Platinum Japan Fund

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Overview

- For the past three years investors in Japanese shares benefited from corporate governance shifts that boosted shareholder returns. This trend could strengthen but we believe the key to strong returns in the next few years will be investing in the Japanese businesses that focus on higher productivity through digital transformation, workplace efficiency and automation.
- Japanese industrial companies – especially those in the factory automation and robotic spheres – are likely to benefit from US moves to modernise and re-shore manufacturing.
- We take a deep dive into the outlook for the Japanese economy and Japanese shares in our article on page 38.

Performance

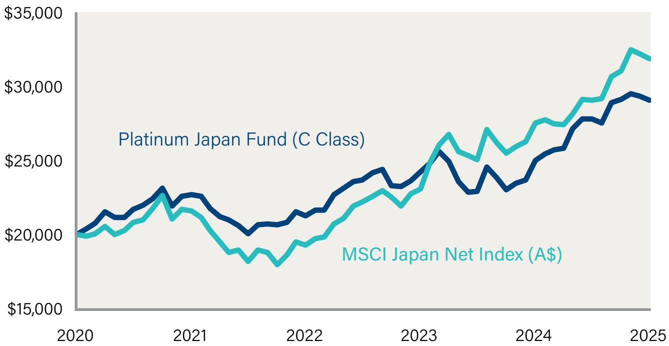
compound p.a.+, to 31 December 2025

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	0%	16%	11%	8%	12%
MSCI Japan Index^	3%	16%	18%	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

31 December 2020 to 31 December 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 was down 0.1% over the quarter and up 16% for the year. Key contributors to that annual return were **Taisei** (+49%), **FANUC** (+46%), **Tokyo Electron** (+33%) and **Mitsubishi Electric** (+23%), with key detractors being **Toho Titanium**, **Nintendo** (both down around 20%), **DMG Mori**, off 9% and eyewear company **JINS** (down 37%).

Portfolio additions

Mitsubishi Heavy Industries (MHI) has a broad industrial portfolio ranging from nuclear energy to aerospace to shipbuilding to gas turbines.

There are two main areas of focus that highlight MHI's competitive strength: defence equipment and gas turbines. After years of flat sales and margins, MHI's defence business could see substantial growth thanks to a combination of higher defence spending, procurement policy reforms from Japan's Self Defence Force and the potential relaxation of restrictions on defence equipment exports.

MHI is also one of the world's top producers of GTCC systems (Gas Turbine Combined Cycle) used in power plants. Orders for these systems have been booming thanks to grid modernisation and sharply higher electricity demand from AI-related datacentres. MHI is also set to benefit from higher spending on nuclear power generation.

Namura Shipbuilding is a domestic shipyard that builds large commercial vessels such as grain and LNG carriers.

Japan's once dominant shipbuilding industry has lost out to shipyards in Korea and China, though it still holds around 10% of the global market.

The government now aims to double Japan's shipbuilding output to 18 million gross tonnage annually by 2035. Its modernisation initiatives include digital adoption and robotics as well as industry consolidation, building new shipyards and reopening old ones. Namura can benefit from Japan's new industrial policies.

Our third new stock is the recently listed **Kioxia**, a specialist provider of NAND flash memory spun out of Toshiba in 2017. Kioxia has a partnership with Sandisk to produce NAND and has ~25% global share. Like HBM DRAM, NAND memory is enjoying a surge in demand and pricing as AI hyperscalers' datacentre capex expands. NAND capacity remains limited while demand is growing sharply, resulting in improved pricing. Kioxia is developing technology to incorporate NAND into the AI chip that could see flash memory replacing some of the processes currently undertaken by DRAM. This could further grow the addressable market for NAND.

We also added **HOYA**, one of Japan's most well-regarded firms, to the Fund. Hoya has multiple businesses, with its main technological edge being optical glass from which these business lines have developed. Its stable Life Care segment is mostly eyeglass lenses and contact lenses where it competes with EssilorLuxottica.

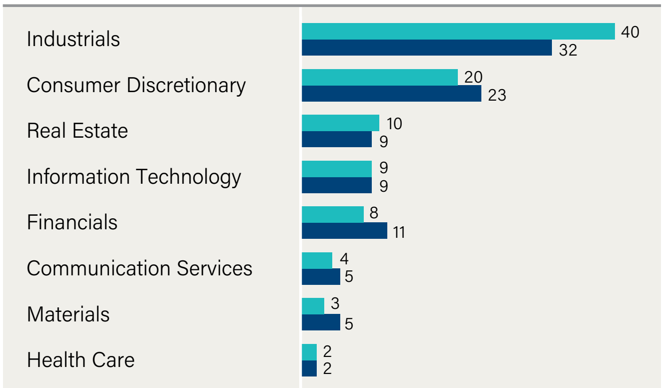
We think there is further scope for growth as smart glasses could become commercially successful. The high margin Information Technology segment is becoming the main earnings driver. It focuses on mask blanks used in lithography to produce semiconductors. Hoya has 80% share in leading edge EUV blanks.

Hoya also produces the glass substrates used in next generation high-capacity HDDs (Hard-Disk Drives) and has a near-100% market share. This technology is expected to account for an increasing portion of nearline applications replacing the existing lower capacity aluminium substrates as demand for data storage increases. Hoya is focused on profitability and shareholder returns.

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
Mitsubishi Electric Corp	Japan	Industrials	6.2%
FANUC Corp	Japan	Industrials	5.7%
Taisei Corp	Japan	Industrials	5.6%
Mitsubishi Estate Co Ltd	Japan	Real Estate	5.5%
Sony Corp	Japan	Cons Discretionary	4.9%
Toyota Motor Corp	Japan	Cons Discretionary	4.6%
Daifuku Co Ltd	Japan	Industrials	4.3%
Nintendo Co Ltd	Japan	Comm Services	4.1%
Mitsui Fudosan Co Ltd	Japan	Real Estate	4.0%
Tokyo Electron Ltd	Japan	Info Technology	4.0%

As at 31 December 2025. See note 5, page 5.
Source: Platinum Investment Management Limited.

Why are Japanese shares performing?

It was a strong year for the Japanese equity market – the Nikkei 225 rose 26% in local terms[1] thanks to ongoing earnings growth and higher shareholder returns as Japanese corporates improved their corporate governance.

These reforms continue to underpin a welcome shift away from traditional Japanese 'stakeholder capitalism' to 'shareholder capitalism'.

This process is taking several forms. Companies are unwinding strategic cross shareholdings and selling non-productive assets. The proceeds – and excess balance sheet cash – flowed to investors via record levels of buybacks and dividends.

From a sharemarket perspective, this initiative has been a resounding success and widely applauded with Japan stock benchmarks attaining all-time highs. We continue to be impressed at how quickly Japanese corporate attitudes have changed. While we are clearly biased, perhaps the best indication that there is real conviction about these changes is that foreign investors, who have been structurally underweight Japan for decades, have been consistent net buyers of Japanese equities since early 2025.

Yet governance reform is not the only game in town, far from it. It is the prelude to much more substantial corporate reforms that lie ahead. Improving shareholder returns is a relatively straightforward decision, but also a one-off step up to a new standard.

Financial levers like buybacks or higher dividends can relatively easily boost a firm's Return-on-Equity (ROE) from low to high single digits. They are straightforward and widely adopted in the US.

Generating and sustaining a truly world class 15% to +20% ROE through higher margins is a much more ambitious goal. Such a shift requires an absolute commitment to sustaining a long-term competitive edge through investment and strategic execution.

It also sets far more consequential tests for corporate leadership. The bar is much higher, but we believe the market will reward these opportunities, assigning successful companies well-deserved premium valuations. That's why we focus on investing in world-class, best-of-breed companies in their respective fields – from FANUC (robots) to **Toyota** to **Fast Retailing** (apparel).

We think the next stage of growth will come from titans like Mitsubishi Electri**c**, **Hitachi**, **Sony** and **MHI** rationalising their business and focusing on core competitive strengths rather than breadth of business.

1 Source: Factset

The end of Japanese stasis

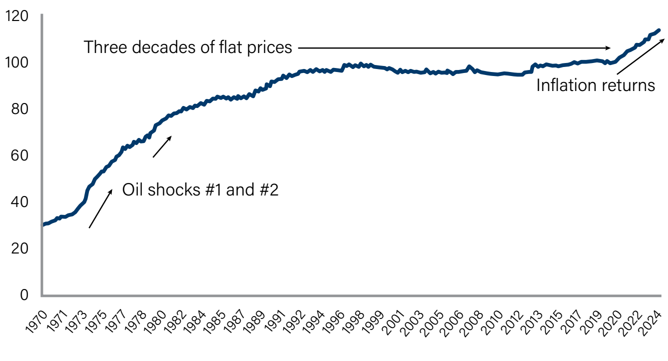
In Japan, risk averse management teams long held that diversification of businesses lines was the best way to ensure survival. Against a deflationary backdrop, low returns were tolerated and balance sheet strength prized. Being a listed company carried weight and attracted the best graduates who knew their future was secure. The alternative was a lifetime employment purgatory of part-time or contract work.

This stasis changed dramatically because of COVID-19 and the subsequent shock of inflation re-entering the system. The combination of supply chain disruptions and generous fiscal support saw savings rise and easy monetary policy saw the value of Japan's currency fall.

The weaker yen boosted exporter earnings and sparked a tourism boom. It also imported goods inflation. Rather than absorbing the impact, Japanese corporates broke from three decades of established practice and protected margins by passing on higher costs.

End users began to accept increasing prices – from daily necessities to services to sharply rising real estate prices. Japanese companies now have pricing power and are using it. That's one of the reasons why investing in Japan could be far more rewarding going forward.

Inflation in Japan (CPI 2020 = 100)



Source: Factset, MIAC

Outlook – investing in productivity

We maintain our upbeat outlook for the Japanese economy and equity market. We anticipate further earnings growth, better margins, higher ROE and commitment to higher shareholder returns. We're investing in globally competitive industrial companies set to benefit from higher spending on factory automation and robotics such as Mitsubishi Electric, FANUC, **Keyence**, **Daifuku** and **Nabtesco**. These firms will benefit as the US (and Japan) rebuilds its manufacturing base.

As we've written before, proactive investment is crucial if Japan is to grow productivity in the face of weakening demographics.

Instead of returning excess cash to shareholders (which we think sends the wrong signal given the clear opportunities ahead), management should be investing capital in growth – in overdue enterprise IT adoption, in workforce efficiencies and modernisation and in deploying automation and robotics across manufacturing.

The goal here is for higher productivity and domestic worker wage growth. We expect corporates to try and balance returning cash to shareholders with investment in long-term competitiveness.

Lastly, it is worth highlighting that Japan has recommitted to nuclear energy and is restarting reactors shut down in the wake of the nuclear accident at Fukushima Daiichi plant nearly 15 years ago.

Prior to March 2011, nuclear accounted for some 30% of power generation in Japan. Many plants were decommissioned and Japan's nuclear energy ratio is just 10%. There are plans for multiple restarts over the next few years. Kashiwazaki-Kariwa, one of the largest nuclear plants in the world, is expected to reopen in Q1 26. This underscores the longer-term commitment to a pragmatic energy policy. This move yields several positives – not least that it lowers Japan's dependence on higher-cost imported fossil fuels (coal, LNG, Oil).

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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