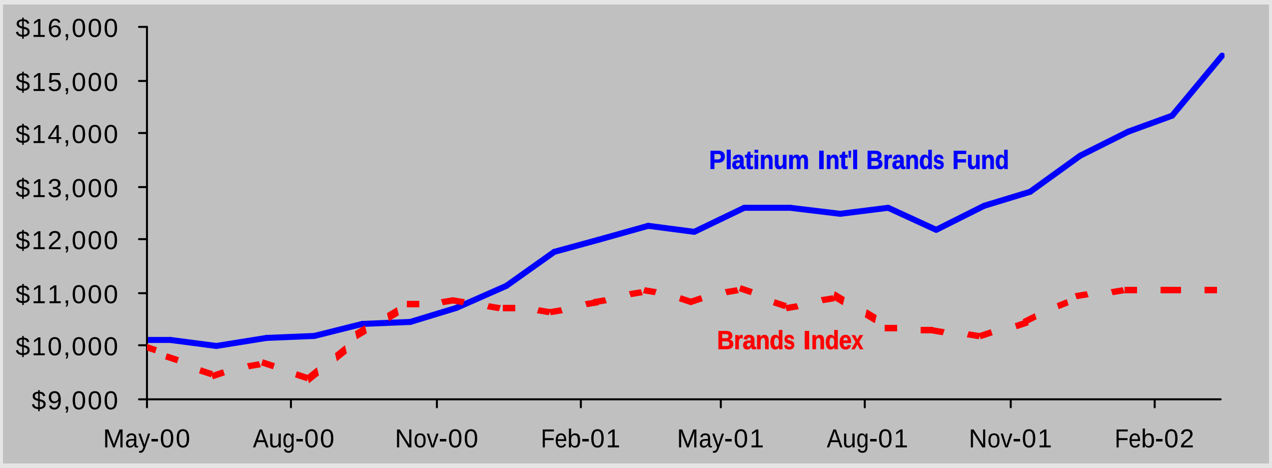
The Platinum International Brands Fund

Performance

REDEMPTION PRICE: $1.4880

VALUE OF $10,000 INVESTED SINCE INCEPTION (18 MAY 2000 – 31 MARCH 2002)



Last quarter was mixed, with no clear direction among branded goods companies. Cyclical sectors like hotels and leisure did very well as conviction about the prospects of economic recovery grew stronger, but defensive sectors like beverages also performed well. In short, investors wanted to have a bet each way. The International Brands Fund rose 14% for the quarter, as against 1.1% for our brands index and -3.8% for the MSCI World Index.

- Clothing and footwear stocks in our brands index were generally up. Liz Claiborne, a mid-sized, US women's clothing maker, rose 15%. Puma was very strong, rising 51%.
- In household and personal care, a mid-cap US company was the strongest performer again – Alberto Culver added 24%.
- Shares in Anheuser Busch, the world's largest brewer, rose 17% and Coors, number three in the US added 24%. This strength is unusual given that economic recovery was the markets' favourite theme. Non-US brewers were relatively flat.
- Food companies like Campbell Soup, Danone, Sara Lee and Unilever all saw share price declines, but Cadbury Schweppes rose 11%, more in line with US beverage stocks (it is the third largest US soft drink maker).
- Hospitality stocks continued their recovery. Hilton and Host Marriot, both highly geared US companies, added more than 30%. Six Continents, which we own, lagged with a rise of only 10%.
- Retailers performed unevenly. The collapse of K-Mart made headlines and Circuit City lost 32% of its value due to a blow out in store remodelling costs and misgivings over management. The share prices of Carrefour, Home Depot, Tesco, Metro and Ahold all fell. Wal-Mart, though, gained 8%.
- Luxury good companies were mostly positive: LVMH, severely marked down in the previous quarter due to its reliance on tourist spending, recovered 27%.
- Restaurant chains performed well. McDonald's gained 6%, but lagged Starbucks, Wendy's and Tricon, which all appreciated by around 20%.
- Consumer durables were generally strong, for example Maytag was up 42% and the best performing Auto maker was GM with a rise of 24%.

The three stand outs that we hold were Lotte Confectionery, LG Household and Puma. We wrote on Lotte in the July quarter of 2001, where we highlighted its extraordinary cheapness. It has subsequently appreciated by 320% and over 90% in the last quarter alone. LG rose 53% and Puma by 51%.

Commentary

Untold successes

We have not taken you through **Puma** before. We acquired a position over 12 months ago. It has trebled since we bought. This brand will be well known to most readers because of its heritage in footwear for soccer and athletics. Off this sound base it has diversified into designing fashionable shoes, clothing and accessories for customers in the under-30 age bracket. Sales grew strongly between 1994 and 2000, but profits were stagnant. Industry contacts alerted us to the rising wave of popularity that their new releases were enjoying. On investigation we discovered none of this excitement was reflected in the share price. For the moment the company is in synchrony with popular taste but this is starting to be reflected in the valuation of the shares as profits more than doubled in 2001. The order book for 2002 has grown by more than 50%, but this is a company that is no longer being overlooked.

Hunter Douglas is another company that has been in the portfolio for a while. This Netherlands-based company is the world's largest blind maker and indeed invented the aluminium Venetian blind. Working through a global network of franchisees who are supported with strong branding of names such as **Luxaflex and Duette**, the company has achieved strong profit growth. It has also generated large free cash flows which the controlling family has redeployed within the company under the management of specialist asset managers. These funds are significant in relation to capitalisation representing 25%, but has been a source of concern among some investors as they feel there is not sufficient transparency. We met with Ralph Sonnenberg, CEO and head of Hunter Douglas' founding family and are comfortable that these non-trading activities are being sensibly deployed. The shares are clearly sensitive to consumer activity but their through-cycle profitability and development of new products has allowed the company to grow over many years. We therefore think the PE of 11.5 times offers attractive value.

Henkel – Wash that superglue right out of your hair

While it is not a household name, you will probably have used Henkel products, which range from Schwarzkopf hair care products to Loctite superglue and Persil washing powder. Fritz Henkel invented bleaching soda for clothes in 1877 and by the turn of the twentieth century Persil was a household name across Europe.

Some of the rights to the Persil brand were subsequently lost as a consequence of war, but the company continued to develop its business with an emphasis on chemicals. In recent years it branched out and added to its brands with the purchase of Schwarzkopf and clever acquisitions such as Loctite in the US.

The shares have been out of favour on account of concerns about family interference and relatively slow growth. The recent sale of the chemicals division reveals a fundamental shift in the company's emphasis. Now over 70% of sales are derived from branded goods. There is the real probability that earnings could accelerate due to margin expansion. The market seems unwilling to pay heed to recent developments, objecting to the fact that the company is not a truly global player and believing this to be detrimental to their development. Careful examination of the facts shows that Henkel is growing its share of laundry spend in Europe and is making strong inroads into the markets of the old Communist bloc, as well as India.

We cannot know whether the company will succeed, but on the evidence of its recent record we are prepared to give them the benefit of the doubt. With the shares trading at a valuation one third lower than their peer group, that gives rise to the sort of investment that we like to make.

Michelin

Several coincident events have created very interesting possibilities for the global tyre industry. The most public event has been the fallout between Ford and Firestone over the unsatisfactory handling performance of the Ford

Explorer, which resulted in accidents. Behind the scenes, though, an equally important factor is the very weak financial position of the world's three leading tyre companies. This, in association with the high costs of acquiescing to the demands of the automobile makers, is resulting in a much firmer line being taken on tyre pricing. For the first time original equipment contracts are being declined by tyre makers on the grounds of low profitability. Price rises have been instituted and have stuck. We believe that on account of the concentration of the industry, any aberrant behaviour by smaller makers will barely shake the new resolve of the three majors – Goodyear, Bridgestone and Michelin. Improved pricing and moderate demand should result in a strong lift in profits. However, the replacement market is where these companies make the real money and following the publicity given to safety, tyre brand awareness has become more apparent. As the world's leading tyre maker with a long history of innovation and promotion, Michelin is extremely well placed.

Conclusion

We continue to pursue companies where we identify a perception/reality gap.

Kerr Neilson/Julian McCormack
Portfolio Managers