Platinum Japan Fund

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Performance

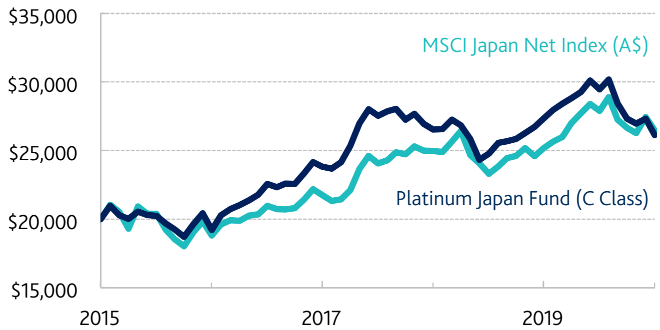
(compound p.a.⁺, to 30 June 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	-4%	-4%	3%	5%	13%
MSCI Japan Index^	-1%	5%	7%	6%	3%

⁺ Excludes quarterly performance.
* C Class – standard fee option. Inception date: 30 June 1998.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI Japan Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet Research Systems.
Historical performance is not a reliable indicator of future performance.
See note 1, page 4. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

30 June 2015 to 30 June 2020



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet Research Systems. See notes 1 & 2, page 4.

The Fund (C Class) returned -4.4% for the quarter and -4.4% for the year.[1]

The Japanese stock market has been falling for two and half years. The Japanese yen has been strengthening for the last five years. The Japanese stock market is now below mid-2015 levels. This bland numerical commentary masks massive underlying shifts in the market composition. Many company valuations are now below previous low levels, while many high-quality companies with decent long-term prospects are selling close to historically low valuations. In contrast, many parts of the market are valued at record levels. This valuation dispersion has not been this prevalent for two decades and is now amongst the widest on record.

The Fund has been positioned both conservatively and with a view that the valuation dispersion would tighten. In the background is the influence of disruption and deflation. Unfortunately, positive contributions from fast-growing, innovative companies like **Nexon** (+38%), **Nintendo** (+15%), **GMO Internet** (+64%) and **CyberAgent** (+26%) have been offset by defensive positioning of a significant part of the portfolio and losses on short positions in companies, which were valued near record levels and rose to record levels.

Commentary

The dramatic structural change in the Japanese stock market was highlighted recently when Toyota confirmed their transition to electric cars and hydrogen fuelled fleets. Their first dedicated electric vehicle (EV) platform will launch in 2022 and they see a line to 2025 when EVs will be easily competitive with conventional drive trains.

Toyota commenced series production of an electric car, the RAV4EV in 1994. The problems were myriad and obvious, similar to the challenges facing the EV industry today. Concurrent with their development of the RAV4EV, Toyota ran a project with the aim of producing a fundamentally more fuel-efficient passenger vehicle. From this engineering process came the optimised but awkward-looking Prius, which entered production in 1997. This genesis was

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum Japan Fund report are in AUD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

Disposition of Assets^

REGION	30 JUN 2020	31 MAR 2020	30 JUN 2019
Japan	90%	79%	84%
Korea	4%	3%	5%
Cash	6%	19%	11%
Shorts	-30%	-24%	-26%

^ With effect from 31 May 2020, our country classifications for securities were updated to reflect Bloomberg's "country of risk" designations. These changes have been backdated to prior periods.
See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 JUN 2020	31 MAR 2020	30 JUN 2019
Communication Services	25%	14%	19%
Health Care	14%	13%	3%
Consumer Discretionary	11%	14%	20%
Information Technology	8%	8%	12%
Industrials	6%	9%	9%
Materials	3%	3%	7%
Financials	1%	0%	3%
Real Estate	0%	0%	0%
Energy	0%	0%	3%
Consumer Staples	-3%	-3%	-2%
Other*	0%	0%	-10%
TOTAL NET EXPOSURE	64%	57%	63%

* Includes index shorts and other positions.
See note 4, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Currency Exposures+

CURRENCY	30 JUN 2020	31 MAR 2020	30 JUN 2019
Japanese yen (JPY)	103%	102%	97%
US dollar (USD)	1%	1%	15%
Australian dollar (AUD)	0%	0%	-16%
Korean won (KRW)	-3%	-3%	3%

+ With effect from 31 May 2020, our currency risk exposure classifications for securities were updated to match the relevant local currencies of the relevant Bloomberg "country of risk" classifications. These changes have been backdated to prior periods.
See note 5, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pjf.

documented in detail in Hideshi Itazaki's 1999 book *The Prius that Shook the World: How Toyota Developed the World's First Mass-Production Hybrid Vehicle*. At various stages of the excitement, journalists were camped out on the footpaths of the homes of the chief engineers. Detroit was shell-shocked at the outcome. Not everyone finds the 400 pages of text quite as riveting; there are zero book reviews on Amazon.

Toyota is now selling the fourth-generation evolution of the Prius. The fifth-generation is scheduled for 2022 when the cost of the hybrid components will be one-eighth of the original equipment set, a dramatic improvement over two decades.

Toyota's internal production plan for 2025, provisions half of their output volume with electrified drivetrains, mostly full hybrids augmented by some plug-in hybrids, fuel cell cars and full electric vehicles. The first-generation Prius was sold at a large loss, the third-generation made a profit and the fifth-generation is budgeted to have a higher profit margin than the corporate average.

The sense garnered from discussions with Toyota is that they are very comfortable with their electrification roadmap even when faced with uncertain customer demand and variable regulations around the globe. Toyota is planning to reduce their capex from current levels, maintain their current research and development spending and slowly grow production. This is in stark contrast to most of the industry, which is facing pressure across the board. Toyota's spending commitments include further development of their solid-state battery program and their world-leading first-generation fuel cell cars production in addition to their ongoing cost-reduction program. In Europe, where some companies are facing multi-billion-dollar fines as a result of their inability to meet new environment targets, Toyota is fully prepared with a wide range of advanced models.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Takeda Pharma Co	Japan	Health Care	7.2%
Rakuten Inc	Japan	Cons Discretionary	5.3%
Oracle Japan	Japan	Info Technology	5.1%
CyberAgent Inc	Japan	Comm Services	5.1%
Minebea Co Ltd	Japan	Industrials	4.9%
Nintendo Co Ltd	Japan	Comm Services	4.6%
Astellas Pharma	Japan	Health Care	4.4%
Kyocera Corp	Japan	Info Technology	4.3%
KDDI Corporation	Japan	Comm Services	4.2%
Nitto Denko Corp	Japan	Materials	4.2%

As at 30 June 2020. See note 6, page 4.
Source: Platinum Investment Management Limited

Akio Toyoda, Toyota's President, CEO & Representative Director, does not consider his job finished despite the progress of the last decade. He is very clear that the global car industry is at a rare juncture and he is determined to lead Toyota to a premier position in the wider mobility industry. The focus has shifted from the restructuring of the last decade, to the future.

There have been transition periods in the last two centuries where changes like containerisation, railways, canals, automobiles and heavy-duty trucking stranded or destroyed large amounts of capital. One detailed estimate of the number of vehicles required to optimally service a dense urban environment reduces from 60,000 to 2,000 in a fully automated vehicle implementation. Even adjusting for operational realities and consumer preferences, this portends a seismic shift in both the structure of the economy and the auto industry. There are a lot of intermediate stumbling blocks before the arrival of this utopia. Full autonomy is an extraordinarily complex problem given the proliferation of edge cases in an informationally rich road scape. Current technology is not close to solving this problem, let alone at a reasonable cost.

The human brain is an amazingly efficient and reliable organ. It has evolved over billions of years to help us navigate a diverse range of changing environments. It will be difficult to replicate our brains in silicon.

Safely operating an autonomous fleet with a high level of reliability would seem unachievable in ordinary circumstances. Three concurrent threads are coming together, which potentially allow a solution to be found. First, profound advances in silicon design and artificial intelligence. Second, a small group of car makers are committed to the task. Third, a multi-decade development program by key suppliers of sensors, cameras, software and algorithms. It's a very large potential market and truly a goal worth aiming for.

Toyota's approach is multi-pronged, similar in some regards to the aerospace industry. Boeing and Airbus have been implementing safety and automation features in a highly regulated environment for many decades.

1. **Guardian** – As the name implies, increased car safety is achieved from an integrated suite of cameras and radars, which constantly monitor the surrounds and keep the vehicle in a safe operating envelope.
2. **Chauffeur** – This is a long-term project to develop a fully automated vehicle for consumers. Due to the high cost it will initially be a high-priced option for luxury cars.
3. **Robotaxi** – Commercial operators are likely to be early adopters, as the driver can represent up to 80% of the operating costs of a commercial transport network.

Mobileye is an Intel subsidiary with a leading position in future mobility technologies. The capability of their core EyeQ chip has improved more than 500-fold over the last eight years. This matches improvements seen across the industry, particularly at Nvidia. In the last few years, over 10,000 artificial intelligence start-ups have raised more than US$20 billion in venture capital. Mobileye estimates that a comprehensive suite of sensors and a multi-chip computer can achieve safety levels equivalent to a sober human within the next decade. Unfortunately, it's an expensive solution, perhaps costing more than the vehicle itself.

The early markets for robotaxis will be geographically limited, high density urban areas. This prospect is still many years, if not decades away, if the regulatory and insurance hurdles can be overcome. Existing car companies are likely to be a key part of these discussions. In the meantime, the early steps toward autonomous driving are happening in the form of ADAS (automated driving assistance system). Toyota has already sold 15 million cars with advanced safety systems installed. These features will likely accelerate the vehicle replacement cycle. Mobility services have increased demand for some transport work cycles. The preferred vehicle is often a hybrid and, in many regions, Toyota's hybrid range of products is sold out. Production volumes have been limited by battery production capacity, which is being expanded rapidly.

The market is correctly reconsidering the long-term future of the auto industry and all companies associated with it. Toyota appears to be selling at its lowest valuation in more than 50 years, despite its strong strategic position and opportunity to benefit, rather than be hurt by the waves of change.

Outlook

Disruption to business operations and markets is growing. COVID-19 has exposed this, and accelerated the changes in many cases. Half of the composition of the Japanese stock market has been listed in the last decade. This is not an outlier and will continue, as the old get sloughed off and the new rise. It's tempting to think that the world will return to 'normal', but it never has. These widespread and fundamental changes are broadly recognised and accepted as reflected in the valuations many are willing to pay for future growth and profits.

Toyota is a strong and thoughtful company with world-leading engineering capability. If even the sweeping change has overtaken them, then it doesn't bode well for the weaker entities across most industries. Corporate activism in Japan has been accelerating in recent years; there are abundant opportunities.

Notes

Unless otherwise specified, all references to "Platinum" in this report are references to Platinum Investment Management Limited (ABN 25 063 565 006, AFSL 221935).

Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. [The gross MSCI index was used prior to 31/12/98]. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, the Fund's holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The investment returns depicted in the graph are cumulative on A$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows the Fund's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "Shorts" show the Fund's exposure to its short securities positions and short securities/index derivative positions, as a percentage of its portfolio market value. "Cash" in this table includes cash at bank, cash payables and receivables and cash exposures through derivative transactions.
4. The table shows the Fund's net exposures to the relevant sectors through its long and short securities positions and long and short securities/index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".
5. The table shows the Fund's net exposures to the relevant currencies through its long and short securities positions, cash at bank, cash payables and receivables, currency forwards and long and short securities/index derivative positions, as a percentage of its portfolio market value. Currency classifications for securities reflect the relevant local currencies of the relevant Bloomberg country classifications. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
6. The table shows the Fund's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

Disclaimers

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