

Platinum Japan Fund



James Halse
Portfolio Manager

Performance

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

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	3%	-11%	1%	3%	13%
MSCI Japan Index [^]	-1%	-21%	-1%	3%	3%

⁺ Excludes quarterly performance.

^{*} C Class – standard fee option. Inception date: 30 September 1998.

After fees and costs, before tax, and assuming reinvestment of distributions.

[^] Index returns are those of the MSCI Japan Net Index in AUD.

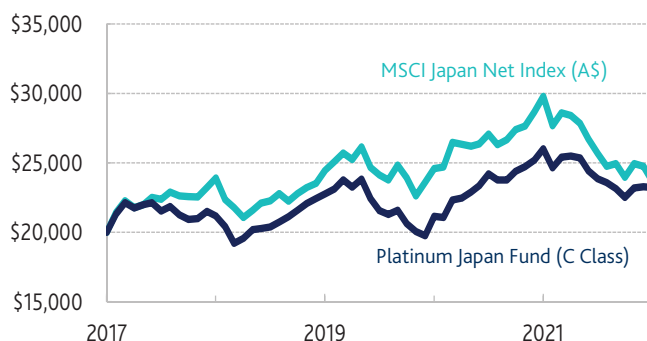
Source: Platinum Investment Management Limited, FactSet Research Systems.

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 2017 to 30 September 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 stocks fell slightly in the quarter, having initially followed global markets higher before declining in the second half of the quarter. The Fund (C Class) returned 3.1%, driven by the performance of several core holdings.¹

The market shook off the shocking event of the assassination of former Prime Minister Abe, despite the potential longer-term implications of his absence possibly opening the door for a reversal of corporate governance reforms. Several members of our Japan team were in Tokyo on the day of his controversial state funeral, and were awed by the crowds that turned out to mourn his passing. Near term, at least, his legacy seems likely to be respected, while it appears that Prime Minister Kishida is a politician who tries to sail with the winds rather than set a clear new course. This may make the current path the one of least resistance.

Currency fluctuations were again a major influence on markets, with the yen briefly crossing 145 to the US dollar (USD). The rapid pace of depreciation forced a reaction from the Ministry of Finance (MoF) and Bank of Japan (BoJ), with the latter intervening in the currency market, selling almost US\$20 billion.² Japan has huge USD reserves, amounting to almost US\$1.3 trillion, so retains significant scope to intervene further. That said, if it is required to significantly reduce its USD bond holdings, this could put further upward pressure on US interest rates, with potentially sizeable implications for global liquidity. It is not that the authorities believe a weak yen is bad per se, but more that the rapid pace of depreciation creates instability. In the words of the BoJ Governor Kuroda, it...

*"... heighten[s] uncertainty by making it difficult for companies to set business plans. It's therefore undesirable and bad for the economy."*³

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 <https://www.ft.com/content/43bc3b84-14fe-406f-9b4f-ec73e995f382>

3 Source: Reuters, 1/10/2022.

Disposition of Assets

REGION	30 SEP 2022	30 JUN 2022	30 SEP 2021
Japan	80%	77%	80%
South Korea	8%	8%	6%
Cash	12%	14%	13%
Shorts	-6%	-2%	-5%

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

Net Sector Exposures

SECTOR	30 SEP 2022	30 JUN 2022	30 SEP 2021
Industrials	21%	20%	19%
Information Technology	20%	21%	20%
Materials	19%	16%	13%
Consumer Staples	8%	9%	6%
Communication Services	6%	6%	9%
Consumer Discretionary	5%	8%	8%
Health Care	3%	2%	5%
Financials	0%	0%	2%
Real Estate	0%	0%	1%
TOTAL NET EXPOSURE	82%	83%	82%

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	7.8%
Fujitec Co Ltd	Japan	Industrials	5.4%
Fuji Soft Inc	Japan	Info Technology	4.2%
MinebeaMitsumi Co Ltd	Japan	Industrials	4.1%
Hokuetsu Corp	Japan	Materials	3.7%
Pigeon Corp	Japan	Consumer Staples	3.4%
DeNA Co Ltd	Japan	Comm Services	3.2%
Toyota Motor Corp	Japan	Cons Discretionary	3.1%
Lixil Group Corp	Japan	Industrials	2.9%
SK Hynix Inc	South Korea	Info Technology	2.8%

As at 30 September 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>.

For the moment, the powers that be, seem intent on holding the yen at the sub-145 level. We had hedged out part of the Fund's yen exposure, so did not experience the full extent of the decline in the yen's value in the quarter. On learning of media reports of a meeting of key officials to discuss the yen, we returned our currency positioning to a more neutral level, ahead of the intervention announcement. For the moment, the intervention seems to have paused the descent but has not driven a sustained appreciation. It remains to be seen whether the new intervention policy has a temporary or more lasting effect.

From a fundamental perspective, Japan is now significantly more globally competitive from a labour cost standpoint. A company we met with on our recent research trip highlighted to us that the cost of a Japanese software engineer is similar to that of an engineer in Thailand. Anecdotal, from our own experience, even with a weak Australian dollar, the value on offer in shops and restaurants was obvious. For example, a delicious large bowl of pork-bone broth ramen with extra roast pork from a little place in Ebisu, central Tokyo, cost only A\$13.60. A similar dish (with the extra pork) from a comparable establishment in central Sydney costs around A\$26.

While the Platinum Japan research team likes Ramen, others may prefer using *The Economist's* Big Mac index to compare the cost of living across currencies. On that scale, Japan's currency is extremely undervalued for a developed market, with a Big Mac costing less there than it does in Vietnam, Thailand, Mexico, and Colombia.⁴

The currency is obviously cheap, however, it could still fall further if interest rate differentials with the US continue to widen. While the headline inflation number in Japan reached 3% year-on-year in August, core inflation and wage growth remain anaemic, and thus monetary policy is firmly anchored around the promise of maintaining the 10-year bond yield below 0.25%. This could change, should core inflation and wage growth accelerate, or if Governor Kuroda's replacement (his term expires next year) takes a more hawkish stance, in which case, we could see rapid yen appreciation.

The currency should also be supported in our view, by the return of tourism, and the recent decline in commodity prices, which impacts the trade balance as Japan is a resource-poor nation. The value on offer in Japan is unlikely to escape the notice of those planning overseas trips, with visitation poised to rebound dramatically as Japan reopens its borders from 11 October. When, as we expect, China eventually exits its zero-COVID policy, arrivals will likely far surpass previous records.

⁴ <https://www.economist.com/big-mac-index>, as of 21/07/22.

The yen weakness assisted a number of our holdings with sizeable offshore revenue bases. These included security firm **Suncorporation** (+22%), baby products maker **Pigeon** (+14%), and chemicals company **Kaneka** (+8%).

A better-than-expected result and positive movements in end-product pricing and input costs boosted packaging maker **Toyo Seikan** (+23%), while high-purity titanium metal producer **Toho Titanium** (+7%) continued to benefit from tightness in the aerospace market, leading to higher pricing as buyers seek to replace Russian-sourced product in their supply chains. Geophysical & geotechnical consultant **OYO Corp** (+13%) appreciated after beginning the latest in a series of meaningful share buybacks.

Major detractors from performance included housing products manufacturer **Lixil** (-17%), which declined on fears around the impact on its overseas businesses of the European energy crisis and US housing market weakness. Semiconductor production equipment manufacturer **Tokyo Electron** fell 19% as concerns grew around the semiconductor cycle and semiconductor producers announced cuts to orders of production equipment.

Changes to the Portfolio

During the quarter, we acquired a new position in a railway operator that has several interesting opportunities for earnings expansion, as well as non-core assets held on its balance sheet with a market value significantly larger than its current market capitalisation. We also added to our position in elevator maker **Fujitec**, as it has become more likely that the business will see corporate governance reforms as a result of pressure from activist shareholders. We increased our holding in system integrator **DTS Corp**, a participant in a growth industry with a reformed capital policy for the usage of cash on its balance sheet that comprises roughly one-third of its market capitalisation.

We reduced our position in brewer **Asahi Group**. A disappointing conversation with the Chief Financial Officer of the company made it clear that Asahi is unlikely to significantly reform its Japanese business or incorporate learnings from its overseas operations. We had hoped that a recent innovative product launch could begin the premiumisation of its beer portfolio in Japan, but instead, the company launched it at the same price as the existing offering. The concentration of the business in Central and Western Europe was also a concern in the current environment, and it is often the case that changes in the economic situation in foreign markets that impact Japanese businesses can take some time to filter through to stock

prices in the Japanese market. We decided to try and get ahead of this dynamic. We have retained a smaller position as the stock remains reasonably attractively valued, and very attractive should the European energy situation be resolved.

Outlook

Our recent visit to Japan helped bring home the extent of the change in mindset underway within many organisations, which only served to heighten the contrast with those yet to evolve. Compared with previous visits in the years pre-COVID, a much larger percentage of companies have adopted meaningful targets for return on equity or capital, driving a restructuring in go-to-market approaches and disposals of non-core assets, complemented by meaningful cash returns to shareholders.

These factors, and low valuations in comparison with global peers, make Japan an interesting investment prospect even before we consider its growing cost competitiveness as a result of the cheapness of the currency. With this in mind, we will continue to seek out interesting opportunities while undertaking ongoing engagement with our investee companies around their governance, business strategy, balance sheet efficiency, and shareholder return policies. Indeed, many of the management teams we spoke with on our recent trip were open-eared to our message, and welcomed our positive feedback where initial reforms had been pursued. We anticipate further progress over the medium term that should unlock significant value for shareholders.

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

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935, trading as Platinum Asset Management (Platinum®). Platinum is the responsible entity and issuer of units in the Platinum Japan Fund (the "Fund"). This publication contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons') investment objectives, financial situation or needs, and should not be used as the basis for making investment, financial or other decisions. You should read the entire Platinum Trust® Product Disclosure Statement (including any Supplement(s) thereto) ("PDS") and consider your particular investment objectives, financial situation and needs before making any investment decision to invest in (or divest from) the Fund. The Fund's target market determination is available at www.platinum.com.au/Investing-with-Us/New-Investors. You can obtain a copy of the current PDS from Platinum's website, www.platinum.com.au or by phoning 1300 726 700 (within Australia), 0800 700 726 (within New Zealand) or +61 2 9255 7500, or by emailing to invest@platinum.com.au. You should also obtain professional advice before making an investment decision.

Neither Platinum nor any company in the Platinum Group®, including any of their directors, officers or employees (collectively, "Platinum Persons"), guarantee the performance of the Fund, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum). To the extent permitted by law, no liability is accepted by any Platinum Person for any loss or damage as a result of any reliance on this information. This publication reflects Platinum's views and beliefs at the time of preparation, which are subject to change without notice. No representations or warranties are made by any Platinum Person as to their accuracy or reliability. This publication may contain forward-looking statements regarding Platinum's intent, beliefs or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. No Platinum Person undertakes any obligation to revise any such forward-looking statements to reflect events and circumstances after the date hereof.

© Platinum Investment Management Limited 2022. All rights reserved.

MSCI Disclaimer

The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).