PLATINUM JAPAN FUND

Jacob Mitchell
Portfolio Manager

PORTFOLIO POSITION

PERFORMANCE (compound pa, to 30 September 2009)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
PLATINUM JAPAN FUND	0%	24%	-3%	6%	16%
MSCI JAPAN INDEX	-2%	-11%	-13%	-2%	-1%

Source: Platinum and MSCI. Refer to Note 1, page 36.

We have reformatted the opening section to provide investors with a better sense of changes in portfolio composition over the past year.

SECTOR BREAKDOWN

SECTOR	SEP 2009	SEP 2008
DOMESTIC	50%	47%
FINANCIALS	12%	13%
REAL ESTATE & CONSTRUCTION	9%	18%
TELCO, IT AND INTERNET	14%	5%
RETAIL AND SERVICE	15%	11%
EXPORT	39%	36%
COMMODITIES	8%	6%
ALTERNATIVE ENERGY	9%	5%
AUTOS	6%	9%
TECH/CAPITAL EQUIPMENT	16%	16%
GROSS LONG	89%	83%

Source: Platinum

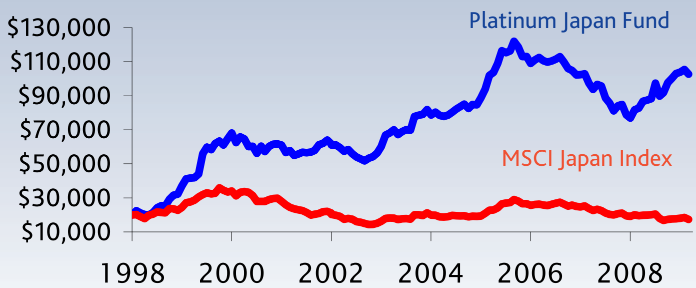
DISPOSITION OF ASSETS

REGION	SEP 2009	JUN 2009
JAPAN	83%	82%
KOREA	6%	6%
CASH	11%	12%
SHORTS	14%	18%

The Fund also has an 18% short position in Japanese Gov't Bonds.

Source: Platinum

VALUE OF $20,000 INVESTED SINCE INCEPTION
1 JULY 1998 TO 30 SEPTEMBER 2009



Source: Platinum and MSCI. Refer to Note 2, page 36.

PERFORMANCE AND CHANGES TO THE PORTFOLIO

Over the past 12 months the Fund rose 24.1%, outperforming the MSCI Japan Index (A$) benchmark by 35.3% and over the past quarter the Fund was flat, outperforming the benchmark by 2%. It was a tough quarter for Japan equity investors, as the Japanese benchmark underperformed the global benchmark by 10.4%.

The flat result for the Fund comprised roughly:

- Long gain of 1.7%
- Short loss of 0.5%
- Cash and other loss of 1.2%

Japan at best remains a traders' market. Even as global leading indicators continued to improve, the outperformance of the cyclical bets started to reverse. Whilst we thought Japan's cyclical rebound would continue, we have avoided the worst of the damage by reducing the cyclicality of the portfolio on the way up. The catalyst was the return of Yen strength as the general US dollar depreciation against most currencies gained momentum. In previous episodes of Yen strength, domestic sectors have provided some prospect of absolute return for investors. However, given the sad outlook for domestic demand, this pattern is now breaking. The meagre outperformance that we did achieve was driven by some very stock specific outcomes rather than any major thematic, sectoral or macro call.

Since the circulation of the June quarterly, we have received requests from investors regarding attribution for the 31% return achieved year end June 2009:

- Long 17% (average exposure 85%)
- Short 9% (average exposure 16%)
- Other 5%

Whilst we didn't travel during the quarter, we continued a fairly hectic teleconferencing schedule. It rarely pays to be too prescriptive (ie. confirmation bias, the tendency to find what one is looking for rather than a more serendipitous approach), notwithstanding, we focused our efforts on uncovering secular growth opportunities. Recently, we've found interesting undervalued ideas in the high growth areas of internet content, health care and alternative energy. In stark contrast to a year ago when many domestic stocks were significantly overvalued as safe havens relative to export sectors (that were being priced for the worst following the Lehman Brothers' bankruptcy) we have recently found greater value in domestic areas – the trick will to be avoid the value traps.

Changes to the portfolio over the quarter (end of last quarter):

- gross long stocks 89% (88%)
- short stocks 14% (18%)
- net stocks 75% (70%)

Changes included:

- Lifting our holdings in Japan's two largest mobile telephony companies NTT Docomo (3.5%) and KDDI Corp (3.8%) as the valuations became too attractive to resist.

- In the real estate area we sold down some of our major winners, Arnest One and Sumitomo Real Estate Sales as the market had repriced the stocks as major beneficiaries of low-end housing subsidies, hence, there was no longer any real reason to own the stocks (and in Japan, that means sell).

- Export exposure remained steady at around 39%; we reduced the auto and commodity bet as we assessed that on the back of various cash-for-cluncker subsidies and euphoria regarding Chinese loan growth, the stocks had gotten ahead of themselves.

- In the alternative energy space, we continue to find opportunities on both the long and short side and on the long side increased our holdings from 7% to 9%, largely by adding to existing positions. We argue that Japanese companies retain some comparative advantage in this area given the depth of technology required.

- On the short side we covered some of our more defensive positions with a domestic orientation (eg. utilities) to make room for shorts on some more cyclical stocks that had bounced back to unsustainably high valuations (eg. auto components, capital equipment and alternative energy). We have a preference for shorting stocks with weak balance sheets.

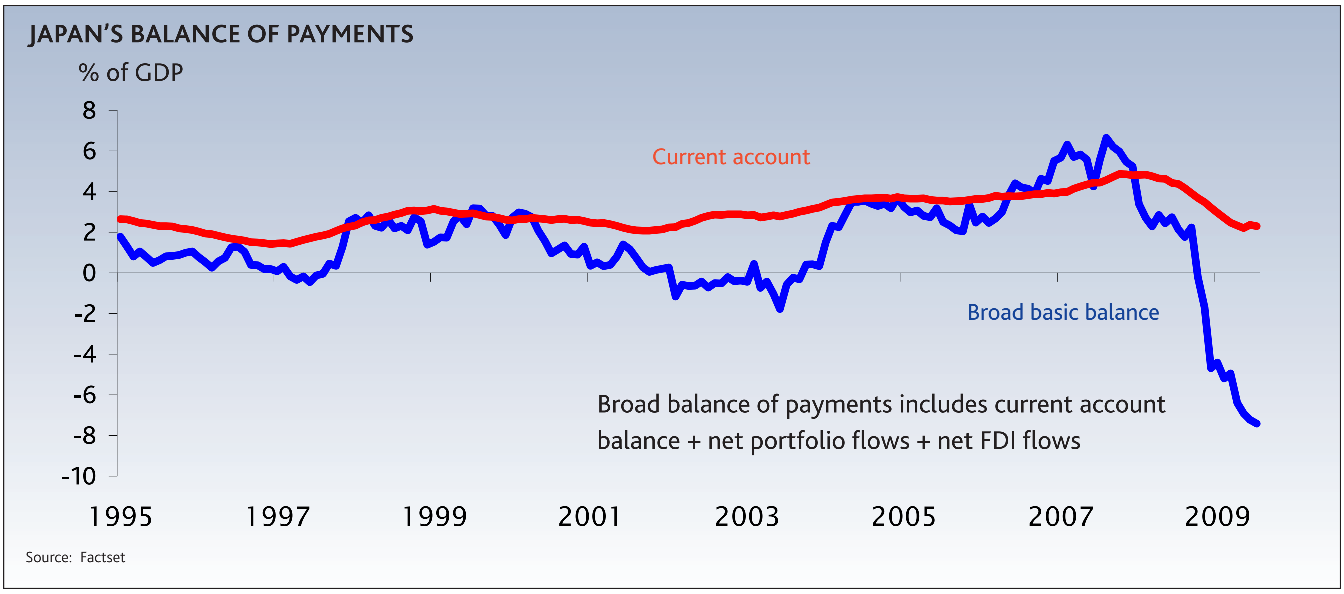
- We increased our short in Japanese Government bonds from 12.6% to 18.2%, as given the prospect of a greater supply and declining rate of savings accumulation, yields of 1.3% are unsustainably low.

- On the currency front, our Yen exposure fell from 47% to 40% and A$ fell slightly from 16% to 15% as we increased exposure to US$ and proxies (Taiwanese dollar) from an aggregate of 14% to 19%. We positioned the Fund for a rebound in the US$ that never came. Whilst we have been too pre-emptive in reducing our A$ exposure, the A$/Yen move against us for the quarter was probably less than some imagine at 2%. The Korean won remains undervalued and we maintain a high 25% weighting in this currency.

OUTLOOK

As we discussed last quarterly, in each of the next four reports we'll focus on a different major issue facing investors in Japanese equities. Last quarter we discussed the "potential" for a reorientation of the Japanese household balance sheet if Japanese investors were ever to lose faith in nominal assets like Japanese government bonds. The issue for this quarter is the unsustainability of the government's fiscal position (and recent political changes).

In a landslide result, the Democratic Party of Japan (DPJ) won the August national lower house election. It is only the second time since 1955 that the Japanese have elected a Central Government other than the Liberal Democratic Party (LDP). We think it will take some time for the dust to settle and for the new party's real policy bias to appear. Much discussion has focused on their apparent socialism ie. family support payments, preference for a stronger Yen and a domestic led economic recovery – but we're not sure how this differentiates them from the LDP (who spent a good part of two decades blowing-up Japan's fiscal position with social spending). Possibly the difference is that much of the LDP's social spending lined the pockets of construction contractors. Given the sad state of



Japanese government finances (government debt to GDP ratio approaching 200%), there is really little room to move for any party as spending increases will require tax hikes and over time the similarities of the DPJ to the LDP are likely to become more, rather than less obvious.

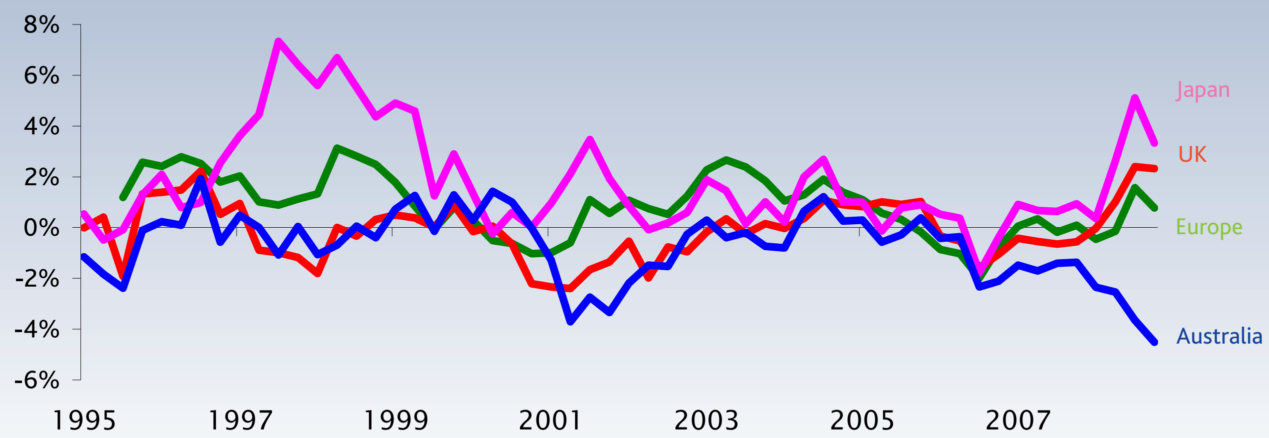
We don't think the recent Yen strength will be sustained due to the collapse in the savings rate and broad balance of payments (see chart page 22) – Japan is no longer the export behemoth that it once was. In the short-term, the currency is trading off the general US$ depreciation and comments by the sprightly new 77 year old Finance Minister, Fujii, implying "tolerance" for a strong Yen. The problem with the "tolerance" statement is that it implies that the Bank of Japan (BOJ) has recently intervened to weaken the Yen and this clearly has not been the case. The last major intervention occurred in the first quarter of 2004 when the BOJ, at the request of the Ministry of Finance (MOF), sold a record 14.8 trillion yen ($164bn).

In fact, monetary conditions within Japan are extremely tight as unlike the European Central Bank and the Federal Reserve, the BOJ has not provided any significant capital to credit markets. Since March 2009 Euroland and the UK have expanded money supply faster than the profligate Federal Reserve whilst Japan, more by default than design, continues a "cold turkey" tightening bias supporting a stronger Yen. The chart below displays real GDP growth rates of some major economies relative to the US (an upward sloping line indicates real GDP growth slower than the US) and one can see that the strong Yen policy is coming at considerable cost to the economy (calendar year 2009 Japan is on track for a 5.7% GDP decline versus 3.9% in Euroland and 2.6% in the US) – hence, we think the policy is unsustainable.

Whilst it's admirable for the DPJ to attempt to stimulate domestic demand via family welfare payments and, a decade ago this may have worked, now Japan needs far more radical surgery. Moves to promote domestic consumption, if not accompanied by significant micro economic reform aimed at increasing labour and capital mobility, will likely fail. And then the obvious risk of a tight monetary, strong Yen policy becomes apparent ie. profit declines, leading to capex cuts, workforce reduction, consumption declines and voter dissatisfaction.

We think there will be one subject on which the DPJ will retain very similar views to the LDP and that is the desire to hold onto power. Accordingly, sometime between now and the upper house elections in June/July next year, Finance Minister Fujii will

REAL GDP DIFFERENTIALS



Source: Factset

likely discover the merits of a weaker Yen (and monetary policy will be loosened). Whilst we'll keep an open mind on the potential for DPJ-LDP policy differences, it hasn't (and likely won't) carry much weight in the formulation of our investment strategy ie. we'll continue to do what we have always done in Japan – look for and invest in interesting undervalued stocks (and short vulnerable ones).

The rebound in the Japanese equity market has been extremely weak (especially for unhedged A$ investors – only 7% off the March 2009 low), and though it could be best described as a "kick the dog" quarter, we're excited by the valuations and prospects of the stocks we own.