PLATINUM JAPAN FUND

Jacob Mitchell
Portfolio Manager

PORTFOLIO POSITION

Some of the themes/large positions contained in the current portfolio include (position in prior quarter):

Domestic related 47% (47%):

- 15% (10%) Real estate, Retail
- 12% (16%) Defensive (transport, food, telecommunications, services)
- 9% (7%) Financials
- 7% (6%) Construction

Export related 45% (49%):

- 19% (22%) Technology (including specialty materials) and machine tools
- 8% (11%) Chemical/process
- 7% (9%) Autos
- 6% (6%) Commodity producers
- 5% (0%) Global energy and infrastructure capital equipment

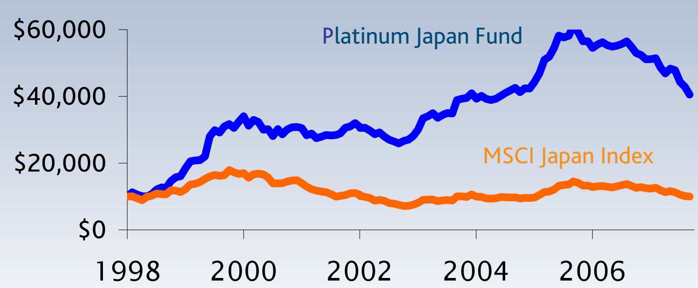
DISPOSITION OF ASSETS

REGION	MAR 2008	DEC 2007
JAPAN	88%	96%
KOREA	4%	0%
CASH	8%	4%
SHORTS	6%	0%

The Fund also has a 9.8% short position in Japanese Government Bonds.

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 31 MARCH 2008



Source: Platinum and MSCI. Refer to Note 2, page 5.

PERFORMANCE AND CHANGES TO THE PORTFOLIO

Since January 2008 the Fund has had a new portfolio manager. For those not familiar with my background, I have 14 years of investment management experience including eight years with Platinum Asset Management. At Platinum, I have worked in the following areas: global business services/transport, industrials, REITs (real estate investment trusts) and soft commodities and I have had geographic responsibility for India and North America. Since January 2007, I have managed the Platinum Unhedged Fund, a global long-only mandate.

Over the past 12 months the Fund fell 26.2%, underperforming the MSCI Japan Index (A$) benchmark by 1.7% and over the past quarter the Fund fell 15.3%, underperforming the benchmark by 4%. The positions that cost the Fund during the quarter were not specific to any one area – this sell-off was broad. Clearly performance has been disappointing and the decision to run the Fund close to fully invested through most of 2007 and into 2008 has proven costly. The US, et al, housing markets continue to deflate with major financial market consequences and hence, in hindsight, we were too aggressively positioned. Given how cheap many stocks have become, now is not the right time to discover the virtues of en masse selling or shorting of stocks, but given market volatility, we are not averse to some tactical shorting.

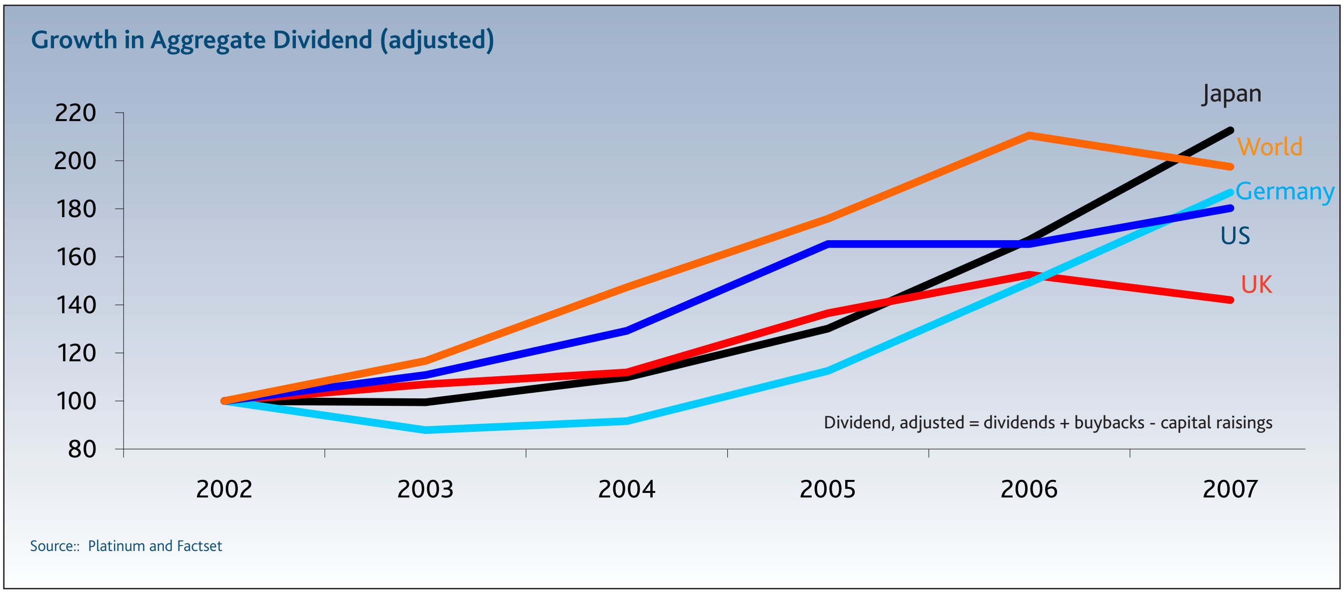
Since taking over portfolio responsibilities, the following changes have been made:

- Reduction of gross long equity exposure from 96% to 92%; a 6% short position initiated in overvalued commodity related cyclicals (eg. Korean shipping and engineers). Accordingly, net exposure has dropped from 96% to 86%.

- Whilst exposure to domestic related concerns has remained steady at around 47%, as the market sell-off intensified, approximately 7% of the Fund was reallocated away from outperforming defensive names (food, services, telecommunications and transport) and small-caps into real estate and financial names (including 4% in Korea[1]). These are stocks that have been radically oversold, many trading at or below book value and most have strong balance sheets. When confidence returns, we expect them to bounce much more than the overall market.

- Export exposure has fallen sightly from 49% to 45% as technology, chemicals and autos exposure

[1] Mandate allows up to 25% of Fund to be invested in Korean stocks



has been reduced by around 9% and a 5% position in global energy and infrastructure capital equipment names (eg. JGC, Yokogawa) have been added. This is one of Platinum's favoured global themes and has good representation within the International and Unhedged Funds.

- A 10% short position was initiated in the Japanese Government bond future (JGB) at a yield of just under 1.3% on the ten year equivalent bond. We make money if the yields rise, which we think is highly likely as global inflation remains stubbornly high and extreme risk aversion starts to unwind.

- Japanese yen exposure has been reduced from 96% to 83% progressively over the quarter in favour of other Asian currencies (Korean won, Hong Kong dollar and Taiwanese dollar) where we think rapid appreciation is possible as domestic inflationary pressures make US dollar pegs untenable.

A conscious effort has been made to increase the overlap in the stocks/themes held by the Platinum Japan Fund with those held in the Japan component of the Platinum International and Unhedged Funds and the Korean component of the Platinum Asia Fund. This is vital to maximising value from what is a common team of investment analysts.

COMMENTARY

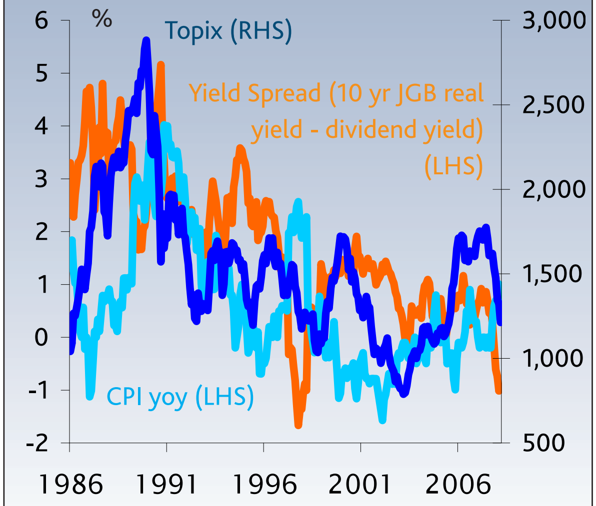
Clearly, the house view that the 2006 resurgence in Japanese equities represented the beginning of a new Japanese bull market was wrong. With the benefit of hindsight, it's worth considering why the bull market failed to launch. Simplistically, we lay the blame on two major headwinds:

- Whilst many may remember Koizumi (the last reform minded leader) for his Elvis impersonations, at heart he was an old-fashioned fiscal conservative who cut the fiscal deficit from 7% of GDP in 2002 to 1% in 2007. Japan has moved forward on fiscal reform at a cost that most western leaders would be unwilling to pay ie. sub-par economic growth and stock market returns.

- Bureaucrats and vested business interests continue to block micro economic reform, for example, the fledgling private equity industry, that was starting to force greater management accountability, was shut down via some high profile, old guard actions.

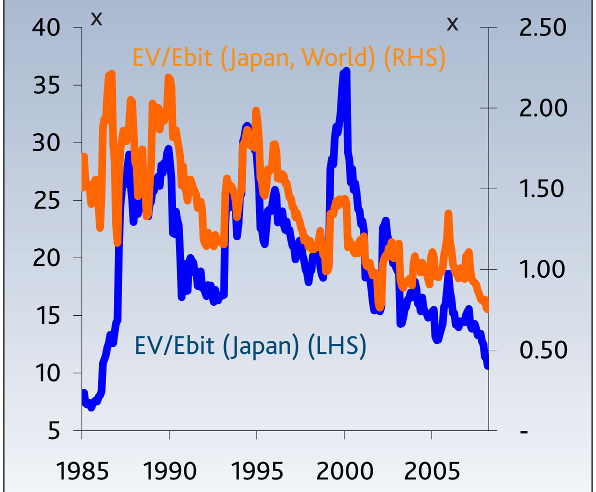
Some analysts regard the Japanese market as being in a bear phase and in addition to the points above, they cite explanations for the current situation

Japan: Topix Index versus Bond-Dividend Yield Spread



Source: Platinum and Factset

Enterprise Value/Earnings Before Interest & Tax: Japan versus World



Source: Platinum and Factset

which we summarise (and dispute) below. They reflect economic orthodoxy but we regard these factors as inadequate to capture the current Japan scenario.

- Inept political leadership; opinion polls indicate what the Japanese people themselves agree, as the ruling LDP has rarely been less popular and is at risk of losing power. The question remains, will a reform-minded leader arise from the ashes?

- Lack of capital discipline; in a narrow sense we dispute this. Our research shows that the Japanese propensity to distribute profits has fundamentally changed for the better. In fact, from the 2002 global low in profits, growth in the net payout from Japanese companies (dividends plus buybacks less capital raised) has outstripped that of the world and its constituent major markets (see chart page 17). As far as dividends and buybacks are concerned, Japan is a growth stock.

- Poor demographics leading to low profit growth; we dispute this as we believe private wealth creation is primarily a function of globalisation (ie. the prospects of Toyota and Canon, and their employees, are global, not Japanese); productivity growth (on par with the developed world) and innovation (leader in many areas); rather than how many babies are in the pipeline (otherwise many African countries would be economic powerhouses).

- Whilst deflation remains an issue, to over-emphasise this would be to ignore the impact of global price pressures (materials, energy and food) on Japanese CPI. As the chart shows on page 18, Japanese inflation is rising and the real yield on the ten year government bond (a nominal no-growth asset) is extremely low relative to the yield offered by equities (a real asset that can grow cash-flows). Further, Japanese household balance sheets remain heavily weighted in cash and deposits.

We see Japan in many ways as the reverse of the US, UK and Australian situations ie. Japan has a current account surplus, low levels of household debt (but high levels of government debt), low levels of equity ownership and a residential property market approximately 50% below its valuation high, offering rental yields of +5% (versus a sub 2% funding cost). Unlike the Anglo Saxon economies, where inflation puts interest rate pressure on an already leveraged consumer, <u>inflation is an unequivocal positive for the Japanese equity and property markets</u> as it forces investors to swap nominal cash assets for real assets like shares and property. It's not clear to us that the current commodities inflation pulse will be strong enough to ignite generalised CPI inflation within Japan. However, as far as bull market catalysts are concerned, this is definitely worth monitoring.

The question for investors, is where to now? Before making any rash decision based on some "macro" generalisation as to why Japan does or does not deserve your scarce investment capital, one should consider valuation – after all, <u>price does matter</u>. The consensus is that Japan is now valued on a similar PE to the rest of the world at around 15x current earnings – hence, Japanese equities are still not that cheap, relative to alternatives. We think the consensus is wrong as it makes no attempt to adjust for differences in balance sheet strength – a key consideration given the current credit crisis. One way to adjust for debt is to look at enterprise level valuations expressed as a multiple of pre-interest, pre-tax profits (or EBIT) – see chart on page 18. At 10x EBIT, the last time the Japanese market was priced this cheaply was 1986. Relative to the world, the market is priced at a record low 25% discount ie. 0.75x the global multiple. The undervaluation of Japanese equities is startling. At its various peaks, the Japanese market has traded at 1.5x-2.2x the global multiple and the 22 year average of this relationship is 1.4x. This undervaluation makes Japan an interesting investment destination.

In ensuing quarterlies we will write less about macro issues and instead provide more rationale behind the major Fund positions.

NOTES

1. The investment returns are calculated using the Fund's unit price and represent the combined income and capital return for the specific period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that past performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

2. The investment returns depicted in the graphs are cumulative on A$10,000 invested in the relevant Fund since inception relative to their Index (in A$) as per below:

Platinum International Fund:
Inception 1 May 1995, MSCI All Country World Net Index

Platinum Unhedged Fund:
Inception 31 January 2005, MSCI All Country World Net Index

Platinum Asia Fund:
Inception 3 March 2003, MSCI All Country Asia ex Japan Net Index

Platinum European Fund:
Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:
Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:
Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:
Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:
Inception 18 May 2000, MSCI All Country World Information Technology Index

(nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist).

The investment returns are calculated using the Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum) is the responsible entity and issuer of the Platinum Trust Funds (the Funds).
The Platinum Trust Product Disclosure Statement No. 7 (PDS), is the current offer document for the Funds. You can obtain a copy of the PDS from Platinum's website, www.platinum.com.au, or by contacting Investor Services on 1300 726 700 (Australian investors only), 02 9255 7500 or 0800 700 726 (New Zealand investors only) or via invest@platinum.com.au.

Before making any investment decision you need to consider (with your financial adviser) your particular investment needs, objectives and financial circumstances. You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds.

DISCLAIMER: The information in this Quarterly Report is not intended to provide advice. It has not been prepared taking into account any particular investor's or class of investor's investment objectives, financial situation or needs, and should not be used as the basis for making investment, financial or other decisions. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Platinum does not guarantee the repayment of capital, the payment of income or the performance of the Funds.

MSCI Disclaimer: Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.