Platinum Japan Fund

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Portfolio Manager

Overview

- The Fund generated a return of over 8% for the quarter with its largest holding, **Toyota**, a key source of returns. Unlike many of its Japanese and global competitors, Toyota is increasing production and sales. The decision to avoid overcommitting to EVs and focus on hybrids has proven to be a crucial strategic shift.
- Labour shortages are now a significant issue for Japanese businesses. As a result we are favouring companies who have the resources and ability to attract, train and retrain staff as well as maximising the use of digital and automation technologies.
- Japan's market hosts global leaders in segments like gaming/entertainment, industrial automation and consumer brands. It is these high-quality, globally recognised companies we find particularly interesting, especially those with a proven ability to execute on their strategic imperatives.

Performance

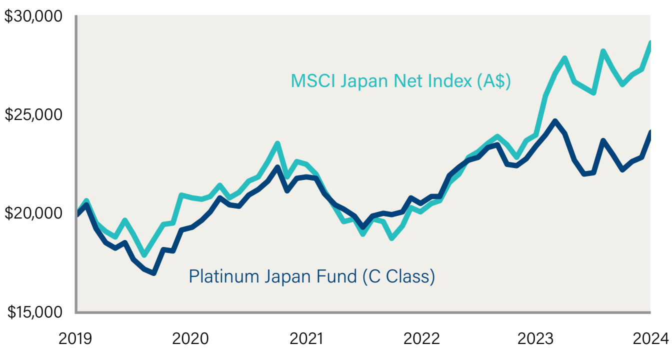
compound p.a.+, to 31 December 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	9%	3%	3%	4%	12%
MSCI Japan Index^	8%	19%	8%	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 2019 to 31 December 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.

This quarter the Fund posted a return of 8.5%. The portfolio's tilt to small caps early in the year cost performance as global investors focused on large caps that saw strong returns. However, our portfolio rebalancing to reflect new opportunities is now largely completed and we are upbeat on the outlook for our newly initiated holdings.

During the quarter, one of the key contributors to portfolio performance was **Toyota Motor** (up over 20%) which saw its shares rally toward the end of the quarter. Megabank **MUFG** was also up over 20%, buoyed by expectations of further monetary policy normalisation. Video game developer **DeNA** was up over 75% on strong sales for its newly released Pokemon TCG Pocket game. Key detractors were household products business **Unicharm** (-24%) and silicon wafer firm **SUMCO** (down nearly 25%) on weaker earnings outlook. Tech firm **Rakuten** fell over 5%.

We exited IT business **Fuji Soft** following the sharp run up in the shares as a takeover bid progressed.

The rise of the robots

We initiated a position in **Fanuc** which is a stock we have been monitoring for some time as we foresee a potential boom in US manufacturing automation investment.

Fanuc is a leading global supplier of machine tools and factory automation products – including robots. Fanuc's robot segment now accounts for just under half of sales and grows at a double digit pace through cycles. The productivity benefits of adopting robotics are well known and robots have been widely used in manufacturing – particularly in automobiles – for decades. We believe the emergence of AI-capable robots, with much greater functionality than prior generations, means that cost effective automated robotics solutions can now be deployed across much broader areas of manufacturing, sharply increasing the total addressable market for Fanuc.

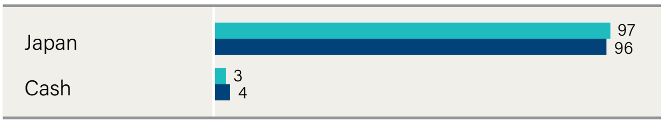
Fanuc's earnings are largely driven by industrial automation trends in key markets such as China, US, Europe and Japan. Demand is quite cyclical and we have been in a downturn for several quarters following an initial investment wave in the period following COVID. The US market, where Fanuc has a particularly strong competitive footprint, now looks primed for an upturn. While US manufacturing facility construction has boomed thanks to initiatives such as the Inflation Reduction and CHIPs Acts, we're yet to see a corresponding rise in related production machinery such as robots. Producers seem to have been waiting for post-election regulatory and policy clarity before committing to installing equipment. Given an increasingly clear commitment to onshoring, we now expect equipment spending to rise for the next several quarters, benefiting Fanuc and other portfolio holdings with exposure to factory automation such as **Keyence**, **Daifuku** and **Mitsubishi Electric**.

Looking back on 2024

2024 got off to a strong start with the benchmark Nikkei 225 finally eclipsing its 1989 bubble high. In August there was a sharp sell off when the Yen rose and markets were caught off guard by a more hawkish BOJ. The Yen eventually returned to a weakening phase as it became clearer that the BOJ was in no rush to raise interest rates even with inflation above their expectations. The market remained largely range bound during the second half.

While it was a good year for the Japanese market, we still see areas where large opportunities are underappreciated. We frequently see stale narratives where closer scrutiny can reveal overlooked underlying shifts. The recent announcement that Honda and Nissan are exploring a merger is instructive. It is too early to assess the merits of this potential deal as much has yet to be determined, but what's interesting was the commentary that such a merger was largely inevitable.

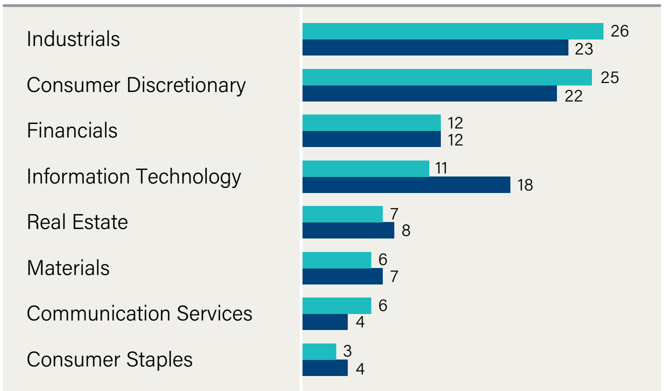
Disposition of Assets %



31 DEC 2024 30 SEP 2024

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

Net Sector Exposures %



31 DEC 2024 30 SEP 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
Toyota Motor Corp	Japan	Cons Discretionary	5.5%
Sony Corp	Japan	Cons Discretionary	4.9%
Mitsubishi UFJ Financial	Japan	Financials	4.8%
Hitachi Ltd	Japan	Industrials	4.5%
Taisei Corp	Japan	Industrials	4.4%
Fast Retailing Co Ltd	Japan	Cons Discretionary	4.3%
Mitsubishi Electric Corp	Japan	Industrials	4.2%
MS&AD Insurance Group	Japan	Financials	4.0%
Keyence Corp	Japan	Info Technology	4.0%
Mitsubishi Estate Co Ltd	Japan	Real Estate	3.7%

As at 31 December 2024. See note 5, page 5.
Source: Platinum Investment Management Limited.

The narrative is generally as follows:

- Japan has too many car companies (seven) and needs to rationalise.
- Japanese autos are becoming uncompetitive and still rely heavily on internal combustion (ICE) powertrains.
- They have low profitability and have been slow to develop new EVs.

Like their Western counterparts, Japanese car companies are losing share to local producers in the once highly-profitable Chinese market. Competitive Chinese EV producers are now targeting export markets – particularly in Asia – that are strongholds for Japanese brands. Further, the threat of US tariffs now looms large for vehicle exports, threatening profits in Japan's most important auto market.

It paints a downbeat picture. Over the past few decades Japanese industries – from semiconductors to consumer electronics – have ceded share to more agile Asian competitors. It is easy to conclude that Japanese autos are next.

Toyota is different

However, this narrative does not apply to Japan's largest automobile manufacturer – Toyota. Where other legacy makers are feeling pressure, last year saw Toyota reach record high earnings with operating margins nearly double the global industry average. Their competitive position in key markets (including China) remains intact, held back only by vehicle availability, while in the US vehicle inventory and incentive spending is at or near industry lows. Hybrids are booming and Toyota's dominance of the category and strong brand equity means they can't keep up with demand. This contrasts with the weakening position seen at most legacy makers who went all-in on EVs only to see demand falter as mainstream buyers baulked.

Today, Toyota has worked through some temporary production halts in 2024 and is on-track to see volumes rise in 2025 as production normalises. As we have written before, Toyota's multi-pathway strategy to lower fleet emissions – and its emphasis on hybrids – is now paying off handsomely. We expect Toyota to secure strong cash flows over the next several quarters, maintaining industry leadership and providing the flexibility to deploy capital for innovation as and when needed. We think the market is still to fully appreciate the strength of the Toyota brand. Toyota is now the largest position in the Fund.

Outlook

Japan's corporates have now shifted focus from decades of cost cutting and diversification to new priorities such as growing productivity and a refocus on core competencies. There are encouraging signs that pricing power is strengthening – as are wages, consumption and investment. Loan demand remains healthy and real estate markets are rising. These positive trends should reinforce each other in 2025 and we think markets will continue to positively reassess Japanese equities given a strong backdrop for corporate earnings.

The progress of reform

While COVID helped to shake Japan's corporate leadership out of decades of complacency, it is reassuring to see no let-up in Japan's drive to improve corporate governance. From the Tokyo Stock Exchange's directives to address low valuations through raising balance sheet efficiency to the growing presence of activists investors and improved institutional investor stewardship, corporates now appear keen to build on commitments, best exemplified by increased shareholder return and the unwinding of cross shareholdings. This is a significant departure from prior periods of 'reform' and gives us further confidence that Japan has resolved to meet its challenges.

Time will tell if Japan corporates take the next step, fully embracing the clarity of the Friedman Doctrine – maximising shareholder value as the sole corporate goal. This has been behind the sustained rise of the US stock market in recent decades. The risk remains that Japan reverts to the traditional "stakeholder" approach, espousing multiple priorities and diluting purpose.

We doubt there will be much backsliding this time. One key reason is that chronic labour shortfalls are now commonplace and there's increased competition for scarce human capital. Given Japan's demographic headwinds this is likely to remain a challenge and companies that have the means are upskilling workforces and increasing wages. Those that can afford to invest in this transition will likely thrive, attracting the most capable workers. It will likely be the larger, best-of-breed companies that can compete effectively in the war for talent.

Japan has significant presence in areas such as gaming/entertainment, industrial automation and consumer brands. It is these high-quality, globally recognised companies we find particularly interesting and so have invested in **Fast Retailing**, Toyota, **Sony**, **Nintendo**, Keyence and Fanuc.

We're also interested in those companies that are *reclaiming* their competitiveness such as **Hitachi** and Mitsubishi Electric and those that are positioned well for an improving domestic economy such as MUFG, Rakuten, **Mitsui Fudosan** and **Mitsubishi Estate**.

We're seeking businesses that can generate strong returns on capital, can reinvest in human capital, increase wages and retrain their workforces. Being able to plow these returns into R&D, automation and digital capabilities means being able to maintain long-term competitive strength and this is key to sustainably growing earnings and high shareholder returns.

The best companies have exemplary leadership, wide competitive moats and a strong market presence, be it in Japan or globally (preferably both). While we prefer valuations to be low, we are happy to own businesses that are 'optically' expensive but whom we regard as fair value given the quality of their franchise. We seek to invest in corporate leaders that have financial strength but also a strategic vision and the crucial ability to **execute** these strategies.

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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