Platinum Japan Fund

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Portfolio Manager

Overview

- The Fund returned nearly 8% during the quarter – up over 1.5% on its benchmark. The 12-month return of 21.3% substantially beat the MSCI Japan benchmark of 16.1%.
- Defence oriented stocks such as **DMG Mori** and **Toho Titanium** were key performers this quarter while **Nintendo** is now the biggest position in the portfolio. Its new Switch 2 console is its fastest selling game console in history. The company has an almost invaluable library of game character IP.
- Many of the key holdings in our portfolio, companies like Nintendo, **Toyota**, **Sony** and **Fast Retailing**, are large super-competitive businesses with exceptional strategic execution. They become world class businesses by avoiding the cost-cutting and under-investment that plagued weaker Japanese counterparts.

Performance

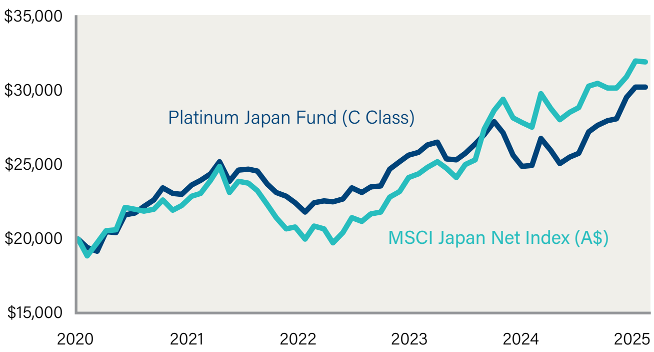
compound p.a.+, to 30 June 2025

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	8%	21%	12%	9%	12%
MSCI Japan Index^	6%	16%	17%	10%	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 June 2020 to 30 June 2025



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 nearly 8% during the quarter. The 12-month return of 21.3% substantially beat the MSCI Japan benchmark of 16.1%.

Key contributors to performance were defence/industrials companies such as **DMG Mori** (+17%), **Toho Titanium** (+20%), and **Mitsubishi Electric** (+15%). Detractors were **DeNA** on slow sales and **Toyota** (down over 5%) on trade concerns – a US/Japan trade deal remains elusive.

We added two new stocks to the portfolio: semiconductor firm **Tokyo Electron (TEL)** and **Daiichi Sankyo**. We have not had exposure to Semiconductor Manufacturing Equipment (SME) makers as we believed these stocks were overvalued, having run up on the AI capex theme. However, we are impressed with TEL's execution (we have invested in TEL in the past) and critical global position in the SME space. Following a period of market underperformance which we think is undeserved, we believe it is the right time to reestablish a holding.

Similarly, we have previously held Daiichi Sankyo and its strength in oncology is widely acknowledged. However, the considerable uncertainty of US pharmaceutical pricing has kept us on the sidelines. Daiichi has been particularly weak following disappointment in its Datroway development, yet its unique ADC (Antibody-Drug Conjugate) technology has numerous positive treatments under development, notably Enhurtu, a cancer treatment which could become the standard of care for multiple cancer types and thus could lead to strong profit growth.

How we view Japan now

Our investment approach of selecting the best-of-breed Japanese blue chips has been rewarding for investors over the past 12 months. Though it may appear straightforward, it's important to understand why we think this approach makes sense.

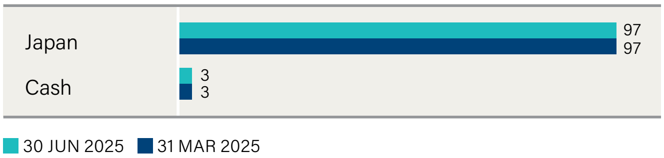
There has been a lot of focus on the Tokyo Stock Exchange (TSE) reforms that encourage Japanese companies to develop an awareness of their cost of capital, particularly relevant to those deep value stocks trading below a Price-to-Book ratio of 1x. This is an unquestionably positive development and addressing low Returns on Equity in Japan is something investors have been highlighting for years. These renewed efforts are already helping to raise the profile of Japanese stocks among global investors.

However, there is an overlooked structural schism between the strong and the weak that has been widening in corporate Japan over the past few decades. This looks set to widen further. In essence, the larger, industry-leading and globally facing firms now generate consistently better returns and commensurately carry higher valuations than their smaller, less capable peers. Optically, there are fewer ostensible "bargains" in large cap Japan, but we think they are more attractive as long-term investments.

We believe that years of corporate cost cutting is the Faustian bargain Japanese firms paid to maintain their social employment obligations. The opportunity cost was underinvestment in tangible capital (new capacity or machinery) and intangible capital (IT budgets, R&D, workforce upskilling). As with overzealous zero-based budgeting, the cumulative damage cost cutting does to long term competitiveness is sometimes only realised when it is too late.

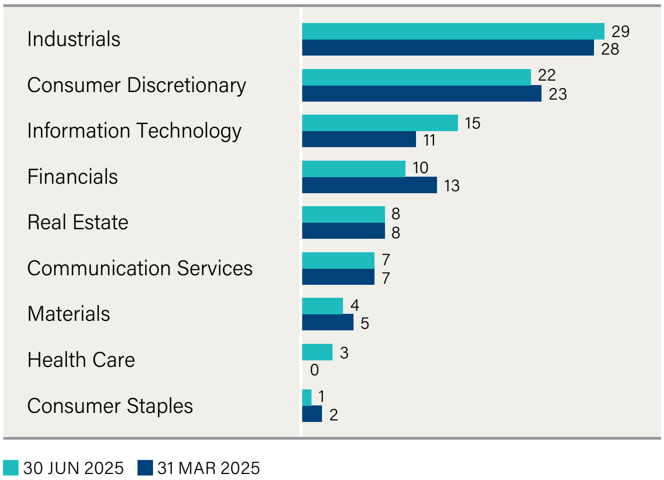
Moreover, the built-in stabiliser of labour mobility across enterprises and industries was largely non-existent due to the unique Japanese fixation with corporate self-sufficiency where mid-career hiring was largely shunned. This meant many companies had little perception of their slipping competitiveness. Japanese companies rarely sought insight from external management consultants, thus preventing the adoption of new approaches that addressed lagging productivity.

Disposition of Assets %



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

Net Sector Exposures %



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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Nintendo Co Ltd	Japan	Comm Services	5.7%
Taisei Corp	Japan	Industrials	5.1%
Mitsubishi Electric Corp	Japan	Industrials	5.0%
DMG Mori Co Ltd	Japan	Industrials	4.9%
Sony Corp	Japan	Cons Discretionary	4.8%
Toyota Motor Corp	Japan	Cons Discretionary	4.4%
Mitsubishi Estate Co Ltd	Japan	Real Estate	4.1%
Tokyo Electron Ltd	Japan	Info Technology	3.8%
MS&AD Insurance Group	Japan	Financials	3.8%
Keyence Corp	Japan	Info Technology	3.6%

As at 30 June 2025. See note 5, page 5.
Source: Platinum Investment Management Limited.

We think there is a large portion of corporate Japan still not fully aware of those outdated businesses practices. Though they are making up for lost time now, for many it may be too little, too late given chronic labor shortages are commonplace.

Many companies are now likely to find themselves in a difficult position. They can raise payouts – diverting capital to placate shareholders' demands for more balance sheet efficiency. Or they can raise investment to ensure long-term competitiveness. For many, other alternatives – such as seeking strategic options through M&A – are unpalatable.

Our point is that the best companies, the ones we prefer to invest in, have secured a strong position. A combination of strong product competitiveness, skilled workforces and self-awareness amongst their leadership created a corporate culture of excellence that benchmarks not domestic peers but the most competitive franchises globally. These top companies include **Toyota**, **Sony**, **Nintendo**, **Keyence** and **Fast Retailing**, all of which we regard as core holdings.

In short, the TSE reforms has broken through a level of complacency in deep value Japan, but it also catalysed large cap Japan to undertake overdue business reforms, accelerate the unwinding of cross shareholdings and raise shareholder returns. There's an additional layer of comfort in that the underlying businesses are healthy with high growth prospects. To put it simply, with Japan's large caps, you can have your cake and eat it.

Mythbusting Japan narratives

After three decades dedicated solely to Japanese equities it can be exasperating reading the conventional bearish narratives about Japan – its declining relative economic power, high debt, ageing society, collapsing birthrates or imminent bond market crisis. None of these scare stories have come to pass, nor are they likely to in our view. We remain steadfastly optimistic. Japan is a major economic and cultural power, an ageing heavyweight but in remarkably good health that punches well above its weight.

One of the most enduring myths is of a Japan stuck in the "lost decades", where a moribund Japanese economy was unable to shake-off asset price deflation and overshadowed by the rise in Asian economies.

This is a convenient but misguided narrative. Rather than lost, we see this as an adjustment to a post-industrial economic model, where new growth opportunities were discovered. Most prominent is of course, tourism, where Japan has moved from being a relative backwater to a global destination of choice. Japan's soft cultural power mirrors this rise. Gaming is an obvious example.

Nintendo rules OK

No stock underscores this rise more than Nintendo, which became our largest holding in the quarter. A decade ago, Nintendo was struggling to remain relevant with gamers. Following the success of the Wii console, its successor, the Wii U, was selling poorly and the common view was that Nintendo couldn't maintain competitiveness under the twin onslaught of mobile and tablet gaming.

Throughout this period, Nintendo steadfastly refused to compromise the user gaming experience by offering its games on these new platforms they believed would undermine their loyal customer base. The market disagreed and assigned little value to one of the world's greatest libraries of character IP.

Yet while markets were willing to overlook Nintendo, their fanbase remained, ensuring a pool of millions of eager users that fuel demand for new releases of existing franchises such as Mario, Pokémon, Pikmin, Zelda and Splatoon.

Since 1983 Nintendo has sold more than 5.9bn video games and 860 million hardware units globally.[1] The launch of the Switch in 2017 saw them hit upon the right combination of gameplay and hardware interaction. The Switch was wildly successful, to-date selling some 152m units, reestablishing Nintendo's credentials among gamers, and reminding the market of the true value of Nintendo's entertainment IP.

Fast forward to 2025 and the launch of the Switch 2, which sold 3.5m units within four days of its June 5th launch – its fastest selling console launch ever.

We expect global console shortages to remain commonplace given the sustained levels of demand. More importantly, Nintendo's ability to execute and protect and sustainably grow their IP makes them the type of business we like to own. We can think of few companies anywhere that would be more rewarding stewards of our investors' capital.

In the past decade Nintendo's stock price rose 500%.

1 www.nintendo.co.jp/corporate/release/en/2025/250611.html

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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