



P L A T I N U M

ASSET MANAGEMENT

The Platinum Trust Quarterly Report

30 September 2003

Incorporating the:

International Fund

Asia Fund

European Fund

Japan Fund

International Brands Fund

International Technology Fund

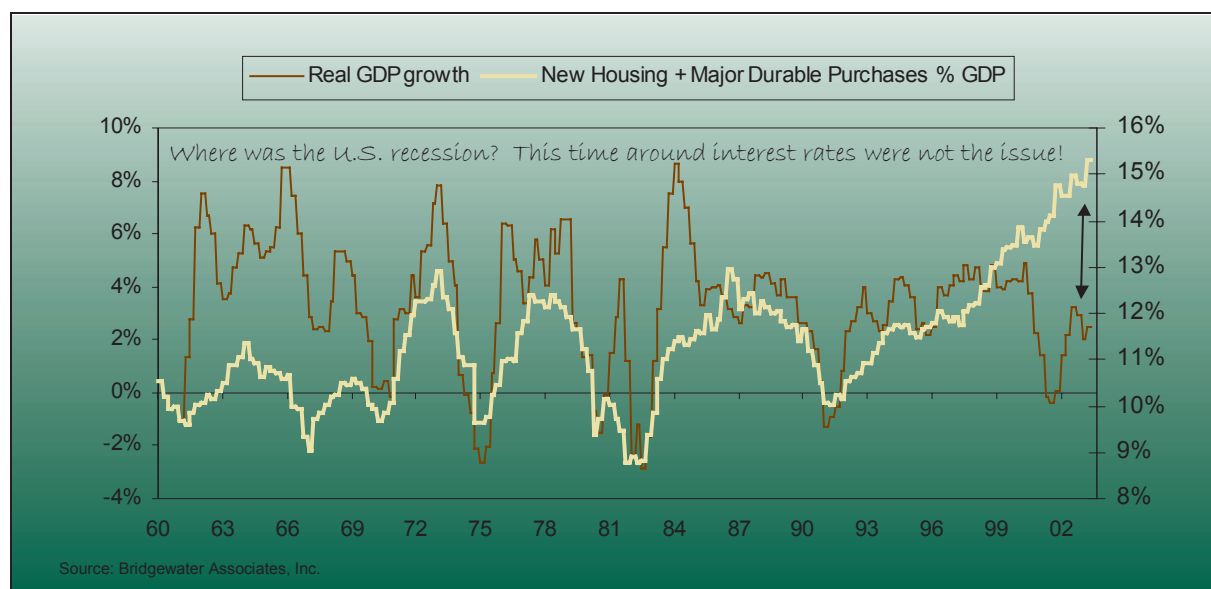
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PERFORMANCE RETURNS TO 30 SEPTEMBER 2003

Fund	Fund Size	Quarter	1 year	2 years (comp. pa)	3 years (comp. pa)	5 years (comp. pa)	Since Inception (comp. pa)
International Fund MSCI * World Index	\$3267mn	11.46% 3.88%	19.40% 0.66%	10.11% -14.04%	10.81% -16.48%	19.81% -2.25%	19.34% 6.11%
Asia Fund MSCI Asia ex Japan Index	\$60mn	23.43% 16.57%		(launched March 2003)			33.37% 19.69%
European Fund MSCI European Index	\$115mn	10.19% 2.96%	30.99% 2.45%	6.01% -13.17%	5.00% -15.01%	23.15% -3.66%	16.07% -5.50%
Japan Fund MSCI Japan Index	\$102mn	20.83% 20.73%	14.39% -5.06%	11.29% -12.16%	1.74% -18.62%	27.50% 0.45%	26.25% -1.79%
International Brands Fund MSCI World Index	\$83mn	12.31% 3.88%	14.17% 0.66%	15.73% -14.04%	16.29% -16.48%		15.46% -14.72%
International Technology Fund MSCI World Technology Index	\$45mn	16.69% 11.21%	42.60% 26.22%	9.94% -11.96%	4.38% -33.99%		13.44% -33.64%
* Morgan Stanley Capital International							
Source: MSCI and Platinum Refer to Note 1, page 29							

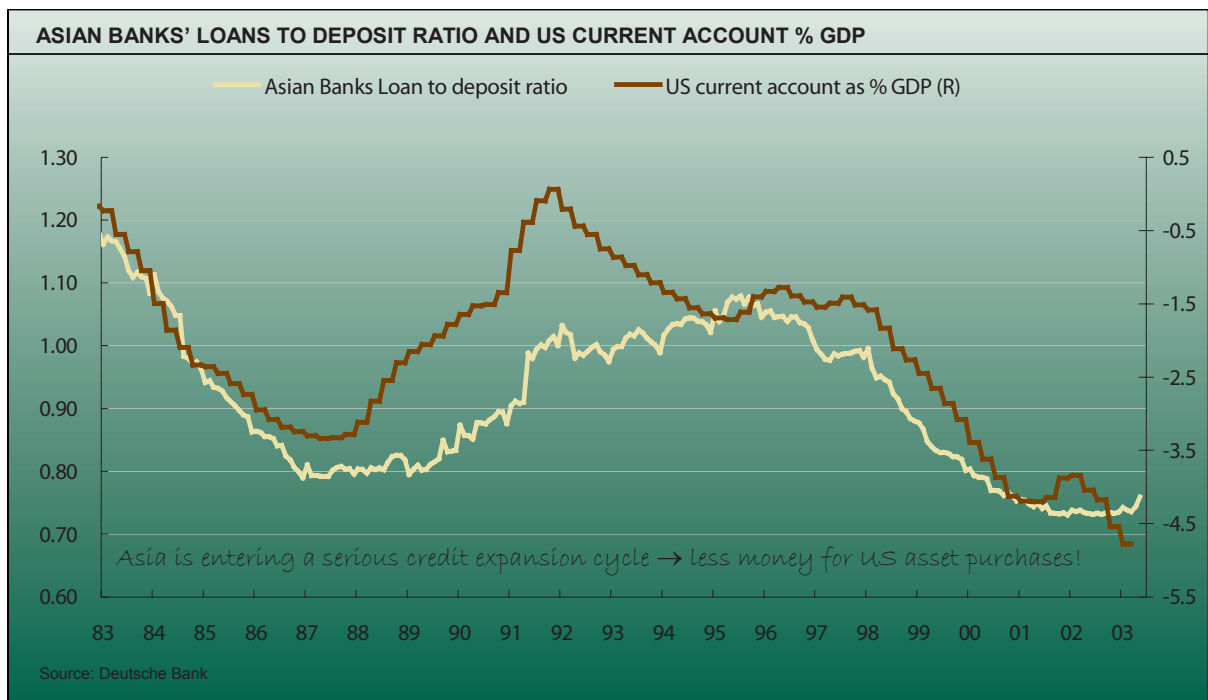


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Before making any investment decision you need to consider (with your securities adviser) your particular investment needs, objectives and financial circumstances. You should refer to the PDS or IS (whichever applicable) when deciding to acquire, or continue to hold, units in the Funds.

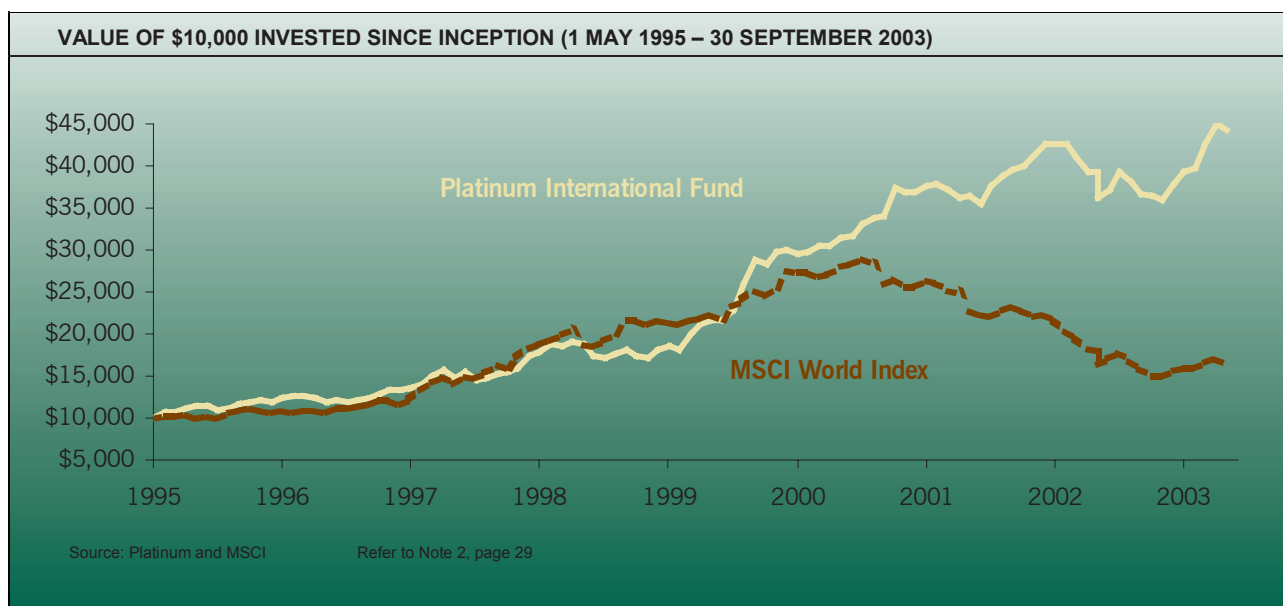
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Platinum International Fund

Performance

REDEMPTION PRICE: \$1.6788



In response to the brightening economic statistics and torrents of fresh liquidity, stock markets continued their advance. There was a clear preference for the more levered opportunities as investors sought growth sensitive sectors such as IT, materials and industrials. Simultaneously they eschewed the defensives such as health care and utilities - see the accompanying table.

By region, there was corroborating behaviour as the emerging markets way outperformed their industrialised market counterparts. The stock markets of developing countries, which are generally regarded as higher risk and dependent on commodity prices typically, rose by between 11 and 24%.

The developed markets were comparatively sluggish, rising by a few percentage points. The outstanding exception was Japan, which bolted by 21%. All the above figures are given in A\$ terms which on account of its strength, tends to understate the US\$ increases.

With its emphasis on Asia, and hedging strategy, the fund acquitted itself well and outperformed the MSCI by 7.5% for the quarter and 18.7% for the twelve

MSCI WORLD INDEX – INDUSTRY BREAKDOWN (A\$)

Sectors	3 mths	1 year
Telecommunications	-4.6%	9.0%
Health Care	-3.3%	-11.2%
Energy	-1.6%	-10.9%
Utilities	-1.1%	-8.9%
Consumer Staples	2.1%	-16.8%
Consumer Discretionary	4.2%	-2.7%
Financials	4.7%	1.3%
Industrials	7.1%	-1.9%
Materials	10.2%	0.8%
Information Technology	11.2%	26.2%

Source: FACTSET

months. You should be aware that we have a very different tilt of assets than the typical global fund, which for the moment is proving rewarding but there are likely to be times when this can work against us.

Changes to the Portfolio

DISPOSITION OF ASSETS		
Region	Sep 2003	Jun 2003
Western Europe	30%	32%
Japan	26%	20%
North America	12%	15%
Emerging Markets (incl. Korea)	14%	12%
Australia	1%	0.3%
Cash	17%	21%
Shorts	29%	19%

Source: Platinum

Note: cash includes deposits on shorts

Our tendency was to continue to shift the emphasis to Asia at the expense of the US and Europe.

Regular readers will know that we have been espousing a pro Eastern hemisphere top-down view on the basis of superior growth and attractive valuations. China is proving a valuable stimulus for Japanese exports and on the domestic front there are signs of the property market stabilising and some inner precincts of Tokyo are even recording property price rises. With the Yen likely to show some strength versus the US\$, we have emphasised domestic orientated companies such as Aiful Corp (consumer credit), Credit Saison (credit cards) and introduced Mitsubishi Tokyo Financial group (Japan's largest bank) and we added further to the general insurers, Millea Holdings and Mitsui Sumitomo insurance. House builders - Daiwa House and Panahome Corp are promising an attractive turn around from improved demand and Mitsubishi Heavy industries looks well placed for much stronger performance. Exporters such as Shimano, Fanuc and

Sony, while all outstanding businesses, were sold on the basis of relative profit growth and valuations.

In Europe we either reduced or eliminated some of the heavier industrial holdings such as Linde, ThyssenKrupp and Michelin due to the headwinds caused, by among other things, the strength of the Euro. We re-entered Munich Re after it had a setback in preference to Allianz AG. Two new holdings are Deutsche Post (DP) and Nordea. The former is an interesting transformation play where it is using its enormous cash flows derived from the postal monopoly to augment investment in logistics.

The name familiar to most is DHL, which DP acquired full control of in 2002 and is now at the heart of the group's international expansion. Adding near term excitement to the share is the prospective listing of its German postal savings bank, which is thought to be worth 25% of the group's market capitalisation.

Nordea is a fallen angel. Formerly considered the perfect Nordic bank consolidator, it is now viewed with suspicion and dismay. There have been all manner of rumours about management dissension, failed promises etc. What we find is a perfectly respectable banking conglomerate passing through a difficult integration phase accentuated by abnormally low interest rate spreads in parts of its business. This is unlikely to persist as the Nordic economies eventually see interest rates rise and as fees are earned on selective services. It sounds immensely dull but we are paid while we wait with a 5% dividend and experience has shown us that these types of investment are often remarkably profitable!

We have continued to reduce our Tech holdings that were acquired during the bust. Their valuations suggest outcomes that we regard as highly challenging.

Currency

We allowed our ownership of Yen and Won to creep up during the quarter as the flow across the exchanges suggested they would strengthen.

This slightly reduced the hedges into the A\$ from 57% to 52%. We have no US\$ exposure.

Shorting

Some value was lost from this activity in the quarter. Manulife fell sharply on its proposed acquisition of John Hancock while the rest of the US financial

shorts trailed the market's rise. The predictables, housing and earning manipulators drifted up lethargically.

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Sep 2003	Jun 2003
Cyclicals/Manufacturing	Schindler, Siemens, Bayer, Linde, Océ	26%	23%
Financials	Assicurazioni Generali, Munich Re, Alleanza	13%	11%
Software/Media	Sky Perfect Communications, Seoul Broadcasting	8%	7%
Medical	Yamanouchi, Takeda, Draegerwerk, Novartis, Merck KGaA	8%	8%
Gold and Other	Barrick Gold, Newmont Mining, Gold Fields	8%	8%
Technology/Hardware	Agere Systems, Infineon Tech, Samsung, AMD	6%	8%
Telecoms	Hellenic Telecom, Ericsson, NTT	5%	7%
Consumer Brands	Citizen Watch, Adidas Salomon, Lotte Confectionery	5%	4%
Retail/Services/Logistics	Hornbach	4%	3%

Source: Platinum

Commentary

Markets have come a long way since the gloomy days of March. Activity has picked up across the globe and the Stock markets have been pricing in the anticipated profit recovery. At the same time the Cancun and Dubai meetings, late in the quarter, highlight the lack of international co-operation and have refocused investor's minds on the imbalance in the system, which we continuously ruminate over.

From the American side we hear incessantly about free markets and the dangers of unfair trade practices yet, as Australian farmers will attest and as the poor agricultural countries found at Cancun, reality is rather different. There is also the view that America is acting in the interests of all by virtue of US consumers continuing to borrow and spend.

China and the rest of Asia see it from a different perspective having endured a loss or potential loss of output following the IMF crisis of 1997-98. They delight in their improved competitiveness and are extremely reluctant to allow the surpluses (which they see as a springboard to growth and economic independence) to be reflected in higher exchange rates versus the US. The irony lies in the consequent recycling of these growing foreign exchange reserves back into *foreign* bonds, mainly US treasuries and corporates. Apart from the paradox that the normally capital-hungry developing world is lending

to the Industrial giant of our time, the real problem lies in the magnitude of the imbalance. Each day foreigners need to acquire some US\$1.5 billion of American assets to keep the books in balance.

The debate has moved to the realisation that the US cannot grow its way out of its dilemma and it is now a matter of **sharing the burden of adjustment**. This entails a period of high risk. The US consumer (and for that matter, the politically-sensitive Fed) is reluctant to recognise the need for belt tightening, while Central bankers in Asia are loath to abandon the mercantilist policy that has proven so successful in Japan's post war transformation. For their part, the Europeans see the need for lower levels of consumption in the US but if they do not assist in moving their economies along, they run the danger of the Euro carrying a disproportionate share of this rebalancing. Currencies are at the fulcrum of this action and the danger lies in the US\$ losing value too fast. (At some stage it is possible that higher savings in the US could mean a stronger US\$, but that is not in prospect now).

With less support for the US\$, how far will the US treasuries back-up in yield? Mr Greenspan can continue to manipulate the short end of the curve but as the sell-off of the treasuries in June revealed, the longer-term cost of money is hostage to

foreigners who own over 40% of US bonds outstanding!!

There is a tantalising aspect to the recycling of funds into the US bond markets. It is at one time both denying the consumers of those countries the higher living standards a stronger exchange rate would bring, and also exposing their central banks to loss when their currencies do eventually revalue and/or the yields on bonds rise. The latter could arise from a buying strike in the US and/or an early surrender by one of the recent significant recyclers. The picture coming to mind is one of musical chairs: there is no dispute about the loss of chairs, but uncertainty about the number that are to be removed at each interlude and when.

Though not a trendy subject to raise, the Gold price is suggesting growing disquiet among players as they all try to hedge their risks. One is seeing more and more written about *fiat* money (the notion of governments being free to create money while the rest of us would be imprisoned for doing so). There are also more articles covering the subject of so-called hedonic adjustments to both output and inflation which adds to the uncertainty of the worth of official statistics (see our website for more). Weak demand and central bank policy is ensuring that

short term interest rates barely match the rate of inflation. This we believe is leading to a misallocation of resources second to none. Banks have largely been disintermediated out of the corporate lending market and instead are aggressively going after consumer lending and mortgages. Only the most Panglossian internet survivor would regard the property exuberance in the Anglo Saxon world as evidence that all is well. The Australian median house price of \$350,000 is some 6 times net disposable income¹. This is a modern day record. In the States the comparable figure is US\$182,000, representing 4.6 times disposable family income.

Tax peculiarities regarding mortgage deductibility, together with record low rates have boosted affordability in the US to a 27-year high in April. Even so, the use of mortgage debt is outpacing recent house price appreciation, resulting in homeowner's equity falling to a record low of 54.3% of current values.

For fear of being considered alarmist, please study the accompanying table produced by the Congressional Budget Office. Compared to the surpluses of 1998 through to 2001, the deterioration of US finances is alarming:

CONGRESSIONAL BUDGET OFFICE "ALTERNATIVE" ASSESSMENT OF BUSH BUDGET POLICIES

ON-BUDGET ONLY FISC YRS,\$BILL. EXCEPT DEBT	CLINTON 2001	BUSH 1ST TERM				NEXT FOUR YEARS				FOLLOWING FOUR YEARS				2002- 2013
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
Baseline deficits	+31	-381	-562	-644	-520	-425	-421	-434	-426	-417	-298	-143	-105	-4,776
Adjustments	-	-	-	-67	-158	-257	-327	-390	-467	-545	-733	-881	-998	-4,822
Adjusted deficits	+31	-381	-562	-711	-678	-682	-748	-824	-893	-962	-1,031	-1,024	-1,103	-9,599
% of outlays borrowed	-2%	23%	31%	37%	33%	31%	32%	33%	33%	34%	34%	33%	33%	33%
Deficit/GDP	-0.3%	3.7%	5.2%	6.3%	5.7%	5.4%	5.7%	5.9%	6.1%	6.3%	6.4%	6.1%	6.2%	5.8%
National debt w/SS (\$trill)	4.5	4.9	5.5	6.2	6.8	7.5	8.3	9.1	10.0	11.0	12.0	13.0	14.1	+9.6
National debt/GDP	45%	47%	51%	55%	58%	60%	63%	66%	68%	71%	75%	77%	79%	
Interest as % of domestic discret.		69%	62%	58%	65%	77%	87%	95%	101%	106%	111%	116%	120%	
Tax cuts w/o sunsets including interest		-129	-198	-275	-292	-320	-363	-402	-453	-519	-575	-609	-649	
% of deficit		34%	35%	39%	43%	47%	49%	49%	51%	54%	56%	60%	59%	
Deficits by term		-2,333				-3,146				-4,119				
Tax cuts by term		-895				-1,536				-2,349				
% of deficit by term		38%				49%				57%				

These "alternative" figures incorporate the following:

- (a) Expiring tax cuts (such as the family spending rebate) are renewed whereas they are not renewed in the official estimates.
- (b) \$87 billion of not-yet-legislated Iraq spending is included whereas it is not included in the official estimates.
- (c) \$400 billion over ten years in Pharmaceutical spending which is promised but not yet legislated has been included.

¹ Source: HIA/CBA

Never before has this economy been so vulnerable to rising interest rates. The consumer has had a merry time but so has listed America: the financial sector accounted for 30% of the S&P's earnings and that does not capture other sources of interest rate sensitivity such as profit-on-sale of securitisations by companies such as Harley Davidson, John Deere, GM, GE etc.

Yes, we have written about the problem of debt in the past and seem obsessed by it. However, it has reached a magnitude in some countries that suggests it has very little prospect of being repaid. The digital/internet world has not changed the immutable implications of debt.

Even though there are intermediate adjustments needed, **we remain very optimistic about the growth prospects for the developing world.** Yes, their stock markets are vulnerable to short term shocks mainly because the marginal buyers who have been driving prices upwards are foreigners. When trouble strikes, they invariably reduce their foreign share holdings. However, visits to India and China in the last ten weeks confirm our view that auspicious winds will continue to carry them forward. Even if foreign direct investment were to slow, there is a growing cycle of domestic private investment that is likely to prevail for some time.

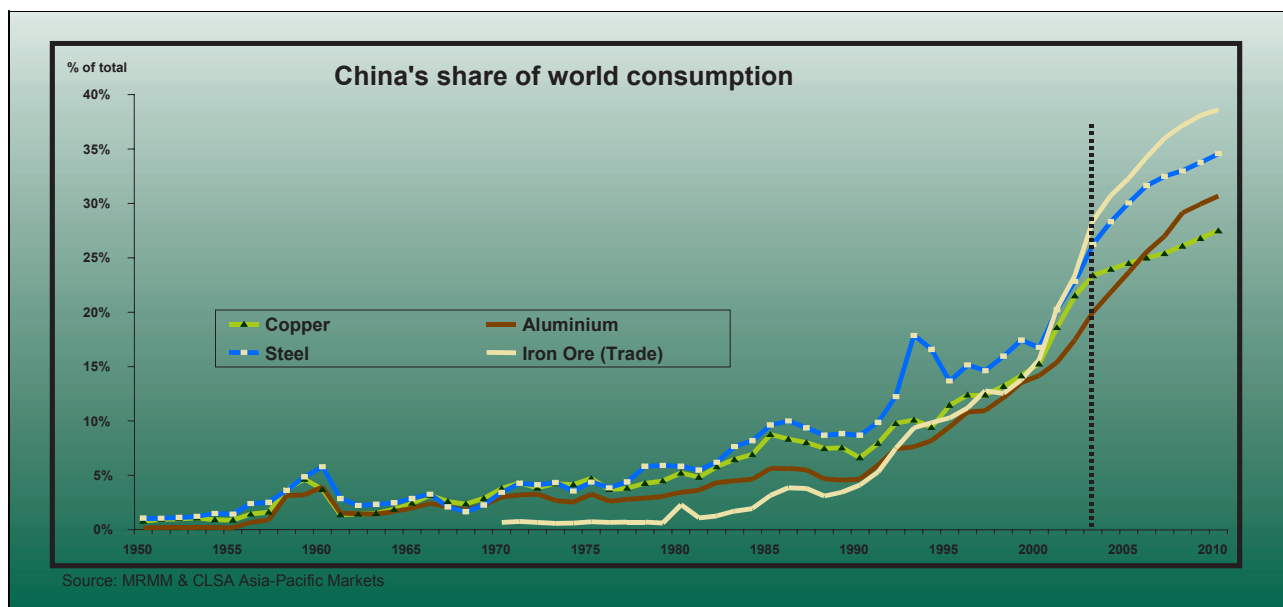
Importantly in China, there is a realisation that the rural sector has fallen behind. Specifically Beijing is cracking down on unfair taxes and fees and has reintroduced rural subsidies for health and education. The most important move, however, is **land reform** (Rural Land Contracting Law, promulgated in March 2003).

Hitherto some 220 million Chinese farming families had no security of tenure and could periodically face reallocation of their plots. (This followed the de-collectivisation under the banner of the Household Responsibility System in the late 1970s). The important element of the reform is that Farmers will now be able to plan ahead and invest in structures etc which under the previous order could have been forfeited. Even better, the certificate of title for 30 years will allow farmers to transact in land and mobilise credit.

Experience in other countries, which have implemented such reforms, suggests that rural economic growth will take-off. Tied into this reform are greater freedom of movement and the establishment of new cities to accommodate the anticipated flood of rural migrants. It is this pressure of the under-employed that torments the bureaucrats in Beijing and hence their apparent intransigence regarding flexible exchange rates. They regard a stronger Renminbi as likely to adversely affect growth and fear the consequences for the banking system as the State owned enterprises face yet one extra burden which is one more than they wish.

Accompanying the Chinese growth theme are observations relating to **rising raw material prices**; most notably metals. There are three points here. Firstly, the demise of the Russian Empire had a suppressant effect on metal prices through the 1990s, as did the Asian crisis. Secondly, as noted in earlier pieces, current exchange rates understate the true size of markets such as India and China (and indeed the whole discussion about the appropriate level for the Renminbi) and hence their demand for materials. Lastly, exploration and development expenditure through the 1990s subsided in response to the 50-year-declining-trend in metal prices and the popular mantra of efficient use of capital. Economists talk in terms of S curves which attempt to chart the likely course of physical demand in relation to living standards (more precisely GNP per head). If China and India comprising some 2.3 billion people, come close to traditional patterns of materials use, it is probable that we are entering a **secular rise in the prices of many materials and metals.** Already China accounts for a fifth of world consumption of important metals such as steel, copper, aluminium and zinc, **see chart.**

Just when every Business school is extolling the virtues of service-based business models, capital intensive commodity producers could be having their share of sunshine. This also implies upward pressure on the currencies of commodity producing countries who are simultaneously seeing their terms of trade benefiting from price deflation of traded manufactured goods.



Conclusion

Investors are presently taking comfort from evidence that most economies are back on the growth track. Corporate profits are improving and with interest rates being so low, one is tempted to believe the bull market has returned. We suspect however that structural imbalances will prevent economies such as the US and UK from making much headway and with this their markets are less interesting. Japan seems to be in a different phase.

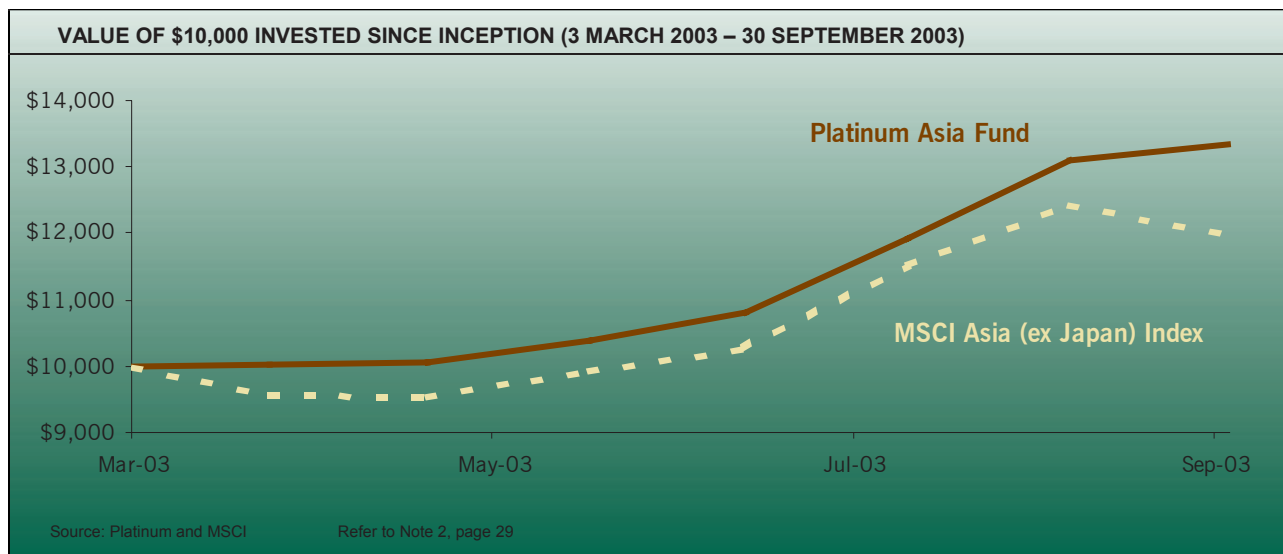
The pull of China and inter regional trade is helping to improve confidence among Japanese consumers, which suggests that we may have seen the worst. Companies have engaged in many reforms and their earnings may pleasantly surprise. The emerging markets seem the most prospective of all but as was noted, their shares are vulnerable to periodic withdrawal by foreign investors.

Kerr Neilson
Managing Director

Platinum Asia Fund

Performance

REDEMPTION PRICE: \$1.3217



Asian stock markets had another strong quarter rising over 14% in local currency terms (17% in Australian dollar terms). While markets such as China, India, and Thailand continued their healthy performances on the back of robust domestic economies, the big turnaround came from Hong Kong. Travel restrictions for residents of four cities in southern China were relaxed as of July 1, resulting in a surge of tourist arrivals in Hong Kong. Overnight empty hotels, restaurants, and shops were filled and the resulting turn in confidence in the local economy saw buyers return to the property market. It would appear that the deflationary fallout of the Hong Kong property bubble may have come to an end, particularly as these new travel rules will be apply to all residents of Guangdong province in the

new year. Another market that continues to surprise is Indonesia where nascent signs of an improving economy, despite the Marriott bombing in August, has continued to lift stocks prices from very low levels.

The fund performed well for the quarter returning 23.4%. Holdings in India, Hong Kong, and Indonesia contributed nicely to performance. Bharat Earth Movers (Indian construction equipment) up 94%, Ramayana (Indonesian clothing retailer) up 40%, and the Hong Kong Stock Exchange up 24%, were amongst the fund's best performers. The disappointment for the quarter was the Korean holdings, which continue to suffer from a weak domestic economy even as exports to China boom.

Portfolio

The portfolio continues to be strongly weighted in India with 42% invested in that market. New positions in India include Jaiprakash, a construction company with expertise in large hydro-electricity projects, is well positioned to take advantage of the huge ongoing infrastructure program in that country. Bharat Earth Movers is the dominant manufacturer of construction equipment in India and should also benefit from infrastructure spending. Other

additions include Giordano, a regional apparel retailer that has been struggling due to the weak domestic environment in its home market Hong Kong. In Malaysia the fund has invested in the local Toyota distributor UMW Holdings, which is poised to gain market share as a result of changes in protection for the auto market brought about by the ASEAN Free Trade Area (AFTA).

The fact that the Chinese economy is booming would be hard to miss even for the most casual observer of the daily news. Chinese factories ability to churn out all manner of manufactured goods from mobile phones to sandals at incredibly low costs, and the resultant loss of jobs in the West is a phenomenon that has been widely reported. And indeed there is an investment boom underway resulting in factories sprouting up like weeds in industries as diverse as cement and semiconductors. Generally it is all attributed to the low cost of labour, an undervalued exchange rate, together with China's entry to the World Trade Organisation in 2002. Key concerns are frictions that will arise as China's trade surplus mounts and how much of this new investment is well spent.

Explanations usually forwarded for China's re-emergence from its doldrums post the Asian crisis typically miss a number of important changes that have occurred. Indeed, our recent trip through China revealed that the cost of a factory worker has remained pretty flat over the last 10 years or so at around US\$100 to US\$150 per month. Entry to the WTO is less significant for boosting China's exports as many imply because China already had access to most markets. On the other hand, WTO membership implies an opening of China's markets to the rest of world. Even the concern over the trade surplus and the undervalued exchange rate may be somewhat misplaced, as it is probable that China will begin to run a trade deficit in early 2004.

An excellent report by Dr Jim Walker of regional brokers CLSA explores the recent fundamental changes that have occurred in China which have formed the foundations of the country's current investment boom. The centrepiece of these changes is the recognition of private property rights. In 1999 China began a process of transferring ownership of apartments and houses to individuals with all the benefits that one might expect that would entail. For the first time an individual could sell his home, take out a mortgage (because the banks now had collateral against which to lend), and upgrade to a new property or to renovate. So, are the vast housing developments being constructed across China evidence of a crazed investment boom or the result of individuals responding to the new situation in which they find themselves? By providing a source of collateral, the recognition of property rights provides an entirely new source of funding for investment, far greater than the closely watched foreign direct investment flows.

Another important change has been the move toward the "rule of law" (at least with regard to commerce) that has been reinforced by membership of the WTO. There have been significant revisions of the legal code to bring it into compliance with the WTO.

DISPOSITION OF ASSETS

Region	Sep 2003	Jun 2003
India	42%	47%
Hong Kong	12%	14%
Indonesia	7%	9%
Korea	7%	7%
Thailand	4%	6%
Malaysia	4%	0%
Singapore	1%	2%
Cash	23%	15%
Shorts	17%	

Source: Platinum

The WTO rules require fair and equal treatment of domestic and foreign parties and that China establish an independent judicial system for trade issues, decisions of which can be appealed to the WTO in Geneva. Investors should no longer face the problems of the foreign banks who in the mid nineties were fined for breaching rules that were outlined in documents which foreigners were banned from viewing! Indeed the changes should help reform the strongest trade barriers in China, which are those among the provinces.

Of course the issue remains how the new rules are enforced. The decision in the Beijing High Court in January this year that found in favour of Lego against local counterfeiters is a sign that things are travelling in the right direction. In recent discussions we had with one multinational doing business with provincial governments in both India and China, we were told that India had the advantage of contract enforceability. By contrast, in China the deal was likely to be reviewed if the official with whom you had negotiated moved on. Hence the constant obsession of business people (both local and foreign) in China with "guanxi" (connections). The move toward rule of law will provide a much improved atmosphere for investing in China, as much for locals as foreigners.

Anhui Conch Cement is a good example of the changes we have seen taking place at the better state owned enterprises (SOE). Anhui Conch was listed in Hong Kong in 1997 at which time the company had cement production capacity of 2.7 million tonnes pa. Subsequently the company has invested heavily in new capacity, often taking over smaller bankrupt producers to gain access to limestone reserves and port loading facilities along the Yangtze river, and by the end of last year the company had capacity of 20 million tonnes pa. Indeed cement demand is not growing this fast, but Conch's large new plants using

dry kilns produce a much higher quality product at lower cost than the plethora of tiny incumbent producers. (It is estimated that there are over 7,000 cement companies in China). The company has financed the expansion through loans from domestic banks as well as local and foreign shareholders, and in 2002 is making decent returns on its investment despite a low cement price (by global standards) of around US\$30 per tonne. The company plans to add a further 20 million tonnes of capacity by the end of 2005.

What concerns some commentators is that competitors imitating Conch's success will add a further 180 million tonnes of capacity in the next 3 years, a large number when compared with the country's annual consumption of 650 million tonnes (which for the record is about one third of global consumption). But it is hard to see the flaw in an investment that ultimately represents an upgrade of cement capacity to a lower cost high quality product, especially in a country that will continue to consume large amounts of the stuff. Undoubtedly a lot of old inefficient capacity will be closed, and is in fact closing, but this is simply the "creative destruction" of capitalism at work in China. This is not say the industry won't overshoot in its investment (it most likely will) but for the moment the capital-spending boom in the cement industry looks soundly based.

At the other end of the spectrum of China's capex boom is SMIC. SMIC is a privately funded entity that has built China's first leading edge semiconductor fabrication line, and is competing in the global market against the leading "semiconductor foundry" companies such as TSMC (Taiwan), UMC (Taiwan), and Chartered Semiconductor (Singapore). Many view this investment as politically inspired with China wanting to prove it's technology credentials to the world, and point to the fact that China's low cost labour is of little if any advantage in this capital intensive business. But this point of view misses the fact that China has no particular disadvantage either and imports over 90% of its semiconductor chips. Further the project has been funded privately (primarily by Taiwanese money) and is acting as a magnet for talented overseas Chinese scientists. We suspect that SMIC will succeed in establishing itself as a major semiconductor foundry, but whether it does or doesn't, that private investors are prepared to lay down significant sums in establishing a business in China when there is no significant advantage says much about their confidence in China.

The major risk to China's ongoing development is the growing gulf in incomes and opportunities between the urban areas and the struggling rural sector. However, recent reforms have been put in place to address the issue, the most important of

which is the Rural Land Contracting Law under which farm households will be granted 30 year leaseholds over their land. Never before having had tenure over their land for more than the next crop, the Chinese farmer has had little incentive to invest in his land. The leasehold not only grants this tenure but will also be tradeable. The farmer will be able to use his leasehold as collateral to borrow funds for improvements, lease their land to his neighbour, or elect to sell up and move on. In conjunction with these changes, relaxation of the "hukou" (internal passport) system, individuals can much more readily move to urban areas to take advantage of job opportunities, without forgoing title to their land as previously would have occurred. Similar reforms in Taiwan in the 50s saw substantial increases in crop yields and thus farm household incomes in the following decade. If China is similarly successful, not only will a major risk have been removed, but a major new source of growth created.

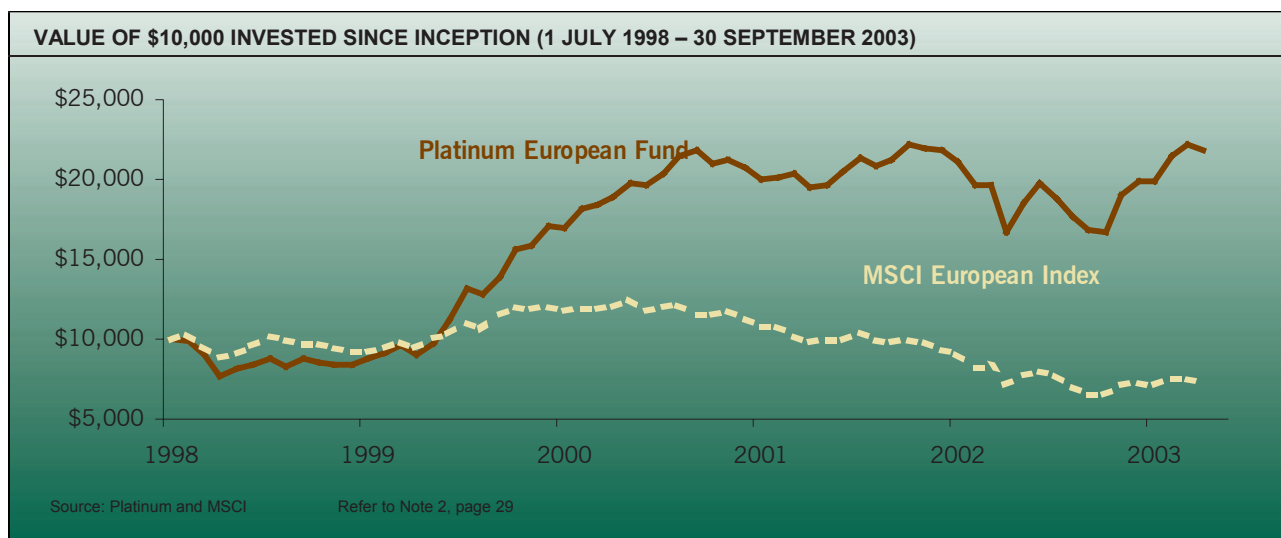
We believe that the prospect of an unlimited market will inevitably create a recurrent boom – bust scenario in China. But for the moment, the current expansion is still relatively young and any disappointments are more likely to come from external than internal sources. For the moment, the fund has relatively light exposure to Chinese companies, but this is primarily a result of the better value on offer in Indian stocks, in what is at least an equally exciting economic environment. Nevertheless, China will continue to be a major focus of our research efforts in the region.

Andrew Clifford
Portfolio Manager

Platinum European Fund

Performance

REDEMPTION PRICE: \$1.6368



Surging global freight rates, both for container vessels and bulk carriers, emphasise that while western world GDP figures paint a mixed picture, there is activity aplenty, including quickly changing regional production patterns. The peculiar balance of savings-rich Asian (and continental European) countries supporting the engorged consumers of US/UK/Australia continues to be predicated upon the paradox of managed currencies (Asia) amidst “free market” globalisation. The old world of (continental) western Europe sits somewhat bewildered in the middle of the chaos – dull rates of domestic economic growth continue, with strengthening European currencies and intermittent efforts to reform labour markets. Interest rates are low – though not as low as the US and Japan – and are most likely heading lower.

The three months to 30 September 2003 have seen little direction in share prices overall in Europe – the MSCI advanced 10-12% from its end-June lows, before giving most of the gains back to finish

for the quarter. In fact most stocks, and most sectors were up 5% or more, but a dull (flat to -5%) showing by the (index-heavy) defensive sectors of media, electricity utilities, oil companies, banks, and pharmaceuticals explains the flat overall result. A marginally weaker A\$ against the European currencies left the MSCI Europe at +3% for the quarter.

The Platinum European Fund returned 10% for the quarter. Good performances from Infineon (memory chips, +33% this quarter), Ericsson (+31%), SGS Surveillance (inspection and testing +30%), Schindler (lifts, +30%), Siemens (+20%), and Heidelberg Cement (+40% vs our entry price in July), offset much of the portfolio which made little progress over the quarter. The three short stock positions in the fund subtracted from performance; we also initiated a 10% hedge in the German DAX when we feared the market was tiring, but subsequently removed it (incurring a small loss from the exercise).

Commentary

Strong currencies, subdued economies – what sort of investments in Europe might work?

Notwithstanding widespread optimism that the US economy can “recover” (a sharp US manufacturing recession occurred while consumers continued the spending rampage), it seems that strong European currencies will make for subdued growth on the continent. Since the February/March 2003 lows,

cyclical (ie heavily economically sensitive) companies have seen strong share prices, such that most of their valuations are at least consistent with buoyant economies. Technology companies have in a way become the most “cyclical” of all – to the extent that consumption now dominates western economies, the “investment” component of the economy represents an assessment by firms that the

consumer is ready for more! Thus a decision to add capacity to a mobile phone network, or to upgrade the software in a retail chain, are arguably more than ever pro-cyclical events - and these are the decisions which drive the fortunes of the big technology suppliers. From admittedly desperate levels, the technology stocks in Europe have, in the last 11 months, rebounded a very long way. So where else to look if not the “cyclicals”?

The classic “defensives” are the food retailers, the branded goods companies, pharmaceuticals, and utilities. These will in general benefit from low (and falling?) interest rates – “annuity streams” being worth more at lower discount rates. However the offset to this is the large US\$ exposure of the branded goods companies – consider L’Oreal’s huge US (and Asian) hair colorants market share, or Heineken’s position in the global premium beer segment. And of course the untiring efforts of the European drug companies to build their US businesses (where pricing is more generous and demand robust) means the weak US\$ weighs on their results.

Without wishing to resort to “last man standing” theme generation, the reason for this sort of categorisation is to cover the risk that (some) valuations are pushed up again to surprisingly high levels. Why? Well why are there valuation bubbles in many western world property markets? Cheap money, combined with confidence (or hope or greed) seems to be having a more profound effect than could have been predicted. Indebted consumers not only do not pay down their mortgage – they add to it! Debt is cheap to service, so instead of targeting an amount of debt, people seem to be comfortable targeting an amount of interest paid. Assets (and further consumption) are the flip side of this coin. Hence the property bubble – but on this logic, why not another share price bubble? This could happen if the US in particular continues to be faced with low interest rates courtesy of the ongoing relocation of global manufacturing to China. And if there is a bubble in (defensive) US stocks, then there will be in parts of the European market – hence the need to imagine where money directed to shares may flow when lots of sectors are being tactically excluded. Thus domestically-focused defensive businesses (not least utilities) may be one place to be invested. Our positions in Veolia Environment (based in Paris) – the world’s largest water utility, and German detergent powerhouse Henkel make sense (anyway, but perhaps especially with the above scenario in mind).

Of course there are other areas where structural changes and modest starting valuations overcome currency and economic headwinds. We are investigating the merits of the various European (and global) oil companies – obviously the majors themselves, but also the exploration technology,

extraction and storage equipment companies, gas to liquids opportunities etc. Our starting point is that reserve replenishment is becoming more costly and more difficult (in fact is not really being achieved by the majors). Thus even with unrealistically modest assumptions about energy demand growth in China and India, the oil price may well be US\$10-15 higher in the coming 3-5 years than today’s US\$30/barrel (rather than US\$10-15 lower as many commentators forecast). More immediately, it is interesting that over the weekend President Bush has asked the Congress for a further US\$87bn for the “rebuilding” of Iraq – a fairly direct concession that Iraqi oil will not flow soon enough to pay the bills as originally intended.

More interesting still is the question of the natural gas (and by extension, LNG and gas-to-liquids) businesses as the US and China become huge net importers of gas, to power their gas-fired electricity plants. Shell has been slowly shifting its focus from oil to gas over the last decade; British Gas is a more focused play on various aspects of the natural gas industry. We shall be visiting these companies during a forthcoming trip to Europe, as well as many peripheral companies to try to round out the investment theme.

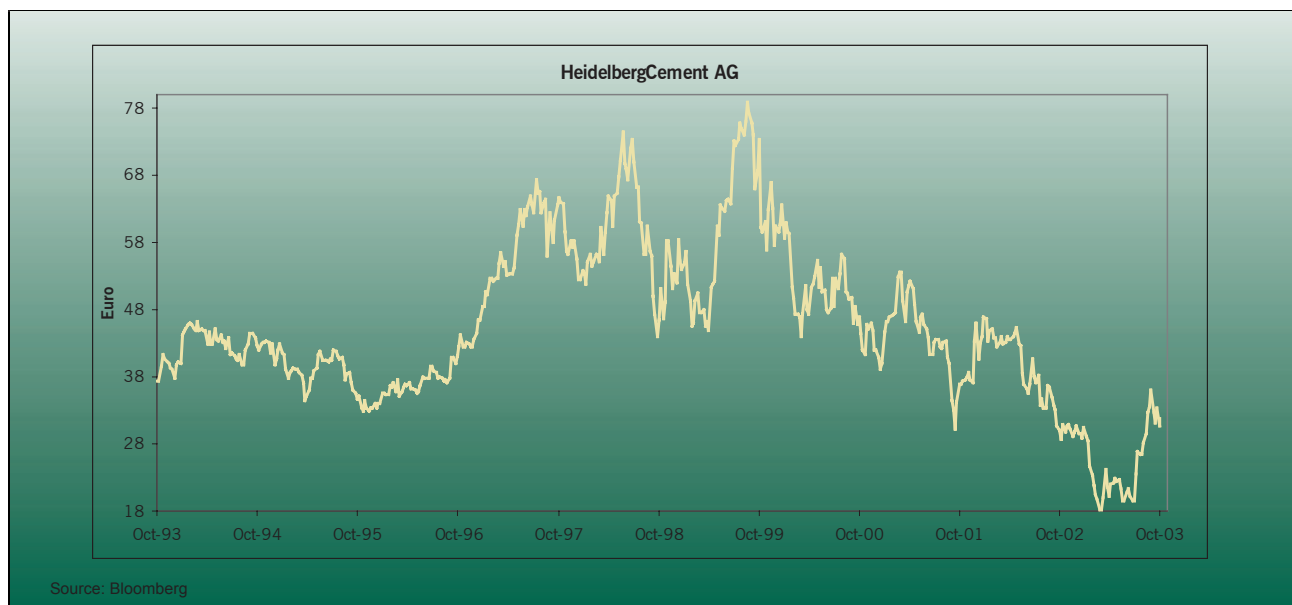
Germany – no excitement yet in the property market, but the cement companies are seeing something...

German house prices rose during the “reunification boom” a decade ago. Since then they have stagnated, and the property bubble seen in Australia, US, UK, Netherlands etc is certainly one “problem” not facing Germany today. Construction more generally has had a miserable ten years in Europe’s largest economy, with high profile bankruptcies, hundreds of thousands of job losses, and a forlorn cement sector.

Aside from the special cases of China and India, Germany has among the most fragmented cement industries in the world: in the year 2000 thirty companies supplied a product which is, in many industrialised countries, supplied by 3-5 players. None of the companies has been making an operating profit (ie even before financing charges) in Germany in recent years, and the huge fines (E250mn for HeidelbergerCement alone) which resulted from the cartel investigation of 2001 were a bitter outcome for the industry. (In fact this investigation revolved around attempts to keep imports out rather than actual price fixing). Production capacity peaked in 2001 (!) at 57mn tonnes; actual production peaked in 1999 at under 38mn tonnes (Germany was a net importer of over 2mn tonnes in 1997, this year it will net export about that amount). The average capacity utilisation rate has thus fallen from a low 72% in 1998, to lethal levels around 58% since 2000.

Prices have halved in the last 18 months, from E70 (which tends to be the general European “regional” price) to E30-35 as the industry has decided to consolidate the hard way. Progress has been made with 21 players left standing today, and production capacity is down over 10% to 51mn tonnes. In recent weeks it has become clear that Heidelberg and Holcim (the old Swiss-based Holderbank) are

negotiating to take RMC out of the market. In addition, Heidelberg has announced E20 per tonne price increases and other players are tending to follow the lead. More interesting is that the various acquisitions Heidelberg has made in the last two years (especially if the RMC acquisition proceeds) transforms the German market into one where at least in the key regions, there is a reasonable level of concentration.



Understandably, after years of horror, commentators have tended to take a cynical view of industry developments in Germany, and of Heidelberg's efforts in particular. We would make the point that as usual it is a question of price, and the shares of the company were so low by June/July of this year that the changes in the industry attracted us to the stock. We paid E23 (note that the broad stock market recovery had largely taken place in Germany by this point in early July), and a few months later the price

is E10 higher and industry conditions continue to slowly improve.

It would be better to be able to report that current cement demand in Germany implies a more general economic pick-up; this is not yet the case but clearly Heidelberg is seeing enough signs of some demand improvement to execute its grand plan now (its balance sheet is stretched enough that it does not have the luxury of being wrong by five or ten years).

Changes to the Portfolio

Major new additions to the portfolio in recent months include (old friend) *Epcos*, a German passive components maker (similar to its ex-Siemens sister company Infineon, this electronics business became very cheap over the last twelve months as the German stock market appeared to temporarily ignore the signals coming from Japan and Korea on these areas). *Heidelberg Cement* was added as mentioned; we also bought a position in *Rieter*, the world leader in very high speed textile spinning machines. The textile industry – having migrated steadily around the world for decades – is currently in China and India. Our thesis is that as those countries are producing for export (and competition is unimaginable) they are, perversely given their labour

cost advantage, forced to invest in the top quality (automated) machines. This fact, and the behaviour of a distressed seller of Rieter shares who had pushed the stock down below fair value, gave us our investment. However after only a 20-25% appreciation we are lightening the position as in fact the copying skills of the Chinese are such that Rieter was horrified to see that even their *name and logo* were faithfully reproduced on local machines at a recent Chinese trade show. This begs the more general question of the practical value of patent protection in today's world, and hence some of the high valuations which attach to many western world “technology” businesses.

BREAKDOWN BY INDUSTRY				
Categories	Examples of Stocks	Sep 2003	Jun 2003	
Miscellaneous Services	Hagemeyer, SGS Surveillance	18%	14%	
Capital Goods	Océ, Schindler, Siemens	15%	12%	
Retail	Hornbach, Douglas	11%	7%	
Pharmaceutical/Biotechnology	Novozymes, Novartis	10%	16%	
Financials	Alleanza	9%	5%	
Chemicals/Materials	Linde, Merck KGaA	8%	7%	
Consumer	Adidas, Michelin	7%	9%	
Tech/Media	Ericsson, Infineon Tech	7%	10%	
Source: Platinum				

We have also invested in logistics/transport giant (and post office!) *Deutsche Post*, German spectacle (and contact lens) retailer *Fielmann*, and in *British Gas*. These various acquisitions were funded by reducing the positions in many of the currency sensitive cyclicals, in particular in Germany and Switzerland, which have performed very strongly since March.

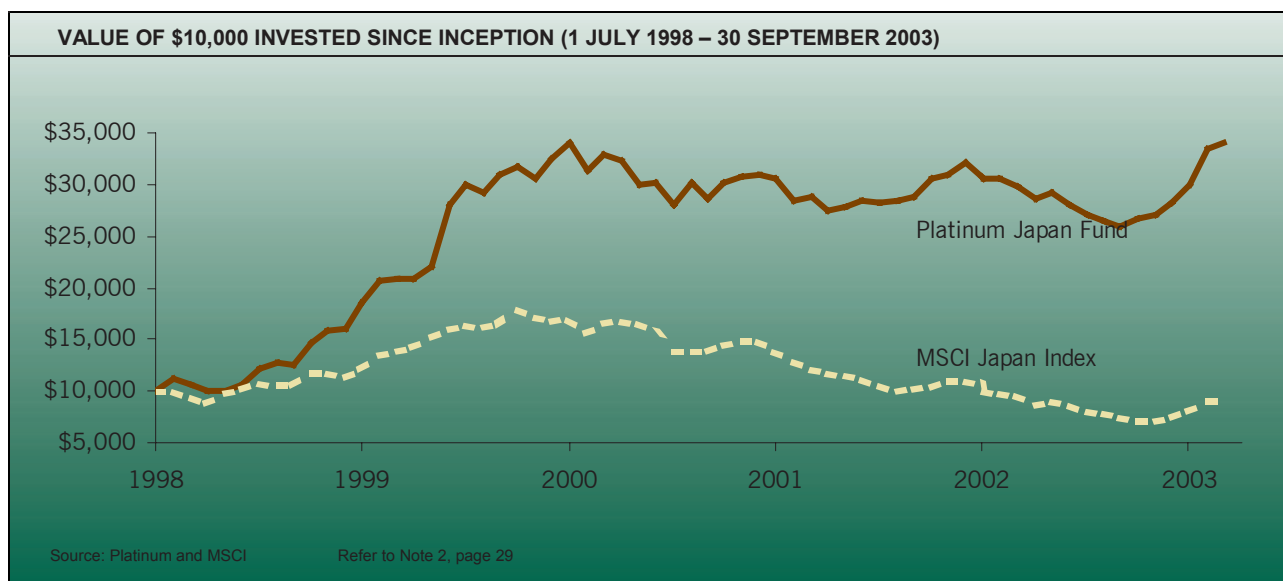
The Platinum European Fund is currently 85% long, 15% cash and 3% short for a net exposure of 82% in European equities. The A\$/Euro exchange rate has fluctuated mainly between E55c-E60c for the last three years; we took advantage of one of the moves to the high end of this range to reduce the A\$ hedge from 54% in June to 31% today, with 46% of the fund in Euros and the remaining 23% in various other European currencies.

Toby Harrop
Portfolio Manager

Platinum Japan Fund

Performance

REDEMPTION PRICE: \$1.7591



The realisation that economic growth is reviving in Japan drove the Japanese stock market up sharply this quarter. The headline grabbing number of 3.9% annualised GDP growth in the June quarter spurred large foreign buying of the market and resulted in a gain of 21% in \$A terms for the MSCI Japan index. The Platinum Japan Fund registered a similar 21%

increase in \$A terms which was largely driven by domestic demand stocks such as banks, insurance and real estate at the expense of exporters. Korea continued to be a sluggish performer as investors favoured markets such as Hong Kong which are seen as greater beneficiaries of the Asian reflation story.

Changes to the Portfolio

DISPOSITION OF ASSETS		
Region	Sep 2003	Jun 2003
Japan	62%	65%
Korea	10%	13%
Cash	28%	22%
Short Derivatives	-14%	
Long Derivatives	5%	7%
Net Derivatives	-9%	7%
Net Invested	63%	85%

Source: Platinum

We continue to emphasise a shift toward domestic demand stocks at the expense of exporters, as we believe the Asian region will lead world economic growth. As a natural consequence of this thinking we have allowed our yen currency position to increase. Toward the end of the quarter we became more cautious, believing that global markets had prematurely discounted a global economic recovery and initiated some stock shorts in Japan and an index short on the Nikkei 225. This should be seen as purely a trading position.

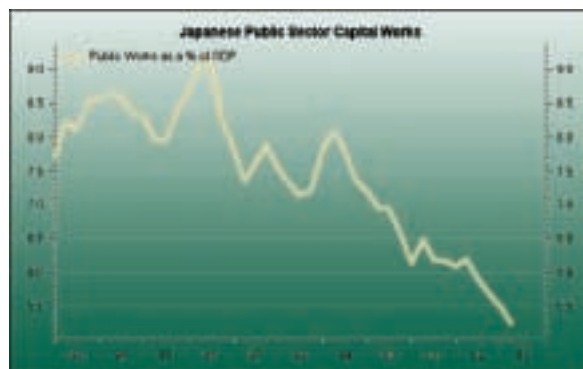
Commentary

Reform

With the upcoming national election it is timely to focus on the major changes that have taken place in the Japanese electoral system over the past decade. Until the mid 1990s Japan had an electoral system that was characterised by both a rural “gerrymander” (40% of electorates provided 48% of MPs) and a multi member system (each electorate voted in up to 6 MPs, the practical impact being that just 15% of the vote could get you elected). These two elements formed the core of the Japanese system, which was heavily based on favouring special interests, and supported the LDP for nearly all of the postwar period. It was far easier for the LDP to focus on its ties with the farming lobby for example than try to garner broader support through a wider and fairer range of policies. Indeed there were anecdotes of these favoured electorates receiving government public works spending of up to 50% above other areas.

However, starting with the 1996 national election a new system was introduced. The main features of this system were a reduction of the “gerrymander” to 40% of electorates providing 42% of MPs and the splitting of electorates between First Past the Post single member electorates (60%) and Proportional representation electorates (40%). The practical impact has been a decided shift in power away from the special interests toward a fairer “one vote, one value” system. This has manifested itself in a major change within the LDP, which continues to govern under the new system. In early 2001 we saw the election of Koizumi as Prime Minister and head of the LDP. He is a younger, more photogenic individual who was carried to power on a platform of reform for the moribund Japanese economy. Specifically, his power base was younger members of the LDP and grass roots supporters who saw the reality that they either changed from within and started to appeal to the broader population or they would be thrown out of office. This is an encouraging development because it suggests the reform course set by Koizumi is the only way forward. A positive outcome of the changing power balance in Japanese politics has been the re-ordering of spending priorities by the government. As the chart below suggests, the traditional practice of large-scale public works programs to promote growth is out. Indeed spending seems to have peaked around the time of the 1996 election and has been tracking steadily downwards, with a pause for the Asian crisis, ever since. The emergence of Koizumi has reinforced this trend.

One area where this has been apparent is industry policy. In early 2001 the Council for



Source: BoJ

Science and Technology policy was established, meeting once a month and headed by the Prime Minister. The basic aim of the council is to set the direction for, and facilitate Japanese exploitation of, science and technology. A plan has been endorsed which for the next 5 years will see \$US200bn of government money spent on R&D in the four key areas of biotech, nanotech, environment and information technology. This spending is up 36% on the prior five year period. Separately the government has also moved to encourage private sector spending by raising the tax deduction for experimental corporate R&D spending. Furthermore, universities are to be corporatised and encouraged to exploit their resources. This has led to rapid growth in the number of venture company start-ups.

The case for Japan revisited

The case for Japanese equities rests heavily on the continuation of strong growth in Asia. We believe that we are witnessing an historic shift in the balance of world economic power away from the Western countries toward the East. The “Asian” story begins with the wealth transfer created by the rapid outsourcing by rich countries and gathers steam when you think of the benefits of intra regional trade. Together with the high level of domestic savings post the Asian crisis, domestic oriented capex and consumption can easily be funded. The reality is that Japan remains the region’s pre-eminent supplier of high quality capital and consumer goods and stands to benefit enormously going forward. Indeed the trend is well in place with exports to China from Japan growing by 45% yoy in the first seven months of 2003 compared with a 3% fall in exports to the US.

The other big positive for Japan from the emergence of this growth driver is that it comes at a time when Japanese corporates have their leanest operating and financial structures in decades after a long period of economic downturn. The “social contract” with labour has been fundamentally reapprised in Japan so much so that recently we have seen union groups asking for wage and benefit cuts. China has been a major factor in this equation and it gives the corporate sector a nice window of opportunity to regain income share lost to labour over many years. Our belief is that we could see an extended upward cycle for corporate profits in Japan which would be a strong upward driver for equity prices.

However it is important to be selective because we do not see Japan as being a high growth economy per se. The reasons are many fold and include its own outsourcing to China, a declining working age population and high levels of government debt which will need to be covered by raising taxes at some point. This does not preclude some better periods for a couple of years as we have a natural bounce back from the extended downturn. Even so, we see a highly dichotomous economy. Parts of the corporate

sector geared to Asian exports will do well and already we are seeing this with regions around Osaka growing at 2-3 times faster than the national average on the back of Chinese exports. It is also likely that the consumer will be relatively sluggish and that the rich and poor divide increases as restructuring continues. We note that land prices in the high income parts of Tokyo are rising for the first time in many years whilst other areas continue to fall.

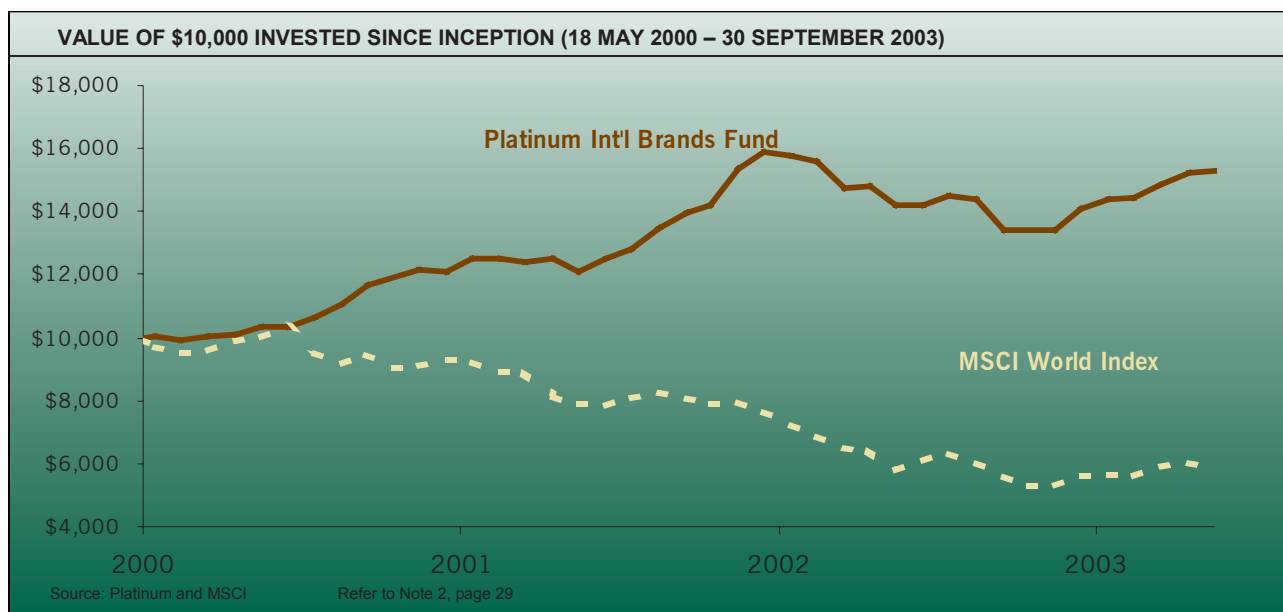
The biggest risk to the story is not the strength of the currency as many of the current newspaper headlines pronounce. Rather the imbalances in global economic growth, which have seen the US account for most of the world's *growth* for many years now, could create risks for asset markets in the inevitable adjustment phase. Our base case is that the shift of leadership from West to East happens in a smooth fashion with some setbacks along the way. The risk could be that there is a major dislocation caused either by the sharp withdrawal of credit to the US or trade protectionism which could derail the Asian growth story over the medium term. The longer term trend is, we believe, irreversible.

Jim Simpson
Portfolio Manager

Platinum International Brands Fund

Performance

REDEMPTION PRICE: \$1.3973



The Platinum International Brands Fund rose 12.3% during the quarter. The fund's performance was above both that of the MSCI World Index (+3.9%) and also that of our internally generated proprietary index of branded goods (+2.0%). This was achieved primarily by our European holdings.

In Europe, our investments in Clarins (+37%), Douglas Holdings (+30%) and Woford (+51%) were standouts along with support from our holdings in Lindt and Spruengli, and Henkel. Offsetting these positives, Adidas Salomon one of the fund's top 5 positions, was flat over the quarter and Michelin fell in value.

The difference in performance amongst branded goods companies generally, and in particular those domiciled in either the US or Europe, relates in large part to the exposure of the individual businesses to

the US consumer and the increasing cost of competing in that market. We discuss this in more detail below. There was a trend in the market for stronger performances from those high-end luxury goods companies that have material operations in Asia, with a bounce back in both their businesses and share prices, following an easing of the 'Sars virus' related fears.

In Japan Citizen Watch (+30%) and Sky Perfect Communication (+64%), two of the funds top five holdings, performed well offset by a flat performance by our position in Canon. Our investments in companies elsewhere in Asia also made a positive contribution to the result.

Our short positions contributed virtually nothing in the quarter.

Changes to the Portfolio

We have added to a number of our positions in Europe, Japan and Asia whilst also increasing the short position of the fund. Our overall net invested position remains unchanged at 66%.

In India, we have started to invest in a number of their branded goods companies. Whilst these may not be household names to many of us, they nonetheless enjoy the position of leading branded goods companies within that region. We will undoubtedly have more to say on these companies in

future reports once we have established the positions.

In the quarter, we initiated an investment in Fielmann AG a discount spectacle and lens retailer in Germany. Fielmann enjoys a long-standing market leading position in Germany and is rapidly developing its position in neighbouring countries. Fielmann built this impressive position through offering an extensive



range of quality spectacles at the lowest price points. We wouldn't argue that providing spectacles at the lowest prices wasn't a major contributor to their success, however we would add that increasing the range (in the late 70s, early 80s) from a scant half a dozen to many hundreds greatly appealed to the consumer. To achieve this departure from convention, Mr Fielmann headed east to China and more recently (mid 1990s) to East Germany to source his product. The company has now accumulated over twenty years of experience and relationships buying from within China, underpinning their offering of quality at the lowest price.

DISPOSITION OF ASSETS		
Region	Sep 2003	Jun 2003
Europe	49%	43%
Japan	20%	17%
Other Asia (incl. Korea)	10%	8%
USA	3%	3%
Cash and Other	18%	30%
Shorts	16%	5%
Net Invested	66%	66%

Source: Platinum

Germany is a heavily subsidised market and the current initiative by the German government to contain their health care costs through reductions in rebates has had an adverse impact on the Fielmann stock price, providing us with an opportunity.

Towards the end of the quarter we increased the short position in the fund from 5% to 15%, all of which was executed in the US. Anheuser-Busch, Harley-Davidson and the US retailer Best Buy were the new names on our list of short sold stocks.

Best Buy is the largest specialist retailer in the US of consumer electronics. The company grew rapidly over the past decade through opening large sized stores, there are now signs that the availability of attractive new locations for this format may be limited. The company is experimenting with smaller format stores, a departure from its proven format. Meanwhile, Wal-Mart continues to enjoy strong consumer electronics sales and is happily expanding its range in this area, including digital cameras and large tv's, in many cases at an even lower price. We do not believe that Best Buy's high valuation adequately reflect the risks the company faces.



Commentary

There are two themes that occurred consistently through out the quarter, the rising cost of competing for the incremental consumer dollar in the US and the building trend of seeking out growth opportunities in the East.

We have previously discussed our concerns regarding the indebtedness of the US consumer, retail trends favouring the discounters, and the rising propensity of a sufficient number of consumers to seek out better value products. A year ago we commented that the US consumer had shifted their focus from high priced marque sneakers (US\$200+) to those in the US\$90-120 price range whilst continuing to demand performance and innovation. Recently, Adidas noted that the US consumer was buying at the US\$50-80 price range and that this would obviously impact on the performance of their US business as they continued to adjust to the lower price points. Adidas is not alone in observing these trends.

We would also point to another telling sign of rising competitive tensions, the use of lawyers. Gillette is suing Energizer Inc for patent infringements, Energizer having brought competition to Gillette in

razors through their purchase and reinvigoration of the Schick brand. Energizer is counter suing Gillette for their "misleading" use of the "Best a Man can get" advertising tag lines. Of course, this 'dance of the lawyers' has been a long-standing feature of that market and more than likely this is merely just another distraction, albeit it perhaps highlights that no market dominating position is really unassailable despite what Gillette would have had us believe over the past decade.

We have written of Kellogg in past reports and continue to follow that business with keen interest. We were intrigued to follow up on their statements in presentations to the investment community that they could 'add value' to the consumer by selling them less! In their example, they highlighted the introduction of a 12oz box of Special K with red berries to compete with their 25.5oz box of Raisin Bran, at a higher price per box! The box itself is not half the size, allowing for greater 'shelf presence' and the impression of greater value.



Mathematically, this could result in doubling the revenue/unit and increasing the gross profit by a significant double-digit percentage. If only it were that easy.

Consumers have learnt the lesson many times over, companies love to sell that most profitable commodity, 'air'. Elsewhere in their business Kellogg does acknowledge the consumer's propensity to be swayed by discounting, with their major competitor (Kraft) in the 'cookie' category heavily discounting one of America's favourite brands, 'Oreo's'.

It does strike us as a high level madness where the head-office is losing touch with the consumer, particularly in their ability to pay and their rising propensity for searching out the discounts. Worse still, the company's presentation to analysts has a 'Monty Pythonesque' touch; ... *pay more for less and no-one will notice.....*

The other recurrent theme evident to us was the discussion by a wide range of branded goods companies of the need to expand their operations outside of the Western markets. In many instances

this relates to the 'discovery' of the high growth rates of the Russian and other former Soviet Union markets.

Proctor and Gamble cites Russia as now the company's fastest growing market and are lifting their investment levels in the quest for growth. The beer companies have continued their acquisition strategies as they pursue opportunities from Croatia to Algeria, while commenting on the compelling long-term opportunities still to be found in India and China.

Wolford's best performing outlets, on any possible measure, are the ones in Moscow. The colouring of the grey city has seen Wolford open more outlets in Moscow than in any of the leading fashion centres across Europe. Additionally, their boutiques in holiday destinations such as northern Europe and Spain have seen the positive impact of the Russian traveller. This looks set to continue in the near term as the Russian economy benefits from the flow through of selling oil at higher prices.

Outlook

We don't believe that the outlook has changed substantially in the US, despite the best endeavours of the US government to keep their consumer spending. Debt levels of both the consumer and the companies, unemployment and the increasing cost of competing, conspire to make us wary of the high valuations in that market. It is nonetheless possible that valuations continue to rise as companies and consumers benefit from lower interest payments and that the higher earnings from offshore businesses underpin corporate profits.

We too are focussed on moving East and will continue to seek opportunities in Asia, particularly Japan and India. The luxury branded goods companies should also continue to enjoy a bounce

back in their Asian and travel related businesses.

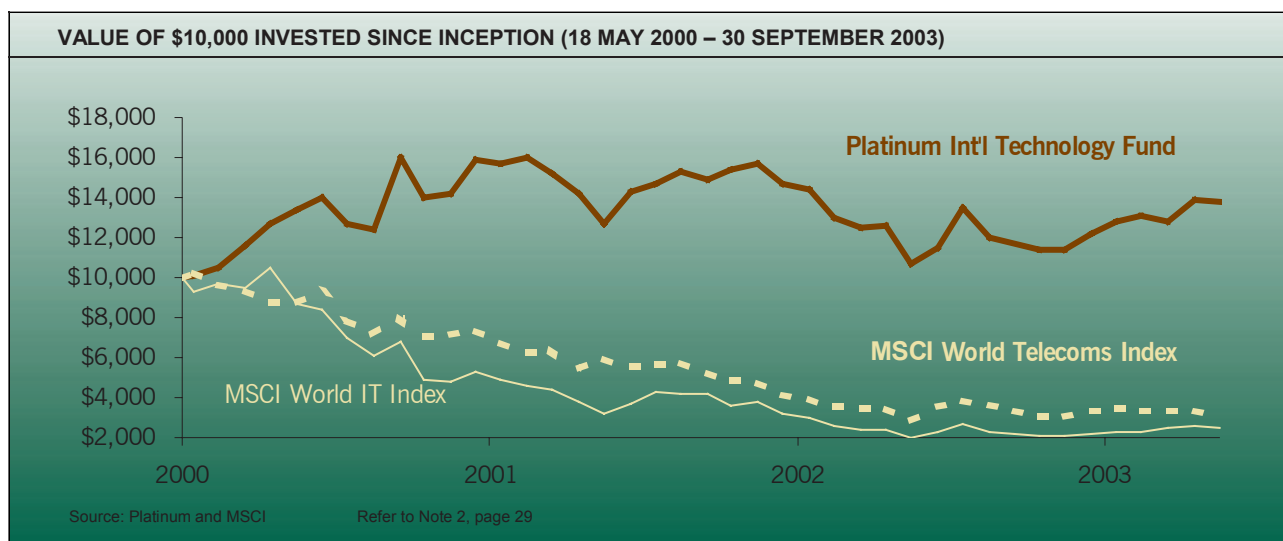
Two thirds of BusinessWeek's annual ranking of the world's most valuable brands are US based companies, with Coca-Cola once again topping the table with a modest 1% increase in brand value. Korea's Samsung, a fund holding, showed a spectacular 31% increase in brand value lifting them to 25th spot on the rankings. Achieving the largest percentage gain in brand value of any of the top 100 brands and remarkably doubling their brand value in just three years. A timely reminder to us that we should continue to search for interesting investment opportunities beyond the more obvious chart topping US icons.

Simon Trevett
Portfolio Manager

Platinum International Technology Fund

Performance

REDEMPTION PRICE: \$0.8988



Technology stocks continued their strong performance during the quarter mostly driven by improving visibility in various industries such as computers, semiconductors and wireless handsets. Particularly strong was the stock price appreciation of companies active in Electronic Manufacturing Services (+29%), Semiconductors (+ 26%) and Semiconductor Equipment (+ 21%).

The Fund performance during the quarter was +16.7%. The MSCI World Information Technology Index (A\$) was up 11.2% and the MSCI Telecommunications (A\$) Index was down 4.6%. By comparison, the tech-laden NASDAQ rose by 10.1%.

For the year to 30 September 2003 the fund is up 42.6 %, outperforming the MSCI IT Index (+ 26.2%) and the MSCI Telecommunications Index (+9.0%)

Within the fund, major contributors to the performance were Spirent Plc (telecommunication testing) +98%, Advanced Micro Devices (semiconductors) +73%, Marconi Corp Plc (telecommunication equipment) +46%, Bharat Electronics (Indian defence and civilian electronics) +43% and Infineon Technologies (semiconductors) + 33%.

Changes to the Portfolio

Our view that Japan is on the midst of a long awaited recovery has influenced our decision to increase our exposure to Japanese stocks. We bought Toshiba semiconductors), Canon (consumer electronics) and Tokyo Broadcasting (TV network).

We have also opportunistically increased our position in Telkom Indonesia at very interesting prices, following a temporary correction of the stock price. The story of telecom growth in Indonesia is still intact and the stock price has since appreciated nicely.

In the US we bought Checkpoint Software, the leading vendor of firewall software. Firewall software monitor a network's connection to the Internet by applying a set of pre-defined rules. Firewalls can prevent many forms of Internet attack

DISPOSITION OF ASSETS

Region	Sep 2003	Jun 2003
US	23%	24%
Other Asia (incl. Korea)	17%	21%
Japan	17%	17%
Europe	20%	10%
Cash and Other	23%	28%
Shorts	15%	23%
Net Invested	62%	49%

Source: Platinum

initiated by hackers or malicious code by blocking their ability to connect to corporate networks.

While IT spending is still at an early stage of recovery, we believe Internet and network security are going to be a priority within corporate budgets and Checkpoint will be a beneficiary.

We reduced our position in Infineon Technologies and sold out of National Semiconductors after these stocks reached their valuation targets.

BREAKDOWN BY INDUSTRY

Categories	Sep 2003	Jun 2003
Telecom Equipment and Suppliers	25%	29%
Semiconductors	14%	18%
Software	11%	11%
Electronic Components	9%	6%
Other	18%	8%

Source: Platinum

Commentary

The good performance of technology stocks in the quarter has been generally consistent with signs of improvement in many of the industries we analyse.

In August 2003 technology orders in the US rose 12.2% year on year (the best growth since June 2000) and tech book-to-bill (the ratio of ordered goods to shipped goods) increased to 1.05, the fourth month in a row above 1.00. More specifically computer hardware orders were +18% and communication equipment orders were up 8%. Globally, the Semiconductor Industry Association's data also show that three month rolling average billings in August were +13% vs. last year with particularly strong growth in Asia (+17%) and Japan (+15%).

In the US market for PCs, while price competition is still fierce, volumes shipped have been growing strongly in the period May-August at yearly rates of 6 to 13%, with most of the growth coming from Notebooks (+41% in August alone, admittedly helped by "back to school" promotions).

New technologies

We have been looking for a number of years at technology developments in the wireless industry and we realise that the focus of the investment community has mostly been on personal handsets and the ubiquity of personal communications. The transition from analog to digital signal in the early 90s, the take-off of the Internet in 1995 and chip miniaturisation are pushing wireless technology even further to the point that it is now possible to use a notebook to wirelessly connect to the Internet without any need to plug in a telephone socket. Using a technology called Wireless Ethernet or Wireless-Fidelity (wi-fi); data can now be transmitted between two computers across the air without need for any cable connection.

But is this technology effectively so new? One step back. In 1973 Robert Metcalfe was a member of the research staff for Xerox at Palo Alto (PARC) where

some of the first personal computers were being made. Metcalfe was asked to build a networking system for PARC's computers. Xerox's motivation for the computer network was that they were also building the world's first laser printer and wanted all of PARC's computers to be able to use this printer. Metcalfe eventually came up with the solution (essentially a protocol/language used by two computers to talk to each other), which was named Ethernet because the "ether" part of the network could be anything: copper wires, coaxial cable or air. A new standard was created that is now universally used across all Local Area Networks (LAN) in the world. It took about 30 years for this technology to be developed to such a level where we are now effectively able to send significant data through the air. That's just a reminder of how long it can take before a newly developed technology reaches effective commercial applications.

To set-up a wi-fi network (or wireless LAN) you plug the access point into an Ethernet network at your office, and insert a wireless card into the slot on the side of your notebook computer. You can then move around with your notebook within a radius of 300 feet and remain connected to the internet. Access point units are currently available for as little as US\$130.

You can even set-up a Wi-fi network for yourself at home, by simply plugging the access point into your desktop PC and ensure that it is connected into the internet.



Picture 1: Access Point
Dimensions: 18cm x 15cm x 5cm



Picture 2: Wireless Card
Dimensions: 11cm x 5 cm x 0.7 cm

The speed of your connection will ultimately depend on the speed of your fixed-line connection.

If you were entrepreneurial, you could set up multiple access points across towns by knocking on the doors of everybody who's willing to lease you premises to set up what is called a "hot spot". At that stage, you can charge users a fee for using your connection, or you can share part of the landlord revenues. That's what many people have done in major US cities and hot spots have popped up everywhere, from coffee shops to airports and laundrettes, basically anywhere where there is likely to be high traffic of potential notebook or Personal Data Assistant (PDA) users, keen to surf.

While the range of wi-fi radios is generally limited to a 300-foot radius, the speed of transmission can be very high. The latest version access points (using a standard named 802.11g) are expected to transmit data at speed of up to 54 Megabits per second (Mbps)! To put it in perspective, current Telstra Big Pond DSL users have speeds between 256 Kbps and 1.5 Mbps.

At the end of 2002 in the US there were 4,200 hot spots and a number of independent operators and telecom providers are rushing to build up more access points in public places in Europe and Asia as well. The landscape is somewhat reminiscent of the early days of the Internet, when hundreds of Internet Service Providers (ISPs) were setting up services promising to offer free Internet access. We later discovered that there was not such a thing as a free lunch and most of the Internet traffic is now managed by the good old telephone companies.

Although wi-fi services are often dismissed as unreliable and prone to security breaches and interferences, they should not be underestimated. They have all the features of a disrupting technology and could potentially represent a serious threat to some telecom operators.

Firstly, in many countries no license is required to build and install a wi-fi network. This is in sharp contrast to the multi-billion dollars paid by European Mobile Operators in 1999-2000 to obtain licences to operate so-called 3rd generation (3G) mobile networks. The absence of any "entry fee" represents an incentive to new entrants.

Fearful of the potential competition, many telecom operators are rushing to cover. Verizon Communications, the largest US telecom operator has started offering *free* wireless LAN access to its DSL users in select areas of New York City as a perk to existing customers and a enticement to new ones. Verizon is installing wireless LAN hotspots in its payphone boxes in NYC and says it will have 1,000 in place by the end of 2003. The idea is not that Verizon customers will cluster around the booth in

order to get access but can catch a wireless wave in nearby buildings.

Secondly, a new technology called Voice over Internet Protocol (VoIP or Voice over IP) is being deployed across corporate networks and it can easily be integrated in a wi-fi network. Every corporate network is built around Ethernet, and if voice calls can be carried over the data network rather than through the traditional circuit-switched networks, businesses could potentially save a lot on phone bills.

If one extends this concept to the hot spots discussed above, one can imagine using a wi-fi phone when one is in close range of an access point, so avoiding the charge of a phone call. (Effectively your call is being carried by the internet). This concept is quite attractive to corporate users who can build VoIP networks within the limits of their buildings/factories, and let their employees "roam" from access point to access point while moving from one floor/building to another.

Motorola and NEC are co-developing an IP office phone that roams from wi-fi into cellular networks. When used inside an office, the phones tap into a wi-fi network to make calls that travel, in part over the internet rather than over a phone network. Outside the wi-fi 300-foot range the handsets switch calls automatically to a cellular network.

In Australia we are also witnessing innovative wireless developments. Hutchison launched 3G services through their "3" subsidiary, and we now see handsets able to send real-time video at reasonably decent speeds and image quality. Questions remain however as to what applications users will adopt, apart from live video-calls, games etc. Many operators have openly admitted their caution to investing in 3G technology.

The paradox could be that eventually the entire spectrum acquired to deploy 3G services will be used instead to rollout voice services at much lower cost (3G technology is far more efficient in spectrum utilisation than GSM).

More interestingly, the real growth in wireless data could come from "alternative" such as wi-fi or new services as launched by ArrayCom in Sydney last month. ArrayCom is a privately owned company whose founder, Martin Cooper, invented the first mobile phone in 1973 while working at Motorola. He has developed a technology based on "smart antennas". They deliver



Picture 3: Smart Antenna

wireless broadband to a large numbers of users “on the move”. The capacity of this solution is expected to be between 1 to 40 Mbps (up to 40x faster than 3G) and it has the advantages of using only 5Mhz of spectrum compared to 20 Mhz of 3G networks.

While the introduction of innovative and disruptive

technologies will cause more competition among equipment providers and telecom operators, we believe it will ultimately result in increased adoption of broadband services, new applications and generally benefit growth in IT spending.

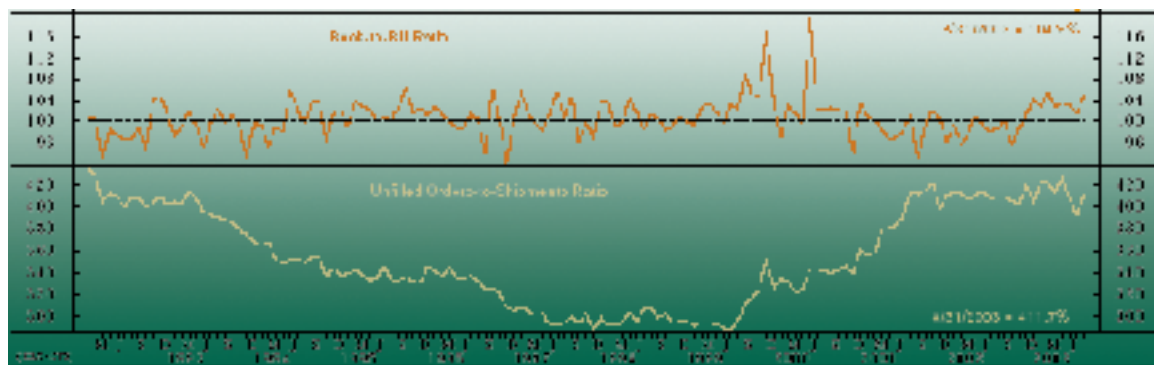
Outlook

The strong rebound of US technology stocks from their recent bottom in March 2003 has continued through the September quarter. While news flow has been generally positive and pointing at steady improvements in most industries, valuations are probably discounting too much too soon and are reaching levels reminiscent of 1999.

We intend to keep a large proportion of our funds in Japan and Asia where valuations are still more attractive.

We maintain a 15% short position in selected stocks and the NASDAQ index.

Alex Barbi
Portfolio Manager



Perhaps There's a Better Way

August 25, 2003

Byron R. Wien of Morgan Stanley

Every once in a while, when I'm in a melancholy mood, I think of how little the craft of portfolio management has changed during my 40-year career. Sure we have computers now instead of Quotrons, and programs to determine value at risk and volatility, but if you analyze how money managers spend their days, it isn't all that different from what it was in the 1960s.

Salespeople file into conference rooms early each morning to listen to analysts' comments on earnings, new products, and meetings they attended. The sales force then calls portfolio managers who are soon off to their own meetings to discuss what should be bought and sold. Every so often a macro concept like legislation, currency, or interest rates is assessed, and asset and sector allocations occasionally come into play, but portfolio managers spend their time relentlessly in pursuit of a group of perfect stocks. Everyone is so busy talking on the telephone, reading emails and research reports, and attending meetings, when do they have time to think? Why don't salespeople call in the afternoon when portfolio managers are more relaxed? Is the information that urgent? Or will the portfolio manager wonder who got called in the morning?

For the buy-side, performance, as elusive as it seems to be, is everything. The highest compliment you can pay a portfolio manager is he or she is a great stock picker. Nobody points someone out in a crowd and says, "That guy really knows how to construct a sound portfolio." The heroes beat their benchmarks if they are long only, or they earn satisfactory absolute returns with low volatility if they're hedge funds. They do that by picking winners and, if they are hedged, shorting losers.

I have often thought that one reason so many managers have trouble beating the market is because building a portfolio one stock at a time may not be the best way to manage money. Even if you make judgments on the relative attractiveness of sectors based on the fundamental outlook and quantitative values and then pick the individual stocks afterwards, your effectiveness does not seem to improve all that much. There is so much data on stocks, I thought there must be a way to determine the quantitative characteristics of winners and losers and to build portfolios accordingly. Some portfolio managers pay attention to quantitative analysis, and some firms run money using that approach, but most

money is still managed the old-fashioned way.

It was perhaps because of my thinking about an alternative approach to investment management that I responded so enthusiastically to Michael Lewis' new book *Moneyball* (see Steve Galbraith's essay, "Searching for the Financial Equivalent of a Walk," *US Investment Perspectives*, 8/06/03). As many of you know by now, this book is ostensibly about baseball, but almost from the first page it sang out to me about money management.

For those of you don't know the story, *Moneyball* is about the Oakland A's and its general manager Billy Beane. This team, which had a poor record and limited funds for signing top players, dramatically changed the way it identified talent. They employed a young Harvard-trained computer whiz who studied the statistics relating to player performance and identified a series of factors that were likely to determine whether a college player would succeed in the major leagues. Until then the selection of players was highly influenced by the team's scouts. Experienced baseball professionals, often ex-players, would travel through their assigned regions watching players day after day. Here is how Lewis describes it.

In the scouts' view, you found a big league ballplayer by driving sixty thousand miles, staying in a hundred crappy motels, and eating god knows how many meals at Denny's, all so you could watch 200 high school and college baseball games inside of four months, 199 of which were completely meaningless to you. Most of your worth derived from your membership in the fraternity of old scouts who did this for a living. The other little part came from the one time out of two hundred when you would walk into the ballpark, find a seat on the aluminium plank in the fourth row directly behind the catcher, and see something no one else had seen — at least no one who knew the meaning of it. You only had to see him once. "If you see it once, it's there," say Eric. "There's always been that belief in scouting." And if you saw it once, you, and only you, would know the meaning of what you saw. You had found the boy who was going to make you famous.

The scouts were looking for certain "tools." "These were the ability to run, throw, field, hit and hit with power," according to Lewis. "A guy who could run had 'wheels,' a boy with a strong arm had a 'hose.'" But for Billy Beane, there seemed to be a better way.

“He’d flirted with the idea of firing all the scouts and just drafting kids straight from Paul’s (Paul DePodesta, the computer whiz) laptop. Paul’s laptop didn’t have a tiny red bell on top that whirled and whistled whenever a college player’s on base percentage climbed above .450, but it might as well have.” As I sat through some portfolio manager stock-picking dinners during the past month I wondered whether we were all like the scouts. Although investment management literature is filled with evidence of how hard it is to beat the indexes, we all keep trying in the belief that our combination of knowledge and skills will enable us to outperform our benchmarks consistently. Even long-short equity hedge funds that delivered outstanding performance during the 1990s are having a hard time of it this year. They did relatively well during the difficult 2000-2002 period, but are underperforming now because their short positions are offsetting the appreciation of their longs. Some argue that you should expect hedge funds to underperform in strong rallies because they are “defensive,” but I never heard that argument during the 1990s when hedge funds were shooting the lights out. I worry that many of these funds are giving up performance points to achieve low volatility.

The investment lesson of *Moneyball* is that the way portfolio managers pick stocks is too subjective. There is ample data on stocks to enable a skilled quantitative analyst to determine the statistical pattern of winners and losers. Critics will argue that the data are historical and not particularly useful in forecasting future performance, just as the scouts would argue that baseball data are no substitute for watching a player on the field. But the Oakland A’s built a succession of playoff teams with lower budgets than their competition by analyzing the data on past performance. I wonder if portfolio managers couldn’t learn from their example. A few people I know who have read the book say it may be useful for value investors, but I think the discipline could help growth stock buyers as well.

The *Moneyball* metaphor extends beyond stock picking and toward a holistic idea of portfolio construction. Think, for example, of how many basis points you might gain over your benchmark if you could just modestly reduce the number of losers or increase the winners. Here is a description of how Paul looked at the whole baseball season quantitatively rather than a player or a game at a time:

Before the 2002 season, Paul DePodesta had reduced the coming six months to a math problem. He judged how

many wins it would take to make the play-offs: 95. He then calculated how many more runs the Oakland A’s would need to score than they allowed to win 95 games: 135. ... Then, using the A’s players’ past performance as a guide, he made reasoned arguments about how many runs they would actually score and allow. If they didn’t suffer an abnormally large number of injuries, he said, the team would score between 800 and 820 runs and give up between 650 and 670 runs. From that he predicted the team would win between 93 and 97 games and probably wind up in the play-offs. “There aren’t a lot of teams that win 95 games and don’t make it to the play-offs,” he said. “If we win 95 games and don’t make the play-offs, we’re fine with that.”*

I thought about my experience as a buy-side analyst. Although I went to broker-sponsored conferences, I always thought there was something especially useful about visiting a company in its home office and touring a plant. Most portfolio managers I know still believe face-to-face meetings with top executives are especially useful. Our clients tell us they reward brokers who set up company meetings for them. Looking back I can think of instances where those meetings were useful, but many others where an investor would have been misled and come to the wrong conclusion.

Identifying undervalued sectors using quantitative data may be more useful than many believe. As for individual stocks, price-to-sales and price-to-book (we will be doing more work on this) may be to portfolio managers what on-base percentage and walks were to the Oakland A’s. Perhaps Paul’s careful work in baseball will have an impact in areas beyond what he originally envisioned. Lewis observes:

And so, surely for the first time since the dead ball era, the Harvard Old Boys’ network came to baseball. Paul himself sat at the desk on the other end of the room. I ask them if it ever troubled them to devote their lives, and expensive educations, to a trivial game. They look at me as if I’ve lost my mind, and Paul actually laughed. “Oh, you mean as opposed to working in some deeply meaningful job on Wall Street?” he said.

*They wound up scoring 800 and allowing 653.

Notes

1. The returns represent the combined income and capital return for the specified period. They have been calculated using withdrawal prices, after taking into account management fees (excluding any performance fees), pre-tax, and assuming reinvestment of distributions. The returns shown represent past returns of the Fund only. Past performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, returns can be negative (particularly in the short-term).
2. The investment returns depicted in the graphs are cumulative on A\$10,000 invested in the Funds since inception and relative to their Index (in A\$) as per below:

Platinum International Fund:

Inception 1 May 1995, MSCI World Accumulation Net Return Index in A\$

Platinum Asia Fund:

Inception 3 March 2003, MSCI Asia Free ex Japan Net Return Index in A\$

Platinum European Fund:

Inception 1 July 1998, MSCI Europe Accumulation Net Return Index in A\$

Platinum Japan Fund:

Inception 1 July 1998, MSCI Japan Accumulation Net Return Index in A\$

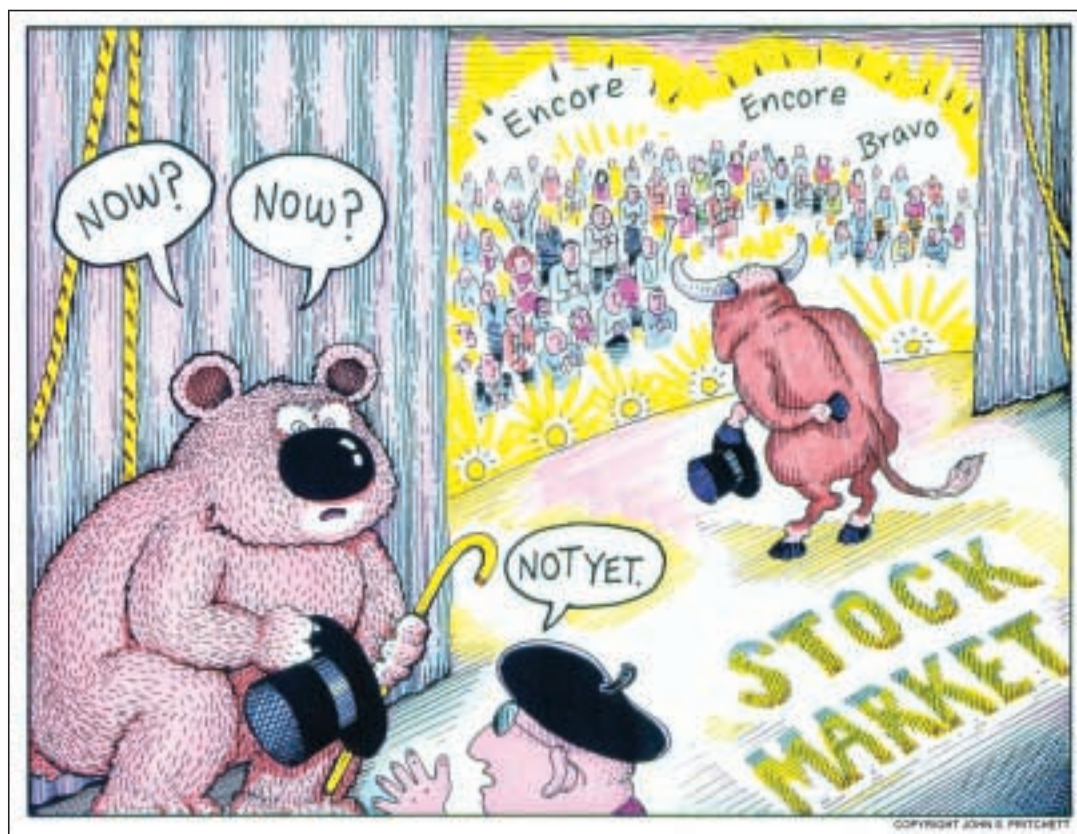
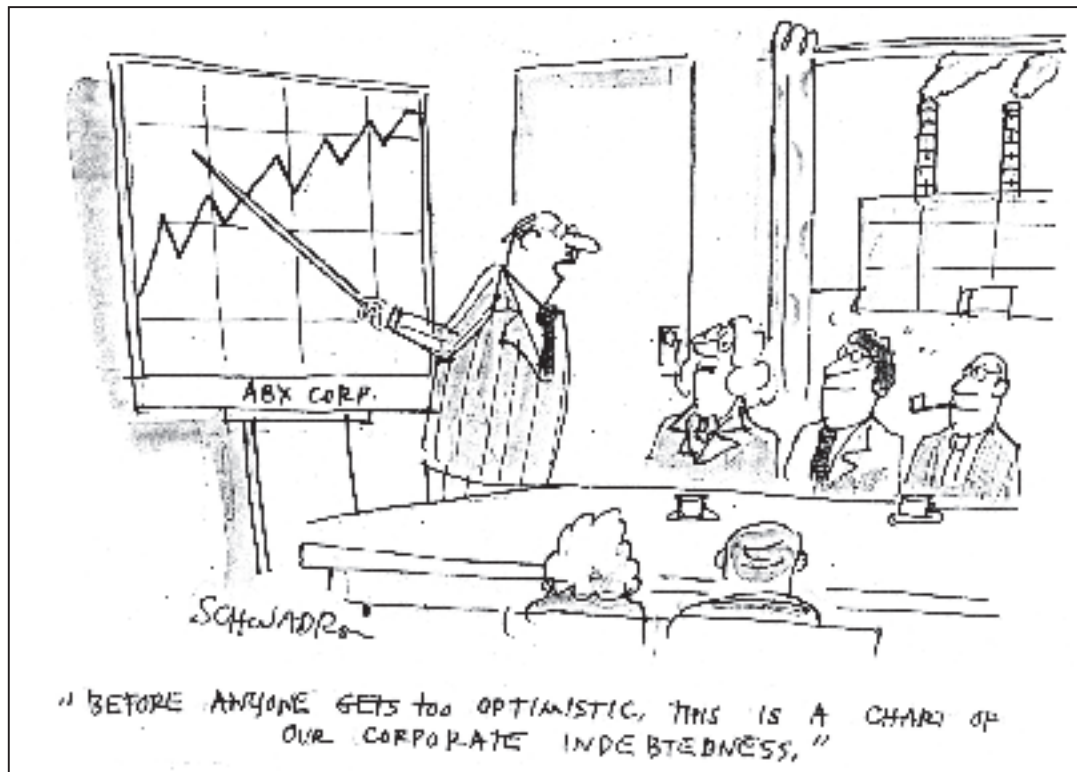
Platinum International Brands Fund:

Inception 18 May 2000, MSCI World Accumulation Net Return Index in A\$

Platinum International Technology Fund:

Inception 18 May 2000, MSCI Global Technology index in A\$

The investment return in the Funds is calculated using withdrawal prices, after taking into account management fees (excluding performance fees), pre-tax and assuming reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.



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