Platinum Japan Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	MAR 2012	DEC 2011
Japan	91%	90%
Korea	3%	3%
Cash	6%	7%
Shorts	10%	14%

The Fund also has a 17% short position in Japanese Government Bonds.

Source: Platinum

Portfolio Position

Changes in the quarterly long portfolio composition:

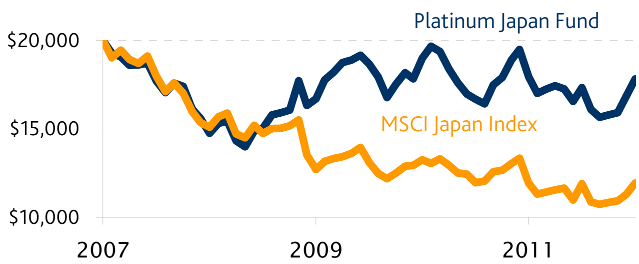
Sector Breakdown

SECTOR	MAR 2012	DEC 2011
DOMESTIC	52%	51%
Retail and Services	18%	19%
Financials	14%	12%
Telco, IT and Internet	10%	13%
Real Estate and Construction	10%	7%
EXPORT	42%	42%
Tech/Capital Equipment	19%	17%
Autos and Machinery	15%	13%
Alternative Energy	5%	4%
Commodities	3%	8%
Gross Long	94%	93%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 March 2007 to 31 March 2012



Source: Platinum and MSCI. Refer to Note 2, page 6.

Performance

Over the past 12 months, the Fund fell 1% underperforming the MSCI Japan Index (A$) benchmark by 1%, and over the past quarter, the Fund rose 13%, outperforming the benchmark by 3%. For the quarter, the benchmark rose 10% in A$ terms and rose 19% in yen terms.

The quarter was a tale of two halves. The first six weeks were characterised by concerns over a stronger yen despite prior attempts at currency intervention. The Index, however, continued to track higher with global markets as better economic data out of the US supported the export sector.

The unexpected announcement by the Bank of Japan (BOJ) on 14 February that it was setting an inflation goal of 1% and increasing its Asset Purchase Program was understandably taken positively by the markets. Since this announcement, the yen has dropped 7% and the Nikkei Index has risen 13%. Unsurprisingly, exporters continued to do well on a weakening yen, as did domestic sectors such as banks, life insurance and real estate, that are perceived to provide an inflation hedge. Our best performers were to be found in the above sectors though somewhat offset by a flattish contribution from traditional defensives such as telecoms and internet names.

Changes to the Portfolio

Long positions

Early in the quarter we added Fuji Heavy Industries to the portfolio. The market was ignoring the clear strength of the Subaru franchise, especially in the US, but with a largely Japanese production base, the strength of the yen was weighing heavily on the stock. We also re-established positions in two stocks we know well:

1. Asahi Diamond that had been unduly punished due to the general collapse in solar related demand for its diamond plated wire saws, and
2. Obayashi as we become more positive on the potential for a turn in domestic construction orders due to the Tohoku earthquake rebuilding and a general rebound in industrial and property related investment from depressed levels.

Short positions

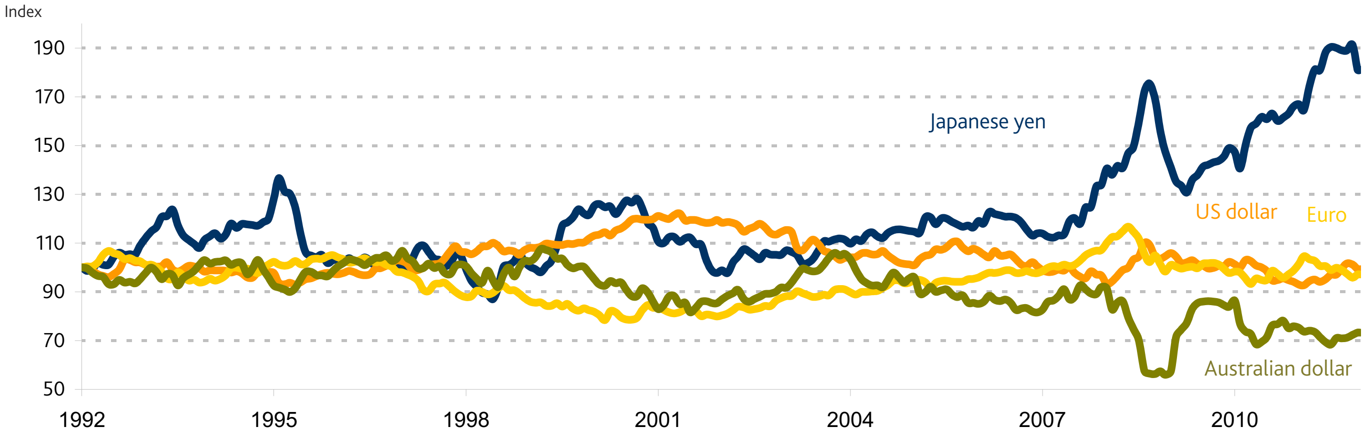
No major changes.

Currency

We remain of the view that the yen is significantly overvalued with our exposure unchanged at 39%. Those bullish on the yen typically point out that on a purchasing power basis the currency is not expensive i.e. deflation has helped maintain Japanese competitiveness even after the extreme revaluation against the US dollar and euro, ignoring the fact that Japanese manufacturing primarily competes against much lower cost labour in North Asia i.e. South Korea, Taiwan and China. Further, the commentary typically ignores the current financial stress of companies such as Elpida, which entered bankruptcy during the quarter. There is also an element of fitting the words to the music in that the same commentators that are typical bullish on the yen are also bullish on the Australian dollar. They argue that the Australian dollar currency is cheap relative to the terms of trade improvement, blithely ignoring the fact that Australia's resource boom gain represents a real loss to the non-commodity backed Asian economies that import these resources. Specifically, Japan has experienced a massive terms of trade shock (far greater the Europe or the US) over the past ten years of higher energy and material prices which would typical result in a much weaker currency.

The chart over details how expensive each of the major currencies is on a real effective exchange rate basis versus their respective terms of trade, with an upward sloping line indicating over-valuation, and the yen, the conspicuous stand-out.

Real Effective Exchange Rate versus Terms of Trade



Source: Factset

The relative vigour of the US economic recovery and the waning likelihood of Quantitative Easing 3 (QE3) poses the inconvenient question of why the US dollar should remain the structural weak currency against the other two liquid alternatives, the euro or the yen? Reinforcing this question is the ongoing renaissance of the US oil patch (discussed in more detail in the current Unhedged Fund quarterly report) that sits in stark contrast with Japan's already high and growing dependence on energy imports (exacerbated by nuclear plant shut-downs). That is, Japan's trade surplus is no longer guaranteed at the same time that the US may gradually reduce its dependence on the energy imports that account for most of its trade deficit.

In summary, even without the recent change in Bank of Japan (BOJ) policy to explicit inflation targeting, we think the yen was set to weaken.

Commentary and Outlook

Over the last 12 months, having progressively taken a more positive view on the US economic recovery, we have increased weightings in those stocks with exposure such as Toyota Motor/Industries, Mitsubishi UFJ Financial (which owns Union Bank in California) and Shin-Etsu Chemical (benefits from cyclical upswing in US PVC demand and dramatically lower US natural gas prices, a key cost variable). For some of our major holdings, the individual catalysts for a re-rating are becoming more apparent, that is, the journey from neglect to discovery has commenced. Such is the case of Toyota; still recovering from the Tohoku earthquake, Thailand flooding supply chain disruptions and the share price languishing near GFC lows, despite an improving sales outlook in its key US auto market. Our research indicated that the recent management shakeup was leading to results with localisation of production and parts procurement a clear priority. This, combined with new model launches, should allow Toyota to win back share and result in earnings substantially ahead of that discounted in current valuations.

The strong yen has also triggered a sense of urgency within corporate Japan to undertake home base reforms that have typically been considered too hard with a concurrent pick-up in Japanese companies combining businesses to build global scale e.g. Nitto Denko selling its encapsulates business to Hitachi Chemical.

The current poster boy for this apparent change in attitude is Hitachi. Following the successful sale of its hard disk storage unit to Western Digital, the company communicated in some detail a plan for longer-term corporate prosperity - it includes the following succinct analysis of the problem (as to why its margin structure is so much worse than Western peers):

- High cost structure dependant on domestic resources.
- Inefficiencies and redundancies of resources due to multiple businesses, large organisations, and optimisation at the individual company level.
- Excessive focus on doing things internally.

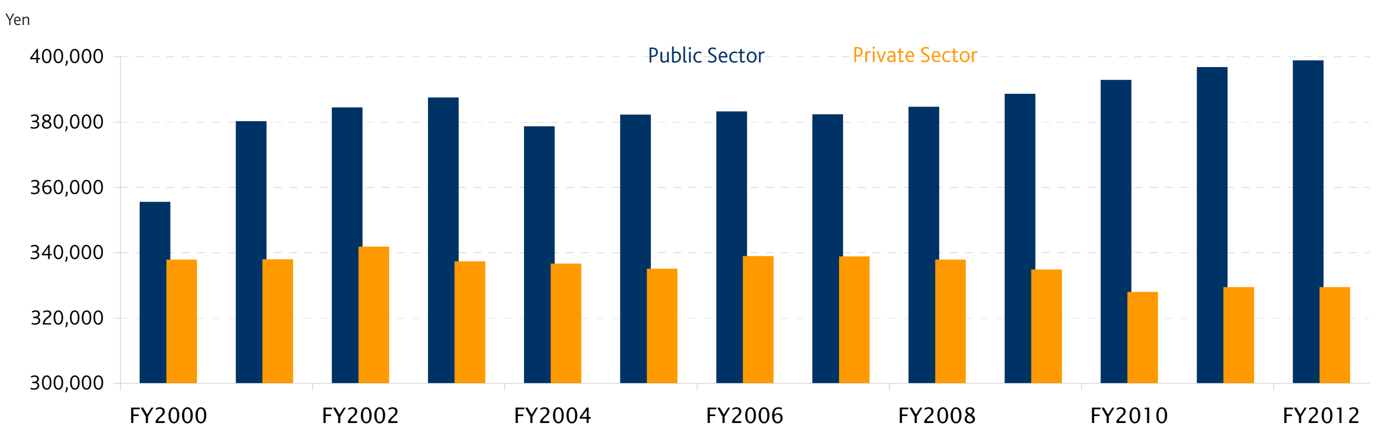
These are the ills that plague many Japanese corporations; the ones we have tended not to own. It may be time to reassess the prospects of certain operational underperformers that retain some franchise value to the extent they are willing to follow in Hitachi's footsteps.

The recent BOJ move to an explicit 1% inflation target is likely to have been a reaction to growing political pressure. The establishment political parties and bureaucrats are rather alarmed by the emergence of an alternative and credible third force in Japanese politics. Japan is currently governed by an increasingly fragile coalition led by the Democratic Party of Japan (DPJ). It currently holds a 61% majority in the lower house (with an election last held in 2007) but only holds a 43% minority in the upper house (having lost their majority in the 2010 election), effectively resulting in a hung parliament. Due to general incompetence, the DPJ has failed to deliver on its reform programme and has allowed the bureaucrats to corner them with a consumption tax hike proposal as a cure-all for Japan. This failure, combined with the chaotic response to the Fukushima nuclear incident has resulted in a collapse in voter support, but this is not resulting in substantial gains for the opposition LDP (that has governed Japan for most of the post-war period).

Tapping into this dissatisfaction, a third pro-reform political force is taking form around a regional political party based in Osaka and led by its young (42) and popular Governor, Toru Hashimoto. The party, known as *Osaka Ishin-no-kai*, gains particularly strong support from Generation X i.e. 30~40 year olds that missed the jobs for life enjoyed by their baby-boomer parents. The party recently won two key Osaka elections in a landslide and has now set its sights on national politics tying up with the awkwardly named 'Your Party' of similar ideology and together are looking to field 400 candidates in the next general election.

To place voting publics' dissatisfaction in context, there have been two clear beneficiaries of ongoing deflation and tax hikes in Japan, those on fixed incomes (the elderly) and civil servants, who have enjoyed a widening pay gap over the private sector (see chart below) that has been far more exposed to global competition.

Public Versus Private Sector Average Monthly Earnings in Japan



Source: Morgan Stanley

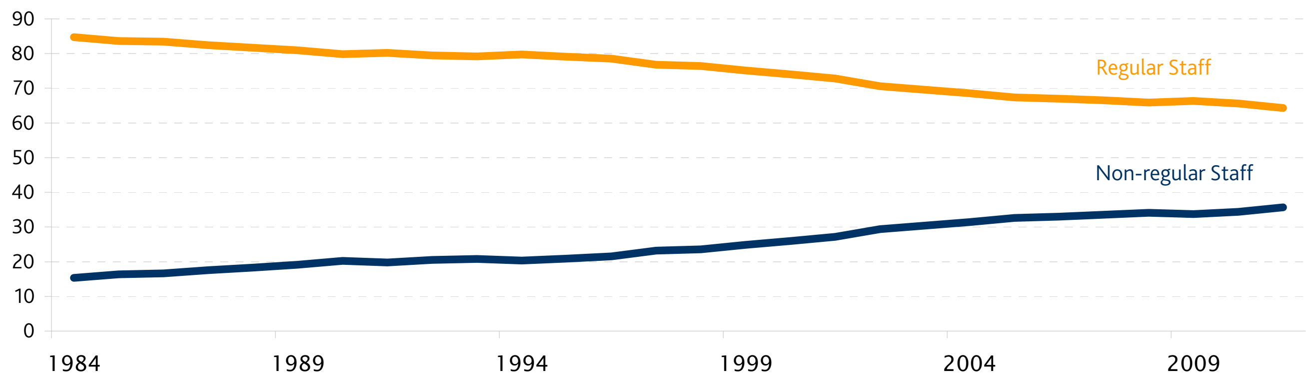
The chart on page 22, however, *understates* the magnitude of the private sector adjustment as it fails to capture the shift in private sector employment from 'regular' full time employees, with job security, health and retirement benefits, to so-called 'irregular' workers, those who are in part time or temporary contract work (see chart below).

Whilst still early days, it would seem Hashimoto/Your Party's bias is to link any rise in taxes to spending reform (e.g. cuts to bureaucratic wages) and pro-growth policies (including loose monetary policy). Other key proposals include institutional reforms such as abolishing the upper house, downsizing Japan's 48 prefectures and decentralisation of power to eight or so regions, direct elections of a prime minister, pushing entry to the Trans Pacific Partnership (a new regional free trade pact) and amendment of the BOJ law to set an inflation target of 2%.

We are still some way off real change, however, it is time to reassess whether Japanese socio-economic inertia is about to end. Even the cloistered bureaucrats must be somewhat shaken by what their pro-deflationary monetary/strong yen policy has done to the corporate tax base that ultimately pays their salaries.

Japan Employees by Job Type

% of total



Source: Ministry of Internal Affairs & Communications

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 historical 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).

   The inception dates for each Fund are as follows:
   Platinum International Fund: 30 April 1995
   Platinum Unhedged Fund: 31 January 2005
   Platinum Asia Fund: 4 March 2003
   Platinum European Fund: 30 June 1998
   Platinum Japan Fund: 30 June 1998
   Platinum International Brands Fund: 18 May 2000
   Platinum International Health Care Fund: 10 November 2003
   Platinum International Technology Fund: 18 May 2000

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 31 March 2007 to 31 March 2012 relative to their Index (in A$) as per below:
   Platinum International Fund - MSCI All Country World Net Index
   Platinum Unhedged Fund - MSCI All Country World Net Index
   Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index
   Platinum European Fund - MSCI All Country Europe Net Index
   Platinum Japan Fund - MSCI Japan Net Index
   Platinum International Brands Fund - MSCI All Country World Net Index
   Platinum International Health Care Fund - MSCI All Country World Health Care Net Index
   Platinum International Technology Fund - MSCI All Country World Information Technology Net 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.

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