PLATINUM ASSET MANAGEMENT

THE PLATINUM TRUST

QUARTERLY REPORT
AS AT 30 SEPTEMBER 2000

Incorporating the:

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

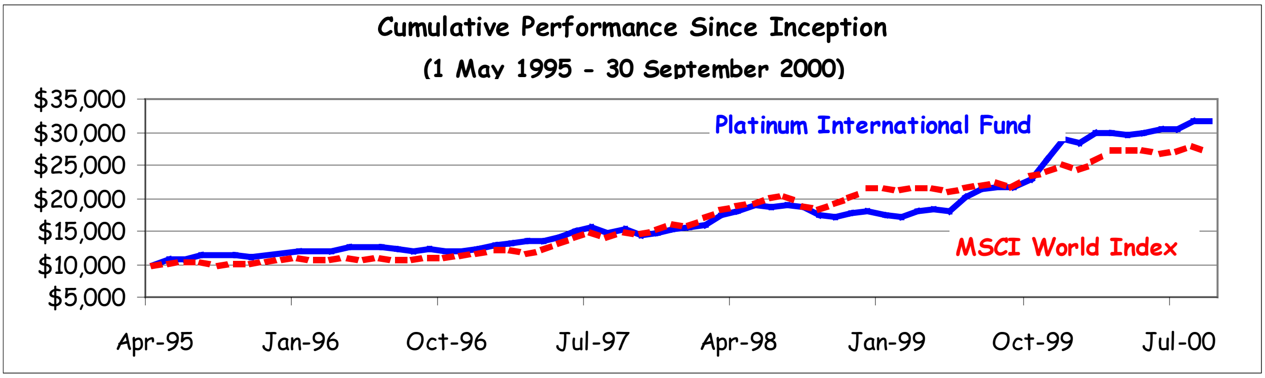
THE PLATINUM INTERNATIONAL FUND

Redemption Price: $1.5202   Fund Size: $135 million

Performance

There has been little momentum on the long side this quarter and indeed for the year to date. The weakness of the Euro and the steep lift in the oil price have punctured investor optimism and brought into question the level of valuation of high growth stocks. There has been a systematic shuffling of the pack with the dot coms being the first to fade in December/January (prices are now down by up to 90%); this was followed by the telcos and subsequently by the telco equipment suppliers by around July. Now we are starting to see the untouchables doubted, the likes of Oracle, EMC, Siebel: the consequence of this is that the Nasdaq has fallen by 11% year to date (–7% for the quarter) and with it the likes of the *Neuer Markt*, Kosdaq index etc. The broader markets have not shown the same destruction on account of rotation into hitherto dull areas like utilities and financials. As a consequence, the overall MSCI World Index is up 12% year to date (+5% for the quarter).

The Fund has benefited from its early migration away from TMT (telecoms, media and technology) and from adding to existing low valuation plays. There have been some successes with shorting the likes of Intel, Nokia and Cisco. Offsetting this good work has been the cost of hedging into the A$ and Euro. The consequence is that the Fund has risen by 4.3% over the quarter and 9.6% for the year to date.



Changes to the Portfolio

There has been little thematic change in the portfolio. In Japan we reduced our exposure to domestically sensitive companies like house building and coke bottlers. Further, we added Mitsui OSK which is the world's largest owner of oil tankers and natural gas carriers. Unlike in Europe where its competitors have surging stock prices, the market is only now starting to appreciate its strategic position.

In the US, we added to Ambac (credit insurance) and bought more AMD, Verizon, Lucent, National Semiconductor and Novell after sharp price retracements. Later in the quarter, the doubling in the price of JD Edwards offered a good exit price for the stock and we used a similar move in the price of Peoplesoft to bring the holding below 5% of the portfolio. Acuson was bid for by Siemens at a 60% premium; Silicon Valley Group was also bid for at a similar premium in early October.

In Europe we sold the remaining Ericsson and Smiths Industries. Toro was bid for at a 40% premium. The only new holding was Adidas-Salomon, which is going through a thorough overhaul. We added to most of our existing positions.

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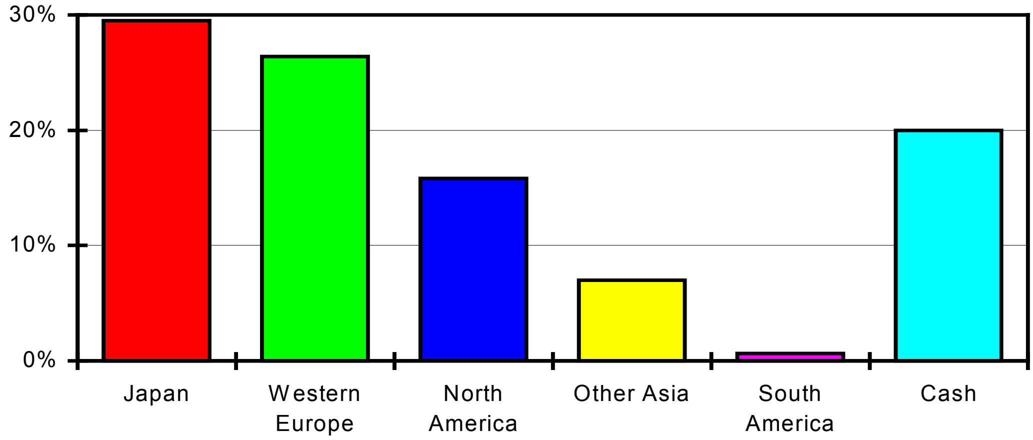
Breakdown by Industry

Categories	Examples of Stocks	Sep 2000
Cyclicals	RMC, Akzo, Bayer, Stinnes, Linde	16%
Technology Hardware	Toshiba, Samsung, National Semi, AMD, Fujitsu	13%
Telecoms	NTT, DDI, SK Telecom, Lucent	11%
Software & Media	Novell, Peoplesoft, Nippon & Tokyo Broadcasting	8%
Medical	Acuson, Draegerwerk, Medison, Merck KGaA	8%
Consumer Brands	Lotte Confectionary, Japanese Coke Bottlers, Adidas Salomon	7%
Retail/Services/Other	Hornbach, Raytheon, Loewes	7%
Financials	Lippo, Japanese Brokers, Nordic Baltic Holdings	6%
Consumer Durables	MEI, Citizen Watch, Sony	6%

Disposition of Assets



The fund's short position is 2% against the Nasdaq 100, 9% against the S&P500 and 13% against individual companies.

Currency

As noted above, we have been poorly placed with regard to the US$ with our hedges into the A$ and Euro. However, the arguments we now hear against these currencies, have a vacuous ring. While unable to be precise, we sense that they are close to a bottom and when there is a reversal, it could be explosive.

Presently 44% of assets are hedged into A$, 12% into US$, 33% remain in the Euro, Pound and Swiss Franc and 4% in Yen.

Commentary

Priced for perfection was an oft-heard expression over the last two years. Productivity has certainly carried its weight; inflation has been remarkably subdued, and now with the slowing of the US economy, the threat of more expensive money has been held in abeyance. However, two imperfections have arisen. The oil price has risen sharply and the weak Euro, which was initially shrugged off, is having unexpected consequences.

The current oil price movement is not far short of the spike experienced during the first oil shock of 1973. A price of some US$30 per barrel is nearly three times that of January 1998 and indeed the average oil price for this year will probably be twice that of 1999. The consequence of earlier shocks was to drive the world economy into recession. This time around, the benefits of lower oil dependency, broad technology-led growth, a milder inflationary undertone and a somewhat less panicky consumer response should militate against too dramatic an impact. OPEC is seemingly less belligerent too and has agreed to bolster its production by a total of 3.2 million barrels per day, a rise of over 11%, and equivalent to approximately 4.2% of world consumption. However, because of bottlenecks throughout the supply chain and the desire by some to increase their national strategic reserves (China, Korea and Poland), it is unlikely that the oil price will recede below $30 for some time.

That there will be a negative impact on consumer spending is clear. Unlike the 1973-74 episode where inflation was prevalent and growth scarce, the world today is rather different. The ability of firms to pass on these cost increases is much reduced. Hence, one should expect compression of companies' profit margins in the face of rising input costs.

The weak Euro is exacerbating these cost pressures as oil is priced in US$. Since its formation in January 1999, the Euro has depreciated by 25% versus the US currency. European companies are feeling the squeeze throughout – fuel, chemicals, plastic packaging etc. For American based multi-nationals, there is the added insult of their European-sourced profits being translated into fewer US$. Hence the profit warnings from Gillette, P&G, DuPont et al.

As signs of a general slow-down build, so the focus has moved away from concerns about the Federal Reserve Board or other Central Banks intervention towards the likely fulfilment of the growth promised in the valuation of tech and other highly rated stocks. Looking at information technology, it is interesting that business computers and peripheral equipment now account for $60 out of each $100 spent on durable equipment in the US versus $10 in 1975. Just as in earlier periods (the PC boom of 1985), one senses that the market is readying itself for a reassessment of the growth in IT spending, and by extension, that perhaps the sector deserves a lower valuation. We believe the earning cautions by Intel, Apple, Dell & Co are precursors of this adjustment.

In their search for new opportunities, investors have rotated into financials and utilities. Other areas that have historically proved attractive refuges have lost that lure. Pharmaceuticals are under pressure from Mr Gore's populist promises; consumer goods are suffering from having already achieved the benefits from improved systems and upward pricing drift and now face more difficult times in the face of limited volume growth and the cost pressures alluded to above. Retailers are likewise facing a less buoyant future as a result of the legacy of earlier large additions to selling space and a fickle public. Marks & Spencer, the venerable UK-based store group epitomises these problems and has suffered the additional burdens of complacency and arrogance. Changing shopping patterns are taxing even the more agile groups including Gap and Hennes & Mauritz. After years of continual growth, they are struggling to read consumers' present desires. Adding to their problems is convergence of shopping habits and the frightening prospect of Walmart adding 40 million square feet in 2001 – 8% of its current selling space. For perspective, one million square feet is the equivalent of a good sized regional shopping centre!!

Even though there is significant rotation, there is still a massive difference in the valuations between so-called "growth" and "value" stocks. Some recent work by Goldman Sachs on their global universe of 1,300 companies shows how the valuation of "growth" stocks has moved up from 22 times earnings in 1991, to 57 times now, while "value" stocks have remained on PEs of 11 times. Implicitly, "growth" stocks reveal rising expectations about the future, so much so that Goldman calculates that these shares are pricing in 15% pa cash flow expansion over the next 15 years compared with a 2% pa rise for the "value" stocks. The implicit "growth" differential is at an extreme and more interesting still, is that the past ten years' earnings record of the "value" universe has been 8% pa, while the "growth" universe has achieved 19% pa.

We would be surprised if the valuation gap doesn't narrow. It is common to hear financial commentators referring to respectable, if unexciting companies, as "dead money". We nevertheless find that it is precisely these companies that are the target of take-over bids. In the last quarter, we have received bids for three of our holdings, Acuson, Silicon Valley Group and Toro simply on the grounds of industrial logic.

These bids were pitched at up to 60% above the prevailing market price. Further, this process can be expected to continue as globalisation favours size and reach. On a risk-adjusted basis we would rather place our bets on industrial logic than investment fashion.

Optimists who favour the high valuation segment continue to point to the strong inflows into mutual funds and the evident growth prospects that result from the internet revolution. We have no argument with either of these observations other than to point to supply. Investment bankers have hardly been idle of late, recommending to their clients all manner of schemes that will supposedly unlock shareholder value. Tracking stocks are all the rage but more delicious still is the prospect of listing small in-house technology hot houses in the belief that their listing will unleash an even greater level of animation on the part of shareholders. No longer can market participants be trusted to value individual parts of the business yet the greatest conglomerate of all, GE, is valued above 40x (with 1/10 of EPS coming from non-recurrent pension benefits).

Conclusion

As noted above, the valuation of shares is highly dichotomous. Greater attention is now being paid to the business dynamics and valuations of many high-tech companies. At the same time, companies sensitive to deteriorating growth such as chemicals, paper, forest products and construction materials are back to levels of 6-8 years ago.

We believe there will be further erosion in the valuation of high growth companies but that there is a large constellation of opportunities in the middle ground. These are generally smaller companies that have the ability to achieve growth and yet are priced to deliver almost none.

Stock Story – Peoplesoft (US)

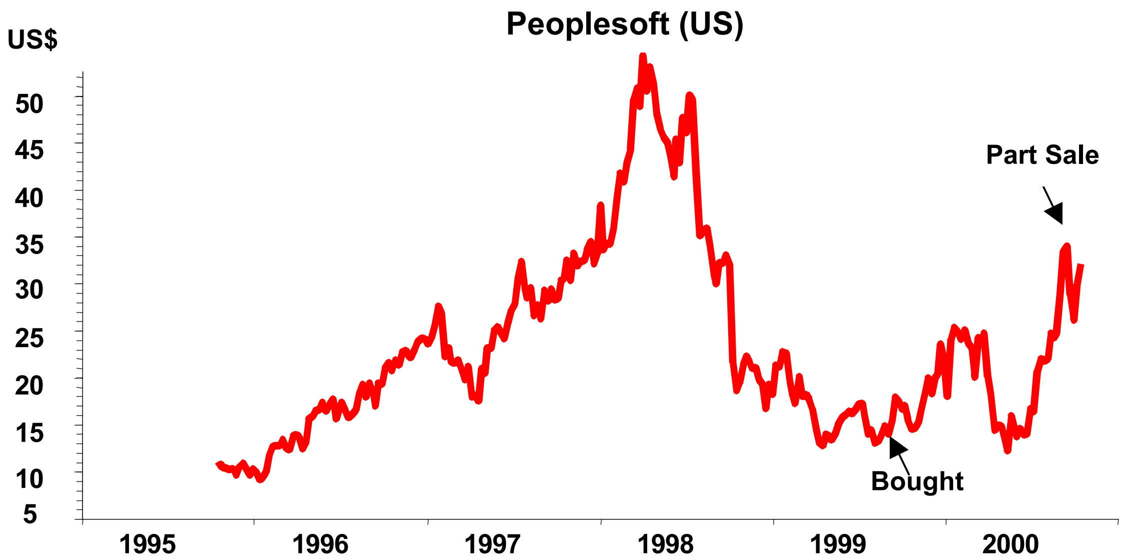
Peoplesoft were one of the early providers of software products designed to run on networked PC's (known as a client-server environment) that could be used by large companies to run their businesses. Peoplesoft built leading positions in human resources and financial applications while competing against companies such as SAP and Oracle. From 1993 to 1998, revenues increased more than twenty fold to over $1.3 billion.

Two major problems appeared in early 1999. Companies started to cut back on software purchases, having already completed year 2000 remedial work on their IT systems. Then the focus of corporate IT spending moved to the internet and companies became more focused on spending on "outward facing" applications that concentrated on managing customer and supplier relationships rather than internal processes such as human resources. Given this "outward" focus, it became necessary to "web-enable" software applications so that they could be accessed over the internet even if they were not loaded on the individual PC (ie. by using a web browser). Peoplesoft, along with the other leading enterprise software companies saw sales of new products collapse and profits disappear.

In May 1999, Craig Conway joined the company, initially as chief operating officer and then as CEO. Conway's history included eight years at Oracle in senior sales and marketing roles as well as with two successful software start-ups. The critical decision was made to completely "redesign" all of Peoplesoft's applications so that they could be accessed through a web browser. This was a significant effort that required rewriting over 30,000 screens, and a research and development investment that absorbed over 25% of revenues during the last year. The other important development was the acquisition of Vantive who were the number two player in customer relationship management (CRM) software, one of the new fast growing areas. The company also partnered with Commerce One to develop e-procurement software used by companies to hook into business to business electronic exchanges. Peoplesoft continued to develop new applications in areas such as supply chain and analytics.

This effort culminated in the launch of Peoplesoft 8 in July 2000, a suite of web-enabled applications addressing both their traditional segments as well as the new fast growing segments. The company is well positioned versus its traditional competitors who are at the very early stages of re-writing applications for the web or still struggling to enter new areas such as CRM. Versus the many new entrants in the software market, not only does the company have an already profitable and cash-flow positive business, with cash balances in excess of $600 million, but it also has the advantage of a significant existing and highly satisfied customer base. The last stages of the turnaround are now under way with the company building up its sales force for the launch of Peoplesoft 8.

Platinum initially purchased Peoplesoft during 1999 at prices around $15. The stock price then ran up with the explosive take-off in technology and telecom stocks only to return to $15 in the second quarter sell off. By this stage, the "bull case" had become even clearer with the development of Peoplesoft 8 near completion. At this point, Platinum doubled its position in the stock. At the prevailing price of $15, the company was valued at just over twice revenues which we expect to grow at a rate of 30% for at least the next three years. Meanwhile, major competitors such as Oracle are valued at almost 20 times revenue while growing at similar rates (at best). Subsequent to our recent purchases the stock has moved up to over $30 as the early signs for revenue growth post the launch of Peoplesoft 8 are very encouraging. We have tended to cut our position as the stock rises to ensure that overall exposure stays around 5%.



Source: DATASTREAM

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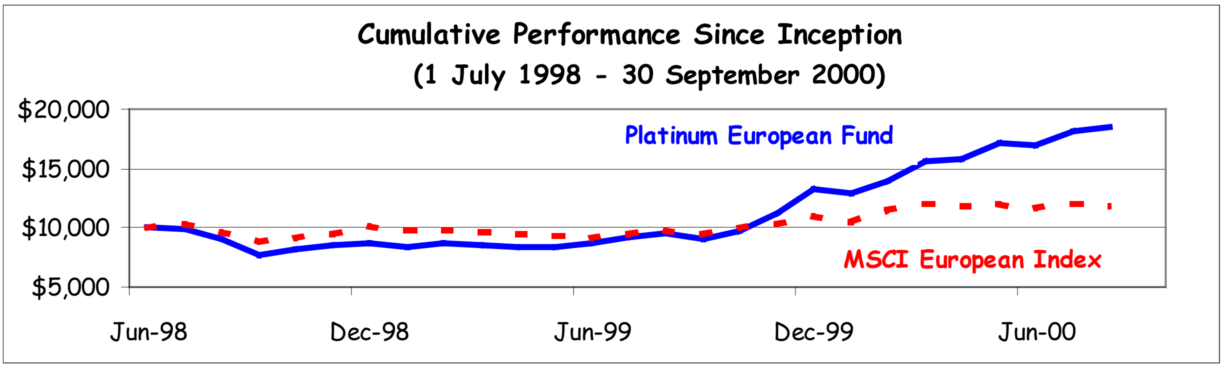
THE PLATINUM EUROPEAN FUND

Redemption Price: $1.6133 Fund Size: $25 million

<u>Performance – telecom stocks suffer and market struggles with economic outlook</u>

European stock market indices were dull overall for the quarter with the MSCI Europe down 1% in local currencies but up 3% in A$ (as a weak Euro was offset by an even weaker Australian dollar). Sector rotation continued, with the overall European index trapped in a 7% range over the period. Negative influences on the index included steel (-35%), the telecom operators (-16%) and telecom equipment companies (-11%). Strong areas of the market included the computer services sector (+18%) as it bounced back from its Q2 slump, and food retail (+15%), healthcare (+13%) and financials (+10%) as the market sought refuge from technology and telecom weakness.

The Platinum European Fund was up 11% in A$ for the quarter, as solid performances from its holdings in bank, retail, and pharmaceutical stocks were complemented by stability (point to point) in the prices of its main cyclical holdings (including strong performances from transport company Stinnes and paper/forestry company AssiDoman). In addition performance benefited from some successful hedging both in the main European index, and through various short positions in some highly priced stocks. It must be noted that the performance of most of the technology/media stocks the Fund was holding in June made useful contributions before being sold.



<u>Telecom equipment – the customer matters!</u>

At the end of the second quarter the Platinum European Fund report noted the sell-off in telecom operator stocks and identified the third generation mobile operator licence auction outcomes as the catalyst in pricking the valuation bubble. It is worth quoting a concluding paragraph from the June report:

> "The other thesis to which the market subscribed was that expensive licence fees meant a rapid deployment of 3G wireless equipment (ie. to start earning a return on the licence fee as soon as possible). This idea meant that even as technology stocks were selling off everywhere, the European telecom equipment stocks remained quite firm."

This logic held together for a little while but was not sustainable. The capital expenditure potential of the world's major telecom operators is not difficult to calculate; the fact that almost all of them are quite heavily in debt means that additional spending above internally generated cashflow is awkward. Combine this with the unexpected shock of billions of dollars of 3G licence fees to pay, and an underlying deterioration in cashflow as national long distance and international call profitability collapses, and suddenly the capital expenditure potential is questioned. Telecom equipment stock valuations, by

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July, were discounting healthy/outlandish capital spending growth, not stagnation.

Another issue was that the gaggle of new, so called "alternative carriers" (themselves presumed to be a nice growth market for the equipment vendors) were losing money as they sought to build their voice and/or data businesses through effectively subsidising new subscribers. This was fine until April/May when the business models were questioned by investors and funding started to dry up.

Clearly all that was required was another catalyst. As it happened there were several: profit warnings from heavyweight Lucent of the US, and from the superstar Nokia over handsets were echoed by ill-defined complaints of "component shortages" from Cisco and more handset problems for Ericsson. From their mid-year peaks, the European stocks were somewhat lower by the end of September: Ericsson –30%, Nokia –29%, Alcatel –25% and Siemens –23%. It is interesting to note that despite their poor run in the second quarter, the actual telecom operators continued to fall: Deutsche Telekom –35% and both British Telecom and France Telecom –17%.

Given that these seven stocks are all among the 25 largest market capitalisations in Europe, it is clear that index-oriented and momentum-based funds would have had a difficult quarter. Platinum European Fund sold its Ericsson and Alcatel holdings at excellent prices during the quarter, sold short the stock of Nokia a few weeks before the profit warning and maintained its small position in Siemens (before adding to the holding early in October).

<u>Strong sectors – only by default?</u>

The healthcare and food retail strength reflects their traditional safe haven status; the counter-intuitive strength in the UK computer services stocks reflects a strong quarter worldwide for software companies such as Oracle, SAP and Peoplesoft as the "post-Y2K software expenditure strike" seemed to be ending. The banks and financial services sector was up 10%, though many financials were a lot stronger with continental insurance stocks following the lead of the US businesses where it seems the insurance cycle has turned upward.

It is difficult to get too excited about the fundamental position of the food retail or the pharmaceutical stocks in an industry-wide sense. The food retailers are facing domestic market saturation and very competitive conditions when they try to expand into new territories. Heavyweight Carrefour, itself working through the merger process with Promodes, noted recently that they are surprised that there has not been more consolidation in the sector in Europe; certainly those Europeans hoping to grow in the US are faced with the daunting task of addressing WalMart on its home ground. For the pharmaceutical companies, the US presidential election period is a dangerous time to the extent that proposals for reform of the dysfunctional (and hugely profitable) US drug market are made. Very few of the reform models are positive for pharmaceutical company profits, and the Europe-based firms are happily feeding at the US trough.

<u>Euro weakness, Danish referendum, the ECB and monetary policy</u>

We were distressed and surprised to see the European Central Bank raise interest rates another 25 basis points this week (early in October). While the direct impact of such a rate rise is probably limited, the signal it sends is a strong one. European interest rates had already gone up several times and by 200 points (ie. 2%) over the last 12 months. Worldwide, and especially in Europe, economic releases have indicated slowing growth in the major economies. This is probably due to the oil price "tax", to the mounting US trade deficit, to the reduction in confidence caused by the slumping Euro, to the cessation of Y2K-related spending, to the string of rate rises already imposed etc. Most central banks have not raised rates when last given the chance (including the Federal Reserve, the Bank of England, the Reserve Bank of Australia and the Swiss National Bank). Most of them trust, to varying degrees, in the technology-led productivity cushion which characterises the late 1990s global economy (versus its 1970s predecessor). With the globalisation-related threat of deflation only ever a recession away, the powers that be err on the side of loose monetary policy.

Except in Euroland. The troubling message that this latest, unexpected, rate rise sends is that even if growth is slowing, the ECB mistrusts the Euroland market mechanism (especially the labour market) to cope with the hopefully transient events of $30 oil and a weak Euro. And of course the nature of economic behaviour is that this becomes a self-fulfilling prophecy: after five years of wage restraint, the powerful German labour unions have threatened wage demands in response to this week's rate rise. And the Euro weakened in response – as most currencies will when the market regards a policy move as inappropriate to the economic reality.

A week after giving a "No" response in their national referendum as to whether they would like to join the Euro, the people of Denmark could be excused for breathing a sigh of relief that the ECB will not (directly at least) be managing Danish monetary policy. More generally our view would be that the "success" or otherwise of Euroland will be determined in the real performance of the major economies involved rather than whether Denmark, Sweden or indeed the UK desire to join. The Danish "No" quite correctly, therefore, had little impact.

Finally, while all the focus is on the weak Euro (even as the problem a few years ago was seen as the "strong yen" rather than the weak US$), it must be noted that the strength of the US$ is rapidly becoming a serious problem itself – witness the recent doubling of the US trade deficit. Currencies are by definition pairs, and the over-stretched US economy itself will probably be the best friend of the Euro in the coming years.

<u>Holdings – stock specific and still not in the telecoms!</u>

The Fund is holding a significant position in European consumer stocks – drinks companies, general retailers, Wella and Adidas. Additionally there are several economically sensitive companies, though these are specific stories rather than reflecting a view that the price-takers generally are interesting at the moment. We are holding three different banks having sold SanPaolo-IMI (Italy) in favour of Lloyds-TSB, UBS, and more Nordic Baltic Holdings (Sweden-Finland). A small number of technology positions and virtually nothing in the telecom operators guarantee that the portfolio is still quite different from the European index.

Over the quarter we added Adidas, Bic, (both attractive valuations and business reorganisations starting to yield results) and the banks mentioned above. We sold the last of the Ericsson, SanPaolo-IMI as mentioned, Spanish media group Prisa, and Alcatel. All these stocks had exceeded the prices we expected of them. We have tended to hold more of the Fund assets in cash, especially in September.

The outlook is always tricky in October; we would be getting quite positive given the very negative calls coming in the from the stockbroking community in recent weeks (plenty of capitulation downgrades of the telecom operators after the horses have bolted, for example), though as suggested above the ECB is not making things any easier. Valuations in Europe are generally more reasonable than they have been for the last 10-12 months, though the economic uncertainty now prevailing counteracts this somewhat. Overall we imagine that stock markets will have trouble making much progress and that careful stock picking will be important in the coming months.

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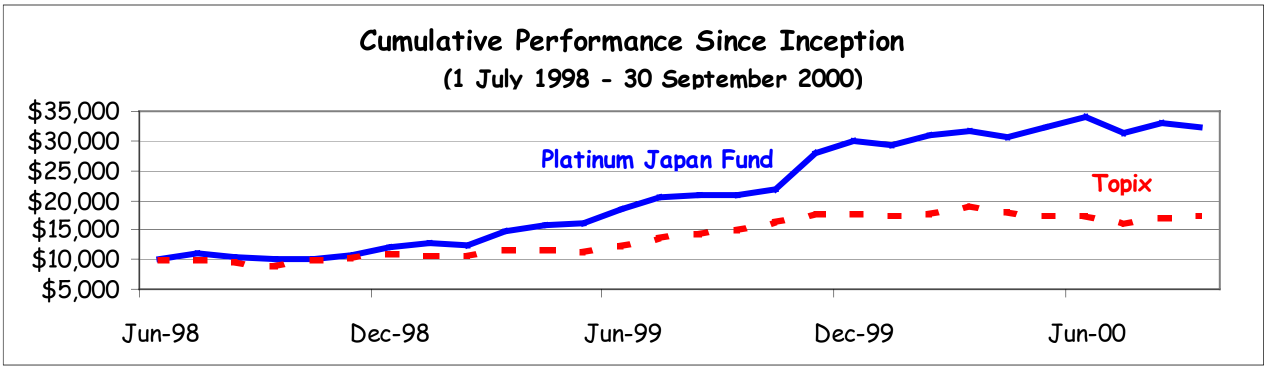
THE PLATINUM JAPAN FUND

Redemption Price: $2.0703   Fund Size: $83 million

Performance

The quarter saw the continuation of very difficult conditions for the Japanese equity market with the benchmark Topix index declining by 7.6% over the quarter. The decline continued to be led by IT with the electric machinery and precision instruments sectors down 9.5% and 20.5% respectively. There were also pockets of weakness in the domestic economy plays, most notably the retailers. On the positive side, banks put in a better performance benefiting from market rotation.

The Fund was not able to withstand the downdraft and declined by 5.1% in $A terms versus the MSCI Japan index which fell 0.7%. If we dissect our performance the big negatives were mainly from our holdings in Korea where the market fell 21% in $A terms and from our currency hedges into Australian dollars and the Euro. These detracted from our performance by –3.1% and –3.8% respectively.



Commentary

Whilst there is a lot of negative comment surrounding the Japanese economy, this primarily relates to macroeconomic events emanating from the US and the likely effect this may have on Japan. Looking purely at the domestic scene there are some positive developments especially with regard to corporate profits. Back in March, company forecasts were for aggregate sales growth of 2.3% and recurring profit growth of 20.5%. Six months on, these forecasts have risen to sales growth of 4% and recurring profit growth of 32.6%! Looking at the number of companies revising earnings in the past three months we have seen 152 upward revisions versus 76 downward revisions. Interestingly only 64 of the upward revisions were in the technology area, suggesting an economy-wide recovery. Clearly whilst there is skewing toward the technology area, other parts of the economy are benefiting from the general lift to GDP. We estimate it is growing in the 3% annual range with industrial production rising by around 8%. Earnings expectations imply a market PE multiple somewhere in the region of 30 times for 2000 earnings, a figure which we would regard as quite justifiable in the context of a 2% long bond yield.

Positive themes for the market have been few and far between, however the recent push into optical communications related stocks is worthy of comment. The US has been the pioneer in the early adoption of DWDM (Dense Wave Division Multiplexing – the technology that compresses optical signals for cable transmission) led by the exploding data demand of the internet. Whilst the Japanese were initially thought of as laggards, it is now apparent that they have a thriving industry based on component supply to the US majors such as JDS Uniphase, Corning, Lucent and Nortel. The biggest discovery in this area has been Furukawa Electric which for years had appeared as the number two ranked cable manufacturer with poor profitability and little sign of energy. However, as the DWDM market has mushroomed it has become apparent that Furukawa's technology is very much in demand. Its primary product, with a 70% worldwide market share, is laser pulse diode modules. These are essential in the amplification of the light signals as they pass down the optical cable. Further, it has emerged with a 10% stake in JDS Uniphase (after selling down from 20%), an investment it has held for some time and which highlights its excellent positioning in this area. We would expect to see the company widen its product range considerably in the future. Other interesting suppliers in this arena include Sumitomo Electric, Seikoh Giken and Nippon Sheet Glass. We also believe that Fujitsu is well positioned to supply the Japanese market.

In the "old world", we have also found interesting opportunities. Specifically we have taken a position in the shipping companies, Mitsui OSK and NYK. We see in these companies the prospect of riding a strong world trade cycle, which is driving freight rates up across the board and also deriving the benefit from companies strongly committed to restructuring their businesses.

It is easy to dismiss the shipping industry as the antithesis of the sexy opportunities that can be found in the IT arena. However, this might be a classic example of confusing a good company with a sound investment. Having been one of the principal beneficiaries of easy credit and sympathetic tax treatment, the shipping industry fell into all the usual traps. This is now being speedily reversed.

Looking at Mitsui OSK we observe that the return on capital has risen steadily over the last eight years and is now at an all-time high. Last year the container shipping division (41% of revenues) made a profit for the first time in more than 20 years. We are impressed with the gradual remanning of the fleet to employ cheaper labour and the clearly enunciated targets for profits and the return on assets. There is a commitment to pay down debt by keeping capex below depreciation and the expectation that the merger with Navix Line will bring about significant cost savings.

On the operating front, the company is a prime beneficiary of the recovery in shipping rates. With greater dependence on OPEC, users are experiencing shipping shortages as cargos travel longer distances (though incurring a greater number of days at sea). This has driven up daily charter rates for very large crude carriers (VLCC's) from say $25,000 per day to over $50,000 per day at present. Mitsui OSK is well positioned for this with the world's largest VLCC fleet comprising twenty eight vessels and some eight smaller oil carrying craft as well as a massive Natural and Petroleum Gas fleet. Approximately six VLCC's are presently trading on the spot market and a further six new vessels are being delivered for long term charter at prevailing high rates.

While the case is somewhat sensitive to world growth and has the ever-present danger of shippers responding to current high spot rates (which are now at 10 year highs), by ordering new vessels, the share price barely reflects the changed outlook for this industry. Trading close to its 10 year lows, and a third of its peak, the share price is lagging well behind the recovery recently seen in European based shipping companies. Moreover, at 3.5 times cash flow, the upside is promising.

<u>Changes to the Portfolio</u>

We removed positions in domestic oriented companies where we believe the earnings growth, while improving, will trail other parts of the economy. This included the housing stocks and Coca Cola bottlers. We also sold our holding in Daiwa Securities in favour of larger holdings in Nikko and Nomura Securities. We purchased positions in shipping companies Mitsui OSK and Nippon Yusen and added Sumitomo Electric and FDK in the optical equipment space. In terms of short selling we increased our exposure to shorts from 8% to 17% of the portfolio. We are taking a view that the very highly valued stocks in the Japanese market will suffer as investors shift back to the broader market.

Outlook

The outlook for global growth is one of deceleration as the lagged impact of monetary tightening and the “tax” of higher oil prices begins to bite into corporate profits. This will mean that the main engine of the Japanese economy, technology exports, must come under some pressure. However, there has been a clear strengthening of investment spending as companies respond to improved demand and the need to modernise their plant. Whilst we see positive steps in the way many companies are approaching the future, the political backdrop is overwhelmingly one of feet-dragging and indecision.

By managing the portfolio from a global perspective, we are able to periodically cross-pollinate emerging investment ideas. Examples of these themes are the shipping group and telecom testing and internet switching plays such as Anritsu. Likewise, the behaviour of the Nasdaq index has given rise to some useful shorting ideas. Overall, the current level of the Topix index at 1470, and the outlook for profits among the quality companies, suggests that the downside risk for the market is limited.

Breakdown of Portfolio

Categories	Examples of Stocks	Sep 2000	Jun 2000
Cyclical Growth	Toshiba, Matsushita Electric, Citizen Watch	32%	24%
High Growth	Mobile Telecoms – DDI Broadcasters – Tokyo and Nippon Broadcasting	18%	14%
Deep Value Cyclicals	Mitsui OSK, Taikisha	17%	16%
Steady Growth	Kuraya Sanseido, Japan Airport Terminal	7%	11%
Market Sensitive	Nikko and Nomura Securities	6%	4%
Korea	SK Telecom, Lottecon, Medison, LG Chemical	14%	18%
Cash		6%	13%

Invested Position

	Long Position	Net Position
Japan	80.9%	64.2%
Korea	14.2%	14.2%
Exposure	95.1%	78.4%
Cash and Other	4.9%	21.6%
Total	100.0%	100.0%

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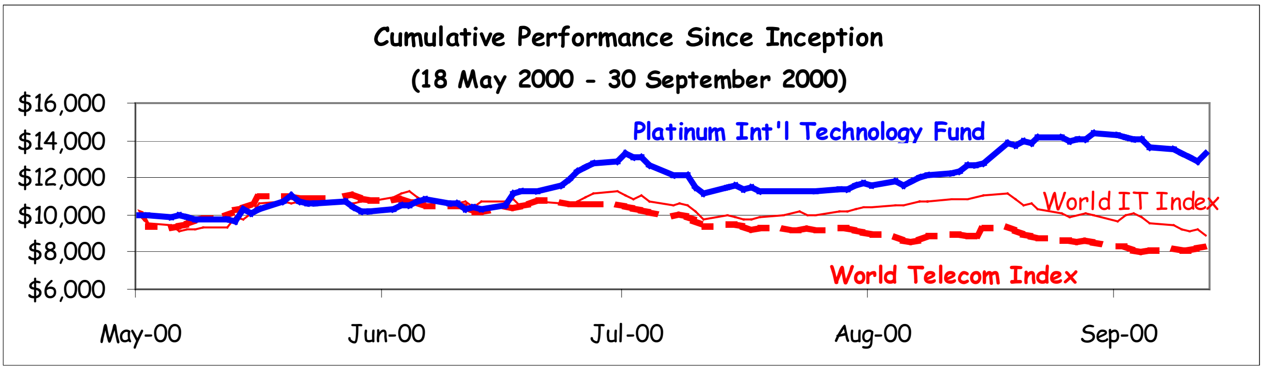
THE PLATINUM INTERNATIONAL TECHNOLOGY FUND

Redemption Price: $1.3416   Fund Size: $8 million

Performance

Technology and telecommunications stocks had a very weak quarter with the MSCI Information Technology Index and the MSCI Telecommunication Services Index both declining 15%. The fall in the Australian dollar helped offset these declines somewhat, with these indices falling 8% and 10% respectively in Australian dollar terms. Despite the weakness in the market, the Platinum International Technology Fund rose 28%.

The market has continued to place extraordinary valuations on technology where the growth opportunity appears endless and the position of the business is dominant while other "less perfect companies", which nevertheless have good products, an existing customer base, and reasonable growth prospects, have been severely punished. The Fund's performance has been achieved by a two pronged strategy of investing in the latter group with holdings such as Peoplesoft, Silicon Valley Group, Alcatel, and Anritsu contributing strongly, while shorting a number of companies in the former group of "perfect" stocks, with positions in Nokia, Intel, and JDS Uniphase having added nicely to returns.



Commentary

The movements in technology and telecom stocks over the last quarter have been more about the dynamics and psychology of a stock market bubble than about fundamental deterioration in the core themes of the IT revolution. **If stocks become overvalued then knowledgeable owners will sell**. This was the driving force behind the vast number of technology companies listing in 1999 and the first quarter of 2000, the legacy of which remains today as "insider" lockup periods expire and allow more supply onto the market.

Supply of paper can be created in a number of ways other than listing of new companies. A common occurrence is the spin-off where an already listed company partially lists a division, often achieving a valuation much higher than implied in its own share price. The other method is simply to make acquisitions using stock, which some cynics would point out has the benefit of bringing forward the expiration of lockup periods. The bull market in technology and telecom came to an end in March primarily because the global investment banking community was creating new paper with such efficiency that it more than met the rush of money from retail and institutional investors.

Having been badly burnt by the sell-off in "lower quality" technology companies during April and May, investors still committed to the concept of "technology investing" crowded into names where there was great certainty of outcomes. By August leading blue chip technology stocks such as Intel, Sun Microsystems, EMC, Nortel, Broadcom, Siebel Systems and many others, had made significant new highs. Not surprisingly the investment banking community is working hard to create supply of new paper in the remaining hot areas such as “communication IC’s”, “optronics”, and “computer storage”.

As is the usual pattern, analysis and commentary follows rather than leads share price movements. A number of concerns have preoccupied the market through the quarter but in nearly every case there is little change from six or 12 months ago. The case for investing in different areas is being reassessed and in the more sober stock market environment that we now face, the focus is on how basic business principles apply rather than on the blue sky of the never ending growth opportunity. Questions being examined today are about capital requirements, the need to ultimately earn a return on that capital, and the competitive responses.

The key area of concern through the quarter has been telecommunications capital expenditure. Deregulation of telecom markets around the world in recent years has seen a raft of new entrants attempting to take a slice of this very large, growing and profitable market. This created demand for telecom equipment, not only by the new entrants, but also by the incumbent operators who were forced to lift quality of service to protect their business. To date, the new entrants have been highly successful in driving down prices but few have managed to build a profitable sustainable business. The business is highly capital intensive and as these new entrants run down their cash balances, they are finding it near impossible to raise new funds. The incumbents have also been spending heavily and balance sheets are in poor shape. Looking at the major US operators only, capital expenditure this year is expected to hit US$105 billion versus available cash flow of approx US$73 billion. In Europe, the invested capital base of the major players by the end of 2000, will have more than doubled in two years, with the returns on invested capital shrinking from over 16% to around 12.5%.

It is clear that aggregate telecom capital expenditure is well above sustainable levels, although certain segments will continue to be strong. Adding to concerns have been the huge prices paid in recent auctions for third generation cellular licences in the UK (US$33 billion) and Germany (US$45 billion) which significantly reduces the future returns that will be made from providing wireless data services and raises the question of how these investments will be funded. Even worse perhaps is the US situation where the spectrum required for third generation services is already in use by the television industry and auctions have had to be postponed until the issue is resolved. Following on from here concerns have been that if the introduction of wireless data services are either delayed or alternatively more expensive, then the demand for leading edge handsets will be dull. Unfortunately for the handset manufacturers, this is the area where their profits are greatest.

From here the concerns cascade through to the semiconductor companies. Besides PC’s, where demand has generally been sluggish throughout the year, the next biggest demand for semiconductors comes from the telecom sector. And a slowdown in expectations for semiconductors flows through to slower demand for semiconductor capital equipment. As investors have retreated from the telecom and semiconductor related areas, they have in turn piled into areas benefiting from corporate IT budgets such as enterprise software, computing and storage. However, as this is being written we are starting to see concerns about the rate of growth in corporate IT expenditure. Projects to web-enable businesses are turning out to be more complex both in regard to the technology and business strategies, and for many the downfall of their internet competitors has meant the urgency of investment has been reduced a notch.

Our comments here are about the stock market and the psychology of investors. Real investment in business to business e-commerce, building of internet and wireless infrastructure will continue. The issue is the way in which the market values these opportunities. Significant damage has been inflicted on individual stocks and whole sectors, and one would expect better performance from these sectors going forward. Elsewhere, large parts of the markets remain on high valuations providing opportunities to make money by "shorting" these companies.

Portfolio

Interesting opportunities are arising among less than perfect companies where despite having good products or technology, an existing customer base, and a profitable and sustainable business model, have in some respect disappointed the market, earning these companies a bargain basement valuation. Often these companies despite already showing reasonable growth rates, are trading at significant discounts to their "perfect" competitors.

National Semiconductor is a manufacturer of analog semiconductors found in products such as cellular phones, lap top computers, and flat screens displays, with their top customers including Nokia, Ericsson, Motorola and Siemens. Once the leader in its field, through the nineties the company lost significant share to competitors. New management has revamped development methodologies and focused the company on system-on-a-chip where digital and analog elements are integrated onto the one chip. While progressing along this path the company made an apparently disastrous acquisition of Cyrix who were competing with Intel in the microprocessor market. Although costly, the acquisition brought to the company valuable intellectual property in the form of an x86 processor which the company has now integrated into their Geode chip, a single chip designed to run "information appliances". The company is not reliant on the success of this chip but rather it is illustrative of the pipeline of new products that has helped reignite growth in National Semiconductor's revenue. The stock can be purchase on 13x earnings with profits growing at 20% plus for the next three years.

Peoplesoft is a software company wrong footed by the move in corporate IT spending away from internal applications to focusing on the internet. Management took the hard decision to re-write their entire application suite for the web and with these new applications now launched, sales growth is re-accelerating. The stock has doubled since the Funds initial purchase but still trades at a fraction of the valuation of competitors such as Oracle or Siebel Systems. Similar stories can be told about good businesses that have stumbled and that are now priced attractively such as Motorola (wireless infrastructure and handsets, cable television equipment), Lucent (telecom equipment), Synopsys (software for designing semiconductors), and Novell (software).

The portfolio also continues to carry significant down side protection in the form of shorts on both individual stocks and the Nasdaq index which we believe makes sense given still high valuations in much of the market. Cash balances remain high at 20%, which is valuable strategic asset in a market where stocks are moving 20% to 30% in a very short space of time with incredible frequency.

Breakdown by Industry

Categories	Examples of Stocks	Sep 2000
Semi-Conductor	AMD, National Semi	27%
Semi Capex	Silicon Valley Group, DuPont Photomask	16%
Telecom Equipment	Lucent, Motorola	14%
Software	Peoplesoft, Novell	12%
Telecom Operator	Verizon Communications	4%
Consumer Electronics	TiVo	2%
Electronic Components	Citizen Electronics	1%
Other		3%

Invested Position

	Long Position	Net Position
US	67.9%	34.9%
Japan	6.3%	6.3%
Korea	4.8%	4.8%
Europe	1.6%	1.6%
Exposure	80.6%	47.6%
Cash and Other	19.4%	52.4%
Total	100.0%	100.0%

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THE PLATINUM INTERNATIONAL BRANDS FUND

Redemption Price: $1.0298 Fund Size: $2.4 million

Performance

Since inception of the Fund in May, the MSCI Index has returned 2.8% (in A$). In view of the specific nature of the brands portfolio, we believe there is merit in creating a specific index to reflect the performance of global consumer brands. Arbitrary as these indexes tend to be, we have chosen 100 of the largest international brand name companies (by sales) including the likes of Benetton, Coca Cola, Colgate-Palmolive, Gillette, Hermes, Hilton Hotels, Nestle, Marks and Spencer, McDonalds, Proctor and Gamble, Reebok, Sony and so on. This index has increased by 3.1% over the period. While relatively subdued, there have been notable variances with clothing and leisure rising by 5% and 15% respectively and beautycare declining by 5% on average. Against the MSCI and the "brands" index, the Fund's performance was satisfactory achieving 4.1%.

Changes to the Portfolio

We have been building the portfolio gradually and are now 75% invested. Our investment process involves looking for undervalued stocks where the market has overreacted to transient events which subsequently gives us an opportunity to build a position. A good example of this has been Proctor and Gamble (makers of everything from Pampers to Vick's Vapour Rub to Febreze) when it was hammered down 35% on the announcement that margins would be squeezed and growth prospects had deteriorated. This allowed us to enter the stock at a price of $56 per share and it has subsequently run up to $73. At this price, albeit a great company, it is no longer an interesting investment and we have chosen to sell the position.

Commentary

One of the problems facing many American mass market brands – the famous companies that sell America to the world – is their deteriorating profit outlook. Apart from transient factors such as the Euro and input prices, the trouble stems from their practice of persistently increasing prices and holding on to the full benefits of productivity gains. This has effectively created pricing umbrellas allowing no-name brands or in-house retail brands to offer very attractive alternatives. As consumers have come to accept low inflation and indeed occasional price reductions, the climate has moved against the pricing freedom once enjoyed by big brands. They nevertheless are able to augment profitability by introducing product innovations in the form of new formulations, new dispensers and novel solutions.

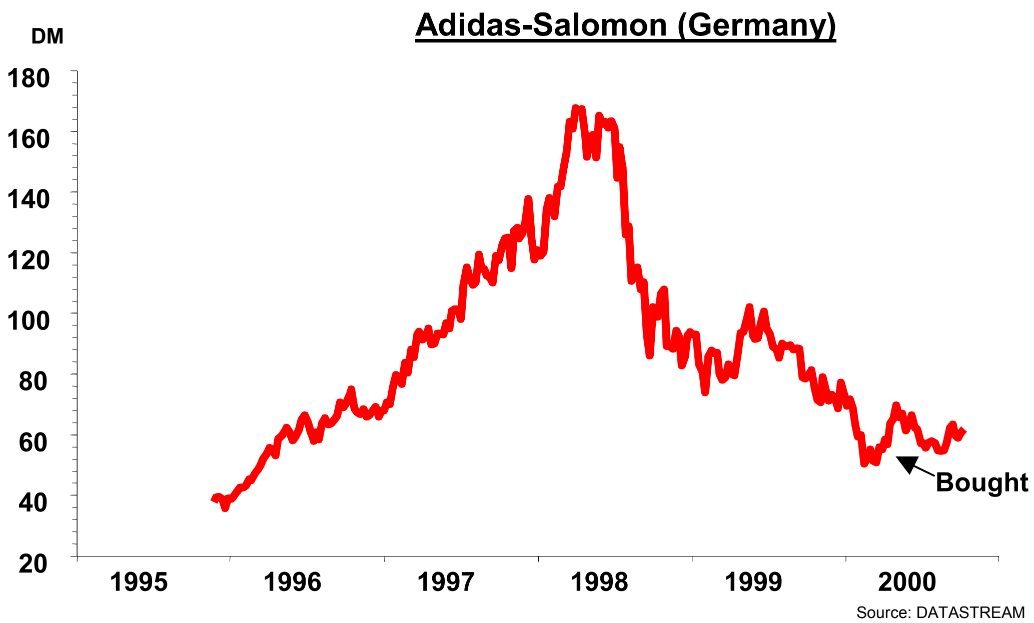
The largest holding in the portfolio at present is Adidas-Salomon. The investment concept behind this holding is that leisure and recreation are a growth industry; the number two or number three player in the market can be highly profitable and that branding of apparel and footwear has further potential.

This is a company that we missed buying at its initial public offering in 1995 and subsequently saw it skyrocket. The source of its success was a revamping of its image under the tutelage of a brilliant marketer who drew on the brands long standing sports authenticity. This marketing success was accompanied by a massive increase in the number of stores offering shoes and other sporting goods in the US, names such as Footlocker, Just for Feet and The Athlete's Foot. Changes in fashion caught Adidas off-guard and very quickly the flaws that were masked by boom times were revealed.

This last year has seen a complete review of the management team and a tighter grip applied to controlling the business. The most important hurdle that lies ahead is to win back support from the US retailers who were neglected during the boom times. The second priority is to launch a new apparel range that is clearly differentiated from the likes of Nike. To achieve this, the company has centralised design in Europe and we will only know whether they have captured the imagination of the consumer when these new lines are show-cased in the northern spring. In the meantime, the company is very excited about a new basketball boot to be released shortly. This will be an important test in respect of producing a premium product and retrieving favour among retailers.

When reading the above paragraph you may well consider that a lot hangs in the balance as to effective execution. This is indeed the case and all the time the company has Nike, by far the largest sports shoe and apparel marketer with some 40% of the market, breathing down its neck as well as emerging players such as New Balance taking the market by storm. We are not phased by these challenges because of the fact that the company has continued to make good profits notwithstanding a deterioration in the performance of its US business. In view of the measures introduced we think it is quite plausible that America could start turning around for the company. The German roots of the company stand it in good stead in Europe where it is the dominant player with 24% of the market versus 23% for Nike. Further, at a recent meeting with the finance director we discussed in some detail the issues relating to merchandising (order fulfilment, sell-down, stock outs etc), the IT upgrade, market profiling and so forth. The most reassuring message was that surveys showed the desire to buy in the US to be far greater than the market share data - indicating unsatisfied demand.

Our summary of the situation is that we have one of the great sporting brands which has augmented its offering by acquiring Salomons in 1997 with products such as snowboards, skis, in-line skates and "Taylor Made golf" equipment. This acquisition incidentally has been a great success and is now allowing the company to lever its greater marketing clout. (Sales by the sporting accessory division are running between 25-30% up on last year.) The share is trading at a very modest earnings multiple of around 12 times the current years earnings as investors wait to appraise whether the new management team can deliver a return of the historic growth pattern.



Kerr Neilson
Managing Director
12 October 2000

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Performance Returns to 30 September 2000

	Quarter	Year to Date	1 year	2 years (compound pa)	5 years (compound pa)
International Fund	4.3%	9.6%	45.6%	34.7%	22.6%
European Fund	11.2%	42.9%	109.6%	56.4%	-
Japan Fund	-5.1%	8.1%	54.6%	78.8%	-
International Technology Fund	28.2%	34.5% *	-	-	-
International Brands Fund	4.1%	3.2% *	-	-	-

* since 18 May 2000

Information about the units on offer in the Platinum Trust are contained in the Platinum Trust Prospectus No. 3 lodged at ASIC on 11 May 2000. 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.

1999 Fund Manager of the year for International Equities
(Money Management)

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