PLATINUM ASSET MANAGEMENT

Platinum International Brands Fund

Qaurterly Report

September 2000

Redemption Price: $1.0298 Fund Size: $2.4 million

Performance

Since inception of the Fund in May, the MSCI Index has returned 2.8% (in A$). In view of the specific nature of the brands portfolio, we believe there is merit in creating a specific index to reflect the performance of global consumer brands. Arbitrary as these indexes tend to be, we have chosen 100 of the largest international brand name companies (by sales) including the likes of Benetton, Coca Cola, Colgate-Palmolive, Gillette, Hermes, Hilton Hotels, Nestle, Marks and Spencer, McDonalds, Proctor and Gamble, Reebok, Sony and so on. This index has increased by 3.1% over the period. While relatively subdued, there have been notable variances with clothing and leisure rising by 5% and 15% respectively and beautycare declining by 5% on average. Against the MSCI and the "brands" index, the Fund's performance was satisfactory achieving 4.1%.

Changes to the Portfolio

We have been building the portfolio gradually and are now 75% invested. Our investment process involves looking for undervalued stocks where the market has overreacted to transient events which subsequently gives us an opportunity to build a position. A good example of this has been Proctor and Gamble (makers of everything from Pampers to Vick's Vapour Rub to Febreze) when it was hammered down 35% on the announcement that margins would be squeezed and growth prospects had deteriorated. This allowed us to enter the stock at a price of $56 per share and it has subsequently run up to $73. At this price, albeit a great company, it is no longer an interesting investment and we have chosen to sell the position.

Commentary

One of the problems facing many American mass market brands – the famous companies that sell America to the world – is their deteriorating profit outlook. Apart from transient factors such as the Euro and input prices, the trouble stems from their practice of persistently increasing prices and holding on to the full benefits of productivity gains. This has effectively created pricing umbrellas allowing no-name brands or in-house retail brands to offer very attractive alternatives. As consumers have come to accept low inflation and indeed occasional price reductions, the climate has moved against the pricing freedom once enjoyed by big brands. They nevertheless are able to augment profitability by introducing product innovations in the form of new formulations, new dispensers and novel solutions.

The largest holding in the portfolio at present is Adidas-Salomon. The investment concept behind this holding is that leisure and recreation are a growth industry; the number two or number three player in the market can be highly profitable and that branding of apparel and footwear has further potential.

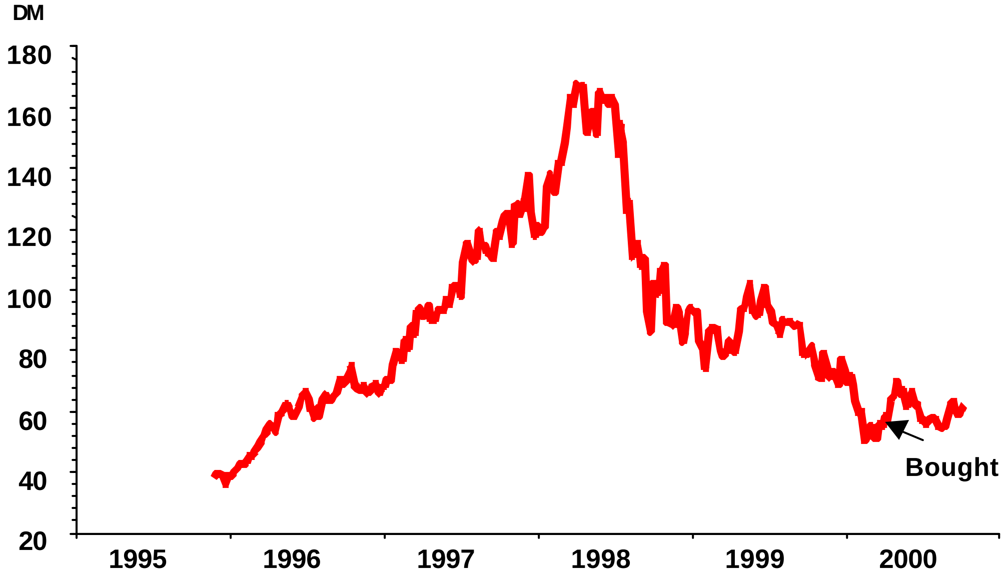
This is a company that we missed buying at its initial public offering in 1995 and subsequently saw it skyrocket. The source of its success was a revamping of its image under the tutelage of a brilliant marketer who drew on the brands long standing sports authenticity. This marketing success was accompanied by a massive increase in the number of stores offering shoes and other sporting goods in the US, names such as Footlocker, Just for Feet and The Athlete's Foot. Changes in fashion caught Adidas off-guard and very quickly the flaws that were masked by boom times were revealed.

This last year has seen a complete review of the management team and a tighter grip applied to controlling the business. The most important hurdle that lies ahead is to win back support from the US retailers who were neglected during the boom times. The second priority is to launch a new apparel range that is clearly differentiated from the likes of Nike. To achieve this, the company has centralised design in Europe and we will only know whether they have captured the imagination of the consumer when these new lines are show-cased in the northern spring. In the meantime, the company is very excited about a new basketball boot to be released shortly. This will be an important test in respect of producing a premium product and retrieving favour among retailers.

When reading the above paragraph you may well consider that a lot hangs in the balance as to effective execution. This is indeed the case and all the time the company has Nike, by far the largest sports shoe and apparel marketer with some 40% of the market, breathing down its neck as well as emerging players such as New Balance taking the market by storm. We are not phased by these challenges because of the fact that the company has continued to make good profits notwithstanding a deterioration in the performance of its US business. In view of the measures introduced we think it is quite plausible that America could start turning around for the company. The German roots of the company stand it in good stead in Europe where it is the dominant player with 24% of the market versus 23% for Nike. Further, at a recent meeting with the finance director we discussed in some detail the issues relating to merchandising (order fulfilment, sell-down, stock outs etc), the IT upgrade, market profiling and so forth. The most reassuring message was that surveys showed the desire to buy in the US to be far greater than the market share data - indicating unsatisfied demand.

Our summary of the situation is that we have one of the great sporting brands which has augmented its offering by acquiring Salomons in 1997 with products such as snowboards, skis, in-line skates and "Taylor Made golf" equipment. This acquisition incidentally has been a great success and is now allowing the company to lever its greater marketing clout. (Sales by the sporting accessory division are running between 25-30% up on last year.) The share is trading at a very modest earnings multiple of around 12 times the current years earnings as investors wait to appraise whether the new management team can deliver a return of the historic growth pattern.

Adidas-Salomon (Germany)



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