Platinum Japan Fund

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Overview

- The Fund comfortably outperformed the index over the quarter with good performances from companies relatively untouched by the tariff threat such as **MUFG** and **Mitsubishi Estate**.
- Games platform companies like **Sony** and **Nintendo** – both Fund holdings – appear set for a positive 2025 with new games launches (Sony) and a new console launch (Nintendo) likely to boost performance.
- Whilst tariffs will weigh on some Japanese companies, our factory automation holdings – **Fanuc**, **Keyence**, **Daifuku** & **Mitsubishi Electric** – are likely to benefit from US efforts to rebuild manufacturing.

Performance

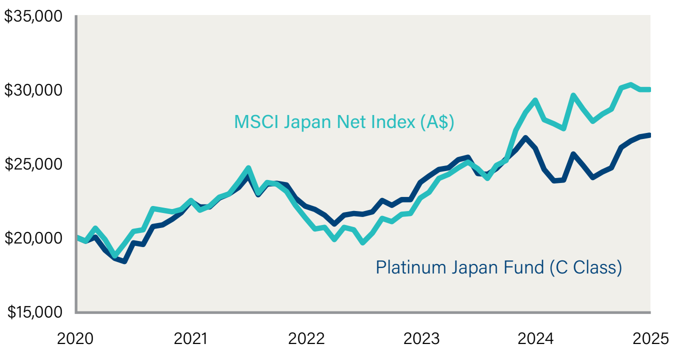
compound p.a.+, to 31 March 2025

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	3%	4%	7%	6%	12%
MSCI Japan Index^	-0%	3%	12%	8%	4%

+ 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 5. Numerical figures have been subject to rounding.

Value of $20,000 invested over five years

31 March 2020 to 31 March 2025



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 5.

The quarter saw the Fund deliver a positive return of over 3%, significantly outperforming the index which was down 0.3% over the same period.

Market action this quarter was largely driven by sentiment surrounding trade policy and uncertainty over US tariffs. As such, key contributors to portfolio performance were companies less likely to suffer tariff impacts such as **Sony** (+11%), **MUFG** (+16%), **Nintendo** (+9%) and **Mitsubishi Estate** (+10%). Detractors were exporters and cyclicals such as **Toyota** (-16%), **Fast Retailing** (-18%) and **Denso** (-16%).

There were limited changes to the portfolio during the quarter with relatively minor rebalancing. We added **DMG Mori** to build out our existing exposure to factory automation companies such as **Keyence**, **Fanuc**, **Mitsubishi Electric** and **Daifuku**.

Why rebuilding European manufacturing is good for Japan

Japan's stock market offers investors a broad range of investment opportunities. One underappreciated aspect of the market is the many companies that, due to their specific focus, have a competitive edge that makes them indispensable to global value chains. These Japan companies benefit from global demand trends.

One example is the new German government's plan to sharply increase defence spending. This represents a major policy watershed and has already seen defence stocks rise in Europe. Global investors are increasing allocations to the region in the expectation of a multiyear investment boom.

Until recently, it was difficult to make the case that EU manufacturing capex would recover. However, the stage now appears set for a recovery – and potentially a robust one given the urgency of these policy announcements.

One stock likely to benefit from this is DMG Mori, a significant holding in the Japan Fund.

DMG Mori is the world's leading maker of machine tools and was formed from the merger of Japan's Mori Seiki and Germany's Gildermeister. Machine tools are the building block of the manufacturing industry, creating components used to build capital goods. Japanese firms in this sector are highly competitive. We expect Japanese machine tools to be one of the first areas to see increased European demand as they seek to rebuild manufacturing capacity.

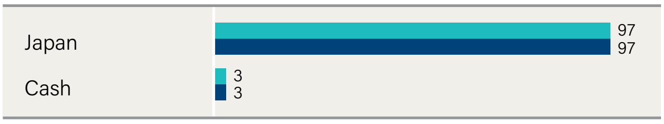
DMG Mori already gets more than half its orders from the EU, with a particular reliance on German manufacturing investment. DMG Mori's strength is in sophisticated high end machine tools such as 5- axis machines and integrated mill turn centers which are vital to industries such as aerospace and defense.

Growth, tariffs and the BoJ

The yield on the benchmark 10 year government bond rose from 1.1% in January to 1.55% just before the tariff announcements on April 2nd. This reflects a steadily improving domestic economy and higher inflation.

In response we expect the BOJ to continue to raise rates as inflation is somewhat above its comfort level at around 3%. Some would view the BOJ hikes as necessary, if not inevitable, given inflation signals mean a reduced need for monetary stimulus. Yet the BOJ has stressed that economic recovery is fragile and could be further destabilised by tariff uncertainty. It needs to see evidence of self-sustaining growth before rates are normalised.

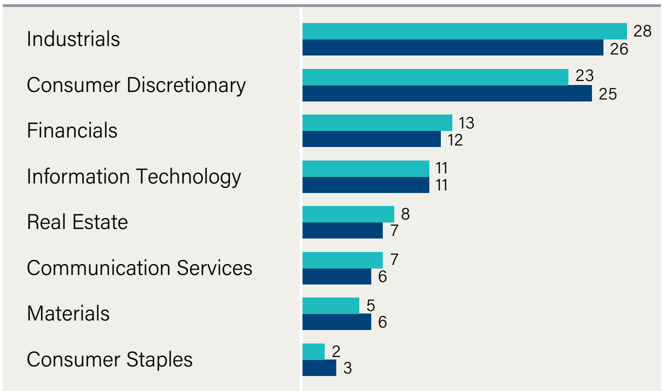
Disposition of Assets %



31 MAR 2025 31 DEC 2024

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

Net Sector Exposures %



31 MAR 2025 31 DEC 2024

See note 4, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Mitsubishi UFJ Financial	Japan	Financials	5.1%
Sony Corp	Japan	Cons Discretionary	5.1%
Taisei Corp	Japan	Industrials	4.8%
Mitsubishi Electric Corp	Japan	Industrials	4.6%
Mitsubishi Estate Co Ltd	Japan	Real Estate	4.4%
MS&AD Insurance Group	Japan	Financials	4.0%
Mitsui Fudosan Co Ltd	Japan	Real Estate	3.9%
Keyence Corp	Japan	Info Technology	3.9%
Toyota Motor Corp	Japan	Cons Discretionary	3.8%
Hitachi Ltd	Japan	Industrials	3.8%

As at 31 March 2025. See note 5, page 5.
Source: Platinum Investment Management Limited.

This means higher inflation needs to be accompanied by higher real wages. While larger companies can manage this comfortably, it is small and mid-sized businesses (SMEs) that account for most employment in Japan and they will struggle to pay higher wages. Higher interest rates could also have the unwelcome consequence of accelerating insolvencies among indebted SMEs. In sum, we think BOJ rate hikes will be measured.

Console yourself – games platforms recover

The rise in Japan's soft global power continues unabated. 2025 will be an exciting year for Japan's gaming giants Sony and Nintendo, two key portfolio holdings. They are testament to the global boom in Japan's entertainment IP, where a deep library of anime and gaming content has been built over decades and has developed a large global fan base.

The rise of casual gaming on mobile devices in the past decade was seen as a threat to gaming consoles such as Sony's Playstation, Nintendo's Switch and Microsoft's Xbox. Yet in 2025, the console market remains in robust health, with a global installed base of nearly 300 million. It now appears poised for a further upswing with the imminent launch of new generation hardware (Nintendo Switch 2) and several software launches (e.g. Grand Theft Auto 6).

It should be a strong year for Sony, which looks set to benefit from an abundance of new mega-title gaming launches, notably GTA6, the highly anticipated refresh of this third-party mega-franchise. More broadly, it appears the stars are aligning for Sony as it refocuses its business portfolio with the upcoming spin-off of its financial services division.

Sony's unique combination of hardware and entertainment IP (gaming, music, anime, film) has always held promise but until now, execution has disappointed. We think the leveraging of synergies across these domains is now finally becoming clear to the market.

For Nintendo, we have the long-awaited launch of the Switch 2 console in June. This is their first new gaming console since the original Switch was launched in 2017. Pricing is competitive and in addition to the Switch exclusive titles, there are new third party titles available at launch as well as a strong pipeline of titles post launch. We think this bodes well for a strong console cycle.

Underlying this cycle however is an ongoing shift from physical cartridges to digital downloads and the introduction of subscription based gaming services. Unlike in prior cycles, Nintendo has been able to maintain strong profitability (some 8 years after the launch of Switch), as it enters this new cycle, which implies higher through-cycle profitability. We remain positive on the prospects for the business.

Outlook

Despite tariff uncertainty, we remain constructive on the outlook for Japanese shares. For much of the past year the market has moved sideways, yet underlying earnings-per-share (EPS) is growing at a double digit pace. Japan now trades on a forward PER of 12X, which we believe is undeservingly cheap given the level of earnings growth and companies' commitment to improving shareholder returns.

US tariff policies dominate headlines and are perceived to be negative for Japan exporters, particularly in the automobile sector. Over the short term, an earnings impact is unavoidable given that Japanese automakers export finished vehicles from Japan and auto parts for final assembly in the US, Mexico and Canada.

However, tariffs will likely affect the entire industry, including US, European and other Asian makers. Toyota, which we own, already produces more than half the vehicles it sells in the US in the US, largely as a result of US-Japan trade frictions in the 1980s. It has a strong balance sheet and is the leader in the booming hybrids segment. As a result it is likely to suffer less damage from US import tariffs.

Longer term, we think Japanese manufacturers will rapidly adapt to any new US tariff environment by raising local production ratios – as they have in the past. Increased manufacturing investment in the US is an outcome we are well positioned for through our factory automation holdings.

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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