

Platinum Japan Fund



James Halse
Portfolio Manager

Overview

- The Fund returned -1.6% for the quarter in AUD terms as positive local currency performance was offset by a declining Yen. Two of our largest positions were strong performers. Packaging manufacturer Toyo Seikan (+17%) rose after an earnings report showed it successfully passing through input cost increases that helped drive a large sequential increase in quarterly earnings. Copper mine and limestone quarry operator Nittetsu Mining rose on corporate governance moves that look likely to pass on better returns to shareholders.
- One of the key themes underpinning the Fund's strategy is improving corporate governance in Japan. Around half of the Fund is invested in firms with overcapitalised balance sheets and governance that is either improving or likely to improve. Toyo Seikan and Nittetsu both fit into this category.
- The case for investing in Japanese equities remains strong. Despite a run-up this year as global investors returned to the market, they remain cheap on key measures relative to other major markets.

Performance

compound p.a.+, to 30 September 2023

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	-2%	13%	7%	4%	13%
MSCI Japan Index^	1%	25%	6%	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.

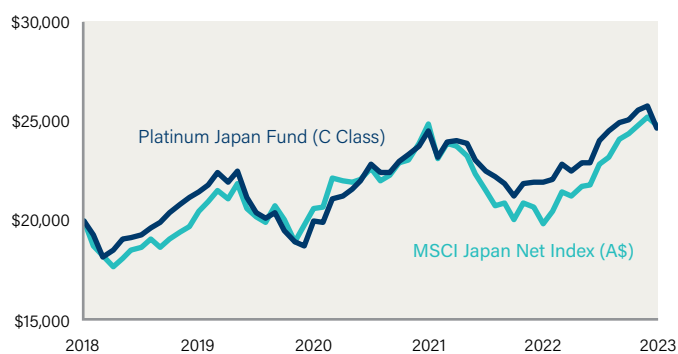
Source: Platinum Investment Management Limited, FactSet Research Systems.

Historical performance is not a reliable indicator of future performance.

See note 1, page 5. Numerical figures have been subject to rounding.

Value of \$20,000 invested over five years

30 June 2018 to 30 September 2023



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.

The Fund returned -1.6% for the quarter in AUD terms as positive local currency performance was offset by a declining Yen.

The massive inflows to the Japanese market from foreign buying in the prior quarter partially reversed this quarter, with the selling accelerating in the final two weeks of the quarter. The market's solid upward progress through most of the quarter turned about-face in line with the foreign selling, erasing the vast majority of the quarter's gains.

The move up in the market was underpinned by strength in the banking sector. The Bank of Japan's (BoJ) decision to allow the ten-year bond yield to rise while keeping the short-term policy rate negative implies improving net interest margins for banks, thus leading to an increase in the market's profit expectations. The weakening yen could push the BoJ to relax yield-curve-control further, which is also likely contributing to optimism around the banks.

The Japanese automobile sector received a boost from the lower yen as it lifts the value of offshore earnings and improves the competitiveness of their Japanese labour force.

A lack of exposure to these two key areas of market strength – banks and autos – hurt the Fund's relative performance in the quarter.

We did, however, see strong contributions from two of our largest positions, packaging manufacturer **Toyo Seikan** (+17%) and copper mine and limestone quarry operator **Nittetsu Mining** (+13%). Toyo Seikan rose as the market continued to digest the major improvements to capital allocation outlined in its new mid-term plan.¹ It then resumed its upward trajectory as its earnings report demonstrated progress in passing through input cost increases that helped drive a large sequential increase in quarterly earnings. Nittetsu rose in response to signs of increasing shareholder friendliness, as the company promised investors a minimum dividend yield of 3% so long as its stock trades for less than a 1x price-to-book ratio.²

Our holding in **Hennege** also performed well, with the stock rising 22% over the quarter. Hennege is a developer of cloud-based security software that is demonstrating continued progress with increasing average revenue per user as it migrates legacy customers on to its new, higher-priced packages.

Major detractors included baby products maker **Pigeon Corporation**, which fell nearly 15% as reports indicated the recovery in Chinese births from pandemic lows may take longer than expected. Video game studio, **DeNA** fell over 19% on weaker results from key titles. Our short positions registered a negative 1% contribution to performance.

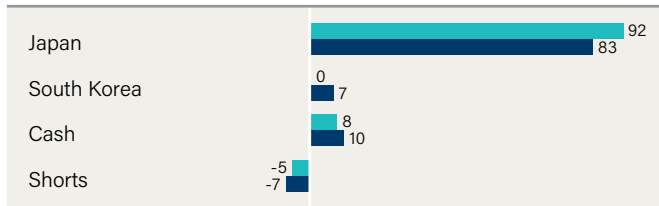
During the quarter we added to our positions in confectionary-maker **Ezaki Glico** (which recorded an (8% rise over the quarter) and road safety equipment manufacturer **Sekisui Jushi** (up nearly 5% over the same period). While the broader market was sceptical, we bought Glico on the expectation that margins would improve toward historical levels following the company's efforts to pass through input cost increases to customers. The company was also very cheap, trading at 1x price/book, with around half of its market capitalisation held in cash, securities, and non-core real estate. Higher pricing is now being passed on and the stock is responding. Jushi executed a large share buyback during the quarter, repurchasing the roughly 20% stake owned by its parent Sekisui Chemical. Jushi held around half of its market capitalisation in cash and was trading for less than book value.

We exited our positions in our Korean stocks – memory chip maker SK Hynix and small excavator manufacturer Doosan Bobcat – as we saw them move closer to fair value.

¹ See Toyo Seikan Group's Long-Term Management Vision 2050 "The Future Wrapped for All".

² See Nittetsu Mining Mid-Term Management Plan.

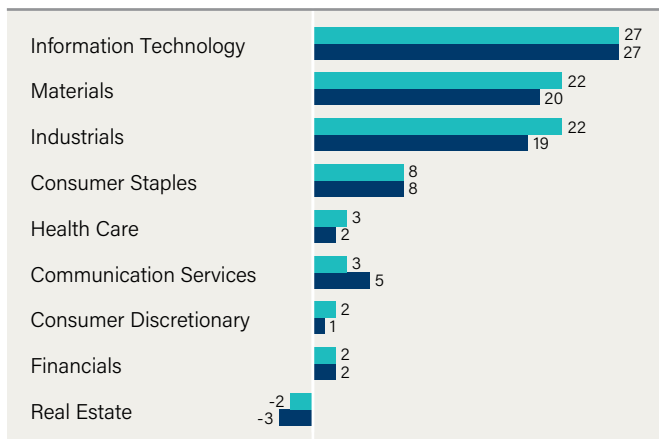
Disposition of Assets %



30 SEP 2023 30 JUN 2023

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

Net Sector Exposures %



30 SEP 2023 30 JUN 2023

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Toyo Seikan Group	Japan	Materials	7.3%
Ezaki Glico Co Ltd	Japan	Consumer Staples	5.3%
Nittetsu Mining Co Ltd	Japan	Materials	4.9%
Hirano Tecseed Co Ltd	Japan	Industrials	4.2%
Oyo Corp	Japan	Industrials	4.0%
Digital Garage Inc	Japan	Info Technology	4.0%
DTS Corp	Japan	Info Technology	3.9%
Fuji Soft Inc	Japan	Info Technology	3.3%
Taisei Corp	Japan	Industrials	3.0%
Sun Corp	Japan	Info Technology	2.9%

As at 30 September 2023. See note 5, page 5. Source: Platinum Investment Management Limited.

Commentary

The key issues for Japanese markets are:

- expectations around the path of interest rates in both Japan and the US
- the global economic cycle – particularly as it affects the semiconductor industry
- the progress of ongoing reforms to Japanese corporate governance.

The first issue – interest rates – creates the most uncertainty in the environment, but has the least relevance to the long-term performance of the companies we invest in.

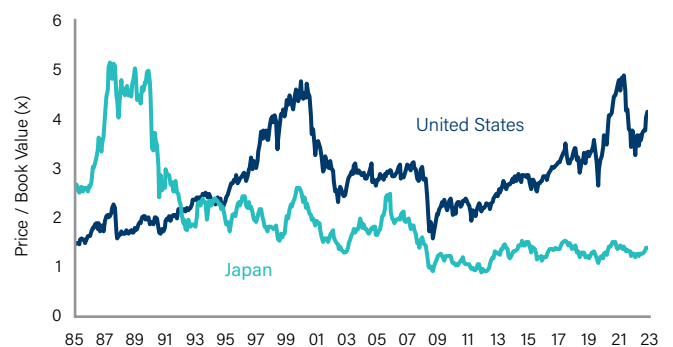
The second – the economic cycle – is important in relation to position sizing and our ability to find optimal entry points into businesses that, in our view, have fantastic long-term potential. We hold several companies that participate in the semiconductor supply chain, but have reduced our exposure to this sector as stocks have run ahead of a turn in the cycle due to buoyant sentiment around generative artificial intelligence.

The final issue is Japanese corporate governance. This is where we have the most confidence of progress independent of the vagaries of the global macro-economy. We are positioned to benefit from this theme, with around half of the Fund exposed to companies with overcapitalised balance sheets and governance that is either improving or likely to improve in the near term. Toyo Seikan, Nittetsu Mining, Ezaki Glico and Sekisui Jushi all fit into this category.

Outlook

The fundamental story for Japanese equities remains strong. While stocks have re-rated this year as global investors returned to the market, they remain very cheap on some key measures relative to other developed markets.³

Price to Book Valuation: Japan vs USA



³ Factset Research Systems, Platinum Asset Management.

More than half of listed equities in Japan trade for less than the value of their book equity, compared with a small fraction in the US.⁴ Ongoing governance reforms are spreading more widely, and amassing greater momentum in areas where they have already seen headway.

Most recently, press reports suggested that we may be about to witness a watershed moment for the development of the market for corporate control in Japan.⁵ It is suggested that the family office that is a large minority shareholder of Toyo Construction may make a bid for the whole company. This follows the family office acting to remove the previous Board of Directors (with the support of other shareholders) and appoint its own slate of independent directors after the previous Board refused to consider the family office's indicative offer to acquire Toyo. This news came hard on the heels of Nidec's agreed deal to acquire Takisawa following Nidec threatening a hostile tender offer.

Japan has long been a market where underperforming management could hoard shareholders' assets, comfortable in the knowledge that they would not be the subject of a hostile takeover. These two recent precedents now very much challenge that assumption, putting more pressure on managements to reform in line with the government's aims. Additionally, investors may begin to recognise the increased probability of such M&A activity, and push up the price of potential targets in anticipation. This may create an embedded premium for potential takeover targets, as exists in Western markets.

While concerns around the health of the global economy, geopolitical tensions and the path of interest rates and currencies may continue to dominate the headlines and day-to-day swings in stock prices, we view the deep, idiosyncratic and fundamental changes discussed above as the key drivers of returns for investors in Japanese stocks over the medium term.

Notes:

- From 3/10/2023, Leon Rapp became Co-Portfolio Manager of the Platinum Japan Fund.
- From 3/10/2023, the Fund will no longer invest in Korean securities.

⁴ JPX, Bloomberg.

⁵ Nintendo founder's YFO set to raise Toyo bid – Reuters.

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.

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