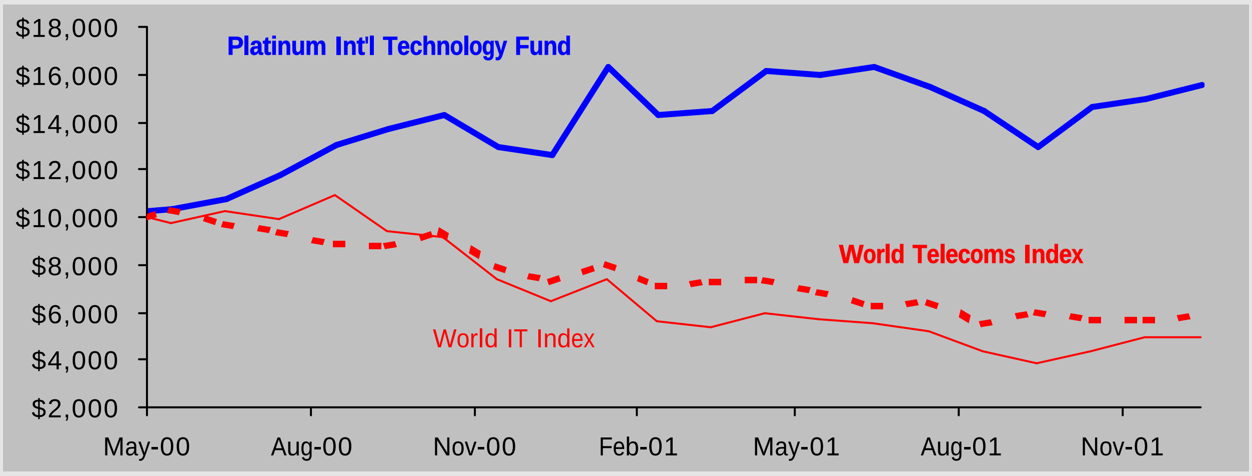
The Platinum International Technology Fund

REDEMPTION PRICE: $1.2156

Performance

VALUE OF $10,000 INVESTED SINCE INCEPTION (18 MAY 2000 – 31 DECEMBER 2001)



In the latest quarter, the technology sector continued its rally from the lows of September, with the MSCI Information Technology index (A$) rising 28%. The story for the telecom sector was less favourable with the MSCI Telecom Services index down 4%, although this mainly reflects the fact these stocks had not fallen as heavily the previous quarter. The Fund performance lagged the index return, rising 21% for the quarter. In the initial weeks of the quarter, performance was in line with the market as many of the Fund's holdings performed strongly and the Fund's short positions were small. However, the rise in stock prices for a number of holdings were extreme (up 50% or more) taking them well above levels we believed were justified by the intrinsic value of their businesses. As a result, we elected to reduce the Fund's positions in these holdings as well as enter into short positions in other stocks that we believed had reached extreme valuations. Although, with the benefit of hindsight, it would have been preferable to defer such decisions until later in the quarter. Much of the Funds good performance to date can be attributed to selling holdings that have reached full prices. Since inception, the Fund has returned +53% versus -46% and -42% for the MSCI technology and MSCI telecom sectors respectively.

Changes to the Portfolio

Positions were trimmed in a number of holdings such as AMD, i2 Technologies, Parametric, Foundry Networks and PeopleSoft that had performed strongly and positions in Sun Microsystems and Globespan were eliminated. New additions to the portfolio included Intentia, a Swedish enterprise software company, Veeco, a manufacturer of atomic force microscopes that are critical in development of nanotechnology (see our discussion on nanotechnology in the June quarterly report) and Alpine Electronics, the Japanese electronics company that has a leading position in car navigation systems. Once again, we have built up short positions in a number of stocks that we believe are significantly overvalued. This should provide some downside protection.

DISPOSITION OF ASSETS

Region	Dec 2001	Sep 2001
US	33%	46%
Other Asia (incl. Korea)	15%	14%
Japan	9%	9%
Europe	3%	0%
Cash and Other	40%	31%
Shorts	38%	8%
Net Invested	22%	61%

BREAKDOWN BY INDUSTRY

Categories	Dec 2001	Sep 2001
Semiconductor	19%	22%
Electronic Components	13%	15%
Software	10%	8%
Telecom Equipment & Suppliers	8%	10%
Other	14%	14%

Outlook and Commentary

Two of the notable bright spots in the technology sector have been personal computers and mobile phone handsets. That these two products are the first to show some signs of stronger demand is not surprising as they are relatively mature products whose growth rates during the boom were a mere 15% to 20%. Further, the downturn has been relatively less severe with global shipment volumes for phones and PCs expected to be down only 5-7% in 2001, a very strong performance versus areas such as optical components where volumes have fallen 50% or more. Suppliers of semiconductor components to the PC and mobile phone companies, such as National Semiconductor (one of the Fund's holdings) are indicating that sales will be up 15% to 20% next year as a result of some growth in retail sales and an end to customers destocking of components.

In the PC memory chip market the spot price of a 128MB DRAM has bounced from lows of around US$0.85 to $1.70 causing many commentators to announce the beginning of a new semiconductor cycle. Certainly this jump in price indicates that the inventory overhang has been cleared but when compared with a cost of production of around $2.00 it is not exactly cause for celebration. The ongoing problem for the industry is simply too much capacity. On this front however, there has been some progress with the decision of Toshiba to exit the DRAM business. They have achieved this by selling one of their US production plants to Micron, and converting the balance of their capacity to other semiconductor products such as flash memory. The removal of one of the marginal players from the market undoubtedly helps industry dynamics but the total reduction in capacity represents no more than 3% of the total. To return to profitability, the industry awaits a return to strong growth in the PC market, with Microsoft's new operating system Windows XP the likely catalyst here.

In contrast to mobile phones and handsets, the telecom equipment market has continued to deteriorate. In the North American market, companies such as SBC Communications, Qwest, and Sprint have made announcements regarding reductions in ongoing capital expenditures. Whereas it had previously been expected that 2002 would see capital expenditure relatively unchanged by North American operators, it is now expected that these expenditures will fall by a further 20%, after declines of around 12% in 2001. Even in the mobile infrastructure arena where demand is typically expected to be better, the leader in the field Ericsson announced recently that they expect sales to be down next year. The price competition among the equipment providers is severe, with Lucent for example, currently earning gross margins of 12% versus nearly 50% in the good times. Where the downturn has been particularly severe has been in the optical transmission arena with the component suppliers are still struggling as their customers, the equipment companies, continue to pare back inventories. Optical components company JDSU reports price declines on products of 35% to 40% versus the usual 15% to 20%.

Undoubtedly the telecom equipment market will start to level out soon, inventories will clear at the equipment and component makers, and sales start to slowly improve. In fact many stock market commentators are obsessed with the inventory clearing process and see this as the critical event for a return to better days. But as with the memory chip business, profitability need not follow such a turnaround, certainly not back to the levels recently seen, simply because of the problem of excess capacity. This will take significant plant closures, companies leaving markets, or significant improvements in demand, which are more likely to be seen over a longer drawn out period of time.

For stock market investors in the technology sector, the critical issue (as always) is not where we are in the cycle but whether stock prices reflect the outlook for the business. In the last quarterly we made the observation that prices of many stocks had fallen to levels which made attractive long term investments. With the move up in the tech sectors over the quarter, and with many individual stocks prices up over 50% to 100% and beyond, this comment is no longer valid. Although we have droned on about valuation in these reports over the last year and a half, rather than bore you again with many of the same points, consider the following observation made by Paul Sagawa of Sanford Bernstein, a leading independent research house on Wall Street. Sagawa estimates that for Cisco to justify a stock price of $19 (level in mid-December), the revenues would have to grow over the following decade at a rate of 17.5% and earn an operating margin of 25%. An examination of the great growth companies over the years shows that at no point has any company achieved such a result in this timeframe once revenues exceeded US$15 billion. In other words, for Cisco to justify its current price, it must grow like no other company ever has! This at a time when there are a number of new players competing ferociously in Cisco's markets.

<u>Andrew Clifford</u>
<u>Portfolio Manager</u>