading to further improvements.

The past poor behaviour of the Japanese corporate system has meant that large amounts of the massive domestic savings pool have flowed to more attractive opportunities overseas.

There are many practical examples of changes underway at early adopters, such as Itochu, Hitachi and NEC. More recently, companies such as Toshiba, Sony and Olympus have also changed course. In some cases, dramatic external pressure was required, as seen at Lixil (and outlined in our June 2019 quarterly report).

Disposition of Assets

REGION	31 DEC 2019	30 SEP 2019	31 DEC 2018
Japan	91%	84%	67%
Korea	6%	5%	7%
Cash	4%	12%	26%
Shorts	-6%	-13%	-16%

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

Net Sector Exposures

SECTOR	31 DEC 2019	30 SEP 2019	31 DEC 2018
Consumer Discretionary	19%	19%	11%
Industrials	18%	12%	7%
Information Technology	15%	13%	13%
Health Care	12%	6%	3%
Communication Services	12%	11%	17%
Energy	5%	5%	5%
Materials	4%	7%	3%
Financials	2%	2%	3%
Consumer Staples	2%	-2%	-4%
Real Estate	0%	0%	0%
TOTAL NET EXPOSURE	91%	75%	58%

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

Net Currency Exposures

CURRENCY	31 DEC 2019	30 SEP 2019	31 DEC 2018
Japanese yen (JPY)	92%	102%	85%
Korean won (KRW)	4%	3%	-6%
US dollar (USD)	4%	15%	41%
Australian dollar (AUD)	1%	-20%	-20%

See note 5, page 4. Numerical figures have been subject to rounding.
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.

Half of the stock market has only been listed since 1990, and the behaviour of these younger entities is generally much better than the legacy group. Positive momentum is also evident in the record levels of dividend payments, which have been growing rapidly. Share buybacks are also at record levels and growing quickly. Corporate profit margins have risen over the last decade. Corporate balance sheets remain strong despite the higher payouts, leaving room for dividends to continue to rise. Merger and acquisition activity is at record high levels.

Following the Ito Review in 2014, a Corporate Governance Code and a Stewardship Code were published. These extensive documents gave broad and deep recommendations (non-binding) for improvement. Compliance has been slow. Discussions are underway with a view to making key provisions legally binding. One broker describes the current status of the Japanese stock market as being in the "pantheon of great turning points like 1985, 1989, 1997, 2003, and 2012". It's a reasonable assessment if current trends continue.

The most powerful impetus is that economic incentives are now generally aligned. Interest rates are effectively zero, so pension funds, insurance companies and households need higher dividend streams. This of course requires further improvement in corporate margins, improved corporate performance and higher payout ratios. Domestic investors, foreign investors, the bureaucracy, the government and management are aligned toward similar outcomes. The regional threats are a further significant impetus.

A less-discussed problem is the low level of domestic consolidation. Japan doesn't need seven photocopier/printer companies (and they should cease fax machine production). Eight camera companies is discordant with global industrial structures. There are still too many car companies in Japan - although the industry is relatively consolidated compared to the 200+ electric car companies in China.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Takeda Pharma Co	Japan	Health Care	6.6%
Oracle Japan	Japan	Info Technology	4.5%
Nintendo Co Ltd	Japan	Comm Services	3.9%
Itochu Corporation	Japan	Industrials	3.8%
Minebea Co Ltd	Japan	Industrials	3.5%
Toyota Motor Corp	Japan	Cons Discretionary	3.5%
Rakuten Inc	Japan	Cons Discretionary	3.4%
Kyocera Corp	Japan	Info Technology	3.3%
Nitto Denko Corp	Japan	Materials	3.1%
JXTG Holdings Inc	Japan	Energy	3.0%

As at 31 December 2019. See note 6, page 4.
Source: Platinum Investment Management Limited

Takeda – Adopting Change

Takeda spent US$30 billion on new drug research and development from 1999 to 2012 with almost zero tangible success, and yet they survived. There are many similar stories across Japan. Canon and Nikon have completely lost the semiconductor lithography race to their European competitor, ASML. A 'knowledge network', that has many links to academia, business, and research labs was more successful than a 'hermit kingdom'. In many cases, despite the obvious failure, lots of companies don't accept that there is a problem and thus cannot accept the need for change.

Takeda is an exception. They changed course, slowly at first, then accelerated. Takeda now has a large presence in Boston, one of the largest in the global biotech industry. Boston is regarded as the 'Silicon Valley' for biotech. The changes accelerated five years ago when Frenchmen Christophe Webber was appointed CEO, who was the first non-Japanese leader of the 200+ year-old industry stalwart. Andy Plump, an American from Merck/Sanofi, was then appointed head of research and development (R&D). More recently, Takeda bought Shire in a mega merger, which accelerated the broad strategy. Earlier changes, such as appointing the first non-family CEO, the acquisition of Millennium to gain a toehold in Boston and the acquisition of Nicomed for its emerging market footprint, were pre-meditated steps to drag the company from its cloistered shell into reality.

All of this activity has taken place in the open, but a myriad of confusions obscure the extent of the fundamental changes. It has been a 15-year process. The current concerns are the large amount of debt taken on to acquire Shire, the quality of its pipeline, two upcoming major patent expiries, the accounting treatment of Shire and the diverse leadership in light of the Nissan/Ghosn scandal. The extended period and dramatic extent of the changes is a concern to many. This is compounded by the nature of the industry, where patent life is roughly 10 years, the product suite is diverse and incredibly complex, and serendipity often governs discovery.

The market has deep familiarity with Takeda's journey and thinks the future is dull. Some valuation metrics put the valuation near the bottom of the global group. Our assessment of the base case is better than the embedded low expectations, and if the R&D approach is successful, then the potential upside is both significant and of extended duration. The first hints of success are visible in four areas: cell therapy, gene therapy, orexin agonists, and coeliac disease. Success in any of these potential endeavours would be significant, and there are many other opportunities across the 200 external collaborations, which span academia and all stages of the global biotechnology industry.

R&D productivity of the global pharmaceutical industry has been declining for more than a decade, a period during which a practically complete human genome has been available. As the cost of DNA sequencing has fallen more than 99% and a wide range of powerful imaging, testing and monitoring instruments have proliferated, the ability of scientists to understand the chemical processes underlying human life has increased dramatically. Unmet medical needs remain immense globally and it's easy to argue that a more productive period of novel drug discovery lies ahead.

Outlook

Generational change is widely evident across Japan. The 1980's bubble era is fading and current realities are permeating behaviours and the economy. There are four defining aspects of the Japanese stock market:

1. The bear market in both equities and investor psychology is now more than three decades stale.
2. The overall valuation of the market is near the lows of its historical range.
3. The valuation dispersion of the market is near the widest points of its historical range.
4. The market composition continues to change, with more than 50% of companies having listed since 1990 and more than 50% of corporate profits earned overseas.

Each of these distortions presents a wide range of investment opportunities.

The total number of people employed in Japan is at record high levels. There are many such discordant statistics but there is a widespread lack of recognition, understanding and acceptance. The low valuation of broad parts of the market is obvious and most prominent private equity groups are now present in Japan. Activist behaviour is increasingly aggressive from all parts of the globe. The government has a broad sense of urgency that can be seen in recent legislation and political actions.

There are many domestic and regional risks in addition to the imbalances in the global economy. But the **most** pressing problem is the **shortage of high paying jobs**. Many long-term investments and fundamental R&D projects have been less successful than projected. Brutal competition continues across the region. Low-cost manufacturing and services continue to encroach, but significant amounts of capacity have already moved. Unemployment continues to fall to new generational lows, which allows deeper restructuring.

The current set-up looks like a once-in-a-generation opportunity and the current trajectory is positive.

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 market value of the Fund's positions, the Fund's effective exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices. "Shorts" relates to the effective exposures to short securities and short securities/index derivative positions.
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.

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