INVESTMENT MANAGER'S REPORT

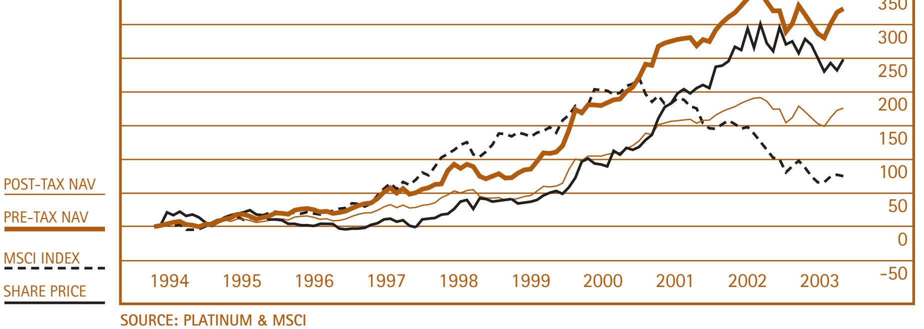
Performance

Over the year, the performance of the Company was disappointing in absolute terms as the pre-tax net asset value fell by 2.3%, but good in comparison to the Morgan Stanley World Index which fell 18.3% over the same period. Over shorter periods, the value of the Company's portfolio rose by 11.4% over the last three months and 2.1% for the six months pre-tax with the Morgan Stanley World Index rising by 5.5% and falling by 6.7% respectively.

The following Net Asset Value figures (cps) are after provision for tax on both realised and unrealised income and gains.

30 APRIL 2003	31 MAY 2003	30 JUNE 2003
147.52	153.50	155.46

PCL NAV (pre & post-tax), SHARE PRICE VS MSCI INDEX (cumulative return since inception) (%)



SOURCE: PLATINUM & MSCI

After the harrowing sell-off in late February, associated with concerns about the invasion of Iraq and deteriorating economic news, returns from almost all asset classes in the first half of 2003 have been positive. True believers will now know that the Fed chairman does indeed have a magic wand! There will be sceptics like those left holding US dollars who have seen a good 14% drop (yoy) in their value relative to the euro or that barbarous relic, gold. This also gives a hint of the serious imbalances in the system, more of which later. But for now, investors are focusing on the ever cheapening trend of money worldwide, and are seeing nascent evidence that a general expansion is in the offing. The combination of these factors is inducing investors to seek remunerative places for their wealth other than cash.

The accompanying table shows how the various industry groupings fared in the last three, six and twelve month periods. Note that over the year it's all pretty glum, accentuated of course, by the 19% lift in the A$. Even in terms of the weak US$, the MSCI World Index is down 2.4%. Over the shorter span, there has been a clear move away from defensive consumer staples to those areas that benefit from discretionary spending.

MSCI WORLD INDEX – INDUSTRY BREAKDOWN (A$)

Sectors	3 months	6 months	1 year
Consumer Staples	-1.2%	-14.6%	-23.9%
Energy	-0.6%	-10.9%	-23.3%
Health Care	0.6%	-7.2%	-13.4%
Materials	2.4%	0.3%	-25.4%
Utilities	3.8%	-6.2%	-19.8%
Industrials	4.9%	-7.3%	-23.4%
Consumer Discretionary	7.9%	-4.6%	-19.9%
Information Technology	8.1%	-0.8%	-13.2%
Telecommunications	8.1%	-7.4%	-5.7%
Financials	9.3%	-5.6%	-20.0%

SOURCE: MSCI

By country there was an equally interesting dispersion, with the seemingly most risky countries showing the best returns. Pakistan, Argentina, Venezuela, Sri Lanka and Israel have all risen more than 50% in US$ over the last year, while the large markets and those seen as sensitive to imports have been almost flat to down by no more than 16% in US$ at the extreme.

Disposition of Assets

GEOGRAPHICAL DISPOSITION OF PLATINUM ASSETS		
Region	**Jun 03**	**Mar 03**
Western Europe	33.5%	33.0%
Japan	17.5%	20.9%
Emerging Markets (incl. Korea)	14.2%	12.4%
North America	12.8%	14.8%
Australia	0.3%	1.8%
Cash	21.7%	17.1%
Shorts: Equities	21.6%	34.0%
Japanese Government Bonds	8.9%	0.0%

SOURCE: PLATINUM

BREAKDOWN OF PLATINUM PORTFOLIO BY INDUSTRY			
Categories	**Examples of Stocks**	**Jun 03**	**Mar 03**
Cyclicals/Manufacturing	Schindler, Siemens, Bayer, Linde, Océ	22%	21%
Financials	Assicurazioni Generali, Allianz, Alleanza	11%	9%
Software/Media	Sky Perfect Communications, Seoul Broadcasting	8%	4%
Medical	Yamanouchi, Takeda, Draegerwerk, Merck KGaA	8%	9%
Technology/Hardware	Agere Systems, Infineon Tech, Samsung, AMD	7%	8%
Gold and Resources	Barrick Gold, Newmont Mining, Gold Fields	7%	9%
Consumer Brands	Citizen Watch, Adidas Salomon, Lotte Confectionery	5%	6%
Telecoms	Hellenic Telecom, Ericsson, NTT	5%	8%
Retail/Services/Logistics	Hornbach	5%	8%

SOURCE: PLATINUM

Changes to the Portfolio

Earlier in the year we were aggressive buyers of various German multi-nationals which we believed had been grossly over-sold during the market collapse. The recent recovery in the share prices of these stocks, anything from 45% to 80% has been dramatic so we have reduced a number of our holdings and sold out of Metro completely.

There have been similar sharp movements in the prices of some IT and Microbiology stocks. We have switched out of Nvidia (share price +78%), National Semi (+16%), and Agere (+53%)

and replaced them with Infineon Tech (the ex-Siemens DRAM chip maker), Agilent and Toshiba. In bio-techs we bought Vertex Pharmaceutical, which has a broad pipeline of potential clinical products directed at alleviating diseases from HIV to rheumatoid arthritis. At the same time we sold Millenium which had doubled on the excitement of its cancer drug.

On Wall Street we have been buying stocks which will benefit from the devaluation of the US dollar, particularly Weyerhaeuser and International Paper. These companies appeal to us because of their large lumber holdings and the fact that the global paper industry has consolidated and is more hesitant to add productive capacity.

We have also begun adding to our holdings in Japan believing that the market has now bottomed, paying particular attention to the trading houses and the general insurance companies. The traders attract our attention on account of the repositioning of their enormous balance sheets towards more concentrated investment in specific areas such as natural gas and resources. They have always been credited with high quality management but until they recognised the need to change their business emphasis this potential lay fallow. We believe the gearing from these changes over the last five years will now become apparent. The insurance companies are in a similar position. Having made good and rising profits throughout the economic malaise of the last twelve years, the industry has consolidated. We have bought share in the two largest players, Millea and Mitsui Sumitomo. Apart from their underlying profitability we like the fact that we are paying below book value and for each yen of net asset value they have over two yen in share market exposure.

We have positioned Platinum to participate in India in what we believe will develop into a major bull phase. This market has swung up and down several times in recent years. Current ratings look particularly attractive as corporate balance sheets are relatively strong, a lot of surplus capacity has been absorbed and profits are rising strongly. The government is expanding the money supply in an attempt to hold the value of the rupee steady against the US dollar and the banks are aggressively promoting consumer lending. We have acquired a range of companies from the State Bank of India and other recently privatised banks, to TV content and delivery provider ZEE TV, to the truck and car manufacturer, Tata Engineering.

Shorting

Being short of US equities has been an unprofitable exercise for the last six months. The injection of liquidity has reinvigorated even the most dubious financial intermediaries and provided renewed scope for earnings manipulation by the unscrupulous. We have responded by cutting our exposure but our speed of response was well short of optimal.

On the other hand, our short position in Japanese government bonds (JGBs) is working well. At their peak in price, JGBs yielded only about 0.5% for 10 years. They have subsequently fallen back to offer a yield of 1.1%. The sensitivity of the prices of these 10 year bonds to a 1% shift in yields is around 6.5% so since setting the position we have gained around 3%.

Currency

We remain principally hedged into A$, 59%, and own euros, Swiss francs, yen and some Korean won. Although the US$ may show some resilience in the short term, we have no intention of owning more US$.

Commentary

Since 2001 we have been writing about the three phases of a bear market and regard this most recent rally as part of this traditional pattern rather than the start of a major new bull phase in Western markets. Valuations are still high, particularly in the US, whilst the economic growth outlook is not exciting and the prospects for corporate earnings are cloudy.

It is worth considering the background. In the US an expansionary phase for corporate profits has extended back over 20 years with only brief interruptions. There have been two driving forces behind this phenomenal upsurge.

Firstly, there has been an enormous increase in consumer spending. The increase has been substantially in excess of economic growth, powered by a reduction in the savings ratio to zero or slightly negative. The main lending mechanism to consumers has been housing loans where (despite rising housing prices) owner equity levels have in aggregate fallen to record low levels. There has also been a willingness to lend unsecured to non-home owners (including those with poor credit records) and on automobiles. (Loans and leases secured by automobiles have shown startling growth and now total approximately US$1.1 trillion – or about US$10,000 per household.) Much of the mortgage and other debt has been securitised and is ultimately funded by foreigners.

Secondly, beginning with the Reagan tax cuts and defence build-up (and with a brief interregnum late in the 1990s), the US Government has borrowed at rates unprecedented outside wartime. Many of these borrowings are held by foreigners. The spending (and to some extent the lower tax rates) have been a boost to the economy – some of which has resulted in higher corporate profits.

After tax corporate profits in aggregate have risen from 3-4 per cent in the early 1980s to levels of approximately 6 per cent. (These levels are particularly high relative to history if you were to adjust historic depreciation rates for inflation.)

Further – the growing profit share has given the impression to investors that profits *"normally increase substantially faster than GDP"*. This is of course impossible – but it's widely believed and acted upon. (Most companies appear to have earnings per share growth targets in double digits – something which suggests that individually they believe it is possible for them to beat the average.) We believe that investors perception about equities and profit growth are conditioned on the experience of the past two decades (rather than the last two years in which after-tax corporate profits have fallen to about 5 per cent of GDP). The last time a dominant economic power faced serious new "global" challenges, namely Britain in the last quarter of the 19th century, UK companies suffered intense margin pressure as cheap goods came in from abroad and export markets dried up.

Expanding asset prices (both housing and equities) have been further supported by falling interest rates. Since the early 1980s interest rates have fallen fairly continuously (there were rises in the late 1980s and again in 1994). The rate on US fixed rate mortgages has fallen from about 15 per cent to the current 6 per cent. These mortgages have an option feature which allows people to refinance any time interest rates fall sufficiently – either drawing cash out and keeping their payments the same or reducing their payment. Either way the lower rates have sharply increased the ability of consumers to spend and their willingness to pay up for houses.

Lower interest rates have had similar effects on equity valuations. However with wholesale short-dated interest rates at approximately 1 per cent (and longer dated rates below

4 per cent) we do not believe that there is much room to expand equity valuations through further reductions of interest rates.

Massive borrowing by the US has been made possible by a high level of personal savings in Asian countries in the context of a paucity of domestic investment opportunities by the near certainty of making a profit when holding steadily appreciating dollars and by the Mercantilist-type financial policies of those overseas governments who have paid more attention to the achievement of positive trade balances than to facilitating increased domestic consumption. If now we are to have a falling US dollar it will doubtless encourage exports in the medium term but the immediate effect will be to discourage foreign purchases of US bonds. The US government may be obliged to either cut spending or increase interest rates, ugly prospects both!

The economies of Continental Europe have experienced lesser levels of over-heating but their predominantly social democratic political philosophy has not been friendly to enterprise. There are a few encouraging signs as governments are starting to attack "feather-bedding" in the public sector and the recent IG Metall strike in Germany was abandoned to the considerable embarrassment of the Union when some of its members walked across picket lines. On the other hand the EU faces a pressing short term problem caused by the reluctance of the ECB to reduce interest rates and the consequent rise in the price of the euro.

In contrast to these difficulties in the West we see hopeful signs in Asia. Central banks are pursuing more accommodative policies, the over-investment in industrial capacity in the mid 1990s is being absorbed and debt repayments have strengthened corporate balance sheets. The really big boost to Asia will not come until consumers become less defensive and government become less mercantilist. We don't know when either of these things will occur on a large scale but see encouraging early signs.

The difficulties of investing in Asia remain substantial. Company accounts are opaque, corporate governance is sometimes lax, government intervention is a constant worry. But while we see high valuations in the West and low valuations in the East, at least a modest shift in portfolio balance looks sensible. Careful stock selection is of even greater importance than usual.

A wild card emerging from the above analysis is the position of gold. In an uncertain world one thing more likely than most is currency instability. Further weakness in the US dollar would make the euro look overvalued. It would also make it increasingly difficult for those Asian and South America countries which have fixed exchange rates against the greenback to maintain the parity. There have already been quite excited calls for the Chinese to revalue the renminbi. In this scenario a lack of good alternatives could find gold emerging as a fashionable store of value. Its obvious disadvantage, its lack of yield, would not matter much in a low yield world.

Special Report – India

Platinum has monitored India since the early 1990s and two analysts have just spent nine days visiting the sub-continent, talking to government agencies and a range of companies.

On earlier visits we were concerned about valuations and the political will of the government to embrace change. Economic reform has been tantalisingly slow but despite this, the economy has grown faster than most through the nineties at around 5% pa. Under the present coalition headed by the BJP, the pace has accelerated. Privatisation of State banks and industrial enterprises is being accompanied by deregulation of State run industries. Import restrictions have been removed and tariffs reduced. Like other mixed economies, the government is faced with awkward choices as it removes distortions in one area, only to throw-up hardships elsewhere. In a working, if chaotic, democracy, where politicians are not always reliable, the outcry from these reforms can be thunderous. In several ways it reminded us of our experiences in Latin America in the early nineties. While still in the early stages and recognising that bad habits die slowly, the gains to efficiency are already clear. Most important of all is that once companies become truly private, the patronage enjoyed by politicians and top bureaucrats gradually withers.

An important element of deregulation is the opening up of the ports to private enterprise and the road building initiative. The so-called golden quadrilateral, to link up the great cities of Mumbai, Chennai (Madras), Calcutta and Delhi is due for completion in late 2004. The entire route of 5,846 kms will then be a four lane highway (sans cows), and will completely transform the movement of goods and people within the sub-continent. This is being complemented by the North-South/East-West corridor which is due for completion in 2007.

Evidence of obstruction to "Nirvana" is seen everywhere and probably the worst offenders are the ruling elite. Clearly many have benefited from influence peddling, though there is corruption at every level, and of great concern is weak tax enforcement. State expenditure accounts for approximately 20% of GNP, which is about twice what is raised by taxes. Fortunately there is a high savings rate which allows this deficit to be funded out of bond sales but it inhibits the Government's ability to help redistribute income. Continuation along the current course looks irreversible, but so it must be for our investment case to yield the enormous rewards that we hope will await long term investors.

Conclusion

We have been surprised at the continuing vigour of the stock market rallies in the first week of July. Selling pressure has completely subsided and money is evidently moving out of bonds into shares. The prospect of the Fed sitting on interest rates for some while has fired up investor's belief that the economy will respond positively.

It is probable that our shorts and currency positioning will detract from our performance in the short term although hopefully, our large exposure to Asia, and Japan in particular, will partially compensate. We could, it is true, attempt to fine-tune our way out of short term reverses but our experience is that it is wiser to concentrate on fundamentals and long term trends even if that involves a little pain.

Kerr Neilson Managing Director