Platinum Japan Fund

James Halse
Portfolio Manager

Performance

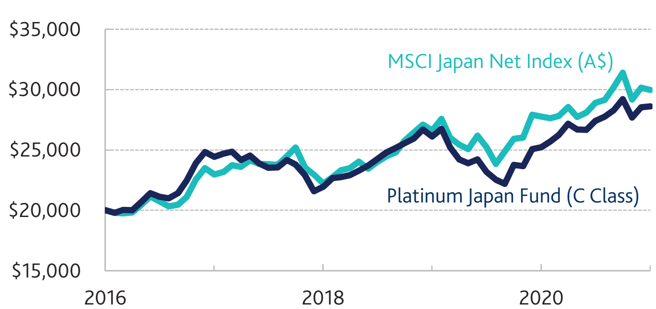
(compound p.a.+, to 31 December 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	-2%	13%	9%	7%	13%
MSCI Japan Index^	-5%	8%	10%	8%	4%

+ 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 5. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

31 December 2016 to 31 December 2021



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 5.

Japanese equity markets fell in the final quarter of the year (MSCI Japan -4.6% in AUD terms), with broad-based weakness across sectors offset only by areas of strength in electronic materials and the semiconductor supply chain. In this context, the Fund (C Class) held up relatively well, declining only 2.0%.[1]

The weaker yen provided support for the majority of our holdings, given the export-focused nature of much of these businesses. However, we also benefited from idiosyncratic exposures – particularly in **Katakura Industries** (+44%), **Oyo Corporation** (+46%) and **Daisue Construction** (+43%). The commonality between these diverse businesses is exposure to the key themes of improving governance and shareholder returns, stimulated by activist involvement and regulatory changes.

Katakura, a conglomerate that makes everything from pharmaceuticals to fire trucks, saw its management launch a buyout offer for the company, likely in response to activist shareholder pressure. The major shareholder agreed to sell into the buyout, unless a better offer was forthcoming. We felt the price was egregiously low, below the reported value of the company's tangible assets, and at less than half the market value of those same assets. A buyer arose for the activist's 10.6% stake at a reported 10% premium to the bid price, and the stock has traded well above the bid price since that point. Katakura has now extended the offer period to 11 January. We have not tendered our stock and await developments with interest.

Oyo is a consulting business built on geological expertise, that has favourable exposure to offshore wind power projects, an area expected to see tens of billions of dollars of investment. The stock rallied on improved profit results and dividends as management elected to take the revolutionary step of centralising bid processes and foregoing bidding on unprofitable work. There is the clear potential that management chose this course of action based on conversations behind closed doors with its 12% sometimes-activist shareholder. The stock rallied further as management amended their mid-term plan to increase their guided

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 DEC 2021	30 SEP 2021	31 DEC 2020
Japan	80%	80%	89%
South Korea	7%	6%	11%
Cash	12%	13%	1%
Shorts	-8%	-5%	-1%

See note 3, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	31 DEC 2021	30 SEP 2021	31 DEC 2020
Industrials	25%	19%	15%
Information Technology	20%	20%	31%
Materials	16%	13%	5%
Consumer Discretionary	6%	8%	17%
Communication Services	5%	9%	9%
Consumer Staples	4%	6%	1%
Health Care	3%	5%	15%
Financials	2%	2%	2%
Real Estate	1%	1%	0%
Energy	0%	0%	3%
Other	-2%	0%	0%
TOTAL NET EXPOSURE	80%	82%	98%

See note 4, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
MinebeaMitsumi Co Ltd	Japan	Industrials	5.4%
Toyo Seikan Group	Japan	Materials	5.2%
Lixil Group Corp	Japan	Industrials	3.9%
SK Hynix Inc	South Korea	Info Technology	3.8%
Open House Co Ltd	Japan	Cons Discretionary	3.5%
Kawasaki Kisen Kaisha	Japan	Industrials	3.3%
Toyota Motor Corp	Japan	Cons Discretionary	3.3%
Tokyo Electron Ltd	Japan	Info Technology	3.2%
Hokuetsu Corp	Japan	Materials	3.2%
DeNA Co Ltd	Japan	Comm Services	2.9%

As at 31 December 2021. See note 5, page 5.
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.

dividend payout ratio range and increase their planned spend on M&A, as well as announcing a share buyback for up to 2.3% of outstanding shares. These measures were likely viewed especially positively by the market as the company was sitting on net cash (earning no return) equivalent to more than 70% of its market cap at the time.

Daisue, a construction business that was trading at less than half the value of its net tangible assets, spiked after it announced it was doubling its dividend payout and committing to a 50% payout ratio going forward. It seems likely they too had benefited from conversations with two sizeable potential activist shareholders on their register.

Other major contributors included semiconductor production equipment manufacturer **Tokyo Electron** (+33%) on continued strong growth in its end markets; memory chip maker **SK Hynix** (+27%), as it recovered from depressed levels after issuing an optimistic outlook on memory demand; and shipper **Kawasaki Kisen Kaisha** (+14%) as freight rates remained elevated due to strong demand for products and pandemic-driven supply chain bottlenecks, which have resulted in shortages of container shipping capacity. Pleasingly, we added significantly to our Tokyo Electron position in September, meaningfully upweighted our SK Hynix position in August at levels below KRW100,500 (128,500 at the time of writing), and traded Kawasaki Kisen Kaisha well, reducing our position aggressively near the September peaks in the stock, and adding back to the position after the large sell-off into October.

Our largest holding, precision manufacturer **MinebeaMitsumi**, was a beneficiary of yen weakness, rallying 14% in the quarter. It recovered its post-election sell-off into its results announcement, following which it reached new highs as it upgraded earnings guidance and outlined initiatives to drive profits growing forward.

Major detractors from performance included brewer **Asahi** (-17%), which fell on a profit downgrade caused by rising input costs and crimping of on-premise demand due to pandemic restrictions. Likewise, investor sentiment toward baby products maker **Pigeon** (-15%) continues to be affected by pandemic-driven lockdowns in China and the implications for the depressed Chinese birth rate. Mobile games maker **DeNA** (-15%) and database software distributor **Oracle Corporation Japan** (-11%) also sold off on weak quarterly results.

Changes to the Portfolio

We exited our positions in video games maker **Gree** and digital advertising agency **CyberAgent** during the quarter. In Gree's case, we sold into its very large on-market share buyback, which had put upward pressure on the stock (up 54% in the quarter to our exit point in late October). This seems to have been well-timed as the stock has since traded down below our exit price. We sold CyberAgent after a detailed review of the company determined the business' positioning was not attractive enough to justify the premium multiple ascribed to the stock. The stock has been a strong performer for the Fund, up a cumulative 111% since the first entry point in June 2019 to final exit point in October 2021.

The major new addition was a return to the portfolio for gaming console maker **Nintendo**. The stock had fallen on fears we have reached the peak of the cycle for its Switch console. While we acknowledge this is likely the case, we believe the market is failing to give enough weight to changes in the underlying business model that mean the cycle is likely to be extended relative to history, with better profitability experienced throughout.

We also added to our position in packaging manufacturer **Toyo Seikan**. The company holds strong market positions, but has allocated capital inefficiently. An activist is involved, and the company has instituted a share-based incentive program for executives, while also implementing a meaningful stock buyback. Much further improvement is possible for this company, and it is valued very cheaply relative to its readily monetizable assets.

On the currency front, we reduced our Japanese yen exposure from 93% at 30 September to 62% at 31 December and increased our exposure to the US dollar from 1% to 31%, as it became clearer that Japan is likely to be one of the last countries to temper its monetary largesse as inflation remains benign. This move looks to have been timely as the yen continues to depreciate in the New Year.

Outlook

Japan has lagged other developed market equity indices in recent times, with an especially large performance gap to the US. With this in mind, investors may wonder why they should bother with Japan. In our view, the setup currently is especially attractive as global fund flows appear to be ignoring the fundamental improvements in the Japanese market.

As illustrated in Fig. 1-3 on the following page, return on equity for Japanese companies with a market value of greater than US$500 million has now improved to be close to North American levels, while dividends have risen strongly as companies have grown earnings and increased payout ratios.[2] Despite these factors and an increasing amount of share buybacks, Japan's relative price-to-book (P/B) ratio has de-rated to extreme levels.

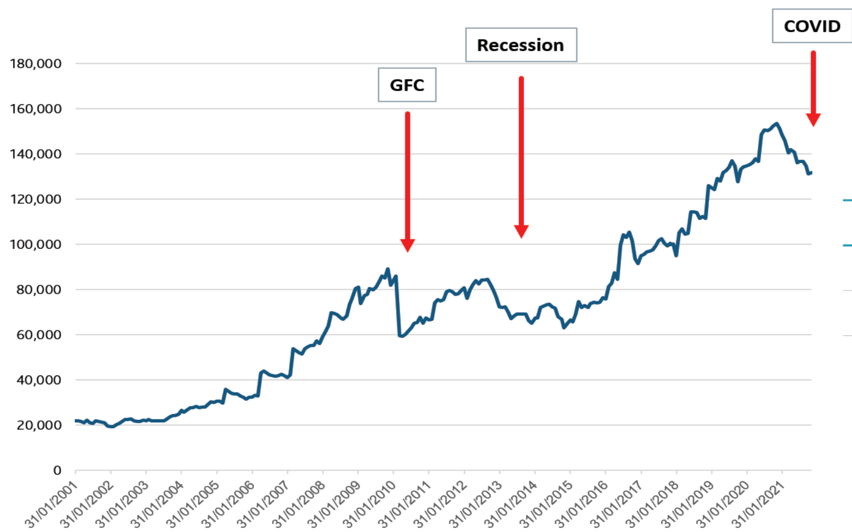
It is a tenet of fundamental investing that the potential for investment returns should be examined on a prospective basis rather than looking at recent experience. Taking that approach, the outlook for Japanese stocks appears quite positive to us, given their attractive relative valuation, growing profitability and rapidly improving cash returns to shareholders.

2 Not shown in the chart, the 5-year annualised growth in dividends to the period immediately preceding the pandemic was around 16%.

Fig. 1: Return on Equity (ROE) - Japan vs. North America, 2011-2020*

Source: FactSet Research Systems, Platinum Investment Management Limited, as at 1 December 2021.

Fig. 2: Dividend Increase – Japan Rolling 12-Month Dividend Payout (USD) (000's)*



	CAGR
5 year	7%
20 year	9%

Source: FactSet Research Systems, as at 30 November 2021.

Fig. 3: Price-to-Book (P/B) - Japan vs. North America*

Source: FactSet Research Systems, Platinum Investment Management Limited, as at 1 December 2021.

*Companies >US$500 million market capitalisation.

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.

MSCI Disclaimer

The MSCI information may only be used for your internal use, may not be reproduced or redisseminated 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).