PLATINUM ASSET MANAGEMENT

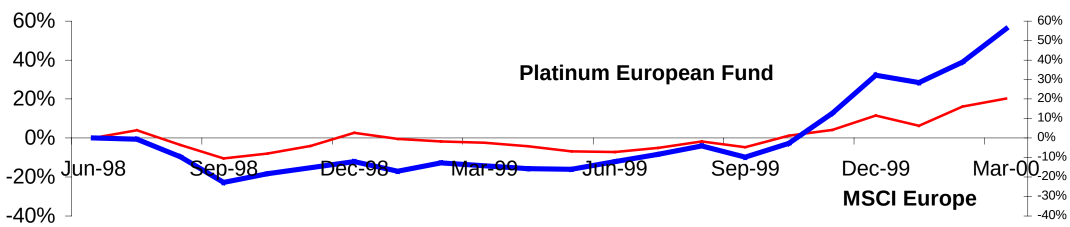
The Platinum European Fund

Quarterly Report

31 March 2000

Performance – a dull outcome masks extreme volatility; March reverses much of Jan / Feb's action

Cumulative Performance Since Inception
(1 July 1998 - 31 March 2000)



MSCI Europe rose 5% in local currency, and weakness of the Australian dollar against the Euro boosted the index return to 8% measured in A$. These benign index returns in no way describe the extremes of enthusiasm and neglect, which drove stock prices over the quarter. Time is also an important distinction as the Q4 1999 trends in "new economy" stocks continued in January and February, only to see dramatic reversals in March. Thus for the quarter overall the list of sector performances is very mixed. Strong performances in media (+35%), telecom equipment (+17%) and computer hardware/software (+15%) were accompanied by strength in machinery stocks (+25%) and the industrial products sector (+22%). On the other side of the ledger was a curious mix of deep cyclical (steels -26%, paper –26%, auto parts –19%, building materials –17%) and retail stocks (food retail –19%, and general retail –16%). The performance of the retailers is explained by investor preferences for either technology stocks, or economically sensitive stocks (but not "defensive" holdings). The poor performance of the deep cycle stocks, despite consistently solid macroeconomic reports, reflects a concern that the group discounted the economic recovery late last year and/or a worry that rising interest rates will stall the economy once again.

The Platinum European fund had good returns from the technology, telecom and media stocks in the portfolio for the first half of the quarter (we reduced the position in these areas during February). In the second half of the period under review the revival in the "old economy" stocks began to benefit the fund. For the period the fund returned 18% in A$, 10% above the index.

Market focus – interest rates rising, NASDAQ unsettled, transition to stock selectivity in TMT

Shortly after the "Y2K bug" had passed without incident, the Bank of England raised interest rates and the European Central Bank followed at the start of February. The ECB raised again in March, and rates have now been increased from 2.5% to 3.5% since October 1999. Thus far the ECB generally regards itself as having "normalised" interest rates from the unusually low levels required to protect Europe from the so-called "Asian crisis" of 1998/99. As it contemplates raising rates again, the ECB is reacting to the inflationary consequences of the weak Euro and of the strong oil price. It is for this reason that the market is rotating now into the classically "defensive" sectors of pharmaceuticals, and food and beverages. That is, rising rates make the rating of technology-media-telecom (so called "TMT") sectors unsustainable, while rising rates also threatens a shorter economic cycle and thus less time for the industrial cyclical companies to enjoy high plant loadings and thus good profitability.

With increasing volatility in the US technology stocks (especially in the NASDAQ market), the European TMT stocks have followed similar logic with much more discrimination becoming evident in March and April. Investors are reluctant to abandon the large (and thus apparently safe) established companies but the "concept" stocks of recent months have retraced a lot of their gains. This applies for example to the group of stocks in Europe collectively called ISPs (internet service providers). Most are trying to ensure that they become heavily-trafficked internet portals (and even media content providers) to counteract the seeming inevitability of the price decline of the basic internet connection service. These ISPs were very popular with investors in the last five months – some of the most famous are the Italian Tiscali (whose stock was floated at E46 in October and was trading at E1,200 by early March), the Spanish Terra Networks (floated at E13 in November, trading at E140 by mid February) and the Dutch based World Online (floated just a little late in March but at a very big capitalisation). At their peaks these companies each measured their market capitalisation in the tens of billions of dollars. And since their peaks they are each down about 50%.

Other areas where the discrimination seems to be emerging is for telecom equipment companies versus telecom operators. While most of the stocks (excluding Nokia) have fallen by about 20% from their February/March peaks, earnings revisions are more favourable for the hardware suppliers than the telecom operators. Ericsson will likely report a tripling in its Q1 profits and stunning orders in the mobile infrastructure core of the business (as usual handset profitability is well below the comparable division at Nokia); Alcatel has announced that the seasonally weak Q1 will show good profitability this year; and Siemens is gaining orders in its networks business where it seems to have successfully integrated new technologies into its core platforms. By contrast the trends in the pricing of many of Deutsche Telekom's services are, as in many countries, unfavourable. We cannot know how the speculative excesses in the general area will unfold, but we continue to prefer the earnings momentum in Ericsson and Siemens to the outlandish earnings multiples (and difficult operating environment) of many telecom operators.

Neuer Markt – the supercharged "NASDAQ" of Europe

The benchmark German DAX index has outperformed the US S&P over the 1990s (even starting from the S&P's low point in October 1990, the DAX has increased 5.3 times vs only 4.9 for the S&P to the end of March 2000). Similarly the "New Market" of Europe, up over 7 times since its inception in April 1996, has outdone the US Nasdaq index (up less than four-fold over that time).

The "New Market" of Europe is in fact a composite of the German Neuer Markt, the French Nouveau Marche and the Italian Nuovo Mercato. Of these the German Neuer Markt has been by far the most successful in the sense of attracting new stock market listings. The idea behind these stock markets is to provide low cost (low initial and on-going listing fees etc) access to the equity market in return for companies providing more timely and more internationally comparable financial data. Early successes in Germany had two effects. Firstly, there have been 250 companies listed in that market since 1997 – the stock market thus performing its primary function of matching investors with those companies requiring funds to expand. Secondly, the Neuer Markt has caught the imagination of the investing public – with everything from dedicated Neuer Markt mutual funds to specialist TV shows with stock recommendations, the German public has been provided with the necessary tools for a fully fledged speculative binge. The effect of the market is so strong that it often defies sector trends for significant periods – when the biotech stocks worldwide were collapsing in March, the Neuer Markt biotechs were drifting but certainly were not in free fall.

The Neuer Markt is both a barometer of excess in Europe and a potentially interesting investment destination. The breadth of businesses available is the real feature which the Neuer Markt has added to the European capital markets, however we are unlikely to be finding much to buy there at the moment due to the speculative excesses which are rife in the area. We are including several Neuer Markt company meetings in our trips in Europe so that we build a list of potential investments in preparation for when the correction in these stock prices allows sensible entry prices.

Holdings

As mentioned earlier, several of the major holdings of the fund were sold during the period as the stocks exceeded (in some cases substantially) the target prices we had set. We sold our position in Epcos, the mobile handset component supplier discussed last quarter. We paid E31 for stock in this company in October 1999, and we sold the position in January/February for prices between E95 and E168. As expected the results reported by the company were very strong and orders for this year are encouraging. However as the management explained at the recent analyst meeting, the business is both cyclical (2001, they said, may well be a more sobering year) and capital intensive. Epcos finished March with a stock price of E137. The Fund also sold its positions in ProSieben (Channel 7 in Germany), Telecom Italian Mobile (the market leading mobile phone operator in Italy) and Hachette Filipachi (magazine publisher based in France), all of which had seen their share prices increase sharply since late 1999. We also halved the position in genomics company Genset as the biotechnology stocks got over-excited in February, and we trimmed Ericsson at SK881 vs our entry price of SK217 in April 1999. Ericsson remains a powerfully positioned company having won all four third generation mobile infrastructure orders so far awarded (two in Japan, two in Scandinavia), and it is a stock we would add to if and when the price corrected sufficiently to give us some margin for error. The fund also sold its (small) position in German fashion house Jil Sander, realising a modest profit, when Prada announced its bid for the remainder of the company.

Through the quarter a lot of the purchases made by the fund were in existing holdings where we added to positions as the fund expanded (and the “old economy” stocks drifted lower over January and February). This included additions to Stinnes (land transport), Bayer (chemicals), Elexis (automation equipment), Hornbach (German DIY retailer), Metso (pulp/paper making machinery), Linde (industrial gases), Akzo Nobel (Dutch pharmaceutical/paint/chemical conglomerate), and Schindler (elevators and escalators). We introduced two banks into the portfolio (Nordic Baltic Holdings – market leader in Scandinavia) and SanPaolo-IMI of Italy. In addition we bought stock in three poorly treated consumer names - UK brewer/hotelier Bass PLC, Pernod-Ricard of France, and spirits/brewing/food company Diageo of the UK.

Outlook

To some extent the wisdom of our position in the Platinum European Fund will depend on the macroeconomic performance of Europe, and thus the extent to which the European stock markets can escape the sectoral influences of Wall St (probably excluding the TMT area). We would observe that the US economic expansion is many years old (and especially in the consumer credit area, appears very stretched), while the macro-economy of Europe is only starting to gather momentum now. With this in mind we continue to focus on European assets outside the TMT area as indicated by the changes in holdings described above.

Fund size is currently $9 million.

12 April 2000