Platinum Japan Fund

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Performance

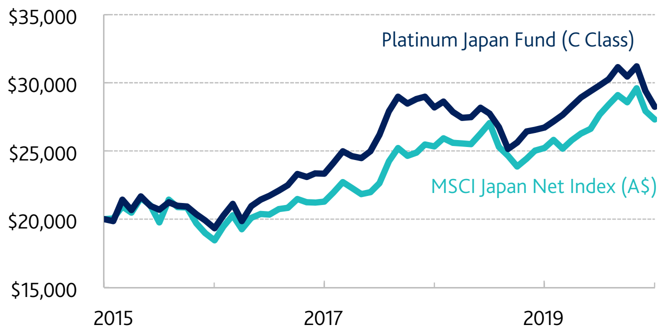
(compound p.a.+, to 31 March 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	-7%	6%	7%	7%	14%
MSCI Japan Index^	-4%	8%	9%	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.
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

31 March 2015 to 31 March 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.
See notes 1 & 2, page 4.

The Fund delivered a disappointing performance for the quarter and year.

The Fund is invested in businesses which are well positioned for the medium to long term and are valued at the bottom-end of their historical range. For example, it is rare to be able to buy a high-quality company like Toyota at the current valuation. Further, Toyota's relative business position has improved and we expect it will rebound faster than the broader industry. Nevertheless, the global automobile industry is under great stress and the short-term prospects for Toyota's refreshed product portfolio are not immune.

The valuation dispersion in the Japanese market has been wide for many years. Recently, it has widened further. This benefited some stocks in the portfolio but set-back others.

As the economic disruption from the SARS-CoV-2[1] virus spread across the globe from Wuhan, the effects could be clearly seen on market psychology and valuations. The market identified sectors such as medical equipment, teleworking, IT services, and e-commerce as potential beneficiaries, while projecting negative prospects for most consumer, manufacturing and cyclical industries.

Nexon (+22% over the quarter) and **CyberAgent** (+10%) both benefited from the prospect of increased leisure time at home and provided a positive contribution to the Fund's performance.

Toyota (-18%), **Suzuki** (-43%) and **MinebeaMitsumi** (-29%) saw diminished short-term prospects and were key detractors from the Fund's performance.[2]

1 Severe acute respiratory syndrome coronavirus 2 which is the cause of the coronavirus disease (COVID-19).

2 All stock returns in this Platinum Japan Fund report are in local currency terms and are sourced from FactSet unless otherwise specified.

Disposition of Assets

REGION	31 MAR 2020	31 DEC 2019	31 MAR 2019
Japan	79%	91%	76%
Korea	3%	6%	6%
Cash	19%	4%	19%
Shorts	-24%	-6%	-20%

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

Net Sector Exposures

SECTOR	31 MAR 2020	31 DEC 2019	31 MAR 2019
Consumer Discretionary	14%	19%	14%
Communication Services	14%	12%	17%
Health Care	13%	12%	3%
Industrials	9%	18%	8%
Information Technology	8%	15%	11%
Materials	3%	4%	6%
Real Estate	0%	0%	0%
Consumer Staples	-3%	2%	-5%
Energy	0%	5%	4%
Financials	0%	2%	3%
TOTAL NET EXPOSURE	57%	91%	61%

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

Commentary

As SARS-CoV-2 ravages some countries, Japan is an interesting outlier, along with much of East Asia. Perhaps some innate cultural aspects have slowed the spread of the virus:

- People don't shake hands
- There may be a base level of immunity
- People routinely wear masks when they are sick
- Hand sanitiser can be found in shops and offices
- There is little contact between old and young people (rare to have three generations living together)
- By limiting testing, the infected don't go to hospitals and spread the disease there.

One way to conceptualise this pandemic is to think of SARS-CoV-2 as the “SARS for the world outside the wall of East Asia”. Many Asian citizens remember wearing a mask at work all day during the SARS epidemic. These memories remain in the social consciousness.

Korea, Japan, Taiwan, Hong Kong and Singapore have deep connections with China, including Wuhan. When this coronavirus first crossed over to humans late last year, the “wall” of East Asia responded rapidly and their learned behaviour was to revert to the SARS scenario. Their behaviour averted immediate calamity.

Net Currency Exposures

CURRENCY	31 MAR 2020	31 DEC 2019	31 MAR 2019
Japanese yen (JPY)	102%	92%	98%
US dollar (USD)	1%	4%	29%
Australian dollar (AUD)	0%	1%	-20%
Korean won (KRW)	-3%	4%	-7%

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.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Takeda Pharma Co	Japan	Health Care	6.8%
Nintendo Co Ltd	Japan	Comm Services	5.0%
Rakuten Inc	Japan	Cons Discretionary	4.5%
Oracle Japan	Japan	Info Technology	4.3%
Minebea Co Ltd	Japan	Industrials	3.9%
Nexon Co Ltd	Japan	Comm Services	3.8%
Kyocera Corp	Japan	Info Technology	3.8%
Astellas Pharma	Japan	Health Care	3.4%
Nitto Denko Corp	Japan	Materials	3.2%
CyberAgent Inc	Japan	Comm Services	3.2%

As at 31 March 2020. See note 6, page 4.
Source: Platinum Investment Management Limited

This virus is different for a wide range of reasons:

- China is more deeply connected to the whole world now
- This virus is more infectious
- This virus is much deadlier for subsets of the population
- It has escaped beyond the "wall" of East Asia
- It is asymptomatic during the early stages of infection.

It seems highly likely that the global medical system will:

- Develop a cheap, scalable, fast test for diagnosis
- Find a vaccine (but it could take a while, especially to ramp up production)
- Find a cure (I cannot see anything that is imminent)
- Develop a daily management system which allows our economy to function.

Each will take time. The last factor above will be the fastest, as there are already precedents.

Unfortunately, the globalised world and politicised bureaucratic structures we live in misread the early battles and the virus has spread too far. Thus, a short term "war response" will be required. Undoubtedly, as with pandemics seen over the last millennium, it will eventually be defeated, and the systems will be better prepared for future threats.

In the meantime, the new structure of the global economic system is very unclear.

It's important to separate the societal disruption caused by the virus from the structure and stability of the financial system. In many ways, the virus is a catalyst, which has exposed the weaknesses in the global system. It's a true calamity in more ways than one. Some of the resulting changes to the world and psychology will be very significant.

While Japan has so far avoided the lockdowns and hospital overloads seen in other parts of the world, there is now a growing sense that the measures taken in the early stages and the increasingly stringent behaviours are not enough to control the spread of the disease. Anecdotally, it's clear that the Japanese hospital system is nowhere near overloaded at the moment. Significant outbreaks, such as what has occurred in the northern island of Hokkaido, have been handled forcefully. Even as the number of infections continues to rise, the early response combined with the cultural behaviours of the Japanese people makes it unlikely that SARS-CoV-2 will spread widely across Japan.

Even in countries which have been well prepared, the economic impacts have been significant. In Japan, there are reports of Shinkansen passenger volumes falling more than 50% on some rail routes and beer consumption in some channels down more than 70%. International air traffic is down more than 80% across the region as a 14-day arrival quarantine and the risk of contagion makes it an unpopular activity. It remains to be seen whether the spread of the virus can be contained with these seemingly sensible measures, or a broader lockdown is required. There is some hope that a multi-week lockdown of isolated societies can reduce the infection rate to minimal levels. At this stage, with limited medicines, a shortage of tests and no vaccine, it seems unlikely that economic activity can return to any sense of normality anytime soon, let alone return to structural growth.

Outlook

It is hard, if not impossible to predict the trajectory of this virus and the implications as it mutates and spreads exponentially. The trade-off between medical tragedies as hospitals overflow versus the economic effects of lockdowns further complicates the analysis. It is now clear that the economic effects of the pandemic are widespread. Governments and central banks have responded rapidly as they re-open playbooks from the last two decades and expand their channels of action. Fighting a medical disaster with a printing press and cheques in the mail will stave off the worst, but battles leave many scars.

All this discussion is against a background of a heavily indebted, financialised and unbalanced global financial system. In this context of increased, perhaps even unprecedented volatility, it is both logical and prudent to position the portfolio conservatively. Consequently, cash levels have risen and the portfolio composition has shifted towards more defensive sectors.

Further central bank action will likely be required as the pandemic progresses. It seems inevitable that a combination of widespread testing, a cure, a vaccine, or any combination thereof, will eventually lead to a return of economic activity. The current deflationary path could turn to monetary inflation as errors are made. Japan's stable social structure and proven historic ability to reinvent itself will be a relative benefit in this unsettling environment. For all the reasons previously discussed over the last few years, the prospects for the Japanese stock market are relatively attractive.

Notes

1. Fund returns are calculated using the net asset value (NAV) unit price (which does not include the buy/sell spread) of the stated unit class of the Fund and represent the combined income and capital returns of the stated unit class over the specified period. Fund returns are net of fees and costs, are pre-tax, and assume the reinvestment of distributions.

   The MSCI Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or expenses. MSCI index returns are sourced from FactSet.

   Platinum does not invest by reference to the weightings of the Index. The Fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the Fund's holdings may vary considerably to the make-up of the Index that is used as its reference benchmark. Index returns are provided as a reference only.

   The investment returns shown are historical and no warranty can be 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 this 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 net MSCI Index in Australian Dollars.
3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the market value of the Fund's positions, the Fund's effective exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices. "Shorts" relates to the effective exposures to short securities and short securities/index derivative positions.
4. The table shows, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices.
5. The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards, and derivatives. 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 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives.

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