Platinum Japan Fund

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Overview

- Japanese markets had a volatile quarter thanks to currency movements and political changes. However, by the end of the quarter policy continuity returned with a focus on growth and a cautious approach to monetary policy normalisation.
- Japan stockmarket valuations remain attractive and a continued corporate focus on investing in IT and improving management and governance makes the Japanese market an attractive-long-term play.

Performance

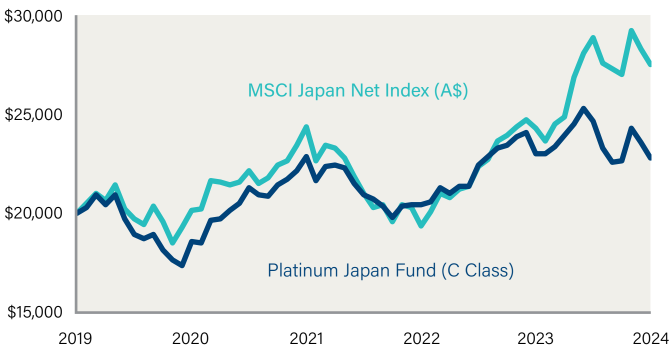
compound p.a.+, to 30 September 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	1%	-1%	0%	3%	12%
MSCI Japan Index^	2%	13%	4%	7%	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

30 September 2019 to 30 September 2024



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.

Contributors were **Fast Retailing** (+17%) which is now seeing strong domestic and international sales from UNIQLO. **FujiSoft** (+24%) rose on a takeover bid.

Performance was also aided by **Taisei** (+6%) which stands to benefit from increased construction demand and rising margins. **Hitachi** (+5%) rose on expectations of rising needs for grid and IT investments. **Toyota Motor** (-22%) fell on Yen strength and weaker production which also dragged down **Toyota Industries** (-18%). **Toho Titanium** (-20%) was affected by concerns supply chain bottlenecks would slow a ramp in civil aircraft production.

We continue to rebalance the portfolio, with new additions expected to benefit from higher real wages and consumer spending.

Rakuten is a leading diversified business-to-consumer tech conglomerate that operates e-commerce and fintech businesses. In 2020 it diversified into mobile telephony but despite initial hopes, poor network quality, higher churn rates and a rising investment burden resulted in significant operating losses. The stock subsequently derated, more than halving from its 2021 peak. However it appears they have now turned a corner, with sequential quarterly improvement in metrics, particularly a drop in churn rates and healthy subscriber growth. Losses in their mobile business have shrunk considerably and they could see breakeven on an EBITDA basis in FY25. Their network quality is also expected to improve as they rollout a 700Hz band this year. Given their more appealing pricing versus Softbank, KDDI & Docomo we think they are in a strong position to capture share.

Marui, is a hybrid fintech/mall operator focused on central Tokyo shopping locations. Some 75% of Operating Profit comes from fintech, largely credit card instalments and revolving credit. Marui is shifting its mall business from traditional apparel retail tenants to non-retail tenants which have better operating metrics. We should see rent levels recovering to pre-COVID levels and falling vacancies as consumer spending picks up. This also benefits the fintech business through rising transaction volumes.

JINS is a value-oriented eyewear retailer. They operate 495 stores across Japan, and are looking to expand internationally. Strong execution in their own-label products and a low-cost supply chain positions them to benefit from higher consumer spending and capture that strength through higher average selling prices and the sale of more premium lens options. We are seeing double digit same store sales growth while the stock is now better value vs its sector (historically a 35X multiple but now ~25X. That's slightly above the TOPIX retail sector average of 20~25X).

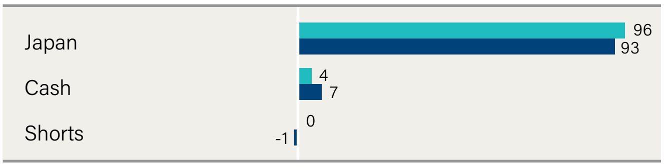
Commentary – A new broom, same as the old broom?

It was a macro-driven quarter for Japan. July saw the benchmark TOPIX hit an all-time high. In mid-July, uncomfortable with the USDJPY falling sharply, authorities intervened to stem further Yen falls.

In late July, the BOJ announced a relatively small rate hike to 0.25% and followed up with surprisingly hawkish commentary. This coincided with weaker US jobs data and dovish Fed commentary. What followed was a major market dislocation (see our Journal article) with a simultaneous carry trade unwind, resulting in a sharply higher yen and an equity market swoon. The first three days of August saw the Nikkei 225 drop some 20%.

In response to this sudden market stress, commentary from the BOJ turned dovish and maintained that any monetary policy normalisation would be slow. Forex and equity markets calmed and by the end of September markets had reclaimed nearly all of early August losses, even with the Yen settling at stronger levels.

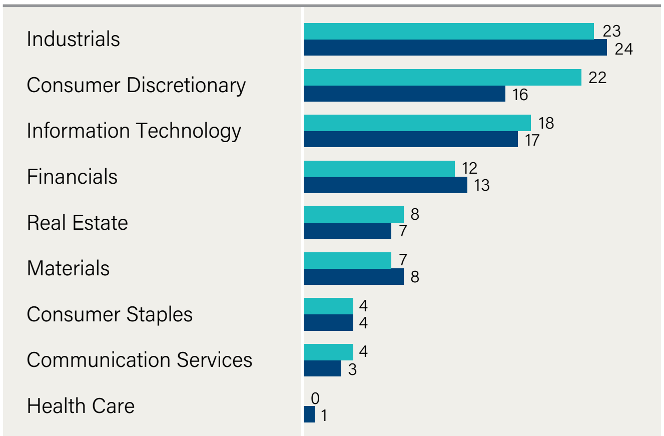
Disposition of Assets %



30 SEP 2024 30 JUN 2024

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

Net Sector Exposures %



30 SEP 2024 30 JUN 2024

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Sony Corp	Japan	Cons Discretionary	4.5%
Hitachi Ltd	Japan	Industrials	4.4%
Toyota Motor Corp	Japan	Cons Discretionary	4.3%
Fast Retailing Co Ltd	Japan	Cons Discretionary	4.2%
Taisei Corp	Japan	Industrials	4.1%
Keyence Corp	Japan	Info Technology	4.0%
MS&AD Insurance Group	Japan	Financials	4.0%
Fuji Soft Inc	Japan	Info Technology	3.9%
Mitsubishi UFJ Financial	Japan	Financials	3.9%
Unicharm Corp	Japan	Consumer Staples	3.8%

As at 30 September 2024. See note 5, page 5.
Source: Platinum Investment Management Limited.

However, an LDP election for president to replace outgoing Prime Minister Kishida saw Shigeru Ishiba, perceived as a fiscal conservative and monetary policy hawk, emerge as the pick for PM. The new PM has moved quickly, calling a snap election for the end of October, implying further uncertainty.

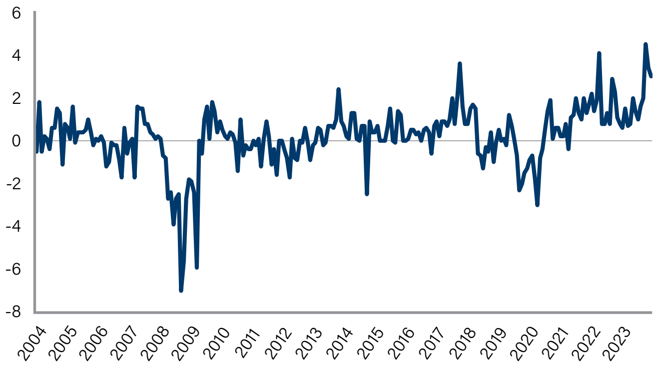
Market volatility likely reflects this uncertainty over Japan's fundamentals and whether we see policy changes that derail the positive outlook for Japanese equities. We are sanguine, however. Japanese policy makers have been alert to market volatility and moderate positions as appropriate. After emerging from decades of deflation, and multiple fiscal and monetary stimulus packages, we believe the agreed consensus among Japan's policy makers is that generating economic growth is a priority.

We think any new administration will remain committed to market-friendly initiatives and easy monetary policy and believe this is a supportive backdrop for Japan equities. In the meantime, the market's attention will likely swing back to the corporate fundamentals where positives remain intact: earnings growth, higher margins, improving returns on capital and increasing shareholder returns.

Outlook

Wage growth has long been elusive in Japan and is one reason why consumption remains below pre-COVID levels. However, we may be nearing an inflection point with nominal wages growing at 3-4% YoY, now outstripping inflation and delivering vital real wage growth for households. Widely followed annual wage negotiations between corporates and unions (the Shunto) kick off in October and end around March each year. These set the precedent for subsequent private sector wage negotiations, and here we are seeing positive signs. Suntory, Japan's venerable beverage maker, announced their early intention to hike base and seniority-based pay by 7% in FY25, setting a high benchmark for other large firms to follow. Should real wage growth become embedded in expectations, it could lead to that long-awaited rebound in consumption in coming years.

Cash Earnings in Establishments with 5 or More Employees, YoY % Change – Japan

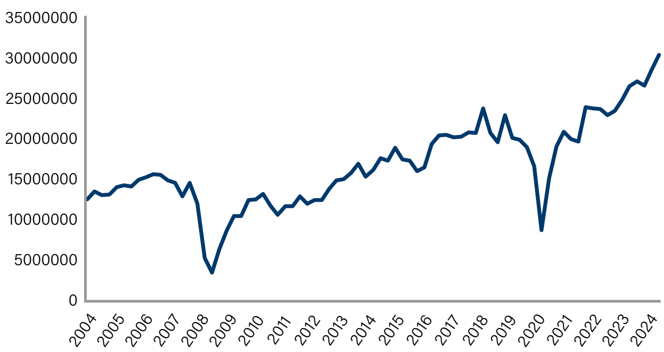


Source: Factset

In the meantime however, the Japan equity market is currently tracking currency movements closely, as signs of a clearly improving domestic economy remain tentative. This creates a widely-held belief that Japan is little more than a leveraged currency play – that Japanese equities rise when the Yen is weak only to drop when the currency rises. This is not always the case. There *are* long periods when the Japanese market delivered strong returns even as the currency appreciated (eg 2017, 2022), but there are fundamental reasons why this view appeals, given the high weighting of export-focused companies in the stock market index.

Yet this overly simplifies a more interesting reality of what is occurring in Japan, namely that earnings improvements are now being augmented by positive structural factors.

Ordinary Profits (non-Financials) Seasonally Adjusted, Japanese Yen (millions)



Source: Factset

Watch the micro

Primarily, we think Japanese companies are embarking on internal reforms designed to generate sustainable growth even in the face of a declining labour pool. They are investing in human capital, raising investment in automation and modernising enterprise IT systems, while focusing on efficiencies and core competencies within their business portfolios.

This is the beginning of a multi-year journey that has accelerated since COVID and is the type of structural shift long term investors – like Platinum – should be positioned for. Among our holdings we see an emerging willingness to cast off old traditions and adopt new approaches, notably an appetite for outside knowledge and an honest assessment of competitive strengths and weaknesses. That's strikingly different from the conservative, inward-looking managements of the past.

For example, mid-career hires, almost unheard of 20 years ago, are now commonplace in the job market. The external consulting industry, previously shunned, is now in the middle of a boom. The increasing presence of outside directors on Japanese corporate boards bring further valuable insight that previously would have passed a firm by.

These micro-reforms are often overlooked as their impact is difficult to measure, but their long-term positive effects are likely to be profound. We think such initiatives will show in steadily improving margins, better Returns on Equity, stronger top line growth, and more efficient balance sheets. Further, we think these changes are perhaps a harbinger of meaningful corporate reforms that still lie ahead.

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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