# The Platinum Trust Quarterly Report

30 June 2002

Incorporating the:

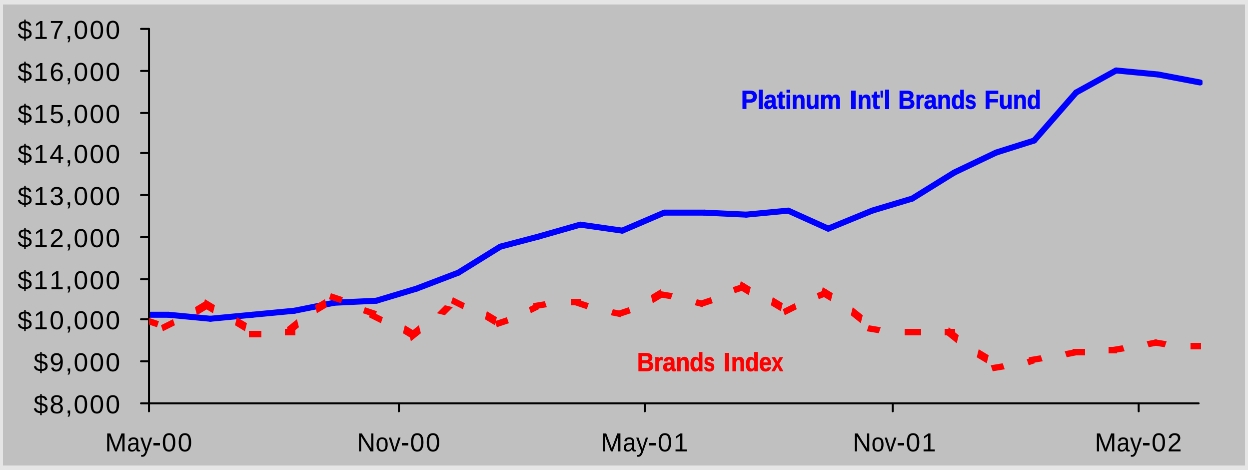
International Fund
European Fund
Japan Fund
International Technology Fund
International Brands Fund

# Platinum International Brands Fund

## Performance

**REDEMPTION PRICE: CUM $1.5130 EX $1.4247**

VALUE OF $10,000 INVESTED SINCE INCEPTION (18 MAY 2000 – 30 JUNE 2002)




The International Brands Fund rose by 25.2% over the past 12 months. Our proprietary index of branded goods and services companies fell by 9.7%, whilst the MSCI World Index fell 23.2% over the same period. Clearly the defensive nature of consumer goods and retailers attracted investors in these uncertain times. The top performing stocks in the brands index were, Tyson Foods up 49%, Wendy's (restaurants) up 40% and Electrolux up 30%, with many of the other positive contributors being brewers, beverage and household products companies. At the other end of the scale there was a preponderance of retailers, Kmart losing 92% of its equity value, Gap 57%, and luxury goods companies such as Bulgari losing 46% and Estee Lauder 25%.

In the quarter, the International Brands Fund rose 1.7%, matching our brands index, whilst the MSCI World Index fell 13.6%. Nearly two thirds of the companies in our brands Index declined in price over the quarter with many of the worst performing companies being the retailers and luxury goods companies;

- Shares in Carlsburg, the Danish brewer were a stand out rising 22%, UK brewer Scottish and Newcastle rose 10% as both these companies re-organised themselves and expanded their reach into the fast growing Russian and Baltic markets. In the US, the brewers fared less well with the dominant Anheuser Busch falling 8% whilst Adolph Coors, the number three brewer fell 14.5%. South African Breweries (up 7%), one of the five largest brewers in the world, announced a US$5 billion takeover of Miller, the number two brewer in the US. This continues the trend of consolidation within the sector and encouraged further speculation that other large mergers or takeovers would occur.

- Retailer stocks lost significant value in the quarter, Kmart losing nearly 40% whilst Home Depot, Safeway and Best Buy were significant with 30%+ losses.

- Clothing and Footwear stocks were mixed, with support from the Soccer World Cup assisting Adidas-Salomon to rise 7%, whilst clothing stocks such as Hugo Boss lost 25% on issues of accounting and inventory management in their US subsidiary.

- US food companies generally suffered share price declines, Heinz lost 5%, as did Sara Lee whilst Campbell Soup fared marginally better. In Europe the picture was more positive, Associated British Foods gained 18% and Unilever showed progress on their restructuring and gained 10%. Associated British Foods is considered a particularly defensive stock especially since it holds 20% of its market value or £1 billion in cash.

- Other notable share price movements include strong performance from some of the Japanese companies including Shiseido appreciating 21%, Kao 17% and Japan Tobacco up 9%, consistent with a defensive theme.

The noteworthy performances within our Brands Fund include once again Lotte Confectionery and

Puma, as well as Adidas-Solomon and Campari. We sold our positions in Coke and Kimberly-Clark at attractive prices before they sank back later in the quarter.

We increased our holdings in Japanese companies and added two new names, Nintendo (games) and Sky Perfect Communication (multi-channel broadcaster), to the portfolio. In Europe we increased our holdings in Adidas-Solomon, Michelin, Hunter Douglas (window blinds) and the retailers Douglas Holdings (perfumeries), Kingfisher (home improvement retailer) and Rinascente (department stores) and introduced some new names including the cosmetic and skin care company Clarins, and the retailers Casino Guichard and Hornbach Holdings.


Clarins, the French family owned company, produces and markets, skin care products, beauty products and makeup. The group also produces perfumes such as Chrome by Azzaro and Angel by Thierry Mugler, the best-selling perfume in France. Clarins has strong research in developing plant-based skincare products and is now a market leader in Europe with its leading brand Clarins. Last year the company dealt with both the external influences of weak markets as well as struggling with relocating to a new logistics centre. As a consequence profits fell over 40% along with the share price. Looking forward, the worst of the logistic centre problems appear to be over and we would expect to see profitability recover this year. Sales for the first quarter to March 2002 were up an encouraging 8.8% with the key Clarins brand growing 13.6%, providing some comfort that a rebound in profits might be underway.

Casino Guichard, a French company with supermarkets, hypermarkets, convenience and discount food stores, has a very strong market position in Paris and South Eastern France. Casino has the advantage that a relatively large part of its portfolio is small inner city stores (Monoprix, Petit Casino), which are experiencing better growth than large out of town hypermarkets (Geant), as French shopping habits change. The company is enjoying good profit growth from the success of its growing network of hard discount food stores (Leader Price), and operational improvements in its traditional supermarkets (Casino).

## Commentary

We are witnessing a number of the leading branded goods companies redefine their businesses, many are divesting assets once described as core and practically all have some form of cost restructuring. So is this natural evolution or are other factors at work? Unfortunately we believe that many of these companies did not respond either appropriately or with sufficient foresight to the changing circumstances of the past decade.

Examples in just this quarter, Heinz has sold its 9-lives pet foods, Starkist Tuna and Natures Goodness baby food businesses. Danone, known for its dairy products has sold the majority of its US bottled water business to a joint venture company with Coke, having previously divested its Kronenbourg beer business. Unilever has a program to significantly reduce its brand portfolio to 400 brands from 1,600 brands, whilst Gillette announced last year that it would cut its product lists by 75%.

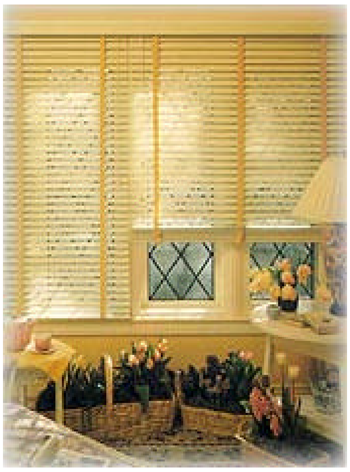
So how did this come about? Many branded goods companies were faced with similar problems. They were struggling to grow their revenue as geographic expansion proved more difficult than expected. In the early days companies like Kellogg led the way with expansion to overseas markets, with Australia one of their first international expansions. As the "easier" markets were exploited so these companies turned to the developing markets of Asia, Latin America and more recently Eastern Europe and

China. Profitably developing these markets proved to be more difficult and painfully slower than many (American) management teams had expected. Western breakfast cereals are crunchy, sweet and cold, breakfasts across Asia are soft, savoury and warm. Global scale is not the answer.

Meanwhile the retailers were changing. The smaller independent stores were disappearing and larger more demanding supermarket chains emerged. Over 80% of US households (88 million US households) now shopped at WalMart. That makes for significant bargaining power and margins at the branded goods companies are under pressure.

The branded goods companies reacted, introducing what they termed “range or brand extensions”. Variations of the original brand, invariably with the tag “new” or “improved”, often with very little real difference but at a higher price. They believed that levering off the equity of the core brand was a less risky and cheaper option than trying to research and build a genuinely innovative new brand or product.

In Europe, over 500,000 new items are introduced annually with a 90% failure rate in the first year. According to AC Nielsen over 90,000 new consumer items are introduced to the UK each year with a similar 90% failure rate. It all became a treadmill, as most new launches had short lives, more were required to compensate for the loss of momentum of earlier launches. To try and break the circuit they started buying other brands and companies, hoping that if they could become large enough they would gain some bargaining power against the ever more powerful retailers.



In the US, visits to the supermarket have declined nearly 20% over the past five years with the average shopper spending 21 minutes in the store and selecting only 18 items from the 22,000+ available. These shoppers are also faced with 360 new products (and variations) each week! To make things harder for the branded goods companies, the advertising industry became very fragmented. P&G’s CEO recently commented, that in 1960 it took only four network TV stations and 18-20 radio stations to contact 70-80% of consumers, now it takes up to 100 different commercials to reach the same audience.

Further research suggests that 80% of brands have less than a 1% market share and that 80-85% of consumer needs can be met with a mere 150-200 products. Retailer's shelves have become cluttered and confused and quite often the most profitable major selling product runs out of stock with the resultant lost sales. Studies show that 48% of all items are out of stock at least once a month. In an attempt to address the problem of inadequate stock of leading brands, retailers are reducing the ranges. An example in Asia resulted in P&G’s haircare range being reduced by 38%, volumes rose 7% and out of stocks fell 50%.

Consumers became more demanding, seeking better performance from the products, newer versions, added ingredients (eg. vitamins), lower fat levels, and unbelievably, washing powders that actually worked. Groceries, packaged goods, household products and many personal care products are functional items and consumers are adept at the value equation. These may be branded goods but they are a far cry from the romance and imagery of beauty, fashion and perfumes. Pushing prices up to maintain margins is not sustainable.

Retailer’s own brands, generics and “discount retailers” appeared, promising to keep prices lower every day and not participate in the “high one week - low the next” strategies. Consumer surveys suggest that 78% of shoppers would rather have continuously lower prices than the constantly changing promotions and discounts around special offers. Perhaps this explains why the average WalMart shopper visited WalMart more than twice as often as a Kmart shopper visited Kmart, and importantly spent nearly 20% more each visit. Eliminating the illusion of choice and building trust in the prices goes a long way.

The costs of ever more complex businesses was comprehensively underestimated by the branded goods companies. They are starting to return to their core products (hence Unilever, P&G and Gillette's massive product range streamlining) and to understand that there are good returns to be made from a well run focussed business. They are also starting to understand that despite the rising cost, genuine innovation can be a key to long term success. Even so, we continue to see many other companies struggle to justify, with often quite obscure logic, the benefits of combining diverse product portfolios of pet food, toothpastes alongside underwear, and hot dogs.

Where there are changes of this magnitude there may be opportunities, likewise there are also companies that have been much more disciplined in their approach and are currently performing well. We remain cautiously vigilant for such opportunities.

# Outlook

We are wary of the current valuations and of the near term prospects for many of the major branded goods companies. The data from surveys of consumers and their spending intentions suggest that there is limited potential growth. The year on year, quarterly sales comparatives for the next quarter may suggest otherwise as we compare against the September 11th 2001 quarter and it will be especially important to look beyond the headlines to understand the underlying business trends. We will continue to invest only when the fundamentals of the business are not fully reflected in the share price.

Simon Trevett/Kerr Neilson
Portfolio Managers