Platinum Japan Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	DEC 2010	SEP 2010
Japan	98%	88%
Korea	5%	7%
Cash	-3%*	5%
Shorts	15%	14%

The Fund also has a 10% short position in Japanese Government Bonds.

* Of Japan's 98% long exposure, 5% relates to call option positions where the capital at risk is 0.6%. Without this position, cash would show at 2%.

Source: Platinum

Portfolio Position

Changes in annual portfolio composition:

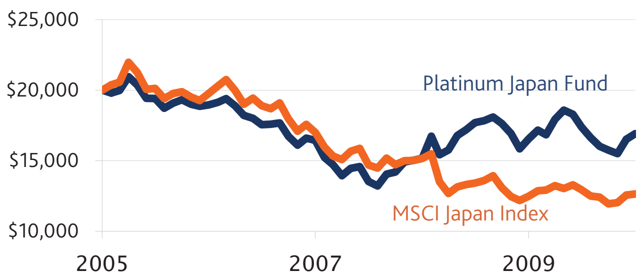
Sector Breakdown

SECTOR	DEC 2010	DEC 2009
DOMESTIC	54%	47%
Financials	19%	11%
Retail and Services	14%	13%
Telco, IT and Internet	13%	14%
Real Estate and Construction	8%	9%
EXPORT	49%	46%
Tech/Capital Equipment	17%	19%
Commodities	13%	9%
Autos and Machinery	11%	8%
Alternative Energy	8%	10%
Gross Long	103%	93%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 December 2005 to 31 December 2010



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

Performance

Over the past 12 months the Fund rose 2.2%, outperforming the MSCI Japan Net Index (A$) benchmark by 0.9%, and over the past quarter the Fund rose 7.4%, outperforming the benchmark by 1.5%. For the quarter the benchmark rose 5.9% in A$ terms and 8.9% in Yen terms.

Chinese inflation surprises and monetary tightening triggered a rotation out of the emerging markets into developed markets with Japanese equities experiencing a "relief" style rally. As we highlighted last quarter, the strength of retail flows into emerging markets (close to new record highs) suggested a correction was overdue. Asset allocators must now consider whether the recent emerging world underperformance is just a temporary setback or the beginning of a longer term trend. At the very least, it has provided valuation-insensitive momentum investors some pause for thought.

In contrast to last quarter's highly correlated and indiscriminate liquidation of Japanese equities, the current quarter offered a somewhat healthier environment with signs of life from key laggard sectors (e.g. energy, chemicals, property and financials) and also the midcap market. Similarly, in regard to quarterly performance attribution, some of our long dormant exposures in the above areas sprung to life but our shorts, as we were too pre-emptive, cost just under 1% in performance.

In terms of the attribution over the past 12 months, being less than fully exposed to the Yen cost approximately 3.8%, stock and index shorts cost 1.9%, the Japanese Government Bonds (JGB) short cost 0.3% and we made 8.2% on our longs. With significant exposure to the Taiwanese dollar, South Korean won and US dollar (in aggregate 43%), which each respectively depreciated by 11%, 4% and 13% against the Yen, our currency positioning away from the Yen remains the biggest drag on the portfolio. The Yen and Australian dollar remain the über currencies in a world bereft of strong currencies.

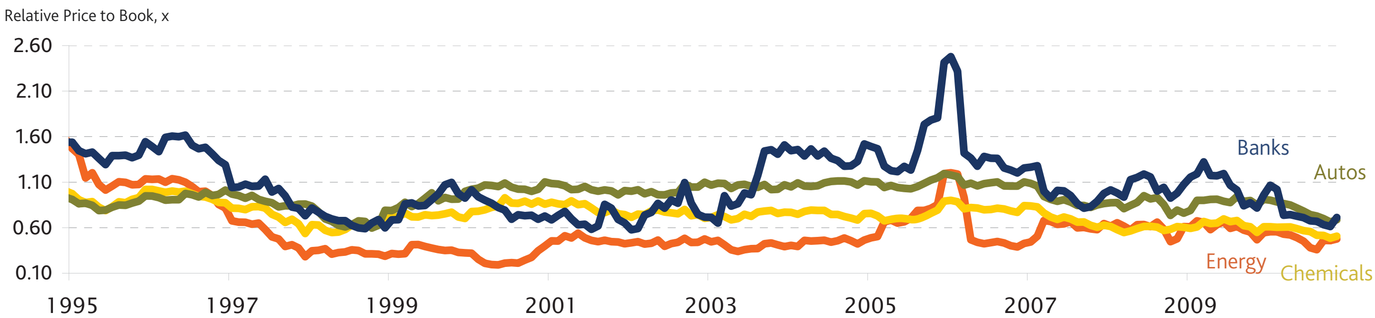
However, we remain convinced that the Yen's strength is not sustainable. Japan (as with most of Asia) has suffered a terms of trade shock relative to commodity exporters such as Australia and also continental economies like the US and Western Europe. Japan's inflation relative to its trading partners has not been sufficiently low to offset the terms of trade shock i.e. there is a point where rising commodity prices may erode the much vaunted trade surplus. The parlous state of Japan's government finances means the currency would be highly vulnerable to any decline in Japan's external surplus.

Changes to the Portfolio

Long Positions

Whilst we think the Japanese stock market is generally undervalued, there are four areas where the undervaluation has been too extreme for us to ignore and during the quarter we added exposure: Financials (see over), Chemicals (JSR Corp and Shin-Etsu), Energy (JGC Corp and Inpex Inc), and Autos. The chart below compares these Japanese sector valuations against their global counterparts. Whilst there is no shortage of value traps, there are some extremely high quality

Japan versus Global Sector - Relative Price to Book



Source: Factset

companies that are simply mispriced. Shin-Etsu Chemical is a great example and the detailed rationale behind our investment (our fourth largest holding) can be found in the current Platinum International Fund quarterly report on page four.

Accordingly, we increased our total long exposure from 95% to 103%. Investors would be aware that under the Fund mandate, there is a no-leverage condition and hence, we have used a combination of long swaps and call options to facilitate these purchases (note the Fund mandate allows for a total gross exposure of 150% and we are unlikely to go even close to this limit). Specifically, over the quarter we increased our effective holding in Mitsubishi UFJ Financial from 3.5% to 6.8% and T&D Holdings from 2.1% to 3.1%.

We now have 15% of the Fund exposed to Japanese banks and life insurance companies. Our enthusiasm here is that we believe inflation will one day return to Japan and will go a long-way to improving the core profitability of these institutions. To understand more fully, we refer investors to the June 2008 Platinum Japan Fund quarterly report (http://www.platinum.com.au/images/pjfqtr_0608.pdf). Whilst it is some time since our first investment and our thesis is yet to play-out, during the quarter we decided to increase our exposure at even cheaper valuations as we think the inflationary pulse that has been unleashed by the Chinese credit bonanza is starting to leach into the rest of the world. We take a closer look at Chinese inflation in the current Platinum Unhedged and Asia Funds quarterly reports on pages nine and 12 respectively.

Short Positions

No significant changes.

Currencies

In keeping with our view that the Yen is overvalued, we cut our exposure from 45% to 39%. We also reduced our South Korean won position from 29% to 15% (with the Chinese refusing to allow the Renminbi to appreciate, the rationale for owning Asian currencies is somewhat weakened). Consequently, our US dollar holding increased from 8% to 23%.

Commentary and Outlook

As we noted in the last quarterly, in early October the Bank of Japan (BOJ) also created some excitement by announcing an additional asset buying program worth up to ¥5 trillion (or 1% of GDP or a 4% expansion) of the BOJ's balance sheet. Importantly, it will target assets other than JGBs, a necessary first step to ultimately adopting an inflation targeting regime that focuses on restoring a yield curve and risk appetite. Whilst relatively immaterial, this policy is a step in the right direction as it will be very difficult to bring the fiscal deficit under control and reduce the Japanese Government's mountain of debt without some inflation. However, without more direct political pressure, the BOJ will remain inherently reactionary, delivering what it perceives to be the minimum amount of financial easing required to maintain the status quo.

The question remains as to whether the current Chinese inflation cycle is powerful enough to lift Japanese inflationary expectations and ultimately drive domestic Japanese investors out of cash and back into more inflation protected assets like stocks and property. To remind investors, the Japanese household holds financial assets of US$15 trillion, equivalent to three times GDP <u>and</u> currently only 3.5% of this is directly invested in the Japanese stock market. The capitalisation of the Japanese stock market is US$4 trillion – every 1% allocation of household assets towards equities is equivalent to buying 4.5% of the entire Japanese stock market i.e. a small change in domestic investor risk preference could have a significant impact on the market. The magnitude of shift in the allocation of household assets towards equities is <u>not</u> available in most other countries or stock markets as it reflects the historically high savings rate that Asia has supported relative to large parts of the Western World (US, Australia and most of Europe).

Whether we are close to the mark on our macro prognostications for Japan is not really the point. What we are most excited by is just how cheap the stocks we own are; that is, how attractive their prospects are relative to valuation.

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: 30 April 1995
   Platinum Unhedged Fund: 31 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

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 31 December 2005 to 31 December 2010 relative to their Index (in A$) 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.

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