Platinum Japan Fund

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Portfolio Manager

Performance

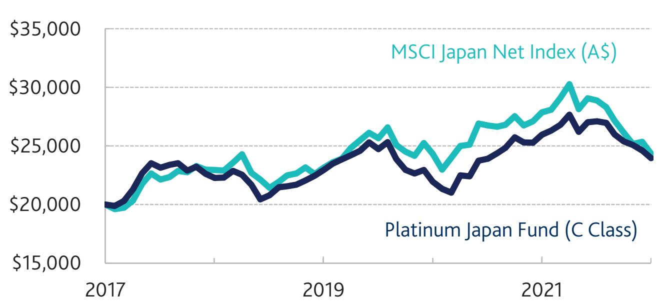
(compound p.a.+, to 30 June 2022)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	-6%	-8%	1%	4%	13%
MSCI Japan Index^	-7%	-13%	2%	4%	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 2017 to 30 June 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.

The Fund (C Class) returned -5.6% for the quarter and -7.7% for the year.[1]

Japan's stock market (-4% in local currency terms) did not escape unscathed from the equity market pain felt in the Western hemisphere, but fared considerably better than its US (-17%) and European (-9%) counterparts,[2] helped in part by the weakness in the yen and the ongoing loose monetary policy of the Bank of Japan (BOJ).

The Fund saw strong performance from a selection of stocks driven by idiosyncratic factors. **Ship Healthcare** (+21%) rebounded as investors warmed to its respectable new mid-term plan, driven by government policy to reduce hospital numbers via consolidation and reconstruction, which is beneficial to Ship's consulting and medical equipment supply business. Technology systems integrator **Fuji Soft** rallied 26% as an activist investor increased its stake to more than 20% after its shareholder proposals were rejected at the Annual General Meeting in March, and bathroom fixtures and window sash manufacturer **Lixil** gained 11% with a decline in the price of aluminium, a key input.

Our selective short positions against a number of very overvalued and/or challenged businesses contributed 1.1% to the Fund's return in the quarter.

Detractors from performance included semiconductor equipment maker **Tokyo Electron** (-30%) and semiconductor wafer manufacturer **SUMCO** (-13%), as the outlook for semiconductor demand weakened. **Doosan Bobcat**, owner of the Bobcat small earth-mover brand, declined 26% due to its exposure to a weakening US housing cycle.

Changes to the Portfolio

We made only a few minor tweaks to the portfolio during the quarter, adding to our positions in **Fuji Soft** and elevator maker **Fujitec**, as activist actions appeared likely to gain more ground with both companies. We also increased our stake in **Toho Titanium**, as the outlook for its business improved with

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 MSCI Japan Index, MSCI USA Index and MSCI Europe Index, respectively, in local currency. Source: MSCI.

Disposition of Assets

REGION	30 JUN 2022	31 MAR 2022	30 JUN 2021
Japan	77%	68%	84%
South Korea	8%	7%	7%
Cash	14%	24%	9%
Shorts	-2%	-4%	-3%

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

Net Sector Exposures

SECTOR	30 JUN 2022	31 MAR 2022	30 JUN 2021
Information Technology	21%	17%	24%
Industrials	20%	19%	21%
Materials	16%	13%	8%
Consumer Staples	9%	6%	3%
Consumer Discretionary	8%	6%	12%
Communication Services	6%	6%	7%
Health Care	2%	2%	9%
Financials	0%	2%	3%
Real Estate	0%	0%	1%
TOTAL NET EXPOSURE	83%	72%	88%

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	6.0%
MinebeaMitsumi	Japan	Industrials	4.8%
Fujitec Co Ltd	Japan	Industrials	4.4%
Toyota Motor Corp	Japan	Cons Discretionary	4.0%
Lixil Group Corp	Japan	Industrials	3.9%
Fuji Soft Inc	Japan	Info Technology	3.8%
Asahi Group Holdings	Japan	Consumer Staples	3.7%
DeNA Co Ltd	Japan	Comm Services	3.4%
SK Hynix Inc	South Korea	Info Technology	3.3%
Hokuetsu Corp	Japan	Materials	3.3%

As at 30 June 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 increasing likelihood that major Russian producer VSMPO's products will be excluded from high-grade aerospace applications. We exited our position in **Oracle Japan**, as we assessed the competitive position of Oracle's growth engine, the enterprise resource planning software business, to be much less robust in Japan than elsewhere.

Commentary

The yen's precipitous decline from 115 to the US dollar (USD) at the start of 2022, to 135 at the time of writing, appears mainly to be a function of the divergence in monetary policy between the US Federal Reserve (Fed) and the BOJ. While the Fed has raised rates and plans to begin decreasing the size of its balance sheet, thus withdrawing liquidity from the financial system, the BOJ, per its yield curve control policy, (YCC) has pledged to buy unlimited Japanese government bonds (JGBs) to maintain a cap on the 10-year bond rate at 0.25%. This has led to a significant widening of the available interest rate spread one earns from selling yen and buying USD, and thus downward pressure on the yen.

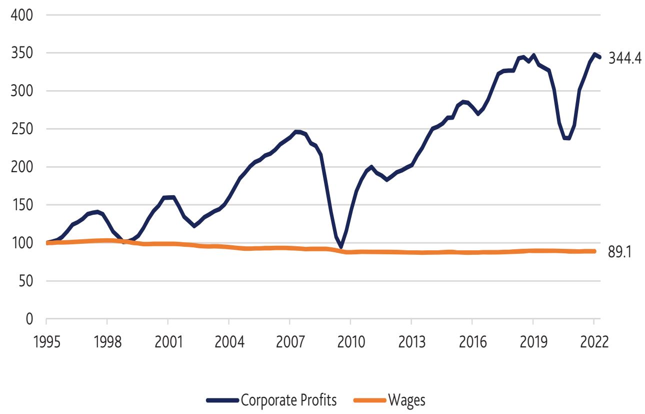
Speculators noted the weakness in the yen and wagered that the BOJ would be forced to abandon YCC through selling JGB futures. The extent of these bets led to a significant gap between the price of the futures contract and that of the underlying bond. The rationale behind this trade is that Japan is now experiencing uncharacteristically high inflation (+2.5% year-on-year in April and May),[3] due partly to increased global commodity prices, but compounded by the yen weakness, which makes USD-priced commodities more expensive again. As the thinking goes, the BOJ will be forced to raise rates to control inflation, following the approach of central banks elsewhere in the world.

As yet, the BOJ has stood strong and appears to have the backing of the political establishment in doing so. One of the key reasons for this, is likely the absence of wage growth in the system that would indicate the potential for persistent inflation. The BOJ has a target of achieving 2% inflation on an ongoing basis, but with wage growth stuck stubbornly between 1%-2% in recent months, the BOJ is remaining dovish.[4] This approach is now looking prescient as commodities are crashing from their recent heights, implying a deflationary impulse in the Japanese economy's future.

3 Source: FactSet Research Systems.

4 'Hawks' and 'doves' are terms used in the financial markets to describe likely voting preferences of board members of central banks. Hawks are willing to allow interest rates to rise in order to keep inflation under control; while doves prefer to focus on other issues, such as employment, and thus prefer to keep interest rates low.

Fig. 1: Japan Corporate Profits vs. Wages (1995 = 100)



Source: FactSet Research Systems.

The wage growth question is a difficult one for Japan. The post-war period saw an alliance between the government and corporate sectors against the power of labour to ensure the healthy growth of a manufacturing-oriented export economy. This dynamic worked well during the boom but has resulted in stagnant wages since the early 1990s.[5] The traditional job-for-life, seniority-based system means that companies typically do not hire for specific roles or on the basis of specific skills, with most training occurring on the job and very little inter-company mobility of labour. In the West, it is well-known that workers changing companies are generally likely to earn better pay than those who stay loyal to their current employer.[6] This phenomenon obviously places upward pressure on overall pay rates across industries as companies compete to attract talent to fill vacant roles. With the dearth of this dynamic in Japan, it is difficult to see where upward pressure on pay rates may come from, particularly given the absence of aggressive labour unions, such as those we can observe in South Korea.[7]

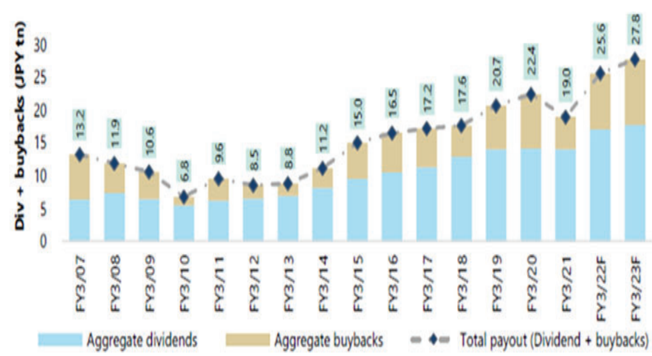
BOJ Governor Haruhiko Kuroda is thus doing everything in his power to ensure the persistence of inflation, perhaps to the point where the quiescent Japanese worker begins to demand a fair share of the tremendous growth in corporate profits experienced while wages have flatlined (see Fig. 1).

The upshot of all this is that we can expect the BOJ to continue its loose monetary policy, thus placing downward pressure on the yen and upward pressure on Japanese risk assets such as equities. However, as we look to be entering recessionary territory in the West, the potential exists for the yen's traditional role as a safe haven currency to reassert itself and offset the downward pressure, while corporate earnings may be pressured by a drop in international demand. The reopening of China's domestic economy further complicates the picture. Given how linked Japan now is to its giant neighbour, a rebound in China could provide a cushion for Japanese business performance.

Outlook

The outlook for Japanese equities appears robust, particularly for those engaged in active management of their positions. Notwithstanding the growing macroeconomic clouds elsewhere in the world, Japanese stocks are starting from already depressed valuation levels at a time when cash returns to investors are consistently improving. Famous for hoarding cash, Japanese corporates are now returning it to investors at record levels (see Fig. 2) while maintaining generally strong balance sheets. Indeed, the total yield (dividend + buyback) on the MSCI Japan Index is expected to rise to more than 4% this year.[8]

Fig. 2: Topix – Aggregate Dividend and Buybacks Trend Since FY3/07



Source: FactSet Research Systems, Bloomberg, Jefferies.

The ongoing improvement in corporate governance in Japan is steadily continuing, aided by shareholder engagement, which has driven success stories such as Olympus[9] and has now spread widely, beyond the headline-grabbing situations such as those of Toshiba, into stocks such as Fuji Soft and Fujitec mentioned above, and many others.

We will continue to seek out situations of improving governance, operational, and financial execution in which to invest a portion of the Fund's assets while concurrently looking for opportunities to invest in strong businesses with prospects for improving circumstances that we believe are underappreciated by the market.

5 https://asia.nikkei.com/Politics/Japan-election/Japan-s-30-year-wage-slump-hangs-over-distribution-debate

6 https://www.forbes.com/sites/jackkelly/2019/07/26/a-new-study-concludes-that-it-literally-pays-to-switch-jobs-right-now/?sh=7d37d9f75959

7 https://www.reuters.com/business/autos-transportation/hyundai-motors-union-skorea-vote-first-strike-4-years-2022-07-01/

8 Source: Jefferies.

9 As covered in our June 2021 quarterly report https://www.platinum.com.au/PlatinumSite/media/Reports/pjfqtr_0621.pdf

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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