Platinum Japan Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets *

REGION	MAR 2013	DEC 2012
Japan	96%	91%
Korea	4%	5%
Cash	0%	4%
Shorts	14%	5%

The Fund also has an 18% short position in Japanese Government Bonds.

* The invested position represents the exposure of physical holdings and long stock derivatives.

Source: Platinum

Portfolio Position

Changes in the quarterly long portfolio composition:

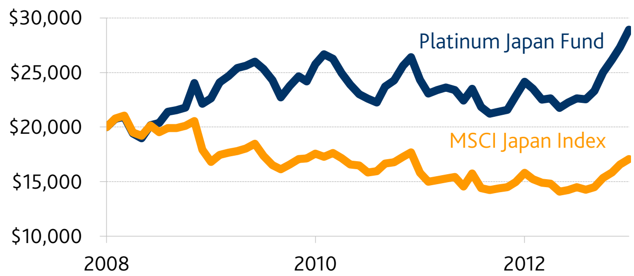
Sector Breakdown

SECTOR	MAR 2013	DEC 2012
DOMESTIC	56%	45%
Consumer and Healthcare	23%	15%
Financials	13%	14%
Real Estate and Infrastructure	12%	8%
Telco, IT and Internet	8%	8%
EXPORT	44%	51%
Tech/Capital Equipment	24%	27%
Autos	10%	17%
Commodities	7%	2%
Alternative Energy	3%	5%
Gross Long	100%	96%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 March 2008 to 31 March 2013



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

Performance

(compound pa, to 31 March 2013)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Japan Fund	16%	20%	4%	8%	13%
MSCI Japan Index	11%	8%	-1%	-3%	-1%

Source: Platinum and MSCI. Refer to Note 1, page 5.

Over the quarter, at least in local currency terms, Japan continued to make up ground on global markets as more substance was added to the slogans surrounding 'Abenomics' and what was an overtly cheap market, closed some of its valuation discount. Over the quarter the local index rose by a table topping 21%. Due to ongoing yen weakness, the Australian dollar return was a more modest 11.2%, though still reasonable given the 6.1% rise in world markets, though lagging over 12 months. It will take a few more quarters like this before a broad cross-section of global money managers feels a need to brush the dust off the Japan file.

Whilst sector performance broadened out, domestic reflation beneficiaries (property and financials) gained ascendancy over exporters. The consumer sector also leapt into life as investors anticipate a better household spending environment. However, the most virulent outperformers were so-called 'hidden asset' land plays e.g. TV stations, warehousing companies, in fact, any company sitting on large real estate holdings as Japanese Government Bond yields cratered to near record lows and investors took the search for real yields to an extreme. For old Japanese hands, we suspect this is a tediously familiar pattern. The question for a fundamental investor is whether these companies, which have in the past stubbornly refused to realise the 'hidden' value to the benefit of shareholders, will reverse their behaviour.

The Fund's star contributors for the quarter included, unsurprisingly: banks and property developers, retailers such as Ryohin Keikaku, Toyota Group companies and stock specific stories such as Namco Bandai and Nitto Denko. Key laggards were found amongst our capital equipment exporters e.g. Tokyo Electron and Sumitomo Heavy Industries. We have been adding to these stocks.

The significant hedge on the Fund's yen exposure made a large positive contribution for the quarter and the shorts were a relatively small negative.

Changes to the Portfolio

Energy stocks appear cheap globally with well-voiced concerns regarding lack of capital spending discipline and heighted sovereign risk weighing on the sector. However, we have reached a point where these concerns are now more than discounted and the stocks represent reasonable value. Accordingly, over the quarter we added 5% to our energy holdings including Inpex and Mitsubishi Corporation, funded largely by reducing holdings in the auto sector. We sold all our Fuji Heavy as our valuation target was exceeded and reduced our large investment in the Toyota Group of companies including selling out of Denso. Whilst valuations are still undemanding, it makes sense to recycle some of this exposure into areas offering more attractive value.

Outside of our call on the energy sector, the major new stock addition was Yamada Denki, a family run business that over 40 years gained the leading market share in the highly competitive (and now unfashionable) business of electronics retailing. Yamada's current earnings are cyclically depressed due to a large correction on household durable demand resulting from a combination of the March 2011 expiration of the eco-point subsidies[1] and July 2011 deadline for the cessation of analogue broadcasts both of which triggered significant anticipatory buying of digital TVs. In the short-term we expect demand for TV sets to soon stabilise. More interestingly, we think the market is missing positives such as a general rebound in Japanese consumption due to a rise in

[1] This consumer subsidy was initiated in May 2009 as part of the Japanese Government's response to the Global Credit Crisis designed to encourage the replacement of ageing household durables (TVs, refrigerators and air conditioners) with more energy efficient versions. It resulted in TV demand spiking from a normal level of nine million units to 26 million units in 2010; TV demand in the year ended March 2013 at estimated 6 million units is now well-below trend.

export earnings and, hence, bonuses; the wealth effect of recent equity and property price rises; and the government's stated intention of spurring housing renovation and durable demand as a key offset to any consumption tax hike[2].

The secular pressures facing the electronics retailing industry are all well-vocalised, most obviously in the US where companies such as Best Buy are under attack from both well-capitalised general merchandise (GMS) retailers (e.g. Walmart and Target) and internet-only retailers (e.g. Amazon). In contrast, we assess that Yamada's position in Japan is far stronger. Firstly, the company has already competed the Japanese GMS retailers out of the electronics segment. Secondly, in Japan, Amazon is unable to use its US state based sales-tax advantage to undercut the traditional players. Thirdly, Yamada with roughly a 22% share and being 2.4x the size of the next competitor, is still taking market share as weaker operators either offer themselves for sale or fail. Accordingly, unlike Best Buy in the US, Yamada should continue to be the price leader in Japan. We accumulated our position at around 0.6x P/B, a bargain for a company of this calibre.

Whilst in aggregate our gross long exposure has risen, we have cut our net equity exposure from 91% to 86% largely via index shorts and increasing our overall yen exposure to position the Fund for a pull-back. Over the past two quarters the yen has weakened in a dramatic fashion falling some 17% against the dollar, the Euro and the Korean won. Whilst we expect the yen will continue to weaken in the long-term, we are also cognisant of the potential negative impact of this devaluation on the current weak links in the global economy and specifically Europe. For this reason we have brought back some of our yen hedges finishing the quarter at 51% exposed to the yen (versus 31% at the beginning of the quarter).

Commentary and Outlook

Whilst we would concede that four of the most dangerous words for an investor are 'this time it's different', it makes some sense to keep an open mind on 'Abenomics'. Conspiracy theories abound on the source of Abe Mark II's new sense of purpose, but more important than the individual, a consensus seems to have formed across society that Japan needs to change. To this end, Abe has appointed two external committees to advise him on fiscal/monetary policy[3] and industrial revitalisation[4]. The goal of these committees is to formulate policy free of intense bureaucratic interference. Importantly, corporate management (Presidents of Lawson, Toray etc), entrepreneurs (e.g. Mikitani founder of Rakuten) and past champions of reform (Takenaka Heizo, Koizumi's Minister in charge of Japan Post privatisation) have decent representation on both these committees.

Regular readers will note that we have tracked the torturous journey to this point from the perspective of the rise and success of increasingly free-market orientated fringe parties (Your Party and Japan Restoration Party). However, more than anything else, the recent Chinese territorial disputes seem to represent a defining turning point, with Japan facing exogenous pressures, seemingly now willing to countenance change – or face accelerating socioeconomic marginalisation by China.

Whilst 'Abenomics' still remains ill-defined, most of the actions/commentary flowing from the newly formed government (and corporate sector) is encouraging (though statements that companies should arbitrarily pay their workers more to defeat deflation seem a tad out of step):

- Appointment of new Bank of Japan Governor, Kuroda, a confirmed believer in reflationary policy to replace the outgoing Masaaki Shirakawa, the most Austrian of all G20 central bankers.

[2] In April 2014, the consumption tax rise is proposed to increase form 5% to 8% and then 10% the year after, however, the Abe administration has made both increases conditional on an improvement in the underlying vitality of the economy.

[3] Council of Economic and Fiscal Policy.

[4] Council of Industrial Competitiveness.

- Desire to attend tripartite talks with China and South Korea to address festering issues.
- Announcement of Japan's formal participation in Transpacific Partnership (TPP) talks.
- Abe acknowledges the importance of the stock market wealth effect and stresses the importance of lifting Japanese corporate governance standards i.e. shareholders may in fact matter.
- The Liberal Democratic Party (LDP) advisers suggest that one of the key impediments to industrial revitalisation has been cloistered banks that have fostered the survival of 'zombie' companies and that Japan needs to encourage far greater capital and labour mobility.
- Actions by high profile corporates such as Asahi Group and Kirin to lift shareholder distributions.

As regular readers will note, many of the Japan Restoration Party policies that we listed in the September 2012 quarterly report are now being subsumed in the mainstream LDP narrative. We expect the LDP will attempt to maintain the 'Japan is back' narrative leading into the July upper house election. We also highlighted in the September 2011 quarterly report the issues surrounding the Japanese Supreme Court's demands for electoral boundary changes to address the over-representation of rural voters – these reforms did not take place prior to the November lower house election and has resulted in the Hiroshima prefecture level High Court determining certain local results to be void. Whilst the market will not like the uncertainty related to a broader questioning of the new LDP coalition's legitimacy, if it actually results in reform and a more representative form of government, it is a longer term positive (the over-represented rural voter base is on average much older and conservative than the urban voter). We don't wish to bore readers with too much of this as we are guilty of all too often writing our own prescription for Japan's ills. Nevertheless, we do wish to keep readers up to speed on real changes, if they occur.

As far as share-prices are concerned, at some point the market will grow weary of the cure-all fiscal and monetary policy stimulus and will look for signs of real corporate reform. Japan's corporate return on invested capital[5] remains low by global standards (11% in 2012 versus just over 16% in the US and Western Europe). Whilst some of this underperformance is the result of cyclical factors (the over-valuation of the yen and disruptions caused by the March 2011 Great Tohoku Earthquake), it is more attributable to corporate management that does not answer to shareholders and is protected from the threat of aggressive corporate takeover by complicit bureaucrats and banks that won't ration debt capital. Any sign that this protection is being withdrawn would represent rocket fuel to this market.

Based on our analysis of Japanese corporate profitability versus the level of the trade weighted currency, at a yen level of 95, we estimate the Japanese market P/E at 12.5x versus 15.0x for the US and 13.5x for Western Europe (2013 earnings). Also, it would seem that at a yen level of 95 Japanese corporates are set to achieve a record 16% Return on Capital Employed (RoCE) which is impressive given that the last record of 14% set in 2008 required a 20% lower currency level.

As always, the question regarding the direction of markets is as much about valuation as it is 'animal spirits'. Last quarter, in the context of some return of the latter, we made the simple observation that Japanese equities were at least 30-50% undervalued based on an undemanding target for our marker stock Toyota Motor; that leaves a 10-30% move to hit our current target. Whilst, in the short-term it feels the market is due for a rest, we still see plenty of value in the stocks we own.

[5] Earnings Before Interest and Tax / (Book value of Equity + Net Debt).

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$20,000 invested in the relevant Fund over five years from 31 March 2008 to 31 March 2013 relative to their Index (in A$) 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.

3. Long invested position represents the exposure of physical holdings and long stock derivatives. The net invested position represents the exposure of physical holdings and both long and short derivatives.

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