PLATINUM JAPAN FUND

Jim Simpson
Portfolio Manager

PERFORMANCE

The Fund experienced another period of above average volatility and relatively poor returns as investors continued to move funds away from the Japanese market. Currency movements had a relatively minor influence on returns this quarter and it was more the poor underlying performance of Japanese stocks that showed through, especially in comparison to other markets. This is particularly discouraging when one considers that Japan had not participated in the global bull market for the past two years! Frustratingly, despite a strengthening of the yen against the US dollar, the prime sectors which bore the brunt of the selling were domestics, principally financial and property related. In summary, it was a very testing period for Japanese equity funds.

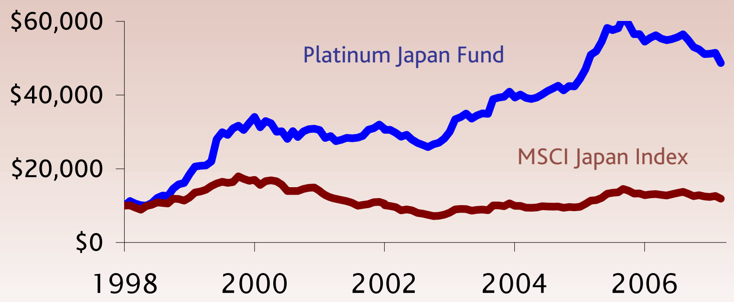
For the quarter, the Fund returned -4.7% in $A against an MSCI Japan index return of -5.0%. For the past 12 months the Fund lost 13.5%, trailing the MSCI Japan index by about 4%. Toward the end of the quarter there were promising signs that life was returning to Japan as re-emerging risk appetite globally filtered through. However, at present there is nothing to indicate that this confirms a major reversal in attitudes to Japan.

DISPOSITION OF ASSETS

REGION	SEP 2007	JUN 2007
JAPAN	97%	96%
CASH	3%	4%

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 30 SEPTEMBER 2007



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

CHANGES TO THE PORTFOLIO

The portfolio has been undergoing a tightening of holdings around core themes and a modest rebalance away from domestics towards internationally-oriented industrial and technology companies. Essentially few new stocks have been added but some positions have been removed in favour of larger holdings in existing stocks. We have reduced our regional banks position as the likelihood of aggressive rate increases recedes. Our top holdings generally retain the character of mild growth, defensive names. Ajinomoto has moved toward the top of our holdings list because of the positive correlation between rising grain prices and its earnings although we acknowledge the short-term impact of higher prices on its domestic food business.

Major stocks bought – Ajinomoto (food and animal feeds), Inpex (oil and gas), Kandenko (contractor), Mitsubishi Rayon (chemicals)

Major stocks sold – Chiba Bank, Marubeni, JR East, Oji Paper

COMMENTARY

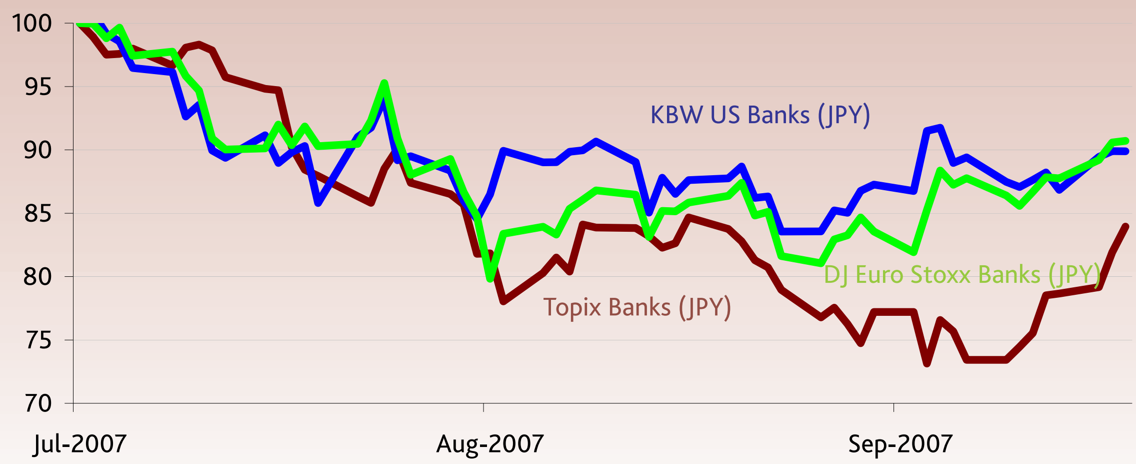
A value stock without an obvious catalyst?

We have commented many times in recent quarterlies on the reasons for underperformance in Japan. Suffice to say that until confidence returns to the domestic economy it is likely to continue. On this point there are negatives almost too numerous to mention that would seem to deny any chance of it ever returning! Surely the appointment of the ageing 71 year old Fukuda as the new head of the LDP, in an attempt to stabilise things, is just another nail in the coffin? Value is clearly present in Japan but the factors that will unleash this value are not. Or perhaps we would better say the factors are identifiable (low rates, rising stock buybacks and dividends etc) but no-one really believes in them anymore. This is precisely the nature of opportunity in investment markets which some might simply translate as “it’s always darkest before the dawn”. It helps one avoid the trap of simple trend following behaviour, the likes of which we are seeing now with the headlong stampede by Asian-based funds chasing past returns. **Who can say that the promising signs of a spreading of the appreciation of land prices in Japan from the cities to residential and rural areas will not have surprising consequences in a year’s time?** Nevertheless we will return to our “box” and leave you with a thought on Korea. Korea has always been a “cheap” market but has experienced a recent re-rating driven primarily by local investors. This, despite the fact that there is little in the way of very positive factors going on domestically. Investment is highly fashion dependent, and fashions do change.

Policy Drag?

Amidst all of the gnashing of teeth amongst investors about Japan, what has **gone relatively unnoticed is the severe policy tightening, both fiscal and monetary over the past two years. It is entirely possible that this is the real reason for the Japanese stock market underperformance rather than the myriad of other excuses offered.** The first chart on page 3, details an approximately 6% contraction in the government borrowing requirement (fiscal deficit) over the past two years. Additionally, and not shown on the graph, the Bank of Japan (BOJ) has removed excess monetary reserves of gargantuan proportions from the system and embarked on raising interest rates, albeit small ones at this stage. **Despite this policy tightening which is without precedent for a large country, the economy has managed to grow at a decent pace on the back of exports.** Whilst it was necessary to reduce the Government’s stimulation to the economy as the system had overcome the great deflationary period, clearly further ‘destimulation’ is not in the offing. In this event we may find ourselves looking back on the 2006-07 as merely a period of consolidation before stronger domestic growth re-emerges in 2008. The bears will describe this as wishful thinking but if we cast our minds back to the US recession of the early nineties there was a similar pattern to that recovery.

Comparing banks' performance from the recent market top



Source:: Bloomberg

The ultimate insult – Japanese banks under perform global peers on sub-prime problems!

It is a shocking reality that Japanese banks have underperformed their Western peers since recent market peaks, by at one stage a factor of two times. This is despite having lower sub-prime exposure and being an ocean away in a country which in recent times has experienced relatively safe lending activities. Perhaps it's merely symptomatic of investors' current aversion to Japan and that the banks are seen as most sensitive to economic conditions. Going a little deeper perhaps we could argue that the stock prices of the banks in Japan were anticipating a benefit from higher interest rates which is less likely to come now. Yet the bottom line is that the treatment handed out to the banks seems out of line with the facts. Perhaps we can extrapolate this to Japan as a whole.

OUTLOOK

Having taken a battering in Japan, we sense that we could be through the worst. Bearishness is almost universal which cannot be said for many assets in today's world, save sub-prime debt, and we are confident Japanese equities are much more soundly based than those assets!! Valuations when adjusted for balance sheets, are at low levels versus most other countries and the world is growing with the benefit of Japanese goods. We will continue to invest in undervalued companies especially those that play into our global industry themes.

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 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, investment returns can be negative (particularly in the short-term).

2. The investment returns depicted in the graphs are cumulative on A$10,000 invested in the relevant Fund since inception relative to their Index (in A$) as per below:

Platinum International Fund:
Inception 1 May 1995, MSCI All Country World Net Index

Platinum Unhedged Fund:
Inception 31 January 2005, MSCI All Country World Net Index

Platinum Asia Fund:
Inception 3 March 2003, MSCI All Country Asia ex Japan Net Index

Platinum European Fund:
Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:
Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:
Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:
Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:
Inception 18 May 2000, MSCI All Country World Information Technology 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.

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

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