

The Platinum Trust Quarterly Report

30 June 2002

Incorporating the:

International Fund

European Fund

Japan Fund

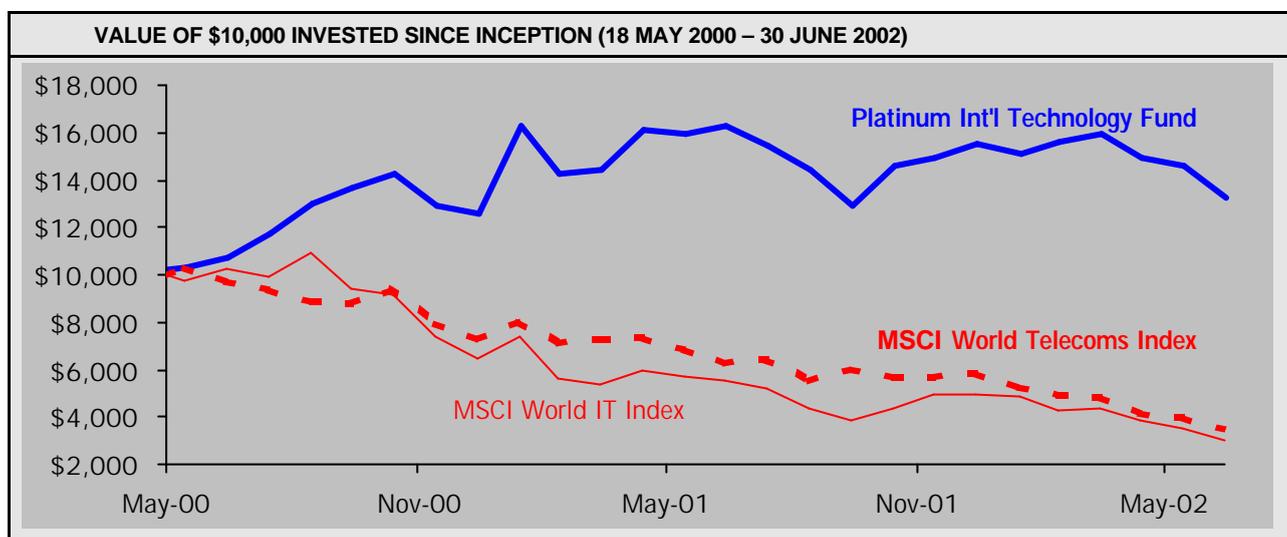
International Technology Fund

International Brands Fund

Platinum International Technology Fund

Performance

REDEMPTION PRICE: CUM \$1.0336 EX \$0.8498



The Fund fell 17% in the last quarter as the onslaught of pessimism regarding technology and telecom stocks continued. During the quarter the MSCI Information Technology (AS) index and the MSCI Telecom Services Index (AS) fell 31% and 28% respectively. For the last 12 months, the Fund fell 19% versus the falls of 44% for both the technology and telecom benchmarks.

invested position of less than 50% for most of the period. As we move into what is likely to be the final stages of the bear market in technology stocks, a number of the Fund's holdings saw markdowns of 50% or more. Although the Fund did receive good returns from its short positions, these only provided a partial offset to the poor performance of the Fund's long positions.

Although a reasonable outcome for the quarter, it is somewhat disappointing given the Fund's net

Changes to the Portfolio

DISPOSITION OF ASSETS		
Region	Jun 2002	Mar 2002
US	45%	35%
Other Asia (incl. Korea)	12%	13%
Japan	13%	13%
Europe	3%	7%
Cash and Other	26%	32%
Shorts	25%	19%
Net Invested	49%	49%

BREAKDOWN BY INDUSTRY		
Region	Jun 2002	Mar 2002
Semiconductor	23%	18%
Electronic Components	11%	10%
Software	8%	12%
Telecom Equipment and Suppliers	18%	11%
Other	14%	17%

During the quarter, the Fund topped up a number of its holdings across the portfolio as prices fell. New additions include Verizon and EDS. Verizon is one of the US incumbent telecom operators. Not only does Verizon own the only profitable wireless phone business in the US, it has the benefit of diminishing competition in its local telephone operation as the threat of new competitors recedes as well as having negligible revenues from the very competitive long

distance market. EDS is one of the leading providers of outsourced information technology infrastructure for large companies. The stock was hit heavily late in the quarter as a result of the collapse of Worldcom (which is both a customer and a provider of telecom services to EDS) which gave the Fund the opportunity to add to its holdings at attractive levels.

Outlook and Commentary

The quarter ended with the furore over Worldcom's US\$3.9 billion accounting fraud and subsequent default on US\$4.3 billion of bank debt. Although we would not dismiss lightly the fraudulent behaviour of senior management and the incompetence and/or conflicted position of the auditors, a rather more important point is generally being overlooked. How could a company that generated over US\$20 billion in annual revenue from selling basic telecommunication services to a wide range of business and residential customers be unable to generate returns that would allow it to service its debt?

The central problem (amongst many) at Worldcom is that it is in an inherently bad business. The provision of long distance telecommunications services is a pure commodity with the price being the only differentiating factor, and it now faces a market with massive excess capacity. Over the last eight quarters we have written often about the bull market myths of endless growth and the errors that were made as a result by both corporate managements and investors. What is being revealed today is another set of myths about the quality of many of the technology and telecom businesses that the market once loved.

During our visits to Silicon Valley in 1999 we were often met with compelling stories about a given company's lock on their market. For many of the small semiconductor companies the story was often the same. The company had designed a chip for a particular function inside a router or a switch or some other piece of telecom equipment and was the only company or maybe one of two companies that had such a product. The chip had been designed into a number of products of the big equipment companies such as Cisco or Nortel and the company was having good success with additional "design wins". Even if a competitor came along with a new chip the company had "the slot" on the circuit board and the customer would have to completely redesign the board should a replacement chip be chosen.

Something they wouldn't do when "time to market" was of utmost importance in a fast changing world. Besides there was a shortage of components. There was little point of competitors trying to break in so they were limited to targeting the next generation of higher speed components. Of course, to do this would require significant capital and intellectual property outsiders lacked. Meanwhile, the company already had products that were being sampled by customers. This type of story was repeated many times and when put together with annual revenues of US\$250 million to US\$700 million and growth rates as high as 100%, one's critical faculties were deadened. Companies with these type of stories achieved market valuations as high as 50 times their prevailing annual revenues.

Unfortunately for investors, in most cases the lock on the customer was an apparition. One of the best examples of this is Broadcom which had a dominant position in selling chips to the makers of cable modems and was regularly quoted as having a market share of over 90%. In the last 12 months, Texas Instruments has made major inroads into Broadcom's share with new products which has seen them win business from Motorola, the largest of the cable modem makers. In our recent trip to Silicon Valley we visited Cypress Semiconductor who are now taking share in the market for "physical layer" chips used in telecom equipment. It turns out that in tough and slower times it makes good sense for the equipment company to redesign a circuit board in an attempt to lower costs. Although Cypress is a strong company, it is a new entrant in the telecommunications area, having operated primarily in the unrelated area of specialty memory chips.

Another of the great stories of the tech boom was that of EMC. EMC makes computer storage systems. These systems, are at the simplest level, a huge array of hard disk drives that are connected to computers

for the purpose of storing data. EMC's leading position in storage was a result of their ability to address the entire storage market. Their systems could be connected to an endless number of different computing platforms whether they be mainframes, different varieties of the Unix operating system, or the Windows NT platform. By comparison, their competitors were the computer companies who made storage systems that only operated with their own machines. As most large companies run heterogeneous computing environments, EMC was the only offer that would allow them to standardise the management of their data storage. For a competitor wanting to emulate EMC's position, they faced the daunting task of a product that worked with a full choice of alternative systems.

The barrier to entry may have been high but if there is enough incentive (and the profitability of EMC certainly was) then someone will try and jump it. Hitachi Data Systems developed a platform that while perhaps not EMC's equivalent, was good enough to provide serious competition and impact EMC's pricing power. Other changes were also taking place. Storage area networks (or SANs) are a relatively new configuration where the storage is attached to a network rather than attached to a specific computer. This was meant to be a boon to EMC as companies consolidated their storage to SANs, but SAN switches developed by the likes of Brocade, have allowed companies to achieve interconnectivity between different computing and storage systems, removing one of EMC's key advantages. Another development was "network attached storage" systems from Network Appliances that compete with EMC at the low end. None of these developments will particularly result in EMC losing its leadership position but they do imply a more competitive and thus less profitable position for the company.

Elsewhere we note the successful launch by National Semiconductor of its GSM cellular phone chip set and the implications for Nokia and the other handset companies. National has long held a strong position in the chip market for cellular phones. Typically it has sold around US\$2 of chips per phone made by the major handset companies. The company's new 4-chip set for a GSM phone integrates most of the functions provided by semiconductors in the phone and is being sold for US\$18 versus the typical cost of US\$25 per phone. Although the cost differential is a nice saving, the original goal was to provide low end phone makers with a solution that would allow them

to sell US\$50 phones in markets such as China. The first phone launched using the chipset is the Ericsson T66 which has been positioned as a high-end phone and sold for around A\$500 in the UK. The fact that a chip set designed for a low end \$50 phone provides the same functionality as a high-end phone we would view as a devastating outcome for mobile phone manufacturers.

In the early stages of the technology bear market the unsustainable "cash flow negative" business models of the "dot coms" and the start up telecom operators were abandoned. Then we had the realisation that the market would not grow in a straight line forever and that in fact the recent good times were simply a function of easy money created by the central banks. The final revelation is that technology businesses are just like any other but with additional risk of the rapid pace of technological development. What makes a good technology business is no different from what makes any business a good one. It may be a special position in the market, such as the likes of Microsoft and Intel hold in PCs, or that a Telstra or Verizon has with its strong grip on the residential telephone customer. It may be a corporate culture that inspires excellence in its employees. Rarely though will "intellectual property" alone provide a **sustainable** competitive advantage.

In the last quarter we have seen many of the Fund's holdings hit hard with some falling over 50% from levels we thought to represent good value. Companies such as Agere, AMD, and Parametric we believe have strong positions in their respective markets but face the common problem of low demand for their products today. As they struggle to deal with cutting overheads to levels appropriate for current output, the losses being incurred are not insignificant. Nevertheless, the very low valuations on these stocks should start to provide some support for the share prices from here on. Current levels for many stocks represent attractive levels for potential acquirers and we would expect to see a pick up in takeover activity in coming months. This is not to predict the beginning of a new bull market in technology stocks as a full recovery in demand is still some way out. Further, many leading technology companies are priced as if their businesses are in some way "special". Until investors treat technology as just another sector of the stock market, these companies continue to make good short positions for the Fund.

Andrew Clifford
Portfolio Manager