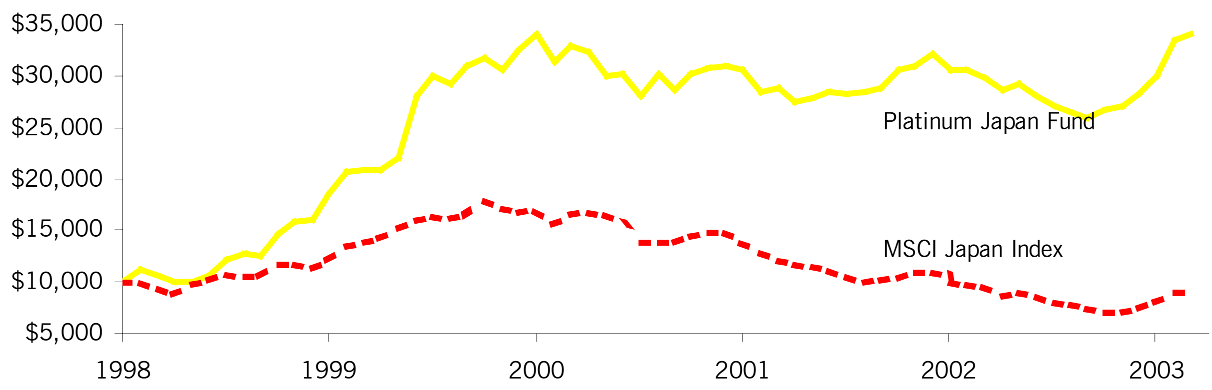
Platinum Japan Fund

Performance

REDEMPTION PRICE: $1.7591

VALUE OF $10,000 INVESTED SINCE INCEPTION (1 JULY 1998 – 30 SEPTEMBER 2003)



Source: Platinum and MSCI

Refer to Note 1, page 4

The realisation that economic growth is reviving in Japan drove the Japanese stock market up sharply this quarter. The headline grabbing number of 3.9% annualised GDP growth in the June quarter spurred large foreign buying of the market and resulted in a gain of 21% in $A terms for the MSCI Japan index. The Platinum Japan Fund registered a similar 21% increase in $A terms which was largely driven by domestic demand stocks such as banks, insurance and real estate at the expense of exporters. Korea continued to be a sluggish performer as investors favoured markets such as Hong Kong which are seen as greater beneficiaries of the Asian reflation story.

Changes to the Portfolio

DISPOSITION OF ASSETS

Region	Sep 2003	Jun 2003
Japan	62%	65%
Korea	10%	13%
Cash	28%	22%
Short Derivatives	-14%	
Long Derivatives	5%	7%
Net Derivatives	-9%	7%
Net Invested	63%	85%

Source: Platinum

We continue to emphasise a shift toward domestic demand stocks at the expense of exporters, as we believe the Asian region will lead world economic growth. As a natural consequence of this thinking we have allowed our yen currency position to increase. Toward the end of the quarter we became more cautious, believing that global markets had prematurely discounted a global economic recovery and initiated some stock shorts in Japan and an index short on the Nikkei 225. This should be seen as purely a trading position.

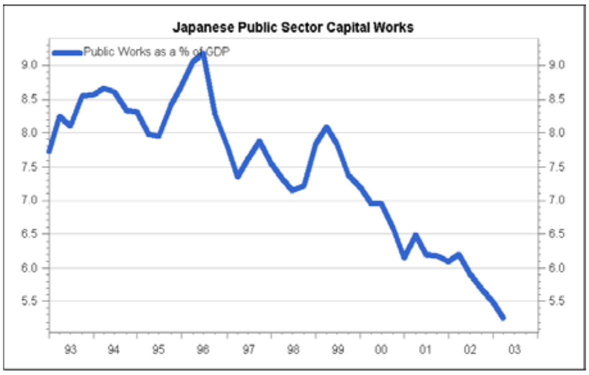
Commentary

Reform

With the upcoming national election it is timely to focus on the major changes that have taken place in the Japanese electoral system over the past decade. Until the mid 1990s Japan had an electoral system that was characterised by both a rural "gerrymander" (40% of electorates provided 48% of MPs) and a multi member system (each electorate voted in up to 6 MPs, the practical impact being that just 15% of the vote could get you elected). These two elements formed the core of the Japanese system, which was heavily based on favouring special interests, and supported the LDP for nearly all of the postwar period. It was far easier for the LDP to focus on its ties with the farming lobby for example than try to garner broader support through a wider and fairer range of policies. Indeed there were anecdotes of these favoured electorates receiving government public works spending of up to 50% above other areas.

However, starting with the 1996 national election a new system was introduced. The main features of this system were a reduction of the "gerrymander" to 40% of electorates providing 42% of MPs and the splitting of electorates between First Past the Post single member electorates (60%) and Proportional representation electorates (40%). The practical impact has been a decided shift in power away from the special interests toward a fairer "one vote, one value" system. This has manifested itself in a major change within the LDP, which continues to govern under the new system. In early 2001 we saw the election of Koizumi as Prime Minister and head of the LDP. He is a younger, more photogenic individual who was carried to power on a platform of reform for the moribund Japanese economy. Specifically, his power base was younger members of the LDP and grass roots supporters who saw the reality that they either changed from within and started to appeal to the broader population or they would be thrown out of office. This is an encouraging development because it suggests the reform course set by Koizumi is the only way forward. A positive outcome of the changing power balance in Japanese politics has been the re-ordering of spending priorities by the government. As the chart below suggests, the traditional practice of large-scale public works programs to promote growth is out. Indeed spending seems to have peaked around the time of the 1996 election and has been tracking steadily downwards, with a pause for the Asian crisis, ever since. The emergence of Koizumi has reinforced this trend.

One area where this has been apparent is industry policy. In early 2001 the Council for



Source: BoJ

Science and Technology policy was established, meeting once a month and headed by the Prime Minister. The basic aim of the council is to set the direction for, and facilitate Japanese exploitation of, science and technology. A plan has been endorsed which for the next 5 years will see $US200bn of government money spent on R&D in the four key areas of biotech, nanotech, environment and information technology. This spending is up 36% on the prior five year period. Separately the government has also moved to encourage private sector spending by raising the tax deduction for experimental corporate R&D spending. Furthermore, universities are to be corporatised and encouraged to exploit their resources. This has led to rapid growth in the number of venture company start-ups.

The case for Japan revisited

The case for Japanese equities rests heavily on the continuation of strong growth in Asia. We believe that we are witnessing an historic shift in the balance of world economic power away from the Western countries toward the East. The "Asian" story begins with the wealth transfer created by the rapid outsourcing by rich countries and gathers steam when you think of the benefits of intra regional trade. Together with the high level of domestic savings post the Asian crisis, domestic oriented capex and consumption can easily be funded. The reality is that Japan remains the region's pre-eminent supplier of high quality capital and consumer goods and stands to benefit enormously going forward. Indeed the trend is well in place with exports to China from Japan growing by 45% yoy in the first seven months of 2003 compared with a 3% fall in exports to the US.

The other big positive for Japan from the emergence of this growth driver is that it comes at a time when Japanese corporates have their leanest operating and financial structures in decades after a long period of economic downturn. The "social contract" with labour has been fundamentally reapprised in Japan so much so that recently we have seen union groups asking for wage and benefit cuts. China has been a major factor in this equation and it gives the corporate sector a nice window of opportunity to regain income share lost to labour over many years. Our belief is that we could see an extended upward cycle for corporate profits in Japan which would be a strong upward driver for equity prices.

However it is important to be selective because we do not see Japan as being a high growth economy per se. The reasons are many fold and include its own outsourcing to China, a declining working age population and high levels of government debt which will need to be covered by raising taxes at some point. This does not preclude some better periods for a couple of years as we have a natural bounce back from the extended downturn. Even so, we see a highly dichotomous economy. Parts of the corporate sector geared to Asian exports will do well and already we are seeing this with regions around Osaka growing at 2-3 times faster than the national average on the back of Chinese exports. It is also likely that the consumer will be relatively sluggish and that the rich and poor divide increases as restructuring continues. We note that land prices in the high income parts of Tokyo are rising for the first time in many years whilst other areas continue to fall.

The biggest risk to the story is not the strength of the currency as many of the current newspaper headlines pronounce. Rather the imbalances in global economic growth, which have seen the US account for most of the world's *growth* for many years now, could create risks for asset markets in the inevitable adjustment phase. Our base case is that the shift of leadership from West to East happens in a smooth fashion with some setbacks along the way. The risk could be that there is a major dislocation caused either by the sharp withdrawal of credit to the US or trade protectionism which could derail the Asian growth story over the medium term. The longer term trend is, we believe, irreversible.

<u>Jim Simpson</u>
<u>Portfolio Manager</u>

The Platinum Japan Fund

1. DISCLAIMER

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Before making any investment decision you need to consider (with your securities adviser) your particular investment needs, objectives and financial circumstances. You should refer to the PDS or IS (whichever applicable) when deciding to acquire, or continue to hold, units in the Funds.

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2. NOTES

(a) The returns represent the combined income and capital return for the specified period. They have been calculated using withdrawal prices, after taking into account management fees (excluding any performance fees), pre-tax, and assuming reinvestment of distributions. The returns shown represent past returns of the Fund only. Past 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, returns can be negative (particularly in the short-term).

(b) The investment returns depicted in this graph are cumulative on A$10,000 invested in the Fund since Inception relative to the its index(in A$) as per below;

Platinum Japan Fund:

MSCI Japan Accumulation Net Return Index in A$. The inception date of the fund was 1 July 1998.

The investment return in the Fund is calculated using withdrawal prices, after taking into account management fees (excluding performance fees), pre-tax and assuming 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 Index. The Index is provided as a reference only.