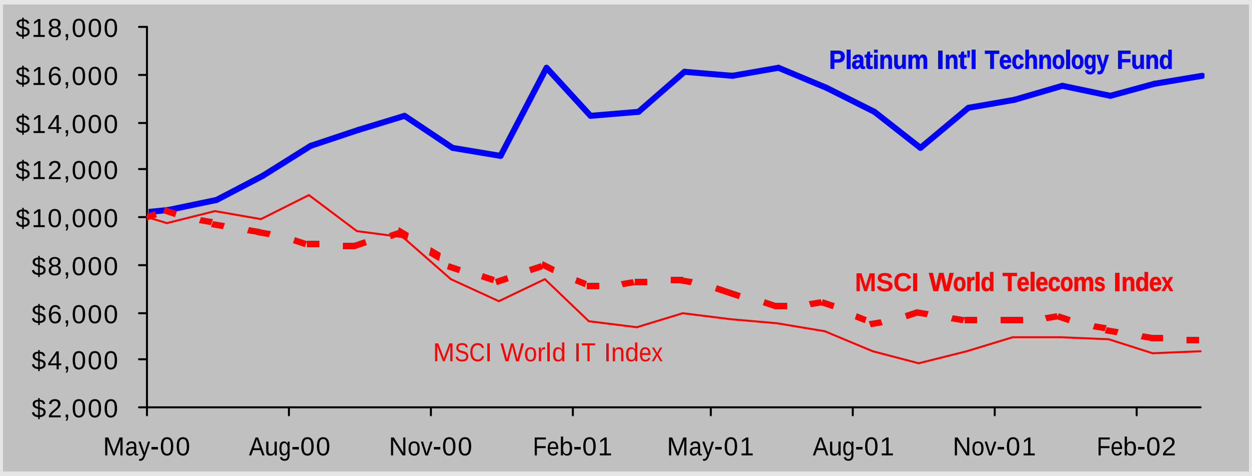
The Platinum International Technology Fund

Performance

REDEMPTION PRICE: $1.2481

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



It was another disappointing quarter for the technology and telecom sectors with the MSCI Information Technology index (A$) declining 11% and the MSCI Telecom Services Index (A$) declining 17%. The Fund performed well given this environment with a return of 2.7%. The good performance can be attributed to a number of factors but of particular importance was the defensive positioning of the portfolio at the beginning of the quarter when the Fund held significant cash balances as well as short positions on individual stocks. As you may recall from our last report the decision to sell holdings into the strong rally late last year proved to be too early but subsequently has worked out well.

Strong contributors to the portfolio performance included our Korean holdings, Samsung Electronics and Korea Telecom, as well as the new additions to the portfolio last quarter, Intentia (enterprise software) and Veeco (manufacturer of atomic force microscopes). Short positions in network equipment companies such as Ciena and Juniper added nicely to returns. Holdings which were less helpful to performance included software stocks, Parametric and i2 Technologies, as they struggle to maintain revenues at current low levels. The other position that is failing us for the moment is our short in semiconductor capital equipment stocks. Investors continue to favour these companies as way of playing the rebound in the semiconductor market but we maintain our view that the rebound has been more than well and truly priced by the market.

Changes to the Portfolio

New holdings were added in the telecom area, including Ericsson (world leading provider of wireless telephony infrastructure), Furukawa Electric (Japanese manufacturer of optic fibre) and IDT (US Telecom services). In addition, we took advantage of the market weakness to add to our holdings in companies such as i2 Technologies (software), Parametric (software), Verisign (IT security services), and Agere (semiconductors and optical components). On the short side of the portfolio many positions were closed out as prices approached target levels, but we have added to the positions in the semiconductor capital equipment sector as we believe these stocks are pricing in a much stronger recovery than we believe likely. Although the portfolio is somewhat more invested than at the start of the quarter, a very defensive position is maintained with cash at 32% and short positions at 19% of the portfolio.

DISPOSITION OF ASSETS		
Region	**Mar 2002**	**Dec 2001**
US	35%	36%
Other Asia (incl. Korea)	13%	16%
Japan	13%	9%
Europe	7%	3%
Cash and Other	32%	36%
Shorts	19%	38%
Net Invested	49%	26%

BREAKDOWN BY INDUSTRY		
Region	**Mar 2002**	**Dec 2001**
Semiconductor	18%	19%
Electronic Components	10%	13%
Software	12%	10%
Telecom Equipment and Suppliers	11%	8%
Other	17%	14%

Outlook and Commentary

The black hole for investors this quarter has been the telecom sector with an unrelenting stream of bad news emanating from service providers and equipment makers around the globe. Probably of most significance was the collapse in the already pathetic profitability of US mobile phone companies during the last quarter of 2001. A number of factors were at play but most significant was aggressive price competition amongst the six national mobile phone companies which provided no benefit in accelerating the growth of new subscribers. The average price per minute for a mobile phone call in the US is running at US$0.14 per minute, down 25% on one year ago and 33% below levels seen in more mature markets such as the UK and Germany. Further, some operators have reduced their credit standards to allow them to more easily grow their subscriber rates but this has resulted in substantial increases in bad debt write-offs which for some operators are now running as high as 12% to 13% of revenues. Most of the companies were not profitable to start with.

Highly competitive pricing can provide an interesting opportunity to buy stocks cheaply, but in this case we believe there is more bad news to come. Firstly, a number of the companies carry significant debt loads and are potential bankruptcy candidates if they continue on the current path. The very existence of the debt creates a vicious cycle where companies only hope of surviving is to quickly grow their business in order to service the debt. Optimists suggest that consolidation in the industry will lead to more rational pricing but the diverse technology platforms of the major operators along with debt levels make this problematic in the medium term. It would seem more likely the “losers” will be acquired out of bankruptcy but on their way they will continue to cause problems for the rest of the field. Looking at the stock prices, it would appear much of this misery is priced in, but issues such as weak balance sheet and poor management have made us cautious about investing in these companies for the moment. We have come a long way from the days when we believed we would all be madly accessing the internet from our mobile phones.

Another ongoing feature has been concern with the debt levels at many of the incumbent telecom operators. These debts were built-up during the boom times as a result of high prices paid for various acquisitions and in third generation wireless licences. As an example, France Telecom ended the year with net debt of E64 bn, an impressive amount for a company that had revenues last year of E43 bn and operating profits of E5.2 bn. On top of servicing this debt, France Telecom also has a stake in Orange, a wireless operator with networks in France, UK, and Germany, and has significant ongoing capital requirements (including payments for 3G licences). Similar problems with debt servicing can be found at Deutsche Telekom, KPN (Netherlands) despite a significant equity raising, and at Qwest (formerly US West, a regional Bell company) in the USA. On top of this, the quarter saw another round of bankruptcies and defaults on debt payments from the new entrants such as Global Crossing ($11 bn of debt), FLAG ($1.2 bn) Metromedia ($3.3 bn) and McLeod ($4.5 bn). Not surprisingly, this environment has seen the telecom equipment companies such as Lucent, Nortel, and Ericsson further downgrade the outlook for their business as capital expenditures are cut to the bone to preserve cashflow. Even the healthy customers such as the US Regional Bell companies have announced further cutbacks in capital spending, as the competitive threat from new players continues to recede.

Adding further insult to injury for the sector has been various investigations by the SEC into accounting and other practices of various telecom companies in the US. The most serious of the allegations is that Qwest and Global Crossing entered into transactions with each other that artificially boosted revenues. Among other things, Worldcom is being investigated for lending money to directors to buy Worldcom shares, purchases that are now significantly underwater. These investigations are making investors even less inclined to provide capital to the sector.

One positive angle for investors is that telecom assets available are at very attractive prices for those that have the capital to purchase them. One of the Fund's holdings, IDT, purchased the US network of Winstar for $50 million. The network provides local access in over 20 large US cities using microwave technology and has fibre links providing long distance transmission. Although there is much work to be done by IDT in attracting customers to simply cover the ongoing overhead of the network, their capital cost is substantially lower than the several billion dollars spent on the network by Winstar.

Elsewhere, the one positive development this quarter has been a recovery in orders for semiconductors, most notably in the memory chip market where the price for a 128MB DRAM has moved from below $1 late last year to over $4. Given the almost complete absence of orders in recent times as customers ran down inventories, the turnaround hardly comes as a surprise. Nevertheless, the market reacted positively running up semiconductor company stock prices, and in particular the providers of semiconductor manufacturing equipment. When we look at the demand for the end products that consume semiconductors we conclude that it is unlikely this is the beginning of a new cycle. *PC's and mobile phones still account for over 50% of semiconductor demand*, and although the volume of these products have not fallen as hard, the growth prospects are quite dull with little on offer to entice consumers to upgrade their existing computer or handset. There has been hope that other areas of corporate IT spending such as networking or storage equipment would improve with a recovery in profits, but the most recent indications from software companies (a good lead indicator of IT spending trends) suggest the opposite. And as we have discussed earlier, the telecom equipment sector is an unlikely source of increased demand.

The obvious inconsistency of the moment is that the stockmarket is prepared to put high to very high valuations on sectors such as semiconductors while areas such as telecom equipment and enterprise software reflect a much weaker environment. In summary, investors in these sectors should continue to expect more of the same volatility and weakness we have experienced over the last 12 months.

Andrew Clifford
Portfolio Manager