

Platinum Japan Fund



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Performance

(compound p.a.⁺, to 31 December 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	6%	-3%	1%	7%	13%
MSCI Japan Index [^]	7%	4%	7%	7%	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 December 2015 to 31 December 2020



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 6.2% for the quarter and -3.4% over the year.¹

The significant gains during the quarter were provided by long-standing holdings, such as **Hirano Tecseed** (+58% over the quarter), **Sumco** (+53%), **Nitto Denko** (+35%) and **Toyota Motor** (+15%). These were augmented by recent purchases, such as **Suncorporation** (+39% from the Fund's first entry point during the quarter) and **Yapli** (+84% from the Fund's first entry point during the quarter).

Key detractors from performance over the quarter included **Rakuten** (-12%), **Hogy Medical** (-7%) and **Anritsu** (-4%).

Following a number of new stock purchases, the Fund has recently been fully invested.

Changes to the Portfolio

As mentioned above, the Fund made a number of new investments during the quarter, including Suncorporation and Yapli.

Suncorporation owns a leading global security company focused on mobile phones in addition to a range of legacy businesses.

Yapli is a software abstraction layer, which produces Apple and Android apps in a no-code environment.

Following these purchases, the Fund now owns a diversified portfolio of Japanese companies with strong medium- and long-term prospects at reasonable valuations.

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. Returns for stocks purchased during the quarter are calculated from the price on the date of purchase to the price on 31 December 2020.

Disposition of Assets

REGION	31 DEC 2020	30 SEP 2020	31 DEC 2019
Japan	89%	88%	91%
Korea	11%	9%	6%
Cash	1%	3%	4%
Shorts	-1%	-3%	-6%

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

Net Sector Exposures

SECTOR	31 DEC 2020	30 SEP 2020	31 DEC 2019
Information Technology	31%	21%	15%
Consumer Discretionary	17%	11%	19%
Health Care	15%	18%	12%
Industrials	15%	11%	18%
Communication Services	9%	26%	12%
Materials	5%	4%	4%
Energy	3%	0%	5%
Financials	2%	3%	2%
Consumer Staples	1%	1%	2%
Real Estate	0%	0%	0%
TOTAL NET EXPOSURE	98%	94%	91%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Toyota Motor Corp	Japan	Cons Discretionary	5.2%
Samsung Electronics	Korea	Info Technology	5.1%
Minebea Co Ltd	Japan	Industrials	4.6%
Rakuten Inc	Japan	Cons Discretionary	4.5%
Nintendo Co Ltd	Japan	Comm Services	4.1%
Astellas Pharma	Japan	Health Care	3.8%
GMO Internet Inc	Japan	Info Technology	3.5%
Takeda Pharma Co	Japan	Health Care	3.4%
Oracle Japan	Japan	Info Technology	3.3%
EISAI Co Ltd	Japan	Health Care	3.1%

As at 31 December 2020. 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>.

Commentary

Leadership Change Accelerates Digital Transformation of Japan

Long-standing Japanese Prime Minister Shinzo Abe announced his resignation in August last year and was succeeded by Suga, his staunch supporter and Chief Cabinet Secretary. He retired as the longest-standing Prime Minister in Japanese political history. Abe-san's second term will be remembered for his Three Arrows of: Monetary Policy; Fiscal Policy; and Growth Strategy and Structural Reform. The likely counterfactual is that without Abe's stability and reform, the country would be in a far worse position today. His successor, Yoshihide Suga is 72 years old. His core focus is privatisation and structural economic reform; thus, his tenure will trend in Abe's direction with added emphasis on the Third Arrow.

Japan recently entered a State of Emergency in key population centres. This is a pre-emptive move to restrict the spread of the virus. Further, the details of the restrictions show a targeted and science-based approach, which balances many competing needs. Japan on the whole has handled the COVID-19 pandemic well, as has most of Asia. Japanese companies such as Honda and Nissan both assemble cars in Wuhan where they were impacted by the early stages of the outbreak. This knowledge spread quickly across the Japanese archipelago and into the hundreds of Public Health Centres founded by the Americans who designed them to fight infectious disease. Their competent staff located clusters, tracked infection links and conducted tests. It's not at all surprising that Japanese mortality has been amongst the lowest in the developed world, nor that many Asian countries have emerged earlier and stronger.

The fundamental building blocks of industrial society, bullocks, canals, railroads, automobiles, have changed through the generations and are currently shifting dramatically. This broad and deep transformation is most evident in the USA, across money (central banking), transport (batteries, automation), geopolitics, employment structures and society.

In Japan, however, change has been held back by innate respect for tradition and their ingrained parsimonious behaviours. For example, fax machines and hanko stamps are still used widely across Japanese society and corporations. In fact, temples have been holding memorial services for the demise of physical stamps. The company, GMO Internet and their internet service Agree have seen a 20-fold increase in digital contracts over the last 12 months, and a recent scan of SaaS (software as a service) companies in Japan unearthed hundreds of dynamic domestic-bred entities across the various ecosystems.

Japan's economy has been forged in the North Asian transformation of recent decades. Korean autos and semiconductors are globally competitive, if not leaders. Chinese corporate progress and economic development have been relentless with the help of low-cost labour. The timing of North Asia's resurrection was unfortunate for Japan as an expensive and highly developed nation.

Japan has subsequently evolved to dominate global niches and many of the 4,000 listed companies are essential to global supply chains. Examples, such as Hoya, supply all of the mask blanks for extreme ultraviolet lithography (EUVL), while Lasertec sells the critical inspection tools. It is almost impossible to build a robot without Japanese components. Companies like Toyota, Keyence, Nidec, Minebea and Murata illustrate global reach, while SoftBank and Rakuten show a more energetic spirit.

It surprises many that the total Japanese workforce is now at record highs. The Japanese female participation rate has surpassed many Western nations. Japan is widely accepted as having good credentials in environmental, social and governance (ESG) issues. The 'environmental' comes through in companies such as Toyota and the Prius, while 'governance' continues to improve as seen by recent corporate action at Lixil, the absorption of NTT Docomo by its parent, and Nitori's aggressive takeover bid for Shimachu are certainly just the bow wave. Dividend payouts and share buybacks have risen in recent years. Japan is a local maximum for many things in Asia, including ESG.

Various Japanese market indices recently rose to 29-year highs. Some broad markers are at all-time highs. Over the last three decades, the composition of the listed market has changed significantly, reflecting the underlying economic changes and renewal. While these are businesses with long paths ahead, many of the older businesses are seeing a cyclical revival and value investors have noticed the attractions of the Japanese trading houses.

As you would expect at the end of a 30-year bear market, broad swathes of the market are at multi-decade low valuations. A recent hunt for 'cheap stocks' uncovered a list of 2,000 companies with some having more cash than their market capitalisation.

The market is not the economy though. It is time to reassess Japan from a different perspective; reconsider time horizons and the power of hindsight bias. Such psychological pitfalls are well known and understood, but ongoing reminders help us outwit them. The psychology of domestic Japanese investors is changing; don't miss the shift.

Outlook

The global backdrop appears uncertain, yet the system trundles on. Despite the swirling problems, it is hard not to notice the looming shortages of some critical components and surging prices for various commodities and services. In many ways, the aftershocks of the pandemic will be felt for many years to come.

The pandemic has been a Rorschach Test for governments and societies around the world. In this context, the stability of the Japanese system stands out. In our last quarterly report, we stated: *"While the political system seems to have transitioned calmly following seven years of Abenomics, corporate governance continues to improve while the relentless drive for product improvement is augmented by growing innovation and new product development. This is set against the backdrop of a 30-year psychological trough, low overall valuations and extreme valuation dispersion. In combination with waves of innovation and disruption only seen a few times every century, we believe there are more than enough opportunities to construct an attractive portfolio in the Japanese stock market."* This sentiment remains true.

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.

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