Platinum Japan Fund

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Portfolio Manager

Performance

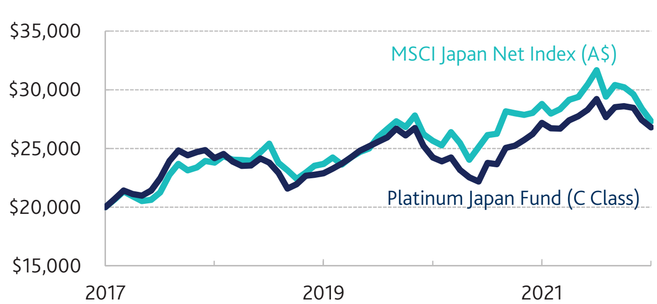
(compound p.a.+, to 31 March 2022)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	-6%	-1%	5%	6%	13%
MSCI Japan Index^	-10%	-5%	5%	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

31 March 2017 to 31 March 2022



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.

Japanese equity markets continued their decline in the first quarter of 2022, falling -9.6% in Australian dollar (AUD) terms. The pockets of strength in the market were positively exposed to either the upward move in global interest rates (banks, insurers) or commodity prices (trading companies, energy producers/explorers/services, materials). The combination of increasing interest rate differentials with the US and the implications for Japan's trade balance of higher prices for its commodity inputs caused the yen to weaken. From 115 to the US dollar (USD) at the start of the quarter, it touched 125 briefly, before settling back in the 121-122 region. The Fund benefited from the yen weakness as we had shifted our currency exposure into USD last quarter and at the beginning of this quarter, leaving us with around 25% of the Fund exposed to the yen at the time it resumed its downward march. Later during the quarter, we moved some of that exposure to AUD, as inflating resource prices implied more buoyant times for the AUD on a relative basis. Overall for the quarter, the Fund (C Class) returned -6.4% with a positive contribution of 2.6% as a result of currency positioning.[1]

A weaker yen typically supports the Japanese economy and stock prices given its export orientation, however, the rising costs for Japanese companies implied by the current scenario have so far more than offset any gains from the weakening currency. A number of our positions were hurt by the prospect of cost increases and broader supply chain issues, including household fixtures manufacturer **Lixil** (-25% over the quarter), miniature ball-bearings producer **MinebeaMitsumi** (-17%), and sensor provider **Nippon Ceramic** (-13%).

Semiconductor chip shortages continue to have wide-ranging impacts up and down the supply chain. Much like Minebea and Nicera's automotive customers have not been able to produce the vehicles demanded, **Ship Healthcare's** (-27%) medical equipment production and sourcing faced significant disruption, leading the company to downgrade its full-year profit outlook.

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	31 MAR 2022	31 DEC 2021	31 MAR 2021
Japan	68%	80%	90%
South Korea	7%	7%	8%
Cash	24%	12%	2%
Shorts	-4%	-8%	0%

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

Net Sector Exposures

SECTOR	31 MAR 2022	31 DEC 2021	31 MAR 2021
Industrials	19%	25%	19%
Information Technology	17%	20%	26%
Materials	13%	16%	6%
Consumer Discretionary	6%	6%	19%
Consumer Staples	6%	4%	1%
Communication Services	6%	5%	8%
Health Care	2%	3%	13%
Financials	2%	2%	4%
Energy	0%	0%	3%
Real Estate	0%	1%	0%
Other	0%	-2%	0%
TOTAL NET EXPOSURE	72%	80%	98%

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	5.5%
MinebeaMitsumi Co Ltd	Japan	Industrials	5.2%
Asahi Group Holdings	Japan	Consumer Staples	3.6%
SK Hynix Inc	South Korea	Info Technology	3.6%
Toyota Motor Corp	Japan	Cons Discretionary	3.5%
Lixil Group Corp	Japan	Industrials	3.3%
Open House Co Ltd	Japan	Cons Discretionary	3.2%
Hokuetsu Corp	Japan	Materials	3.2%
Tokyo Electron Ltd	Japan	Info Technology	3.2%
DeNA Co Ltd	Japan	Comm Services	3.1%

As at 31 March 2022. 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.

The increase in global interest rates led investors to view more highly valued stocks less favourably, leading to declines, which benefited several of our short positions. This helped cushion some of the market's decline, with our shorts contributing 0.6% to the Fund's return for the quarter.

Positive returns from marine shipper **Kawasaki Kisen Kaisha** (K-Line, +19% over the quarter to exit) and game console maker **Nintendo** (+15%) assisted performance. Continued strength in container shipping rates as a result of buoyant global demand benefited our holding in K-line. Nintendo rose as new games sold well and investors warmed to the idea of continued profitability driven by software sales, even as console sales fall. Likewise, we saw gains as elevator maker **Fujitec** (+25%) responded to one of its activist shareholders' criticisms of its medium-term plan by announcing a buyback of 4.5% of the company, cancellation of treasury shares, the allocation of 50% of future operating cash flow to buybacks, and a 2024 Return on Equity target of 12% compared with the current level of around 8%.

This is one in a long line of recent examples where strong activist shareholders have successfully pushed operational and capital reforms. Fujitec's poison pill (a takeover defence measure) expires in June, and it is likely an attractive takeover target amid a consolidating global industry. Excitement in this vein has grown as news spread that Toshiba was considering a sale of its elevator business, which has stimulated investor interest in merger and acquisition activity (M&A) in the sector. We continue to view corporate reform pushed by involved shareholders as a key source of prospective investment returns in Japan.

Changes to the Portfolio

With early signs of weakness appearing in freight markets, we took the opportunity to exit **Kawasaki Kisen Kaisha** after a strong run. From our initial purchase in August 2021 to our last sale at the beginning of March, the stock price doubled. However, our returns were further enhanced as we sold more than half our position after the stock increased dramatically in the first two months of our investment, then topped up our holding after a significant pull-back at the beginning of October. Through our holding period the stock contributed 2.8% to the Fund's overall return.

We closed positions in conglomerates **Showa Denko** and **Kyocera**, as well as chip manufacturer **Renesas Electronics**, as further research revealed some gaps between management and broker analyst descriptions of the businesses and underlying realities of their product portfolios and the markets in which they operate. We also sold the owner of the Tokyo Stock Exchange building **Heiwa Real Estate**, as we became more concerned with the prospect for declining office rents in Tokyo in the face of increased flexible work policies and corporates' desire to cut costs.

Our one new long position for the quarter was a relatively small position in systems integrator **Fuji Soft**. Japan is very under-resourced in terms of information technology staff, and until recently has been slow to adopt new technology, so the services of those companies that can provide these resources to clients are now very much in demand. Fuji Soft is one of the smaller players in this market, but also has one of the lowest valuations. We acquired this position after activist 3D Investment Partners (which owns 9.3% of the company) released a detailed presentation highlighting deficiencies in the company's growth strategy and capital allocation. While the candidates that 3D Investment Partners proposed as directors were not elected at the annual general meeting (AGM), despite the support of both major proxy advisors, Institutional Shareholder Services (ISS) and Glass Lewis, the stock continued to trend upward through to the end of the quarter, suggesting 3D Investment Partners' actions have awakened the market's interest.

We added to our position in Japanese brewer **Asahi** in February prior to the Russian invasion of Ukraine as the business began to benefit from reopening trends. We then added further (at similar levels) during the sell-off after the invasion, as investors sold the stock on fears around its Eastern Europe exposure and spikes in input costs such as aluminium and barley.

Asahi has expanded globally via aggressive M&A, and now has a strong and balanced portfolio of nicely profitable and growing premium beer brands across Europe and in Australia to complement its dominant Japanese business. It benefits from ongoing equalisation of alcohol taxes in Japan that are currently unfavourable to its portfolio mix, and will likely see a boost to its business when Japan returns to a post-pandemic normal. Despite these attributes, it remains the cheapest global brewer, coloured by the negative perception of a home market with declining volumes. We view this opportunity favourably.

Outlook

If no peaceful resolution to the situation in Ukraine is forthcoming, it appears likely that energy and commodity prices will stay higher for longer. In this scenario, coupled with the Japanese central bank's pledge to buy unlimited government bonds to cap 10-year yields at 0.25%, we are likely to see the yen remain weak and perhaps weaken further. While this aids exporters from the perspective of yen-denominated sales and labour costs, it will have ramifications for consumer spending and choices around where to allocate already stretched household budgets.

This could perhaps be the shock needed to break Japan out of its long-term deflation, and lift the taboo on companies raising prices to customers. We can already observe a range of companies lifting prices, from Kao's 10% hike in baby diapers and Bridgestone's 7% increase on passenger tyres, to Yamazaki Baking's 9% average hike across bread products. The latter is particularly interesting as it came prior to the Russian invasion of Ukraine and concomitant further spike in the wheat price. With Japan's producer price index showing percentage year-on-year increases in the high single digits, there may yet be more hikes to come from consumer-facing businesses and exporters.

The solution to the pain this causes to the average Japanese consumer seems to be to improve the productivity and capital efficiency of Japanese businesses. Businesses can then afford to pay their staff more, and thus offset the impact of price increases on living standards. A situation where Japan Inc. delivers solid nominal top-line and profit growth in an environment where the central bank continues to hold rates at extreme low levels could be very positive for stocks. That said, a more realistic scenario is one where certain well-positioned or more forward-thinking companies take the opportunity to raise prices and deliver moderate wage increases, while others flounder.

We will continue to be selective in our investments, preferring companies that are well placed to deal with cost inflation or positions where we and/or others may be effective in attempts to encourage management to behave in a commercial manner. The rising-cost environment may provide management teams with the cover they require to acquiesce to shareholder wishes without attracting the undue public criticism and consequent loss of face such action would usually entail.

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 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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