Platinum Japan Fund

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Portfolio Manager

Performance

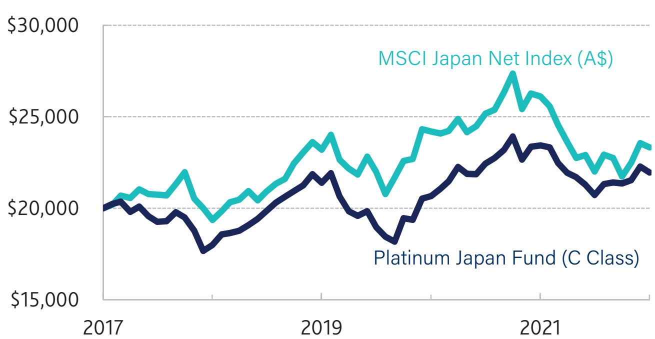
(compound p.a.+, to 31 December 2022)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	3%	-6%	1%	2%	13%
MSCI Japan Index^	7%	-11%	0%	3%	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 December 2017 to 31 December 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 equities rallied during the quarter, at first in line with other developed markets, then likely on news that China, Japan's close neighbour and major trading partner, was exiting its zero-COVID policies, which has positive implications for the return of Chinese tourists and the demand for Japanese goods. The rally persisted even as the yen strengthened, until late in the quarter, when the Bank of Japan (BOJ) surprised the market by announcing it would increase its target band for the 10-year bond rate, causing the yen to strengthen further and equities to sell off. Overall, for the quarter, the combination of rising equities and a rebounding yen helped the Fund (C Class) deliver solid performance, returning 2.8% for the period.[1] Unfortunately, this was below the market's return, due primarily to our currency positioning and low exposure to financial services stocks, which rallied due to the prospect of stronger profits as a result of higher interest rates.

Regular readers may recall our discussion of yen weakness in the September quarterly report and our use of hedging to mitigate some of the effects of that move on investors in the Fund. By September, we viewed the yen as cheap and removed our hedging, with the decision aided by a form of backstop in terms of the expressed intention of the Japanese government to intervene in the currency market to prevent further rapid depreciation. That backstop was not tested rigorously because the pressure on the currency from an appreciating US dollar (USD) reversed as US bond yields fell on expectations of less aggressive rate increases in the face of cooling inflation. In November, we did move some currency exposure back to the Australian dollar (AUD) as we saw continued prospects for widening interest rate differentials that would make the AUD relatively more attractive to investors. However, this has not yet played out as anticipated due to the Reserve Bank of Australia's persistence with small 0.25% hikes at its November and December meetings, despite rampant inflation, as well as falling yields at the longer end of the AUD curve, which reduced the longer-term rate differential with the yen. These dynamics were further compounded by the BOJ's decision near the end of the quarter.

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 2022	30 SEP 2022	31 DEC 2021
Japan	83%	80%	80%
South Korea	9%	8%	7%
Cash	9%	12%	12%
Shorts	-6%	-6%	-8%

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

Net Sector Exposures

SECTOR	31 DEC 2022	30 SEP 2022	31 DEC 2021
Information Technology	27%	20%	20%
Industrials	19%	21%	25%
Materials	19%	19%	16%
Consumer Staples	6%	8%	4%
Consumer Discretionary	6%	5%	6%
Communication Services	4%	6%	5%
Health Care	3%	3%	3%
Financials	0%	0%	2%
Real Estate	0%	0%	1%
Other	0%	0%	-2%
TOTAL NET EXPOSURE	85%	82%	80%

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	7.4%
Fuji Soft Inc	Japan	Info Technology	5.0%
Fujitec Co Ltd	Japan	Industrials	4.8%
MinebeaMitsumi Co Ltd	Japan	Industrials	3.9%
Toyota Motor Corp	Japan	Consumer Disc	3.1%
Pigeon Corp	Japan	Consumer Staples	3.0%
Unicharm Corp	Japan	Consumer Staples	2.8%
Lixil Group Corp	Japan	Industrials	2.8%
Open House Co Ltd	Japan	Consumer Disc	2.7%
Doosan Bobcat Inc	South Korea	Industrials	2.7%

As at 31 December 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 yen remains cheap at current levels of around ¥132 to the USD, which enhances Japan's relative competitiveness, particularly in the area of labour costs. As a result, we are seeing increased announcements around major investments in domestic production capacity, as companies seek to take advantage of these low costs while steering clear of the rising geopolitical tensions between the US and China, and shortening supply chains in response to the issues experienced during the pandemic and Russia's invasion of Ukraine. Projects announced include new semiconductor chip fabrication plants for Taiwan Semiconductor Manufacturing (TSMC) and Kioxia (51% owned by Toshiba/49% by Bain Capital) and a new multi-billion dollar image sensor plant for Sony. While not yet reflected in the gross capital formation statistics, we expect these projects to flow through in due course.

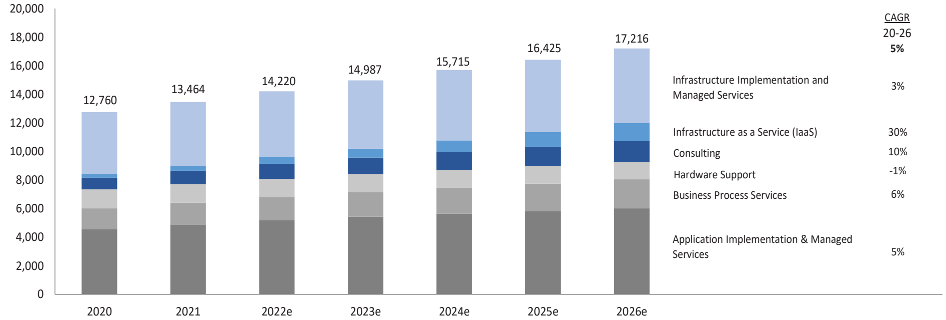
It is not just in hardware component manufacturing where we are seeing this pick-up in activity. Investment in IT services and software has accelerated as the pandemic forced recognition of the need to replace antiquated systems and processes (see Fig. 1 on the following page). Social distancing requirements were a wake-up call for private and government organisations that were reliant on customers and suppliers using paper-based forms that required an in-person appearance. Increasingly, processes are being digitised, on-premise software systems and applications moved to the cloud, and antiquated mainframes retired.

This step-up in growth creates a supportive environment for the domestic IT services sector, which is in any case, particularly well-positioned in Japan due to the lack of in-house capability, even amongst many of the largest and strongest companies.

This dynamic relates to the nature of the employment market in Japan. Companies hire graduates out of university with the expectation they will stay with the company for life and rotate through many departments. Software engineering graduates typically want to be software engineers and not rotate through finance, marketing, and operations. This leads to more than 70% of software engineers in Japan being employed by IT service firms, also known as System Integrators (SIs). Given the shortage of engineers in Japan, this places the SIs in a strong position. We met with many of these companies and their customers on our recent trip to Japan and this story was reinforced everywhere. We have exposure to this theme via several positions, including SIs **Fuji Soft** and **DTS**, and cloud software company **Hennge K.K**.

The relative inefficiency of this system also creates opportunities for innovative younger companies. One such business we took an initial position in during the quarter is **SHIFT, Inc**. SHIFT provides independent software testing

Fig. 1: Japan IT Service Market Outlook (JPY billions)



Source: Gartner/Bank of America. CAGR = Compound annual growth rate.

and assurance services both to end clients and to the SIs using specialised testers who do not have to be experienced software engineers. This allows SHIFT to provide testing at a lower cost than the SIs, which the end clients love. One might be forgiven for thinking the SIs would resist this outsourcing, but with the shortage of engineers, the SIs are all too happy for SHIFT to take on this lower-value work and free up their engineers for higher-value tasks. SHIFT has been growing rapidly and looks to have a long growth path ahead of it.

We took advantage of the sell-off in high-growth names to start an initial position at an average price of around ¥20,500 per share while we completed our full due diligence. The stock quickly appreciated past ¥28,000, unfortunately too quickly for us to build a full position at the price we wanted. The sell-off in high-growth stocks over the last month may provide another opportunity. We will continue to watch the stock and believe the company has a promising future.

Strong performers in the quarter included **SHIFT** (+15% from initial purchase), owner of the Bobcat small-earth mover brand **Doosan Bobcat** (+21%), coating-machine maker **Hirano Tecseed** (+31%), and seismic consultant **Oyo** (+22%). Major detractors from performance included memory maker **SK Hynix** (-10%) as the memory industry downturn deepened, household fixtures manufacturer **Lixil** (-6%) as it reported results impacted by cost inflation and downturns in the US and Europe, and **Toyo Seikan** (-7%) after releasing weaker earnings impacted by input cost increases.

Changes to the Portfolio

During the quarter, we added new positions in **SHIFT**, as described above, and **Hennge**, a provider of cloud-based security services, in particular a single sign-on product that provides secure access to multiple third-party applications. We also added to positions in **Fuji Soft**, **Oyo**, **DTS** and **Nippon Ceramic**. The latter is a leading manufacturer of sensors for security cameras and automobile applications. We exited positions in construction conglomerate **Infroneer** for a small profit, as the case around the merging of the different listed components of the former Maeda Group played out. We also sold SI company **Biprogy** as we saw better opportunities in DTS, Fuji Soft and SHIFT.

Outlook

While inflation remains relatively benign if viewed at a core level that excludes food and energy, the BOJ (likely pushed by Prime Minister Fumio Kishida) has clearly responded to the pain being experienced by consumers as they face dramatic increases in the cost of living, without accompanying increases in their incomes. We expect any moves to further normalise interest rates in Japan will be cautious and measured to minimise any market disruptions. While further increases are possible, the recent strength of the yen, which makes imported consumer products less expensive, has likely lessened the pressure on the BOJ to take more drastic action. Monetary policy continues to be loose, which should be supportive of stock prices, and combined with the evidence we are seeing of increased reshoring of manufacturing capacity, points to a relatively healthy outlook for the domestic economy. Exogenous shocks such as a deep recession in the US and Europe remain a risk, but Japan may be cushioned in such a scenario by a recovery in the economy of its large neighbour, which is out of sync with the remainder of the world as it emerges from its zero-COVID policy and loosens its recent tight monetary and regulatory policy stance.

On the corporate governance front, we see continued grounds for optimism as an activist shareholder succeeded in appointing two independent directors to the Board of Fuji Soft, and another activist has called an extraordinary general meeting to replace the "independent" directors at elevator manufacturer Fujitec. Even if not fully successful, these actions reinforce to company boards in general, and outside directors in particular, the importance of listening to shareholders and adopting good governance practices if they wish to avoid being a target of shareholder action. We expect that, over time, this should translate to better corporate performance and cash returns for shareholders across Japanese equity markets.

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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "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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