The Platinum Trust Quarterly Report

31 December 2001

Incorporating the:

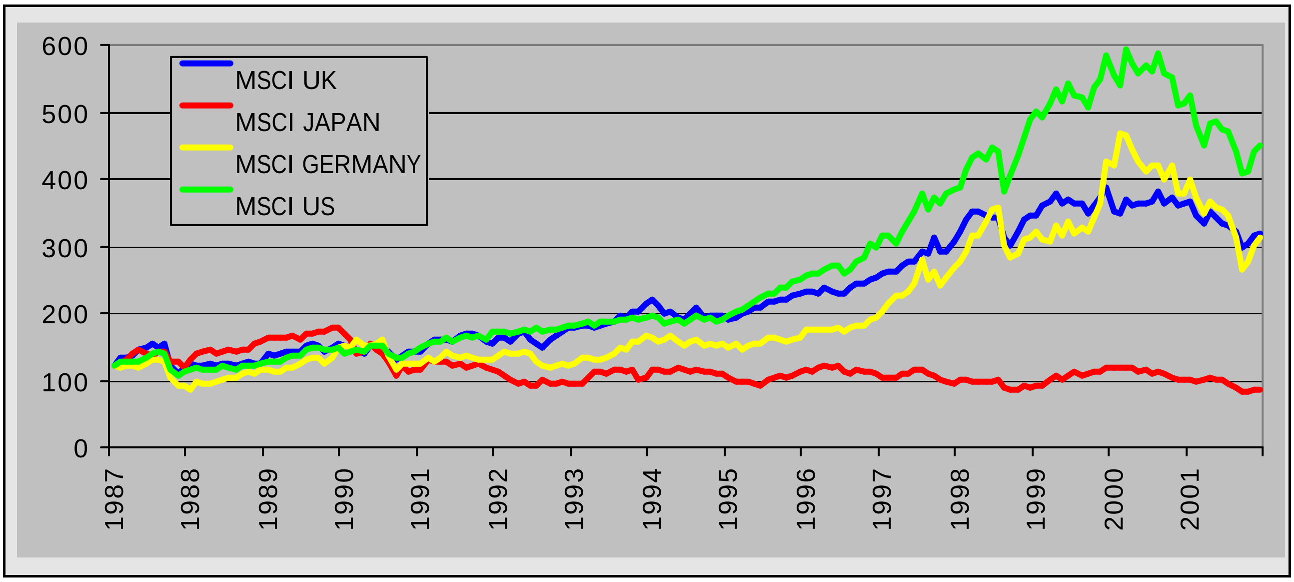
International Fund
European Fund
Japan Fund
International Technology Fund
International Brands Fund

PERFORMANCE RETURNS TO 31 DECEMBER 2001 (A$)

Fund	Fund Size	Quarter	1 year	2 years (compound pa)	3 years (compound pa)	5 years (compound pa)
International Fund	$887mn	11.3%	16.0%	17.0%	30.0%	26.3%
Japan Fund	$68mn	2.9%	0.6%	-2.8%	32.6%	-
European Fund	$71mn	9.9%	5.2%	27.1%	34.5%	-
International Technology Fund	$29mn	21.0%	23.9%	-	-	-
International Brands Fund	$18mn	11.3%	22.2%	-	-	-
MSCI Indices *						
MSCI World		4.7%	-9.7%	-3.9%	2.6%	15.0%
MSCI Japan		-9.3%	-23.4%	-19.5%	-0.6%	
MSCI European		6.1%	-13.1%	-3.2%	0.6%	
Nasdaq		25.5%	-21.1%			
Micropal average international fund return (535 funds surveyed)			-25.6%			

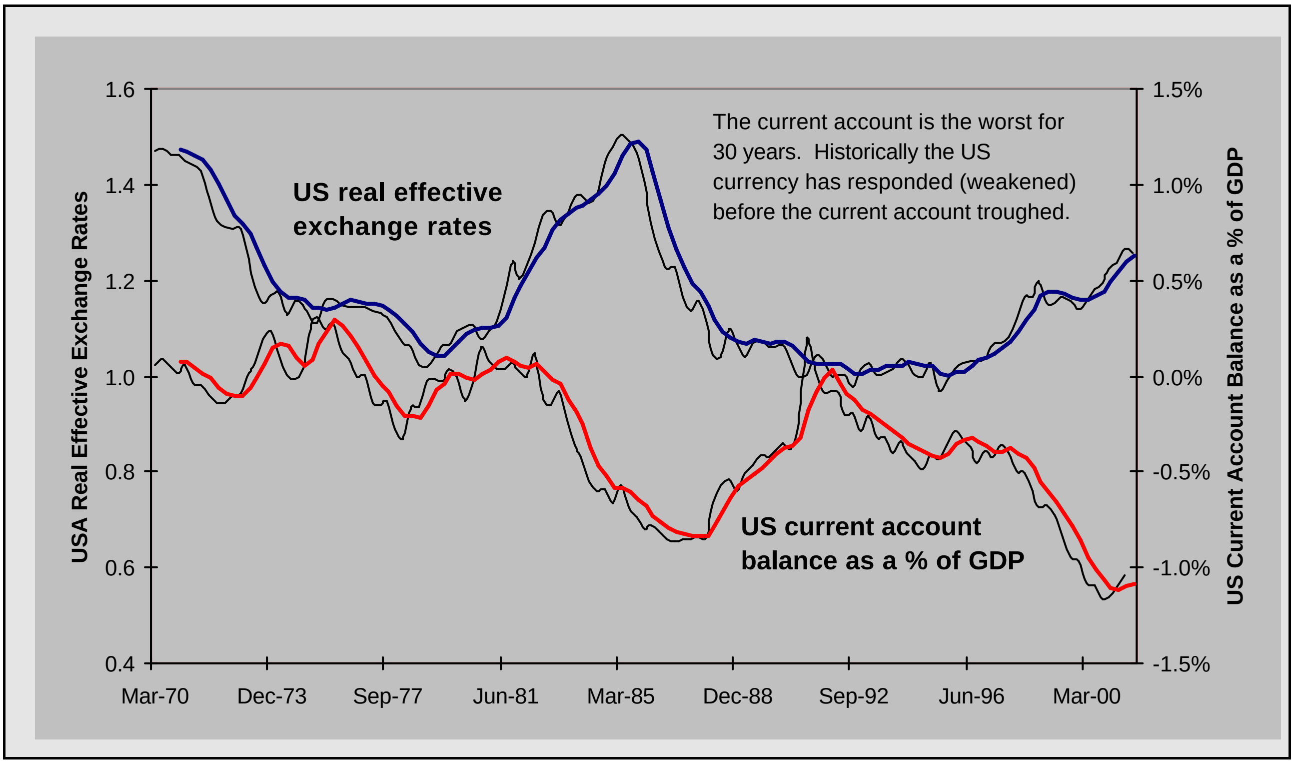
* Morgan Stanley Capital International Index

MSCI US, UK, GERMANY AND JAPAN SINCE 1987 (LOCAL CURRENCIES)

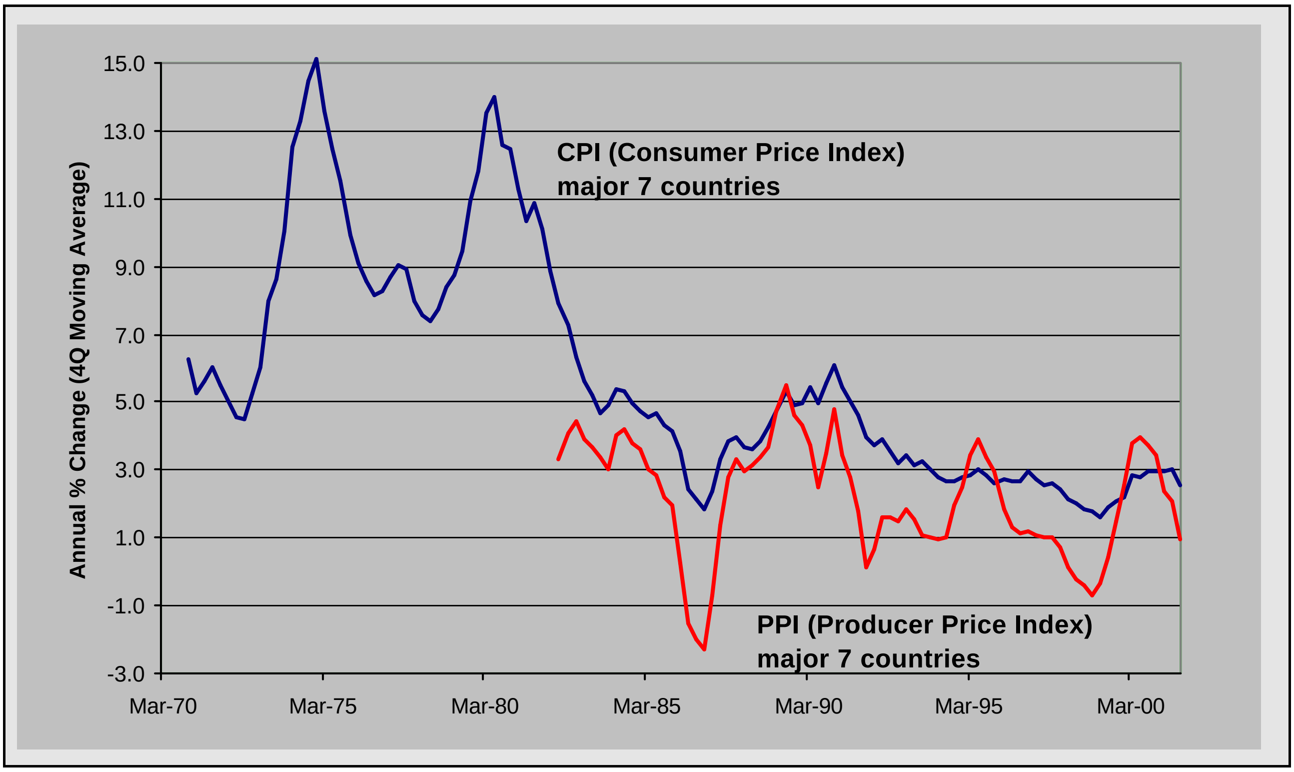


Information about the units on offer in the Platinum Trust are contained in the Platinum Trust Prospectus No. 4 lodged at ASIC on 25 May 2001. Persons wishing to acquire units must complete the application form from the current prospectus. Reliance should not be placed by anyone on this document as the basis for making any investment, financial or other decision. Past performance is not indicative of future performance. Platinum Asset Management does not guarantee the repayment of capital, payment of income or the performance of the Funds.

THE US$ VERSUS THE US CURRENT ACCOUNT



CHANGES TO INFLATION IN G7 COUNTRIES (US, JAPAN, GERMANY, FRANCE, ITALY, UK, CANADA)

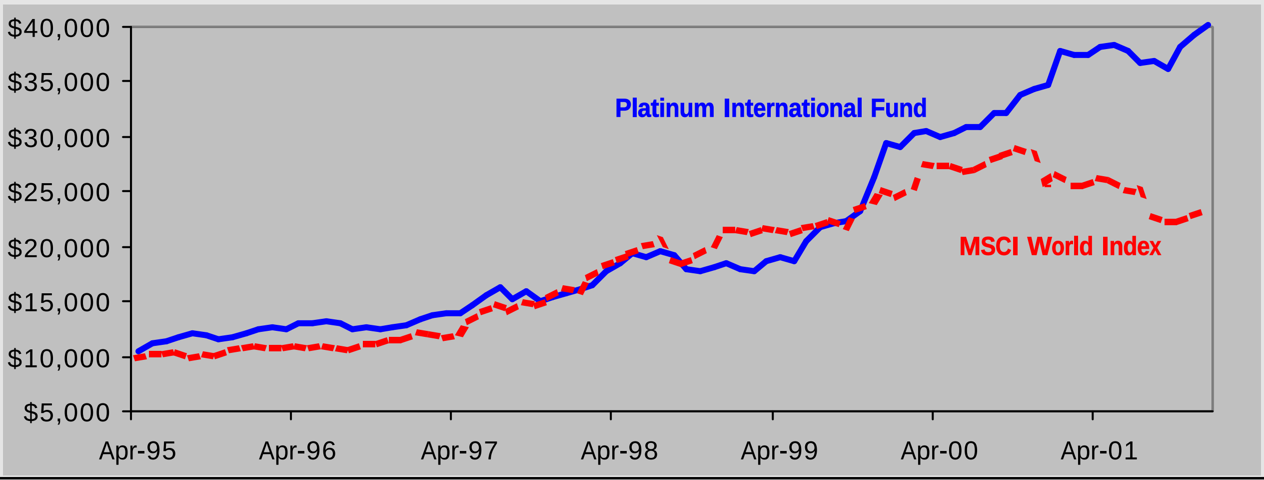


The Platinum International Fund

REDEMPTION PRICE: $1.7430

Performance

VALUE OF $10,000 INVESTED SINCE INCEPTION (1 MAY 1995 – 31 DECEMBER 2001)



Markets continued to recover their composure as the quarter progressed. The information technology sector led the recovery with a gain of 28%, followed by consumer discretionary, industrials and materials. Energy, which had been an early favourite on the assumption of an early economic rebound, lost momentum as investors migrated to industrials. Health Care, telecoms and utilities were all slightly lower over the quarter. The net outcome was a 4.7% gain for the MSCI for the quarter and a fall of 9.7% for the year.

Your Fund had performed relatively strongly in the September quarter, though down 4.6% compared to a decline in the MSCI World Index of 12%. We would have expected it to have been something of a laggard this last three months because of there being fewer gains to be had from short selling. However, the Fund returned 11.3% for the quarter and for the calendar year it smartly outpaced the benchmark with a 16% return. When examining our long-only accounts, we can see that stock picking is an important contributor to this outperformance. We benefited also from our willingness to add aggressively to our existing holdings during the ferocious sell-off in September.

Changes to the Portfolio

DISPOSITION OF ASSETS

Region	Dec 2001	Sep 2001
Western Europe	39%	34%
Japan	15%	16%
Emerging Markets (incl. Korea)	14%	11%
North America	13%	18%
Australia	0.4%	1%
Cash	19%	19%
Shorts	24%	21%

On the buy side, we have tended to add to existing positions. As regards disposals, we used the strong rebound to offload a proportion of the tech stocks we had acquired in September, particularly old favourites such as PeopleSoft, Agere, AMD, Sun Microsystems, Foundry and i2 Technologies. In some cases this selling was premature and at the close of December we were once again engaged in shorting tech names which in our view have little likelihood of meeting investors sales, let alone profit expectations. Non-tech sales included Bouyges and Schneider in France and DSM in Holland. These are economic sensitive companies that were sold following unusually strong price performances in the last few months. In their place we bought Freeport McMoran and started to acquire Inco. These two mining companies are world leaders in terms of their mineral resources, respectively copper and nickel, which ensures that they operate at the bottom of the cost curve.

Pension reforms in Italy will benefit the entrenched asset managers like the Generali Group, including its life insurance subsidiary Alleanza. The government is trying to augment the present, and unsustainable, pay-as-you-go arrangement with a compulsory income-based levy to build a fully funded pension pool similar to that seen in Australia. With its dominant position in the Italian life insurance market, and being number two in Germany, we can see how this group can maintain its historic mid-teens growth rate. This is not fully reflected in the share price because of a history of faltering reform and a loss of confidence among private Italian investors which we believe will only be temporary.

In Japan, we have been adding to companies which benefit from a weakening yen while adding new names such as Sony, Citizen Watch and Shimano. We have also bought into Nippon TV and Tokyo Broadcasting. Contrary to what one might have thought, these two free-to-air stations have had enviable growth records throughout the last ten years of economic sluggishness. Trading on under 20 times earnings, these cash generative and highly profitable companies will have a central role to play as direct broadcasters once digital broadcasting begins and also as content providers to the 200 projected channels of satellite transmission.

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Dec 2001	Sep 2001
Cyclicals/Manufacturers	RMC, Akzo Nobel, Bayer, Linde, Océ	22%	22%
Consumer Brands	Adidas-Salomon, Coke Bottlers, Lottecon	11%	8%
Retail/Services/Logistics	Hornbach, Jones Lang LaSalle, Fraport, Stinnes	10%	9%
Financials	Nordea, Deutsche Boerse	8%	7%
Technology/Hardware	Toshiba, Samsung Electronics, AMD, Foundry	8%	11%
Medical	Draegerwerk, Merck KGaA, Novartis	7%	6%
Software/Media	Mediaset, Novell, Nippon Broadcasting, Seoul Broadcasting	7%	6%
Telecoms	NTT, Verizon, Korea Telecom	4%	6%
Gold and Other	Gold Fields, Newmont Mining	4%	3%

Currency

As we suggested in the last quarterly, the short term strength of the yen proved transitory. It has now turned decisively weaker and we believe this tendency will endure for some time. Apart from running a small short position on the yen, our currency posture is largely the same as before, namely long euro and European currencies to 47% and long the A$ to 45%. We have virtually no net exposure to the US$ or Korean Won.

Commentary

Despite important differences between this recession and previous downturns, investors have been willing to assume that the Federal Reserve Board's actions will re-energise the US economy. The differences range from the degree of synchronisation among global economies, to the high level of recent capital investment and the manner in which both corporate profits and earned incomes have fallen. Indicators such as forward rate spreads and the strong performance of share prices of companies that are susceptible to the business cycle, all point to investors adjusting their view to a "v" shaped type of economic rebound. This could be driven by the rebuilding of stocks and presumably the consumer's willingness to spend more in response to plentiful credit, epitomised by the interest-free deals on consumer durable goods, and further government stimulation of the economy. Investors seem willing to ignore the facts of continuing lay-offs and the rare experience of shrinking gross incomes.

As we have recognised in earlier pieces, fretting about the world's leading economy will not get us very far. On balance we agree with the consensus view of a recovery within six months, but we suggest it may splutter into life rather than burst upon us and confidently accelerate. An interesting feature in the US has been the alacrity with which companies have exploited investors' growing appetite for risk by issuing convertible paper - no less than $100 billion in 2001. Though less aggressive than the huge share buy-backs of earlier years, the favourable terms of these deals are noteworthy, as are the discredited names involved and the way that raisings have been expanded to accommodate strong investor interest. Cheap money is clearly working, but for this magic to come so soon after the bursting of the liquidity-induced internet bubble is a surprise.

Puzzling also is the relatively calm acceptance of one of America's great corporate failures, namely Enron. Here we have a failed hedge fund that had its origin as a gas pipeline company. Utilities are capital intensive businesses. A typical utility requires between two and three dollars of assets to produce one dollar of sales. In Enron's case, sales were about US$140 billion compared with shareholders' funds of some US$14 billion. Implicitly this suggests it had control over assets of between $280 to $420 billion. Put in banking parlance, each dollar of equity supported between $20 and $30 of productive assets. Moreover, equity itself was somewhat overstated as a consequence of the pre-booking of as yet unrealised profit. None of this is apparent from a casual reading of the balance sheet where the debt to equity ratio seemed to be one to one. Off balance sheet debt and long term trading arrangements were the real burden. Unlike a typical utility, Enron did not have the typical, if boring, cash flow. This became all too apparent from the subsequent fall-out and the withering share prices of related parties. As noted in previous coverage, the extent of debt and leverage within the US economy is of worrying proportions and yet the Fed deems it appropriate to continue to stoke the fire. (Do refer to our feature article for more on the Enron debacle.)

"So what?" you may ask. Well, we do not understand why in the face of these risks, the market is so willing to pay such high prices for tomorrow's earnings. Clearly, on 2001 earnings, Wall street is extremely expensive, trading on 27 times, but even on Year 2000 *peak* earnings with all the attendant accounting fiddles, the market is on 21.5 times. Though the economy is likely to recover, history suggests that earnings need not surpass these peak levels for some years!! Note the following table.

S&P500 EARNINGS

Year	Operating Earnings $	Year	Operating Earnings $
1970	5.15	1987	18.02
1971	5.79	1988	24.65
1972	6.48	1989	24.02
1973	8.16	1990	23.03
1974	8.97	1991	19.60
1975	7.94	1992	21.71
1976	9.90	1993	25.92
1977	11.01	1994	31.02
1978	12.44	1995	36.51
1979	14.92	1996	40.49
1980	14.76	1997	44.71
1981	15.22	1998	44.10
1982	12.76	1999	50.78
1983	14.29	2000	55.86
1984	16.94	2001e	44.00
1985	16.31	2002e	51.00
1986	15.89		

Source: Sanford Bernstein

It is worth remembering that the long term *real* growth in corporate earnings is around 2% pa. Further, that the S&P index has yielded an average *capital* return since the 1920s of about 7% a year. There was a time when shares were required to yield more than bonds. Now we find an S&P index composed of low yielding and highly geared companies. Shareholders seem willing to believe that equity investment involves close to zero risk and that high rates of growth of corporate earnings are inevitable.

Contrary to the beliefs created during bull markets, fast growing companies are scarce. When conducting a search of our database for companies that have grown earnings at 15%pa, a mandatory figure that is commonly cast about by promotional company executives, the list is short. We searched for companies anywhere in the world with a market capitalisation above US$900 million which had achieved 15% trend earnings per share growth regressed over the last, favourable, 15 years. By using the best fit over 15 years, the screen does include companies that have negative year on year comparisons ie. some years of declining earnings per share. Out of a sample of 1402 companies only 136 passed the test. When the net is drawn wider to find companies that have achieved 7% pa over 15 years, the catch rises to 507 entities – but still this represents only 36% of the whole sample! A rise in the valuation placed on each dollar of earnings can do great things for stocks in a bull market (ie. PE expansion) but in the end, earnings drive stock prices.

The above observations apply equally to the markets of Europe and Asia. The emphasis on the US stems from its leadership position in terms of market capitalisation and the likelihood that it will recover ahead of the other developed markets.

Clearly the news coming out of Japan is extremely disturbing. We do see, however, that cash flow constraints and chronic disappointment with the behaviour of the economy is now starting to galvanise change at the company level. Simultaneously, the yen continues to weaken and we see a weak yen and falling aggregate income as the principal solutions to the country's problems. We are finding companies that meet our valuation criteria and even if some are not growing at present, there is still underlying strong compounding of their net worth.

In Europe we have been somewhat dismayed at the unhelpful interventionist approach by the competition commission. On the back of an unresponsive central bank, which is encountering the problems of the different rhythms of economic activity among member countries, this has not helped to engender faith in the smooth workings of Euroland. Nevertheless, at the country level we are seeing interesting developments. In Italy, pension reform is gaining momentum as the Berlusconi Government addresses the problem of developing a funded private system. The regime is also working on lowering direct taxes. Tax reform in Germany is likewise helpful; the sale of long held investments will be treated as capital gains free as from January 2002 which should accelerate the restructuring of businesses and allow the equity market to play a more significant role in this largest member of Euroland.

Conclusion

In several markets, particularly the US, we detect an unusual degree of optimism buoying prices of many leading companies to levels which may prove unsustainable. Platinum has, however, been able to load its portfolio with enough companies priced to offer good value to enable us, we believe, to deliver positive returns over the next year.

Kerr Neilson
Managing Director

Feature Article - Enron (US)

Enron filed for bankruptcy on 2 December 2001. This was no ordinary filing – not only was Enron the biggest bankruptcy in US history – there was very little alarm about Enron even one month earlier – and almost none six months earlier. *This very big bust was a very big surprise*. This once again reminds investors of the financial leverage within the system which adds to the vicissitudes of managing businesses and of investing.

Background – Energy deregulation and the rise of highly leveraged energy merchants

In the United States – as in Australia – there has been a trend towards deregulating energy markets. Formerly each district had its own monopoly gas and electricity supplier. With deregulation the *means* of distribution (pipes for gas or wires for electricity) gets separated from the *product* being distributed. The "lines" company gets regulated as a monopoly and competition is introduced in the product market with customers being able to chose from many suppliers.

The pure "merchant" business – a company buying and selling energy which it did not produce - was born. It happened first in gas (which was deregulated in the mid 1980s). Several gas companies (including Enron, PanEnergy, El Paso Gas, Dynegy and others) became merchant businesses. They found large customers and purchased gas from their own and other sources making a "trading profit".

The trades became more exotic. These companies purchased gas storage so that they could "arbitrage" seasonal differences in gas prices. They started trading petrochemicals where the raw feedstock was gas. It might for instance be easier to alleviate a gas shortage in the US by closing a urea plant (which uses a huge amount of gas) and importing urea than by building additional storage. Moreover when the gas price was allowed to fluctuate week-to-week there might simply be weeks where it was unprofitable to produce urea in the US.

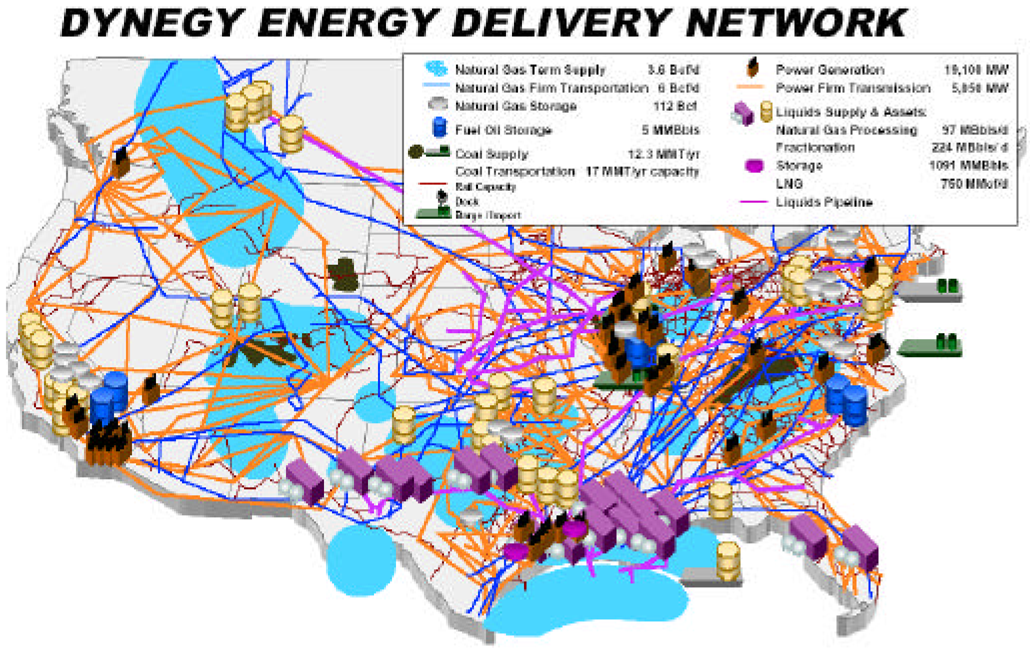
In 1996 electricity was deregulated – and gas merchant companies bought their trading expertise to the electricity market. *Almost all the largest players in the electricity merchant market were originally gas companies – the major exception being Duke Energy (who purchased their expertise in a merger with Pan Energy).*

Electricity deregulation caused a massive acceleration of the merchant business and the trading business. Electricity is a *far more volatile commodity than gas* exacerbated by the almost total lack of storage and larger swings in usage. Electricity markets became very correlated with gas markets however, because the marginal generation of choice was gas turbines.

The trades became more exotic still. As electricity demand was correlated with gas demand and gas demand was correlated with chemical prices, swings between Californian electricity prices and say polyvinyl chloride prices were traded. This was also correlated to the weather, so energy companies started trading in weather derivatives and weather insurance. (If you wanted to insure a Rock concert against rain you would buy the protection from a gas company! Weather is correlated with electricity usage – so the energy trader could undercut the insurance company in providing this protection – hedging its exposure through its trading business.).

The trades also became very leveraged. Dynegy for instance has signed 14 year "tolling agreements" with power station providers. A "tolling agreement" is an arrangement where the buyer promises the power station a fee either for use, or for sitting idle. Dynegy then has to provide gas to the power station when it wishes to use the station – and in return takes the electricity generated. The power station has only to provide for the use of its turbines. This tolling agreement can be a "physical toll" (in which case there is a real power station and operating clauses) or a "financial toll" in which case all Dynegy is trading is a spread between a gas and electricity price at an assumed conversion rate (known as a "heat rate"). What has happed, however, is that Dynegy now has use of the power station *without putting up substantial capital.* Dynegy has implicitly got very large leverage.

Enron did similar things – but because Enron's accounts are simply indecipherable it's easier to look at Dynegy. Enron was about six times Dynegy's size – and almost all its energy delivery assets were obtained through financial tolls and similar structures.



The picture above – from a Dynegy analyst presentation – indicates just how wide the controlled asset base is. In addition to these assets, Dynegy controls energy assets in the UK and Europe and 16,000 miles of broadband cable. To imagine the financial scope of Enron multiply by six and Dynegy controls this from roughly $4 billion in stockholders equity!

One thing is for sure – Dynegy does not own all these assets. Some it owns (there is considerable balance sheet debt), but in many cases it is just paying other companies for the right to use these assets. *A long term contract by which Dynegy controls these assets is just another form of leverage*.

The financial leverage has helped Enron (and Dynegy) to grow very rapidly. Before Enron's collapse its sales were running well over US$100 billion per annum – about $9 million per staff member. In 1996 its sales were just over $13 billion. This growth was obtained by gaining effective financial control over more power stations, pipelines, hydro dams and other facilities than ever before – using tolling agreements and long term contracts.

With the power shortages in the United States last year, and with simply huge amounts of leverage, the energy merchants made what seem to be very large profits last year.

Sectoral pressure on Enron's trading model

Trading regional differences in gas price, or between gas prices and chemical prices was hugely profitable when only Enron did it. (If the chemical company in Asia doesn't know about the hot weather in the US driving air-conditioning demand and hence gas usage they might be willing to take a lower price for their output from these funny Texans who are offering a short term contract.)

The problem is that soon-enough the easy trades were done. Enron's margin has fallen pretty consistently now for years. Their volume however soared. To deal in larger volumes Enron needed to control more delivery and other assets – and hence the implicit leverage in the structure soared.

Enron's response to the pressure on its trading model and the demise of Enron

Enron had two responses to greater competition. These were (a) to diversify into new areas such as "bandwidth trading" and water trading, and (b) to use opaque accounting structures which hid the decline in profitability. The problem however was that the new businesses (bandwidth, water, power in India and others) were highly unprofitable. On bandwidth for instance the losses will probably match those of other bulk bandwidth providers – say 80¢ in every invested dollar.

Enron hid these losses through staggeringly complex deals with off balance sheet entities managed by senior staff members. The "related party" statement in Enron's last annual accounts is extremely obtuse.

The losses however came out in cascading disclosures. We don't know how much they really lost but it was several billion dollars in bandwidth alone. The accounts for the past three years were "restated". This only happens when there are serious accounting "irregularities" (which may or may not include fraud).

Either way the trust in Enron disappeared. Short term capital markets dried up and counter-parties to trades demanded cash wherever they were owed it. The effect was the same as an old-fashioned bank run. Enron had become as leveraged as most banks and everyone who could get their cash out largely did. Insolvency loomed.

The insolvency was briefly delayed by a promised acquisition by Dynegy. Dynegy injected $1.5 billion in funding allowing Enron to last a few days longer. However it was soon all over.

Lessons

What is startling about this case is (a) the notion that once boring utilities could get themselves so leveraged with funding that was implicitly so short term and (b) the vulnerability of structures outside traditional banks to "runs". The related party dealing is also startling – however a culture of opaque accounts and managed earnings is widespread in the US – with Enron perhaps being an extreme (and extremely vulnerable) example.

Other companies in this sector are just as vulnerable to "runs". Dynegy for instance has drawn its back up lines of credit by $1.1 billion during the first two months of the quarter. It has available liquidity of approximately $900 million. It is being sued by Enron (or by Enron's creditors) for US$10 billion for breaching its merger agreement. The consensus is that it will probably win the Enron court case – but even the perception that it might lose could trigger liquidity issues.

Sadly we were too sleepy to profit from the share price collapse of Enron. However, the hasty rescue arrangements by Dynegy gave us a second chance. We established a short position on the basis of Dynegy's highly leveraged business model and the risks associated with Enron litigation. Since taking that position Dynegy has itself lost access to short term capital markets. The stock however is highly volatile – the bulls believing that the loss of the main competitor will make Dynegy's trading operation substantially more profitable.

John Hempton
Investment Analyst







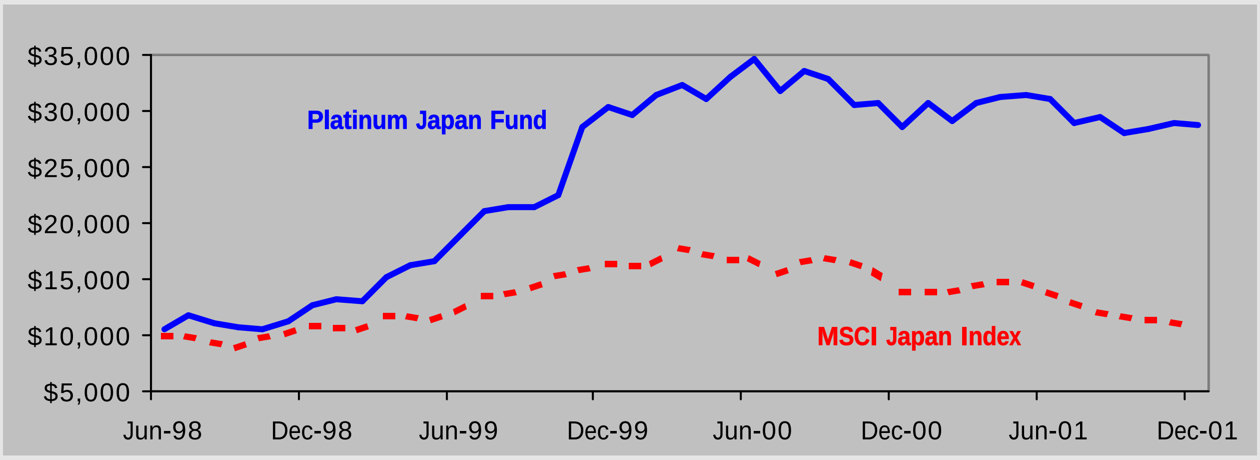
Platinum staff Christmas party


The Platinum Japan Fund

REDEMPTION PRICE: $1.7443

Performance

VALUE OF $10,000 INVESTED SINCE INCEPTION (1 JULY 1998 – 31 DECEMBER 2001)



The Japanese stockmarket performed sluggishly over the quarter, failing to show any rebound from the substantial declines of the preceding quarter. The benchmark MSCI Japan Index was up 3.5% in yen terms, but declined by 6% in US$ terms, as the yen depreciated sharply. There was clear divergence within the market, as the technology-based electrical machinery index rose 23% on the back of similar gains in the Nasdaq, while domestic focused stocks struggled, with the banking index leading the declines with a 20% fall. The concern of investors for the health of the Japanese financial system was evident, especially when contrasted with US and European markets, where the indices both rose 10% in US$ terms. The surprise performer was the Korean equity market which rose 56% in US$ terms over the quarter and was clearly the best performer among major equity markets. Foreign investors bought Korean stocks aggressively as they anticipated a better global economic environment and recognised the benefits of strong domestic consumption.

Our Fund managed to perform well during the period rising by 2.9% in A$ terms, whilst the MSCI Japan Index fell 9.3% in A$ terms. This was primarily attributable to the good performance of our Korean positions and in a relative sense, our hedge out of yen into both the A$ and the Euro. The biggest contributors to our gains were Korean: LG Advertising which rose 88%, Lotte Confectionery, gaining 58%, and LG Chemical, which rose 55%. On the downside, there was NTT's fall of 23%, while our positions in the banks, which we sold out of during the quarter, hurt performance. Over the 2001 calendar year, the performance of the Fund was 0.6% versus that of the MSCI Japan Index –23.4% in A$.

Changes to the Portfolio

Our main action was to trim the positions where we have become overly exposed on account of strong price rises. As noted above, our big winner was LG Advertising, which rose on the back of negotiations with international advertising giant WPP, which is seeking to take a controlling stake in LG. This announcement caused the valuation discount that had existed on the stock to evaporate. However, it is still not expensive. Generally, we continue to find real value in our holdings in Korea, despite rapid price appreciations.

In terms of the Fund's Japanese stocks, the major changes were the removal of our positions in the bank stocks, and the trimming back of our exposure to property companies. We once again misjudged the Bank of Japan (BOJ), believing that Japan's central bank would aggressively act against the rising deflationary forces at home through an aggressive easing of policy, especially with a legitimate excuse provided by the September 11 terrorist attacks. The consequence of the BOJ's failure to respond has been to place further pressure on the domestic economy resulting in more bankruptcies and adding to the nervousness of the stockmarket. We still think the BOJ will be forced to move towards more aggressive monetary easing which should boost finance and property-related stocks, but the timing of such action seems to have been extended again.

A new addition to the portfolio this quarter is Japan's Alpine Electronics. Many readers would be familiar with the company for its car audio products which account for 62% of sales. This is a mature and highly competitive business, although the company is clearly in the top tier of producers in terms of its market share, profit margins, brand quality and a blue-chip client list which is headed by Honda, BMW and Mercedes. Surprisingly, the company has managed to grow its sales at 7%pa over the past ten years which testifies to its strength. The exciting part of the Alpine story is its burgeoning car navigation business which currently accounts for 25% of sales and which grew 44% last year! Our feeling is that car navigation systems will become a standard, mass-market product, similar in its ubiquity to the mobile phone. Starting first with luxury cars, it will gradually become a common device in hire cars and medium priced automobiles. The desire for consumers to have access to services in their cars, like electronic street directories with voice-activation, electronic toll collection, in-car TV and video entertainment as well as internet access, should prove compelling. The implications for Alpine are a much larger target market for its products, but also a greater level of complexity in terms of customer expectations and the technology involved in meeting these needs. The technological complexity comes from the need to integrate communications technology (GPS, mobile information downloads etc) with new components, and the software necessary to drive the electronic maps, internet access etc. Fortunately Alpine is very well placed, as it has been working toward this new business model for some time. This is evident from the increase in its R&D-to-sales ratio, which has risen from 3% to 7% over the past decade. The company also draws strength from its partnerships with the likes of BMW in the development of total systems; its parent, Alps Electric with regard to components and Nokia for communications technology. At present, only 8% of new cars are shipped with car navigation as a standard inclusion but projections have that figure rising to 30% within ten years.

DISPOSITION OF ASSETS

Region	Dec 2001	Sep 2001
Japan	64%	68%
Korea	24%	21%
Cash	12%	11%
Shorts	16%	11%

We think the company is attractively priced at 20 times earnings. It is a major beneficiary of a weaker yen, with 71% of sales overseas, so the domestic problems of Japan are not really relevant to Alpine. Sales should continue to grow at 7% and profits could grow at 15% pa for some time, with margins rising from very low levels, as some of the forward investment in R&D is recovered.

On the thematic level, we are adding to the Fund's holdings of companies that will benefit from the soccer World Cup to be held in Japan and Korea over May/June 2002. The broadcasting and advertising companies are therefore of interest, but in addition, these businesses show very solid long-term records of growth and profitability, while being valued near historical lows. Even through the post-bubble recessions these companies have grown earnings nearly every year.

Our short positions are now entirely against individual Japanese stocks, primarily in the technology area. We have increased our short interests to 16% of the Fund. We closed our 5% short position against the Korean market during the quarter prior to the major upward move in the market.

The currency position is largely unchanged at 55% in A$, 26% in Euro and 19% in yen.

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Dec 2001	Sep 2001
Restructuring	NTT, MEI, Toshiba, Takeda Chemical	18%	16%
Thematic	Noritake, Mizuho, TOC Corp	13%	22%
Hidden Assets	Nippon Broadcasting, Toyo Tec, Taikisha	9%	9%
Growth Stocks	Furukawa Electric, Aiful Corporation	8%	9%
Cash Generators	Air Liquide Japan, Enix Corporation	8%	6%
Other	Alpine Electronics	6%	5%
Korea	LG Chemical, Korea Telecom, Samsung Electronics	24%	22%
Cash/Margin Deposits		14%	11%

Commentary

The quarter saw a sharp divergence between the performance of most world markets and that of Japan. While the trend globally was to lift share prices in anticipation of the expected economic recovery, Japanese shares failed to respond. Clearly the interpretation by investors was that the countries structural problems greatly outweigh the benefits from a turn in the global cycle. With the Japanese having just entered their third recession of the last ten years, the market is less willing to overlook these domestic structural problems than it may have done in the past.

What is the core of the problem?

Simply put, Japan has never fully dealt with the problems which arose from the so-called economic bubble of the 1980s which had delivered staggering rises in incomes and wealth levels. As with any 'bubble', there are some foundations to the initial stages of development – in this case it was Japan's clear leadership in technological innovation – but this factor of success was allowed to feed into an asset-price bubble through loose monetary policy. During the last ten years, we have clearly seen a 'de-bubbling' of asset prices. However, we have not witnessed a real economic contraction as yet. The real economy has been cushioned by massive government spending on an unprecedented scale, with total debt as a proportion of GDP approaching 700%. However, the spending is only supportable in the long-term so long as the assets being kept afloat generate a reasonable return. With interest rates stuck at 0% and the economy in recession, this will not happen. Meanwhile, the technological lead that Japan once enjoyed has now narrowed considerably. This has to impinge negatively on living standards. In this regard, the recent downgrades of Japanese government debt by the ratings agencies, albeit late, are probably the best sign that the game is up.

Where does it end?

Clearly, there is a variety of possible scenarios ranging from the benign to the diabolical. One view might be that Japanese GDP per head should be no greater than that typical of most European countries since Japan possesses no significant competitive advantage. By this measure, GDP per head in US$ could fall by 30%. This adjustment could be achieved either by substantial currency depreciation or by a more benign mix of currency depreciation and nominal GDP falling as prices deflate, as we have had for some time.

The former is likely to have damaging flow-on effects to competing countries such as Korea, Taiwan and to an extent Euroland which competes heavily in the area of capital goods. However, intuitively, if the market thinks the time is up, the Japanese may not have the luxury of choosing such a "gentle option" as presented in scenario two.

On another level altogether, it is hard to believe that the recognition of the failure of Japan's post-war economic model will not start a chain reaction of political and social change. We have not seen this yet.

Are there any positive indications that the worst-case scenario might be avoided?

We can see some encouraging signs. There are companies which are dismissing staff. Unemployment has reached 5.6% and appears set to go considerably higher. We would look for a 10% unemployment rate to possibly signal the end of Japan's immediate dilemma. Also, some larger-sized bankruptcies have occurred recently such as those of Mycal and Aoki, which are surely indicative of a declining desire to prop up weaker companies when they are on the brink. However, despite depressed sentiment, there is no panic in the streets and the basic institutions of government are sound. We expect this calm to be tested before the turn.

What about the equity market?

It is difficult to regard the current environment for Japanese equities as good. Perhaps the best outcome for the market would be a very sharp drop in the value of the yen, in order to clear the blockages in the economy and cause a move to a new economic model. More generally, in this environment, companies with considerable offshore businesses or those companies with Japanese businesses, which would benefit from the removal of weaker competitors, are the ideal portfolio candidates.

Generally, the level of correlation between the Japanese and Korean markets is quite high because of the number of industries in which the two economies compete. However, investors now seem to be ascribing very "Japan-specific" problems to that market while embracing the Korean story. We have often commented on the relative attractions of Korea versus Japan and it appears that the market is now sharing this view. The most important factor at present is the vibrancy of the Korean domestic economy, a point for which Korea is not often famed. This can be attributed to two major factors. Firstly, the cheapness of the Korean currency since the Asian crisis has enabled export businesses to continue taking share from the Japanese and kept unemployment levels in the 3-5% range. Secondly, this positive employment situation and greater labour flexibility has translated into an outlook of confidence, reflected in surging consumer spending. The government has further accommodated this trend by opening up previously closed channels for consumer lending such as credit cards. With the dramatic fall in interest rates from typically around 10% to the 4-5% range, the consumer has not only run down his savings but has begun to borrow. While this may cause alarm, the Korean consumer has historically been very 'under-borrowed' and as such has plenty of capacity. These same arguments could theoretically apply to Japan, but that economy has an older population that is fearful of job security and hence internal growth may be more elusive. Looking ahead, the major challenge for Korea is likely to come from substantial yen depreciation as Japan tries to reflate. However, Korea is more capable than ever of handling such a scenario with over US$100 billion in foreign exchange reserves and it can also let the Won depreciate. All the same, such a situation would cause many to review investing in Korea. In the end, investors would likely view such conditions as a major buying opportunity. We remain very interested in the Korean market, as we believe that we can still find many strong companies at ludicrously cheap valuations.

Outlook

We continue to expect difficult conditions for equity markets, as the US stock market remains expensive for the levels of economic growth likely to be achieved in that economy during the next few years. Japan seems less likely to be helped by global circumstances, and this may generate further market pressure and policy responses. Generally, we are encouraged by the value we can see in individual stock names, but the trick will be to discern the degree of vulnerability of such companies to the patchy economic conditions that we anticipate. It is likely to be a fruitful period for stock pickers.

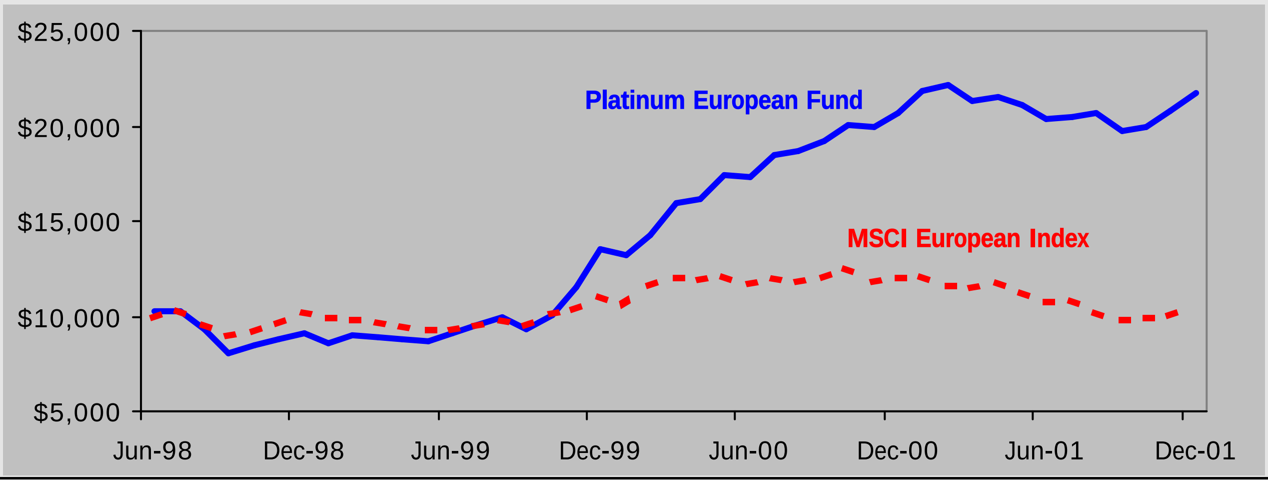
Jim Simpson
Portfolio Manager

The Platinum European Fund

REDEMPTION PRICE: $1.7509

Performance

VALUE OF $10,000 INVESTED SINCE INCEPTION (1 JULY 1998 – 31 DECEMBER 2001)



Performance - the inevitable bounce dampened by the concurrent rise in A$ versus euro

European stock markets bottomed on 21 September and central bank reflation efforts led by the US Federal Reserve catalysed a good recovery in the three months to 31 December. In local currency the European markets were up 12% in the quarter. After 18 months of decline, the computer hardware/software (+51%) and telecom equipment (+58%) areas led the recovery. This in itself is very interesting as it confirms their position as growth (albeit risky, unreliable growth) cyclicals – thus it makes perfect sense to buy them anticipating economic recovery. Consistent with this economic recovery bias, manufacturing (+58%), steel (+47%), and industrial products (+39%) were the next three strongest sectors. The safe-haven areas of water/ /electricity utilities and pharmaceuticals were the sectors that fell over the period, but these were down only about 5%.

Of the 500 largest European companies, 64 saw their stock prices up by more than 40% over the quarter, and only 16 stocks fell by over 10%.

While European markets rose 12% in local currencies, the Australian dollar strengthened over the same period reflecting hopes for economic recovery. Thus the MSCI measured in A$ returned only 6.1% over the quarter while the Platinum European Fund rose 9.9% as stocks such as Siemens, Adidas, Lagardere, Océ and Mediaset participated in the recovery. Short positions in the drug stocks helped as Glaxo and Aventis suffered especially as investors rotated into more economically sensitive areas. We closed the short positions on these two companies as they are no longer too expensive and the defensive appeal of pharmaceutical earnings may be appealing again sooner rather than later.

Over the last twelve months, MSCI Europe is -13.1% in A$; the Fund has returned +5.2% over that period.

Commentary

Hornbach – Kingfisher ... Home Depot – the globalisation of DIY retail

The DIY ("Do-It-Yourself") or home improvement retail industry has become a large and fast growing consumer area in many western countries. The companies that dominate DIY today tend to have very large stores (typically in excess of 10,000 square metres), and a strong offering including hardware (ie. power tools, nails etc), decorative (carpet, wallpaper, paint), and a garden centre (plants/flowers/herbs but also fertilisers, pots etc). The range of items is vast (50,000-70,000 lines) and these stores have become "category killers" so that they appeal to both tradesmen (confirming the validity of the product range and the price leadership of these stores) as well as genuine "DIYers". As in other areas of "modern retail", DIY superstores have displaced armies of smaller shops. In addition, DIY retailers are, by their very presence (but also by offering complimentary training sessions on various home improvement projects) driving up their share of shopping dollars.

The large format store concept originated in the USA, where Home Depot has served as a blue print for many others. Local flavour and variations aside, it is remarkable how this same basic format has come to dominate the USA, and then Canada, Germany, the UK etc. One other important background issue is that the US market seems to be rapidly approaching saturation (Home Depot operates 1,200 stores in the US alone and its arch rival Lowe's has 730) so that there are few viable customer catchment areas which are not very well served already. In addition many new imitations and variations in regional markets are starting to become a headache. Among the key priorities for Home Depot (and its ¼ million staff!) is therefore to pursue growth in international markets. With a strong position in Canada already, the logical area for expansion is Europe. Home Depot has had 40 or so German staff on its payroll in recent years just looking for the opportunity (it operates no stores anywhere in Europe).

In the UK the "B&Q" chain of Kingfisher (or more correctly of its Paris-listed DIY subsidiary Castorama) dominates a burgeoning DIY retail scene; in France Castorama is the market leader but is yet to fully exploit the large store format.

The Platinum European Fund has had an investment for some time in the Hornbach group in Germany, where that company dominates the large format DIY market. In recent years the business has performed exceptionally well in a very difficult industry environment (a weak consumer, dull/negative DIY industry sales growth, collapsing East German economy) which is exacerbated by the fragmentation (and relentless growth in sales space) of the DIY business in Germany generally. Hornbach's business performance highlights the fact that even once a viable store format is established, operating the business still requires great skill and flair. Most competitors in Germany operate a rag-bag of store sizes and formats which makes it difficult to "roll out" any systematic store strategy. Hornbach is thus not only the most successful operator in Germany (and in recent years Austria, Netherlands, Czech Republic and plans for Switzerland and the Scandinavian countries) but the best starting point for Home Depot's European expansion.

It was thus a considerable coup for Kingfisher and a real disappointment for Home Depot when in late November it was announced that Kingfisher had bought 25% of the voting shares of Hornbach Holding, and the right of first refusal should the Hornbach family choose to sell their controlling stake in the company. Apart from its dominance in the UK and France, Kingfisher is pushing into the DIY retail markets of Italy and Poland. Moving Hornbach into its group thus gives Kingfisher leading positions in most of Europe in arguably the world's best retail growth sector. What it may well cause, though, is for Home Depot to short circuit the whole problem by buying Kingfisher itself. Two factors may delay that outcome. First, Kingfisher has a second leg which is its electrical retail (PCs/mobile phones etc) operation - this activity would not interest the American giant. Second, the minority share of Castorama remains listed on the French exchange and Kingfisher does not exert full management control in that business yet.

Wildly overpriced at over £9- in early 1999 (Kingfisher had started a couple of websites and the stock market was keen to see it partially as a dot.com!), Kingfisher's share price has come down to under £4- as the slowing electrical business weighed on the strong UK DIY performance. The Platinum European Fund bought a position in the stock on the announcement of the Hornbach deal as we thought the increased strategic importance of Kingfisher's position more than compensated for today's dull electrical trading. We also increased the investment in Hornbach, not discomforted by the fact that the informed buyers at Kingfisher have paid 2-3 times the current share price for their minority stake. Around 8% of the portfolio is invested in the DIY retail area as of 31 December 2001.

European stock exchanges – the consolidation continues

Another area of interest for the Fund is that of the European stock exchanges, many of which are now listed companies themselves (ie. you can invest in the business of the London Stock Exchange, Deutsche Boerse etc). These businesses have the appeal of limited competition as it is the liquidity in a stock, bond, future or other derivative that is the primary determinant of where trading activity takes place.

In the last twelve months the member owned exchanges of Germany, France/Netherlands/Belgium (these three merged previously) and London have listed themselves (on themselves!). In mid-December the Swiss Stock Exchange announced plans to list the remaining Swiss companies, having already put the large stocks onto a (listed) electronic stock exchange earlier this year.

In addition there are various affiliations with both the respective derivatives exchanges in each country, as well as the clearing and settlement systems which support all exchanges. Simply put, there are a great many entities involved in the trading and settlement of financial assets in Europe and the inevitable consolidation is well under way. The benefits to scale in these business are considerable as the customers – the stockbrokers/banks – are predominantly common to the exchanges; and "netting-off" of stock, derivative and cash positions would allow less broker/bank capital to be tied up in the settlement chain.

Perhaps more interestingly, this remains a growth industry as the great switch in European savings (from cash/bonds to stocks) takes place over the coming years. This should increase volumes of shares traded in many European countries, and turnover drives the fee-taking stock exchange businesses. In addition, the generational change (as the post-war re-builders hand businesses down) in Germany, catalysed by the 2002 capital gains tax holiday, should see the listing of many privately-owned businesses, again increasing stock exchange volumes.

The Platinum European Fund has a position in Deutsche Boerse, which controls trade in German stocks and has a big footprint in European derivatives and also in settlement/custody. It has the strongest balance sheet (net cash of E1.1 billion) and is the technological leader in the industry. This company benefits from both the growth themes identified above (Germans having the lowest proportion of listed companies and the highest proportion of their savings in bonds among large European countries). In addition we anticipate Deutsche Boerse will play a strong role in consolidating the industry.

Portfolio Activity and Outlook

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Dec 2001	Sep 2001
Miscellaneous Services	Fraport, Rinascente, Hornbach, Stinnes	19%	24%
Growth	Novartis, Siemens, Merck KGaA, Novozymes	17%	16%
Consumer	Kingfisher, Lagardere, Mediaset, Adidas-Salomon	16%	12%
Chemicals/Materials	RMC, Akzo Nobel, Linde, Bayer	15%	26%
Capital Goods	Océ, Schindler, Metso	11%	10%
Financials/Insurance	Alleanza, Deutsche Boerse, Nordea	10%	9%
Cash		12%	3%

We mentioned in the September quarter report that we had fully invested the cash in the Platinum European Fund in late September. European markets have bounced and the valuations have increased from 18 times in late September to around 26 times earnings today – not least because consensus earnings estimates have declined over that period. With this in mind we have allowed the cash to build up and sold some economically sensitive stocks which have had a strong run (and who continue to report very difficult operating conditions in November and December).

New additions over the quarter included Italian asset management businesses Alleanza and Generali (laws have recently been passed making retirement savings mandatory in Italy), UK retailer Kingfisher as mentioned above, and the Dutch based Nutreco who are world market leaders in farmed salmon – in both the actual farming and the steadier fish feed businesses.

We topped up positions in Danish enzyme specialist Novozymes and in Swiss-based pharmaceutical giant Novartis as these companies' share prices were sold down with other "defensives". We sold out of French low voltage company Schneider (discussed at length in the last quarterly report) after a good move up in the stock; the Dutch chemical company DSM (who are re-positioning their business portfolio, a process which may not be profitable to endure); and we reduced our position in the resilient Akzo Nobel as patent disputes make their 2002 pharmaceutical earnings very hard to predict.

The traditional year end rally (anticipating the traditional January rally!) is especially poignant this year as investors ponder the likelihood and type of economic recovery over the next 18 months. Stocks are clearly no longer technically "oversold", nor are they cheap on their current earnings prospects. Low interest rates result in valuation models advocating high multiples for earnings; on the other hand we worry that sustained low interest rates imply low inflation and patchy deflation, which tend to make earnings lower or volatile at best.

We remain selective in our investments and we are conscious that the abundant liquidity could push some sectors further still which may not necessarily benefit the Platinum European Fund.

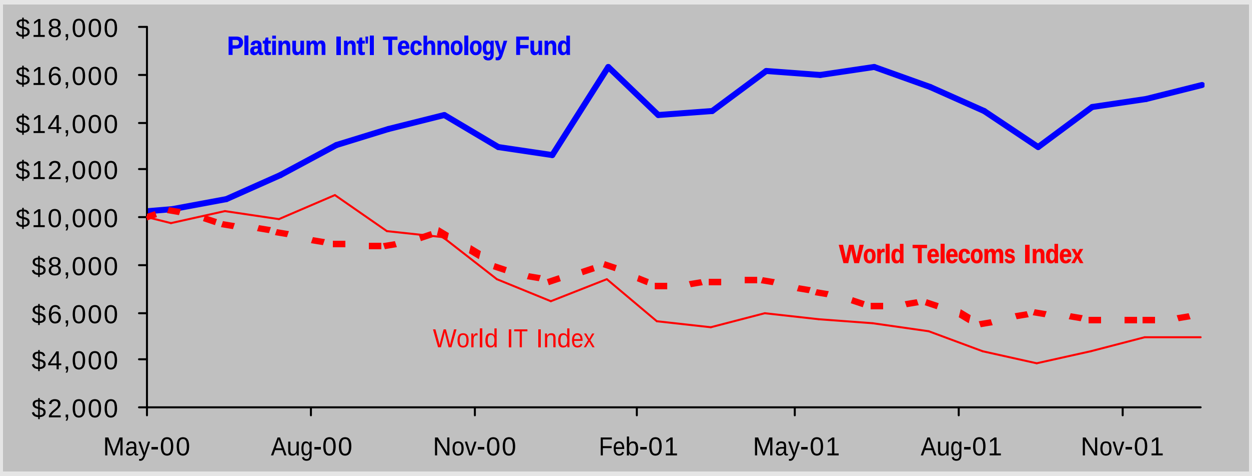
Toby Harrop
Portfolio Manager

The Platinum International Technology Fund

REDEMPTION PRICE: $1.2156

Performance

VALUE OF $10,000 INVESTED SINCE INCEPTION (18 MAY 2000 – 31 DECEMBER 2001)



In the latest quarter, the technology sector continued its rally from the lows of September, with the MSCI Information Technology index (A$) rising 28%. The story for the telecom sector was less favourable with the MSCI Telecom Services index down 4%, although this mainly reflects the fact these stocks had not fallen as heavily the previous quarter. The Fund performance lagged the index return, rising 21% for the quarter. In the initial weeks of the quarter, performance was in line with the market as many of the Fund's holdings performed strongly and the Fund's short positions were small. However, the rise in stock prices for a number of holdings were extreme (up 50% or more) taking them well above levels we believed were justified by the intrinsic value of their businesses. As a result, we elected to reduce the Fund's positions in these holdings as well as enter into short positions in other stocks that we believed had reached extreme valuations. Although, with the benefit of hindsight, it would have been preferable to defer such decisions until later in the quarter. Much of the Funds good performance to date can be attributed to selling holdings that have reached full prices. Since inception, the Fund has returned +53% versus -46% and -42% for the MSCI technology and MSCI telecom sectors respectively.

Changes to the Portfolio

Positions were trimmed in a number of holdings such as AMD, i2 Technologies, Parametric, Foundry Networks and PeopleSoft that had performed strongly and positions in Sun Microsystems and Globespan were eliminated. New additions to the portfolio included Intentia, a Swedish enterprise software company, Veeco, a manufacturer of atomic force microscopes that are critical in development of nanotechnology (see our discussion on nanotechnology in the June quarterly report) and Alpine Electronics, the Japanese electronics company that has a leading position in car navigation systems. Once again, we have built up short positions in a number of stocks that we believe are significantly overvalued. This should provide some downside protection.

DISPOSITION OF ASSETS

Region	Dec 2001	Sep 2001
US	33%	46%
Other Asia (incl. Korea)	15%	14%
Japan	9%	9%
Europe	3%	0%
Cash and Other	40%	31%
Shorts	38%	8%
Net Invested	22%	61%

BREAKDOWN BY INDUSTRY

Categories	Dec 2001	Sep 2001
Semiconductor	19%	22%
Electronic Components	13%	15%
Software	10%	8%
Telecom Equipment & Suppliers	8%	10%
Other	14%	14%

Outlook and Commentary

Two of the notable bright spots in the technology sector have been personal computers and mobile phone handsets. That these two products are the first to show some signs of stronger demand is not surprising as they are relatively mature products whose growth rates during the boom were a mere 15% to 20%. Further, the downturn has been relatively less severe with global shipment volumes for phones and PCs expected to be down only 5-7% in 2001, a very strong performance versus areas such as optical components where volumes have fallen 50% or more. Suppliers of semiconductor components to the PC and mobile phone companies, such as National Semiconductor (one of the Fund's holdings) are indicating that sales will be up 15% to 20% next year as a result of some growth in retail sales and an end to customers destocking of components.

In the PC memory chip market the spot price of a 128MB DRAM has bounced from lows of around US$0.85 to $1.70 causing many commentators to announce the beginning of a new semiconductor cycle. Certainly this jump in price indicates that the inventory overhang has been cleared but when compared with a cost of production of around $2.00 it is not exactly cause for celebration. The ongoing problem for the industry is simply too much capacity. On this front however, there has been some progress with the decision of Toshiba to exit the DRAM business. They have achieved this by selling one of their US production plants to Micron, and converting the balance of their capacity to other semiconductor products such as flash memory. The removal of one of the marginal players from the market undoubtedly helps industry dynamics but the total reduction in capacity represents no more than 3% of the total. To return to profitability, the industry awaits a return to strong growth in the PC market, with Microsoft's new operating system Windows XP the likely catalyst here.

In contrast to mobile phones and handsets, the telecom equipment market has continued to deteriorate. In the North American market, companies such as SBC Communications, Qwest, and Sprint have made announcements regarding reductions in ongoing capital expenditures. Whereas it had previously been expected that 2002 would see capital expenditure relatively unchanged by North American operators, it is now expected that these expenditures will fall by a further 20%, after declines of around 12% in 2001. Even in the mobile infrastructure arena where demand is typically expected to be better, the leader in the field Ericsson announced recently that they expect sales to be down next year. The price competition among the equipment providers is severe, with Lucent for example, currently earning gross margins of 12% versus nearly 50% in the good times. Where the downturn has been particularly severe has been in the optical transmission arena with the component suppliers are still struggling as their customers, the equipment companies, continue to pare back inventories. Optical components company JDSU reports price declines on products of 35% to 40% versus the usual 15% to 20%.

Undoubtedly the telecom equipment market will start to level out soon, inventories will clear at the equipment and component makers, and sales start to slowly improve. In fact many stock market commentators are obsessed with the inventory clearing process and see this as the critical event for a return to better days. But as with the memory chip business, profitability need not follow such a turnaround, certainly not back to the levels recently seen, simply because of the problem of excess capacity. This will take significant plant closures, companies leaving markets, or significant improvements in demand, which are more likely to be seen over a longer drawn out period of time.

For stock market investors in the technology sector, the critical issue (as always) is not where we are in the cycle but whether stock prices reflect the outlook for the business. In the last quarterly we made the observation that prices of many stocks had fallen to levels which made attractive long term investments. With the move up in the tech sectors over the quarter, and with many individual stocks prices up over 50% to 100% and beyond, this comment is no longer valid. Although we have droned on about valuation in these reports over the last year and a half, rather than bore you again with many of the same points, consider the following observation made by Paul Sagawa of Sanford Bernstein, a leading independent research house on Wall Street. Sagawa estimates that for Cisco to justify a stock price of $19 (level in mid-December), the revenues would have to grow over the following decade at a rate of 17.5% and earn an operating margin of 25%. An examination of the great growth companies over the years shows that at no point has any company achieved such a result in this timeframe once revenues exceeded US$15 billion. In other words, for Cisco to justify its current price, it must grow like no other company ever has! This at a time when there are a number of new players competing ferociously in Cisco's markets.

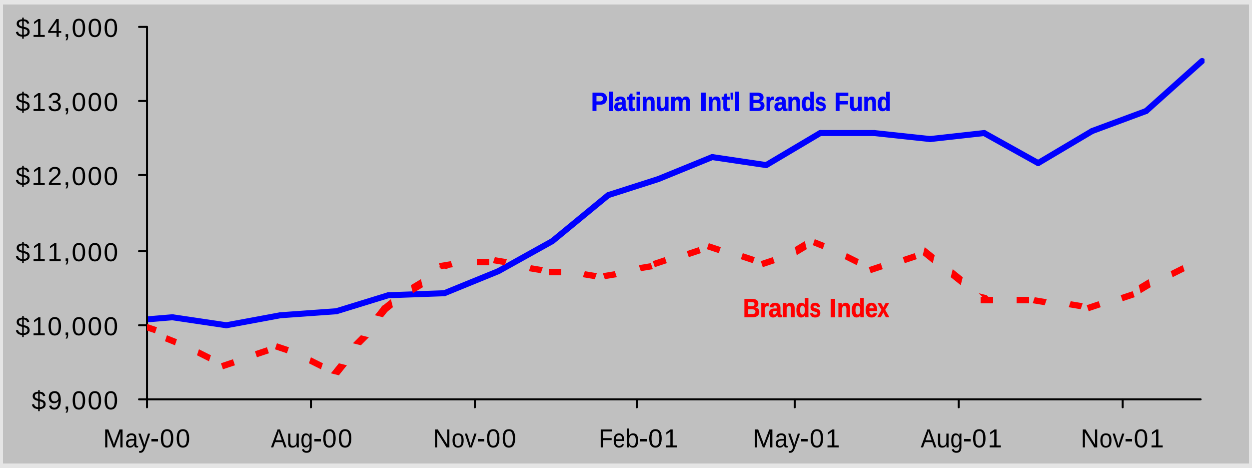
Andrew Clifford
Portfolio Manager

The Platinum International Brands Fund

REDEMPTION PRICE: $1.3053

Performance

VALUE OF $10,000 INVESTED SINCE INCEPTION (18 MAY 2000 – 31 DECEMBER 2001)



Both the International Brands Fund and our brands index were very strong in the December quarter: units in the Fund gained 11.3% and the index was up 5.6%. This performance is flattered by the weakness of markets after the September attack.

- US retailers were very strong. Circuit City and The Limited were up by 108% and 49% respectively. So-called "big box retailers" also participated with Home Depot up by 28% and Wal-Mart by 12%.
- Beverage companies and brewers in Europe and the US were generally flat. Coke, Pernod Ricard and Interbrew were all up fractionally.
- Household and personal care companies were also generally flat. Two exceptions were Gillette up by 8%, and Procter & Gamble up 5%.
- The food sector was mixed: two notable performers were Unilever PLC, a share we own, which rose by 4%, and Danone – down 10%.
- Hospitality and leisure companies rebounded very strongly from panic driven selling: Royal Caribbean Cruises, Carnival Cruises, Hilton, Accor and Host Marriott were all up 23% or more.
- Perhaps the best indicator of the market's belief that consumers will regain their confidence and spend is the strong performance of luxury goods companies: Tiffany, Hermes and LVMH were all up more than 23%.

So at the end of December we are looking at a market that seems convinced that 2002 will see an upswing in the US economy. The majority of branded goods companies have regained their pre-11th September valuations. This willingness to buy defensive companies at a time when investors generally anticipate a recovery is intriguing. It is as though low interest rates are driving people back into the market, yet in their uncertainty investors are hedging their bets by having exposure to both cyclicals and defensives.

Commentary

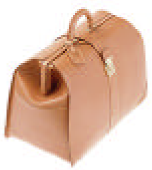
The Japanese Conundrum

Despite a poor economic environment, sales of luxury goods in Japan have proven resilient, even as slowing consumption in the US and Europe crimps the profits of groups like Gucci and LVMH. Faced with great uncertainty and recessionary conditions, the consumer is still seduced by status, style and stardust, as evidenced by the recent opening of the

Hermes "mega-store" in Ginza, Tokyo. This event was covered on network television and by magazines, prompting such interest that people queued from the early hours of the morning to be present at the store's opening. The crush of the crowd obliged Hermes to issue tickets to limit numbers in the name of safety. Hermes' new store helped lift its third quarter sales in Japan by 58%. It is not the only luxury goods company performing well in Japan. Gucci reported retail sales growth of 29% in its third quarter (ending October) while LVMH remarked on its continued growth in that country.

This strength may, however, be a mixed blessing. Japanese tourists account for a very large proportion of sales – as much as 20% for companies like Gucci and LVMH. Far fewer Japanese are now travelling abroad: the number of overseas travellers fell 27% in September and 40% in October in comparison to the previous year. Sales at popular destinations for Japanese travellers, such as Hawaii, have fallen steeply. We suspect that the strength of domestic Japanese demand for luxury goods may in fact be a transfer of sales, rather than real growth.

An explanation for the historic success of luxury goods companies in Japan may lie in demographics. As is well known, the country faces an aging population, but this may be beneficial for companies offering luxury items, due to a tendency for young women to avoid early marriage, live at home at low cost and consequently to enjoy large disposable incomes. It has become a game on our visits to Japan to wager about the number of Louis Vuitton bags that we will find when we enter a subway carriage. The distribution consistently falls between three and twelve! With the yen weakening and no signs of meaningful reform or improved economic conditions in Japan, we think that continued growth in luxury goods sales in that country should not be taken for granted. A real risk is that tastes change due to over-exposure or a preference develops for less conspicuous consumption.



Corporate Activity

There has been an intriguing revelation relating to Interbrew, a component of the Fund. The Financial Times published documents indicating that a bid for South African Breweries was imminent. This would be an enormous purchase – SAB has a combined value of debt and market capitalisation of nearly £7 billion, greater than two thirds of the value of Interbrew. The documents reproduced in the press turned out to be a composite of fabrication and genuine analysis by Interbrew. The important point here is the continuing prospect of consolidation among the leading global brewers. SAB and Interbrew combined would sell around 14 billion litres per year, nearly as large as Anheuser Busch, the world's largest brewer, with 14.5 billion litres.

The year ended on a strong note for Interbrew. It has just concluded a deal whereby Coors will buy its Carling lager business for US$1.7 billion. Following Interbrew's acquisition of Whitbread and Bass, competition concerns led the British government to require that the company divest part of the Bass assets. This is a very good sale for Interbrew and the company can now focus fully on developing its global portfolio, including the Beck's purchase of August.

At last the FTC has approved the acquisition of Seagram's liquor brands by Diageo and Pernod Ricard. This was conditional upon the sale by Diageo of its Malibu rum brand to prevent excessive power accruing to it once it acquires Captain Morgan rum through the Seagram deal. The situation is not resolved though, as Diageo is still in dispute with Allied Domecq over Captain Morgan brand ownership.

Kimberly-Clark – a new holding

During the quarter we built a position in Kimberly-Clark. This traditional producer of pulp and paper has gradually transformed itself into a consumer goods company by inventing such products as packaged, rolled toilet paper and substituting tissue for cotton in feminine hygiene products. Today, it has a leading position in the US with brands such as Kleenex and Huggies. It accounts for around half of the facial tissue and diaper/nappy markets and it has shares of 17% to 25% in products such as toilet tissue and paper towels. An important change came for Kimberly in 1995 when it acquired Scott Paper for $9 billion. It subsequently streamlined its business by selling tangential activities, reducing the amount of pulp made in-house and disposing of some of its forestry interests. This has enabled the company to increase its sales gradually, but on account of improving profitability, earnings per share have risen strongly.

The market is treating the shares with some circumspection at present, because of concerns about earnings growth in the face of private label encroachment and aggressive price initiatives from its principal competitor Procter & Gamble. These are real concerns, but fortunately lower plastic and pulp prices will alleviate some of these pressures in the short term and there is no evidence that this company has been out-marketed by Procter & Gamble over the last ten years. Performance over this period point to the exact opposite. This is a company with an excellent record of profitability and growth, a great deal better than the market average, yet it is selling at a multiple of earnings 25% below the market average. We concede that its profits will grow more slowly than recently, but believe it is a superior business to the market average and that it should reward us with sound returns in the future.

Outlook

As noted earlier, as the global economy shows more signs of recovery, investors tend to move to more aggressive portfolio positions and eschew defensive companies. We can participate in this to some extent by owning durable goods producers and retailers. We will however only do so if the valuations make sense.

Kerr Neilson/Julian McCormack
Portfolio Manager

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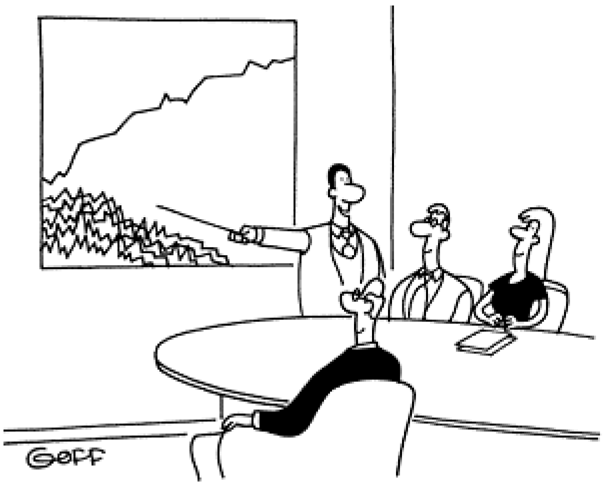

"And this is the data we'll ignore."

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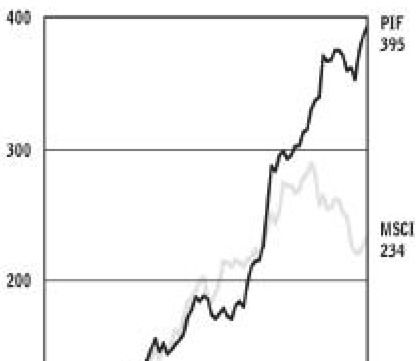
PLATINUM INTERNATIONAL FUND vs MSCI

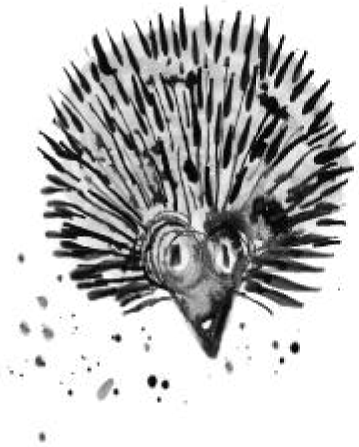
$100 INVESTED SINCE INCEPTION – 4/1995 TO 31/12/2001



PLATINUM

ASSET MANAGEMENT

A prospectus was lodged at ASIC on 25 May 2001. A copy may be obtained from Platinum Asset Management. Applications will only be accepted on an application form detached from the prospectus. Past performance is not indicative of future performance.



HOW TO PERFORM *AND* HEDGE

CONVENTIONAL WISDOM HOLDS THAT HIGH RETURNS ENTAILS HIGH RISK. THIS IS NOT ALWAYS SO; WE HEDGE BOTH STOCKS AND CURRENCY AND YET OUR VOLATILITY IS NO GREATER THAN OTHER MANAGERS.

WHY NOT CALL US, VISIT OUR WEBSITE OR SPEAK TO YOUR FINANCIAL ADVISER.

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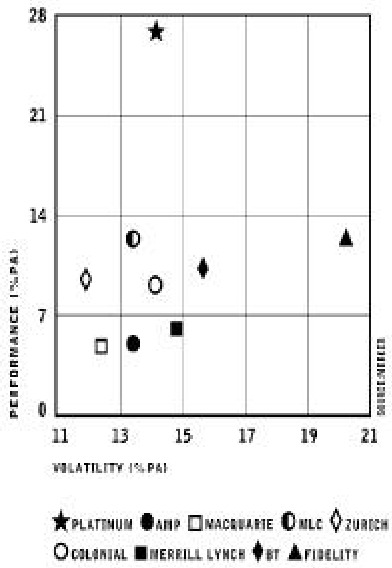
PLATINUM vs INTERNATIONAL FUNDS

PERFORMANCE/VOLATILITY – 3 YEARS TO 9/2001



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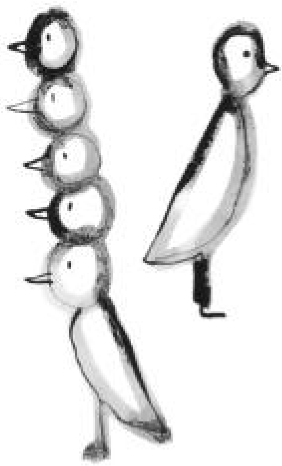

THE REWARDS OF SEEING DIFFERENTLY

WHILE MOST FUND MANAGERS FIND COMFORT IN HUGGING INDICES, PLATINUM CONCENTRATES ON THE BUSINESS OF MAKING MONEY FOR ITS INVESTORS. AS EVIDENCED BY THE TABLE BELOW, IT PAYS.

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PLATINUM PERFORMANCE VS INDICES (AS AT 31.12.01)

	COMPOUND P.A. 1 YR	2 YRS	3 YRS
PLATINUM INTERNATIONAL	16%	17%	30%
MSCI WORLD	-10%	-4%	3%
PLATINUM JAPAN	1%	-3%	33%
MSCI JAPAN	-23%	-20%	-1%
PLATINUM EUROPE	5%	27%	35%
MSCI EUROPE	-13%	-3%	1%
PLATINUM INT TECHNOLOGY	24%	N/A	N/A
MSCI TECHNOLOGY	-24%	N/A	N/A

PLATINUM
ASSET MANAGEMENT

SC SMHB 18

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