



# Platinum<sup>®</sup> World Portfolios PLC Quarterly Investment Manager's Report

Platinum World Portfolios - Japan Fund

31 December 2023

 **Platinum<sup>®</sup>**  
WORLD PORTFOLIOS PLC



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# Performance Returns

## to 31 December 2023

SUB-FUND	PORTFOLIO VALUE (US\$ MIL)	QUARTER	1 YEAR	2 YEARS COMPOUND P.A.	3 YEARS COMPOUND P.A.	5 YEARS COMPOUND P.A.	SINCE INCEPTION COMPOUND P.A.	INCEPTION DATE
<b>PWP - Japan Fund</b>								
Class A (USD)	6.4	10.2%	14.6%	0.7%	2.9%	6.5%	6.4%	11 Jan 2016
Class D (USD)	4.4	10.0%	13.8%	0.0%	2.2%	5.8%	5.9%	16 Nov 2015
Class F (EUR)	0.2	5.4%	10.0%	1.6%	5.7%	6.6%	3.1%	18 Oct 2017
MSCI Japan Net Index (USD) <sup>(1)</sup>		8.2%	20.3%	0.1%	0.7%	6.9%	5.6%	16 Nov 2015
MSCI Japan Net Index (USD) (EUR) <sup>(2,3)</sup>		3.7%	16.2%	1.6%	4.2%	7.6%	5.2%	18 Oct 2017

(1) For the purpose of calculating the "since inception" returns of the Index in USD, the inception date of Class D of the Fund is used, since Class D was the first USD-denominated share class activated.

(2) The MSCI Index returns in USD have been converted into the specified currency (EUR or GBP, as the case may be) using the prevailing spot rate.

(3) For the purpose of calculating the "since inception" returns of the Index in EUR, the inception date of Class F of the Fund is used, since Class F was the first EUR-denominated share class activated.

Fund returns are net of accrued fees and expenses, are pre-tax, and assume the accumulation of net income and capital gains. Where a particular share class is not denominated in USD, the net asset value per share in USD, being the Fund's base currency, is converted into the denomination currency of that share class using the prevailing spot rate.

**Historical performance is not a reliable indicator of future performance. Returns could be reduced, or losses incurred due to currency fluctuations. See note 1, page 8.**

Source: Platinum Investment Management Limited for Fund returns; FactSet Research Systems for MSCI Index returns.

# Platinum World Portfolios - Japan Fund



**James Halse**  
Portfolio Manager



**Leon Rapp**  
Portfolio Manager

## Overview

- Our best performers for the quarter were holdings in enterprise software companies, particularly new holdings in **GMO Payment Gateway**, **Fuji Soft** and **Shift**.
- Rising earnings and improving investor sentiment toward Japanese equities underpinned strong stock market performance during 2023. The Nikkei 225 rose 28%, its best annual return since the beginning of Abenomics in 2013. It is closing in on its all-time high of 38,915 reached in the zenith of Japan's boom in 1989.
- 2023 may be a watershed for Japan's economy, marking the end of a three-decade long struggle with deflation, slow growth and excess corporate saving. From meaningful improvements in corporate governance, to higher wages, reshoring of supply chains, expanding domestic investment and rising productivity, there are many factors set to underpin higher growth for Japan.

## Performance

compound p.a.<sup>+</sup>, to 31 December 2023

	QTR	1YR	3YRS	5YRS	SINCE INCEPTION
PWP Japan Fund Class A USD	10%	15%	3%	6%	6%
PWP Japan Fund Class D USD	10%	14%	2%	6%	6%
PWP Japan Fund Class F EUR	5%	10%	6%	7%	3%
MSCI Japan Net Index (USD) <sup>^</sup>	8%	20%	1%	7%	6%

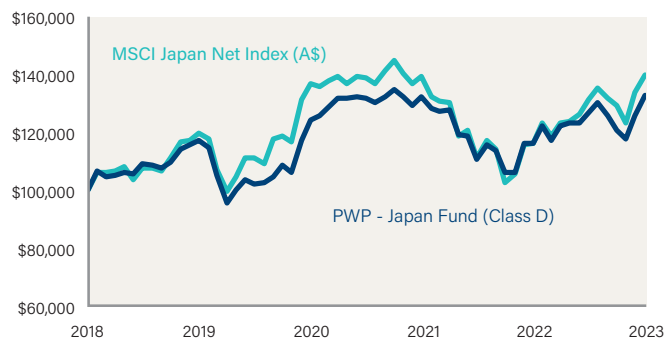
+ Excluding quarterly returns. Fund returns are net of accrued fees and costs. Class D inception date (16 Nov 2015) is used for Index "since inception" returns.

<sup>^</sup> Index returns are those of the MSCI Japan Net Index in USD. Source: Platinum Investment Management Limited for Fund returns, FactSet Research Systems for Index returns

**Historical performance is not a reliable indicator of future performance. Returns could be reduced, or losses incurred due to currency fluctuations.** See notes 1 & 2, pages 8 & 9.

## Value of \$100,000 invested over five years

31 December 2018 to 31 December 2023



After fees and costs. See notes 1 & 3, pages 8 & 9. **Historical performance is not a reliable indicator of future performance. Returns could be reduced, or losses incurred due to currency fluctuations.**

Source: Platinum Investment Management Limited, FactSet Research Systems.

Key contributors during the quarter were concentrated in our holdings in enterprise software companies, particularly a new holding in **GM0 Payment Gateway** (up around 40% since we invested). GM0 is the market leader in online/offline payment processing. Payments is a growing industry with high barriers to entry and Japan is a laggard in cashless payments. E-commerce and other online payment levels remain low, implying a large addressable market. We have monitored GM0 for some time but baulked at the high valuations. A recent price decline due to transient growth concerns gave us the opportunity to build a position.

Other key contributors were also in the enterprise software space, notably **Fuji Soft** (+22%), a Yokohama-headquartered IT services company that deals in systems integration and control and embedded systems.

The Fund also benefited from a good performance by **DTS Corp** (+10%) which offers its corporate clients IT consulting and systems design services as well as Business Process Outsourcing (BPO). Another holding, **Shift** – which specialises in software testing for the enterprise and entertainment segments – was up over 30%.

In more traditional segments, **Kurabo Industries** – an Osaka-founded conglomerate that operates in textiles, chemicals, real estate, and industrial businesses – was up over 18%

Key detractors were **Hirano Tecseed** (-15%) as orders for its Li-ion battery coating machinery fell. **Oyo** (-17%) is a geological and geotechnical consulting business which saw its share price weaken as it lowered its full year outlook due to rising costs. **Toyo Seikan**, a packaging and packaging systems company, fell over 6%. This partly unwound strong performance earlier in the year.

In the quarter, we reinitiated our position in **Toyota Motor Corp** as we see clearer signs that Battery Electric Vehicle (BEV) adoption is slowing in the US and Europe due to issues around affordability, range anxiety and inadequate charging infrastructure. By contrast, fuel-efficient hybrids are popular thanks to better affordability, longer range, low running costs and strong resale values. The largest beneficiary of this move is Toyota who pioneered hybrids and is still the leader today. Their product portfolio aligns with the current needs of consumers and means Toyota can potentially avoid margin risk should a BEV price war widen. This will enable them to roll out more cost-competitive second-generation BEVs – with advanced solid state batteries – from a position of financial strength.

## Commentary

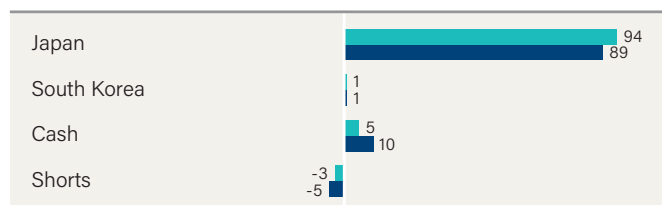
### A new dawn and the end of deflation

After many false dawns, we think 2023 heralds Japan's long-anticipated exit from the deflationary pressures of the past three decades. Corporates have recaptured pricing power and 2023 also saw an economy freed from COVID restrictions, with a strong rebound in inbound tourism helped by a cheaper yen.

The Japanese stock market also has solid fundamentals: earnings, profit margins, shareholder returns and Return on Equity are strong while corporate debt remains low. Valuations are unstretched on 14.5X 2024 PE Ratios and a 1.3X Price to Book Ratio even after recent strong performance.<sup>1</sup>

<sup>1</sup> Source: Factset Research Services – end 2024 forecasts

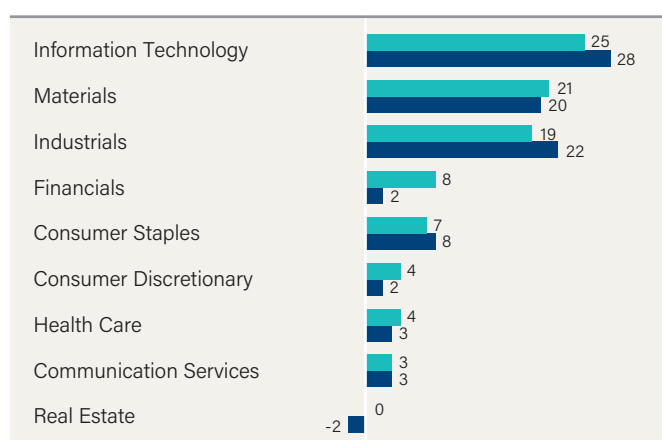
## Disposition of Assets %



■ 31 DEC 2023 ■ 30 SEP 2023

See note 4, page 9. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

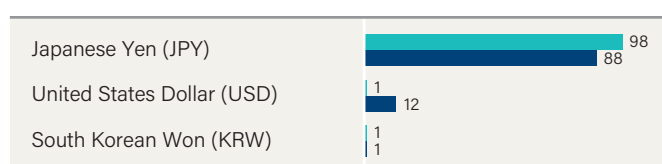
## Net Sector Exposures %



■ 31 DEC 2023 ■ 30 SEP 2023

See note 5, page 9. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

## Net Currency Exposures %



■ 31 DEC 2023 ■ 30 SEP 2023

See note 6, page 9. Numerical figures have been subject to rounding.  
Source: Platinum Investment Management Limited.

## Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Toyo Seikan Group	Japan	Materials	6.6%
Ezaki Glico Co Ltd	Japan	Consumer Staples	4.8%
GMO Payment Gateway Inc	Japan	Financials	4.6%
Nittetsu Mining Co Ltd	Japan	Materials	4.5%
Digital Garage Inc	Japan	Info Technology	3.5%
Hirano Tecseed Co Ltd	Japan	Industrials	3.0%
Toho Titanium Co Ltd	Japan	Materials	3.0%
Oyo Corp	Japan	Industrials	3.0%
Fuso Chemical Co Ltd	Japan	Materials	2.9%
Sun Corp	Japan	Info Technology	2.9%

As at 31 December 2023. See note 7, page 9.

Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit [www.platinumworldportfolios.ie/The-Funds/PWP-Japan-Fund](http://www.platinumworldportfolios.ie/The-Funds/PWP-Japan-Fund)

The most notable event of 2023 was the release of the Tokyo Stock Exchange's (TSE) action plan encouraging listed companies to raise awareness of their cost of capital and requesting companies to detail specific measures that improve capital efficiency.

Further TSE requests for improvements in corporate governance – including enhanced shareholder rights (particularly for parent/subsidiary listings), more dialogue with investors and expanding English-language disclosure – round out some of the most effective reform frameworks seen in recent memory.

We met with Yamaji-san, the Group CEO of the Japan Exchange Group in late 2023. For more on these meetings – and on the broader importance of Japanese stock market reform for investors – see our recent [article](#).<sup>2</sup>

## Inflation and currency

Inflation returned to Japan in 2022, rising above 4% at the end of the year, but eased through 2023 to the 3% YoY level (though remaining above the BOJ's target level of 2%). The retirement of BOJ Governor Kuroda and a sharply depreciating currency led to rising market expectations that new Governor Ueda would finally review the BOJ's decade long commitment to ultra-accommodative monetary policy.

While market expectations for higher interest rates in Japan were not quite met, easing inflation pressures in the US led to the expectation of a Fed pause or even rate cuts.

<sup>2</sup> [www.platinumworldportfolios.ie/insights/the-journal/japans-reform-new-dawn-or-same-old-story](http://www.platinumworldportfolios.ie/insights/the-journal/japans-reform-new-dawn-or-same-old-story)

The widening spread between US Treasuries and 10-year JGBs, a key factor in the sharp weakness in the Yen through much of the year, reversed from October and narrowed by year end. Reflecting this, the Japanese Yen strengthened versus the \$US and this affected exporter stocks (especially carmakers). Their earnings typically benefit from a weaker currency.

### Takeovers and unwindings

2023 also saw several new developments in the market for corporate control. A revised M&A code was released with the aim of developing Japan's M&A market and ensuring respect for shareholders. Since then we have seen some notable takeovers and several management buy-outs (MBOs) such as Taisho Pharmaceutical's – at ¥700bn, Japan's largest-ever MBO – plus those at Fuji Glass, Benesse and Shidax.

Cross shareholdings have been steadily falling in recent years, though 2023 saw the first meaningful unwind of the complex web of cross shareholdings across the Toyota group. Given its prominent position within Japan's economy this could signal that Japan's corporate world is fully supportive of policy reforms. We believe these reforms will help revitalise Japan's economy.

### Outlook

We now see a virtuous economic cycle in place in Japan.

Corporates are increasing investment and helping to reverse the three-decade hollowing out of Japan's storied manufacturing base. The supply-chain fragility highlighted by Covid means many Japanese corporates are looking to re-shore production.

Japan's government has also been taking steps to encourage this shift, such as tax incentive programs designed to encourage investment in key areas such as semiconductors and EVs. We have already seen significant capacity expansion commitments by semiconductor makers such as TSMC, Kioxia, Renesas, Sony, Micron and Rapidus.

Key suppliers are also investing to support these hubs (including wafer supplier **SUMCO** which we own and which rose around 9% during the quarter). We have seen booming investment in regions such as Kyushu where this activity is concentrated. All these are welcome developments, with positive impacts for construction activity, employment and wages.

## A more digital Japan?

We have written [before](#)<sup>3</sup> about Japan's under-investment in corporate IT and software solutions. The COVID pandemic exposed an economy that had neglected to modernise and digitalise work practices. As the stock stories above show, a long overdue acceleration of investment in enterprise productivity software and IT is now underway, with spending now growing at a double digit pace. We believe we are still in the early stages of a multi-year investment in digital capabilities as Japan catches up.

Low unemployment is reducing the pressure on corporates to retain labour in unproductive roles, while portfolio restructuring and private equity deals are helping corporates realign their businesses to be more efficient and effective users of capital.

The recent rise in the yen has quieted fears that the BoJ may be forced to raise rates to tame inflation. Investors may worry that an appreciating Yen could be negative for Japanese stocks, but historical data demonstrates that Japanese markets often rise in years where the yen strengthens, perhaps due to a coincident strong domestic economy.

A strengthening yen could force unhedged global investors to reassess whether they have a sufficient allocation to Japanese equities. It may also push local investors to embrace domestic equities rather than investing their funds overseas as they have in recent years.

<sup>3</sup> <https://www.platinumworldportfolios.ie/insights/the-journal/japan-in-the-first-innings-of-a-digital-shift>

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1. Fund returns are calculated by Platinum using the Fund's net asset value per share (i.e. excluding the anti-dilution levy) attributable to the specified share class. Where a share class is not denominated in USD, the net asset value per share in USD, being the Fund's base currency, is converted into the denomination currency of that share class using the prevailing spot rate. Fund returns are net of fees and expenses, pre-tax, and assume the accumulation of the net income and capital gains, each as attributable to the specified share class. The MSCI index returns are in USD, are inclusive of net official dividends, but do not reflect fees or expenses. 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. Returns could be reduced, or losses incurred due to currency fluctuations. 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 portfolio inception dates for each active share class of the Fund are as follows:

- Platinum World Portfolios - Japan Fund:
  - Class A USD (Accumulating) (ISIN: IE00BYRGRF20): 11 Jan 2016
  - Class D USD (Accumulating) (ISIN: IE00BYRGRJ67): 16 Nov 2015
  - Class F EUR (Accumulating) (ISIN: IE00BYRGRL89): 18 Oct 2017

For the purpose of calculating the "since inception" returns of the MSCI index, the inception date of Class D of the Fund is used (as Class D was the first share class activated).

3. The investment returns depicted in this graph are cumulative on US\$100,000 invested in Class D of the specified Fund over the specified period relative to the specified net MSCI Index in US Dollars.
4. 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 long derivative transactions.
5. 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".
6. The table shows the Fund's net exposures to the relevant currencies through its long and short securities positions, cash at bank, cash payables and receivables, currency forwards and long and short securities/index derivative positions, as a percentage of its portfolio market value. Currency classifications for securities reflect the relevant local currencies of the relevant Bloomberg country classifications. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
7. 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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Company Registration Number: 546481

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