Platinum Japan Fund

Scott Gilchrist Portfolio Manager

Quarterly Haiku

Nikkei taps Ceiling

Corporate Governance, Reform!

Yen pops down, bonds weak

Disposition of Assets

REGION	JUN 2015	MAR 2015
Japan*	87%	88%
Korea	6%	6%
Cash	7%	6%

* The Fund also has a 4% short position in Japanese Government Bonds.

Source: Platinum. Refer to Note 3, page 5.

Portfolio Position

Sector Breakdown

SECTOR	JUN 2015
JAPANESE INTERNATIONAL FOCUS	45%
Electronics (Canon, Panasonic)	23%
Autos (Toyota, Sumitomo Electric)	12%
Industrials (Tokyo Steel, Mitsubishi Heavy Industries)	9%
Resources (Sumitomo Metal Mining)	1%
JAPANESE DOMESTIC FOCUS	42%
Internet (DeNA, NTT, Recruit)	12%
Consumer (Pola Orbis, Asahi)	9%
Health Care (Mitsubishi Tanabe, Daiichi Sankyo)	8%
Financials (Mitsubishi UFJ)	10%
Property	3%
KOREA	6%
Electronics (Samsung Electronics)	3%
Financials (KB Financial)	2%
Domestic	1%
GROSS LONG	93%

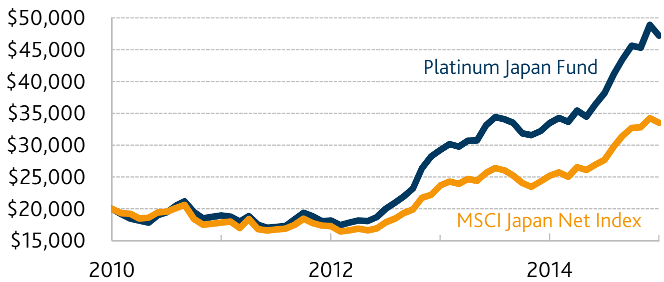
Currency Position

US dollar	42%
Japanese yen	47%
Korean won	6%
Australian dollar	5%

Source: Platinum

Value of $20,000 Invested Over Five Years

30 June 2010 to 30 June 2015



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

Some of the key themes in the portfolio, in addition to the individual stock ideas around which the portfolio is built:

- Globally competitive exporters – **Toyota**, **Canon**, **Nissan**.
- Electronics and components – **Samsung**, **Ibiden**.
- Corporate revitalisation – **Panasonic**, **Mitsubishi Tanabe**, **Mitsubishi Group**.
- Internet – **NTT**, **DeNA**, **Recruit**.
- Alternative energy – **Rohm**, **Sumitomo Electric**, **Denso**, **Hitachi Chemical**.
- Cheap, neglected cyclical stocks – **Sumitomo Metal Mining**, **Asahi Glass**.
- Domestic consumption – **Pola Orbis**, **Asahi**.

Performance

(compound pa, to 30 June 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund	3%	41%	38%	19%	16%
MSCI Japan Index	2%	33%	25%	11%	2%

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

Portfolio performance was positive for the quarter (+3%), assisted by a diverse group of the Fund's larger positions (**Daiichi Sankyo**, **Pola Orbis**, **Mitsubishi UFJ**, **Sumitomo Mitsui Financial Group**, **Nippon Telegraph and Telephone**, and **Panasonic**). More recent additions such as **Shiseido** and **Sintokogio** were also contributors, as were the Fund's holdings in the Internet sector. The core Korean holdings detracted from overall returns while some recent smaller additions were positive. The Fund was effectively fully invested during the quarter. The Yen weakened against the Australian dollar while the Won was flat over the quarter. The Yen weakened slightly against the US dollar for the quarter, a small positive for the Fund.

Changes to the Portfolio

Recognising that some parts of the portfolio are somewhat mature, two groups of new holdings were added during the last couple of quarters. The first group includes a diverse collection of companies with reasonable medium-term prospects which have been sold off for short-term reasons. The second group is a portfolio of smaller companies where the valuations are very cheap and the core operating businesses appear robust. These positions were added after screening and filtering through hundreds of opportunities. Among the larger positions, some were trimmed due to strong performance.

Commentary

The Singularity is Approaching

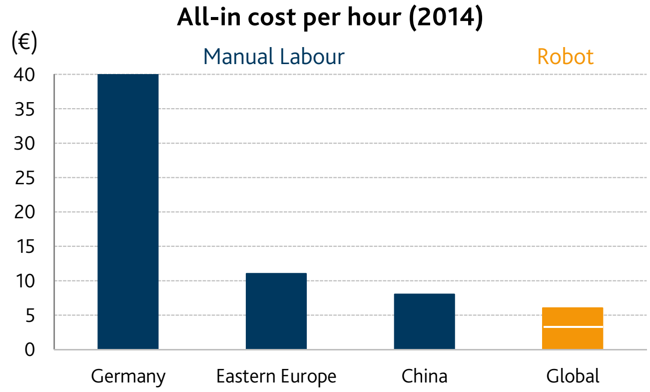
In the ongoing debate between the global inflation and global deflation camps, the topics of interest ebb and wane. "Peak oil" and "Peak everything" approach and recede. Chinese labour cost increases are offset by productivity and improved product quality. The billions of underemployed across India, ASEAN, Africa and Latin America push quickly upwards against long standing economic barriers as mobile Internet penetrates the deepest mountain valleys and darkest war zones. Global debt is either a topic which presages a return to the depths of global depression, or a mere distraction which can be easily waved away with package after package of quantitative easing. Bernanke's helicopter is on standby. Meanwhile, Silicon Valley and the hackers of the world are focused on optimising the utilisation of tens of trillion dollars of existing hard assets using networks such as Airbnb and Uber as well as hundreds of other guerrilla attacks on the incumbents.

During the quarter, we spent a week in Tokyo, Yokohama, Nagoya, Osaka and Kyoto visiting a range of automobile manufacturers, parts suppliers, component suppliers and associated industries. Along the route, we attended an important auto exhibition where hundreds of global companies exhibited their wares. Many among you would have been delighted to see the innovations in mechanical, materials and electrical engineering that are ramping production or coming out of the labs – new carbon fibres, efficient internal combustion engines, better batteries, beautifully simple gearboxes, aluminium wire harnesses, virtual reality goggles, robots and sensors. The highlight was to see a GTR engine adorned with a signature – each internal combustion engine for Godzilla is handmade by expert technicians. The Nissan Leaf, the world leading electric vehicle (EV), sat efficiently and patiently nearby. Nissan recently celebrated the sale of 250,000 Leaves, roughly half of the cumulative western EV production base, yet a minor contribution to global transportation and a negligible threat to OPEC for the foreseeable future. Siemens only showcased their software capability. In a nearby city, the fourth generation Prius is about to enter production. Fuji Heavy Industries (Subaru) reminded us what can happen when a special set of circumstances coincide. Yamaha reminded us of the myopic dystopia still present in the nooks and crannies of Japan – to paraphrase: "everything is on the strategy menu, except perhaps a plane". Many suppliers were hopeful that the Chinese consumer had become discerning enough to appreciate high end Japanese manufactured or designed components, likely a further respite from the relentless, low cost and flexible Chinese industrial production juggernaut. The focus of the week was autonomous driving which is exemplified by the upcoming Toyota transition to install driver assistance systems across almost their entire product range. The Japanese auto industry appears reinvigorated and thrusting towards an uncertain future full of brutal competition and unprecedented technological changes as highlighted by Marchionne and Musk.

Rio Tinto has implemented Japanese technology in their autonomous truck fleet operation, each giant hauling 400 tonnes of iron ore from pit to plant in the Pilbara. They lag the Russians whose prodigious government spending paid for truck fleets excavating deep diamond kimberlites in Eastern Siberia with not a human below ground level. Many container ports are now full of self-driving vehicles utilising technology similar to that implemented in the two kilometre long, driverless iron ore trains of Western Australia. The whispers from New York and California are that Apple, Google and many others are looking to imitate Tesla's success with new products founded on software, batteries and sensors – big mobile phones on wheels – rather than the century old internal combustion engine and mechanical drivetrain. The above trends will require more cameras as used in Subaru's Eyesight (Sony recently achieved auto grade certification for their CMOS sensor), more ultrasound sensors for assisted parking, more complex wire harnesses and fast efficient algorithms such as those provided by Mobileye to process the complex world of street level chaos into real and concrete actions for the industrially hardened brake, steering and safety systems required by increasingly stringent regulations. The utopia of a global fleet of billions of completely autonomous vehicles available on demand for private transport, however, is still many decades away as there remain a multitude of practical barriers to overcome.

The prospect of even more efficient human transport systems is perhaps exceeded by the inevitable robotic revolution. Over the history of the modern robot industry, some 2.5 million robots have been manufactured, of which 1.6 million are mainly automobile manufacturing assistants and still in operation. The great majority of these robots have been installed in five countries: China, South Korea, Japan, the US and Germany. As robots have matured, new industries have opened up, with the auto sector now accounting for only 40% of total annual demand of around 300,000 units per year. The latest trend is collaborative robots or "co-bots" – new sensors and software have improved safety, thus robots can be brought out from behind the cage and into close interaction with their human masters. This opens up entirely new markets and could further increase robots to much larger percentages of the global manufacturing workforce. From the current 2,500 units, it is possible that demand for these lower cost yet tireless helpers could grow to 150,000 units in 2020 at an estimated average selling price of US$21,000. While distribution networks and after sale services are key, the sophisticated mechatronics, software and motion control are where Japanese companies excel. Like the ever falling cost of solar, the robotic revolution could cap global wages for any except those with sophisticated skills and knowledge, although as Moore's Law iterates, perhaps these areas of the economy are also under threat from technology.

Robots all-in cost of €3-6 per hour compares favourably to labour costs across the globe



Source: Volkswagen and Barclays Research

ABB's YuMi co-bot launched in April 2015

Source: ABB

Market Valuation

There has been extensive analysis and documentation highlighting the key valuation anomalies of the Japanese stock market relative to many other global asset markets. In particular, the metrics of price-to-book and price-to-sales are anomalous due to lower return on equity and assets across the thousands of Japanese listed entities. This obviously presents a large valuation re-rating opportunity if this gap narrows through further improvements to Japanese corporate behaviour and refreshed competitiveness through a weaker Yen.

Following our week of auto company visits, we spent a week in Tokyo visiting companies in the portfolio and some new prospects. In total, across the two weeks we spent in Japan, we visited almost half the companies in the portfolio. One observation from these visits is the wide range of Japanese corporate quality – we met many companies who are the equal or better of their peers in the rest of the world. However, we also met many companies that have been hidden from the winds of change and show no signs of wanting to move with the flow of Corporate Governance Reform (the new non-compulsory Code was implemented this quarter) and the new index, JPX-Nikkei 400, which focuses on financial return metrics. This obviously provides many restructuring opportunities, where the valuation currently reflects the less than exciting past.

A further illustration of the Japanese market valuation opportunity is the hundreds of smaller companies with valuations reminiscent of the bear market lows seen in global equity markets over the centuries. A recent quantitative screen on China that is focused on valuation, financial strength and duration identified one company. The same screen identified 116 companies in Japan, half of the world total. It is not unusual to find companies in Japan with cash levels approaching their current market valuation in addition to a strong operating business which can be purchased for single digit price to earnings multiples. Many of these "Galapagos Companies" have low liquidity, too low for the Platinum Japan Fund. It would not be unreasonable for a portfolio of these gems to generate very strong returns over the next five years. It would be very surprising to see the current Japanese equity market revaluation end without a bull market in these stocks.

Outlook

Japanese stock markets have risen to levels which in some cases were seen more than a decade ago. Nevertheless, valuations are still reasonable, reflecting the 25 year bear market post the 1980s' bubble. Corporate governance is continuing the reform trend of the last decade, despite persistent examples of retrograde behaviour. Further, the focus on balance sheet returns is broadening and, if it keeps up, then valuations could re-rate to the level of other developed world markets. The weak Yen is an ongoing stimulus for the economy, initially through export oriented entities and then the flow-on to the domestic economy. If bond yields rise further, it could lead domestic institutions to temporarily reverse their equity flows of recent years, perhaps offering a buying opportunity for long-term buyers of high quality Japanese assets.

A Historical Note

On our recent trip, we were privileged to spend a few weekend hours in Tokyo's Shinjuku Gyoen which is on a par with Kew, Hyde Park, Central Park, Versailles and other great gardens of the world. Entrance fee: 200 Yen (roughly two dollars).

Shinjuku Gyoen (新宿御苑) is one of Tokyo's largest and most popular parks. Located just a short walk from hectic Shinjuku Station, the park's spacious lawns, meandering walking paths and tranquil scenery provide a relaxing escape from the busy urban centre around it. In spring Shinjuku Gyoen becomes one of the best places in the city to see cherry blossoms.

Shinjuku Gyoen originated during the Edo Period (1603-1867) as the Tokyo residence of the feudal lord, Kiyonari Naito. With the passing of the Tokugawa Period, the lands became part of the Imperial Household Agency. In 1872, in order to promote modern agriculture in Japan, the government established Naito Shinjuku Experimental Station in the area of 58.3 ha. Later it was converted into a botanical garden before being transferred to the Imperial Family in 1903 which used it for recreation and the entertainment of guests. Hayato Fukuba, who became the chairman of Shinjuku Imperial Garden in 1898, asked Henri Martine, a professor at the Versailles horticultural school, to remodel Shinjuku Botanical Garden into a landscape garden. Although it was a pity that the blueprints of that time were burned in an air raid in 1945, it appears that the garden was built to the plan of Martine. Shinjuku Gyoen National Garden was completed in May 1906 with an opening ceremony which included the attendance of the Emperor Meiji. The park was almost completely destroyed during World War II, but was eventually rebuilt and reopened in 1949 as a public park.

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$20,000 invested in the relevant Fund over five years from 30 June 2010 to 30 June 2015 relative to its benchmark index (in A$) 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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