Platinum Japan Fund

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Portfolio Manager

Performance

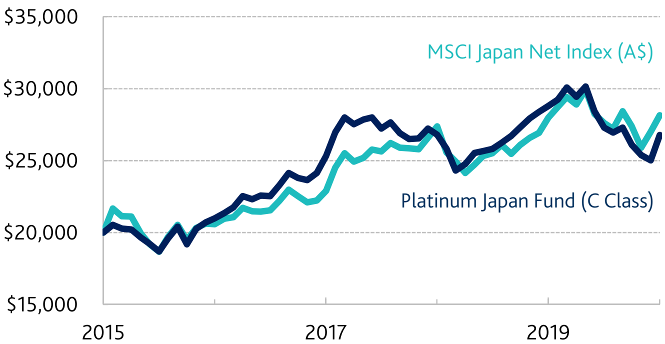
(compound p.a.+, to 30 September 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	3%	-7%	2%	6%	13%
MSCI Japan Index^	3%	1%	7%	7%	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 September 2015 to 30 September 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 2.5% for the quarter and -7.1% over the year.[1]

The significant gains during the quarter by long-standing holdings, such as **Lixil** (+40%), **DeNA** (+45%), **Iida** (+29%), **Rakuten** (+19%) and **Eisai** (+12%) were augmented by recent purchases, such as **Eiken Chemical** (+18%), **SBI Holdings** (+16%), **Nihon Unisys** (+10%), **SK Hynix** (+12%) and **Anritsu** (+5%). The Japanese yen was roughly flat against most currencies over both the quarter and year.

The Fund has recently been positioned conservatively against a backdrop of significant uncertainty and disruption. This hedging has been achieved through both short positions and ownership of lower-risk equities near historically low valuations. To the detriment to the performance of the Fund, the short positions on expensive companies became significantly more expensive as the valuation dispersion across the market widened to historical extremes.

Changes to the Portfolio

As mentioned above, the Fund made a number of new investments during the quarter. Anritsu is a leading global test equipment supplier for mobile networks, particularly next generation 5G implementation. Nihon Unisys brought mainframe computers to Japan and is now a system integrator with prospective cloud software offerings. Eiken Chemical is expanding its patented coronavirus test methodology, which should help it expand its global testing business, particularly in immunochemistry. SK Hynix is one of the leading global suppliers of DRAM memory for mobile phones and data centres.

Following these purchases and the mid-quarter removal of the majority of the short positions, the Fund owns a diversified portfolio of Japanese companies with good medium and long-term prospects at reasonable valuations.

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. Returns for stocks purchased during the quarter are calculated from the price on the date of purchase to the price on 30 September 2020.

Disposition of Assets

REGION	30 SEP 2020	30 JUN 2020	30 SEP 2019
Japan	88%	90%	84%
Korea	9%	4%	5%
Cash	3%	6%	12%
Shorts	-3%	-30%	-13%

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

Net Sector Exposures

SECTOR	30 SEP 2020	30 JUN 2020	30 SEP 2019
Communication Services	26%	25%	11%
Information Technology	21%	8%	13%
Health Care	18%	14%	6%
Consumer Discretionary	11%	11%	19%
Industrials	11%	6%	12%
Materials	4%	3%	7%
Financials	3%	1%	2%
Consumer Staples	1%	-3%	-2%
Energy	0%	0%	5%
Real Estate	0%	0%	0%
TOTAL NET EXPOSURE	94%	64%	75%

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

Net Currency Exposures

CURRENCY	30 SEP 2020	30 JUN 2020	30 SEP 2019
Japanese yen (JPY)	90%	103%	102%
Korean won (KRW)	9%	-3%	3%
US dollar (USD)	1%	1%	15%
Australian dollar (AUD)	0%	0%	-20%

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.

Commentary

The stability and continuity recently seen in Japan stands out against what seems like widespread global turmoil. This was highlighted recently by the smooth political transition following Prime Minister Shinzo Abe's retirement for the second time due to ill health. He retired as the longest-standing prime minister in Japanese political history. He was hoping to preside over the Tokyo Olympics to crown a successful 7.5 years as leader, but instead leaves in the wake of a global pandemic, which has undone a lot of the progress. The likely counterfactual is that without Abe's stability and reform, the country would be in a far worse position today. When he resigned in 2007 for the first time, he was followed by five prime ministers in five years. His return in 2012 was heralded by his "three arrows" of monetary policy, fiscal policy, and growth strategy focusing on structural reform. The subsequent seven-year period has seen record low unemployment, high dividend payouts and increasing share buybacks. Many are surprised that Japan's employment levels recently reached record levels, with higher female and broad employment gains leading to a higher participation rate.

New Prime Minister Yoshihide Suga was Abe's Chief Cabinet Secretary for the last seven years, a fitting post for a lifetime politician with a long history of achievement. He was instrumental in the implementation of Abe's policies and as such, is seen as a bearer of continuity and persistence. The big difference between the two, is their backgrounds, with Suga coming from a relatively humble rural family of strawberry farmers. Throughout his career he has focused on micro reform. His tenure is likely to continue Abe's three arrows, with greater emphasis on growth and reform. This can be seen in his early focus on digital transformation, lower mobile telephone rates and regional revitalisation. Amazingly, for a country which has led the world in various technologies, physical stamps (hanko) and fax machines still feature across

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
CyberAgent Inc	Japan	Comm Services	6.3%
Nintendo Co Ltd	Japan	Comm Services	5.8%
Rakuten Inc	Japan	Cons Discretionary	5.8%
Samsung Electronics Co	Korea	Info Technology	5.1%
Minebea Co Ltd	Japan	Industrials	5.0%
Takeda Pharma Co	Japan	Health Care	4.7%
Nexon Co Ltd	Japan	Comm Services	4.7%
Eisai Co Ltd	Japan	Health Care	4.0%
Nitto Denko Corp	Japan	Materials	3.8%
Oracle Japan	Japan	Info Technology	3.8%

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

the country. Pandemic statistics are being faxed to a central department in Tokyo for collation. These antiquated processes will see an overdue revamp in the coming years.

To quote from *Land and Stock Prices in Japan* by Douglas Stone and William T Ziemba (1993):[2]

"In late 1991, the total land value in Japan was estimated at nearly $20 trillion. This was more than 20 percent of the world's wealth… Japanese land was then valued at about five times that of the United States; the land under the Emperor's Palace... was estimated to be worth about the same as all the land in California or in Canada."

Further: "... At its peak in December 1989, the Japanese stock market had a value of about $4 trillion, which was about 44 percent of the world's equity market capitalisation. To put that figure in perspective, the value of the equity on all the stock exchanges in the United States in August 1992 was less than $5 trillion."

Fast forwarding to the present, the situation is reversed as highlighted by recent discussion:[3]

"The ranks of the US$1trn club of 'tera-caps' has since been swelled by the addition of Google parent Alphabet, with the combined market cap around US$6trn, which is larger than Japan's entire equity market, the world's second-largest."

Japan is the world's third-largest economy, has a safe and prosperous society across the archipelago, has an industrious and well-educated workforce and leads the world in many essential niches and some important technologies. After a grinding 30 years of negative sentiment toward Japan in general, and the Japanese stock market specifically, it would not be surprising given human psychology for a very different outcome over the next decade.

Recently, Berkshire Hathaway made a large investment in the major Japanese trading houses. These are diversified businesses, but in recent years most of the earnings have come from their commodity exposures across metals and energy. In some ways, this opportunity is specific to Berkshire, as they were able to leverage their returns through their ability to raise cheap, long-term debt when combined with long-term currency hedges to provide suitable returns for their insurance portfolios. They also have a longer-term interest in the diverse underlying business integration opportunities. Nevertheless, this is the first purchase of Japanese assets by Berkshire and highlights the broad value in many parts of the stock market.

Late in the quarter, Nippon Telegraph and Telephone (NTT) bid for the remainder of its subsidiary DoCoMo, which provides mobile telephone services in Japan. This US$40 billion transaction is the largest ever in Japan and continues a string of similar deals where a subsidiary has been consolidated. Japanese corporate governance continues to improve across the board, but there are still broad swathes of opportunity, highlighted by many companies valued at far less than book value and in some cases, less than the cash holdings on the balance sheet. Of course, there are many business merger and integration opportunities. Even more encouraging, is the hint that the traditionally aggressive Japanese business culture may be giving way to more cooperation as the focus shifts to external competition rather than self-defeating internal battles.

While Japan's leading automation, machinery, robotics and machine tool companies appear to be cementing their positions in the global marketplace, there is another wave of IT innovation coming through. SoftBank is seen as a pioneer in this area, but has been subsequently followed by groups such as the ecosystem around Rakuten, the mobile gaming businesses, Cyberagent's efforts and the most recent wave of software entrepreneurs. Japan is far behind many other parts of the world but is likely to rapidly catch-up over the coming years. Rakuten recently announced its 5G mobile phone offering at a very competitive price point. The rollout of its next-generation mobile network is proceeding faster than previously expected, and the addition of 5G services is likewise proceeding quickly. It's hard to see how the competition can respond, even in the longer term, when Rakuten's price cuts more than 50% off a consumer's bill.

Outlook

The many major issues confronting the world are easy to identify, debate and detail. The pockets of high valuations, mini bubbles and economic distortions are paraded across newspapers, Bloomberg terminals and stock chat boards. Add in the pandemic, and it feels and sounds as though this level of turbulence and unpredictability is far higher than recent decades. Against this backdrop, the stability of the Japanese system stands out. While the political system seems to have transitioned calmly following seven years of Abenomics, corporate governance continues to improve while the relentless drive for product improvement is augmented by growing innovation and new product development. This is set against the backdrop of a 30-year psychological trough, low overall valuations and extreme valuation dispersion. In combination with waves of innovation and disruption only seen a few times every century, we believe there are more than enough opportunities to construct an attractive portfolio in the Japanese stock market.

2 Source: https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.7.3.149

3 Source: https://www.proactiveinvestors.com.au/companies/news/924505/-tera-caps--apple-microsoft-amazon-and-alphabet-will-continue-to-get-bigger-and-bigger-924505.html

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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