The Platinum Trust Quarterly Report

31 March 2002

Incorporating the:

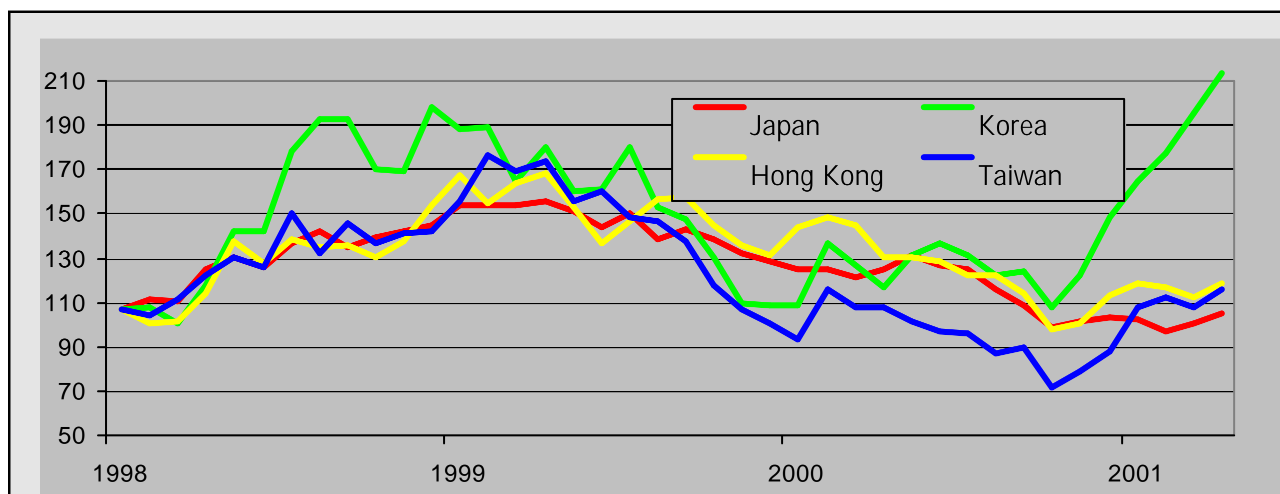
International Fund
European Fund
Japan Fund
International Technology Fund
International Brands Fund

PERFORMANCE RETURNS TO 31 MARCH 2002 (A$)

Fund	Fund Size	Quarter	1 year	2 years (compound pa)	3 years (compound pa)	5 years (compound pa)
International Fund	$1,412mn	7.6%	15.1%	19.1%	32.8%	26.0%
MSCI World Index		*-3.8%*	*-12.4%*	*-9.7%*	*1.1%*	*13.8%*
Japan Fund	$66mn	8.3%	1.7%	-1.7%	27.9%	-
MSCI Japan Index		*-2.6%*	*-28.3%*	*-23.8%*	*-4.3%*	-
European Fund	$88mn	3.8%	5.8%	19.3%	37.3%	-
MSCI European Index		*-4.2%*	*-13.3%*	*-8.7%*	*0.9%*	-
International Technology Fund	$36mn	2.7%	10.9%	-	-	-
MSCI Technology Index		*-10.6%*	*-17.5%*	-	-	-
International Brands Fund	$38mn	14.0%	26.4%	-	-	-
Brands Index		*1.1%*	*0.0%*	-	-	-
Micropal average international fund return (575 funds surveyed)			-13.5%			

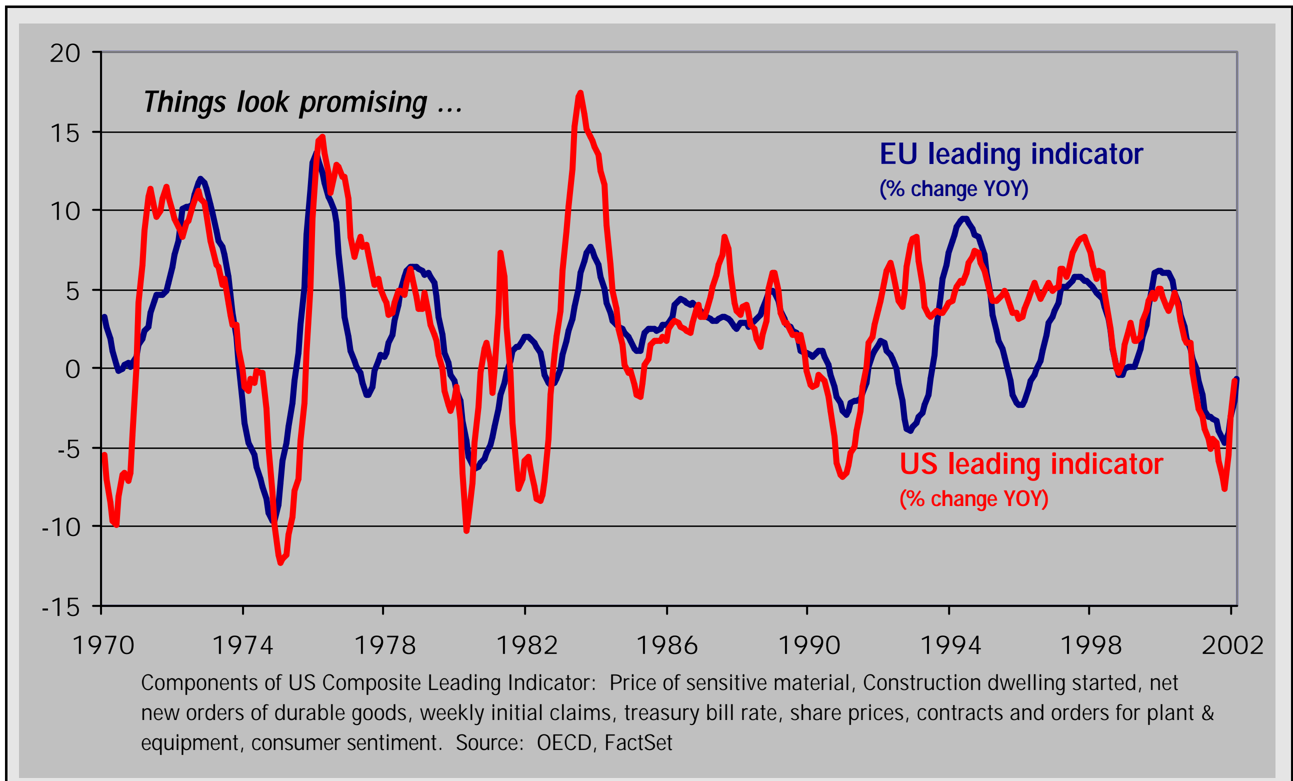
* Morgan Stanley Capital International Index

MSCI HONG KONG, TAIWAN, KOREA AND JAPAN SINCE 1998 (LOCAL CURRENCIES)

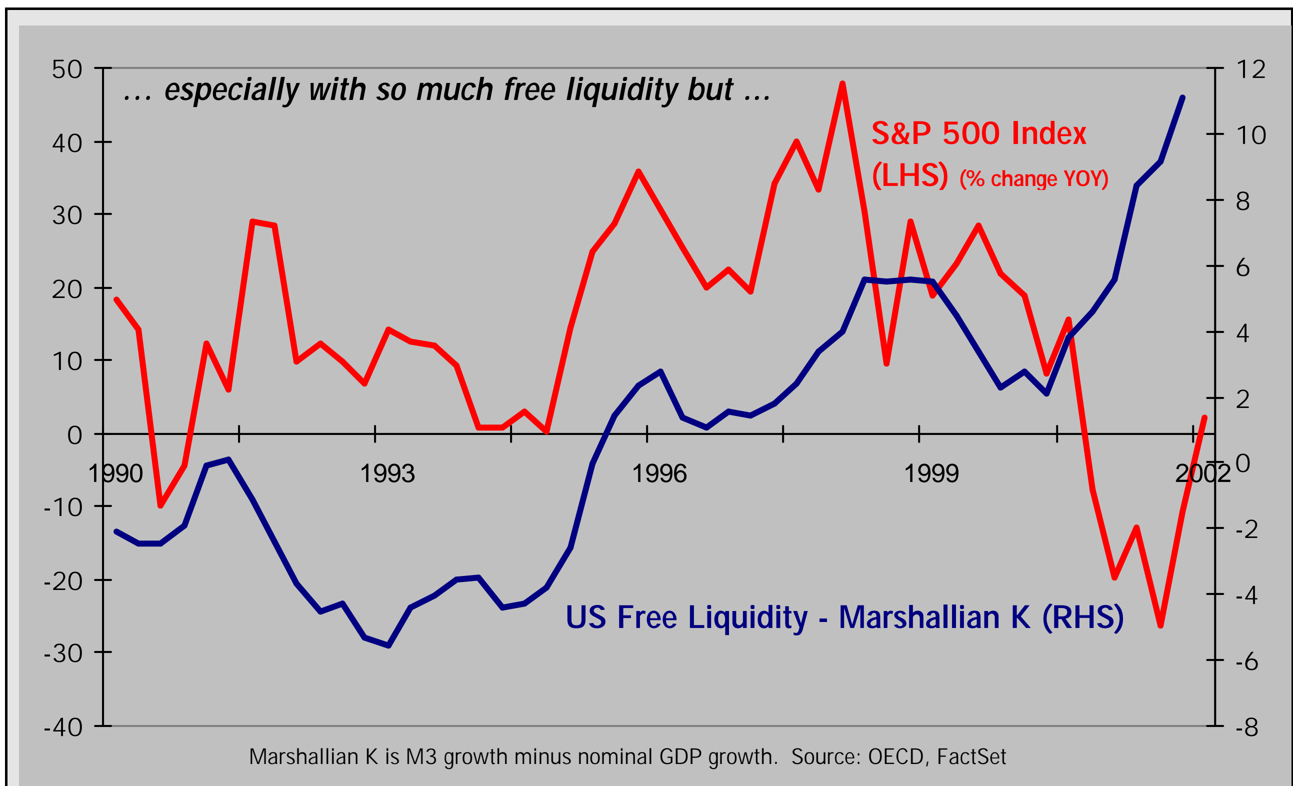


Information about the units on offer in the Platinum Trust are contained in the Platinum Trust Prospectus No. 4 lodged at ASIC on 25 May 2001 and the Supplementary Prospectus dated 11 March 2002. Persons wishing to acquire units must complete the application form from the current prospectus. Reliance should not be placed by anyone on this document as the basis of making any investment, financial or other decision. Past performance is not indicative of future performance. Platinum Asset Management does not guarantee the repayment of capital, payment of income or the performance of the Funds.

OECD US AND EUROPE LEADING INDICATORS



US FREE LIQUIDITY – MARSHALLIAN K

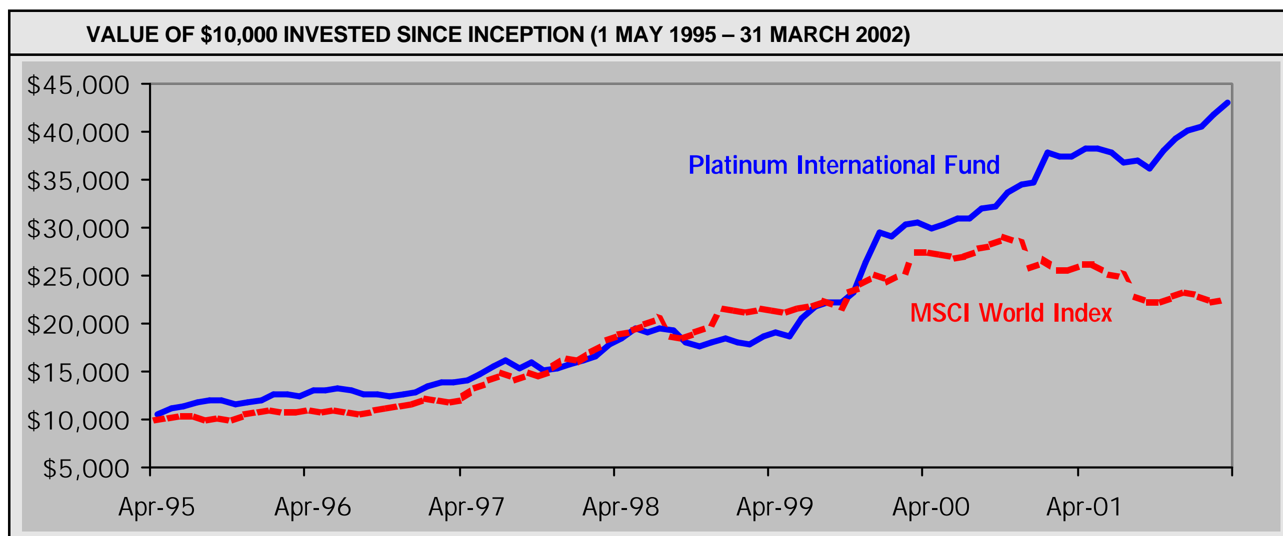


Platinum International Fund

Performance

REDEMPTION PRICE: $1.8749

VALUE OF $10,000 INVESTED SINCE INCEPTION (1 MAY 1995 – 31 MARCH 2002)



Markets cast off some of their doubts as the quarter progressed. The table adjacent highlights investors recent preference for cyclical areas, such as energy and materials, but also shows that they hedged their bets by staying with consumer staples. The massive debt burden taken on by the telecom companies when they bought competitors and bid for third generation mobile licences continued to weigh heavily on their share prices. The IT sector also suffered as expectations of a cyclical rebound wilted in the face of the reality of the magnitude of the over-investment during the tech bubble.

MSCI WORLD INDEX – INDUSTRY BREAKDOWN (A$)

Sectors	3 month	1 year
Energy	5.0%	-3.7%
Materials	3.5%	0.6%
Industrials	-3.4%	-12.8%
Consumer Discretionary	-2.8%	-12.6%
Consumer Staples	1.6%	-1.6%
Health Care	-5.0%	-9.3%
Financials	-3.5%	-14.0%
Information Technology	-10.6%	-17.5%
Telecommunications	-17.4%	-33.8%
Utilities	-4.0%	-22.4%

Against an overall decline by the MSCI for both the quarter and the year (-3.8% and -12.4% respectively), the International Fund's performance is pleasing (+7.6% and +15.1% respectively). The main driver of this outperformance was the running down of cash balances after the Trade Centre attacks in September. Some of this money went into previously owned tech shares but these were quickly resold so your Fund largely escaped the carnage within the IT/telecoms sectors. We made very substantial returns from aggressively positioning the Fund in Korean shares when that market was out of favour some 12 months ago. Fossicking among depressed gold shares was rewarded and our overall currency positioning has been sound. Short selling cost us money last quarter.

Changes to the Portfolio

DISPOSITION OF ASSETS

Region	Mar 2002	Dec 2001
Western Europe	37%	39%
Japan	15%	15%
Emerging Markets (incl. Korea)	15%	14%
North America	11%	13%
Australia	0.8%	0.4%
Cash	21%	19%
Shorts	15%	24%

We have been adding to some existing positions while trimming others, notably in Korea, such as LG Chemical, LG Household and Health, and Lotte Confectionery. Other sales were Nordea and Akzo Nobel.

There have been four new names introduced to the portfolio in the last three months: Hagemeyer, Henkel, Michelin and EDS.

Hagemeyer is a very old established Dutch based trading company which went badly astray investing indiscriminantly around the world. There was a change in management some two years ago following which the business was refocussed on its biggest division, electrical wholesaling. This may not normally fire up one's imagination but there is a fundamental need for a stockist/distributor to sit between the manufacturer and the end user. In this case the user is the electrical contractor and the manufacturers comprise the giants of the industry such as Philips, Siemens, GE and Schneider. The really exciting element relates to Hagemeyer rolling out its integrated supply solution. Apart from a general improvement in activity this roll-out should add to earnings quality and growth (see Hagemeyer stock story page 8). The present very low valuation reflects past problems and not present strengths.

Henkel interests us from the restructuring it has done recently and the fact that it now derives over 70% of it sales and profits from branded goods such as Persil washing powder, the leader in the category in Europe. The market is not giving the company the benefit of the doubt and still rates Henkel as a mediocre chemical company.

No one could have missed the publicity given to accidents involving the Ford Explorer which caused such animosity between Ford and Firestone. We believe this and the fact that the three major suppliers to the global tyre market are deeply indebted will lead to a significant shift in relationships within the industry to the betterment of profitability. Recent price rises have stuck and there is evidence that manufacturers are prepared to walk away from original equipment contracts if the terms are too pernicious. As the global leader, Michelin is best placed.

As many clerical functions take on more of the character of an industrial process so outsourcing gains momentum. In addition, many IT functions can be more readily outsourced and even allowing for the servicers margin it can make sense for corporations to cede this task to others. EDS fulfills this roll admirably. At present its share price is being adversely influenced by concerns of off-balance sheet liabilities. We believe these to be over-blown and see the price weakness as a buying opportunity.

Currency

The shift in our currency preference was to add further to our A$ hedging at the expense of the Euro. Nearly 60% of the Fund is now denominated in Australian dollars and the balance is largely Euros and Swiss Francs.

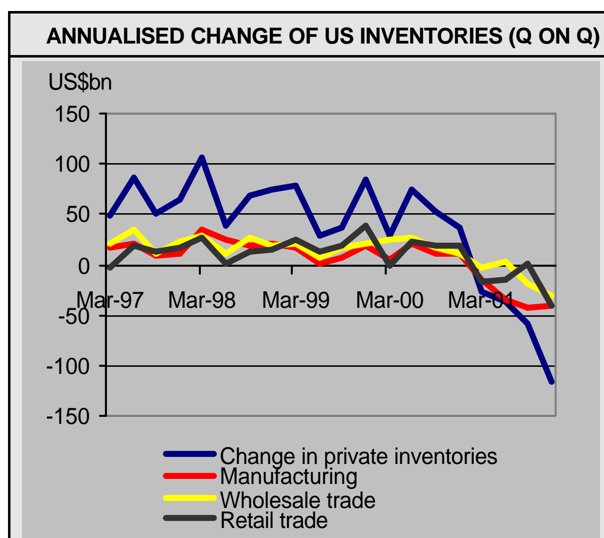
BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Mar 2002	Dec 2001
Cyclicals/Manufacturers	RMC, Bayer, Linde, Océ	22%	22%
Retail/Services/Logistics	Hornbach, Jones Lang LaSalle, Fraport, Stinnes	10%	10%
Technology/Hardware	Toshiba, Samsung, AMD, Foundry	10%	8%
Financials	Deutsche Boerse, Alleanza	8%	8%
Consumer Brands	Adidas Salomon, Lotte Confectionary	8%	11%
Medical	Draegerwerk, Merck KGaA, Novartis	6%	7%
Software/Media	Mediaset, Novell, Nippon Broadcasting, Seoul Broadcasting	6%	7%
Telecoms	NTT, Verizon, Korea Telecom	5%	4%
Gold and Other	Gold Fields, Newmont Mining	3%	3%

Commentary

The power of low cost money, with the Fed fund's rate at a 40 year low of 1.75%, has worked much more effectively than we had dared to hope. Not only have we seen a strong rebound in consumer spending in the US, but business confidence in Europe has also rebounded; for four months in a row now the IFO survey of expectations in Germany has been rising. This has been anticipated by the market so, as noted earlier, there has been a surge in the value of cyclical stocks.

ANNUALISED CHANGE OF US INVENTORIES (Q ON Q)



The focus has now switched to the prospect of tightening interest rates (Sweden and New Zealand have already raised rates). A measure of this is revealed in the forward rates which imply rises of 100 basis points late in the northern summer. As we remain somewhat ambivalent about the strength of the recovery we suspect these forward rates may exaggerate the actual outcome, although, there have been some surprisingly large price rises in several commodities which are *prima facie* in abundant supply, eg. steel, various plastics, etc. Nearly all the companies we visited in March expressed disappointment with order levels, with only one out of the 40 companies seeing any indication of improvement. De-stocking has been taking place at an abnormal rate (see the attached figure of US inventories).

The piece we wrote last quarter on Enron proved prescient so we do not share the general feeling of surprise and betrayal. We have long bored our readers with complaints of wholesale transference of corporate ownership via vast stock options – which in addition fail to be accounted for correctly. We have complained about accounting practices, dubious recognition of revenues and worse still, the role played by investor relations officers to apply spin at every turn. Another matter that gets less than due coverage is the predilection of investment bankers to value shares on operating earnings – so called EBITDA (Earnings Before Interest, Tax, Depreciation & Amortisation). This may suit those pursuing M&A fees but does little to inform real investors. The "D&A" part masks all manner of accounting iniquities and the "I" part confuses the fact that shareholders are the last in line to get free cashflow, the source of dividends, retained earnings and the ultimate reason for INVESTING.

The above comments may not seem important to some but illustrate a system that is facing serious imbalances. The Enron debacle and revelations of dubious associated dealings highlighted the amount of off balance sheet risk that prevails. This risk becomes more real as interest rates turn and positions have to be covered.

It has been the ability of the Government's sponsored enterprises such as Freddy Mac and Fanny Mae to cope with massive housing mortgage refinancing that allowed the US consumer to fund housing at progressively lower rates throughout the economic slowdown and simultaneously to free up funds for the purchase of other goods. These entities have progressively increased their exposure to interest rate risk and credit risk. They are, in fact, monumental hedge funds with equity gearing of 64 times through their guaranteeing of mortgages against default and their ownership of portfolios of mortgages. A high proportion of their borrowings are funded short term which at present low rates allows them to make good spreads. To mitigate the risk of a rise in rates they are obliged to be aggressive users of options instruments. As matters stand today a rise in rates need not necessarily cause them great loss but there is no telling whether there will be a period of volatile interest rates nor is one able to predict the behaviour of borrowers. It is difficult to calculate the option premiums they are paying annually but between the two of them it could be as high as $4 billion. Receiving those fees are investment banks and other institutions. In unstable times these interest rate "insurance policies" could become credit risks as margin calls mounted.

The important thing for investors to recognise at this point is that the tide may have now turned. Regulation of corporations will become more stringent, money will tighten and input prices may be on the rise. This is the very opposite of the experience of recent years and implies downward pressure on the reported profits of some companies.

PROSPECTIVE PRICE EARNINGS RATIOS

Region	2002	2003	2004
Europe MSCI	18.8	15.8	14.9
US	30.6	24.8	23.4
Japan	24.1	18.7	17.9

As we look at world markets we continue to be attracted to the values we find in Europe. While this economic block may be slower to come out of the trough than the US, we are reasonably comfortable the shares we own are realistically valued. Above is Morgan Stanley's price earnings ratio projections for the US, Europe and Japan.

We are reluctant to follow the crowd and tilt the portfolio decisively in favour of cyclicals because of the reservations voiced above. We have been adding to companies that are in defensive industries because they are attractively priced but somewhat neglected as investors chase after cyclicals; this is another way to say that the market is already building into cyclicals a fair degree of recovery.

The other fashionable area at present is emerging markets. We see Korea as our representative in this arena though we also have some money in China and India. Some of our Korean shares have been exceedingly strong and as noted above we have tended to sell into that strength. For completeness it should be said that we remain comfortable with our positions in Japan with the caveat that we continue avoiding the Japanese Yen.

Conclusion

Many markets have already built in valuations which partly reflect the anticipated recovery in economic activity globally. Valuations are reasonable in some areas but in a broad sense are not compelling, particularly as we believe there will gradually be leakage of funds out of overvalued sectors such as retailing in the US and some big capitalisation names. These remain our area of attention for shorting. At this stage we believe that high valuations and uncertainties such as rising oil prices and the traumas in the Middle East will restrict the scope for a broad and aggressive advance in share prices globally.

Kerr Neilson
Managing Director

Stock Story – Hagemeyer (Netherlands)

Retail chains, which supply a target market with a defined selection of products, are a familiar concept to most western consumers. In a parallel universe, a less familiar group of companies provide a similar service to the industrial/commercial/business customer. In particular we refer to companies who supply electrical, safety, building or plumbing products to small builders, large contractors and industrial (or institutional) buyers. The underlying business concepts of customer catchment area, product selection, pricing and service are the same as for retailing. Attention to logistics, stocking levels, inventory turnover, gross margin, and sound IT systems are just as crucial.

Hagemeyer is a Dutch distribution company specialising in electrical products (anything from warehouse lighting to home security systems), health and safety products (eg. hard hats or protective gloves) and other MRO products (maintenance, repair and operations – anything in an industrial facility which is not for transformation and resale).

With retail the question may be whether a supermarket is merely renting out space to the branded goods purveyors, (or is it selecting, buying, promoting, differentially pricing, and allocating good or bad shelf space etc to goods)? Similarly, the question with the distributors is whether they are mere vassals of Siemens, GE, Philips etc, or whether their role "adds value" and is thus profitable and defensible. Over the last decade or so a shift has occurred from the former ("vassal") to the latter ("value-added crucial link in supply chain"). This shift can be perhaps traced to the disengagement of the manufacturers from distribution. Siemens sold its German distribution business in 2001 to a venture capitalist – its subsequent bankruptcy perhaps suggests there is more to the task than meets the eye! GE is the last of the US manufacturers to have its own distributor (ie. for the US market), but it is only the US #4, it is not so profitable, and its existence probably speaks to GE's proclivity for opacity in pricing and profitability ...

But more generally, the emergence of sophisticated software and managerial systems for coping with vast product ranges, diverse customers and the ever-greater demands for quick delivery is requiring the distribution company to become a "logistics" expert. Given a range of say, 60,000 electrical products, for which the demand will be quite different in the various regions of Germany, how many should be stocked at the local Hagemeyer outlet (called a store), and how many should be kept at one of the vast regional warehouses (called a "DC" for distribution centre)? When does it make sense to accept the higher transport costs to completely fill an order from the DC rather than "open" it three times at different stores before delivery, or would it be optimal to deliver some today and some tomorrow? How should the various options be priced and to whom? There are certainly not prices displayed on these items and one customer will pay quite a different price for his light fittings than the next customer. And how do you (the distributor) cost the different options to ensure you are making money where and when you think you are?

Right now, for example, Hagemeyer is transforming the distribution logic of its US business by building a DC in the south-east (the company's strong region – it will then build another on the mid-Atlantic coast). This DC will stock 80,000 products, and the hundreds of Hagemeyer stores will be able to cut the range of stock they hold from up to 20,000 lines down to 1,500-2,500 fast moving items.

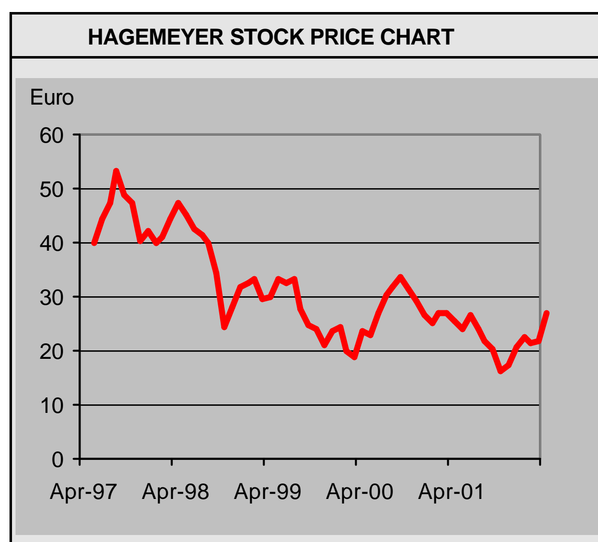
Interestingly, building products companies and plumbing suppliers (and of course Hagemeyer's competitors in the electricals field) are all going through the same process at the moment – this "coincidence" is probably a function of the demands of customers, the consolidation of suppliers, and the stimulus provided by modern supply chain software and systems.

Hagemeyer, however, is interesting to us for two reasons. One is its price (see below) and the other is that the company is taking the evolution of the distributor's role to its next logical step while others watch and wonder (with increasing attention, we detect). That next logical step is what the company refers to as "Integrated Supply", where for large industrial customers (eg. a car plant), Hagemeyer can take over the supplying and management of the customer's entire MRO requirement (ie. those products not forming part of, in this case, the car being built – or the robots building it). As with all these things, the number of items needed in an industrial plant (from heavy duty cleaning products to lighting and air filtering etc) is many more than

you first imagine. And just as importantly, companies tend to buy such products erratically and unprofessionally and then store them without discipline (compare this to the devotion they bring to wringing the last cent from their hapless parts suppliers, and their insistence that panels, window glass etc are delivered into the plant only as they are required to go onto the assembly line). MRO products are, after all, *not that important* compared to engines and assembly robots.

And perhaps "*not that important*" would be the favourite words of any company in the business of providing services to another. To Hagemeyer (and its subsidiary CamBar who developed the integrated supply strategy 15 years ago), MRO products are important. Hagemeyer is professional and focused in buying them, and is very disciplined in storing them (ie. not having more on hand than is required). In addition, the integrated supply offering removes the fundamental basis of dissension between suppliers and users – which is of course price. When Hagemeyer enters into an integrated supply arrangement with a new customer, a fee is agreed, and any savings which are made above those contracted (eg. if Hagemeyer achieves a better price with one of it suppliers) are passed straight on to the customer. The books are open on both sides so that a sort of partnership is achieved. Done properly, integrated supply contracts are low risk, reliable return annuity streams (to Hagemeyer). And the plan is to just replicate the service again and again – this is a market where the market leader (CamBar) has 50 contracts in the US (it is just starting in countries like Australia and does not really exist yet in Europe) and 500 US contracts would only be scratching the surface. Of course the integrated supply service sounds easy but can only work when there is a dense distribution network and great buying power behind it. Hagemeyer's sales in 2001 were E8.8bn (A$14.6bn).

Hagemeyer has a history stretching back to its establishment as a family business by the brothers Hagemeijer in the Dutch East Indies (in Surabaya) in 1900. As the company's home page diplomatically observes, "Hagemeyer's history has had its share of both highs and lows". One of these "lows" had been reached by the late 1990s when the company was a collection of distribution businesses that made acquisitions to grow but was not sure where its core lay. New management arrived in 1999 and sold the consumer products distribution businesses and various other diversifications that the company had entered over the previous decades. The decision was taken to focus on the "electro-technical" products (and related safety gear) as the core of the business and in September 2000 Cameron & Barkley of Charleston, South Carolina was purchased and the strategy of building a great electricals distribution and MRO business was under way in earnest.



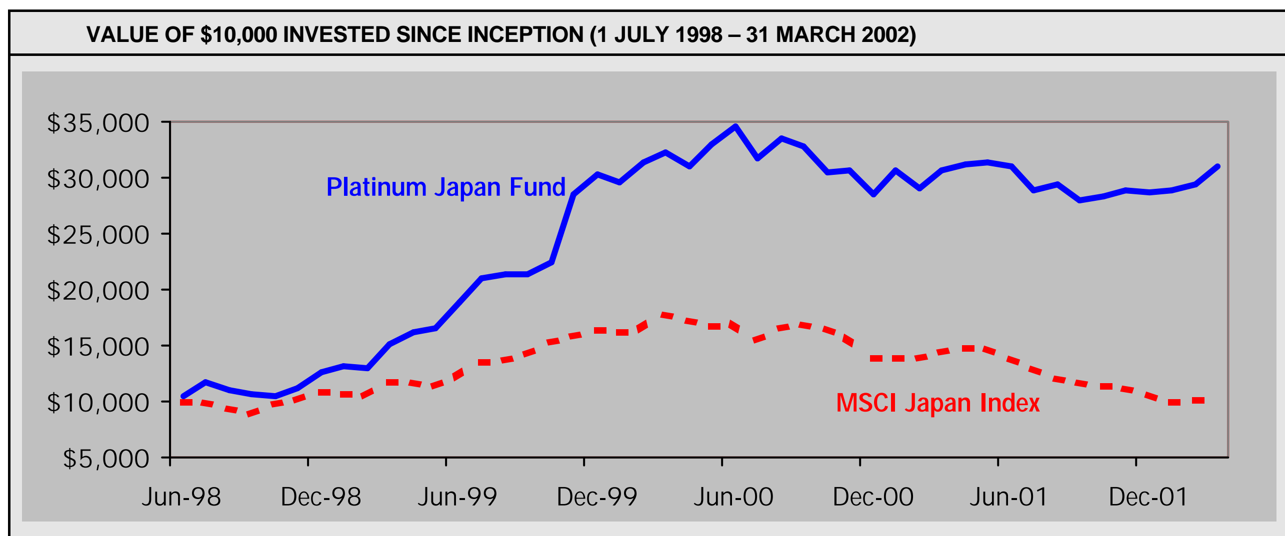
Despite a good rally from April 2000 when new management started to shake the company out of its apathy, the stock fell heavily in 2001 as the slowing global manufacturing economy began to harm volumes (and distribution, despite the endless changes that the business undergoes, is fundamentally a volume game). By late last year the valuation (at 8-9 times depressed earnings) reflected the economic cycle but included nothing for the benefits from the tighter focussing of the company, nor for the potential of the integrated supply strategy. We met the CEO late in 2001 in Sydney (Hagemeyer has large Australian and Asia-Pacific businesses) and again in March 2002 at the company headquarters in Amsterdam. Just as importantly, we met one of the company's leading proponents of the integrated supply strategy in December 2001 and it was then that we understood the renewed sense of purpose and energy at the core of Hagemeyer. We bought stock around E19 and will continue to build the position if and when it comes back from current levels

Toby Harrop
Portfolio Manager

The Platinum Japan Fund

Performance

REDEMPTION PRICE: $1.8893



VALUE OF $10,000 INVESTED SINCE INCEPTION (1 JULY 1998 – 31 MARCH 2002)

The Japanese stockmarket witnessed significant volatility this quarter. During January, the market took a sharp fall of almost 7% as the post-September 11 rally in global markets faded, and people returned to a more pessimistic view of world economic growth. In such a scenario, Japan is seen as particularly exposed due to its weak consumer spending environment and this led to foreign selling of the market. The so-called "Sell Japan Trade" of short Nikkei Index, JGB (Japanese Government Bonds) and Yen became popular once again amongst hedge funds. However February and March saw a sharp reversal as global economic indicators finally signalled a degree of recovery in world growth and helped the Topix to finish 2.6% higher over the quarter. The market recovery was also aided by the Japanese government, which instituted new short-selling rules in the lead-up to the Japanese financial year-end, and this forced many foreign investors to cover their short positions. Meanwhile Korea continued to be a very different story, with the market powering ahead by 24%. The market had been rallying strongly since September on strong domestic growth but this was given added impetus by signs of a recovery in exports. In addition, local investors began to pour into the market as historically low interest rates and a fear of being left out of the action forced their hand.

The Fund managed to perform well during the quarter rising by 8.3% in A$ terms, while the MSCI Japan Index fell 2.6% in A$ terms. This performance was once again driven by our Korean holdings, with Lotte Confectionery, LG Chemical, Samsung Corporation and Seoul Broadcasting leading the way, with gains of 85%, 95%, 68% and 37% respectively. Among our Japanese holdings we managed to avoid any serious declines, although our position in the consumer finance company Aiful was hurt by rising bad debts as the economy continued to slow. We remain optimistic on the stock because of the diversification of its customer base. NTT, a recent poor performer for the Fund, managed to show some signs of renewed life and closed 18% higher. The Fund also benefited in a relative sense from our hedging back into Australian dollars, as that currency appreciated by 4.5% against the US$ over the quarter. The Fund's one year record now stands at +1.7% versus the MSCI Japan Index of –28.3%. Over three years, the compound return has been 27.9% versus -4.3% for the index.

Changes to the Portfolio

DISPOSITION OF ASSETS

Region	Mar 2002	Dec 2001
Japan	65%	64%
Korea	25%	24%
Cash	10%	12%
Shorts	16%	16%

The major change to the portfolio was in our currency position, where we eliminated our hedged position in the Korean Won (raising exposure from 0% to 25%) and also increased our exposure to the yen by 10% to 25%. At the time, our view was that with expectations of a global recovery becoming more pervasive, the pressure would come off the yen and by implication its major trading competitor. However after a short lived move up the yen appears to be headed back toward its recent lows. The remainder of our currency position remains as a hedge into the Australian dollar, which has started to see some strength buoyed by cyclical recovery and a stronger gold price.

Our Japanese positions were unchanged in an aggregate sense but we repositioned toward cyclical and domestic stocks. We added names such as Sekisui Chemical (house building and chemicals), Kirin Brewery and Komatsu. These additions were financed by trimming some of our larger holdings and completely removing Toshiba. Whilst the removal of Toshiba was somewhat premature we remain wary of the company's lack of focus and high debt levels.

With such dramatic price action in Korea and with many of our stocks hitting what we believe is fair value we have started to migrate toward better relative value. Our core positions in companies such as Samsung Corporation and Lotte Confectionery, remain unchanged but we have trimmed around 20% of the exposure. This money has been moved into smaller stocks which would be regarded as higher beta plays or more sensitive to the economic cycle. These stocks are typically valued cheaply, sub 10x PE but some on 2-4x PEs, and at some stage, are likely to be swept up in the continuing bull market. We have also added Kangwon Land (see story below).

In terms of short positions, we have hedged 5% of the Fund's Korean position and 10% of the Japanese position with index futures. We have also taken a number of short positions in technology stocks like Advantest, Sharp and Tokyo Electron, which appear very expensive on an international basis. We have also taken a "pairs trade" by buying NTT and shorting NTT Data, its listed subsidiary against it. Both companies have similar growth profiles but NTT Data is priced in excess of 2x the valuation of its parent.

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Mar 2002	Dec 2001
Thematic	Fujirebio, Noritake, TOC Corp	13%	14%
Cash Generators	Citizen Watch, Air Liquide Japan, Enix Corporation	13%	8%
Restructuring	NTT, MEI, Yamaha Motor	10%	18%
Hidden Assets	Nippon Broadcasting, Toyo Tec, Tenma	7%	9%
Growth Stocks	Towa Corporation, Aiful Corporation	7%	9%
Other	Makita Corporation, Alpine Electronics	14%	6%
Korea	LG Chemical, Korea Telecom, Samsung Corpoation	25%	24%
Cash/Margin Deposits		10%	12%

Commentary

During the quarter, a lot of media attention was given to the Japanese government's changes to the rules governing short-selling of securities. Many cynically regarded this as an exercise in market manipulation just ahead of the financial year-end (31 March) and we would agree. This point is best made when one realises that the main measure of the "Anti Deflation" package announced by the Finance Minister was the imposition of stricter rules on short selling. The demonising of foreign investors as being responsible for the economic problems of Japan highlights how far the authorities are from embracing the right solutions to their problems. But then again, this is perhaps not so surprising considering the results of a recent poll which found that 65% of Japanese are against structural reform as proposed by Prime Minister Koizumi. On the subject of Koizumi himself, the prime minister's approval rating continues to be eroded by the successive scandals engulfing his government and the damp squib of structural reform. It seems that Japan is destined once again for another vicious cycle of apathy, delayed crisis response and political ruction before any new hope can emerge.

Across the water, it is refreshing to speak of the good things happening in Korea. We have discussed the positive structural case for Korea many times in the past, and it is good to see our analysis rewarded. What we are seeing now is a "blowoff" phase as local cash which had remained anchored to the sidelines floods into the market. In many instances brokers are repeating back to us the positive cases on our stocks and raising target prices well above our expectations. In this environment our instinct is to become cautious however we are still positive for the following reasons. We believe it is rare for such a positive structural change in an economy to be fully played out in the equity market in just one year. It is likely that the benefits to corporates accrue over a number of years and that equity prices broadly track this timeframe (although at times such as these they can get over enthusiastic in there role as discounters of the future). Also consider that the local investor is only really just getting started and has a mere 3% of his wealth in stocks. Structural change will most likely mean lower interest rate and risk premiums which are both good for equities. Furthermore, we continue to find cheap valuations in a broad range of stocks with many still on sub 10x PEs. We would think valuations of 15x for the market are appropriate.

One Korean stock which we think still shows great value is Kangwon Land. This company operates a casino complex approximately four hours by road, in the mountains east of Seoul. At present, the company is operating out of a temporary facility (comprising 30 gaming tables, 480 machines, and 200 hotel rooms) until the main casino is opened at a cost of US$850 mn later this year. In mature markets, casinos are generally uninteresting businesses, exhibiting stable, property-like characteristics, with high dividend yields. However, we believe Kangwon Land is much more interesting for the following reasons.

1) Until 2006 legislation will provide the company with a monopoly to cater for Korean casino gamblers. There are other casinos in Korea but these are small and only foreigners are allowed to gamble. Gambling options for Koreans are limited to horseracing with poker machines still illegal.

2) When the main complex is completed, Kangwon Land will become the premier tourist destination in Korea which seriously lacks such quality resorts. The new complex will not only quadruple casino capacity but will be a fully integrated resort destination much along the lines of Malaysia's Resorts World. It will offer 1,600 hotel rooms, 1,000 condominia, an eighteen-hole golf course, a theme park and ski slopes.

3) The Korean consumer is having a wonderful time on the back of full employment and falling interest rates. Asset markets are also enjoying boom times. It is likely that the effect of this new level of wealth will filter through to discretionary expenses such as gambling. The idea of spending more on leisure will be further encouraged as the government enforces a reduction in the working week from six to five days, allowing more time for citizens to spend their leisure dollars (or Won).

4) Koreans demonstrate a particular propensity to gamble. The turnover on the Korean futures exchange is currently $US5.5 bn/day and most of this is retail. Compare this with Tokyo at $US3.7 bn and the CME (S&P and Nasdaq) in

the US at $US18 bn, most of which is institutional.

The risks involved in the story mostly surround licence conditions and attendant tax rates levied on the casino. These are valid threats but we would point out that both the company's monopoly status and tax rates are dealt with and enshrined in legislation, meaning any change would require a very solid consensus. In addition, the government retains a 36% stake in Kangwon Land and is unlikely to act to the detriment of its own "golden goose".

The valuation is attractive with the trailing PE ratio being 17x which falls to under 10x when the main casino is opened. Foreign ownership, while rising, is also quite low compared to the other 'large cap' stocks in the market. We would expect that, as has been the case in Australia, the stock will continue to perform very well up until the opening of the main casino later this year.

Outlook

The low level of interest rates and a surprisingly resilient US consumer seem to be stabilising world economic activity. However, we remain sceptical that the excesses of the previous economic cycle, manifested in the technology bubble, have been purged, and as a result, business returns and hence capital expenditure are likely to remain subdued. This means that current hopes for a strong economic rebound will end up petering out and equity markets are likely to experience a further period of lacklustre performance. Consequently, Japan is unlikely to find salvation in an export recovery. We are unlikely to become bullish on the Japanese market in a more general sense until the stand-off between the politicians and the Bank of Japan over the bad loan problem is resolved. At present, the BOJ is refusing to provide additional monetary easing to end deflation until the underlying structure of the economy is overhauled, part of which will necessitate the closure of many companies. As for the politicians' part, they are still too concerned with preserving jobs, including their own. Hence, necessary major change at the macro level is not occurring, notwithstanding some positive developments at the corporate level.

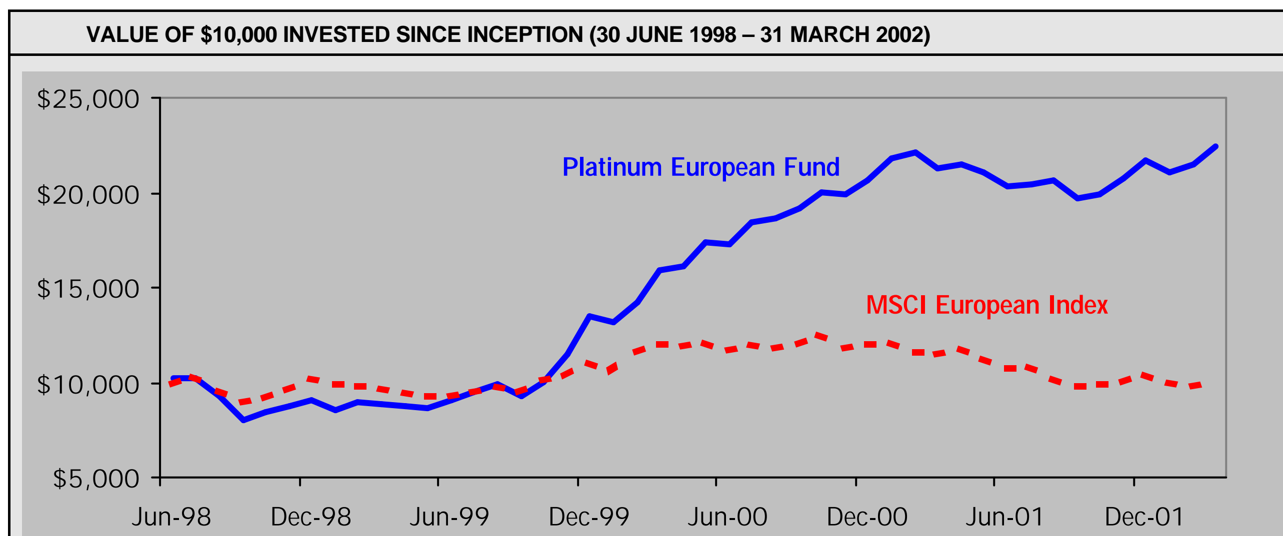
Jim Simpson
Portfolio Manager

The Platinum European Fund

Performance

REDEMPTION PRICE: $1.8176

VALUE OF $10,000 INVESTED SINCE INCEPTION (30 JUNE 1998 – 31 MARCH 2002)



Market – most stocks up, but index dull and A$ recovering

European stocks were generally up over the quarter, with a range of economically sensitive sectors (autos, travel/leisure, machinery, auto parts, chemicals, steel) showing 10-15% gains, while tobacco (+18%), software (+13%), energy (+13%), and real estate (+12%) also participated. Clearly, the focus for most of the quarter was the seemingly improved prospects for economic recovery. However, offsetting these gains were renewed setbacks for the (still heavy index weights of) telecom equipment (-18%) and telecom operators (-15%). Small losses for the important sectors of food retail, insurance and media contributed to the dull overall MSCI Europe performance of +1% in local currencies for the quarter.

The Euro continued to struggle between 86-89c (US) for the period, and the improvement in the A$ (from 51c to 53.5c) meant that the A$/Euro cross rate increased nearly 7% (to 61.24 euro cents), cutting the MSCI performance to a loss of 4% measured in A$ (Swiss francs, Sterling and the Scandinavian currencies were stronger than Euro which is why the A$ measurement of MSCI was not down even more).

The Platinum European Fund benefited from the strong performances of some of its cyclical stocks, including industrial gases company Linde (+25%), elevators/escalators leader Schindler (+21%), the Dutch distributor Hagemeyer (+21%), and Italian media giant Mediaset (+20%). Offsetting this was a poor performance from our German chemical/pharmaceutical conglomerate Merck, which fell 15% over the quarter as Glucophage generics arrived on the market, and investors worried about the prospects for a key potential product.

Over the past few months we have increased the hedge out of Euros in favour of the A$, at prices around 58 euro cents. With 58% of the portfolio thus positioned in A$, and 42% in various European currencies (of which over half that amount in non-euro currencies – Swiss francs, Swedish Krona and Danish Krone etc), the portfolio was at least partly protected from the rise in the A$/Euro cross rate. The Fund thus rose 4% over the quarter measured in A$, 8% more than the index.

Commentary

March 2002 European company meetings report

In the middle two weeks of March we visited 40 companies in Europe, travelling to Switzerland, Paris, Brussels, the Netherlands, Stockholm and London.

Of these 40, the Fund was invested in 10 already, and has subsequently sold one and bought three new ones. The first thing to say is that as to the much discussed "economic recovery", only one of those 40 companies was able to give us any indication that

there was some evidence of improvement, and even that one example was tenuous. Many of the companies are active in the US, where things were generally still worse than in Europe, and the clear conclusion was that things are not worse than the last few months of 2001, but they are not yet improving from that low level. Clearly, the Q1 2002 vs Q1 2001 comparisons will still be very weak, with industrial volumes commonly showing 7-15% (or more) declines. The "second half recovery" at this stage is a purely mathematical truism relating to easy comparisons from mid-2001 onward. This picture tends to confirm our suspicion that the economic recovery implied by the industrial confidence survey improvements mostly relates to general restocking and that there is little underlying strength to capital expenditure plans.

Much more interesting were the details of the individual meetings. Broadly speaking, we saw three groups of companies in March. These were logistics/distribution companies, including both third party warehousing/freight forwarding businesses and actual industrial product distribution companies such as Rexel (France) and Hagemeyer (Netherlands). Second, we saw several food (and general) retail companies, ranging from the multinational giants Carrefour (France) and Ahold (Netherlands) to a discount specialist in Belgium. Kingfisher, a DIY and electrical retailer mentioned at some length in the last quarterly report, also gave us some time in London. Third, we saw a range of companies which represent the industrialising of various cottage industries, from the French private hospital system to European agribusiness and the global bakery supplies industry.

Logistics/Distribution

As mentioned in the "stock story" on Hagemeyer earlier (pages 8 and 9), the logistics and distribution businesses are in a sense coming of age. The potential to reduce working capital tied up in supply chains combined with sophisticated software and cheered on by the trends to consolidation and outsourcing have both demanded industrial expertise and provided good growth opportunities in this area. A Swiss freight-forwarding business we have followed for years confirmed these trends with the expansion of their "logistics" offering (ie. they see the freight forwarding business as being in slow decline while customers such as Nortel now require them to manage the entire worldwide warehousing and replenishment of its products). In addition, the Swiss company has created an international network by buying into the US and setting up a relationship with Sembawang in Singapore, and revealed their interest to take-over Stinnes of Germany (Europe's leading trucking/logistics company, and among the largest holdings of the Platinum European Fund).

Rexel and Hagemeyer are basically distributors of Siemens, Schneider, GE etc products to electricians large and small in most of Europe and increasingly in the US as well. They are changing from vassals of these manufacturing giants to key enablers of efficient management of vast volumes of such goods. It was very interesting to see a UK-based distributor of plumbing products (again with large North American interests) describing its strategy and the trends of its industry in largely the same language. Clearly there is nothing special about lights or taps, it's the software/consolidation/outsourcing trends that are driving behaviour (and opportunities) in the distribution area.

In addition, we saw two software companies – one a Swiss company transforming itself from a warehouse machinery provider (ie. pick'n'pack robots etc) to a warehouse (and supply chain) software company. That is not an easy task (and the company has the debt to prove it) but it was an interesting angle on the topic at hand. And we saw Hagemeyer's main software supplier in Sweden (Intentia, a distribution software specialist for whom Hagemeyer is the largest customer), whose product and tailoring of its product is so crucial to Hagemeyer's efforts to execute its promising business strategy.

Retail

The "back office" aspects of retailing (stock management, re-ordering, warehouse configuration etc) are of course very similar to those referred to above so comparisons here were instructive. However the bigger points to emerge from the meetings with retailers were just as much about the "front office" aspects of formats, pricing, private label etc.

Investors have long been fascinated in the US by retailers who establish a successful format which can then be "rolled out" across the vastness of the United States. Companies such as WalMart or Home Depot open one or two outlets a week (and these are almost the size of the MCG playing surface, remember), and part of the definition of successful is that the businesses are sufficiently profitable to finance this remarkable growth internally. As we have noted before, one of the great strengths of US management is their apparent ability to "scale-up" and manage an army (WalMart has well over a million staff!). Two of the factors helping this style of retailer in the US are space (there are few restrictions, outside special cases such as parts of New England, on opening large

stores), and the indifference of American legislators to the destruction of small retailers and their "downtown" or "inner-city" locales in favour of the out of town "strips" and malls.

Neither of these factors apply in Europe and the retail scene, to the frustration of those wishing to replicate successful investment strategies from the US, requires far different skills. In France, for example, there are heavy restrictions on large store openings of which there has not been a single one since 1996. In Italy Rinascente is the hypermarket leader with around 35 outlets (the market could support 5-10 times this number, but Italians sensibly value small shops and so protect them from unlucky Rinascente and others). Consequently the main growth strategies for the European players are either opening stores elsewhere in the world (of which Carrefour is the undisputed king having been active for three decades in many countries, excluding the US), and opening and/or buying small stores – supermarkets, hard discount outlets and convenience stores.

The German hard discount retailer Aldi has made its two owners (the brothers Karl and Theo Albrecht) third only to Bill Gates and Warren Buffett in personal wealth. One of the fascinating things about the emerging momentum of hard discount retail formats in ex-German Europe is that Aldi is impenetrably private – how could people worth US$25 bn not be a household name?! People pitching for business when Aldi arrived in Australia told us that they were not allowed to take notes of the meeting, were searched on the way in and the way out etc. Thus what should be well understood is a bit of a mystery – except to say that the format of 800-2,500 SKUs (stock keeping units – ie. product lines), mostly private label (but probably manufactured by one of the big branded consumer goods companies), no brand marketing, and 30% lower prices than mainstream brands in a regular supermarket is starting to take off, and not just for Aldi. The French majors such as Carrefour and Casino are hurrying to take advantage of the trend, and the returns on capital are very attractive. This is the "roll-out" growth story for retail in Europe (outside Germany).

Industrialising cottage industries

Technological change, new legislation, or consumer/industrial trends are some of the motivations for "cottage industries" (ie. heavily fragmented, largely privately held industries) to consolidate and evolve into large public companies. The "mad cow" crisis and other food scares, along with the increasing dominance of large scale food retailers (which means that foods such as meat, poultry etc are key parts of the retail offering), have forced parts of the ultimate cottage industry of agriculture to become corporatised. Consumers need to trust the shops they buy from, and the shops need to be able to be sure of the origin not only of the chicken they are selling, but the inputs to its feed. The Dutch company Nutreco (which we visited last year, invested in late in 2001 and visited again in March) supplies large Dutch supermarket chains with poultry. This poultry is grown from chicks produced by the company, which are sold to farmers who feed them with feed produced by the company, and then sell them back to Nutreco for sale to the supermarkets. Hence a sealed system is created (importantly, without the company actually owning the farms) and the credibility of Nutreco is available to the supermarket and hence to the customer. Nutreco offers similar services in pork, and in salmon, where it is the world's leader in fish feed and in fact in fish farming (though the farming is sufficiently volatile due to unpredictable salmon prices that the stock collapsed to allow our entry last year).

Another example is the French hospital sector where private clinics (traditionally owned by individual - or groups of - surgeons for example) are being bought up by a company to take advantage of the greater efficiency a profit-motivated operator brings with bulk buying of equipment, optimising the allocation of surgical specialties etc. The French government has allowed this with tacit approval rather than loud encouragement as the country's healthcare system is among the world's finest and risking it for the sake of penny pinching would be politically foolish. However, like every healthcare system, it is increasingly expensive to run (with all the usual healthcare implications of an aging population), so government is allowing private hospitals to be corporatised and to take market share from the public hospitals.

There are several other such "roll-up" companies we met with of which the fund has invested in three – these three are more interesting than the two above and with more attractive valuations. Additionally, earlier in the quarter, we invested in the Swiss based SGS Surveillance, the world market leader in goods inspection, testing and verification – it is also an investment based around the trend toward accountability and the legal requirements for traceability etc in an increasingly uncertain world.

Portfolio Activity and Outlook

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Mar 2002
Miscellaneous Services	Fraport, Stinnes, Hagemeyer	21%
Chemicals/Materials	Linde, Givaudan, Novozymes	18%
Capital Goods	Océ, Schindler, Siemens, Alstom	13%
Consumer	Adidas-Salomon, Michelin, Henkel, Escada	11%
Financials	Deutsche Boerse, Alleanza, Assicurazioni Generali	8%
Retail	Hornbach, Rinascente	8%
Healthcare	Novartis, Nicox	7%
Tech/Media	Ericsson, Intentia	4%

European markets, observed one of the better strategists in the market, have "run out of valuation support". (Even the best strategists struggle with plain English!). We observed this three months ago and the index has done little since though as usual there is plenty of movement among the underlying stocks. Given our recent trip where we found several promising investment candidates in Europe, we continue to feel positive about the portfolio while not being terribly optimistic about the markets overall.

At 31 March the Fund was 90% invested and 12% short for a net exposure of around 78%.

Currencies will continue to be a headache as the undervalued A$ battles with the uncertain economic recovery and plenty of speculative "long" positions, while the Euro still struggles to make headway against the perversely expensive US$.

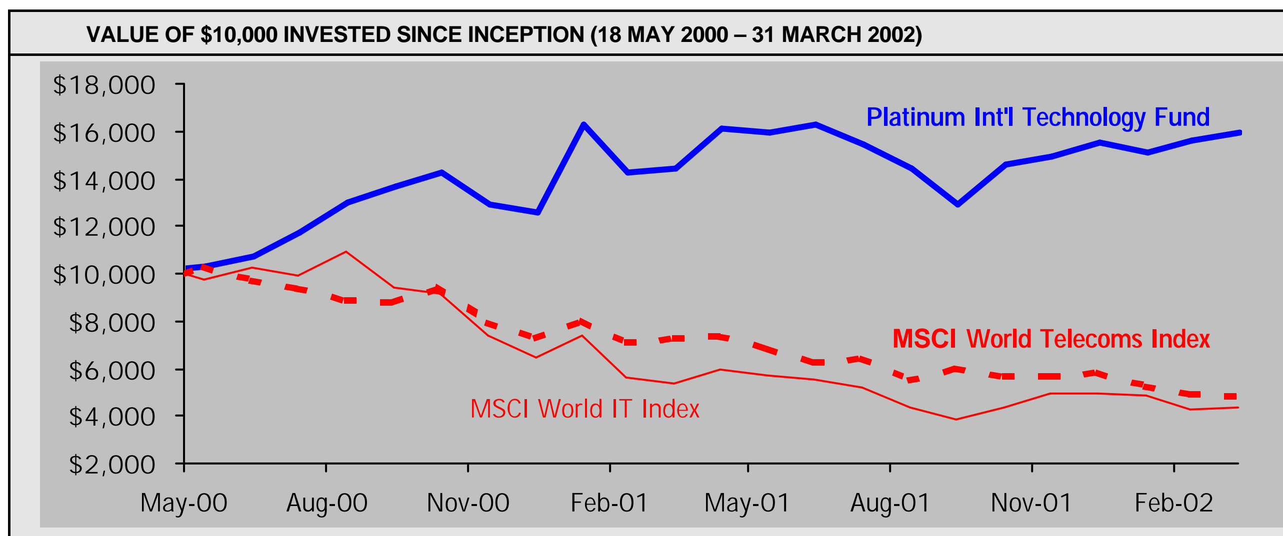
Toby Harrop
Portfolio Manager

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.

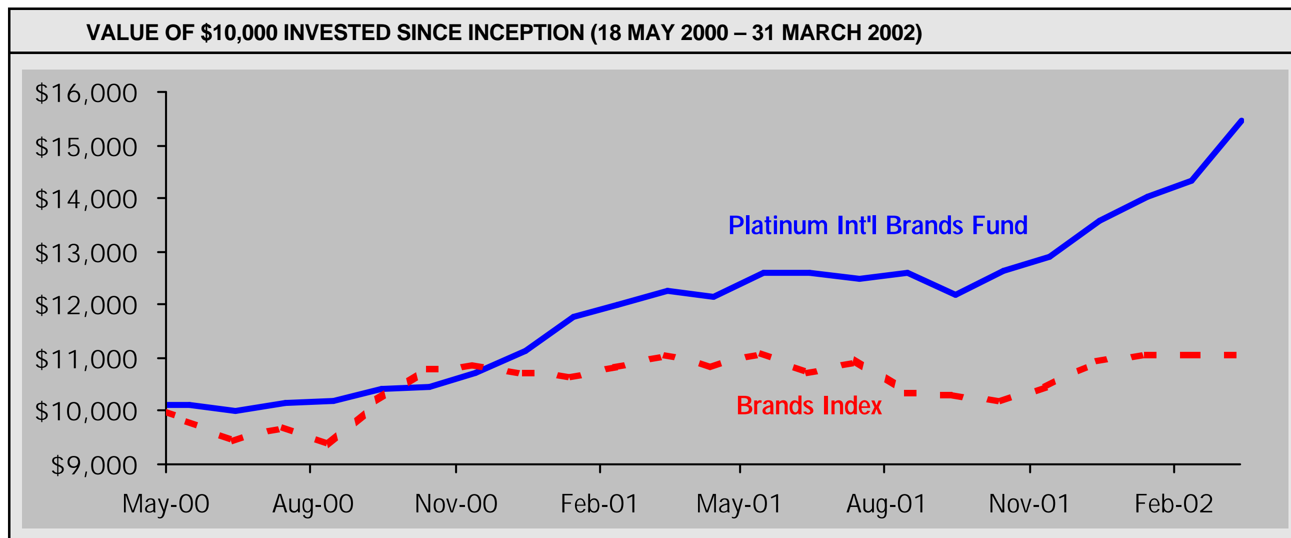
Andrew Clifford
Portfolio Manager

The Platinum International Brands Fund

Performance

REDEMPTION PRICE: $1.4880

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



Last quarter was mixed, with no clear direction among branded goods companies. Cyclical sectors like hotels and leisure did very well as conviction about the prospects of economic recovery grew stronger, but defensive sectors like beverages also performed well. In short, investors wanted to have a bet each way. The International Brands Fund rose 14% for the quarter, as against 1.1% for our brands index and -3.8% for the MSCI World Index.

- Clothing and footwear stocks in our brands index were generally up. Liz Claiborne, a mid-sized, US women's clothing maker, rose 15%. Puma was very strong, rising 35%.
- In household and personal care, a mid-cap US company was the strongest performer again – Alberto Culver added 24%.
- Shares in Anheuser Busch, the world's largest brewer, rose 17% and Coors, number three in the US added 24%. This strength is unusual given that economic recovery was the markets' favourite theme. Non-US brewers were relatively flat.
- Food companies like Campbell Soup, Danone, Sara Lee and Unilever all saw share price declines, but Cadbury Schweppes rose 11%, more in line with US beverage stocks (it is the third largest US soft drink maker).
- Hospitality stocks continued their recovery. Hilton and Host Marriot, both highly geared US companies, added more than 30%. Six Continents, which we own, lagged with a rise of only 10%.
- Retailers performed unevenly. The collapse of K-Mart made headlines and Circuit City lost 32% of its value due to a blow out in store remodelling costs and misgivings over management. The share prices of Carrefour, Home Depot, Tesco, Metro and Ahold all fell. Wal-Mart, though, gained 8%.
- Luxury good companies were mostly positive: LVMH, severely marked down in the previous quarter due to its reliance on tourist spending, recovered 27%.
- Restaurant chains performed well. McDonald's gained 6%, but lagged Starbucks, Wendy's and Tricon, which all appreciated by around 20%.
- Consumer durables were generally strong, for example Maytag was up 42% and the best performing Auto maker was GM with a rise of 24%.

The three stand outs that we hold were Lotte Confectionery, LG Household and Puma. We wrote on Lotte in the July quarter of 2001, where we highlighted its extraordinary cheapness. It has subsequently appreciated by 320% and over 90% in the last quarter alone. LG rose 53% and Puma by 35%.

Commentary

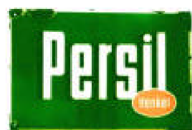
Untold successes

We have not taken you through **Puma** before. We acquired a position over 12 months ago. It has trebled since we bought. This brand will be well known to most readers because of its heritage in footwear for soccer and athletics. Off this sound base it has diversified into designing fashionable shoes, clothing and accessories for customers in the under-30 age bracket. Sales grew strongly between 1994 and 2000, but profits were stagnant. Industry contacts alerted us to the rising wave of popularity that their new releases were enjoying. On investigation we discovered none of this excitement was reflected in the share price. For the moment the company is in synchrony with popular taste but this is starting to be reflected in the valuation of the shares as profits more than doubled in 2001. The order book for 2002 has grown by more than 50%, but this is a company that is no longer being overlooked.

Hunter Douglas is another company that has been in the portfolio for a while. This Netherlands-based company is the world's largest blind maker and indeed invented the aluminium Venetian blind. Working through a global network of franchisees who are supported with strong branding of names such as **Luxaflex and Duette**, the company has achieved strong profit growth. It has also generated large free cash flows which the controlling family has redeployed within the company under the management of specialist asset managers. These funds are significant in relation to capitalisation representing 25%, but has been a source of concern among some investors as they feel there is not sufficient transparency. We met with Ralph Sonnenberg, CEO and head of Hunter Douglas' founding family and are comfortable that these non-trading activities are being sensibly deployed. The shares are clearly sensitive to consumer activity but their through-cycle profitability and development of new products has allowed the company to grow over many years. We therefore think the PE of 11.5 times offers attractive value.

Henkel – Wash that superglue right out of your hair

While it is not a household name, you will probably have used Henkel products, which



range from Schwarzkopf hair care products to Loctite superglue and Persil washing powder. Fritz Henkel invented bleaching soda for clothes in 1877 and by the turn of the twentieth century Persil was a household name across Europe.

Some of the rights to the Persil brand were subsequently lost as a consequence of war, but the company continued to develop its business with an emphasis on chemicals. In recent years it branched out and added to its brands with the purchase of Schwarzkopf and clever acquisitions such as Loctite in the US.

The shares have been out of favour on account of concerns about family interference and relatively slow growth. The recent sale of the chemicals division reveals a fundamental shift in the company's emphasis. Now over 70% of sales are derived from branded goods. There is the real probability that earnings could accelerate due to margin expansion. The market seems unwilling to pay heed to recent developments, objecting to the fact that the company is not a truly global player and believing this to be detrimental to their development. Careful examination of the facts shows that Henkel is growing its share of laundry spend in Europe and is making strong inroads into the markets of the old Communist bloc, as well as India.

We cannot know whether the company will succeed, but on the evidence of its recent record we are prepared to give them the benefit of the doubt. With the shares trading at a valuation one third lower than their peer group, that gives rise to the sort of investment that we like to make.

Michelin

Several coincident events have created very interesting possibilities for the global tyre industry. The most public event has been the fallout between Ford and Firestone over the unsatisfactory handling performance of the Ford

Explorer, which resulted in accidents. Behind the scenes, though, an equally important factor is the very weak financial position of the world's three leading tyre companies. This, in association with the high costs of acquiescing to the demands of the automobile makers, is resulting in a much firmer line being taken on tyre pricing. For the first time original equipment contracts are being declined by tyre makers on the grounds of low profitability. Price rises have been instituted and have stuck. We believe that on account of the concentration of the industry, any aberrant behaviour by smaller makers will barely shake the new resolve of the three majors – Goodyear, Bridgestone and Michelin. Improved pricing and moderate demand should result in a strong lift in profits. However, the replacement market is where these companies make the real money and following the publicity given to safety, tyre brand awareness has become more apparent. As the world's leading tyre maker with a long history of innovation and promotion, Michelin is extremely well placed.

Conclusion

We continue to pursue companies where we identify a perception/reality gap.

Kerr Neilson/Julian McCormack
Portfolio Managers

Osama Bin Laden's Abandoned Headquarters Discovered