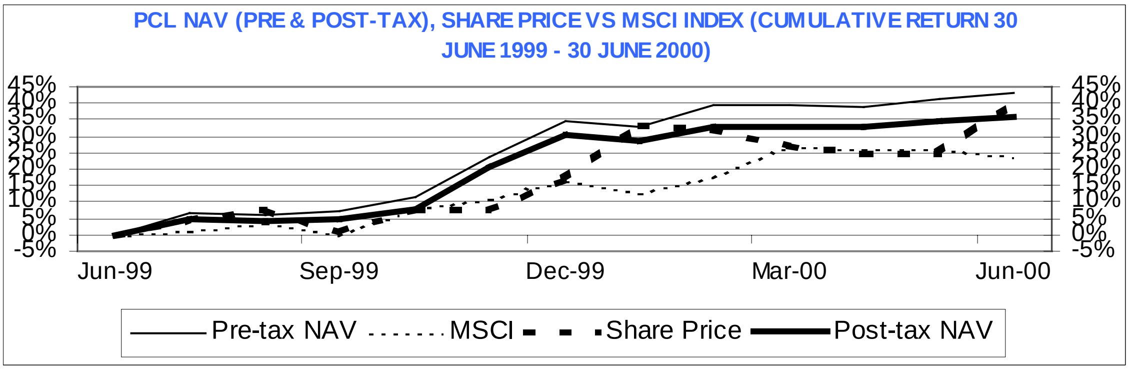
PLATINUM ASSET MANAGEMENT

Platinum Capital Limited

Investment Manager's Report

30 June 2000

Performance



In the first half of the year 2000 there was a flattening of the yield curve. Short term interest rates rose in line with increases in central bank base rates while longer rates stabilised following reduced expectations of consumer demand growth. The main effects on equity markets were to enhance cyclical recovery prospects in some areas but to reduce speculative excesses in others, most particularly as regards so-called dot com companies, some of which crashed to extinction.

The worldwide benchmark, the Morgan Stanley Capital Index, rose by a modest 6.2% but this apparently staid performance disguised excellent returns from some previously depressed areas: Canada +34.2%, France +15.6%, Italy +13.3%, offset by declines in other countries which had previously moved ahead, perhaps too quickly: Indonesia -38.4%, Greece -19.1%. On an industry sector basis, good returns were to be had from healthcare +14.8%, capital equipment +9.9% and financial services +7.6%, offset by weak performances from materials -16% and services, mainly telecoms, media and technology -15%.

Platinum Capital Limited's net asset value grew by 6.1% pre-tax over the six months helped by earlier switches away from media and technology stocks; some benefit was also gained from the company's short positions in speculative US stocks. In the last quarter, Platinum's net asset value continued to advance modestly even after provision for tax on both realised and unrealised income and capital gains. This is shown in the table below.

30 April 2000	31 May 2000	30 June 2000
148.63 cents	150.57 cents	151.81 cents

Changes to the Portfolio

Since our last quarterly report, activity has been principally directed at consolidating larger holdings at the expense of more recently acquired positions. Sales included Hyundai group companies, Komatsu, Nippon Express, Okumara and Gallileo. Among the new ideas introduced were Ambac, a US based financial insurer; Loews Corporation, a deep value contrary play on insurance, tobacco and oil drilling; Mercury General, an auto specialist establishing a presence in states outside California; Smiths Industries, a niche player in global avionics, disposable medical devices and specialist industrial connectors; and UPM, the Finnish based paper products giant.

Breakdown by Industry

Categories	Examples of Stocks	Jun 2000	Dec 1999
Cyclicals	RMC, Akzo, Bayer, Stinnes, Sekisui Chemical	17%	12%
Telecoms	NTT, DDI, GTE, S K Telecom, Lucent, Alcatel	11%	16%
Technology	Toshiba, Samsung, AMD, Fujitsu	11%	12%
Software & Media	Novell, JD Edwards, PeopleSoft, Nippon & Tokyo Broadcasting	9%	19%
Financials	Lippo, Toro, Japanese Brokers, Nordic Baltic	9%	6%
Consumer Brands	Lotte Confectionary, Japanese Coke Bottlers	6%	5%
Medical	Acuson, Draegerwerk, Medison	5%	5%
Consumer Durables	MEI, Citizen Watch, Sony	4%	7%
Retail/Services	Douglas, Hornbach, Continente	3%	3%

Disposition of Assets

Region	30 June 2000	31 December 1999
Japan	31.3%	36.6%
Western Europe	26.3%	25.0%
North America	19.2%	14.2%
Other Asia	7.1%	11.2%
South America	0.4%	0.5%
Russia and Eastern Europe	0.1%	0.4%
Australia	0.0%	0.5%
Cash	15.6%	11.6%

The company's portfolio is now 5% short against the Nasdaq 100 index and 22% short against the S&P500 index. There are further shorts on individual companies totalling 9%.

Currency

At present 40% of Platinum's assets are hedged into A$, 32% are in the Euro, Pound and Swiss Franc, 11% in Yen and the balancing 17%, in US$ and related currencies.

Commentary

In the US, the Fed has raised short term interest rates quite aggressively which was the principal factor behind the recent violent, though short-lived, sell-off in the Nasdaq. The balance of opinion is that the earlier, excessively fast growth of the economy has moderated and is now somewhere within the bounds of its inherent capacity so the Fed has no need to tighten further. With a Presidential election looming there are political pressures too, for maintenance of the status quo.

This does not alter Platinum's opinion that in the financial area the US is dangerously extended. The main driving force behind the rapid and lengthy expansion of the economy has been growth of consumer spending and the main forces behind that have been capital gains and borrowings; both these by their essential nature have limits to their extent and are subject to reversals. The orders of magnitude are great. Over half of all households in the US own shares, by far the greatest proportion of any country at any time in history. The capitalisation of the stock market has risen from 54% of gross national product ten years ago to 170% now. Realised and unrealised capital gains account for close to 40% of all other forms of household income. Clearly, in Platinum's view, a significant fall in stock market values would have a sharp impact on consumer confidence and consumer spending which, in turn, would put further pressure on market values.

At <u>present</u> US consumer confidence remains high, although June witnessed the largest decline in twenty months. Other economic indicators, such as retail sales and housing starts have also turned down recently. Careful attention must be paid to whether these latest figures are merely a blip or whether they mark the beginning of a trend.

The position in Europe is complex. Reported levels of consumer confidence have been recovering steadily for eighteen months and have reached a fifteen year high. In some countries, Spain and Ireland for example, this confidence is reflected in strong consumer spending. Somewhat surprisingly, however, in Germany and Italy consumption remains depressed. Unemployment levels may be the key; certainly in France as unemployment has fallen from 12.5% of the labour force to around 10% so retail sales have expanded. The weak Euro has helped exports and industrial production is surging so employment, always a lagging indicator, may be on the verge of a good rise even in Germany and Italy.

The economies of the various countries of Europe are much less similar than the economies of the various States of the USA or Australia. A common currency and a one-size-fits-all monetary policy is, therefore, always likely to impose strains. The European Central Bank has not yet shown convincing evidence of being able to manage the Euro as effectively as, say, the Fed managed the US$. Nevertheless, the prospects are that Europe will grow faster than the US over the next year or two and that the Euro will show at least some modest strength against most other currency blocks.

Most commentators on Japan still tend to the cautious side of neutral. Platinum is more optimistic, influenced by the current strong recovery of industrial production although acknowledging that the comparison will taper off over the second half of the year from the present 10% growth rate. The working through of earlier Government job creation schemes, the stabilisation of price levels and improving auto and housing sales all suggest a gradual broadening of confidence and a strengthening of economic activity. Corporate profits are rebounding strongly, admittedly from low levels, and look set to rise by 20% or more both this year and next. False starts to a full economic recovery have been seen several times in the 1990s but a backdrop of strong conditions abroad should nurture the Japanese economic recovery.

As well as economic growth, it is the prospect of the corporate sector earning a more satisfactory return on invested capital which is at the heart of Platinum's exposure to companies in Japan. The legislative framework for corporate reform has improved immeasurably and if the pace is not yet urgent, it is quickening. Merger and acquisition activity is growing and various forms of buy-outs and divestments are becoming more common. Extraordinary opportunities surely exist when 50% of companies in the first section of the Tokyo Stock Exchange are still selling at below book value. Goldman Sachs has identified over 100 companies selling, quite remarkably, at less than cash backing. Your Company owns three such holdings. The magnitude of these discounts suggest wariness on the part of investors as they consider the many fundamental hurdles that still lie ahead, not least the future funding of government debt. This is at unsustainably high levels and will not be resolved easily.

Looking at the world at an enterprise level, the striking feature has been the magnitude of corporate activity. Mergers and acquisitions in the first half of the year totalled $874 billion in the US and $1,900 billion in Europe. Industry consolidation remains the catch phrase with mammoth deals in Telecoms, Vodaphone acquired Mannesman and France Telecom acquired Orange; Entertainment, AOL acquired Time Warner, Vivendi bidding for Seagrams; Banking, Bank of Scotland acquired NatWest, Citibank acquired Schroders; Drugs, Glaxo bidding for SmithKline; Autos, Daimler Benz taking 33% of Mitsubishi Motor, GM 20% of Fiat and Volkswagen 19% of Scania. In food, Unilever has bid for Bestfoods having earlier revealed plans for slimming its workforce by 25,000. In many cases, these depredations signal an underlying deterioration of profit growth in the sectors concerned. This has led to highly dichotomous market valuations. For example, perceived high growth markets like Nasdaq sell at 130 times earnings while the S&P500 index trades on 23 times this year's earnings. Further, within the S&P, smaller and/or traditional companies are rated well below the average with the median PE being about 15 times. The same pattern prevails in Europe where shares on the Neuer market sell at multiples of sales while more traditional shares are conservatively rated.

Conclusion

Stock markets can look forward to a northern summer of debate about the strength or weakness of consumer spending and concern as to whether the central banks will push short term interest rates higher. Though outside the US, there is spare capacity, rising input costs will lead to some inflationary pressure in most countries. Overall, equity markets seem likely to be range bound at least until some of the generously priced growth expectations are met.

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