Platinum Japan Fund

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Portfolio Manager

Performance

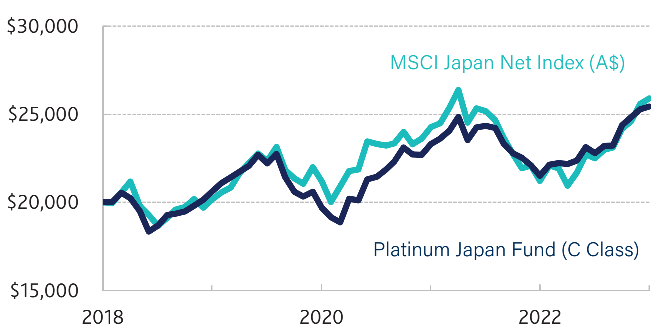
(compound p.a.+, to 30 June 2023)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	4%	18%	9%	5%	13%
MSCI Japan Index^	7%	22%	7%	5%	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 2018 to 30 June 2023



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.[1]

Buoyant market conditions assisted the Fund's return, with the Japanese equity market rising a strong 15.6% over the quarter in local currency terms, as foreign investors net-bought more than US$50 billion of Japanese equities for the calendar year to date,[2] an amount not seen since the Abenomics boom in 2013 (see Fig. 1).

The foreign buying was triggered by the media attention following Warren Buffett's visit to Japan in April, where he met with the management of his sogo shosha (trading company) holdings. This drew attention to the major changes in corporate governance that have taken place over the last decade or so, which culminated in the call this year by the Tokyo Stock Exchange (TSE) for companies to publish detailed plans on improving their corporate value so as to achieve a trading valuation of greater than 1x their price-to-book value.[3] The TSE's move, together with increasing pressure from shareholders and a general sense of a shift in the zeitgeist, resulted in company after company announcing increased profit targets and much greater cash returns to shareholders. Early-mover global investors

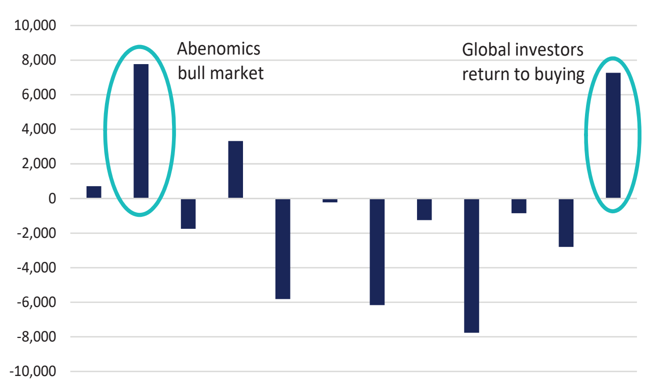
1 References to returns and performance contributions (excluding individual stock returns) in this Platinum Japan Fund report are in AUD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

2 Source: Osaka Stock Exchange, Tokyo Stock Exchange, Nomura. Two cash markets plus futures, calendar year to 16 June 2023.

3 Source: https://www.jpx.co.jp/english/news/1020/dreu250000004n19-att/dreu250000004n8s.pdf

Fig. 1: Foreign buyers flock back to Japanese equities

Net foreign buying of Japanese equities (¥, CYTD)



Source: Osaka Stock Exchange, Tokyo Stock Exchange, Nomura. Two cash markets plus futures, calendar year to 16 June 2023.

cottoned on to this reform story and bought large swathes of Japanese stocks, before other foreign investors, seeing the index rally and news their peers were buying, also jumped on the bandwagon. For more detail on the foreign buying of Japanese equities and share market performance, see our feature article *How Japan Regained Its Mojo* in the Platinum Trust Funds June 2023 Quarterly Report.

Disposition of Assets

REGION	30 JUN 2023	31 MAR 2023	30 JUN 2022
Japan	83%	84%	77%
South Korea	7%	9%	8%
Cash	10%	7%	14%
Shorts	-7%	-7%	-2%

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 JUN 2023	31 MAR 2023	30 JUN 2022
Information Technology	27%	28%	21%
Materials	20%	18%	16%
Industrials	19%	22%	20%
Consumer Staples	8%	8%	9%
Communication Services	5%	3%	6%
Financials	2%	2%	0%
Health Care	2%	2%	2%
Consumer Discretionary	1%	4%	8%
Real Estate	-3%	-3%	0%
TOTAL NET EXPOSURE	83%	85%	83%

See note 4, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Toyo Seikan Group	Japan	Materials	6.9%
Fuji Soft Inc	Japan	Info Technology	4.1%
MinebeaMitsumi Co Ltd	Japan	Industrials	3.9%
DTS Corp	Japan	Info Technology	3.9%
Taisei Corp	Japan	Industrials	3.8%
Nittetsu Mining Co Ltd	Japan	Materials	3.3%
Fuso Chemical Co Ltd	Japan	Materials	3.0%
Nintendo Co Ltd	Japan	Comm Services	3.0%
Toho Titanium Co Ltd	Japan	Materials	3.0%
Keisei Electric Railway	Japan	Industrials	3.0%

As at 30 June 2023. See note 5, page 4.
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

Unfortunately, our performance was constrained by a lack of exposure to the primarily large-capitalisation beneficiaries of the foreign inflows. In particular, the sogo shosha (which rallied as investors sought to copy Buffett's investments in that space) atypically moved in the opposite direction to the commodity prices that drive their profits. Later in the quarter, the artificial intelligence (AI) investment thematic took hold, benefiting our positions in memory chipmaker **SK Hynix** (+30%), semiconductor equipment manufacturer **Tokyo Electron** (+28%) and specialty chemicals player **Fuso Chemical** (+20%).

Other contributors to performance included Korean small excavator brand **Doosan Bobcat** (+34%), which rallied on continued strong demand for its products in the US, and console gaming giant **Nintendo** (+27%), which benefited from the buzz around its hit "The Super Mario Bros." movie, as well as the weak yen given most of its earnings are from outside Japan. We also saw a strong contribution from our largest position **Toyo Seikan** (+16%), which was one of those companies to release a much-improved management plan to enhance its corporate value, including a commitment to return cash to shareholders via dividends and buybacks over the next five years, amounting to more than 50% of the company's market capitalisation at the time of the announcement.[4]

The largest detractor from performance was titanium manufacturer **Toho Titanium** (-21%), which retreated on disappointment over the rate at which it has been able to increase prices to customers. We continue to see strong prospects for this business owing to the removal of Russian supplier VSMPO from the aerospace supply chain, leaving Toho and Osaka Titanium as the only two remaining suppliers globally. Toho's lack of pricing to date is a result of contracts signed during a period of oversupply in the market, but these should roll off next year, and the market is becoming chronically undersupplied. We also saw negative performance from payments provider **Digital Garage** (-12%) as initial excitement around an activist shareholder's campaign wore off and seismic surveyor **Oyo** (-10%) as margins were crimped by the lag between incurring increased costs and pricing new projects.

The weak yen also impacted the Fund's return when translated into Australian dollars. At the beginning of June, we hedged a large portion of our yen exposure back to the US dollar, but unfortunately, the yen had already moved from around ¥133 to ¥140 to the USD (¥144 at the time of writing). The USD has been strong, so hedging the yen into the USD is positive for the Australian dollar return.

4 Source: Company filings.

Changes to the Portfolio

During the quarter, we added a new position in construction firm **Taisei Corporation**. Taisei is one of Japan's four major construction companies and stands to benefit from a substantial increase in domestic investment as supply chains are reshored due to geopolitics and Japan's highly competitive labour costs, thanks to the weak yen. Taisei has the added attractiveness of trading at close to its book value, more than half of which is comprised of cash and investment securities. We also established an initial position in an overcapitalised snack brand owner, which is exhibiting low profitability as a result of input cost increases yet to be passed through in pricing to customers and a poor management strategy. We see significant upside if the company were to undertake a restructuring of its business portfolio and alter its allocation of internal resources to support key brands. We added to our positions in **Toho Titanium** and **Digital Garage** on share price weakness. We also added to **Nintendo** following news of the initial success of the Super Mario movie due to what that may imply for an ongoing film revenue stream from its Mario-related and other intellectual property. Already, Donkey Kong and Zelda movies are rumoured to be in the works.

Conversely, we exited our long-time holding in building products manufacturer **Lixil** as evidence surfaced that hopes for an improved competitive environment for its domestic window sash business were unlikely to manifest and on concerns over the likelihood of continued weakness in the European and US renovation markets. More pleasingly, we were able to trim several positions on strength and rebalance into other, more prospective ideas. These included **Doosan Bobcat**, **Fujitec** (+57% since first purchase in May 2021), **Fuji Soft** (+61% since first purchase in March 2022) and **Toyo Seikan** (+54% since first purchase in May 2021).

Outlook

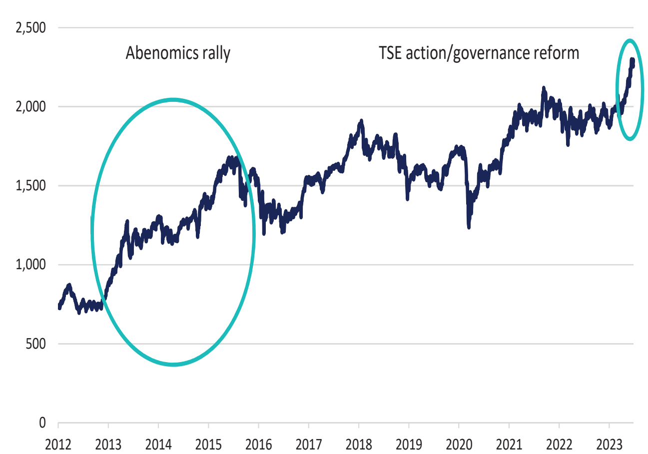
We continue to view the outlook for Japanese stocks very positively. Despite the strong rally year to date, Japan remains cheap when compared to other developed markets. While many larger capitalisation stocks have re-rated upwards from very cheap levels without necessarily experiencing significant improvement in the prospects of their future earnings, large swathes of the market remain at bargain levels, with great potential for "self-help" improvement in profitability and cash returns to shareholders. Self-help is likely to be bolstered via an ongoing push by ever-more involved and assertive shareholders to have management teams carry out their role as shareholders' agents in a more appropriate fashion. That is to say, with a greater focus on appropriate governance, profitability and capital stewardship.

Management teams now feel significantly greater pressure to listen to shareholders' views and respond to requests for improvement. Recent, very public examples have outlined the potential consequences when managers behave badly or are not acting effectively. In the case of elevator manufacturer Fujitec, the founding family lost control of the company after an activist investor succeeded in replacing the majority of the company's independent directors (the Fund owned Fujitec through this period and continues to own the stock). In the case of Seven & I Holdings, the parent company of the 7-Eleven convenience store chain franchise, management had to defend a public campaign where, even though the activist's extraordinary general meeting (EGM) proposals were voted down, the company's management team suffered the embarrassment of a significant portion of shareholders expressing their displeasure with the company's strategy via their votes (the Fund had no position in Seven & I).

The final shoe to drop may be the opening of the market for corporate control. In June, a slate of directors proposed by the family office of the Nintendo heirs won control of the board of Toyo Construction after the board refused to consider a bid at a large premium to a friendly deal Toyo had agreed with Infroneer. This is a clear warning to any board in Japan that finds itself in similar circumstances in the future, and so potentially opens the door to successful unsolicited takeover offers. Given the overcapitalised balance sheets and lacklustre profitability of much of the market, the potential upside to stocks if such bids become commonplace is clear.

Meanwhile, foreign investors continue to buy the market. When we saw this level of buying in 2013, the bull market persisted for some time after the foreign inflows peaked. To paraphrase Mark Twain, while history never repeats, it often rhymes. In this case, the rhyme may not be perfect, but the setup certainly appears attractive.

Fig. 2: Japan's equity market surges in 2023 - TOPIX



Source: FactSet Research Systems, as at 30 June 2023.

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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "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 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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