The Platinum Trust Quarterly Report

30 June 2001

Incorporating the:

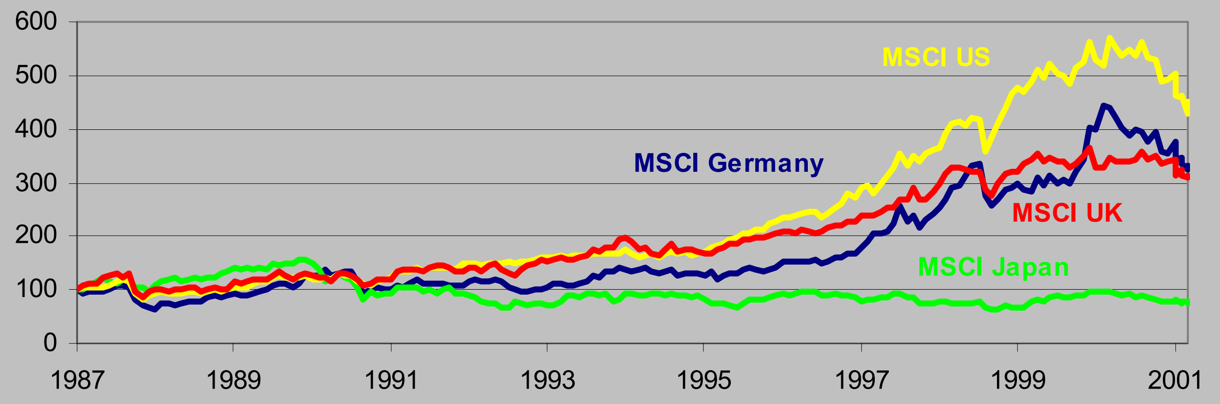
International Fund
European Fund
Japan Fund
International Technology Fund
International Brands Fund

PERFORMANCE RETURNS TO 30 JUNE 2001 (A$)

Fund	Fund Size	Quarter	1 year	2 years (compound pa)	3 years (compound pa)	5 years (compound pa)
International Fund	$384mn	0.8%	22.7%	36.4%	26.3%	24.1%
Japan Fund	$79mn	1.3%	-10.5%	28.5%	45.0%	-
European Fund	$54mn	-4.7%	17.7%	50.9%	26.0%	-
International Technology Fund	$20mn	13.0%	52.8%	-	-	-
International Brands Fund	$9mn	2.6%	26.0%	-	-	-
MSCI Indices *						
MSCI World		-1.5%	-5.9%	7.9%	8.0%	18.0%
MSCI Japan		-3.6%	-17.7%	7.1%	11.8%	
MSCI European		-6.2%	-7.9%	8.1%	2.7%	
Nasdaq		12.8%	-35.6%	2.4%		

* Morgan Stanley Capital International Index

MSCI US, UK, GERMANY AND JAPAN SINCE 1987 (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. 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 for 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.

GLOBAL REFERENCE STATISTICS

Country	GDP (bn US$)	% of World GDP	GDP Per Capita (US$)	Population (mn)	% of World Population
US	9,996.2	31.5	35,950	278.1	4.5
Japan	4,619.8	14.5	36,442	126.8	2.1
Germany	1,922.0	6.0	23,148	83.0	1.3
UK	1,434.9	4.5	24,056	59.6	1.0
France	1,317.1	4.1	22,117	59.6	1.0
Italy	1,080.9	3.4	18,740	57.7	0.9
China	1,070.7	3.4	841	1,273.1	20.7
Canada	698.8	2.2	22,119	31.6	0.5
Brazil	642.0	2.0	3,680	174.5	2.8
Spain	564.7	1.8	14,104	40.0	0.7
Mexico	563.8	1.8	5,534	101.9	1.7
Korea	491.0	1.5	10,250	47.9	0.8
India	475.0	1.5	461	1,030.0	16.7
Australia	385.3	1.2	19,904	19.4	0.3
Netherlands	371.4	1.2	23,239	16.0	0.3
Taiwan	321.0	1.0	14,349	22.4	0.4
Argentina	289.3	0.9	7,738	37.4	0.6
Switzerland	242.0	0.8	33,227		
Russia	236.2	0.7	1,624	145.5	2.4
Sweden	235.2	0.7	26,501		
Belgium	229.2	0.7	22,342	10.3	0.2
Turkey	197.7	0.6	2,973	66.5	1.1
Austria	192.3	0.6	23,593		
Saudi Arabia	167.8	0.5	7,374	22.8	0.4
Hong Kong	163.2	0.5	22,634		
Denmark	161.0	0.5	30,078		
Indonesia	160.2	0.5	701	228.4	3.7
Norway	158.0	0.5	35,084		
Poland	156.8	0.5	4,059	38.6	0.6
Thailand	129.7	0.4	2,099		
South Africa	129.3	0.4	2,967	43.6	0.7
Finland	121.8	0.4	23,533		
Greece	114.8	0.4	10,806	10.6	0.2
Venezuela	114.7	0.4	4,796	23.9	0.4
Portugal	105.9	0.3	10,520		
Israel	105.7	0.3	17,800		
Egypt	96.2	0.3	1,383	69.5	1.1
Ireland	95.1	0.3	24,760		
Singapore	93.5	0.3	21,742		

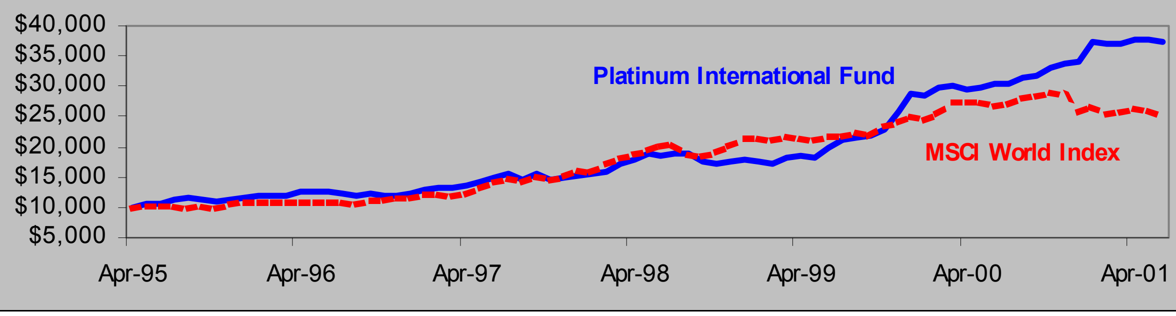
Source: World Bank, Merrill Lynch, 2000

The Platinum International Fund

REDEMPTION PRICE: $1.7881 (CUM PRICE) $1.6414 (EX PRICE) DISTRIBUTION: 14.67 CPU

Performance

VALUE OF $10,000 INVESTED SINCE INCEPTION (1 MAY 1995 – 30 JUNE 2001)



The prospect of improved economic conditions sometime in the second half of 2001 failed to lift markets in the June quarter. Interestingly, the European exchanges have fared worse than the US and UK, with the composite Euro index having fallen some 8% over the year, versus -2% for the US and +2% for the UK. Japan and Korea were particularly weak, declining by 18% and 28% respectively. The above figures are all expressed in A$ which, on account of its own weakness, tends to understate the inherent weakness abroad. In US$ terms, for example, Wall Street is off 17% over 12 months and Euroland around 23%.

Looking at the global markets, according to official industry classification the weakness has been principally IT and Telecoms – down 46% and 36% respectively in A$ over 12 months, while defensive areas, such as utilities, consumer staples and financials, have risen by 20%, 20% and 17% respectively. Faith in the recovery is revealed in the performance of "materials" – up 1% for the quarter and 16% for the year.

It is partly because of this massive divergence among market segments that our performance has been strong. In addition, the decision to short sell the formerly popular area of technology has paid off. Hence the Fund has shown positive returns each quarter to give a total return of 22.7% for the year. The MSCI World Index was down nearly 6% over this time. Particularly encouraging is the effect of back to back compounding over the last three years which has markedly widened the gap between the Fund and the MSCI Index by 18% pa compound.

Changes to the Portfolio

DISPOSITION OF ASSETS

Region	Jun 2001	Dec 2000
Western Europe	34%	34%
Japan	16%	20%
North America	18%	19%
Emerging Markets (incl. Korea)	11%	5%
Australia	1%	0%
Cash	19%	22%

The Fund's short position is 20% against individual US companies and 1% against Japanese companies.

On a geographic basis, the big adjustments over the quarter was the 2% decline in exposure to both the US and Japan and the 5% rise in Emerging Markets. This represented the introduction of some mainland Chinese shares listed in Hong Kong, the purchase of more Indian shares, a reshuffling and addition to holdings in Korea, and the introduction of gold mining companies.

The Chinese companies purchased are engaged principally in infrastructure such as toll roads and Beijing airport. These companies are modestly rated on 11-12x earnings and represent a relatively low risk way to participate in that country's burgeoning domestic economy. Starting from a low base, utilisation rates of this infrastructure are rising in the teens which promises some interesting cash flow growth.

India is even more self-contained than China, having a small external sector and receiving only minute foreign direct investment compared to its more business-friendly, north eastern neighbour. The economy, which had been growing at around 6% per year, has slowed recently because of two successive poor agricultural seasons. Fall-out from the IT boom has also had an effect. However, exports are growing strongly and the prospect of a lower oil price has important consequences for both the balance of payments and internal liquidity. One of our purchases, Housing Development Finance Corporation Bank, has a record of 20% profit growth over time and looks well positioned to continue to outstrip its competitors, the somnolent and clumsy State banks.

Within Korea we engaged in switching from both SK Telecom and Samsung Electronics to their respective holding companies which had become abnormally cheap. We also bought Korea Telecom which was depressed ahead of new supply of stock in the form of an ADR issue.

In Japan, the focus of the portfolio moved to smaller companies, that are both cheap and beginning to see the benefits of restructuring; Seino Transport is an example.

There was a fair amount of movement among our US holdings where we reduced our positions in several strong performing tech stocks such as Foundry Networks, Peoplesoft, National Semiconductor and Verisign while discarding companies that we had incorrectly assessed such as Agilent Technologies and Lucent Technologies. We also sold Diagnostic Products following a trebling in the share price over the last 14 months. We originally purchased this company four years ago. It performed in line with our expectations but at first modest growth was seemingly not enough. Subsequently, it became linked with several sexy themes which, together with accelerating earnings growth, provided an explosive mixture. Subsequent to our sale the share price has pulled back one quarter. Positions have begun to be built in Agere Systems, i2 Technologies, Manpower, Coke, Honeywell and Health Management. With the exception of Health Management, all of these stocks have been suffering downward market evaluations; their longer term prospects now look sensibly priced.

The action of the gold price has drawn our attention. It looks as though it is bottoming out even though deflation now looks as much a risk as inflation. Treating it principally as a commodity, we observe that demand is about 1,000 tons greater than new supply, which is running at about 2,600 tons per annum. That there is above-ground supply of over 30,000 tons is common knowledge but there are several reasons to believe official sales and leasing will be less of a threat in the future. Combine this with unsettled currencies and turbulent markets and we can readily see the price spike by 10% or 20%. In that case, the companies selected could experience improvements in cash flow of 50% or more. The risk/reward trade-off after a 20 year bear market is tantalising.

Within Europe, we selectively added to existing holdings and participated in the IPO of the Deutsche Stock Exchange and Frankfurt Airport. We seldom participate in IPO's believing that the market tends to over-pay in the face of accompanying promotional hype. These issues came without the normal exuberance of the bull market – with the Dax down 27% since its peak in March 2001, the pricing was accordingly more modest. Further, we believe that because these are relatively new market sectors they are not thoroughly covered by analysts and investors do not fully appreciate their growth and operating characteristics.

Our short positions continue to emphasise companies that are likely to disappoint in the context of US consumer retrenchment and deteriorating credit quality. Many are finely managed companies but are over-bought and over-priced in the deflationary and profit elusive environment they face.

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Jun 2001	Dec 2000
Cyclicals/Manufacturers	RMC, Akzo Nobel, Bayer, Linde, Oce	18%	18%
Retail/Services/Logistics	Hornbach, Raytheon, Jones Lang LaSalle, Fraport	12%	5%
Technology/Hardware	Toshiba, Samsung Electronics, AMD, Fujitsu	12%	11%
Financials	Lippo, Nordea, Japanese Brokers, Halifax, Deutsche Boerse	12%	12%
Consumer Brands	Adidas-Salomon, Coke Bottlers, Wella, Lottecon	10%	10%
Telecoms	NTT, Verizon, Korea Telecom	6%	10%
Medical	Draegerwerk, Merck KGaA, Novartis	5%	5%
Software & Media	Novell, Nippon Broadcasting, Seoul Broadcasting	3%	7%
Gold and Other	Gold Fields, Newmong Mining	3%	

Currency

There has been virtually no change in our currency stance. Investment flows continue to favour the US$ as Europeans buy US based companies and, increasingly, US corporate paper. Movement in the Euro/dollar exchange rate is accentuated by money managers trying to second guess the next move by the European Central Bank. We believe the Euro is now at the bottom of its trading range versus the dollar. We continue to regard the Yen as the safety valve for the Japanese economy and expect further weakness. The Korean Won is unlikely to be much stronger than the Yen. Our principal positions are long the Euro and A$, and short the Yen, Won and US$.

Commentary

We have not moved to any great extent from the views expressed in the last few quarterly reports. Breadth on the New York Stock Exchange is encouraging as those shares that are rising significantly outnumber those declining. This process has been evident since November but at the same time the Dow index has shown deteriorating breadth and both the Dow and S&P index have declined. The commonly held view is that the steepening yield curve (following the Fed's six interest rate cuts since January 2001) has historically presaged a recovery in the economy and stock market.

What is troubling is that the rest of the world is slowing more quickly and to a greater extent than was generally expected as little as three months ago. Further, it seems as though the lessons of the tech bubble are not being applied to other areas of the economy. In particular, investment banking, housing and retail space are each being deluged with capital as individual firms continue to expand aggressively without thought to the consequences of their combined actions ie. creating over-supply and thereby removing surplus returns.

The traditional pattern of an economic slowdown being brought on by a tightening of liquidity has somewhat distorted this cycle. The second half of last year was significantly influenced by both the spiking of the oil price and the fallout from the tech bubble. Lay this on top of the deflationary pulses being emitted principally from Asia and so-called globalisation, and one has a pattern quite different from the cycles common since the 1960s. Regular readers will be bored to be reminded of our concerns about debt. Not satisfied that the average US consumer surrenders 14% of his monthly income to service debt payments, Mr Greenspan is trying to induce a higher level of gluttony for fear that the consumer may start to consider his weight. Worse still, the US corporate sector is similarly loaded with debt with management preferring, for dubious reasons, stock repurchases to debt reduction.

Notwithstanding the recent battering of Nasdaq, 18 years of happiness, engendered by a trending fall in short term interest rates combined with the corporate sector winning a greater share of the economic cake, at the expense of labour's share, has been deeply etched into investors minds. In their eagerness to deploy their assets at better rates than those available in the money markets, investors have moved into defensive sectors or those which will be early beneficiaries of a growth recovery. This has resulted in the unusual phenomena of valuations being driven to the very top of their range even before a recession has been declared or a recovery has been registered.

Such is the general optimism that a trailing earnings yield of 3.7% for the S&P 500 index is being accepted by investors. In all likelihood this will be only 3% once this year's lower earnings are posted. Is the market essentially saying that with inflation tamed, the investment scene is less risky and/or that come the next upturn, the share of the cake won by the corporate sector will expand further? We cannot imagine this, although were it not for the fact that we recognised the craziness of the recent bubble, we might show greater humility and acquiesce to the superior wisdom of the crowd. As it is, we cannot help suspecting that even dropping the cost of money by 2.75% in six months may prove no more than a short lived, though potent, elixir for the market.

Over the coming months one can expect the US economy to receive rapt attention. For all the benefits of lower tax rates and tax rebates, there are the important offsets of high debt, minuscule personal savings, the fall out from an extraordinary capital expenditure boom that has left extreme over-capacity in some parts of the economy with the associated drag on company profitability. Capping this is the high US$ and weak or deteriorating conditions among the other large consuming nations. Corporate profits are high by historic standards and seem unlikely to expand further short term. Much is likely to be said about the profit drought in the months ahead.

In Asia, we see sluggish growth in most regions with perhaps China being an exception and India to lesser extent. Japan continues to wallow in gradual restructuring but, ironically, confidence is holding up well on account of the life-time employment structure - which, of course, also acts to retard change. There is hope for good deeds from the new Prime Minister and some support for the view that his election represents a changing of the guard within the LDP.

Korea has made good progress to reduce debt at the national and corporate level. This has come from surging net exports and a more measured approach to capital expenditure by companies. Though capex is still high by world standards, at around 28% of GNP, it is a full 10% points lower than was common in the early nineties. The consequent improvement in the trade balance, puts the economy on a sound footing although it remains highly dependent on world trade.

Europe continues to struggle from the one-size-fits-all management policies of the ECB. However, at the individual country level, there are far fewer distortions and fundamental problems than the weak Euro might suggest. Tax levels are coming down, government finances are sound, corporate capex and balance sheets are largely harmonious and the consumer has savings and carries little debt.

Conclusion

Trying to read the ebb and flow of economic news over the next few months will cause more heartache than benefit we suspect. Our attention will be directed at companies with clear growth prospects and we shall attempt to profit from short selling those shares on high valuations that are likely to fail to meet expectations. We remain reluctant to simply buy cyclicals on the basis of some impending broad-based recovery.

Kerr Neilson
Managing Director
10 July 2001

The New World of Electricity

The additional burden placed on the environment as China and India industrialise their economies highlights the need for alternative clean energy sources. Throughout the world, numerous chores formerly done by hand have been ceded to machines which are powered by stored energy from the sun in the form of petrol, coal and natural gas. Fortunately, technology is at hand to remedy or alleviate the dangers of environmental degradation. In the short term heavy duty natural gas turbines are the preferred solution while hydropower's deficiencies are currently being starkly exposed in California and Brazil. Wind power and the emerging technologies such as fuel cells, microturbines, solar panels and flywheels will eventually become an integral part of the upgraded electrical generation system. None of these technologies are particularly recent but thanks to significant developments in materials technology and microelectronics, humankind is close to economically harnessing the enormous renewable resources of the globe.

The leading force in industrial gas turbines is presently General Electric thanks to their development work on aircraft jet engines, new materials and cooling processes. An intriguing example of new technology is the use of steam at a temperature of 900 degrees celsius which is forced through minute passages in the turbine blades to keep them "cool". In a machine where an additional 1% efficiency reduces the operating cost by $200,000 per year, every small advance becomes vital. Siemens and Alstom have not been able to achieve the same thermal efficiency and recently Alstom incurred over a billion dollars of abnormal expense due to warranty claims and development work resulting from faults in their turbines.

The beauty of these new machines is not only the high primary efficiency of the turbines but also the recovery of energy from the exhaust gases which makes a combined cycle unit the most energy efficient way to generate electricity – with a 59% thermal conversion ratio. These benefits have not been lost on utilities and merchant power producers and at present GE has a backlog of "F" Class turbine orders which is equivalent to one third of the USA's existing electrical power generation capacity of some 800 gigawatts. GE has responded to this market demand by increasing capacity by 300% over the last two years. Gas demand has soared as the turbines come on line resulting in temporary gas shortages which have been well documented in the press, especially the debacle in California.

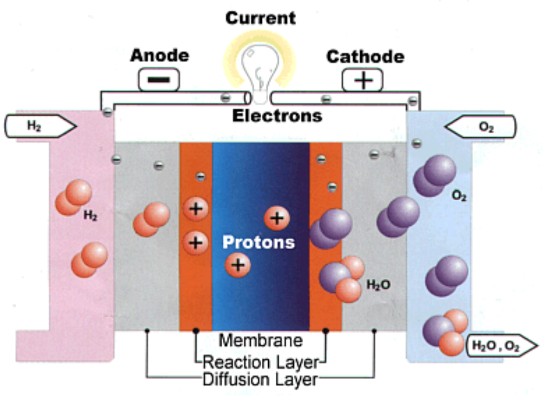
Complicating the analysis is the USA's diverse energy supply system - nuclear generation is currently operating at record high utilisation while coal and petroleum powered generator utilisations have recently increased in response to the gas price spike to five times its long term average. These temporary market imbalances produce opportunities for alert investors in areas such as natural gas pipelines, drilling companies and gas exploration and production companies. The majority of the USA's additional gas demand is being supplied from Canada, where Enbridge is an interesting beneficiary resulting from its part ownership of major gas pipelines, together with the longer term possibility of transportation of syncrude.

Power Generation Farm

The Europeans have been the most proactive with renewable energy. The EU has set a target of 22% by the year 2020 while the UK has set a target of 10%. Subsidies will be required to achieve these ambitious targets. In the USA, the Production Tax Credit for wind generated power is set at 1.5 cents per kWh compared with the cost of residential power of 6-8 cents per kWh.

The world leading wind technology companies are located in Denmark and Germany. We well remember visiting Plambeck's wind farm on the gale swept coast of north west Germany – and agreeing with the technicians that building wind mills was much more fun than planting sugar beet. The size of the wind farms is large because the turbines must be spaced twice their diameter apart for reasons of turbulence. One hundred of these turbines would be equivalent to a small power station but without the consistency of output. The construction cost for a modern wind farm is around $1,000 per MW, which is over twice the cost of a combined cycle gas turbine unit. Low operating costs reduce the overall cost differential however, and the sale of carbon trading credits further improves the economics. To give you some sense of the scale of these machines, the top of the range 2.5 megawatt wind turbine has blades with a diameter of over 80 metres and ideally they require persistent high wind speeds over 10 m/s which are commonly found in coastal areas. The economics of wind generation improve greatly as wind speeds increase due to the cubic relationship between wind speed and the available energy. Longer term, it is likely that 5 MW turbines will be developed and these machines will be prime candidates to be put into offshore wind farms – located just over the horizon!

Unfortunately, the valuations of these windmill manufacturers are presently too high for our liking and do not adequately account for the attendant technical risks.



Fuel Cell process diagram

Fuel cells, a technology that set the platinum metal market alight 30 years ago, are now becoming an economic reality. The fundamental component of a PEM (proton exchange membrane) fuel cell consists of two electrodes, the anode and the cathode, separated by a polymer membrane electrolyte. Each of the electrodes is coated on one side with a thin platinum catalyst layer. The electrodes, catalyst and membrane together form the membrane electrode assembly. Hydrogen fuel dissociates into free electrons and protons (positive hydrogen ions) in the presence of the platinum catalyst at the anode. The free electrons are conducted in the form of usable electric current through the external circuit. The protons migrate through the membrane electrolyte to the cathode. At the cathode, oxygen from air, electrons from the external circuit and protons combine to form pure water and heat. Individual fuel cells produce about 0.6 Volt and are combined into a fuel cell stack to provide the amount of electrical power required. The magic of these systems is that they are scalable and thus able to fulfil a large range of power generation requirements at high fuel efficiency. When combined with ancillary systems such as fuel reformers, gas purification filters, sensors and electronics, fuel cells become a technically viable but not yet economically attractive power source.

The ultimate goal of the PEM fuel cell developers is penetration of the automobile engine market with annual sales of $182 billion. DaimlerChrysler, Ford Motor Company and Ballard Power Systems are rapidly developing automobile and bus prototypes to meet the stringent requirements of the USA Environmental Protection Agency and the Californian Air Resources Board. The Californian legislation requires that beginning in 2003, a minimum of 10% of vehicles sold by automobile companies meet low or zero emission vehicles standards.

The most elegant fuel is hydrogen as it can be fed directly to the stack and produces only water thereby easily satisfying the zero emission criteria. However the obstacles to the use of hydrogen are significant, including refuelling infrastructure and stored hydrogen safety concerns. Methanol or other hydrocarbons could be dispensed through existing infrastructure but require costly and complicated reformers to produce hydrogen from a chemical processing plant half a metre high. Technology is being developed to suit the range of possible fuels including specially refined clean petroleum.

Daimler produced their first fuel cell powered automobile prototype in 1994 which had a 50kW cell weighing 800kg. Recent prototypes with the same power output have a 300kg cell and the aim is to produce a 50kg cell at a price of DM30 per kW. Daimler's subsidiary XCELLSIS has operated fuel cell buses in Vancouver and Chicago for the last three years and received community support for their quiet and clean operation. The six buses carried over 200,000 passengers and travelled over 173,000 kilometres during the trial. Further orders for small fleets of buses will see the next generation of fuel cell vehicles in full commercial service in 2003.

The Ballard® Mark 900 Series Fuel Cell Power Module

The main "pure play" fuel cell commercialisation companies have negligible sales, large sales growth projections and an impressive array of competition.

Some will succeed but many will go the way of their predecessors of the "dot com" bubble. The realities of the business world such as slow adoption of new technology, supply chain management and quality assurance all apply to these new technology companies. We prefer those companies with real businesses and existing proven management who will benefit peripherally from these new industries. Two examples are Linde, which has technology and construction capacity for hydrogen production, and Johnson Mathey with their catalyst technology and patents. Johnson Mathey's core technology is the deposition of platinum catalyst onto the fuel cell membrane. Through innovation, the required amount of platinum per car has been cut from 1kg to 50 grams while the target remains a further fivefold reduction. Underlying growth in platinum consumption has been around 5% per annum and to meet further growth in demand, Anglo American Platinum Corporation, the largest producer of platinum, is planning a 50% increase in production by 2006.

Capstone 30kw microturbine

Scott Gilchrist
Investment Analyst
10 July 2001

Microturbines can generate enough power for a small community, and could well become an important part of an electricity network which uses software and 24/7 connectivity to efficiently combine centralised large scale power generation and small widely spread generation. These machines have a single moving part - a shaft which spins at 100,000 revolutions per minute. Their air bearings do not need lubricants and their proprietary systems management software and advanced electronics ensure efficient conversion of rotational energy to usable electricity. Capstone has been in product development since 1988 and is currently the most advanced producer, having sold over 1,000 units for uses as diverse as resource recovery, peak shaving, backup power and hybrid electric vehicles. Their 30kW machine is about the size of a refrigerator and produces enough power for a small business. Their current production capacity is 20,000 units per annum which they are able to increase quickly to 40,000 units per annum if required. Similar to wind turbines, it is expected that significant price reductions will be possible as production volumes increase and further technological advances are made. The pure microturbine companies currently have negligible sales, lots of blue sky and extraordinary market capitalisations. Needless to say, there is a large amount of insider selling.

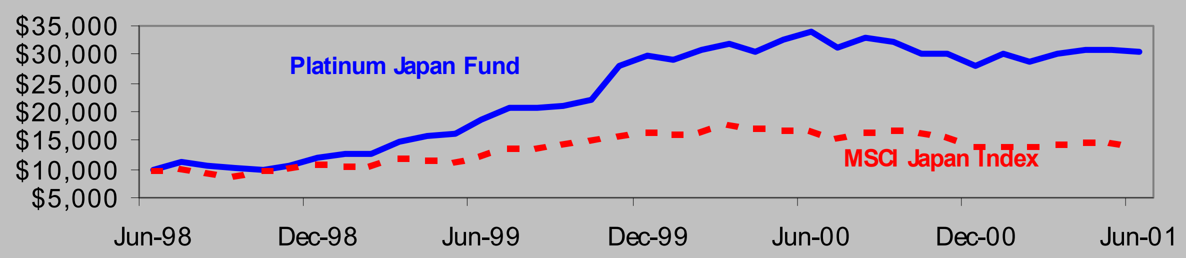
Other exciting technologies which will participate in the future reregulated and environmentally driven electricity generation industry include solar panels, large new technology batteries, and flywheel energy storage systems. Once again, blue sky prevails at the moment, with limited surety of invested capital. We will remain vigilant!

The Platinum Japan Fund

REDEMPTION PRICE: $1.9577 (CUM PRICE) $1.8818 (EX PRICE) DISTRIBUTION: 7.59 CPU

Performance

VALUE OF $10,000 INVESTED SINCE INCEPTION (1 JULY 1998 – 30 JUNE 2001)



The Japanese equity market was relatively flat over the quarter with the MSCI Japan index falling by 0.2% in yen terms and +0.3% when converted into US$. The market was characterised by a sharp run up early in the quarter as hopes for the new prime minister Koizumi rose but fell sharply in May and June as the reality of poor economic growth and rapidly declining corporate profits came to the fore. Within the market there was fierce rotation with telecom and technology stocks falling and the banks coming under pressure as the falling equity market eroded confidence in capital adequacy. On the other hand a broad swathe of domestic names did better including energy related stocks following moves in the US related to the Bush energy plan; property related stocks as the launch of the first Japanese REIT approaches, and domestic cyclical names such as paper and textile companies. The latter we find somewhat perplexing given the state of the economy. Also gaining on the back of the weaker yen were exporters and foreign earners like Fuji Photo and the shipping and auto stocks, while traditionally defensive stocks like pharmaceuticals fell. We attribute this to broad foreign selling of Japanese stocks.

Over the quarter, the Fund performed reasonably well rising by 1.3% in A$ terms against the index move of -3.6%. The Fund's holding of Korean stocks performed very well with an average stock price gain of 23%. We were well positioned into domestic demand issues which have fared well with the better than expected performance of the Korean consumer with names such as Lotte Confectionary and LG Advertising standing out. Our cyclical holding in the form of LG Chemical also benefited as a break-up of the company unlocked substantial value for shareholders despite earlier concerns to the contrary. Within our Japanese holdings our balanced holdings of domestic value stocks and technology names produced a mixed bag but generally we performed quite well. The standouts on the upside came largely from individual stock selection rather than themes with Seino Transport, Daiei OMC and Koito Manufacturing all doing well. On the downside our holdings of technology names such as Furukawa Electric, MEI, NTT and Toshiba hurt us but not terribly so. In terms of currency impact the quarter was largely neutral. We were hurt by our long Euro/short yen position but early in the quarter we reduced this position in favour of our long A$/short yen position which improved as the A$ found a bottom at below 50c to the US$ and rebounded.

For the financial year the fund performance was -10.5% against an MSCI Japan index of –17.7% both in A$. For the three years since the Fund's inception the performance has been 45% pa compound versus an index of 11.8% pa. Although the latest year has seen negative performance we think it reasonable in the context of a punishing market environment in Japan. Judged over the three year period which has seen the contrast of both good and bad markets, we believe the overall performance to be good.

Changes to the Portfolio

DISPOSITION OF ASSETS

Region	Jun 2001	Mar 2001	Dec 2000
Japan	65%	75%	70%
Korea	22%	20%	17%
Cash	13%	5%	13%

The Fund's short position is 5% against individual Japanese companies.

The disposition of assets to Japan declined as we removed some holdings in telecom and media related stocks, which although cheap, were likely to experience a period of slack performance. Our weighting to Korean stocks was increased primarily as a result of good performance. However, we have chosen to lock in some of those gains in Korea by hedging against a decline in the Korean market to the tune of 10% of the Fund's value (this position has been removed subsequent to quarter end). The other 8% of short positions relates to technology stocks in Japan. We continue to use shorting selectively as a way of taking advantage of overvalued situations and as a hedge against unitholder returns when we believe the market has some downside risk. Cash has risen mainly as a result of the need for margins for the short positions. In terms of our currency positions as mentioned, we reduced the Euro position from 45% at the start of the quarter to 21% at the end, largely in favour of the A$ which rose from 25% to 48% of exposure. Essentially we believe that these two currencies are very cheap relative to both the US$ and the yen. The problem for this position remains the stubborn strength of the US$ but we believe it continues to be vulnerable to falls as expectations for a quick economic recovery in the US are disappointed.

BREAKDOWN BY INDUSTRY

	Stocks	Jun 2001	Mar 2001	Dec 2000
Cyclical Growth	Toshiba, Mei, Furakawa Electric	24%	33%	26%
High Growth	Nippon Broadcasting, NTT	8%	15%	14%
Deep Value Cyclicals	Air Liquide Japan, Seino Transport, Noritake	16%	11%	15%
Steady Growth	Toc Corp, Toyo Tec, Fujiebio	11%	11%	8%
Financials	Nomura Securities, Aiful Corp	4%	6%	6%
Korea	LG Chemical, Lottecon, Korea Telecom	22%	19%	17%
Cash		15%	5%	14%

In terms of the industry construction of the portfolio we have continued to shift away from the technology related areas (primarily cyclical growth and high growth areas) toward companies which are more domestic demand oriented. However, with valuations now having corrected to a great extent in some areas of technology (such as the PC and component areas, but not in semiconductor production equipment), it is not the time to lose sight of the reality that the digital revolution goes on.

Whilst there clearly has been excesses in capital spending by technology companies that will take time to absorb, we see nothing in consumer purchasing behaviour to suggest that this will not happen in a reasonable amount of time. Within the technology sector we are buyers of those companies with strong market positions, historically low valuations and with the potential for earnings gain via restructuring. Names like Furukawa Electric and MEI are preferred over pure plays like Murata for instance. There remain huge disparities in many technology valuations and we are shorting those stocks which look expensive given their prospects. An example is Nidec, the largest maker of hard disk drive spindle motors which is trading on 60x earnings and is expecting 20% earnings growth. Similarly good quality companies with even better business models trade nearer to 30-35x and are expecting down earnings. Furukawa Electric for example trades on 20x forecasts and less than 1x book value. We are largely unperturbed about telecom stocks like NTT where we see the market fretting about the global problems (mainly excess supply from large rollout commitments) and ignoring the great cashflow generation story that is building in that company. Capex to sales ratios have fallen a full 10% in the last two years leading to free cashflow generation of US$3 billion pa.

Turning to domestic demand areas we are wary of the broad buying of cyclical areas in the hope of an economic recovery. Rather, we have increased positions in what we call "deep value" domestic stocks to around 25% of the Fund. These are companies for which the cash or investments on the balance sheet approximately cover the entire market capitalisation and hence the operating business is bought for free. Cheap alone is not interesting, so we have biased the portfolio toward those companies which also have good core businesses, best represented by strong returns on capital. Looking at the table below you can see a selection of companies that the Fund owns. As you will observe they are generally selling for little more than the cash on the balance sheet yet they have pre-tax returns on investment of 6x the local interest rate which is about 3%. Generally these are smaller companies and disclosure is somewhat patchy, although in many cases they are very open when approached. On account of size we have decided to cap the position at around 25% of the portfolio and offset some of the specific risk by including more names. You may be interested to know that at our last count 135 companies in the Japanese market traded for less than the cash on their balance sheet and 50% of the market traded for less than its book value.

JAPANESE COMPANIES

Company	PE (x)	Cash/Market Cap (%)	Adjusted PE (x) *[1]	ROE (%)
Nippon Broadcasting	19.1	100	<0	8.0
Fujirebio	18.3	37	14.2	13.5
Tokyo Style	30.5	100	<0	23.0
Toyo Tec	41.0	369	<0	17.0
Wacoal	16.5	48	8.6	15.8
Matsumoto Yushi	13.7	88	1.8	36.8
Nissha Printing	13.1	71	3.8	23.3
Tenma	16.5	111	<0	19.2
Enix	20.2	37	13.0	167.0
Taikisha	11.3	75	3.6	17.7
Average	18.1	100	<7.5	34.1
Average (ex outliers)	18.1	74	<7.5	19.4

*[1] Adjusted PE is the earnings from the operations relative to market cap minus cash and investments.

Commentary

The Japanese market has been torn between two strong forces. On the one hand we had the ascension of Koizumi to the leadership of the LDP creating positive expectations whereas on the other there is the bleak reality of the economy slipping back into recession. Clearly the choice of Koizumi as leader is a break from the traditional back room dealings of the LDP, although he is still undeniably a product of the LDP machine. His selection was driven by the grass roots membership of the party rather than at the parliamentary level which indicates at least a willingness to try something different. The manifesto he expouses is clearly sensible, and populist, with attacks on wasteful government spending (of which Japan has lots), calls to clean-up the banks (but nothing very new) and generally the catchcry of "no gain without economic pain". Indeed the government has announced very low targets for economic growth of under 1% in stark contrast to previous administrations - this we feel shows a new realism. This all sounds very exciting but really almost anything would given the recent history of Japanese leaders. The short lived Hosokawa administration of the early 90s was also initially looked upon with great hope and came to nothing. We would highlight the intractable problems of huge government and corporate debt levels, a currency that is overvalued and an ageing and inward looking population as obstacles to a rapid turnaround. However we would like to give the benefit of the doubt to the new leader for the moment and at the very least see it as an evolutionary move toward change in Japan.

A company we have become more interested in of late is Noritake. It has historically been known for its fine tableware but this business is in decline and accounts for about 23% of sales. What we find interesting is the company's involvement in an exciting new material called the Carbon Nanotube. This material has many striking qualities such as extreme strength to weight ratios (talked of as potentially 100 times stronger than steel at $1/6^{th}$ of the weight), the equivalent electrical conductivity of copper, as good a heat conductor as diamond and being able to act as a semi-conducting material. The trick is in being able to manufacture the material in commercial quantities and rapid progress is being made. There is a growing number of technology venture companies in the US working with the material and the US and Japanese government's view it as strategic enough to commit serious amounts of money to its research. The US National Nanotechnology Initiative has $420 million in funding this year. We are also on the verge of the first commercialisation of products using this material and indeed working models of displays have been around for 2-3 years now. Noritake is early in the commercialisation of this technology with collaboration between its display technology subsidiary Ise Electronics and Mie University of Japan. They claim to be the first in the world to manufacture an ultra brilliant light source tube using carbon nanotubes. They claim 2x the luminescence of existing LED technology for similar power consumption and longevity. They are working to expand this technology to actual screens and expect to be selling large size electronic billboards and image sources for projection TV's within one year. Further out, the holy grail of the mass consumer TV market awaits and we expect announcements of joint ventures with the large consumer electronics companies in the near future. The beauty of the technology will be to create truly flat screen televisions without the need for costly LCD or Plasma Display construction. We regard the company attractive as its market capitalisation of US$800 million which can be fully supported by existing earnings streams with no value for the potential of the Nanotube or other exciting developments coming out of the R&D lab. Our feeling is that we have a free option on the stock at least doubling if this technology reaches the market.

Outlook

Globally, we believe that we are in a multi-year corporate profits recession, driven primarily by the bursting of the US equity bubble and its flow through effects to other economies. Given the debt overhang in the US economy it is likely to take some time for the excesses to be removed and the aggressive Fed easing of late merely delays the process, but does not stop it. Japan with its poor domestic growth prospects suffers more than most in this scenario and we see a bleak year ahead for the economy and corporate profits. After a period we believe that the forces driving higher returns on capital in Japan will reassert themselves and this will come from gradual realisation by companies that the "free lunches" for workers and directors are over. We see the stockmarket becoming a more powerful arbiter of capital allocation in Japan. Careful stock selection and rotation remains the key and we will continue to favour those companies seeking to improve shareholder returns whilst avoiding the broad swathe of the market and exposure to the yen.

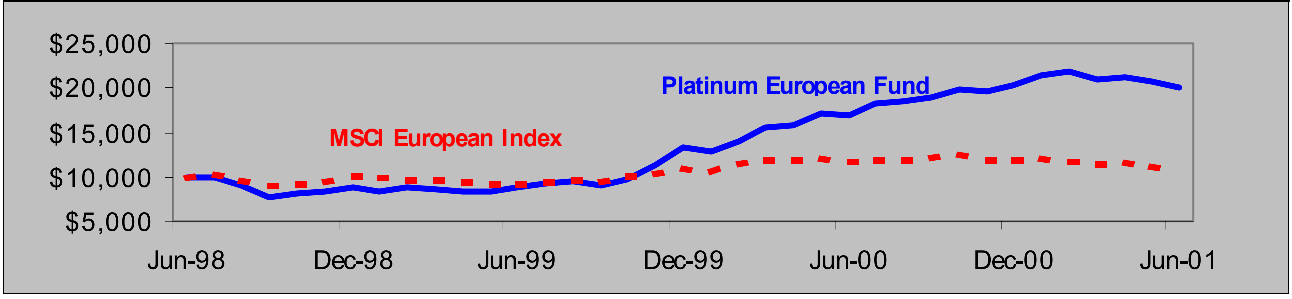
Jim Simpson
Portfolio Manager
10 July 2001

The Platinum European Fund

REDEMPTION PRICE: $1.7078 (CUM PRICE) $1.6378 (EX PRICE) DISTRIBUTION: 7.00 CPU

Performance

VALUE OF $10,000 INVESTED SINCE INCEPTION (1 JULY 1998 – 30 JUNE 2001)



Further economic weakness, investors shift to "defensive" stocks

European stock markets made modest headway (+2% in local currencies) over the quarter although the composition of that return illustrates the prevailing uncertainty. The top sector was tobacco (+16%) and the equally defensive water (+13%), food (+10%), consumer products (+9%), beverages (+9%) and pharmaceuticals (+8%) were other major areas contributing to the overall return. Paper and forest products (+11%) was the one interesting economy-sensitive sector to perform strongly, as continuing industry discipline impressed investors. Computer services (-21%) and telecom operators (-12%) were once again the main areas of weakness, while telecom equipment (-6%) continued to struggle. Renewed weakness of the euro, and a slight recovery in the A$ cut the positive return down to a loss of 6% as measured in Australian dollars.

The Platinum European Fund was down 5% for the quarter (measured in A$), 1% less than the index. The portfolio benefited from the strong performance of its large position in Deutsche Boerse (the German stock exchange) and from a good move in Adidas shares as footwear stock prices started to discount an improvement in the US sneakers market. On the other hand a decline in the share price of Dutch printer/copier business Oce (the new models unfortunately becoming available just as customers delay such expenditure) cost the Fund. And, of course, the weak Euro weighed on the performance as measured in A$.

For the year to 30 June 2001, the Platinum European Fund returned 18% while the MSCI European index lost 8% measured in A$. As we have mentioned in recent quarterly reports, this differential has come from strong performances in several stocks bought by the Fund 12-15 months ago at the height of the technology bubble (when "real economy" companies were trading at big discounts to their intrinsic value).

The hedging and short-selling activities of the Fund have been modest and the returns achieved from such activity commensurately modest. This has been a missed opportunity given the valuation distortions prevailing in the stock market; a continuation of the current dull macro-economic conditions will lead to further short-selling opportunities for the Fund.

Over three years the Platinum European Fund has compounded at 26% per annum; over the same period MSCI Europe has returned 3% pa.

Commentary

Slowing European economies and the perplexingly weak Euro

The macroeconomic data of the last few months indicates a decline in Euro-zone industrial production; moreover the reliable IFO (Germany) and INSEE (France) surveys of manufacturing sentiment suggest further weakness will be seen over the northern summer. The rippling effects of the steep declines in corporate IT spending are compounded by the debt-induced capex constraints of the US customers for European capital equipment.

On the consumer side the unemployment rate has been ticking up in Germany for several months now (while the effects of this year's income tax cuts are yet to materialise). And France, the bastion of consumer strength for several years (not least thanks to the structurally cheap franc/euro conversion price relative to the Deutsche mark), seems finally to be witnessing a flagging consumer.

As has been widely reported, the ECB has been reluctant to cut interest rates in the face of "above target" inflation, even if weakening growth suggests this inflation will prove transient. The ECB has reduced interest rates (by 0.25% to 4.5% on May 10) only once in 2001, while the Federal Reserve in America has cut six times, from 6.5% to 3.75%, over the same period.

So why should one be surprised at the Euro weakness? First because the slowdown in the USA has been sharper still – the Fed has not made such drastic cuts without absolute conviction of collapsing economic activity. Secondly because the Eurozone represents one of the great savings pools of the world – while the US consumer and corporate sector are more indebted than they have been for decades (the still colossal – and persistent – US trade deficit is the flow reminder of this debt position). And third because the euro is already cheap – by 30-40% versus the US$ on many models.

Just as the "new paradigm" and "new economy" nonsense prevailed 15 months ago during the Nasdaq bubble, explanations are abundant as to why the Euro will continue to weaken from here. On top of the usual descriptions of the efficacy of the US economic model (versus the over-regulated European one), the current list of explanations includes such ideas as the physical introduction of the Euro (refer below) inducing uncertainty in Eastern Europe and hence the sale of Deutsche marks for dollars. The story there is that in much the same way as Latin Americans hold (and use) US dollars, a lot of Eastern European "hard currency" is Deutsche marks. Since Deutsche marks will be replaced by Euro notes and coins early in 2002, cautious Eastern Europeans are switching to dollars ahead of time. Another explanation is that the black economy-sourced cash holdings of French francs, Italian lire etc (ie. on which tax was never paid) are being switched to US dollars now. This will avoid its owners having to explain its source when it comes time to switch the francs, lire etc into Euros (early 2002). One problem with this theory is that one would expect a concurrent strengthening of the Swiss franc (Switzerland is not a member of the EU, much less of the common currency) against the Euro currencies and this is not evident over the last year.

A more likely explanation is the continued European buying of US assets – this week sees more details of the rumoured $47 billion that German utility E.ON (formerly Veba/Viag) plans to spend buying electricity companies in the US. And in the last few quarters the European institutions have been buying US corporate paper (ie. debt) in colossal volumes ($60 billion per month of net buying – roughly two times the monthly US trade deficit). There seems to be little sense to this investment other than that it reflects the desire by these institutions to hold US assets – and after losing so much money in Nasdaq these "investors" have switched to a hopefully safer play.

These various, generally unsatisfactory, explanations of Euro weakness hopefully indicate that the "dollar bubble" has largely run its course. While acknowledging that holding Euros has not been a profitable experience for the Fund thus far, we think that from here the Euro should be a more pleasing currency to hold.

The Euro in 2002 – the switchover to notes and coins

Since January 1999 financial markets transaction and wholesale banking in Europe have been conducted in Euros. But the currency will only exist in its physical form in January 2002 when Euro notes and coins are introduced. There are many interesting aspects (and risks) to what is in fact a colossal logistics exercise. As of 1 January banking operations (retail) will be exclusively handled in Euros. For the six weeks up to mid-February 2002 there will be dual circulation of Euros and the pre-existing national currency. After mid-February the old currency will only be exchangeable at banks (ie. not accepted at shops), and after June 2002 the old currency will only be exchangeable at national central banks (until 2005 for coins and 2012 for notes).

Risks to the changeover operation are currently thought to include everything from what proportion of Deutsche marks in circulation are in fact outside Germany (thought to be up to 40%!), to whether complacency has been induced by the lack of any actual problems associated with the feared Y2K event, especially in small firms. There is of course also much gnashing of teeth (or rubbing of hands, depending on your perspective) at the prospect of additional money laundering and counterfeit currency opportunities. Late December balaclava sales may also be watched with interest......

Perhaps the more interesting economic effects will be to what extent (a lot of) the money currently "under the mattress" will be spent in the coming six months. Some economists predict a significant consumption uplift – given the above discussion on the Eurozone economy, such an outcome would be welcome. At the same time, however, there are concerns that the changeover may have some short term inflationary consequences – partly because it gives retailers a chance to round-up prices (though this will be policed), but more importantly because of the extra volumes of currency circulating in the system for the early part of 2002.

Outlook – difficult economic and market backdrop; solid core portfolio

There are rumours of the re-introduction of capital gains tax on German asset sales. The timing and details of current speculation may be wrong, but the idea is logical. A capital gains tax-free Germany is a distortion of the European tax system (as well as being an irresistible target for a government tax increase). The threat that a tax of say 13% will be reintroduced should have the effect that the government has probably been hoping for all along – that is of a relatively rapid unwinding of the cross-holding structures among large financial and industrial concerns in Germany.

As the foregoing discussion of European economic conditions suggests, there is a difficult earnings backdrop for the stock market to contend with now and in the coming months. This will mean that there are more earnings disappointments; the offset is that solid earnings performances will be rewarded with higher ratings.

Importantly, of course, the Platinum European Fund invests in specific stocks rather than in the entire stock market. With the ten largest holdings accounting for over 40% of the portfolio, clearly our stock selection is more important to the performance than the overall stock market outcome. Our trip to Europe in May where we met with 40 companies (including 14 of our current holdings) encouraged us that although there may be continued stock price volatility, the underlying businesses owned by the Fund give reason for some optimism.

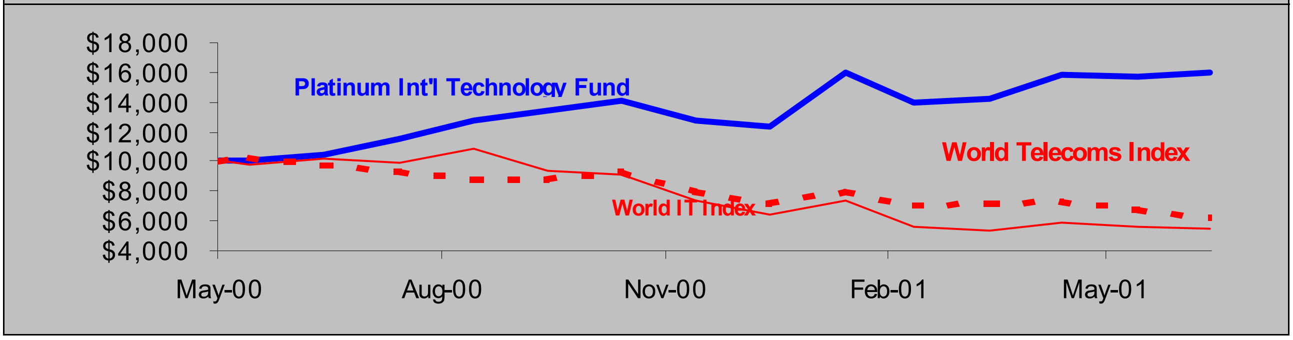
Toby Harrop
Portfolio Manager
10 July 2001

The Platinum International Technology Fund

REDEMPTION PRICE: $1.5985 (CUM PRICE) $1.2709 (EX PRICE) DISTRIBUTION: 32.76 CPU

Performance

VALUE OF $10,000 INVESTED SINCE INCEPTION (18 MAY 2000 – 30 JUNE 2001)



Technology stocks experienced their first positive quarter in over a year with the MCSI Information Technology Index up 8% (3% in A$ terms). In contrast, telecom stocks continued their poor run with the MSCI Telecom Services index declining by 8% (-13% in A$ terms). Areas such as data networking (+29%), software (+12%), and computer peripherals (storage and printers +11%) performed strongly over the quarter, bouncing back from oversold levels. Especially weak were new entrant telecom service providers (-34%) where a number of bankruptcies buffeted the sector. The Technology Fund was up 13% for the quarter, with strong contributions coming from our investments in Foundry Networks, a manufacturer of data networking products, and enterprise software companies such as Peoplesoft, i2 Technologies, and Verisign. *The Fund in its first full year returned over 52%, a period which saw technology and telecom stocks decline by 45% and 34% respectively.*

Changes to the Portfolio

In contrast to our last report where the Fund was relatively fully invested, significant cash balances have been built through a reduction in positions such as Foundry Networks, Peoplesoft, and AMD where prices had reached and exceeded their fair value. Other holdings such as Lucent Technologies and Commerce One have been cut as the deterioration in their businesses had far exceeded our expectations and their long term viability is now at risk. Furthermore, short positions in individual stocks have been put in place to provide some downside protection for the portfolio, as the rally in many stock prices has now built in a recovery in technology spending that we think is unlikely to materialise. New holdings for the portfolio include Korea Telecom and VSNL (an Indian Telecom), and we have topped up our holdings in US Cellular.

Korea Telecom (KT) is the dominant fixed-line telecom operator in Korea, the country with the highest broadband (internet) penetration in the world at 35% of households. Due to Korea's very dense urban population, 92% of KT's 21 million fixed-line subscribers are located within a 4km radius of a central switch. This fact gives Korea a technical advantage in rolling out broadband delivery over traditional copper wire. With its dominant and relatively stable market share in its domestic and international long distance services, KT is able to leverage its customer base into broadband internet access. KT had 2.4 million broadband subscribers at March 2001 and a 48% market share (having entered the market only in December 1999). Most importantly, this has been achieved while keeping their total debt under control (net debt to equity ratio is 31%). Nevertheless the general malaise within the telecom stocks sector and the long-awaited disposal of a minority stake from the Korean Government, had pushed the stock price down 70% from last year's high.

US Cellular is the USA's eighth largest wireless telecommunications operator, providing services in 25 states to 3.2 million subscribers. The company has primarily chosen to provide wireless service to midsized cities and small markets, and has enjoyed explosive growth because of this strategy. US Cellular's focus is on those markets where competition from the large national operators is least aggressive. The existing business generates good cash-flow and allows US Cellular to fund acquisitions of additional areas and spectrum in contiguous States. Excess cash flow will be used to buy back shares and redeem debt.

VSNL is the only international long distance (ILD) provider and the largest ISP in India. The Indian Government will liberalise the ILD sector from May 2002 and will divest part of their stake in VSNL to a preferred bidder. The company has a market capitalisation of $1.9 billion with $1.1 billion in net cash on the balance sheet and a huge bank of excess land in major Indian cities (which could be worth between $600 and $800 million). India is very under-penetrated in telecom services and VSNL should represent an attractive initial business platform for new players wishing to enter the market. Needless to say the valuation is not demanding.

DISPOSITION OF ASSETS

Region	Jun 2001	Mar 2001
US	53%	70%
Japan	7%	12%
Korea	8%	3%
Europe	0%	1%
Cash and Other	32%	13%

The Fund's short position is 19% on individual US companies.

BREAKDOWN BY INDUSTRY

Categories	Jun 2001	Mar 2001
Semiconductor	20%	27%
Software	12%	26%
Electronic Components	11%	10%
Telecom Equipment & Suppliers	11%	20%
Other	14%	4%

Commentary and Outlook

Tech stocks have rebounded nicely as investors have moved to capitalise on a strategy that has yielded extraordinary returns over the last 15 years or so; buy stocks that have been sold off heavily and into an interest rate easing cycle. Certainly, with many technology leaders having seen their share prices cut by over 80% in recent times, it is worth asking whether all the bad news has been priced in. Although at the lows reached earlier in the year we believed some stocks had became very cheap, this is no longer the case as most of these stocks have rallied significantly with some doubling or better.

The simple problem is that the over-investment in technology created too much capacity and lower interest rates are unlikely to encourage further investment. Thus it is likely that demand for many "technology" products will remain weak for a lengthy period. As for the significant adjustment in share prices already seen, this is simply a function of the <u>insane valuations</u> that were placed upon unrealistic and overstated growth prospects of the sector. It is our view that current share prices for the many companies in the sector do not fully reflect the difficult operating environment they face. Consider some of the following revelations from the latest quarter.

One of the key themes of the boom was that the internet would grow exponentially creating vast demand for the fibre-optic networks to carry the data traffic. There was a rush to invest with many new players entering the arena, committing some $90 billion over four years and creating more than 39 million miles of cable. Merrill Lynch estimates that only 2.6% of this cable is being utilised today. Elsewhere, telecom deregulation in many markets resulted in a rash of new service providers who promised to give customers cheaper and better service than the old monopolies. However, this business model often involved heavy customer acquisition costs and were cashflow negative. So far in 2001, there have been defaults on over US$14 billion of debt by US telecom companies alone, with losses on this debt estimated at 92% of face value. Recent bankruptcy filings include new wireless local loop operators

Winstar (US$5 billion in debt) and Teligent (US$1.6 billion) as well as ISP, PSINet (US$3 billion).

The pullback in investment by the telecom sector is having a devastating impact on the major equipment suppliers. The most spectacular result this quarter came from Nortel who announced a loss of $19.2 billion, a number equal to two thirds of its current market value. Although this included large write downs of goodwill from acquistions made in the boom, the company will lose $1.5 billion from operations this quarter on revenues that are down over 40%. Today the stock trades at 36 times optimistic estimates of 2002 earnings, a result that the company will be hard pressed to achieve since it will require a downscaling of the business to cope with levels of demand that are less than half those previously expected. So although the stock price may be off by more than 90% from its high, it is still not an attractive investment unless you have reason to be even more optimistic than the consensus forecasts. Similar problems are seen at nearly all of the equipment companies that were the darlings of the bull market. JDS Uniphase will see sales fall by 35%, Juniper by 40%, and Lucent Technologies has seen its debt rating fall to “junk” status.

The impact down the supply chain at the semiconductor companies has been even more severe. Leading communication IC companies such as Applied Micro Circuits, PMC-Sierra, and Vitesse Semiconductor will see their sales fall to levels 30% to 40% below peak levels reached last year. What is more, these companies face new competition as large established semiconductor companies such as Infineon enter the market via cheap acquisitions of start-up players that were left without funding once the tide of venture capital receded. Yet these stocks, despite suffering price declines of 80% or more, are still valued at more than 10 times sales.

Memory chip prices have fallen further this quarter, with spot prices for a 128Mb SDRAM down at the $2 level having been at $4 at the end of last quarter and $8 at the end of last year. Memory chips are primarily absorbed by PCs, where growth prospects were never that exciting, and yet there is still too much capacity. To make matters worse, DRAM producers are typically reluctant to shut down capacity as it typically takes up to six months to get fabrication lines back to peak efficiency.

Not surprisingly the shortfall in semiconductor demand has flowed through to the capital equipment providers, with order books for the US companies having fallen by 75% since late last year. When one considers that “foundry” operators (companies such as Taiwan Semiconductor who provide outsourced manufacturing capacity for semiconductor designers) are operating at utilisation rates of less than 50%, the likelihood of a significant rebound occurring soon for the capital equipment companies seems remote. Despite being the most cyclical part of the technology sector, the semi-capital equipment companies are amongst the best performers since the peak in the market with the major players such as Applied Materials down only 50% or less. At current prices, Applied Materials is trading at more than 20x peak earnings, which would suggest that a recovery rather than a prolonged downturn has been priced by the market.

The technology and telecom sectors are now 6 to 9 months into what appears likely to be a prolonged cyclical downturn. Although one would usually associate such an environment with a wide range of opportunities to purchase businesses at attractive prices, the combination of interest rate cuts and a latent enthusiasm for technology stocks that is yet to wear off, is holding valuations at high levels. We continue to see the sector as high risk with the potential for further downside as a pick up in IT spending fails to materialise.

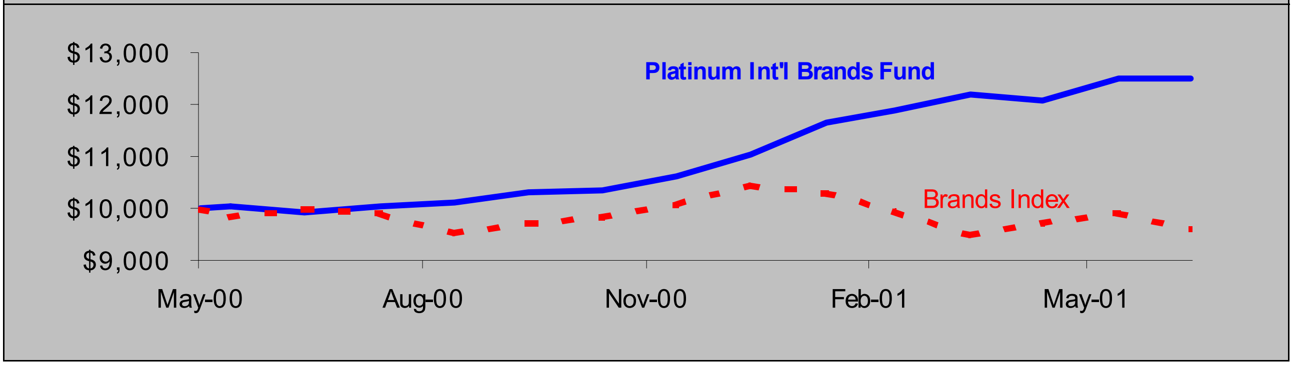
Andrew Clifford
Portfolio Manager
10 July 2001

The Platinum International Brands Fund

REDEMPTION PRICE: $1.2465 (CUM PRICE) $1.2086 (EX PRICE) DISTRIBUTION: 3.79 CPU

Performance

VALUE OF $10,000 INVESTED SINCE INCEPTION (18 MAY 2000 – 30 JUNE 2001)



The performance of branded goods and services companies has been quite mixed over the last 12 months. Our proprietary index of 100 names has risen by about 15% but most of the gain took place in the first half of the financial year. The highly defensive sectors such as tobacco, clothing, shoes and drinks have outperformed the economically sensitive segments such as consumer durables and luxury brands, while retailers and restaurant chains have been mixed.

The Fund has acquitted itself reasonably well rising by 26% for the year and 2.6% for the quarter. Big contributors to this performance have been the Korean contingent led by Lotte Confectionary and LG Household and Health Care. Unilever and McDonald's produced a good lift and our drink companies such as Diageo and Pernod Ricard rose higher. Household cleaning purveyor Reckitt Benckiser and Wella (hair care) continued to rise and are now close to fully valued.

Commentary

As the media and market economists became more concerned during the last few months about the prospect of recession, the consumer appeared as something of a saviour. Consumer spending and expectations data in the US, and to a lesser extent in Europe, held firm while other indicators like industrial production and employer expectations wilted. As the quarter drew to a close, data from Salomon Smith Barney showed that even the American consumer was feeling the need to watch his or her pennies a little. Retail sales data show that value retailers like Wal-Mart and JC Penney were succeeding in making sales targets, while more up-market operators like Federated Department Stores (which runs Bloomingdales, among others) are struggling. In this vein, Escada (a luxury goods retailer), which we have reported on in previous quarterlies, trimmed its profit growth projections from 42% to 19%, citing slowing demand in the US and Asia. The stock was duly punished but we see this as the result of macroeconomic factors rather than a fundamental deterioration in the company's affairs. With strong growth continuing, even in the current difficult economic environment, we believe the stock will reward investors in the long term.

Coke is it.

Coke's shares were weak during the quarter and we took the opportunity to acquire a position.

We have reported on the reasons for Coke's weakness in the past, but the story behind this ubiquitous product deserves closer attention. Coke does not sell bottles or cans of fizzy drink – it sells syrup. All the capital intensive activities like maintaining a factory, distributing the product and so on are passed on to Coke bottlers, which are separately listed or private entities.

This enabled Coke to generate US$5.9 billion in earnings before interest, tax, depreciation and amortisation (EBITDA) in 2000 with only US$4.2 billion of fixed assets. Compare that to another great American brand name, McDonald's and we find that fixed assets of US$17 billion were needed to produce US$4.1 billion of EBITDA. Coke is the Cola brand globally, so if you believe that in coming decades entire regions of the world will begin to enjoy even a shadow of the wealth experienced in the West, Coke still faces a huge untapped market. Because the company employs so little capital, that growth can be achieved with very little incremental capital investment – the hallmark of a great brand!!

Big Deal

One of the biggest consumer brands deals in the last quarter was Bristol-Myers Squibb's hotly contested sale of the hair care business of Clairol. The sale attracted intense interest because the market for hair colourants is expected to grow by 8% to 10% per annum over the next five years. This is driven by the fact that changing hair colour is no longer the sole preserve of aging ladies. Spend time at a surf shop, a skateboarding ramp or even at a school and you'll see that hair has become a means of expression with every imaginable shade or streak being displayed. This is more universal than earlier fringe movements. In step with the West, many youths in Asia seem eager to break out of the traditional mould and colour their hair any shade but black.

Procter & Gamble narrowly beat the Japanese giant Kao to acquire Clairol for US$5 billion. Even though tax deductible amortisation expense lowered the effective price to US$4 billion, that is an expensive purchase for a business with sales of US$1.6 billion. The best explanation seems to be that P&G have been weak in hair products and have no colourant technology of their own. The Clairol acquisition thus increases the share of shelf space considerably and improves the exposure to the fast growing colourant segment.

Formula Breakdown

As always, when dealing with brand names some interesting demographic and social trends have caught our eye. Research from Sanford Bernstein points to a weakening of the central role of sports in the lives of young Americans. Television ratings for sports events have been declining for a decade. More interestingly, the broker cites the remarkable results of a pair of surveys conducted in 1995 and later in 2000 of boys aged 13 to 17 about attitudes to sport. The respondents were asked such questions as whether they looked up to sport stars; wanted to be sport stars; enjoyed watching sports; their sports magazines reading interests; collecting of sports cards and so on. Those surveyed showed a significant weakening of interest in sports over the five years. For instance, respondents in 2000 were 27% less likely to want to be a sports star; 41% less likely to play sport for fun and an incredible 47% less likely to play organised sport. Even though such surveys are only ever a best guess at what's going on in the real world, we were surprised by the change in responses. Why these social trends change is impossible to say. However, sports-star behaviour and their casual attitude to fans must be a factor. With such vast sums being paid in sponsorship, the bond between fans and a team or individual has seemingly come under strain.

The implications of all this are potentially profound. Nike has used a formula of sponsorship of sporting events and sports people, plus ostentatious design to become the benchmark sports shoe brand. A huge part of that formula's success is attributable to sport stars' endorsement of the product which imparts sporting credentials and integrity to the brand. If that role is eroded, Nike's formula may prove far less successful. In their stead, pure fashion and "extreme sports" brands may emerge. It is worth pointing out that Nike released its own brand of skateboarding shoes last year and has a range of fashion oriented shoes in response to these trends.

Another sector in which tastes have shown marked changes is the beverage industry. Since 1995, the so-called "ready to drink" (RTD) pre-mixed spirits segment has seen sales grow at a compound annual rate of 25%. Such growth far exceeds wine and beer. To understand why, do a little field work – go to a fashionable bar on a Friday night and witness the popularity of Stoli Lemon Ruski (pre-mixed vodka and lemon sugar water). Even though RTD beverages amount to just 5% of the global spirits markets, selling the equivalent of some five million cases a year, and a tiny 0.7% of the global beer market by volume, their outstanding growth shows that this trend is not limited to Australia. Diageo, has just launched its Smirnoff ICE product in the UK, and together with Bacardi Breezer, is the leading contender in this roll-out.

A sweet discovery

One of our prize performers has been Lotte Confectionery, the leading purveyor of sweets, ice creams and biscuits in South Korea. Lotte dominates the Korean market with a 40% share, twice that of Haitai, Korea's second confectionery maker. Lotte has grown sales and profits at 11% pa and 18% pa respectively over 15 years, it has no debt and its investment portfolio alone nearly matches its market capitalisations of 246 billion won (US$190 million). Even though the company tries to suppress profits with large depreciation charges, its pre-tax profit margin is still 7.6%. That translates into a return on capital in excess of 20%. Any remaining doubts about the company should evaporate when you take account of the recent sale of the financially distressed Haitai. A Belgian-based group of investors outbid Nestlé for the company, paying US$369 million (480 billion won) – that's equivalent to 70% of its sales and twice the market cap of Lotte, a much bigger company ...

Kerr Neilson
Managing Director
10 July 2001

Distribution

The distributions for the year ended 30 June 2001 were:~

Platinum International Fund	14.67 cpu
Platinum Japan Fund	7.59 cpu
Platinum European Fund	7.00 cpu
Platinum International Technology Fund	32.76 cpu
Platinum International Brands Fund	3.79 cpu

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