The Platinum Trust Quarterly Report

30 June 2002

Incorporating the:

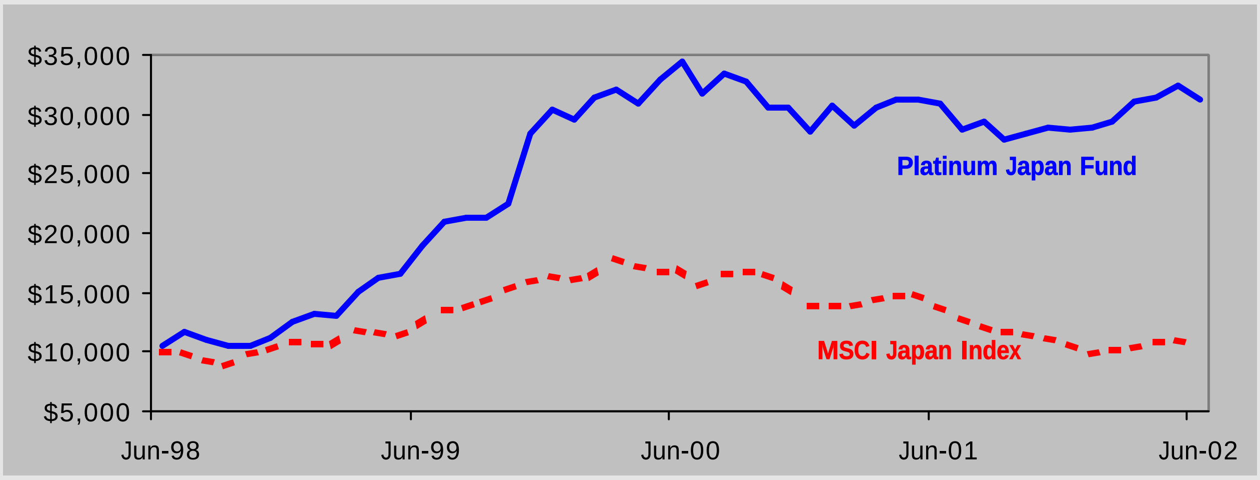
International Fund
European Fund
Japan Fund
International Technology Fund
International Brands Fund

Platinum Japan Fund

Performance

REDEMPTION PRICE: CUM $1.9024 EX $1.7531

VALUE OF $10,000 INVESTED SINCE INCEPTION (1 JULY 1998 – 30 JUNE 2002)



The Japanese and Korean markets gave up their gains of the previous quarter following heavy falls in the US stockmarket. Japan experienced a fairly modest decline of 3% (in local terms) as global investors continued to favour it as a safe haven from the US turmoil. Within the market there was a major dichotomy as domestic stocks rose at the expense of the traditional foreign favourites such as exporters and telecoms. This was primarily driven by the sell off in the US$ against the yen which tends to favour domestic stocks. Korea was more heavily impacted with a 14% decline as the market took a breather from the large gains made since September of last year. The main impetus for the falls in Korea came from local investors who finally succumbed to poor global investor sentiment. It is worth noting that foreigners have been persistent sellers of the Korean market for all of 2002 as they take profits.

The significant move on global markets during the quarter was the rapid decline in the value of the US$ against all major currencies. In terms of those currencies held in the Fund, the US$ declined by 10.4%, 8.4% and 4.7% against the Yen, Korean Won and A$ respectively. We view these moves as a correction in the US$ from extremely overvalued levels which may well have further to run. In terms of the yen we have not picked up the full benefit of the move because we have been 50% hedged into A$. However we are reluctant to believe that the yen can be a strong currency given the imperative to provide easier monetary conditions for yen based manufacturers. Hence we would expect the yen to weaken relative to the A$ once this period of fear in global markets passes.

The Fund was essentially stable over the quarter, rising by just 0.7% in A$ terms whilst the MSCI Japan index rose by 1.3%. Gains made from shorting stocks such as Tokyo Electron, Advantest and Sharp in Japan were offset by losses on our Korea holdings - Samsung Corporation fell 36% and Seoul Broadcasting was down 24%. Good gains were registered in some of our small stocks in Japan such as Goodwill Group and Pasona, both temporary employment firms. For the year ended 30 June, the Fund rose 1.1% in A$ comfortably ahead of the MSCI Japan which declined by 24.6%.

Changes to the Portfolio

DISPOSITIONOF ASSETS

Region	Jun 2002	Mar 2002
Japan	68%	65%
Korea	20%	25%
Cash	12%	10%
Shorts	18%	16%

The biggest change in the portfolio was becoming more defensive in our Korean positions early in the quarter. We have not really changed our fundamental view on this market but rather we took the view that the rapid price moves since September 2001 and gathering global concern made it prudent to trim exposure. By quarter end we had reduced equity exposure from 25% to 20%, by selling our holding in LG Chemical which had been a star performer for the Fund rising from 15,000 won to 45,000 won in six months. We also raised our short position against the Kospi index from 5% to 8.5%. In the current environments we would look to add to our exposure again if the market pulled back to around the 650 level.

In Japan, we reduced our short positions against both individual stocks and the Nikkei Index toward the end of the quarter as the market adjusted to levels which represent good support. Shorts against Japanese stocks now represent **9%** of the Fund as against 16% in the prior quarter. The remaining short positions are against the likes of SMC and Keyence, highly valued machinery stocks with little prospect of immediate growth. Within the portfolio additions were made to Takeda, Denso, Credit Saison and Sky Perfect. We financed this by selling positions in Yamaha Motor, Towa Corp, Noritake and Air Liquide. The basic approach we are taking is to add good value, quality franchise, larger capitalisation stocks as the markets adjust downward. This will be at the expense of smaller names which whilst still fundamentally sound, don't represent as much relative value as they once did.

Commentary

During the quarter we visited 20 companies in Japan including many of our existing holdings. It was a very valuable experience as we were reminded of the immensely strong manufacturing base that the country still has despite 10 years of dithering at the national level. You can confirm this yourself by noting the number of Japanese brands still prominent in the household today (with a few Korean intrusions!). The point is that through this period of economic stagnation Japanese companies have continued to invest in modern facilities, processes and the R&D essential for new product development. It's not perfect however and there will be losses caused by duplication of effort and resistance to change. However it stands in stark contrast to the US model which in recent times has placed an emphasis on "high grading the franchise" by investing little and pulling forward demand. History shows that long term wealth creation is driven by those prepared to put in the "hard yards" and in this sense, maybe it is time for the Japanese model to shine once again.

The strength of Japanese manufacturing is best highlighted by the success of Toyota. This company has shown incredible devotion to its pursuit of global market leadership and has seen its share of the global auto market rise nearly every year since its establishment (currently 10%). In the beginning its success was based on the revolutionary lean production methods it pioneered and despite these processes being dutifully copied by competitors, it still holds cost leadership to this day. Lately the success has been built on things not often associated with Toyota. New technologies from its R&D spending are coming to fruition, the most high profile of which is the successful launch of the hybird electric vehicle. Against earlier scepticism, the company has achieved remarkable success with its Lexus range which has proved highly successful in competing against the luxury German brands. Today, Lexus accounts for 25% of its sales in the US market and much more of profits! We have chosen to play Toyota's strength through its listed auto components affiliate Denso.

Denso is a $18 billion sales organisation with great breadth of product range including air conditioners, fuel injectors, electrical controls and telematics. It is positioned as an integral part of the Toyota machine with 50% of sales to Toyota but more interestingly, with very high R&D spending it acts as the engine of growth for many of the newer technologies coming out of Toyota. Combining this with the fact that the other half of sales outside of Toyota gives it a special position in price negotiations with the parent. The stock appears very modestly priced for the high level of certainty attached to earnings growth. We see growth from gains in market share by Toyota on a global scale as well as secular growth from greater use of electronics in vehicles. The introduction of 42 volt platforms later this decade and greater consumer spending on car navigation and other electronic gadgets provides a solid underpinning. In addition, Denso was very upbeat about supplying to the US makers. It highlighted the chronic underspending by Delphi and Visteon once they were spun out of their parent companies (GM and Ford respectively) in order to meet Wall Street expectations. These latter companies are now calling on Denso to provide high specification products where their own technology has fallen behind.

TRENDS IN DEBT/EQUITY RATIOS – BIG FIVE JAPANESE ELECTRONIC COMPANIES

Company	3/98	3/99	3/00	3/01	3/02
Hitachi	0.8	0.9	0.9	1.2	1.3
Toshiba	1.8	2.0	2.0	1.7	2.6
NEC	2.0	2.7	2.0	1.8	4.0
Fujitsu	1.6	1.6	1.3	1.3	2.0
Mitsubishi	2.8	3.1	2.4	2.0	2.8

Of course Japanese manufacturing companies are not without their blemishes. The inaction of the past 10 years has resulted in much wasted investment and this is best highlighted by the problems currently afflicting the large technology companies such as NEC and Toshiba. These companies once epitomised Japanese economic progress and were held in high esteem for their technical and manufacturing excellence. They harnessed the energy of their employees to move from business to business and drive the Japanese economic miracle. However they have become top heavy and once others had mastered their tricks in manufacturing their relative competitiveness dwindled. The end result are corporate dinosaurs employing too many people and making too many products. We would estimate that the companies have to shrink their sales by 30-50% to make them viable. As the table above shows, both Toshiba and NEC have been pushed to the verge of bankruptcy (these numbers would be worse if we adjusted for intangibles, making NEC technically insolvent!).

This is not to say that there are no good qualities in these companies. They have great technical depth but this is suffocated by an overlay of debt and unprofitable businesses. It is also troubling that they do not seem to fully appreciate the extent to which they have lost choices. When we visited Toshiba it was apparent that after initially having some success in the late 90s with restructuring, they felt that they had done enough by laying off 10% of the workforce and exiting D-rams in the past year. The problem with this is highlighted in the table below. The semiconductor business is seen as one of the core businesses of the Japanese technology majors and for Toshiba, it is their main business. R&D and capital spending is the life blood of semi-conductors yet the Japanese companies have pushed themselves so close to the edge that they can't continue to invest to support the current level of sales. As the table illustrates, the big five are spending less than Samsung this year to support sales that are more than three times as large! What's more, they are doing it in businesses where their individual market shares are very low which makes it very difficult to ever make high returns.

COMPARISONS OF SEMI-CONDUCTOR BUSINESSES (US$BN)

	2001	2002 est
Sales		
Big 5 Japan	31.0	36.2
Samsung	7.4	11.2
Operating Profit		
Big 5 Japan	-5.8	-0.3
Samsung	0.6	2.7
Capex		
Big 5 Japan	5.1	2.7
Samsung	2.1	2.8

Our feeling is that a huge wakeup call will be delivered to corporate Japan through the inevitable failings of these companies and that this could reshape fundamental beliefs within the country. Whether it is through bankruptcy (unlikely as the government will underwrite the companies) or radical restructuring (more likely), these companies will be changed forever. In many ways Korea is a great leading indicator for what will happen. We can liken Toshiba and NEC to the failed chaebols Daewoo and Hyundai and highlight Samsung Electronics as the guiding light for what can be achieved if the hard measures are taken.

The general impression from our meetings was that the larger companies, which have huge employment burdens, are doing little to cut these costs aggressively. However NTT surprisingly seemed to be adopting a more aggressive approach. It is always hard to exactly pinpoint why some Japanese companies choose to change but it seems in NTT's case that operating losses in the fixed line business have finally spurred a reappraisal of employee salaries within the company. The source of NTT's problems is not so much the number of employees, which at 213,000 is in line with international comparables, but rather the amount they are paid; on average of 11 million yen or A$160,000 per annum. To reduce these costs the company has instituted the following measures:

1) All employees over the age of 50 (100,000) will have their salaries plus bonus cut by 26%. This saves the company ¥286 billion per annum although it will pay lump sum payments over three years totalling ¥567 billion as compensation. In addition retirement age will be extended to 65 from 60.
2) The company is tightening up on employee benefits such as low rent housing and special payments for telecom services. This will save ¥20 billion per annum.
3) 4,400 people will take early retirement in the March 2003 year at a one off cost of ¥48 billion.
4) The company is also continuing to cut capital expenditure and sell off real estate holdings.

The sum total of employment cost savings are ¥354 billion per annum which accounts for about 14% of total employee costs. Depreciation will also fall heavily as capital expenditures have been cut from 26% of sales to 20% in the last three years. This heavy cut to fixed costs is underwriting a thriving free cash flow position and improvements in operating earnings. Given the beating the stock has taken over the past two years these are encouraging trends. Longer term the company is well positioned in fibre to the home internet solutions although for the present ADSL seems to have the running and there is strong price competition. However this seems to be abating as the main culprit, Softbank, is in financial difficulty. To become more positive we would need to see the company enunciate a strategy which targets a return on capital in the fixed line business above its cost of capital.

A common myth about Japan is that one shouldn't invest there because of the ageing population and consequent lack of economic growth. Of course, this argument could be applied to most western countries and hence really serves as a convenient excuse to attack the failings of the Japanese economic system. Rather than address the complex argument about ageing and growth, it is clear that the argument masks the underlying dichotomy within the economy and hence the opportunities created for stock pickers.

There is a large pool of young people in Japan and their spending habits are as progressive and novel as anywhere else. They pioneered SMS, love blonde colourants, are glued to MTV and are developing a passion for credit. We believe that any portfolio in Japan should take account of this younger generation and try to identify the types of industries that benefit from their spending patterns. By contrast the older generation will struggle with the broken social contract and will suffer from inadequate pension funding. The government is also talking about changes to gift taxes, which if enacted could lead to a diversion of wealth to the young.

Along a similar theme we are interested in those companies in the newer industries that don't play by the old rules of corporate Japan. They tend to be run by younger executives who speak English and are open to foreign ideas. A good example of this is the temporary employment firms.

Outlook

We are relatively optimistic about Japan and Korea because we see a structural change toward higher corporate profits in their economies. The biggest problem is clearly the impact on exports of the fallout from the adjustment of US economic imbalances. If the US consumer retrenches, these markets will take a further downward adjustment.

However, we are positioning the portfolio on the basis of modest growth in the US and Europe. There is a bias towards domestic growth stocks in both Japan and Korea, although select high quality export names will be bought on weakness. We would become fully invested if the markets decline further from current levels.

Jim Simpson
Portfolio Manager