



PLATINUM ASSET MANAGEMENT

# The Platinum Trust Quarterly Report

31 March 2004

Incorporating the:

International Fund

Asia Fund

European Fund

Japan Fund

International Brands Fund

International Technology Fund

|                               |         |  |
|-------------------------------|---------|--|
| International Fund            | Page 4  | There are many reasons for optimism, yet Kerr points to the dangers lurking with the preponderance of yield curve carry bets |
| Asia Fund                     | Page 9  | In all the excitement about China, the role of Taiwan seems overlooked   |
| European Fund                 | Page 12 | The geographic expansion of the EU opens up new markets but threatens some jobs  |
| Japan Fund                    | Page 16 | As foreign investors discover the emerging attractions of Japan, Jim delights in the technical innovations led by Toyota     |
| International Brands Fund     | Page 21 | Simon reminds us of the cost pressure building within some branded goods suppliers   |
| International Technology Fund | Page 25 | Alex takes us through some of the current intellectual property issues   |

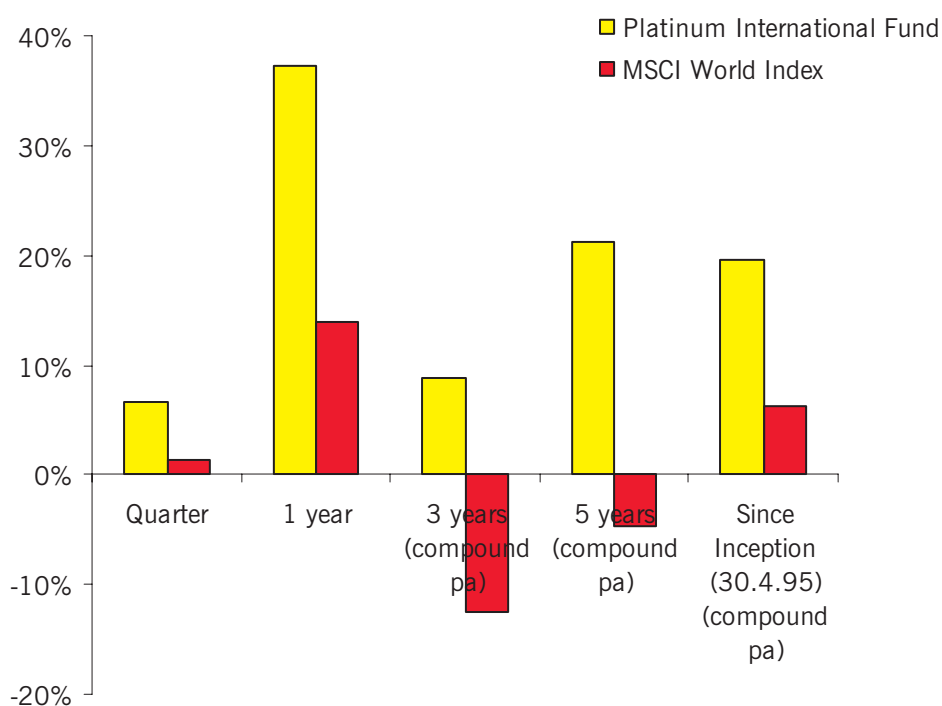
**Birthday: We are proud to announce the passing of our tenth year as a global fund manager (who happens to be based in Sydney)**

## PERFORMANCE RETURNS TO 31 MARCH 2004

| Fund                                 | Fund Size | Quarter | 1 year | 2 years<br>(compound<br>pa) | 3 years<br>(compound<br>pa) | 5 years<br>(compound<br>pa) | Since<br>Inception<br>(compound<br>pa) |
|--------------------------------------|-----------|---------|--------|-----------------------------|-----------------------------|-----------------------------|--|
| <b>International Fund</b>            | \$4,381mn | 6.7%    | 37.2%  | 6.0%                        | 8.9%                        | 21.3%                       | 19.5%                                  |
| MSCI * World Index                   |           | 1.3%    | 13.9%  | -12.7%                      | -12.6%                      | -4.6%                       | 6.2%                                   |
| <b>Asia Fund</b>                     | \$197mn   | 2.3%    | 49.6%  | (launched March 2003)       |                             |                             | 50.1%                                  |
| MSCI Asia ex Japan Index             |           | 6.3%    | 35.7%  |                             |                             |                             | 29.9%                                  |
| <b>European Fund</b>                 | \$139mn   | 6.2%    | 46.2%  | 5.0%                        | 5.3%                        | 23.3%                       | 16.8%                                  |
| MSCI European Index                  |           | -0.4%   | 21.9%  | -10.6%                      | -11.5%                      | -3.9%                       | -3.8%                                  |
| <b>Japan Fund</b>                    | \$147mn   | 12.8%   | 50.3%  | 12.7%                       | 8.9%                        | 21.6%                       | 26.6%                                  |
| MSCI Japan Index                     |           | 13.6%   | 34.4%  | -1.7%                       | -11.5%                      | -3.2%                       | 0.1%                                   |
| <b>International Brands Fund</b>     | \$99mn    | 1.6%    | 25.4%  | 4.7%                        | 11.5%                       | -                           | 14.5%                                  |
| MSCI World Index                     |           | 1.3%    | 13.9%  | -12.7%                      | -12.6%                      |                             | -12.1%                                 |
| <b>International Technology Fund</b> | \$62mn    | 8.5%    | 51.8%  | 4.9%                        | 6.9%                        | -                           | 15.2%                                  |
| MSCI World Technology Index          |           | -0.6%   | 20.2%  | -18.3%                      | -19.5%                      |                             | -30.0%                                 |

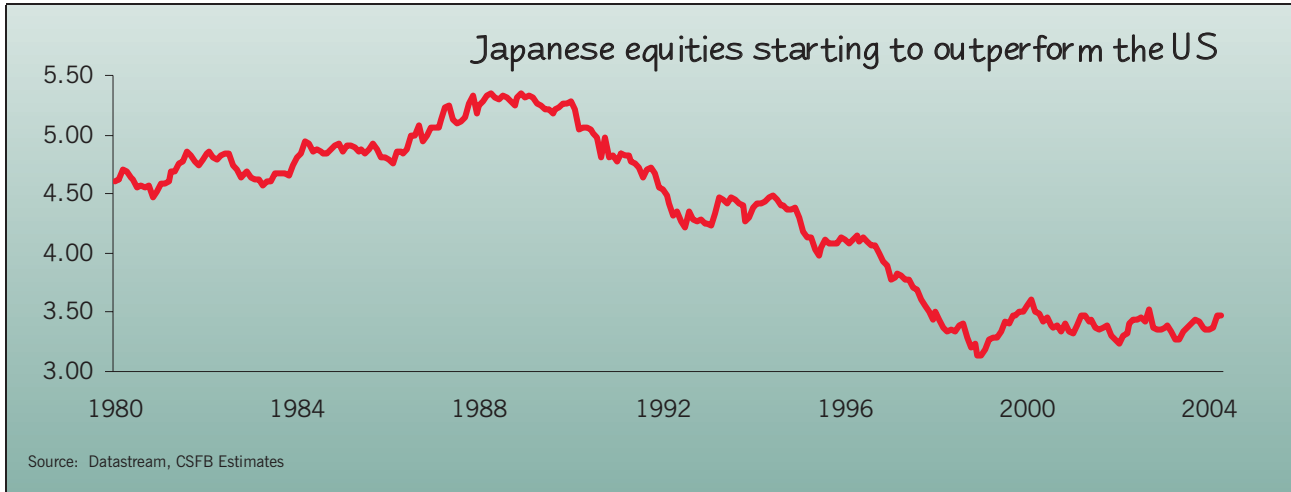
\* Morgan Stanley Capital International  
Source: Platinum and FactSet Refer to Note 1, page 29

## PLATINUM INTERNATIONAL FUND VERSUS MSCI WORLD INDEX (TO 31.3.04)



Source: Platinum and FactSet Refer to Note 1, page 29

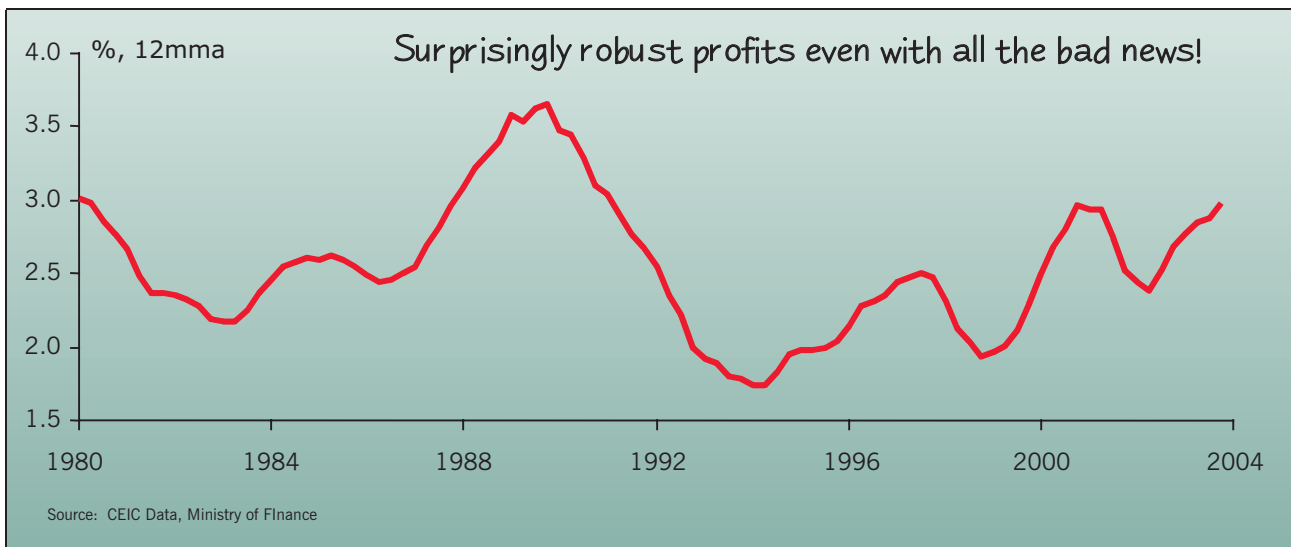
**RATIO OF JAPANESE TO US REAL EQUITY RETURN INDICES (local currency)**



**CUMULATIVE NET PURCHASES OF JAPANESE EQUITIES SINCE JANUARY 2000**



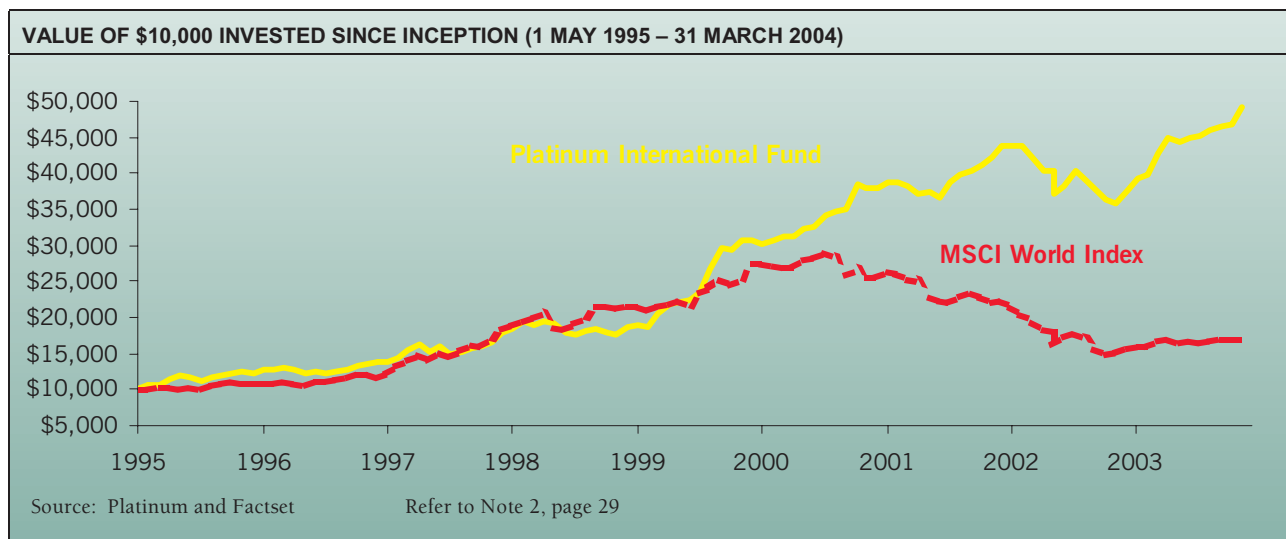
**JAPANESE CORPORATE CURRENT PROFITS AS % OF SALES**



# Platinum International Fund

## Performance

REDEMPTION PRICE: \$1.8620



There is not a single share market that has not risen in the last twelve months. Looking at them in their local currencies, we find the wildest being the Caracas exchange which is up 263%, while the tamest is the UK, up only 27%. The pattern which we noted last quarter of

the emerging markets tending to outpace the traditional markets continued in the March quarter but there was some hesitation with China, India and Thailand retracing some ground in the last month. Converting everything back into the relatively strong A\$ (which has risen 27% versus the US\$ in the last 12 months), we find the MSCI World index 14% higher than a year ago and 1% higher than at the beginning of 2004. (In US\$ these figures are 44% and 3% respectively).

By industry categorisation, investors were more ambivalent than earlier tending to run hot and cold on pro-growth versus defensive plays. Hence, materials and IT, which had been very strong lost some momentum versus defensives like utilities and consumer staples.

It has been an interesting time for fund managers as volatility in shares as well as currencies provided great opportunities as well as hazards. Fortunately we made more good choices than bad and

### MSCI WORLD INDEX – INDUSTRY BREAKDOWN (A\$)

| Sectors                | Quarter | 1 year |
|------------------------|---------|--------|
| Materials              | -3.2%   | 20.6%  |
| Financials             | 2.0%    | 20.5%  |
| Information Technology | -1.2%   | 19.7%  |
| Consumer Discretionary | 0.9%    | 16.7%  |
| Industrials            | 0.1%    | 15.9%  |
| Utilities              | 3.3%    | 6.7%   |
| Telecommunications     | -1.2%   | 6.7%   |
| Energy                 | 0.3%    | 3.5%   |
| Consumer Staples       | 2.3%    | 2.2%   |
| Health Care            | -2.8%   | -6.4%  |

Source: Bloomberg

outperformed the markets by over 5%. Stock selection was the main differentiator but it was important to recognise the effect China would have on the commodity prices and on igniting Japan's recovery, and to position the currency exposure accordingly.

## Currency

The strength of China's growth together with the billowing US trade deficit have been important factors in the currency markets. As we noted last quarter, the US dollar was conspicuously friendless and this together with other factors encouraged us to introduce US dollars into the Fund in mid-January,

for the first time since mid-2001. We also cut back further on the A\$ and the euro in favour of the yen. This is a significant shift in our view about the yen and reflects the export momentum the country is deriving from Asian trade.

## Changes to the Portfolio

| DISPOSITION OF ASSETS             |          |          |
|-----------------------------------|----------|----------|
| Region                            | Mar 2004 | Dec 2003 |
| Japan                             | 31%      | 26%      |
| Western Europe                    | 28%      | 31%      |
| Emerging Markets<br>(incl. Korea) | 15%      | 14%      |
| North America                     | 11%      | 12%      |
| Australia                         | 2%       | 1%       |
| Cash                              | 13%      | 16%      |
| Shorts                            | 29%      | 26%      |

Source: Platinum

The changes to the portfolio resulted in more exposure to Japan and slightly less to Europe. In terms of economic sensitivity there was a slight shift away from cyclical companies towards more defensive companies. Again this came out of valuations more than an overt desire to become more defensive.

Among the big sales were the removal of Munich Re, Allianz AG, Hellenic Telecom and Weyerhaeuser. The German financials proved to be highly profitable purchases which took advantage of the market's over-reaction in last March's panic. Even now they are defensible holdings but we felt that having nearly doubled they have served us well. The Greek telco, Hellenic, is a less satisfactory story. This we bought in the days of irrational exuberance feeling that it was neglected and its mobile business under-appreciated. Versus other telcos it has been fine but in absolute terms it cost us money. Weyerhaeuser has responded well in a more growth-secure world.

Apart from topping up many of our existing positions we introduced some new holdings: Credit

Agricole, Newscorp, Docomo, NEC and Toyota.

The attraction of **Credit Agricole** stems from its central position within the French banking system. This is an extremely large enterprise encompassing Credit Lyonnaise, the life insurance business of Predica, a funds management business with assets of euro 350 billion and 25% of the *caisses régionales* of France. On paper it looks to be capital deficient yet much depends on the interpretation of the unique holding structure which allows considerable devolution of power to the *régionales* and yet remarkable privileges to the Centre. Overall the group controls assets in excess of Euro 1 trillion. Recent results show the benefits of the integration of IT systems and the early results from cost cutting. There is still a lot to come so by the time Basel II's new guidelines on capital adequacy come into force, we believe capital adequacy will not be a problem.

We see **Newscorp** as a bi-polar company. On the one hand it has all the virtues of the cash generating businesses of newspapers, TV and other content production. However, to cement the company's position on the distribution networks, Newscorp faces what the market judges to be an endless stream of losses and/or the danger of embarking on yet another crusade to embed its global model. Having now secured control of DirecTV and Telepiu in Italy, we anticipate an acceleration of profit growth. This should emerge as losses from these new ventures diminish and the leverage over content pricing improves. Against the peer group, Viacom, Comcast, Disney and AOL, this company, together with Liberty (its principal non-family shareholder), is very attractively priced.

**Docomo** along with most telcos has been severely beaten by investors. Just as the internet dream springs to life, we find the share languishing as investors chase Japanese companies with stronger profit momentum. We however remain attracted to

the dream of internet ubiquity which is promised by 3G technology. Docomo commitment to R&D (US\$1 billion pa) has earned it the place as the leading implementer of this broad band mobile. Last month alone it signed up 700,000 new broad band subscribers bringing the total to three million. Assisting sign-up from here will be the availability of a broader selection of just-released handsets. The trick will then lie in “clipping the ticket” as users discover the growing array of applications, from booking theatre tickets to news-clip streaming.

A long story can be told about Toyota but the essence is that it has never been stronger and yet it

has virtually never been cheaper. As many of its peers have been out-sourcing and restructuring, Toyota has been pioneering hybrid electric autos while at the same time developing its own fuel cell solution. It is gaining market share in almost all the principal markets and is not burdened by the legacy costs that face its two giant US competitors. While they are resorting to extravagant marketing deals to eke out meagre net margins of 1-2% on sales, Toyota is operating at record profitability, earning 5-6% net on sales.

| BREAKDOWN OF FUNDS' LONG INVESTMENTS BY INDUSTRY (% OF ASSETS) |   |          |          |
|--|---|----------|----------|
| Categories   | Examples of Stocks  | Mar 2004 | Dec 2003 |
| Cyclicals/Manufacturing  | Toyota Motor, Schindler, Siemens, Linde, Océ  | 22%      | 22%      |
| Financials   | Credit Agricole, Credit Saison, Mitsubishi Tokyo Financial, Mitsui Sumitomo Insurance, Nordea | 16%      | 13%      |
| Technology/Hardware  | Agere, Infineon Tech, Samsung, AMD, Sun Microsystems, NEC                                     | 9%       | 9%       |
| Medical  | Takeda, Schering, Novartis, Merck KGaA, GlaxoSmithKline                                       | 8%       | 8%       |
| Gold and Other   | Shell, Barrick Gold, Newmont Mining, Gold Fields, Noranda                                     | 7%       | 11%      |
| Consumer Brands  | Henkel, Adidas Salomon, Lotte   | 7%       | 7%       |
| Software/Media   | Sky Perfect Communications, Seoul Broadcasting, Newscorp                                      | 7%       | 6%       |
| Retail/Services/Logistics                                      | Veolia Environ., Deutsche Post, Hornbach, Mitsubishi Corp                                     | 7%       | 5%       |
| Telecoms   | Ericsson, NTT, Docomo   | 4%       | 4%       |

Source: Platinum

## Commentary

Zaitech and Tokkin funds epitomised the closing period of the Japanese bubble of the late eighties. The equivalent today is the explosion of hedge funds and the captivating allure of the yield curve carry (borrowing at present ultra-low rates and investing in longer term riskier assets). As was experienced in the heyday of Zaitech there was a real danger of calling off the party too early. At the time the perfection of the story surrounding land price appreciation, tightening cross holdings and the apparent advantages cheap credit and high stock valuations gave to the Japanese banks, trading houses and brokers, created an impenetrable shield to critical analysis. To get a bigger and better participation of the action, companies set aside special (tax protected) funds to play the market. At the height of the boom, the great trading houses carried \$9 or \$10 of debt for each \$1 of shareholders

equity. At the same time property developers and other adventurers were hoovering up property everywhere, golf courses in America, beach resorts in the Pacific etc, allowing some remarkable perspicacious Australian bureaucrat to sell part of the Tokyo embassy's grounds for US\$450 million (equivalent to US\$19,000 per square foot!!).

If there is a parallel today, it perhaps surrounds the idea that untrammelled market forces are the origin of economic “success”. The concept is that economic reform to the markets has diminished the friction within the system to ensure accurate and timely reading of supply and demand to optimise resource allocation. This seems eminently sensible. However, the argument is then extended to explain the apparent superiority of the performance of the Anglo Saxon countries. The fact that this has been fuelled by a more than doubling of personal debt over the

decade, which is reflected in vast current account deficits and generally decaying social infrastructure, is brushed aside as part of this market efficient paradigm. No good explanation seems to be necessary for the leap in real housing prices, nor is there much commentary of how persistent current account deficits will not ultimately result in diminished living standards. For now, the model is assessed as excellent and such blemishes that the pessimists perceive are merely side shows to the central event.

Turning to the present focus of market participants. Growth seems well entrenched with the last piece of the US recovery puzzle falling into place with the publication of the March employment report. Further, the broadening of the global economic expansion is taking place against a back-drop of seeming **equilibrium between the forces of inflation and deflation**. Price competition from Asia is exerting downward pressure on manufactured goods prices, as well as some services, while exuberant demand from Asia is lifting the price of many raw material inputs to recent year highs. This together with central bank intervention in the currency markets has permitted interest rates to stay at low levels and to create the impression that the risk of a change in interest rates is far off. Like all exciting bull markets, the longer the trend has been intact the more adherents it attracts. Better still it creates the illusion in some minds that they alone will be able to adjust their position ahead of the others when the trend does indeed change.

We have written before about the **leverage in the US financial system** but the more we look, the more wary we become. Who would have thought that an industry that is more fragmented and hence more competitive than its European counterpart, would earn approximately two times the income on assets employed. The reason for this is principally the higher credit risk and the fact there is a preponderance of refinancable borrowing supported by floating funding. This has not caused problems to date because of the primary downward trend of interest rates, but now with short rates at 1%, further falls will likely compress margins. Alternatively if rates were to rise, mortgagees would stay put while lenders would crowd to refinance their funding.

Our work suggests that many thrifts are more than twice as leveraged to the yield curve as they were in 1994, the last time that interest rates rose sharply.

The last time interest rates rose more than a few percentage points was 1983 when interest rates were deregulated and the Fed Funds rate rose more than 5

percentage points. This left many thrifts near insolvency which the government “solved” by relaxing lending guidelines which ultimately led to a larger “savings and loans crisis” in the early 1990s.

Funded with floating rate borrowing, thrifts are once again tempting fate by purchasing large quantities of an assortment of securitised instruments. This mismatch of duration is highly profitable - so long as interest rates do not rise. Most thrifts are levered something approaching 20 times their tangible capital with some holding more securitised assets than traditional loans. We think it possible that many currently highly valued small banks will be severely squeezed (even imperiled) if interest rates rise. They can also be squeezed (but not imperiled) if interest rates fall and the yield curve flattens.

We also know of an internet stockbroker that sweeps excess funds from its clients to lend to buyers of mobile homes. Again there is a fixed/floating interest rate game being played, but most delectably the lender is providing for only half a percent of credit losses when losses in this industry are more typically 4-5 per cent.

Very low interest rates have allowed the relaxing of **credit standards** as well. Some auto finance companies have been equally generous with their terms - now even extending *interest free* loans for more than the sticker price and for as long as 72 months. The customer you attract with a 72 month zero interest loan is much more sensitive to the monthly payment than the customer you attract with a 36 month zero interest loan. This fall in credit standards has (temporarily) increased the addressable market but at some stage the arithmetic of the subsidies will disentangle itself.

This seeming obsession with interest rate and credit risk arises from the potential dangers it creates for the capital markets and also the opportunities for short selling. Half of our shorts are geared to these risks. It also has implications for our currency positions.

Were it not for the above, we would address the markets with greater equanimity. As we have mentioned before, we believe China and India will continue to experience abnormally strong growth for some years - even when hitting various speed bumps. This in turn is pulling sophisticated machinery exports out of Japan, Korea and the West and helping to bolster their recoveries. Commodity prices are responding to near term shortages and ameliorating deflationary fears though simultaneously squeezing some companies' profits.



## Conclusion

In coming months it seems likely that there will be less discussion about the "recovery" and the focus may shift to the rise in interest rates and perhaps inflation. It is also likely that China will be running a trade deficit thus diminishing discussion about a

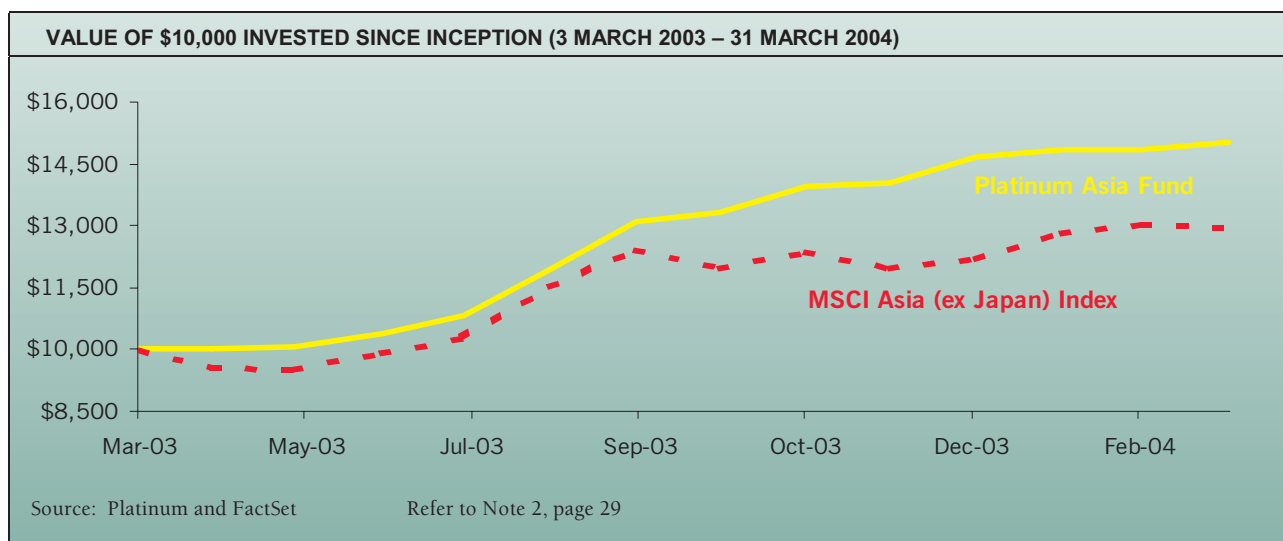
revaluation and the pressure may move to the yen. Valuations, and the concerns we have expressed above relating to credit and interest risks, may cause a decoupling of stock markets.

Kerr Neilson  
Managing Director

# Platinum Asia Fund

## Performance

REDEMPTION PRICE: \$1.4876



The Asian markets experienced a reversal of fortunes during the latest quarter with the larger more mature markets of the region such as Korea (up 15%), Taiwan (up 7%), and Hong Kong (up 7%), leading the way. Meanwhile the previously high-flying markets of China (down 3%), India (down 6%), and

Thailand (down 13%) fell over the period. After enormous runs in 2003, these markets were weighed down by the inevitable arrival of new supply of shares in the form of new listings and secondary issues, rather than any fundamental deterioration in underlying economic conditions. In the case of Thailand, the Avian flu and the declaration of martial

law in the southern provinces (an important tourist area) in response to unrest, were additional weights on the market.

The MSCI Asia Ex Japan index rose 6.3% in A\$ terms. By comparison the Fund appreciated by only 2.3%, with our Indian and Chinese “H” share holdings the major detractors from performance. Fortunately short positions in the Indian and H Share stock market indices offset some of these losses. The bright spot for the portfolio were new holdings in the Taiwanese market such as Polaris Securities (stockbroking) and Taiyen Biotech (cosmetics). ZTE Telecom (China, telecom equipment) also performed strongly on the back of an improving order book. Over the last 12 months the Fund returned 49.6% versus the MSCI Asia ex Japan index return (in A\$) of 35.7%.

## Changes to the Portfolio

The key change to the portfolio over the quarter has been our Taiwanese companies, which account for 12% of the portfolio. Yuanta Securities and Polaris Securities are two of Taiwan’s leading stockbrokers. The securities business in Taiwan is highly fragmented and highly competitive (retail commissions are less than 0.15%). However consolidation is occurring at a rapid pace, and deregulation of the financial sector is providing new product opportunities for the brokers such as

managed funds and derivatives. Although the market volumes were strong in 2003, this was predominantly driven by foreign investors. As the domestic economy recovers we would expect retail investors to return to the market and as a result the profits of Polaris and Yuanta should improve dramatically. Our initial purchases were made at small premiums to book value.

Giordano (apparel retailer) was sold having reached price targets as was Zee Telefilms (India, cable TV). The portfolio continues to run short index positions in India and the China H shares as the weight of new issues continues to hang over these markets in the short term.

| DISPOSITION OF ASSETS        |            |            |
|------------------------------|------------|------------|
| Region                       | Mar 2004   | Dec 2003   |
| China                        | 4%         | 3%         |
| Hong Kong – China H shares * | 8%         | 11%        |
| Hong Kong                    | 2%         | 4%         |
| Taiwan                       | 12%        | 0%         |
| <u>Greater China</u>         | <u>26%</u> | <u>18%</u> |
| India                        | 36%        | 46%        |
| Korea                        | 13%        | 9%         |
| Indonesia                    | 5%         | 7%         |
| Thailand                     | 4%         | 6%         |
| Singapore                    | 3%         | 2%         |
| Malaysia                     | 1%         | 2%         |
| Cash                         | 12%        | 10%        |
| Short                        | 14%        | 6%         |

Source: Platinum \* H shares are shares of Chinese State companies listed in HK

## Outlook

One market of particular interest to us currently is Taiwan. With many of the largest companies in Taiwan being in technology related businesses, the market has traditionally been viewed as a play on the fortunes of the global technology sector. And indeed the Taiwanese market and economy did suffer through the collapse of technology spending and Nasdaq. However, we would suggest that a more appropriate way of looking at Taiwan is as the industrial capital of China. Taiwanese companies are providing critical ingredients of management and intellectual property without which Chinese manufacturing would have struggled to achieve the level of success it has had in certain fields such as computing and communications.

The pre-eminent example of Taiwan's contribution to the mainland's manufacturing success is the "original design manufacturing" (ODM) companies. Companies such as Quanta and Compal, not only manufacture laptop computers for the likes of Hewlett Packard and Dell, but their own engineers also provide the designs for products for these brand names. In laptop computers it is estimated that 60% of world output is provided by the Taiwanese ODM's, over half of which are assembled in their Chinese plants. Given that there are significant design issues in laptop computers (eg. size, weight,

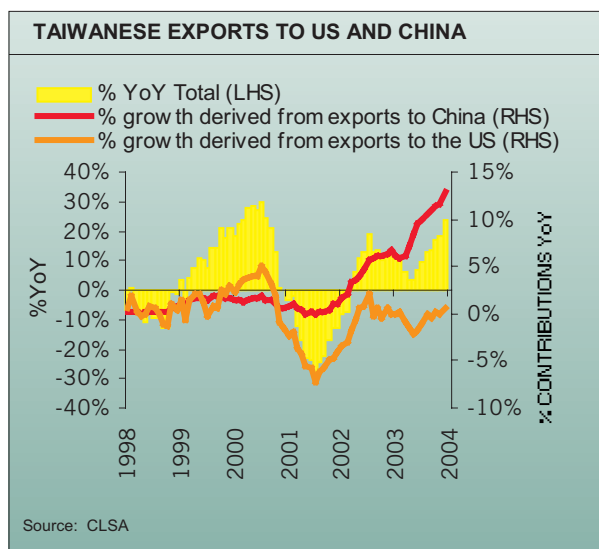
battery life, heat dissipation) this is an impressive achievement. It is unlikely that such products would be manufactured in China without the input of Taiwanese engineers and plant managers. Taiwanese ODM's provide design and manufacturing services across a wide range of electronic products from PC motherboards, to optical drives (ie. DVD and CD drives), and mobile phone handsets.

Another interesting example of Taiwanese expertise benefiting China is found at Semiconductor Manufacturing International Corp (SMIC), China's first semiconductor foundry business. Recently listed in the US market, SMIC is operating an 8" wafer line in Shanghai and has a leading-edge 12" line under construction in Beijing. Customers include leading semiconductor companies such as Infineon, Samsung, and Texas Instruments. Being a capital-intensive business, China offers little advantage in semiconductor manufacturing and suffers the disadvantage of not having the required skilled labour force. Taiwan again fills the gap, with around one-quarter of SMIC's Shanghai labour force being expatriate Taiwanese.

Taiwanese businesses outside of the technology and manufacturing arena have also been amongst the most successful foreign investors in China. Uni-President and Tingyi (a Hong Kong listed company

with Taiwanese parentage) have created and dominated the packaged instant noodle in China. South-East Motors is one of China's leading auto producers (over 83,000 vehicles sold in 2003) which was established by China Motors of Taiwan. Of the Taiwanese companies we have studied, there are few that are not seeking to take advantage of opportunities in China in one fashion or another, many with considerable success.

Since 2000, economic growth in Taiwan has been anaemic despite China's booming economy as a result of the declining global spending on technology equipment. With this trend coming to an end in 2003, the Taiwanese economy should experience much stronger growth as the benefits accrue from its role in China's manufacturing boom. Indicators such as the property market, auto sales, and business investment confirm the turnaround in the domestic economy. Perhaps the most telling indicator is exports, which show Taiwanese exports to China growing at 128% over the last 12 months while exports to the US have only grown 3%.



The one concern remains the recent election result where the incumbent President Chen was returned to power by the narrowest of margins. If President

Andrew Clifford  
Portfolio Manager

Chen survives a promised recount of the vote and puts a referendum on Taiwan's independence to the vote, the market will be watching China's response with rapt attention. It is difficult for us to add much to the long running debate over Taiwan's political future, but would observe that Taiwan is an important asset to China, and that as China's economy continues to open, its trading links with the world become more critical. As such, any overt aggression toward Taiwan seems an unlikely possibility.

Our current focus is on companies that will benefit from the expected resurgence in Taiwan's domestic economy. Companies that have been added to the portfolio include stockbrokers, auto distributors, a cosmetics business, and an electrical goods retailer, all of which are trading on very attractive multiples of earnings. Generally we would be inclined to avoid many of the technology related and manufacturing concerns that are listed in Taiwan as these typically operate in highly competitive markets.

Elsewhere, the debate rages as to whether the Chinese economy will slow or even bust this year. Indeed Chinese leaders have made various statements about the need to slow the economy, but due to the fixed exchange rate policy, the government has few policy options available. Recent months have not shown any particular signs of slowing, nor can we observe any particular obstacles that should slow this economy for the moment.

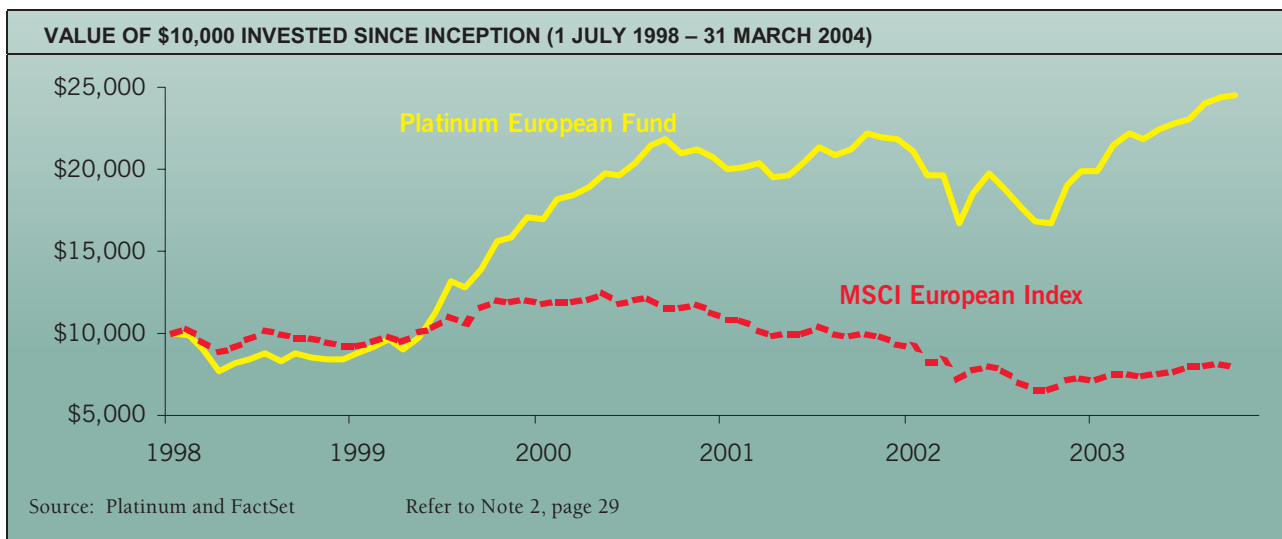
India continues to pick up momentum with capital spending rising strongly. Strong capital inflows are putting downward pressure on interest rates providing even further impetus to growth. Polls for the April election are showing the BJP government should be returned to power.

Overall, the outlook for Asia is as bright as ever and although selectivity remains important, valuations are perfectly sensible.

# Platinum European Fund

## Performance

REDEMPTION PRICE: \$1.8313



### European markets little changed, reflecting tricky economic prospects

European stockmarkets were marginally higher over the three months to 31 March: a rally in January was largely reversed in March. Interestingly, while an index of the 50 largest companies (by market value) was flat in the period, a broader index of 500 stocks was up 3%. An optimistic explanation is that this reflects good “breadth” in the market (an encouraging technical indicator); consideration of the institutional perversion in markets, however, means it is more likely that fund managers are chasing smaller stocks simply because smaller stocks have performed well in recent quarters. The MSCI Europe index was +1% (euro) in the March quarter.

Telecom equipment as a group jumped up 30% (Ericsson +62%, Alcatel +26%, Nokia +21%), but the only other notably strong sectors were gas (+15%), real estate (+14%) and tobacco (+12%). The worst performing sector was the autos index which lost just 5% (most of which was Volkswagen -19%); many sectors were plus or minus 3% in what was one of the more sedate quarters in Europe for many years. This may reflect the mixed economic prospects around the world. The message that seems to be coming from the macroeconomic data is that the US is seeing some impact from its policy combination of

emergency low interest rates and fiscal profligacy (though commentators have been puzzled by the atypically slow employment response). Europe, by contrast, continues with subdued economic prospects, as unemployment and limited corporate capital expenditure mean that once again rate cuts are anticipated from the ECB in coming months.

The euro, having trended stronger against the US\$ for 2002 and 2003, moved a little higher (into the high 1.20s) in January before drifting back to finish the quarter at US\$1.23. This has been an uninspiring US\$ revival after two years of declines, and perhaps suggests that the “reserve currency” may be yet to find its nadir. We have noted on several occasions that the Australian dollar has traded in a narrow band of euro 54-62c since late 2000; this quarter the A\$ moved to the higher end of that band, thus wiping out the gain by the MSCI Europe index when measured in A\$.

The Platinum European Fund advanced 6% for the quarter as the strong performance from Ericsson complemented solid performances from some of our larger holdings such as Schindler (elevators/escalators, +22%), German Merck (chemicals, +16%), and Novozymes (industrial enzymes, +14%). We had some benefit from the modest hedge into the A\$, good performances from some of the smaller companies in the Fund (which we have been selling into the general enthusiasm for small caps referred to above), and some profits from short positions – especially on the German DAX index during March.

For the twelve months to 31 March 2004, the Platinum European Fund advanced 46%, while the MSCI Europe Index, measured in A\$, was up 22% in that time (February/March 2003 marked a recent low point in European markets).

**Eastern Europe (and Asia) – good for Western European companies but probably not for Western Europe**

The 1996 crop of annual reports from the Europe-based multinationals tended to feature, boldly in the opening pages, the business being done in Asia. Proud statements were made about 20%+ sales growth in (or to) the region, even if Asia accounted for just a few percent of a company's overall activities. In the subsequent years, as the "Asia crisis" ended the illusion of riskless Asian growth, the Europeans devoted themselves to their own backyard (and, in many cases unwisely, to investment opportunities in the US). Ever greater integration among EU countries, including the launch of the common currency in the late 1990s, meant that consolidation in Europe was a sensible and useful focus.

Today, however, the annual reports penned in early 2004 are starting to arrive, and they once again have an eastern mysticism to them. This time, however, there is more of a balance between the Europeans' "near east" (including the ten countries being welcomed to the European Union club in the coming weeks), and the "further east". And, there is more of a focus on shifting production rather than merely exporting to, or expanding sales efforts in, Asia and Eastern Europe.

A consideration of the position and actions of electro-engineering giant Siemens illustrates the differential prospects for Germany versus German companies. The company employs around 414,000 people worldwide, of whom 60% are outside Germany. Recent reports from Bavaria indicate that Siemens wishes to either cut (another) 10,000 jobs (of which 5,000 are in Germany), or increase the

work week from 35 (!! ) hours to 40, while abolishing Christmas and holiday bonuses. This (credible) threat reflects and illustrates a number of things: the company has plenty of orders, and yet sees itself as having spare (labour) capacity (relative to *potential*). Secondly, it suggests that the perplexing political stalemate in Berlin is not necessarily stopping the major companies from attempting their own labour market reform. And third, the small part of the week Germans actually use for working, highlights the probability that, with China and Poland (rather than Sweden or Northern Italy) as the relevant marginal competition, the undermining of the privileged position of European employees is only in its early stages. Siemens itself, however, sails on with steadily improving profitability, and its unwavering commitment to research and innovation continues to generate strong sales growth and thus the ongoing internal renewal of this giant.

The admission of the ten eastern European countries to the European Union (with the market access, integration and greater stability implied) in the coming weeks means that the shifting of production to Poland, Hungary etc will continue. It augurs poorly for the old east German parts of today's Germany however – Chancellor Helmut Kohl's "gift" of wage equalisation a decade ago has meant east German workers are lost in the middle ground – hopelessly expensive relative to their Polish cousins, far less productive than their (west) German colleagues. On the other hand, the "near east" has its own concerns: already we hear reports that for example some car parts being made in Czech and Hungary could be produced even more cheaply further east (whether "further east" refers to the countries of the former Soviet Union, or east to India/China is not yet clear).

Thus overall we can see little reason to anticipate a European domestic economic boom, but note at the same time that many Europe-based multinationals have reason for optimism.

| BREAKDOWN OF FUND'S LONG INVESTMENTS BY INDUSTRY (% OF ASSETS) |                                 |          |          |
|--|---------------------------------|----------|----------|
| Categories   | Examples of Stocks              | Mar 2004 | Dec 2003 |
| Miscellaneous Services   | Deutsche Post, SGS Surveillance | 15%      | 17%      |
| Pharmaceutical/Biotechnology                                   | Novozymes, Novartis             | 14%      | 11%      |
| Chemicals/Materials  | Linde, Merck KGaA               | 12%      | 11%      |
| Tech/Media   | Ericsson, Infineon Tech         | 11%      | 8%       |
| Retail   | Hornbach, Douglas               | 9%       | 12%      |
| Consumer   | Adidas, Henkel                  | 9%       | 8%       |
| Capital Goods  | Océ, Schindler, Siemens         | 7%       | 11%      |
| Financials   | Credit Agricole, Nordea         | 5%       | 7%       |

Source: Platinum

### Several changes to the portfolio; tricky prospects reflected in cautious positioning

Early April data shows a good improvement in US employment, and UK house prices up 19% for the year to March (the Bank of England has been raising rates). The euro has been drifting off – a little against the US\$, somewhat more versus the yen. The central bank of Sweden cut rates on 1 April, and the ECB may well do the same at its next meeting. In theory, we have the ingredients for a “decoupling” of (continental) European stock (and bond) markets from the Anglo markets. In practice, the nearly one for one correlation between European markets and Wall Street continues. At the same time, we find plenty of reasonably priced stocks in Europe (more large companies than small), but are alarmed by the valuations of most US stocks. The implied dilemma – ie. given Wall Street's influence - for a European portfolio is the reason for the 5-15% short position in the German DAX index held by the Platinum European Fund for much of 2004. At the end of March the Fund was 18% in cash, and 17% short for a net exposure of 65% - should we stay cautiously positioned? Is 65% still too high?

Today there exists the unusual circumstance of many of the major markets around the world – share, bond, property, commodity – simultaneously being either high or in “bubble” territory versus their history. This coincident strength is unusual given the inflation and interest rate implications of strong commodity prices and property bubbles (and consequent impact on bonds and stocks). Perhaps in theoretical perfect circumstances, the current market situation could be reconciled, but the optimism is hard to fathom amidst the economic chaos of globalisation, the declining credibility of the world's

reserve currency, and the asset price funded consumption which constitutes economic “growth” in the US, Australia etc. Not to mention wars, bombs, yawning US trade and government deficits etc. Perhaps we have simply had a period of unusually low interest rates, which may be about to reverse.

There has been plenty of equity issuance in Europe – in particular governments are using the rebound in markets to sell big stakes in their telecom utilities. Heavily indebted companies continue to take advantage of conditions to raise equity and refinance debt at very modest spreads. We watch with interest the battle for control of French/German drug company Aventis (which is effectively the merged drug businesses of the old chemical firms Hoechst and Rhone-Poulenc). Smaller (but super-profitable and hence more valuable) French drug company Sanofi – perhaps concerned for its own independence after one of the US drug giants reportedly approached oil company Total about buying its 20% Sanofi stake – bid for Aventis in February. In March Novartis made it clear that in the right circumstances (ie. not too much French political opposition to the Swiss company managing Aventis) it may be happy to “rescue” the outraged Aventis from Sanofi. The saga continues, and as Novartis shareholders we can see the benefit of buying some of the interesting positions Aventis has built-up, so long, of course, as we do not have to pay too much.

The stocks we have added to the portfolio in recent months are in fact a mix of the two ends of the market spectrum in Europe: some “cyclicals” (steel and paper companies in particular), and a few “defensives” (including pharmaceuticals and a food retailer). We sold out of the German group TUI – we

were principally attracted to their world-leading container shipping business, and when the market celebrated the company's plans to list (ie. part-sell) Hapag-Lloyd by pushing the TUI share nearly 30% above our December purchase price, we decided it was time to leave. Hellenic Telecom, the ex-monopolist in Greece, has had a good run along with other telecoms, and we sold our holding in favour of some of the opportunities mentioned above. More generally we have trimmed several of the positions in smaller companies in the last few months, as our

concern over domestic economic conditions is increasingly at odds with the continuing strong performance of many small caps. With Shell and Yukos (the Russian company at the centre of a political storm late last year), we have nearly 4% in oil companies.

Finally, we reduced the hedge into A\$ from 30% to 23%, so at the end of March we had 50% in the euro, and 25% in the Swiss franc, Danish krone, Swedish krona, and pound sterling.

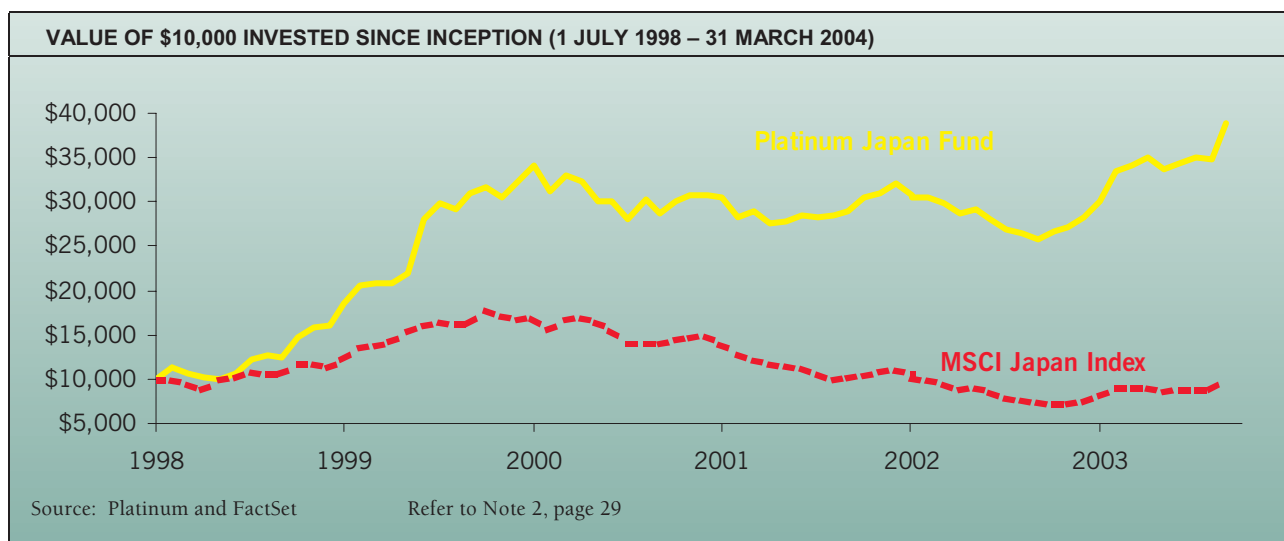
Toby Harrop  
Portfolio Manager



# Platinum Japan Fund

## Performance

REDEMPTION PRICE: \$2.0098



Japanese stocks registered very sharp gains during the quarter with the MSCI Japan index rising by 15.1% in US\$ terms. The main factor driving the market was signs of stronger domestic consumption as wages improved on the back of strong company profits in the export sector. In addition, local

institutional selling of stocks eased considerably as

the normal financial year-end influences waned and this allowed foreign buying to reassert itself. Unusually, all sectors of the market rose with particularly strong gains in property, banking and retail shares. The Fund managed to perform reasonably well during the quarter rising by 12.8% in A\$ terms as against a 13.6% rise for the MSCI Japan index. Over the year to 31 March 2004, the Fund rose by 50.3% in A\$ terms whereas the index rose by 34.4%.

## Changes to the Portfolio

With some of our price targets being exceeded the major changes in the portfolio this quarter were driven by value migration. Sales included Yamanouchi, Citizen Watch and Mitsui Engineering. Purchases included NEC, NTT Docomo and Suzuki Motor. In Korea we have been adding small and medium sized stocks where we see values typically only seen in times of great distress.

We have removed all of our currency hedges and are now fully exposed to the Japanese yen and the Korean won. Our feeling is that the emerging domestic recovery in Japan will lend support to the currency through both rising foreign inflows and the Bank of Japan which is much less inclined to intervene to weaken the currency.

| DISPOSITION OF ASSETS |          |          |
|-----------------------|----------|----------|
| Region                | Mar 2004 | Dec 2003 |
| Japan                 | 68%      | 76%      |
| Korea                 | 14%      | 10%      |
| Cash                  | 18%      | 14%      |
| Short Derivatives     | -7%      | -13%     |
| Long Derivatives      | 5%       | 5%       |
| Net Derivatives       | -2%      | -8%      |
| Net Invested          | 80%      | 78%      |

Source: Platinum

## Commentary

We have recently returned from a business trip to Japan during which we visited a number of our long term holdings and attended the inaugural CLSA Japan Investors Forum which saw around 60 corporate presenters and over 500 people in attendance. The forum was an invaluable experience as we were able to meet directly with senior management. It also provided us with an opportunity to gain a reading on other managers sentiment toward Japan. The key takeaways from our week in Japan were:

1. The general mood of the market is much more bullish than for some time. One need look no further than the attendance at the forum which exceeded all expectations. Whilst this gives us pause for thought, it is also hard to believe that everyone is on board given the length of the bear market. Certainly domestic investors are still quite bearish and this would suggest room to move higher.
2. The theme of the conference was Japan's place in Asia and the importance of China. Nearly every company enunciated a China strategy although some clearly don't believe in it as much as the investors! Our feeling is that the China theme has been well exposed by the market and rather than chase China-related-plays we will continue to look for quality names that can participate in global growth generally.
3. The attitude of the domestic insurance companies to the equity market is classic bear-market-bottom behaviour. Having been in a long dark tunnel and driven by actuaries who emphasise only the risk of equities, they continue to sell. But the reality is that they have already sold a lot of equities over the years and from here they have cut too deeply into relationships for further sales to be made. This would suggest selling may at the very least slow.
4. The Bank of Japan appears to believe that we finally have a self-sustaining recovery underway and indeed its recent public statements have supported this view. This may lead to declining currency intervention going forward which would support the yen. Whether this optimism is misplaced remains to be seen but it is unusual for them to be so up-beat.
5. We have mentioned this before but there was a quite confidence in almost all corporates that things were getting better. Although after such a long time no one is getting carried away, but backed by strong cash flows, this confidence could permeate further through the economy.

## Hybrid Electric Vehicles (HEV)

A major theme at the forum was the rising importance of the Chinese economy to world growth. Nowhere is this issue more important than in the area of global oil supplies and regular readers will recall our concerns regarding the replacement rate for global oil reserves. Given the large weighting of car usage in oil demand (about 50%), one technology that may serve to cushion this impact is the "Hybrid Electric Vehicle" or HEV.

Essentially a HEV is a combination of a standard gasoline powered engine with an electric motor to provide much greater fuel efficiency. Whilst the technology for the engine and the motor is well understood, the complexity lies in the mechanical linking mechanisms and the attendant software that optimises the drive. In simple terms the electric

motor relies on stored battery power, largely free energy due to its creation during vehicle braking, to replace the gasoline engine during start-up and initial acceleration of a vehicle, where gasoline engines are at their least efficient.

We think a number of factors make this technology more realistic than solar or fuel cell powered vehicles. Firstly, the core technologies have been around for some time so we are not making a giant technological leap. Secondly, the product requires little or no change of behaviour on the part of the buyer or in terms of the infrastructure required. Part of the problem with fuel cell vehicles is the need for alternative fuel supplies. Thirdly, the product is being backed by the most powerful auto maker in the world today, Toyota. Lastly, it is not a concept but a reality. Toyota expects to ship 100,000 units in 2004

and is having trouble meeting back orders. From the end of 2004 Toyota will offer some models of the Lexus luxury car range in hybrid form. This is a very rapid pace of rollout.



**Toyota Prius**

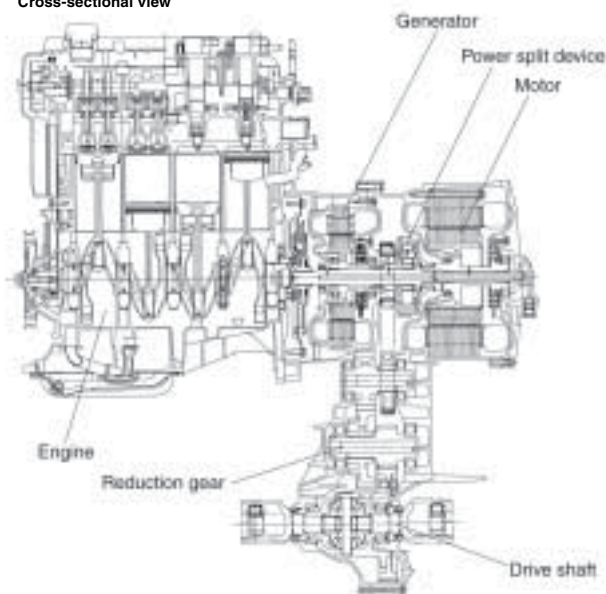
The Prius is Toyota’s primary dedicated HEV model and represents the bulk of worldwide HEV shipments currently made by any auto maker. It uses a highly fuel efficient 1.5L Atkinson cycle petrol engine that runs within an optimised RPM range and turns off when the vehicle is stationary or at slow speeds. Atkinson engines have been around for some time but have never really been used due to lack of torque at low RPM (slow off the mark but very efficient when up and running). It is for this reason that the electric motor is generally used to initiate motion while the petrol engine is started once optimal running speed has been reached – dependent on certain variables.

As mentioned, the key technology lies in the components and software that splits the load between the engine and the motor. In the Prius a component called the Power Splitting Device or PSD is used. At the core of the PSD is an epicyclic gear set. Otherwise known as a planetary gear mechanism, this device achieves the improbable solution of allowing the petrol engine and electric motor to work in tandem to drive the wheels and/or independently to provide the drive or indeed to use the generator in reverse to act as a starter motor for the petrol engine.

By having this multiplicity of choices, software can be employed to optimise fuel efficiency by making decisions between the two power sources – electricity or hydrocarbon. When the battery is fully charged, the electric engine alone may suffice, alternatively if a fast getaway is required, both engine and electric motor will be engaged. On account of the cunning configuration of gear ratios, the generator will operate when the petrol engine is running and/or will also charge the battery when braking or coasting down hill.

The practical effect of this is demonstrated in the following table. As the car accelerates to 20kmh only the electric motor is running and it is drawing power from the battery. At a certain point the gasoline engine will kick in providing power to the electric motor. When the car brakes, electrical energy is released and the battery charge is replenished.

Cross-sectional view



| DRIVING SCENARIOS     |                  |                 |                     |
|-----------------------|------------------|-----------------|---------------------|
|                       | Engine Speed rpm | Motor Speed rpm | Generator Speed rpm |
| Accelerating to 20kmh | 0                | 734             | -1909               |
| Accelerating to 80kmh | 4000             | 2936            | 6764                |
| Cruising at 60kmh     | 1590             | 2202            | 0                   |

Source: Toyota

**Toyota Hybrid Engine**

| MODEL COMPARISON         |              |              |                |              |
|--------------------------|--------------|--------------|----------------|--------------|
| Maker                    | Honda        | Honda        | VW             | Toyota       |
| Model                    | Civic Hybrid | Civic        | Jetta (Diesel) | Prius II     |
| Class                    | 4-door sedan | 4-door sedan | 4-door sedan   | 4-door sedan |
| Price (US\$)             | 20,000       | 15,000       | 20,000         | 20,000       |
| Miles per gallon city    | 47           | 29           | 38             | 60           |
| Miles per gallon highway | 48           | 38           | 46             | 51           |
| Displacement             | 1340         | 1700         | 1900           | 1500         |
| Total power              |              | 105hp (77kw) | 100hp (74kw)   | 110hp (82kw) |

Source: Company websites

### Why will HEV's sell?

The primary selling proposition for the Prius is energy conservation. The Prius is about 2x as energy efficient as the equivalently sized Honda Civic under city driving conditions. Taking the US market as an example, this adds up to about a US\$350 pa saving for the average driver. At the current price premium for the Prius of around 33% or US\$5,000 that is a 14 year payback. This may not seem so attractive but it is likely that this price premium will close as volumes ramp up. It also should be remembered that Toyota introduced the Prius Mark 1 in 1997 and the recently released model claims 26% more power and 15% more fuel efficiency over its predecessor.

The negatives at this stage seem to be the usual aversion to new technology, lower resale values, as well as questions about battery life. There has traditionally been an aversion to the idea of electric cars as toys but very high torque at low speeds provided by the electric motor of the HEV is now being appreciated. This means the car is much quicker off a standing start than a traditional petrol powered vehicle. The advertising literature is starting to reflect this angle and could provide greater appeal.

From the global perspective the savings from oil usage could be large. If say 5% of the US car fleet converted to HEV over the next five years (about 7.5 million vehicles), this could save some 250,000 barrels of oil per day or 1.25% of total daily

requirements. Whilst that might seem a small saving, the key point is that we now have a working model that could fairly cheaply replace a large part of oil consumption if the circumstances required. When we extrapolate the evolution of the technology, especially with the introduction of super capacitors to deliver bursts of energy to the electric motor and more sophisticated battery storage, we will inevitably move closer to the fully electric vehicle thereby lessening the dependence of oil further.

### The position of Toyota

As readers will be aware we have liked the Toyota group for some time and have represented this in our portfolios via Denso, the leading parts supplier. However the leadership that the group is displaying in HEV is another very strong indicator of the depth of the organisation and focuses our interest in the parent company and other parts subsidiaries like Aisin Seiki. We observe that other auto makers are moving quickly to secure access to the technology for fear that they will be left behind. Nissan recently agreed to source a hybrid power train from Toyota for supply to the US Altima in 2006. Meanwhile Ford has licensed basic patents on the PSD and is likely to take some fully built-up power trains from Aisin Seiki. Aisin Seiki, as the transmission specialist in the Toyota group and a core developer of the PSD, seems to be quite an interesting company!

## Outlook

As we have stated on many occasions we are bullish on Japan whilst harbouring concerns about the build-up of debt in the western countries. We believe that Japan can experience a better economic period on the back of rising Asian consumption with the primary risk being the negative feedback loop

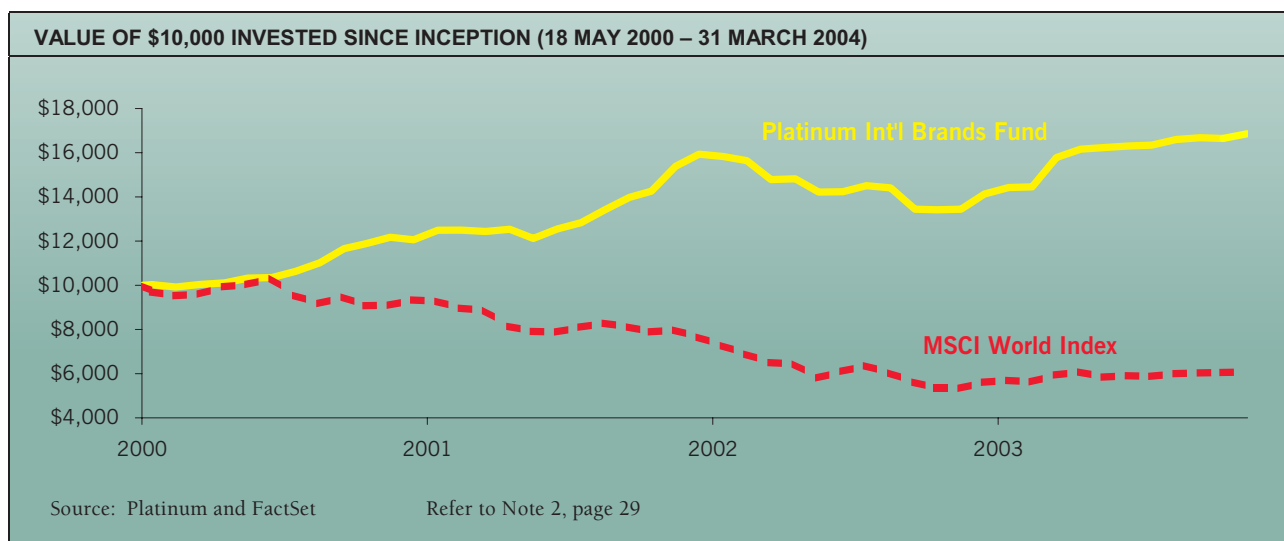
provided by a debt shock in the US. Another risk is the political risk related to events in Taiwan and in North Korea. It is with this in mind that we run the portfolio with an element of risk aversion. On balance though we are optimistic about the Japanese market and expect 2004 to be most rewarding.

Jim Simpson  
Portfolio Manager

# Platinum International Brands Fund

## Performance

REDEMPTION PRICE: \$1.4513



Over twelve months the Platinum International Brands Fund has achieved a performance of 25.4% compared with the MSCI World Index of 13.9%. For the quarter the Fund rose 1.6% compared with that of the MSCI World Index of 1.3%. Whilst the performance has been impeded by the losses

from our short positions in the US, it was nonetheless a relatively difficult quarter for consumer stocks. Many of the concerns we have previously expressed weigh on the performance of the stocks; concerns of commodity price rises, significant currency movements, heavily indebted consumers, together with valuations that are anticipating continued robust spending patterns.

In our Outlook comments last quarter we noted the risks to the Fund of the high level of global liquidity

and the possibility that investors would 'chase performance', possibly giving rise to some sharp share price movements especially in the developing markets. That together with the currency swings was not an environment that we thought would particularly favour the stocks in the Fund over the short term. Our long positions in Europe generally performed strongly despite the adverse effects of currency movements on their financial results. Offsetting the European performance, we suffered a setback across most of our Indian positions and took the opportunity to continue to build our positions in that market. In Japan, our stocks made little headway with the exception of Sky Perfect (+25%) whose relatively volatile performance we have mentioned over the past two quarterly reports. Otherwise, our position in Samsung Electronics of Korea performed strongly, up 27%.

## Changes to the Portfolio

In Europe, a strong appreciation in the share price of the lens and spectacle retailer Fielmann AG (introduced in our September 2003 quarterly) saw us reduce our investment. We also took advantage, opportunistically, of a strong performance in shares of Adidas Salomon AG to marginally reduce that

position. Last quarter we wrote about Beiersdorf AG, and we subsequently took advantage of the continuing corporate manoeuvrings through a share buy back program to sell a small portion of our position at a premium.

The only addition to the portfolio in the western markets has been Pernod Ricard, the French based Wine and Spirits company, perhaps best known for its brands, Chivas Regal, The Glenlivet, Seagrams Gin, Martell, and Jacobs Creek amongst others.

| DISPOSITION OF ASSETS    |          |          |
|--------------------------|----------|----------|
| Region                   | Mar 2004 | Dec 2003 |
| Europe                   | 42%      | 49%      |
| Other Asia (incl. Korea) | 25%      | 20%      |
| Japan                    | 22%      | 19%      |
| US                       | 3%       | 2%       |
| Cash                     | 8%       | 10%      |
| Shorts                   | 12%      | 13%      |
| Net Invested             | 80%      | 77%      |

Source: Platinum

Pernod Ricard was created in 1975 via the combining of two family businesses, Pernod and Ricard. The company today remains family controlled with an unusually high degree of decentralised management.

The transforming event was the acquisition of the Seagram spirits business in 2001, which left the company heavily indebted and with a long 'to-do' list on the acquired brands. We believe that they have



made substantial progress whilst a review of the brands suggests plenty of potential to continue to develop the business internationally. There is no doubt the company has some

significant tasks ahead and there is always the potential that further merger or acquisition in the sector either directly or indirectly impacts Pernod Ricard, however on balance we suspect that they have more opportunities than concerns.

Our weighting to the Asian markets (including Japan) has increased appreciably in the quarter from 39% to 47% of the Fund. In Japan, we have added Toyota Motor Co to the portfolio (more on this company in the Platinum Japan Fund commentary). Although the Fund's weighting in India has remained at a little less than 14%, we were adding new positions to the Fund and both adding to and reducing some of the existing investments. Given the volatility in that market it is likely that we will continue to be far more active in our investments by comparison with our other positions.

Elsewhere across Asia, we have added a supermarket retailer in Thailand, a cosmetics company in Taiwan and a consumer electronics company also in Taiwan.

## Commentary

We have now reported for two consecutive quarters that our short positions in the US market have detracted from our performance. So why do we persist? The headline results of many of the US consumer companies have looked compellingly strong and the share prices have tended to drift up accordingly. When we look just a little deeper we find that, in many cases, the US domestic businesses are under significant pressure but favourable currency translation of overseas operations are flattering their reported earnings. Their domestic operations, even if showing revenue growth, are starting to experience lower volumes at a time when the 'cost cutting' exercises have already yielded the majority of the benefits.

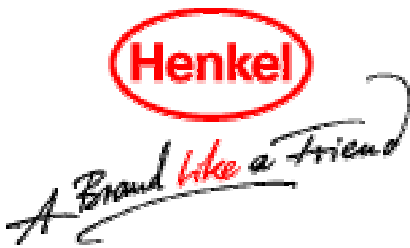
Even over a short time period such as the March quarter, companies appear to have reassessed their thinking (and communication with the share market) about the adverse impact of higher commodity prices. Continued rises in raw materials

and packaging costs come at a time when companies have been concerned that the consumer may be reluctant to maintain, *let alone increase*, their spending patterns. Likewise, increases in fuel and energy costs affect those with high distribution costs as well as effectively working as an additional tax on the consumer.

We are seeing that companies are starting to take price increases or at least signal their intention to do so. It is too early to tell whether competitive dynamics or the robustness of consumer spending will allow for a full recovery of commodity-related cost increases through pricing, we suspect not. Against that backdrop and at the current valuations, together with some stock specific issues, we continue to hold our short positions.

In an attempt to deal with many of the issues raised above, branded goods companies are continuing their quest to broaden their international operations.

Expansion into Asia and particularly China is often highlighted with the caveats that the time frames are lengthy and the starting point often representing a negligible proportion of the current organisation. That's not to deny the potential, however more immediate and proportional impacts are achieved through acquisition of established businesses in Europe or the US.



We have seen the acquisition by Henkel of The Dial Corporation of Arizona (soaps, laundry detergents and other consumer products) as

Henkel looks to build their branded business internationally. We would note that apart from providing Henkel with more 'geographic balance' it provides them with a useful mechanism to bring competition to a major competitor. Procter and Gamble have been aggressive competitors in the German laundry market and Henkel will now have the opportunity to threaten P&G on their own patch. Last quarter we wrote of the battle for ownership of Beiersdorf AG and prior to that about the acquisition of Wella.



With current valuations, and the stresses on profits emerging from commodities, currencies, competitive dynamics and some weakness in consumer spending, we expect to continue to see significant acquisitions in both Europe and the US.

Our visits to and investments in India have focused on identifying companies that will benefit from the likely significant rise in discretionary spending by the burgeoning middle and upper income groups. Last quarter, in his review of the Platinum Asia Fund, Andrew Clifford outlined the benefits of a decade of deregulation and economic reform in India. He noted the lift in business investment as a consequence of cheap financing. We have seen that excitement in the stock market mainly in those companies directly benefiting from low interest rates,

that is, manufacturers and suppliers of consumer durables such as motorcycles, autos and mobile phones.

There does however appear to be relatively little focus on, or thought given, as to how the growing wealth and prosperity of those benefiting from rising incomes will be applied. We believe the spending patterns of this group, predominantly the growing 'middle income group' will increasingly mirror those in the West, implying significant increases in spending on leisure and consumption especially in the areas of travel, alcohol and entertainment. These sectors are poorly represented in the overall Indian stock market as the companies are generally small and, for a multitude of reasons, out of favour. We have made some selective investments focused specifically on alcohol and jewellery retailing.

What do we mean by the "middle income group"? Indian demographic studies tend to be so broad in their approach as to be near useless in application. The consensus tends to an estimate of 40 million households, or 20% of the population. The definition of the minimum household income for inclusion into this category is US\$2,500 pa with the average for the group perhaps around US\$7,500 pa.

What is perhaps more meaningful is to try and illustrate the growth in aggregate income. As an example, the IT services industry is growing at approximately 40% pa and now accounts for around US\$14 billion in export income and employs one million workers. An Indian based programmer with a post graduate qualification and three years experience earns approximately US\$6-10,000 pa. An Indian based project leader earns around US\$20,000 pa.

Clearly, this example is highly selective and IT services are only a part of India's service exports and economic development. Another significant example would be the development of India's generic pharmaceutical industry. So how meaningful are the expansion of these industries and the growth of incomes in the context of consumption in India? By comparison a semi-skilled factory worker might earn around \$1,000 pa, giving our programmer or project manager a many-fold purchasing advantage. This has clearly been further compounded by the growth of these industries. Predicting consumer behaviour is fraught with hazards, however the significant growth in incomes at both the individual and aggregate level does suggest that spending on leisure and consumption will exhibit robust trends.



## Outlook

The prospect of an increase in the speculation and discussions surrounding the potential for, and timing of, a rise in interest rates (particularly in the US) will inevitably lead to debate about the robustness of consumer spending. Volatility in the currency markets, continuing steep rises in the price of commodities and the shenanigans inherent in an election year (in the US) provides a backdrop that

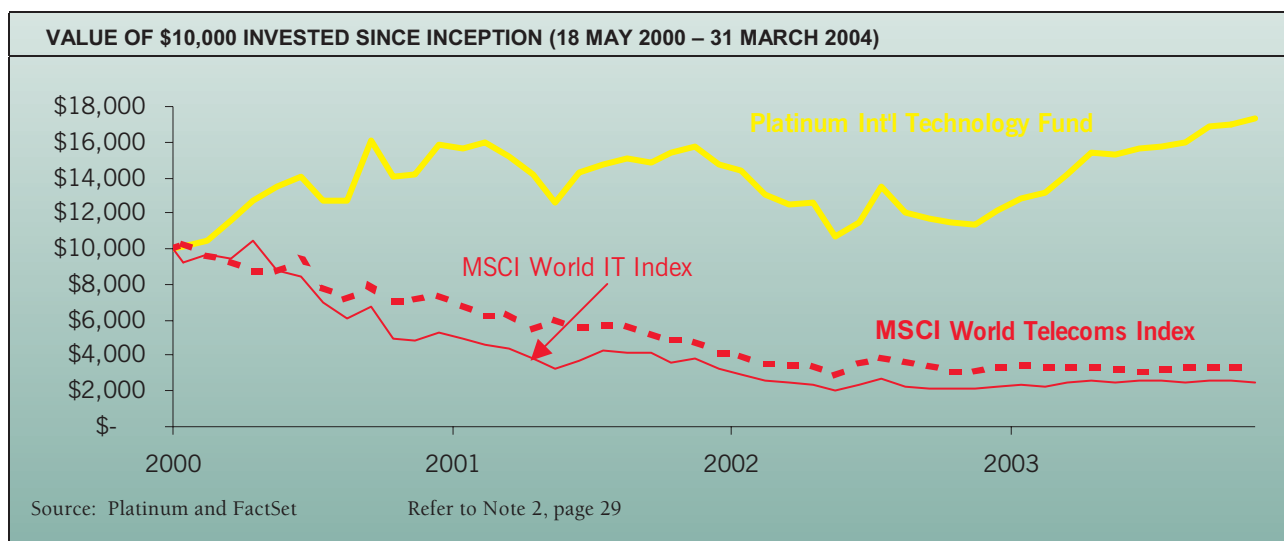
should make the next few quarters challenging for branded goods stocks across all markets. Nonetheless, we retain confidence in our companies and continue to see some interesting opportunities develop for those that are investing in their international, and particularly Asian based, operations.

Simon Trevett  
Portfolio Manager

# Platinum International Technology Fund

## Performance

REDEMPTION PRICE: \$1.0176



The Fund performance during the quarter was satisfactory returning 8.5%, while both the MSCI World Information Technology Index (A\$) and the MSCI Telecommunications (A\$) Index fell 1%. The US Technology Index, Nasdaq, was down 0.5% for the March

quarter, breaking a series of five consecutive quarterly gains.

Major contributors to the Fund's performance were our European, Japanese and Asian holdings. Stand out performance from Ericsson (Communication Equipment +62%), ZTE (Communication Equipment +53%) and Checkpoint Software (Security Software +35%) added nicely to returns. Our short positions in selected stocks and Nasdaq had a neutral impact.

## Changes to the Portfolio

| DISPOSITION OF ASSETS    |          |          |
|--------------------------|----------|----------|
| Region                   | Mar 2004 | Dec 2003 |
| Japan                    | 19%      | 16%      |
| Other Asia (incl. Korea) | 19%      | 17%      |
| North America            | 18%      | 26%      |
| Europe                   | 11%      | 17%      |
| Cash                     | 33%      | 24%      |
| Shorts                   | 15%      | 15%      |
| Net Invested             | 52%      | 61%      |

Source: Platinum

| BREAKDOWN BY INDUSTRY           |          |          |
|---------------------------------|----------|----------|
| Region                          | Mar 2004 | Dec 2003 |
| Telecom Equipment and Suppliers | 18%      | 21%      |
| Semiconductors                  | 15%      | 18%      |
| Electronic Components           | 14%      | 11%      |
| Software                        | 7%       | 17%      |
| Other                           | 13%      | 9%       |

Source: Platinum

During the quarter we have reduced the Fund's equity exposure to US and European technology stocks after many of our holdings reached their valuation targets. We increased exposure to Japan and other Asian countries (they now represent 38% of the Fund's total assets): we believe the combined effects of continuing strong demand from China and a general improvement in the Japanese domestic economy will have a positive impact on equities in these regions.

In Europe we partly reduced the Fund's holdings in Marconi and Ericsson and we exited our investments in Epcos and Spirent, while in the US we reduced our positions in Checkpoint Software and Nvidia following strong price appreciation.

We introduced our first investment in China with ZTE Corp (the second largest telecom equipment vendor in the country) and in Japan we added NEC Corp. Three of our top five holdings in the Fund are now Asian stocks.

---

## Commentary

On 26 January Nasdaq reached its highest level since June 2001. The rebound from its recent lows of March 2003 has been a strong 70% (the index is still 60% below its all time high in March 2000). Valuations in US technology stocks have in many instances reapproached bubble-type levels which we find difficult to justify, but the progressive improvement in final demand could push the market higher yet.

Last year's positive trends in technology spending continued this quarter, with signs of improvement in demand and capacity utilisation in many of the industries we monitor.

In 2003 global mobile phone shipments reached nearly 490 million units, up a strong 20% from the previous year, mostly driven by demand for phones with new features such as screens and digital cameras. Selected mobile operators in Europe and Japan have started investing more aggressively in new services (video-calls, multimedia messaging services etc) and expectations for demand are increasingly positive.

Semiconductor Industry Association's data also showed that in February global semiconductor shipments were still growing strongly (+31% year on year) with demand for PCs and mobile phones lifting sales, from the industry's worst ever recession in 2001 and 2002. Production capacity is getting tighter allowing producers to raise their prices. The average selling price rose almost 7% versus a year ago (in contrast with the normal experience of falling prices due to miniaturisation and process improvements).

Volume growth in worldwide PC shipments during the first quarter is estimated at +14% year on year, with a strong contribution in the Notebook category (+27%).

A key factor to monitor over the next few months will be the behaviour of the US consumer after such a strong performance. We believe that easy monetary policy and tax incentives in the US have greatly bolstered consumer discretionary spending. Any decline in appetite for consumer electronics will have to be offset by increased corporate IT spending, if the various components markets are to keep growing at current rates.

We are less worried about Asia, where the incipient recovery of domestic consumption in Japan and the secular growth of China's middle-class will stimulate demand for many technology industries.

### Chinese Technology Standards

China has recently required local and foreign technology companies to comply with a new encryption standard for wireless communications, with the aim to increase security of these technologies. In an unprecedented letter addressed to the Chinese Government, US Secretary of State, Colin Powell and other senior officials of the US Administration urged Beijing to repeal the standard.

The US argued that the new encryption standard violates World Trade Organisation rules because it would favour local companies versus foreign firms and it would force US technology giants to share designs with their Chinese competitors.

Similarly, China has moved to define domestic standards for other important technologies such as office software, mobile phones, DVD players, video compression etc.

Another equally contentious issue has been a law giving Chinese chip makers unfair tax advantages: China currently levies a 17% value-added tax on imported semiconductors, while domestic producers

qualify for tax rebates of as much as 14%. China still imports about 80% of the chips it needs for its factories and it's understandable that Chinese officials want to develop a local industry to alleviate their dependency on expensive foreign technology.

These events suggest an American corporate sector increasingly worried about China's enormous bargaining power. US technology leaders fear their engineering and design know-how could be copied or replicated in China, but ultimately no large American company wants to be left out of this potentially huge market (China is second only to the US in number of Internet subscribers - 80 million - and it already has the largest number of mobile phone subscribers in the world – 280 million).

China's policy is not really different from Japan's strategy in the 60s and 70s when they demanded technology transfers to rebuild industries after World War II. Similarly Taiwan has recently become a leading centre of chip manufacturing and its major foundries (semiconductor factories) are now acknowledged to be the most cost-efficient.

Since 2000 the Chinese leadership has pushed aggressively towards the development of the local IT industry, by attracting foreign capital with all sorts of incentives (tax breaks, cheap land, fast-track Government approvals etc). Motorola has 19 research centres in China, Microsoft employs 200 researchers, Siemens has even joined a local company to design and develop a new mobile phone standard which will be adopted by one or more of the local operators. It's not only Western companies investing in China: three of the six largest projects in the semiconductor industry have been funded by Taiwanese companies. Korea's second largest technology group LG Electronics has already invested \$2.5 billion in China in mobile phone and plasma screen manufacturing (incidentally Korea now exports more goods to China than to the US).

In the context of indigenous technology development we are able to participate via the likes of ZTE Corp. This is the second largest telecom infrastructure vendor in China (after privately owned Huawei). ZTE was formed by the Government in the early nineties as a merger between various local semiconductors and telecom equipment manufacturers. It was set up at a time when China's telecom operators were heavily dependent on foreign telecom equipment suppliers and it is now a leading player in CDMA wireless infrastructure, handsets and fixed-line switching, with 10% of its revenues currently spent in R&D. ZTE will be a major

beneficiary of telecom infrastructure spending in China and emerging markets, where it is gaining market share against more established competitors.

### **Software Wars**

In March the European Union Commission imposed a fine of euro 500 million on Microsoft after finding that "it has abused its virtual monopoly power over the PC desktop market in Europe ...". The Commission argued that Microsoft deliberately restricted inter-operability between Windows PCs and non-Microsoft work group servers by failing to provide the information needed by rivals (like Sun Microsystems and Novell) to sell their products in a Microsoft dominated environment. Similarly it claimed that Microsoft has tied its Media Player to the main Windows operating system and hence it significantly weakened competition in the media player market (to the detriment of rival programs such as Real Networks' Real Player and Apple's QuickTime).

The Commission rejected a last-minute settlement proposed by Microsoft, breaking with a 20 year tradition in which the EU regulator would review complaints and invariably reach a mutual settlement. (In 1984 IBM had reached a similar settlement in relation to its dominance of the mainframe market and inter-operability with other hardware). This time the EU decided against settling and preferred to establish a precedent by issuing a ruling. Why?

While this case started a few years ago instigated by Microsoft rivals and disgruntled users, other complaints remain outstanding in the EU. The most important one is promoted by the Computer & Communications Industry Association against Microsoft bundling of Windows XP with Instant Messenger, Outlook Express and Movie Player. The next generation of Windows (named Longhorn, due in 2006) is promising even more bundling and functions, and it is likely to stir additional complaints. By rejecting a settlement and opening the way for Microsoft to appeal to the European Court, the EU clearly signalled a longer term battle regarding monopolistic behaviour.

Microsoft's reluctance to unbundle the elements of its software suites is dictated by its desire to leverage its huge existing customer base to sell new applications and to prevent competitors from gaining market share. Moreover, the emergence of new open-source software (software written without restraining external software developers from accessing the original code such as the Linux operating system) is anathema to a company which

has made its fortune out of a dominant proprietary code.

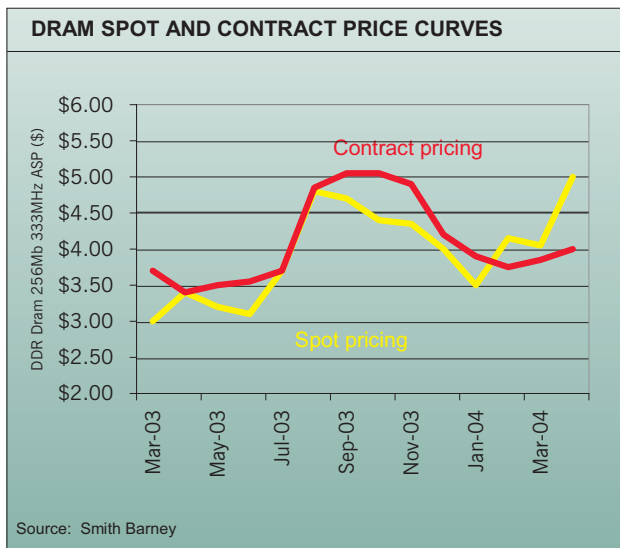


In this context (at the time of writing this report), the joint announcement made by Microsoft and Sun Microsystems that they would settle their long-standing disputes came as a surprise. Microsoft has agreed to pay US\$2 billion to Sun to settle antitrust and patent issues, partly addressing the complaints lodged with the European Commission, and more importantly opening the way for a broader collaboration between them. Sun officials note that this settlement will provide even more information than they had sought in the European case: soon Microsoft will share information about PC and server versions of Windows, but also about database software and email.

We are pleased with the \$2 billion cash infusion for Sun Microsystems (a Fund's holding) but we don't believe the war is over. We rather think that an armistice has been signed. Expediency is not foreign to Microsoft's behaviour. In 1997 it paid a relatively small \$150 million to Apple Computers to settle various patents infringement and inter-operability

issues: helping to keep alive one of the few remaining competitors in the PC operating systems and giving Microsoft a counter-argument to monopoly charges in its antitrust cases. In 2003 Microsoft paid \$750 million to AOL Time Warner to settle a dispute over the alleged attempt to weaken Netscape's position against the dominant Internet Explorer. The money spent for these settlements is still a fraction of the huge US\$53 billion of cash sitting on Microsoft's balance sheet. The settlement with Sun may even help Microsoft to resolve its case with the EU if it can demonstrate a willingness to share information with its rivals.

In the long term though we believe the emergence of open source software and clients' requirements about inter-operability will sustain competition to the benefit of underdogs such as Sun Microsystems.



Alex Barbi  
Portfolio Manager

---

## Notes

1. The returns represent the combined income and capital return for the specified period. They have been calculated using withdrawal prices, after taking into account management fees (excluding any performance fees), pre-tax, and assuming reinvestment of distributions. The returns shown represent past returns of the Fund only. Past performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, returns can be negative (particularly in the short-term).
2. The investment returns depicted in the graphs are cumulative on A\$10,000 invested in the Funds since inception and relative to their Index (in A\$) as per below:

Platinum International Fund:

Inception 1 May 1995, MSCI World Accumulation Net Return Index in A\$

Platinum Asia Fund:

Inception 3 March 2003, MSCI Asia Free ex Japan Net Return Index in A\$

Platinum European Fund:

Inception 1 July 1998, MSCI Europe Accumulation Net Return Index in A\$

Platinum Japan Fund:

Inception 1 July 1998, MSCI Japan Accumulation Net Return Index in A\$

Platinum International Brands Fund:

Inception 18 May 2000, MSCI World Accumulation Net Return Index in A\$

Platinum International Technology Fund:

Inception 18 May 2000, MSCI Global Technology index in A\$

The investment return in the Funds is calculated using withdrawal prices, after taking into account management fees (excluding performance fees), pre-tax and assuming reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

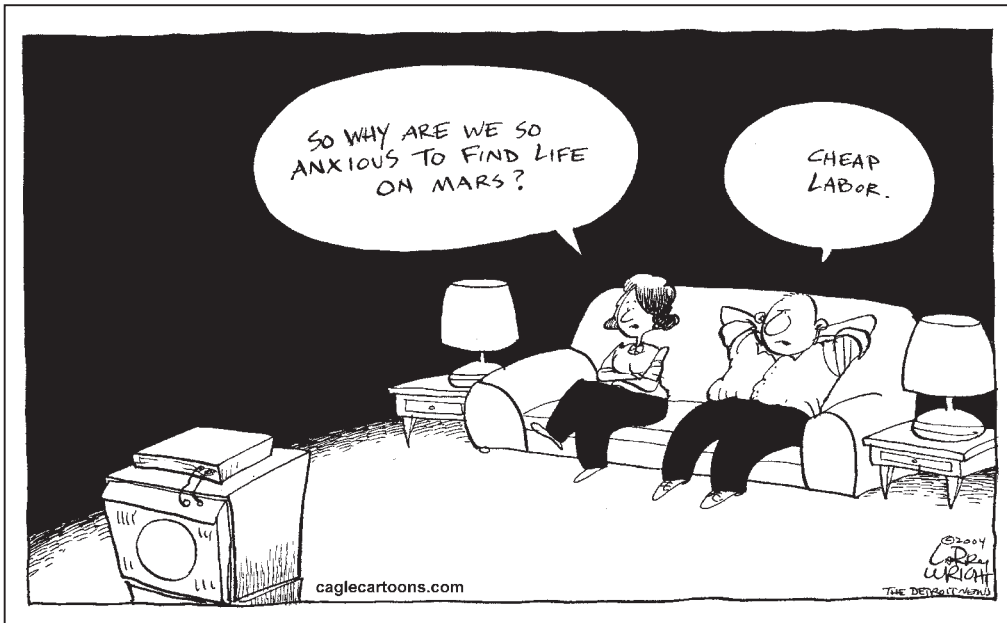
Platinum Asset Management Limited ABN 25 063 565 006 AFSL 221935 as trustee for the Platinum Asset Management Trust (*Platinum*) is the issuer of units in the Platinum Trust Funds (*the Funds*).

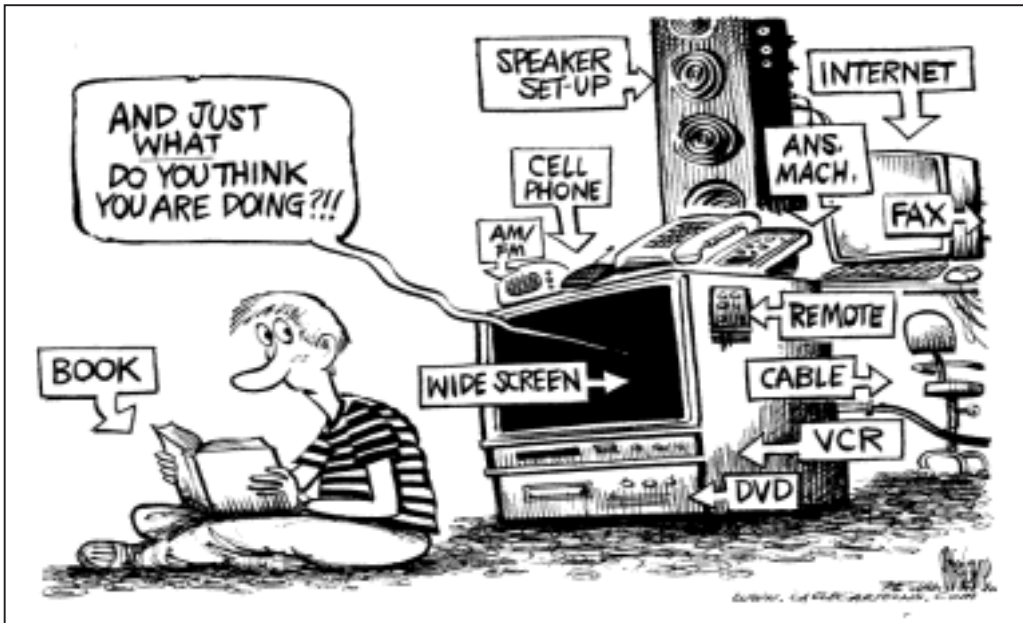
The Platinum Trust Product Disclosure Statement No. 4 (PDS), for *Australian investors*, and The Platinum Trust Investment Statement No. 8 (IS), for *New Zealand investors*, are the current offer documents for the Platinum Trust Funds. You can obtain a copy of the PDS or IS from Platinum's web site, [www.platinum.com.au](http://www.platinum.com.au), or by contacting Investor Services staff on 1300 726 700 (*Australian investors only*), 02 9255 7500 or 0800 700 726 (*New Zealand investors only*) or via [invest@platinum.com.au](mailto:invest@platinum.com.au).

Before making any investment decision you need to consider (with your securities adviser) your particular investment needs, objectives and financial circumstances. You should consider the PDS or IS (whichever is applicable) in deciding whether to acquire, or continue to hold, units in the Funds.

**DISCLAIMER:** The information in this Quarterly Report is not intended to provide advice. It does not take into account the investment objectives, financial situation and particular needs of any person, and should not be used as the basis for making investment, financial or other decisions. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Neither Platinum Asset Management nor any associate guarantees or makes any representations as to the performance of the Funds, the maintenance or repayment of capital, the price at which units may trade or any particular rate of return.

© Platinum Asset Management 2004. All Rights Reserved.









## The tide is high.

BLONDIE

Platinum has just completed ten eventful years in business. The prevailing condition was one of political and economic turmoil, causing anxiety and confusion in the global markets.

Different investment styles came and went, but Platinum remained unmoved – we doggedly persisted in our search for out-of-favour companies with hidden potential.

The markets will keep on rising and falling like the tide, but they'll never be as predictable. So we'll simply stick to our original course, irrespective of the tide's vagaries.

Telephone 1300 726 700



PLATINUM  
ASSET MANAGEMENT

Platinum Asset Management Limited ABN 25 063 565 006 AFSL 221935 as trustee for the Platinum Asset Management Trust offers financial products. The current product disclosure statement (PDS No 4) is available at [www.platinum.com.au](http://www.platinum.com.au) or via 1300 726 700. You need to consider PDS No 4 in deciding whether to acquire, or continue to hold, units in the Platinum Funds.

This advertisement does not take into account the investment objectives, financial situation and particular needs of any person. Before making an investment decision you need to consider (with your securities adviser) your particular investment needs, objectives and financial circumstances.



Platinum Asset Management is a Sydney-based manager specialising in international equities. The investment team uses a thematic stock-picking approach that concentrates on identifying out-of-favour stocks with the objective of achieving superior returns for our clients. We pay no heed to recognised indices. We aim to protect against loss and will hedge stocks, indices and currencies in our endeavours to do so.

The firm was founded in February 1994 by a group of professionals who had built an enviable reputation while at Bankers Trust Australia. PAM currently manages around A\$11.4 billion with over 20% of this coming from overseas investors. The staff is the principal owner of the company. The emphasis of the organisation is on managing clients' money rather than gathering funds: we have no sales staff and pay no inducements to promoters of our funds.

Since inception, the Platinum International Fund has achieved returns of well over twice those of the MSCI World Index\*, and considerably more than interest rates on cash.

**INVESTOR SERVICES NUMBER:**

**1300 726 700**

(for the price of a local call anywhere in Australia)

**0800 700 726**

(New Zealand only)

or visit us here in Sydney's historic Rocks area



P L A T I N U M ASSET MANAGEMENT

Platinum Asset Management  
Level 4, 55 Harrington Street  
SYDNEY NSW 2000  
GPO Box 2724  
SYDNEY NSW 2001

Telephone: 1300 726 700 or 02 9255 7500  
0800 700 726 (NZ only)  
Facsimile: 02 9254 5590  
Email: [invest@platinum.com.au](mailto:invest@platinum.com.au)  
Web Page: <http://www.platinum.com.au>