Platinum Japan Fund

Scott Gilchrist Portfolio Manager

Disposition of Assets

REGION	MAR 2016	DEC 2015
Japan	80%	71%
Korea	0%	3%
Cash	20%	26%
Shorts	-2%	-5%

Source: Platinum. Refer to note 3, page 4.

Portfolio Position

Sector Breakdown

SECTOR	MAR 2016
JAPANESE INTERNATIONAL FOCUS	36%
Electronics (Canon, Nitto Denko, Ushio)	22%
Industrials (JSR)	6%
Autos (Toyota, Nissan, Sumitomo Electric)	5%
Energy (Inpex, JAPEX)	3%
JAPANESE DOMESTIC FOCUS	44%
Internet (NTT DoCoMo, Recruit, Rakuten, Nexon)	21%
Financials (Mitsubishi UFJ)	11%
Health Care (Mitsubishi Tanabe, Ain)	6%
Consumer (Xebio)	4%
Property	2%
GROSS LONG	80%

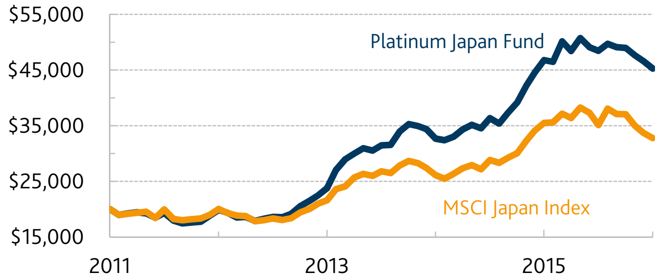
Currency Position

Japanese yen	92%
Australian dollar	7%
US dollar	1%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 March 2011 to 31 March 2016



Source: Platinum and MSCI. Refer to note 2, page 4.

Performance

(compound pa, to 31 March 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund	-8%	-3%	24%	18%	15%
MSCI Japan Index	-12%	-8%	15%	10%	1%

Source: Platinum and MSCI. Refer to note 1, page 4.

Portfolio performance for the quarter was helped by cash holdings and a small short position which partially offset market weakness. The Australian dollar strengthened slightly against the Yen. Strength in domestic and consumer holdings was offset by broad weakness across financials and industrials. Yen strength against the US dollar led to weak performance of exporters.

Changes to the Portfolio

The portfolio remains predominantly invested in Yen based Japanese equities with a sizeable cash holding and a small short position.

Commentary

Over the last few weeks we visited 50 companies based in Tokyo, Osaka, Kyoto, Kobe and regional Japan across a broad range of industries. Most importantly, a number of new, high quality investment opportunities were identified, often with valuations near 20 year lows. This series of visits also reinforced the opportunity set within many existing holdings. While overall Japanese stock market indices are approaching historical low points in their valuation spectrum, there are many parts of the market where valuations are at the levels generally seen towards the end of long bear markets. It has been almost 30 years since the Nikkei peaked at around 40,000, more than double today's price.

Valuation

Valuation dispersion has been a characteristic of the Japanese stock market for a few years now. It has continued to widen. Investors have been willing to pay high prices for the seeming certainty of earnings available from consumer goods, medical devices, pharmaceutical and cosmetic companies. The structural growth of Internet businesses and other disruptive business models has also warranted a valuation premium. On the other side of the divide, companies with exposure to Chinese and Emerging Market industrial growth, such as raw materials producers and capital goods suppliers, have been de-rated to historically low valuations. Similarly, automobile assemblers, mega banks and electronics components seem somewhat neglected.

The Nikkei stock index is currently trading slightly above book value. This is not far above the lows of the last 50 years. There are many logical and sensible reasons for this. The weak Yen of the last few years led to foreign exchange gains on overseas assets and also increased earnings, but nevertheless the majority of book value is now solid and based on realistic operational and cashflow expectations. The mal-investment of previous decades is now a much smaller component of corporate behaviour. With the Yen strengthening rapidly, both earnings and book value will be reduced. Nevertheless, even in a low growth world, the current environment presents many interesting investment opportunities at low valuations.

Corporate Governance

Our visits reinforced the assessment that large parts of Japanese corporate behaviour had become out of touch with reality. A former attendee at board meetings of a large Japanese company recalled that until five years ago the majority of the meeting was a discussion of their golf games. A senior employee at a trading house described the capital allocation discussions from the 1980s and 1990s where zero consideration was given to the balance sheet or cashflow. He was delighted that current management is now focused on metrics such as free cashflow after many years of prompting from many departments.

Japanese corporate governance has been improving for many years. The recent well publicised problems at Toshiba and Asahi Kasei highlight the lingering problems at many levels in corporate Japan. However, this behaviour is now in the minority. The recent upheaval at Seven & I is perhaps a marker of a broad turning point. There are sure to be ongoing problems as competition from Korea, China, India, Silicon Valley and ASEAN illustrates natural advantages, but all regions face the waves of globalisation and the rise of Asia. Management mistakes are evident across all geographies. Some Japanese management teams remain unwilling to adapt, and want to emphasise long-term investment horizons without accepting the rapidly evolving external environment. There is significant investment potential when retrograde holdouts adjust to reality.

Growth

Jonathan Wilmot of Credit Suisse has recently compared the current global economic environment to the aftermath of the Great Recession of the 1890s and the Great Depression of the 1930s. All three periods are characterised by low levels of global growth. One sobering outcome of our recent meetings was the lack of significant new products across the IT hardware industry with PCs, smartphones, tablets, and TVs reaching saturation in the developed world and traversing a lull in the developing world. Similarly, it's hard to see high growth rates from the auto industry, power generation, housing, commodities or developed markets in general. Against this seemingly sombre backdrop there are many opportunities where new products and lower costs are leading to change. Some examples are organic light-emitting diode (OLED) screens and new camera modules for mobile phones, automated driving for cars and trucks, new chemicals for the IT industry, biologic pharmaceuticals, robotics and automation, e-commerce and ASEAN/India. Canon's Tokki division which sells the US$100+ million encapsulation and evaporation lines to Samsung for their OLED panels is fully booked for the next three years. Robotic and automation investments across Asia and the developed world are seeing two to tenfold productivity improvements while overall installation costs decrease 10%+ per annum. Recruit's Indeed website and Rakuten's Ebates website are growing rapidly with attractive economics. Interestingly, Mr Wilmot's overall conclusion from his analysis of prior post-crisis periods is that a further major economic upheaval is unlikely, although it is very path dependent, with pre-emptive central bank tightening being the major risk. Cyclical risk remains.

Japanese Economy

The Japanese yen has recently strengthened against the US dollar from 124 to 108. At its low point, the Yen was at historically low levels according to a wide range of measures. Current strength is a headwind for exports and the related consumer spending. It will also slow the rapid growth of inbound tourism seen in recent years which was the result of relaxed visa requirements.

Recent meetings highlighted the strength in Japanese employment, albeit from low levels. We noted a lovely grass slope behind a corporate headquarters being trimmed by four men with scissors and it has been a while since a petrol station attendant hurried out to fill our tank as we experienced in Hokkaido. Japan remains a country with under-utilised capacity, both physical and intellectual. Japanese housing stock is estimated at roughly 60 million units, of which 10 million do not meet current earthquake regulations. As in most parts of the developed world, there is an infrastructure renewal backlog across the archipelago. Many industrial plants built decades ago now need upgrading with modern safety and control systems.

Outlook

The recent strength of the Yen presents a headwind to both earnings and sentiment. Nevertheless, the range and valuation of high quality investment opportunities at multi-decade low valuations presented by the recent sell-off allows the construction of a portfolio with attractive characteristics for medium to long term investors.

Notes

1. The investment returns are calculated using the relevant 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: 28 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

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

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 31 March 2011 to 31 March 2016 relative to its benchmark index (in A$) 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

   The investment returns are calculated using the relevant 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 benchmark 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. Invested position represents the exposure of physical holdings and long stock derivatives.

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