Platinum Japan Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	JUN 2010	MAR 2010
Japan	87%	87%
Korea	5%	5%
Cash	8%	8%
Shorts	25%	16%

The Fund also has a 14% short position in Japanese Government Bonds.

Source: Platinum

Portfolio Position

Changes in quarterly portfolio composition:

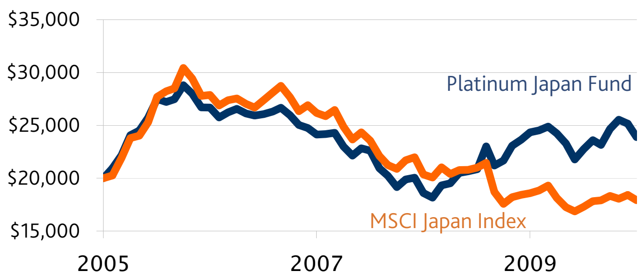
Sector Breakdown

SECTOR	JUN 2010	MAR 2010
DOMESTIC	52%	51%
Retail and Services	16%	15%
Financials	14%	15%
Telco, IT and Internet	14%	13%
Real Estate and Construction	8%	8%
EXPORT	40%	41%
Tech/Capital Equipment	17%	19%
Commodities	9%	8%
Alternative Energy	8%	8%
Autos	6%	6%
Gross Long	92%	92%

Source: Platinum

Value of $20,000 Invested Over Five Years

30 June 2005 to 30 June 2010



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

Performance and Changes to the Portfolio

Over the past 12 months the Fund fell 1.8%, outperforming the MSCI Japan Index (AUD) benchmark by 1.8% and over the past quarter the Fund fell 3.1%, underperforming the benchmark by 0.8%. For the quarter the benchmark fell 2.3% in AUD terms and 12.7% in local currency.

Whilst the quarter ended with many of the global imbalances that we have previously alluded to in the spotlight, we were a little surprised by how quickly the Greek (or more broadly Club Med) sovereign crisis manifested in Euro weakness – we had held some hope, that the Yen would be weakest of the big three currencies (US dollar, Euro, Yen). We were wrong. Our proposition that the Bank of Japan would gradually ease monetary policy on the way to eventual deficit monetisation as a way to weaken the Yen and weaken the deflationary impulse has been somewhat hijacked by events in Europe with the European Central Bank (ECB) having now taken its place beside the US Federal Reserve as a soft-currency central bank. The Bank of Japan continues to resist domestic political pressure to either target a "normal" exchange rate level or a "normal" level of inflation. The politicians remain inherently weak relative to the faceless bureaucrats.

So similar to most of the second half of last year, Yen strength weighed heavily on the market, with the Index closing the quarter at the low-end of the post March 2009 trading range. The fragility of the European banking system and the US economic recovery caused the Euro, US dollar and Korean won to depreciate by 14%, 5% and 12% against the Yen, respectively. From the perspective of a Japanese exporter, we sometimes wonder what else could go wrong. Anyway, for all the negativity surrounding the market, it is worth noting that year-to-date, in common currency terms, the Japanese market is one of the better performers, but with the performance coming from the strength of the Yen rather than the stocks. The problem for the positioning of the Fund is that we have tended to run an underweight position on the currency in preference to holdings in the Australian dollar, Won and US dollar and as you can see from the attribution, this has cost performance.

The 3.1% quarterly loss for the Fund comprised roughly:

- Long loss of 1.5%
- Short (stocks and indices) gain of 1.5%
- Japanese Government Bond (JGB) short loss of 0.4%
- Currency, cash and other loss of 2.7%

Gven the Yen's strength, it wasn't surprising that the key contributors to long performance were to be found in the domestic part of the market and included mid-cap retailers Pal and Ain Pharmaciez, and our IT services and telecommunication stocks, Obic, Itochu Techno-Solutions and NTT Docomo. It was our commodity and financial stocks that cost most performance – we still see value here, even in a world with a less certain outlook. On the short-side, our persistence in shorting over-valued Japanese cyclicals was rewarded.

New Long Positions

We saw little reason to change our long portfolio composition during the quarter ie. we like the stocks we own and we think they are significantly undervalued relative to their profitability and growth prospects.

New Short Positions

Our most successful Japanese shorts were on exporters that had the most to lose from the Euro-Yen depreciation, either because they had large European businesses and/or competed with European companies. During the quarter we closed out three of these positions. Over the quarter our total short position increased from 16% to 25% largely with the re-initiation of a 6% short on the Kospi (Korean Index) as the Index rebounded almost to its one year high, and specific over-valued South Korean export names exhibiting marginal deterioration in business fundamentals. We cut the JGB short from 17% to 14% before global market action became too pro-deflationary.

Currency

Whilst we started the quarter with only 39% in Yen, before the Greek sovereign crisis/US growth crisis gathered too much momentum, we increased our Yen weighting back to 58% by decreasing our exposure to the Australian dollar, Won and US dollar.

Commentary and Outlook

With five different Prime Ministers in five years, Japanese politics makes even the Italians look organised. Regular readers would appreciate that we never held much hope for change with the initial election of the Democratic Party of Japan (DPJ), due to the obvious throw-back nature of the leadership (PM Hatoyama and Party Leader Ozawa were both ex-LDP, the long-term party of Government). With the resignation of both Hatoyama and Ozawa due to plunging electoral fortunes (ostensibly due to a fundraising scandal and a policy-reversal over the relocation of the US base on Okinawa Futenma but maybe, just maybe, quoting Bill Clinton's 1992 campaign slogan, "it's the economy, stupid") and the election of Naoto Kan, there is now some glimmer of hope for a fresh start. Kan's CV differentiates him from many of the old LDP, DJP cronies. Firstly, he is the first prime minister since Koizumi not directly related (son or grandson) to another prime minister and the first non-hereditary politician since Mori in 2000 ie. he is a political outsider. Secondly, he has a track-record of standing up to the bureaucracy and winning, which, in Japan, can only be a good thing. Having said that, we have set our expectations low as it is too early to know what Kan really stands for. He faces his first political test later this month with Upper House elections and we suspect that due to policy paralysis, the DPJ is unlikely to win the majority it seeks and, hence, will remain captive to the whims of coalition partners.

With the plunge in US and German ten year government bond yields to less than 3%, markets are finally considering the implications of debt induced deflation and a low nominal growth environment for a large part of the Western world. This may rob Japan of its "special status" as the only large economy to suffer long-term structural deflation. Already deflation is clearly present in the European periphery (Ireland, Spain etc) – the question is whether the US is now on the cusp of such an event. As students of Japan's twenty year deflationary experience we have learnt that you can still make money in this environment, however, it requires a deep understanding of the true growth potential of one's individual investments, as nominal growth becomes incredibly illusive.

Japan desperately needs a combination of pro-growth micro-economic reform and loose monetary policy/tighter fiscal policy to get back on track. Here are four anecdotes[1] that suggest some bottom-up pressure for change is building – the cynics would suggest that this is far too little too late, and we would tend to agree, however, we also know that change can bring opportunity.

Anecdote One: Conglomerates like Hitachi, Mitsubishi Heavy, Mitsubishi Electric, NEC and Toshiba which have generally been so keen to beat-up each other, have been marginalised globally by more nimble competitors. Having recently visited many of these companies and being disappointed by the rate of change, we are finally seeing some collaborative deals between these behemoths – no doubt, a response to some collective crisis triggered by Yen strength and a loss of face relative to foreign competition. However, the clan-like loyalty of these companies will make inter-company co-operation difficult. We will monitor closely how deep and desperate these arrangements are, for based on experience, it is only when the Japanese are truly desperate that the sacred cows are finally slain.

Anecdote Two: Komatsu and Toyota are rapidly increasing their hiring of local management in overseas subsidiaries – yes, strange but true.

Anecdote Three: the Japanese Government has drastically reduced the visa requirements for Chinese tourists to actively encourage inbound tourism – this is the common sense type micro-reform that Japan needs to develop a taste for if it is to drag itself out of its nominal economic malaise.

Anecdote Four: Osaka Prefecture Government is seeking to in effect nullify the Central Government's administrative clamp-down on the consumer finance sector (a sector we have a large investment in via our holding in Promise) due to the resultant small and medium enterprise credit crunch ie. the manufacturing heartland is sick of the anti-entrepreneurial nature of much of what the Japanese Government stands for.

Whilst we will continue our search for undervalued growth opportunities amongst Japan's deep and diverse stock market, we are actually pretty happy with the stocks we currently own. We think our financial stocks are just too cheap, we see a solid recovery taking place in the owner occupier housing market that is not being priced into the property developers, excellent opportunities in the health services market (in the country with the world's most rapidly ageing population) and most of our export stocks are global leaders that are being priced at around book value – and Yen strength may not forever be.

[1] We are not advocating that one should construct an investment portfolio on the basis of anecdotes.

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: 1 May 1995
   Platinum Unhedged Fund: 31 January 2005
   Platinum Asia Fund: 3 March 2003
   Platinum European Fund: 1 July 1998
   Platinum Japan Fund: 1 July 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$20,000 invested in the relevant Fund over five years from 30 June 2005 to 30 June 2010 relative to their Index (in A$) 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.

Disclaimer

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum®). It contains general information only and is not intended to provide any person with financial advice or take into account any person's (or class of persons') investment objectives, financial situation or needs. Before making any investment decision you need to consider (with your financial adviser) whether the information is suitable in the circumstances.

Platinum is the responsible entity and issuer of units in the Platinum Trust Funds® (the Funds). You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds. You can obtain a copy from Platinum's website, www.platinum.com.au, or by phoning 1300 726 700 (within Australia), 02 9255 7500, or 0800 700 726 (within New Zealand), or by emailing to invest@platinum.com.au.

No company in the Platinum Group® guarantees the performance of any of the Funds, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum).

MSCI Inc Disclaimer

Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data (contained in this Quarterly Report) 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 Inc, 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 Index data is permitted without express written consent of MSCI Inc.