The Platinum Trust Quarterly Report

as at 31 December 2000

Incorporating the:

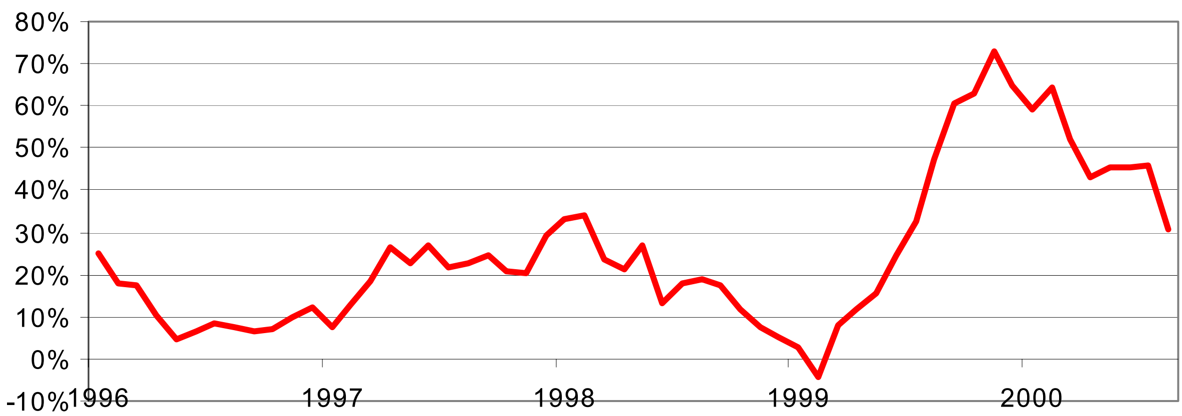
International Fund
European Fund
Japan Fund
International Technology Fund
International Brands Fund

PERFORMANCE RETURNS TO 31 DECEMBER 2000

Fund	Fund Size	Quarter	1 year	2 years (compound pa)	5 years (compound pa)
International Fund	$180M	7.7%	18.0%	37.6%	24.1%
Japan Fund	$75M	-13.1%	-6.0%	52.2%	-
European Fund	$31M	7.6%	53.7%	52.0%	-
International Technology Fund	$10M	-8.1%	23.6% *	-	-
International Brands Fund	$4M	7.0%	10.4% *	-	-

*Since 18 May 2000

PLATINUM INTERNATIONAL FUND
ROLLING 12 MONTHS RETURN – NO NEGATIVE PERIOD (EXCEPT ONCE)



The chart above shows the unit price compared to the corresponding month of the previous year. With one exception (May 1999), each observation is positive against its corresponding price of the year before ie. on an annual basis unit prices have held positive over any 12 month period, the return has never been negative. The compound return pa over five years was 24% pa.

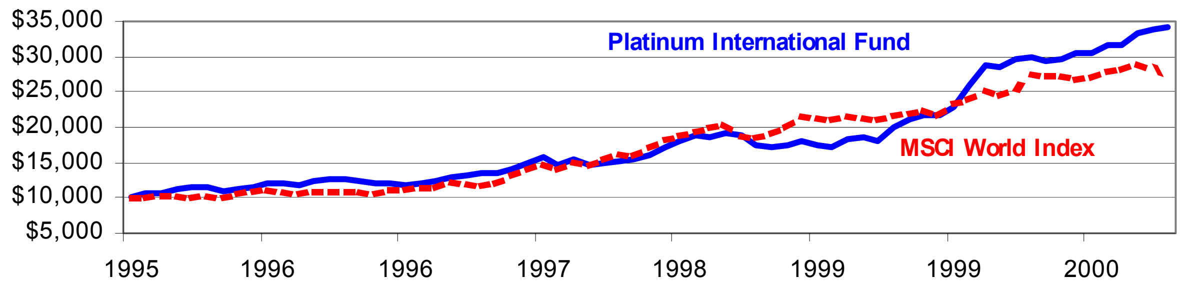
Information about the units on offer in the Platinum Trust are contained in the Platinum Trust Prospectus No. 3 lodged at ASIC on 11 May 2000. Persons wishing to acquire units must complete the application form from the current prospectus. Reliance should not be placed by anyone on this document as the 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.

The Platinum International Fund

REDEMPTION PRICE: $1.6369 **FUND SIZE: $180 MILLION**

Performance

CUMULATIVE PERFORMANCE SINCE INCEPTION (1 MAY 1995 – 31 DECEMBER 2000)



It has been a gruelling quarter for investors. Initially some thought the market was simply accommodating a convergence of valuations between the highly valued tech stocks and the rest. Subsequently, the massive erosion of Nasdaq (down 33% for the quarter) and the other *Neuer Markts* of the world had a knock-on effect as concerns emerged about the broader implications of such value destruction. These included margin calls, credit delinquencies and other factors associated with a slowing world economy. Investors are now starting to come to terms with the reality that shares are not a non-stop express to wealth accretion. The Fund has been relatively well positioned for this change in sentiment. Apart from allowing cash to rise we have been actively shorting individual shares for which the valuations made no sense – companies such as EMC, Sun Microsystems, i2 Technologies, Oracle and so on.

As the quarter progressed we rotated into shorting other so-called defensive issues. These include banks/brokers and consumer branded goods – notably Bank of New York, Schwab, Budweiser and Colgate. While it is true that these companies can either benefit from lower interest rates and have more predictable profits, investors have, we believe, put too much store in these qualities and here at the end of the bull market are using them as hiding places rather than liquidating positions and building cash balances. Further we have maintained our shorts on the S&P index, which from here may give more protection than the Nasdaq index shorts.

The consequence of this activity is that the Fund has managed to rise by 18% for the year, after a fourth quarter advance of 8%. By way of contrast the MSCI returned 2% for the year, having had a miserable last three months when it declined by 9%.

The table below highlights the extremes of sector movements over the year within the MSCI.

INTERNATIONAL SECTOR EXTREMES

Sector	1 Year Change
Health Services	+90%
Healthcare	+57%
Industrial Services	+32%
Consumer Non-durables	+18%
Finance	+15%
Technical Services	-44%
Communication	-41%
Retail	- 9%

Currency

Over the quarters we have written about the effect of the US economy growing faster than the rest of the world, as well as M&A and investment demand causing an over-valuation of the US currency. We believe this tendency reversed decisively in the fourth quarter as the US economy slowed and inward flows diminished.

This greatly helped the hedging position we had taken (albeit far too early) as we saw the Euro climb 7% versus the US$ and 13% versus the Yen. At year-end the Fund's main exposure was A$ at 45% and Euro/European currencies at 39%. Nearly all Yen exposure is hedged into A$, while half of the US exposure is hedged back into A$.

Portfolio Structure

Apart from sound stock picking and short selling, our relatively strong performances can be attributed to the changes in emphasis of the portfolio throughout the year. By March we had exited most of the over-priced tech and telecom stocks and began to move to low priced "old economy" companies which were very out of favour. This also happened to lead to greater exposure in Europe where we reasoned companies would be least affected by a retrenchment by the consumer in the USA. These simultaneous movements built-up our holdings in Europe and reduced them significantly in Japan. The following table quantifies these changes.

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Dec 2000	Jun 2000	Dec 1999
Cyclicals	RMC, Akzo, Bayer, Stinnes, Linde	19%	17%	12%
Financials	Lippo, Nordea, Japanese Brokers, Halifax	12%	9%	6%
Technology Hardware	Toshiba, Samsung, AMD, Fujitsu	11%	11%	12%
Telecoms	NTT, DDI, SK Telecom, Lucent	11%	11%	16%
Software & Media	Novell, Peoplesoft, Nippon Broadcasting	7%	9%	19%
Medical	Draegerwerk, Merck KgaA, Novartis	6%	5%	5%
Consumer Brands	Adidas-Salomon, Japanese Coke Bottlers, Wella	6%	6%	5%
Retail/Services/Other	Hornbach, Raytheon	5%	3%	3%
Consumer Durables	MEI, Sony	4%	4%	7%

DISPOSITION OF ASSETS

Region	Dec 2000	Jun 2000	Dec 1999
Western Europe	34%	26%	23%
Japan	20%	30%	36%
North America	19%	16%	14%
Emerging Markets (incl. Korea)	5%	8%	12%
Cash	22%	20%	14%

The Fund's short position is 5.5% against the S&P500 and 16% against individual

Note that companies with cyclical earnings patterns, together with those companies sensitive to interest rates, now constitute 31% of the portfolio versus 18% a year ago. Technology, telecoms, and software are still well represented at 29% but well down from 47% last year. Moreover, within this category the valuations of our holdings are a fraction of those typically found in Nasdaq – specifically an average PE of 16.7x 2000 earnings versus an estimate of 115x for the NDQ 100 index.

Commentary

To counter the problem of myopia - caused by doing daily battle with markets – it is helpful to review the key points that were made about the US in our last three quarterly reports. Starting in March, we referred to Mr Soros' concept of reflexivity and how once the tide changed the trend becomes mutually reinforcing. In June we alluded to the risk of deteriorating consumer confidence in the face of falling stock market values. By September we were pointing to the Euro and oil price as damaging the "priced-for-perfection" mentality and introduced the prospect of a soft landing. Intertwined throughout were references to the over-leveraging of US consumers and companies, the poor pricing environment facing companies, the distortions within the system (tracking stocks, excessive option grants, deteriorating credit) and other evidence of a mania which was most starkly revealed by eccentric valuations of tech stocks relative to the so-called "old economy companies".

As we enter the new year, the tone of the market has changed considerably. There is consternation about the speed of the slowing in the US economy as witnessed by the recent decision by the Fed to cut the discount rate by 0.5%. In time, one can envisage the discussion moving as to the next rate cut and to the debate on tax cuts as the evidence of economic slowing intensifies.

At this stage we are largely agnostic about the degree of softening that the US economy may experience. From our work on credit we get no comfort.

As you know, our underlying fear in the US has been the growth in debt and the impact of stock market weakness on consumer confidence. In the last five years the debt/equity ratio of US corporations has risen from 74% to 82.6% despite an extraordinary rise in company profitability. This is reflected by the decline in labour's share of the cake when expressed as labour costs to companies revenues; towards the base of the normal band of 62-68%. By contrast, earnings per share has accelerated from the normal trend of 7% pa to around 12% pa since 1995. This latter growth rate is partly attributable to massive share buy-backs – amounting to $416bn (partly funded by greater borrowing) but underlying margins have also widened as a consequence of robust demand and well contained costs.

As some share prices collapse, the wisdom of buy-backs will come under scrutiny. More importantly though, the concerns about the burden of debt – which was in earlier years expressed in terms of optimising a firms balance sheet – is being reflected in a significant blow-out in lending spreads. BAA companies, the average of the S&P500 index, must now pay 2.6% more than US treasuries (versus 1.2% in January 2000) and even top AAA's credits are required to pay 1.8% over treasuries. (The treasuries themselves have continued to strengthen – perhaps warning of a more difficult environment as well as the fact that the budget surplus is curtailing supply of government bonds).

The banks are already experiencing a rise in non-performing loans (NPLs) but in very specific areas where it became fashionable to borrow against supposedly secure income streams – notably funeral homes, cinema chains and at the extreme, competitive local exchanges (CLXs).

There is not much evidence yet of rising consumer delinquencies.

We remain highly vigilant because of the still large balance of outstanding share margin accounts at $219 billion in November. Further, we believe that households applied some of the benefits of mortgage refinancing to play the market. Lurking in our subconscious is the belief that the credit induced mania just witnessed must have cultivated some extraordinary expectations, the folly of which will only be revealed gradually, if starkly.

One should not, however, paint too gloomy a picture for the US. As noted earlier, the government's finances are in the best position for years – which will allow for massive tax cuts. Even so, we are somewhat circumspect about the US$1.2 trillion touted in view of the balance of power in Washington – any deal is likely to be protracted. Further, the Fed can drop rates significantly to prop-up confidence. We believe the inflation implications are very low even with the US$ weakening, principally against the Euro, because of the deflationary bias around the world. However, these steps will only partially ameliorate the likelihood of labour's share reverting to the mean. By way of example, Microsoft has already indicated that it will bolster wages in the face of the loss of value of its staff option schemes.

We are somewhat more sanguine about Europe. While the EU is also slowing, there are several factors that should provide a growth buffer. Firstly, the big economies of Europe have been lagging behind North America and consequently they are at a different phase of the cycle. Europe has only recently began to issue stock options and the public's ownership of shares is relatively small. Further, European predilection towards shares is notoriously lower than in the Anglo Saxon countries so the adverse affect on consumer sentiment will be correspondingly lower. After five years of belt-tightening by governments, 2001 will be the first year of fiscal expansion, led by Germany, with tax cuts equivalent to 1.2% of GNP. France and Italy have smaller cuts but the move to tax reform is well established.

Japan and Korea give us little room for comfort at the macro-economic level. The leadership under the LDP will go down in history as some of the most inadequate in modern Japan. Fortunately, companies are very aware of the threats and opportunities of globalisation and rather like in Italy, our investment faith resides in the calibre of the people, their education and commitment to leading-edge technologies. Our recent visit highlighted the breadth of know-how in the digital world and optics (the backbone of modern telephony). Our investments in North East Asia are highly selective and tend to have a technology bias. Built in to our stock selection is the view that both Japan and Korea will lose growth impetus as a consequence of a slowdown in the US.

Conclusion

While global headlines may initially carry a prognosis about interest rate and tax cuts, and budgetary stimulus, the key will be the performance of company profits. When we examine the underlying arithmetic of global markets we find that earnings in the last five years have risen about 10% pa which together with rising PE's (multiple expansion) from around mid-teens to 26x has lifted share returns to above twice the historic average of around 9%. While bond rates are likely to remain subdued, which helps valuations, the higher risks associated with slower growth and poor pricing power is likely to cause some multiple contraction – thereby reducing returns. We therefore see further mileage in the theme of the convergence of valuations. At the same time, companies producing volume sensitive items (mostly commodities) are in many instances investing at less than their depreciation rates. This theme of capital starvation, which should logically lead to a period of higher profitability, should throw up some good opportunities – particularly when it is reinforced by plant closures and mergers. In the case of pulp and paper, for example, International Paper, following its acquisition of Champion International, cut a full 825,000 tons of annual capacity – 5.5% of all US production.

Our third theme relates to productivity take-off. Just as the US experienced a productivity surge from the mid-90s, we believe companies in continental Europe and Japan can experience the same benefits attributable to changes in information technology and ways of doing business. Now that the Europeans have bedded down their "systems" in a single market of 350 million consumers, it is quite plausible to expect the growth in labour productivity to outstrip that of real labour costs. Japanese companies will have less help from their domestic economy, which we expect to remain flacid, but the indications to date have exceeded our expectations.

Stock Story

Anritsu (Japan)

Founded in 1895 Anritsu has traditionally focused its business activities on communications systems. It claims to have started mass production of telephones in 1908 and to have produced the world's first wireless phone in 1912. Today the company is best known for its communications testing equipment where it has 15% of the world market and competes against the likes of Agilent (ex Hewlett Packard) and Ando Electric (an NEC affiliate). These testers are used on a wide variety of equipment including fixed line, mobile and optical systems and components. The basic aim of the tester is to measure whether a particular system or component is performing in line with its specifications. For example they can locate faults in undersea communication cables to within a distance of eight metres.

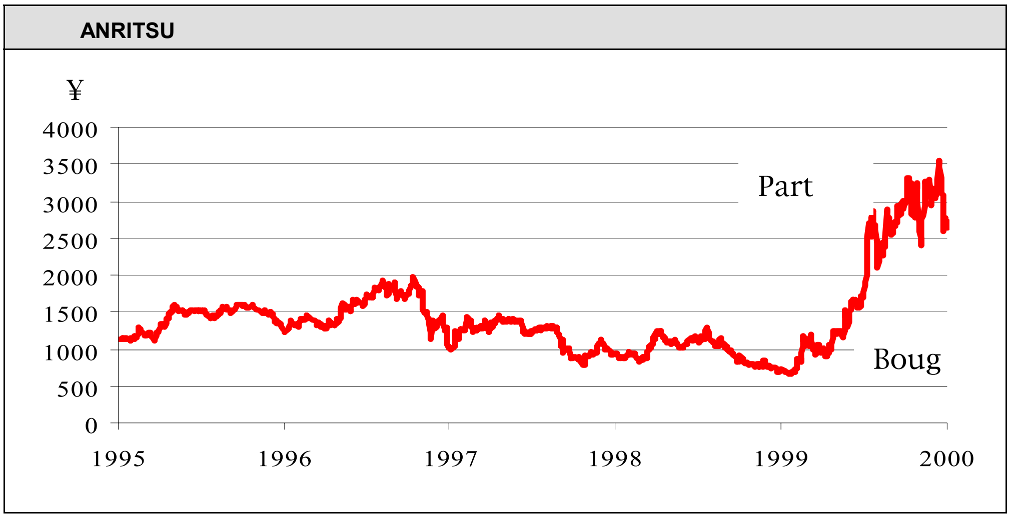
The traditional view of Anritsu is of a company very closely tied to NTT and its spending patterns. The company had a very good time in the 1980s with double digit sales growth and operating margins of around 10% but the good times faded with the economy in the nineties. The international market was seen as problematic for two reasons. The first being the different technology choices taken by NTT in order to protect the local suppliers and the second being the dominance of Agilent and its greater experience with open systems and software.

When we first visited Anritsu in December 1998 they talked openly about these issues and we came away with the impression that in time they could remodel their business away from NTT. The major positive they emphasised was the emergence of WDM technology (wave division multiplexing) which they saw as potentially a very big market. They also talked about a restructuring of the company which could include withdrawal from some previously cherished business lines that were now loss makers. At the time we preferred to wait for some confirmation before becoming more positive while being fully aware of the potential.

Coming into 2000 it became apparent that telecom carriers worldwide were going to have to make major investments to facilitate the data traffic explosion. Anritsu's share price at the time languished at around 1000 yen despite being well positioned with major market shares in many of the areas that would require testing equipment for these upgraded networks. Part of the reason for the lack of interest was the typical time lag between investment in telecom networks and the purchase of testing equipment. This meant Anritsu had not yet seen the benefit in its order numbers. At this time we purchased the stock. Subsequently the orders have come through and in addition the company has raised its global market share from 20% to 60% with its new 10gbps Sonet analyser. This is now the tester of choice.

Apart from testers the company is involved in two other interesting areas. The first is multilayer switches which came out of the acquisition of a Californian company called Wiltron in 1990. These devices are the intelligent switches used to route internet traffic around corporate networks with much higher efficiency. This is an entirely new business for the company where it will be competing against the likes of Cisco. However, expectations for the product are low despite it seemingly being very competitive technically. In terms of the share price there is nothing embedded for this possible new leg to the company. The second area is optical components where the company is a small player but is growing fast. The main products are pump laser diodes used in optical amplifier modules.

Recently the stock has moved above 3000 yen and we have started to reduce our position. The good news would appear to be mostly in the price with continual profit upgrades, long lead times on new testing equipment and aggressive talk by management about profitability. However, the reality is that telecom spending will slow and this will have an impact on tester demand. The positives that could boost the stock further are a rise in telecom capex by NTT, including introducing W-CDMA for mobile and broadband solutions for the fixed line.

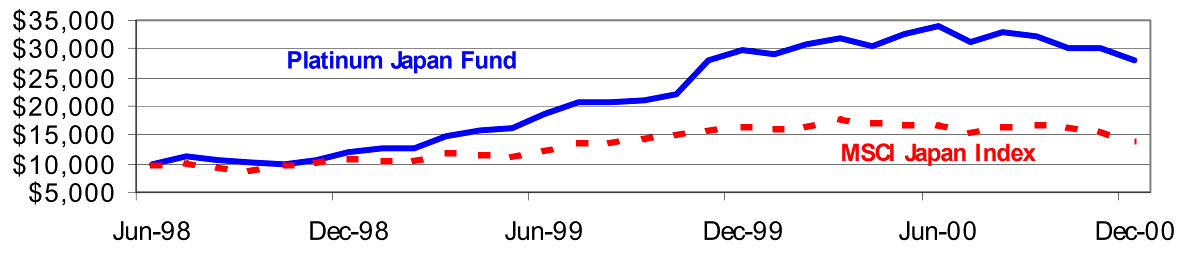


The Platinum Japan Fund

REDEMPTION PRICE: $1.8030 **FUND SIZE: $75 MILLION**

Performance

CUMULATIVE PERFORMANCE SINCE INCEPTION (1 JULY 1998 – 31 DECEMBER 2000)



The quarter saw the continuation of extremely difficult conditions for the Japanese equity market with the benchmark Topix index declining by 12.7%. The standout decline was in the communications sector which fell by 32% as it started to digest the large increase in stock supply from the NTT group. Technology areas were also weak with many sectors registering declines in the order of 20%. On the positive side there was movement towards defensive areas and this benefited domestic names in the airline, insurance and electric utility indices which all rose. The Fund was not able to withstand the downdraft in markets and declined by 13.1% over the quarter versus the MSCI Japan index which fell by 17.4% both in A$ terms. The performance of the Fund was significantly helped by the rise in the Euro against the yen, a position which had detracted from performance in previous periods. Over the quarter the Euro rose by 12.8% against the yen and at quarter end the Fund was hedged for about 41% of its value into Euro's.

The last twelve months have seen miserable performances from the markets in which your Fund has been invested. The benchmark Topix index of Japanese shares fell 25.5% for the year whilst in Korea, the Kospi index fell by 50.9%! The decline was much greater amongst the smaller indices oriented toward new technology companies with the Japanese OTC market down by 45.3% and the Kosdaq market in Korea down by 79.5%! Against this backdrop the Fund declined by a modest 6% for the year versus a decline of 15.4% in the MSCI Japan index in A$ terms. The compound return per annum over the past two years for the Fund has been 52.2% versus 13.2% for the MSCI Japan.

Commentary

We have recently returned from a trip to Japan where we visited over thirty companies. The bulk of our visits were concentrated in the technology area where the major themes we pursued were optical communications, W-CDMA mobile communications, digital photography and network integration. Our conclusions about the economic prospects for Japan remain essentially unchanged from those previously outlined. The pace of restructuring is clearly too slow and consequently economic growth will remain subdued until this changes.

It is highly apparent that Japan is an extremely disparate economy. Our visits to technology companies continually reinforce our belief that Japan has enormous depth in this field. These companies are highly attuned to the nature of global competition and have never backed off from their commitment to R&D. In the digital age, which we define as essentially network driven, where all electronics appliances are capable of interaction at high speeds, the Japanese are at the forefront. We would sight consumer electronics, mobile communications, components and high precision machine tools as being highly prospective areas for Japanese companies. In stark contrast, our visits to companies linked to the very core of the traditional economic model, such as financial companies and even companies like Hitachi, which are vast in the scale of their operations, make one realise that they have probably only just begun to think about change, let alone to address their problems.

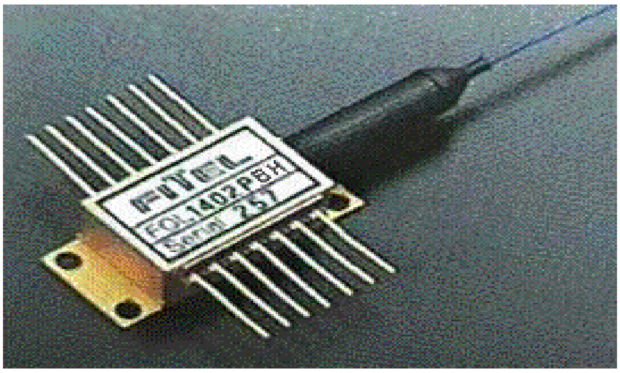
These traditional companies are perhaps best represented by Tokio Marine & Fire (TM&F). The company is the leader in general insurance products and has a very strong financial position. The insurance industry in Japan has typically been highly regulated with premiums, types of policies and payments to agents all being set by the government. However the industry has been deregulated over the past three years and there are new entrants trying to take market share. The problem for TM&F is that the new entrants (largely foreigners such as AIG) have expense ratios of perhaps 20% of revenues whereas TM&F has a much higher expense ratio at around 36% of revenues. The normal response would be to cut costs aggressively including directly selling to clients in order to reduce agents fees. However, this is complicated by an almost total reliance on tied agents which the company openly admits would be hard to reduce. They have typically had a long term relationship with these agents and they dare not risk losing the business by selling directly to customers. We believe this is a highly reactionary view to doing business. Wouldn't it be better to ask what profits they make from this relationship rather than assume that what was good in the past is good for the future? Of course, the company will change the way it operates but if it is only in response to a weakening market position, that is hardly reassuring? Certainly the stock is cheap against its book value but what is book value worth when they could quite easily fritter it away on rising underwriting losses and poor equity investments.

The story of TM&F is a microcosm of what is going on in Japan today. Our view is that the entire country is living quite comfortably off the high living standards created by the hard labours of the post-war generation. People don't feel particularly optimistic but by the same token they feel quite comfortable in the sanctity of the economic system which coddles their existence. Unemployment is not a pressing issue and the strong currency preserves the illusion of strength. We feel this process will continue until living standards have been eroded toward those prevailing in western nations which will mean either 10 more years of little economic growth or perhaps a currency at 160 to the US dollar.

We cannot emphasise enough the generational aspect. Senior managers, both corporate and government, feel that they deserve to enjoy their time at the top after slaving through the seniority system and feel little compunction to radically alter the status quo. Until the current generation of leaders starts to move on, real change will probably remain elusive. Perhaps it is correct to focus on the fortunes of the LDP as the beacon of change in this respect.

This is not to say that all is stagnant in Japan. The positives we can detect include a much more open attitude from companies which are now at least willing to discuss issues whereas before they would purely deliver their version of events. There is also a heightened awareness of what has gone on in the US, particularly with the way Nasdaq has mobilised risk capital and allowed ideas to be transformed into businesses. As a general rule, we found that the further we moved away from Tokyo, the more communicative and progressive the companies became. In Kyoto we even encountered a company that would have given any Silicon Valley tech outfit a run for its money in terms of stock promotion. We feel in general that such awareness will have long term positive implications for shareholder returns.

We devoted a substantial part of our time to seeing companies in the optical communications area - nine companies in total. In this arena the first companies that come to mind are the US-based market darlings such as Nortel, Corning and JDS Uniphase. However, what often doesn't get any airplay is that Japanese component manufacturers are very significant suppliers to these companies. The history behind this is one of those typical stories which highlights the technical depth of Japan. From the mid-70s when optical fibre was first introduced to Japan, NTT and its affiliate suppliers set about long term planning of how to benefit from this technology including the components that serve to boost transmission speeds. Whilst NTT subsequently chose to adopt higher speed optic fibre than its Western competitors, it slowed the adoption of WDM (wave division multiplexing – sending multiple signals down a single optical fibre). The boom in US spending on WDM has left the Japanese suppliers well placed to capitalise.



This matcbox size device – pump laser sells for approx. US$1,500.

Perhaps the best example of this is the Japanese WDM market leader, Furukawa Electric. In the early nineties when NTT slowed its spending on optical fibre, Furukawa branched its R&D into optical components. At the same time they invested in a start-up "garage company" called JDS, which at the time was a four person company with some bright ideas about optical networks and passive optical components. To help JDS out, they gave them distribution rights to Furukawa products sold in the US. The rest of the story is well documented with JDS growing alongside the flowering technology of WDM into the market leader it is today. Along the way it merged with Uniphase (giving it a broader product line which included actives) and more lately with E-Tek and SDL. Furukawa's roll in the company has gradually waned to that of a pure shareholder with a current stake of 14%. However, what is less well documented is that during the time that JDS was emerging, Furukawa was also working on some interesting technologies of its own, many of which now compete with or are supplied to JDSU. Its major product is the 1480nm pump laser for which it dominates the world market. These are the power sources used in amplifiers that serve to boost the optical signals as they progress down the optic fibre trunk lines and are absolutely essential to the system. Their position seems to be even stronger in next generation Raman amplifier technology which uses even more powerful pump lasers. In addition they are working to broaden their product range in components with passives (fibre bragg grating, couplers), source lasers and amplifier modules.

While the US optical stocks appear expensive, the Japanese stocks are in many cases still attractive. In addition, it is likely that when NTT lowers its tariffs for broadband access they will need to spend on WDM to facilitate the extra data volumes this will create. This will directly benefit the Japanese component companies and the systems companies such as NEC and Fujitsu. Looking at the valuation of Furukawa we see that at a current price of 2000 yen it is trading on 50x current year operating earnings. However its 14% holding of JDSU is worth 1080 yen and if we adjust for this, the stock could be seen to be on 23x. Although we do not own the stock, this valuation is interesting when you also consider that the company is restructuring heavily away from its old industry areas into optical components and profits should continue to rise strongly as a result.

Other companies we saw in the optical communications space that appeared interesting were:

Sumitomo Electric – although a larger company in terms of total sales, this company is a close second to Furukawa in optical components. Its major products are optical datalinks (world's largest), semiconductor source lasers (second to Lucent) and pump lasers (second to Furukawa). It is also well placed in the basic materials that act as the substrates for advanced semiconductors including those used in pump lasers. The stock is on 38x the current year's earnings forecast.

Anritsu – this company presently dominates the global market for 10gbps optical testing equipment but also has products in mobile communications testing and testing for optical components. (The visit to Sumitomo Electric highlighted that the major bottleneck for production is testing equipment). The company is also a smaller player in the optical components area including pump lasers.

FDK – an affiliate of Fujitsu, this company uses its core technology in crystal devices to secure a 40% world market share for optical isolators with JDSU as its major rival. The company is more of a general components company with interesting technology in VCO (supplied to Nokia), ferrites for power sources and has a joint venture in batteries with Sony. It is now paying closer attention to profitability having recently exited the magnetic head business.

Moritex – its core business is optical fibre illumination systems used in high precision machine tools. However, the interesting product the company has is its automated alignment system for optical fibre strands and laser diodes/arrayed waveguides at very high levels of precision. There seem to be only three companies in the world producing these machines. Their importance lies in the fact that without these machines, the laborious assembly process is done by hand. If the optic fibres and the device are not correctly aligned there can be major loss of signal strength. For next generation optical switch products the company is talking about being able to align 32 fibres from each of four directions onto a control chip.

Outlook

The Japanese market fell substantially in 2000 giving back a large part of the gains achieved in 1999. The fall is much worse for sentiment when you consider that we seemed to be embracing the "new economy" and all of the benefits this would have for the structure of the economy but in reality we have had a liquidity driven bubble that has left large losses amongst the investing public. The likes of Softbank that were so anointed as an agent of change have been roundly trounced and arguably this prolongs (or terminates) the economic transformation. However we feel that this has probably been reflected in the equity market and that a different version of the new economy will emerge, this time probably amongst the likes of NEC and Toshiba. These are technology companies with a "foot" in the old Japan but the momentum to actually breakout on the upside. In terms of the index it is now pretty much in the middle of its five year trading range which means if you have any belief at all you should be a buyer not a seller. The worst case would probably be a US recession in which case the market could test its old lows but would then probably be back at current levels quite quickly. In this environment we will continue to accumulate the stocks we like with a major bias toward technology stocks. These companies can grow without the help of the economy.

Changes to the Portfolio

During the quarter we consolidated the portfolio by removing a number of stocks in favour of larger positions in our core holdings. We sold our positions in the shipping stocks, Mitsui OSK and NYK. Although we only recently purchased these holdings the decline in prices in the technology area made those investments more compelling. We also sold our positions in Citizen Watch, Namco, Minebea and Citizen Electronics and reduced exposure to Anritsu which had appreciated 300% from our entry point. With the proceeds of these sales we increased our positions in Fujitsu, NTT, DDI and Toshiba which on average had fallen 23% over the quarter. We also chose to substantially increase our exposure to Korea as that market has probably seen the worst after it declined by 50% in 2000. We initiated a new position in Samsung Electronics whilst substantially raising our positions in LG Advertising and LG Chemical. We also added a 4% long position in Kospi futures which raised our effective exposure. On the short side we reduced our total position from 17% to 5% of the portfolio as the prices of these stocks declined. Our currency positions were largely unchanged during the quarter, with the Yen/Euro position looking very promising.

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Dec 2000	Sep 2000
Cyclical Growth	Anritsu, Toshiba	26%	32%
High Growth	DDI Corp, NTT, Japanese Broadcasters	14%	18%
Deep Value Cyclicals	Taikisha, Noritake	15%	17%
Steady Growth	Nintendo, Kinki Coca Cola	8%	7%
Market Sensitive	Nikko and Nomura Securities	6%	6%
Korea	SK Telecom, Samsung Electronics, Medison	17%	14%
Cash		14%	6%

INVESTED POSITION

Region	Dec 2000	Sep 2000
Japan	70%	81%
Korea	17%	14%
Cash	13%	5%

The Fund's short position is 0.7% against the Kospi (Korean index) and 4.6% against individual Japanese companies.

The Platinum European Fund

REDEMPTION PRICE: $1.7352 **FUND SIZE: $31 MILLION**

Performance

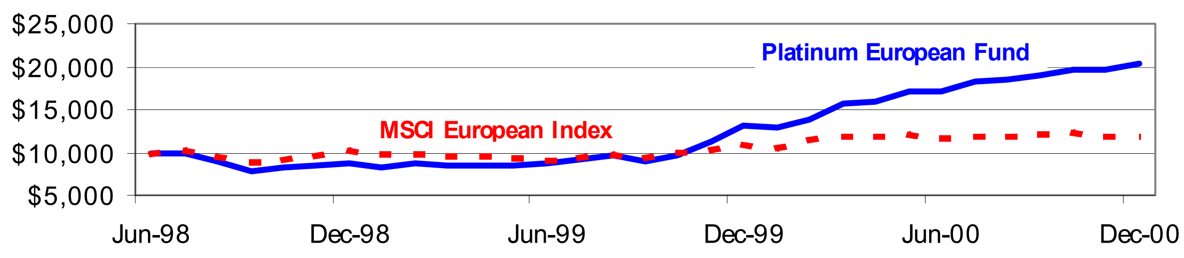
Earnings downgrades and NASDAQ destroy Technology, Media and Telecom (TMT) stocks

Once again benign index outcomes have masked enormous moves within the European stock markets. For the quarter, MSCI Europe was –6% in local currencies and –1% in Australian dollars. So-called "cyclical" sectors were the highlight, with the steel, paper and chemical indices each up 20 to 30%. On the other hand the computer services index and the computer hardware & software index each lost more than one third of their value.

More problematically, there were few good places to take refuge as only 54 of the top 500 stocks were up over 20% for the quarter, compared with 89 stocks down more than 20% (29 of these were down more than 40%).

The Platinum European Fund returned 8%, as it benefited from good returns from chemical, paper, beverages and banking stocks.

CUMULATIVE PERFORMANCE SINCE INCEPTION (1 JULY 1998 – 31 DECEMBER 2000)



Commentary

Markets – the bubble bursts, the "old world" resumes as the "real world"

Most of the calendar year 2000 for European stock markets has in fact been a story of the consequences of the November 1999 – March 2000 technology bubble. This phenomenon pervaded stock markets the world over and, as we have noted several times, manifested itself in Europe in a relatively narrow range of stocks, many of which were more hope than reality. We wrote in the second quarter 2000 report of the *Neuer Markt*, which we labelled "the supercharged NASDAQ of Europe". This market segment, which rose eight-fold from its inception in 1996 to its peak in March 2000, has, in the last nine months, lost over 70% of its value. To understand the scale of the bubble to March, it must be noted that this 70% decline brings the market back only to the levels where it traded for most of 1999.

As with any mania, there have been stories of excess and deception that characterise all collective lapses of reason.

The erstwhile largest capitalised stock, EM.TV, a company intending to merchandise characters from films etc, has had to concede that perhaps the accounts were not quite correct and of course various members of management have left the company. EM.TV is an elegant representation of the loss of reason in the market; more generally of course there are many legitimate business listed on the *Neuer Markt* which we can now begin to consider.

One of the signs of the peak in the tech/telecom mania was the curious labelling of companies and industries as "old world " – this went so far as to include entire countries, eg. Australia! As a thoughtful cynic noted several months ago, few of the dot coms or concept tech stocks possess anything like as much technology as the average chemical, auto, or aerospace company. As the dot disappeared from dot com, the attractions of earnings, earnings visibility, market position, cash generation and sensible valuation, were remembered. Thus in the last few quarters and especially in the last few months, good share price performance has been seen in these apparently "old world" sectors. In some cases this has probably gone too far – today the valuation of the classic "defensive" stocks in Europe is unattractive.

European economy – the US, the euro, domestic growth and the oil price

The US economy has began to slow quite sharply from its very brisk growth of recent quarters. This is not helpful to the extent that European growth has been propelled by exports to the US (fuelled by the weak euro). However as we have mentioned over the last few quarters, the European economies are starting to show an improved domestic performance. France, for example, has seen a higher rate of employment growth in each of the last three years than that of the heroic US economy. And in Germany the unemployment rate has declined persistently for quarter after quarter. It is interesting that tax receipts in both Germany and Italy have been increasing in recent months despite the dull growth – presumably people/businesses are not increasing their tax payments just for fun!

European structural reform continues to be the key underpinning (and requirement) for solid economic conditions in the coming five years. To a considerable extent the desperation of the mid-1990s was the catalyst for change. At that time manufacturing costs per hour in Germany were 70% higher than in the US and well over double those of the UK. Today labour in Germany costs 10% more than the US and only 40% more than in the UK (adjusting this advantage for poor UK management and product quality explains the seemingly perverse disappearance of the UK manufacturing sector). Interestingly, the cost of labour in France is below that of Britain for the first time in two decades. All this thanks largely to the euro. As the euro stabilises (and in fact probably strengthens more than most imagine in coming years), continued structural reform (of tax regimes, labour markets etc) will be crucial to maintaining growth and competitiveness in Europe. As we have mentioned before, the fiscal position of European governments will protect/promote growth in the coming year or two – in fact for the first time since 1993 most or all of Europe will enjoy expansionary fiscal policy in 2001.

These impulses should be complemented in the short term by the decline in the oil price (now one third below its September peak and more than that measured in euros), the steadily improving level of capital investment in Europe (encouraged by a strengthening euro) and, hopefully, a cut in interest rates early in 2001 (to reverse October's unnecessary hike). Considering all these factors, we are encouraged that growth in Europe, though clearly slower than early in 2000, will be maintained at a reasonable level in the coming quarters. More importantly, we do not observe in Europe the severe distortions that characterise the US economy (business and consumer debt, trade deficit etc) and thus cloud the medium term picture.

Industry consolidation – auto components, specialty chemicals, paper

European industry consolidation continues apace. The demise of a few strangely priced telecom stocks has had little impact on the imperative for scale and reach in the real economy. In the midst of concerns over the slowing US auto market (and the attendant misery for DaimlerChrysler), European auto components companies are scaling up. One of the consequences of Vodafone's take-over of Mannesman early this year was that the industrial businesses of the German conglomerate were put up for sale. The purchase of Mannesman's very large auto components business was hotly contested; in the end a Siemens-Bosch combination triumphed over the hapless steel conglomerate Thyssen-Krupp. And then in October the Peugeot family, via the long-suffering listed company that bears their name, bought the French parts supplier Sommer-Allibert. Perhaps more interesting still is that the benchmark European component company, Valeo, is understood to be willing to merge with a large (American?) partner.

These deals are a continuation of a process of concentration – in the case of auto suppliers the pace is probably driven by the pace of consolidation of their customers – the auto assemblers. Although there has not been the raft of mergers that analysts predicted Daimler buying Chrysler would precipitate, the consolidation has been steady (if stealthy) nevertheless. With partial acquisitions (eg. Renault buying part of Nissan, Daimler pressing on by buying a stake of Mitsubishi etc), and "alliances" (on marketing, parts sourcing etc) becoming more common, the suppliers have seen the inevitable and are teaming up as well. We are looking at some suppliers because their position in the industry will structurally improve, but the auto cycle has been a strong one worldwide so we are wary of getting involved too early.

Specialty chemicals is an industry which has continued its deal making – December's long awaited take-over of the UK's Laporte by Degussa-Huels (Germany) is among the last remaining British-owned specialty chemical businesses to fall into continental hands. The industry is far from homogenous - and in a lot of ways based on profitability, market shares and technical lock, some of the business of the so-called bulk chemical maker Bayer are more "special" than the pure plays. However in general it is another low growth but cash-generative industry where valuations and consolidation mean that there are some interesting opportunities for investment.

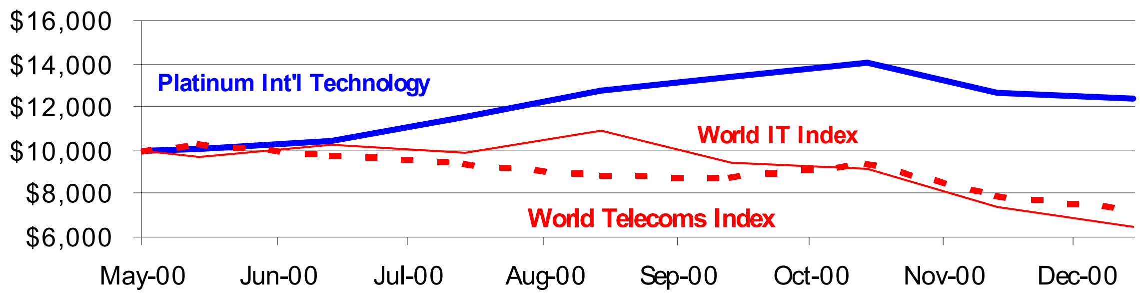
An area of special interest for the Fund has been the paper and forest products area where the industry has for once displayed capital discipline even though pricing and demand are solid. Thus the cycle looks like being extended rather than suffering the usual spectacular boom-bust. The Fund has invested in three Scandinavian paper companies – world leader UPM, newsprint focused Norske Skog, and also AssiDoman, which owns six million acres of Sweden – in forest! The interesting thing for these Scandinavian producers is that their plant is sufficiently efficient and their market positions sufficiently large that even if the euro returned to parity with the dollar, these companies would still be the world's lowest cost producers by quite some distance.

The Platinum International Technology Fund

REDEMPTION PRICE: $1.2330 **FUND SIZE: $10 MILLION**

Performance

CUMULATIVE PERFORMANCE SINCE INCEPTION (18 MAY 2000 – 31 DECEMBER 2000)



Technology and telecom stocks continued to perform poorly with the MSCI Information Technology Index down 32% and the MSCI Telecom Services Index down 17% during the quarter. Although weakness was evident across the entire spectrum of technology and telecom stocks, the downward spiral was led by internet software and services (-56%), semiconductors (-42%) and data networking (-41%). Over the quarter, the Platinum International Technology Fund fell 8.1%.

The Fund was not immune to the collapse in the market with significant falls across the portfolio, and in particular the semiconductor holdings such as AMD and National Semiconductor. However, a substantial portion of the losses were offset from gains made on short positions in market favourites such as Sun Microsystems, EMC, Broadcom, and Siebel Systems. Good returns were earned from Peoplesoft which continued to perform well and Silicon Valley Group which was taken over early in the quarter.

Commentary and Outlook

The technology and telecom sectors have been buffeted by ongoing reductions in earnings forecasts as growth in the new economy has failed to live up to the enormous expectations that had been created. There have been a variety of disappointments. At the most extreme, many "new economy" business models where significant cash losses have been incurred in the hope of quickly building a significant subscriber base or annuity stream have failed as capital markets became risk averse and refused additional funding. The result has been a large number of bankruptcies in the dot com space but also amongst the new telecom service providers. At the milder end of the spectrum, slightly lower growth rates in products such as mobile phones or personal computers have not only affected the manufacturers of those products, but had significant effects on suppliers of semiconductors and ultimately manufacturers of semiconductor capital equipment. Even in these areas where the setbacks have been more measured, the impact on stock prices has been large due to the very high valuations these companies had been accorded.

The personal computer market has slowed significantly; with estimates for growth during 2000 now at only 12% (and flat for the fourth quarter) versus growth rate of 24% in 1999. There are a number of issues that have retarded growth. In the consumer market, the dramatic falls in selling prices were put on hold as manufacturers faced component shortages and thus concentrated their output on higher priced models. Furthermore, while broadband services (such as cable modems and DSL lines that provide high speed access to the internet) are being rolled out, the numbers are still very small with only six million subscribers in the US market today. Thus without any pressing need for a more powerful machine, and with prices holding up, the consumer has been reluctant to upgrade.

In the business market, growth has been disappointing as companies have seen little need to upgrade to the new Windows 2000 operating system for the moment, and with a weak profit environment next year, upgrading personal computers is likely to be seen as a low priority when IT capital expenditure budgets are under pressure. A similar story can be told for mobile phones where global shipments for 2000 are now expected to grow 40% to 400 million units versus expectations earlier in the year for 450- 500 million. The disappointment is partially a result of unrealistic initial expectations but also due to delays in the development of third generation data services and the new high end handsets.

The slower growth in personal computers and mobile phones, as well in other areas such as telecom equipment had serious ramifications for the supply chains in these industries. Earlier in the year tight supply of components had resulted in over-ordering and hoarding so when the slowdown hit, not only were the companies awash in finished product but also had excess supply of components. The impact on the sales at the semiconductor companies has been devastating with some seeing sales fall by as much as 10% in the fourth quarter. Furthermore, the previous robust capital expenditure plans of the semiconductor companies have been wound back as the plans had been based on a growth profile artificially boosted by the over-ordering of customers. It is somewhat perverse that one of the biggest stories of the IT revolution was lean supply chains driven by B2B exchanges and yet the semiconductor industry has still been caught out by a massive inventory cycle!

The final nail in the world of information technology has been the sudden slowdown in the US economy during the fourth quarter. The profits of “old world” companies are deteriorating at an alarming pace which means corporate information technology budgets are likely to come under review. This is especially the case now as the pressure companies felt a year ago from the emergence of dot com competitors recedes. This has placed a major question mark over the last remaining strongholds of the bull market, enterprise software, hardware and storage.

This is not to say that the entire bull market in technology was a mirage. Concepts such as business-to-business e-commerce are very real with massive benefits to companies from not only automating processes such as order entry and payments, but also from allowing customers and suppliers to co-ordinate their efforts more closely thus reducing the level of inventories in the supply chain. Although there has been much fanfare with many industry consortiums launching marketplace exchanges, these projects are in their infant stages. Accompanying infrastructure for online commerce such as *digital certificates* that allow for electronic documents to be digitally signed and online payment systems must also be implemented. At the height of the boom in technology stocks, it was estimated that the annual spending on software for business-to-business e-commerce projects would exceed $50 billion by 2005 versus less than $500 million in 1999. While difficulties in implementing such projects today may be causing people to question the validity of such estimates, it is still clear there will be significant investment globally in these areas over the next decade.

In other areas, innovation will continue to drive demand for new products. The deployment of *gigabit ethernet* to increase the bandwith of corporate networks is not only a market estimated to grow from $200 million today to over $1.5 billion in three years time, but it will also allow deployment of multimedia applications such as video conferencing in the corporate environment. *DSL and cable modem* installations that provide high speed internet connections for residential users are expected to grow from approximately four million to over 20 million. Both of these developments will give a new impetus for growth in the mature PC market. The deployment of third generation mobile phone services which are ongoing will create demand for new mobile phones. All of this along with other major trends in computing and communications will continue to drive semiconductor volumes. Also, the semiconductor companies will be forced by the ongoing pressure to deliver smaller chips with finer circuitry to upgrade production lines to new technologies such as 300mm wafers and copper based production.

Portfolio

The technology and telecom sectors are down 51% and 48% respectively, since the peak in March, with many individual stocks down 85% or more. Although some of these companies were ill conceived concepts that will fail, there are others that have built real businesses with significant and growing revenues. It is this universe of companies that we believe are providing the interesting investment opportunities today.

Foundry Networks is a provider of networking equipment that in three years has gone from start up to an expected $370 million in sales this year. To achieve this, the company has had to win business against the likes of Cisco and Nortel which it has done by providing products with superior performance and lower prices. The company is a leader in layer 4 to 7 switches which are used to manage data traffic hitting web sites, a product capability that Cisco acquired in its purchase of Arrowpoint for $5.7 billion and Nortel through the acquisition of Alteon Websystems for $7.8 billion. Meanwhile the company is highly profitable and has significant cash balances. However news that the company would miss market estimates for the fourth quarter saw the stock fall heavily and is now trading at 7% of its high earlier in the year. The stock is trading on 18x times earnings which is very appealing given the longer term growth prospects.

Teradyne is a manufacturer of semiconductor test equipment, with a leading position in mixed signal testing. Test equipment is deployed in the final

BREAKDOWN BY INDUSTRY

Categories	Dec 2000
Semiconductor	31%
Software	18%
Semi Capex	14%
Telecom Equipment	12%
Electronic Components	7%
Other	2%

stages of the manufacturing process and the amount of test equipment required is a function of the volume of chips coming off the production line. Given the build up of inventory of semiconductors described earlier, it is not surprising that the stock saw a significant sell off which left it at 20% of its high and on less than 9x 2000 earnings. Although 2001 is likely to be a difficult year, the business has been highly profitable even through previous down cycles, has a clean balance sheet, and through time should grow at a rate of 15% or more.

Other additions to the portfolio in the quarter include Novellus (semiconductor capital equipment), Commerce One (business-to-business software), and RSA Security (internet security software). Although the portfolio's holdings in companies such as AMD, National Semiconductor, Motorola, and Novell have performed poorly over the quarter, we remain confident in the long term outlook for these businesses and have been adding to these positions at lower prices.

The short positions in the portfolio have been significantly reduced from 33% to 16% as profits were realised. Even though many stocks remain significantly overvalued, overly bearish sentiment and significant cash levels in technology funds would argue against taking an aggressive short position for the moment. The year ahead is likely to be a difficult one for the sector as the excesses of the "tech bubble" subside but it is promising that a large number of technology and telecom stocks are now reasonably priced.

INVESTED POSITION

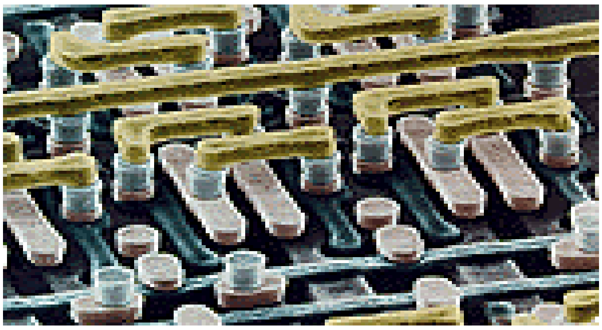
Region	Dec 2000	Sep 2000
US	70%	68%
Japan	11%	6%
Korea	3%	5%
Europe	1%	2%
Cash and Other	15%	19%

The Digital Revolution

Not so long ago, a mobile phone felt like a brick, music was recorded on black vinyl records, VCRs were guaranteed to rip the cassette tapes to shreds, and a leading personal computer ran at 133Mhz. This year's Christmas shopping lists would alert one to how much things have changed. Not only are mobile phones smaller, they also have longer battery life and include features such as radios and computer games. One can compile and down load one's favourite music into MP3 players with just a few clicks of a button. DVD offers amazing audio and visual quality, TV screens have refresh rates of 100Mhz and a powerful PC can now process millions of instructions in a second. And yet, we are still merely at the dawn of the digital age. From here on, nearly all communications will be first converted from the physical world of analog; that of sight and sound, into the digital world of zeros and ones, transmitted at the speed of light via optic fibre cable or wireless and then converted back into the analog world on the other side.

This has enormous implications for us as investors. We cannot vaguely refer to these developments as new fangled ideas but must understand their workings intimately to maximise the opportunity available. Let's start with the semiconductor chip. These rectangular shaped objects, which are normally housed in protective black plastic casings, are typically less than half a millimetre thick and usually two to ten millimetres in length and width. In its purest form, a semiconductor chip is a collection of transistors. A transistor functions as an electronic switch which allows current to flow or prevents it from flowing. Strange as it may sound, a collection of these simple ON and OFF switches/transistors allows all instructions and data to be converted into a binary language of ones and zeros. The Pentium III logic chip, which may be at the heart of one's PC for example, is made up of 28 million microscopic transistors. Yet, it is only 106mm^2 in size (smaller than a finger nail). The process of computing involves the pulsing of electrons through the chip at very high frequency (over a billion pulses per second) which regulates like a metronome the reading of codes, the fetching of data, the processing thereof and the final storage of the result.

To achieve this level of speed and compactness, chip makers, together with their equipment suppliers, have devised some extraordinarily complex manufacturing processes. An integrated circuit, better known as a semiconductor chip, is comprised of 6-8 layers of material in total. The base is a thin sliver of silicon crystal, hence wafer, upon which sequential layers are systematically deposited. Circuits are imprinted by shining a fiercely bright light through a stencil (mask) onto the photo-sensitive treated wafer. That part of the surface which is struck by light is softened while that which is in the shadow remains hard, thus in the subsequent washing and etching process the exposed part is removed thereby creating maze-like patterns. The process then proceeds to the next layering and so on. A typical wafer takes two to three months to manufacture having been through several hundred steps. There follows the dicing of the wafer into discreet chips (possibly three hundred). This is followed by the mounting of the chip on a leadframe, the spider like leads that allow the minute circuits of the chip to communicate with the printer circuit board (PCB) upon which it is mounted. Once attached to the leadframe, the chip is encased in a protective casing (that black cube), though new mounting techniques are evolving.



Source: IBM. SEM image of metal interconnects revealed by dissolving away the insulation layers on the surface of a chip.

A modern chip factory, so called fab, costs US$2-3 billion. The expense lies principally in the ultra clean conditions required and the intricate equipment. Do remember, these chips comprise circuits of 0.18μm in width, which is around 1/600th the width of a strand of human hair. Putting it another way, it is equivalent to the amount one's hair may grow in a single minute. A good example of the sophistication of the tools employed is that of the stepper. This is the photolithography device that allows the pattern to be laid down on the chip. It comprises a laser, which was first envisaged in the US Department of Defence Star War project, and a platform (stage) that moves the wafer imperceptively under the gaze of the light source. Such a tool can cost over US$10 million even though its footprint is only 6.5m^2. The multiple faceted lens alone takes nine months to produce.

As one might imagine from the above, the semiconductor industry has spawned a multitude of disciplines and industries that barely existed 20 years ago. This is fertile ground for us to look for opportunities for investment in a similar way to that which existed during the glory days of machine tools. The beauty of this industry is that unit demand is still growing very strongly which not even an economic slowdown will damage. A good example of this is the car industry. Additional functions such as air bags, ABS braking, global positioning systems all entail greater electronic content within a car: 60 – 70 chips are used in the current BMW 7 series and this is expected to double in the soon to be released model. Mobile phones and personal digital assistants (PDAs) are new areas that will require more and more semiconductor chips: mobile handset shipments quadrupled in a little under four years, from 108 million units in 1997 to approximately 420 million units this year. More importantly, semiconductor content per mobile phone is expected to rise as we move to the next generation wireless protocol.

There also have been tremendous strides in fixed line communication. The backbone of the system is now largely comprised of optic fibre and with ingenious engineering a single strand of fibre can carry 64 channels by using multiple light wavelengths. This adds impetus to the semiconductor industry in that the analog signals (electrical pulses) must be first converted into light pulses, amplified and shot down the optic fibre. At the other end, the reverse has to take place. In this case, there are a host of semiconductors used to translate electrical pulses into light for amplification and for transmission.

THE DIGITAL REVOLUTION PROVIDES A STRONG GROWTH OPPORTUNITY ALBEIT CYCLICAL

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000F	CAGR*
Sales (US$bn)	55.0	60.0	77.3	101.9	144.4	132.0	137.2	125.6	149.0	209.0	14%

* Compound Annual Growth Rate

Despite the favourable long term trend to worldwide semiconductor consumption, one cannot lose sight of the fact that it is a cyclical growth industry. Like many industries that benefit from economies of scale, incremental additions to capacity tend to be chunky and often come on stream just after demand has peaked. Further, this industry has been characterised by broadening geographical participation with the Taiwanese and Koreans playing catch-up and challenging the likes of Japan and America. One factor that may smooth the amplitude of the cycle is the development of the super fab companies who take in works from the design specialists. This is also an important development for the equipment suppliers who face a greater concentration of buyers. The outcome of this may be more mergers and acquisitions amongst the equipment suppliers who in any case see benefits from consolidating R&D budgets. Furthermore, over the next three years, the equipment suppliers will find themselves better insulated from the vagaries of the cycle as their customers, the semiconductor makers, are at the start of two major technology upgrades. For all that, the industry stands out for its persistent profitability: even at the bottom of the cycle the quality companies remain profitable.

We believe the recent sell off in the Nasdaq where fabless chip designers have seen their share prices collapse to a third of their peaks and those of the semiconductor equipment suppliers (SPE) by 70%, sets an interesting environment for investors with sensible time horizons.

The Platinum International Brands Fund

REDEMPTION PRICE: $1.1016 FUND SIZE: $4 MILLION

Performance

Markets have been under pressure with the MSCI World Index declining by -8.6% (in A$). Investors returned to the more defensive stocks to shelter from the storm and as a result our proprietary international brands index, which we described in the last report, performed relatively well against the market. The index returned 5.2% while the Platinum International Brands Fund increased by 7%.

Changes to the Portfolio

The portfolio is still holding about 28% cash and this reflects both our cautious stance on the short term future and our belief that prices are still expensive. We have added a number of Asian based stocks to the portfolio including Nintendo, Shimano, Citizen Watch, Samsung Electronics, and Gudang Garam. We have sold out of our Gillette and Proctor and Gamble positions as indicated in the last report. We have also added US clothing manufacturer VF Corp and increased our exposure to Pernod Ricard while realising some of our gains from Diageo.

Commentary

The most interesting story of the past quarter has been the auction of the Seagram spirits brands. Seagram, the diversified entertainment company, merged with Vivendi with the intention of forming a global entertainment giant. However, the beverage assets upon which Seagram was founded, were considered non-core and were put up for tender. Included in the Seagram portfolio were such well known brands as Chivas Regal, Seagram's Gin, Martell Cognac and Captain Morgan Rum.

The auction process saw Diageo and Pernod Ricard jointly bid against others including the Bacardi/Brown-Forman team. The previous favourite, Allied Domecq, dropped out after it seemingly managed to cherry pick the prized Captain Morgan rum brand from the portfolio without making a full bid. Captain Morgan is distilled by a small family-owned Peurto Rican company with the marketing rights owned by Seagram. However, in the event of a change of control of the brand there is a legal opinion that the Peurto Ricans should be offered first right of refusal. As things stand there is lively legal debate about what constitutes change of control. Allied Domecq are publically defending the deal on the basis of a change of control, while the Seagram argument is that the brand still forms part of a larger portfolio, and that it is the ownership of Seagram that has changed, not ownership of the brand.

At present Allied Domecq is the second largest spirits company in the world and the importance of Captain Morgan is that it rounds off its portfolio and gives it access to one of the faster growing spirit categories. Along the same lines the company has acquired the distribution rights to Stolichnaya in the US. This has been done at remarkably low cost of £35 million – particularly in the light of longer term rights to acquire distribution in other countries as they expire. To further enhance its offerings, it has bought the Champagne brands off G.H. Mumm and Perrier-Jouët for E575 million from a group of financiers. This is further evidence of Allied's approach to building a portfolio by strategic acquisition. The danger lies in how much damage has been done to these brands from the milking that has taken place at Mumm and Perrier-Jouët. These have robust heritages but had fallen into the hands of financiers rather than brand builders.

We now face an interesting situation whereby Diageo owns the leading or second placed spirits brands in every category (apart from rum) and has improved distribution coverage. This could see a situation develop whereby Diageo is able to offer its customers, in nearly all distribution chains, a set of integrated incentives that allow it to lionise the market. For example, deals could be struck where the power of a giant brand like Johnnie Walker Red Label (selling 7.5 million cases pa globally) is tied in with lesser brands of under one million cases a year such as specialty single malt whiskys or Tanquery Gin.

We think that the outcome of this auction is particularly interesting for Pernod Ricard. In one swoop Pernod has vastly increased its operational leverage by acquiring the rights to Chivas Regal, Seagrams Gin and Martell Cognac. From being a largely French/European-based company it gains enormous benefits in the US market and of course will be able to broaden its European base with these great brand names. The two issues are, funding the acquisition and secondly, the integration of these new brands into the existing portfolio. Of the $3.15 billion which is their share of the deal, we can identify asset sales of $1 billion, these include the fruit juice company Orangina, fruit processor SIAS and an Irish cash and carry business. Funding is being arranged and is likely to take the form of a convertible bond. The market seems to share our enthusiasm and since the announcement of the deal the stock has appreciated by 19%.

Our biggest single winner has been VF Corp, which is the largest listed clothing company in the world. The company makes jeans, outdoor gear, intimate clothing and makes garments for other brands, such as Nike, under license. The clothing industry has been experiencing trying times lately, Fruit of the Loom and North Face are two good examples of fallen stars, however, VF Corp has shown consistent operating results through excellent systems and marketing. What causes many of these businesses to fail is not the wrong product but being unable to service customers with the right quantity of product at the right time. VF Corp has been the best company in the business at keeping its customers happy and as such has been able to shine through a very difficult time for clothing manufacturers. Over the last 15 years the company's profits have grown slowly and steadily, and with minimum effect from the recession years.

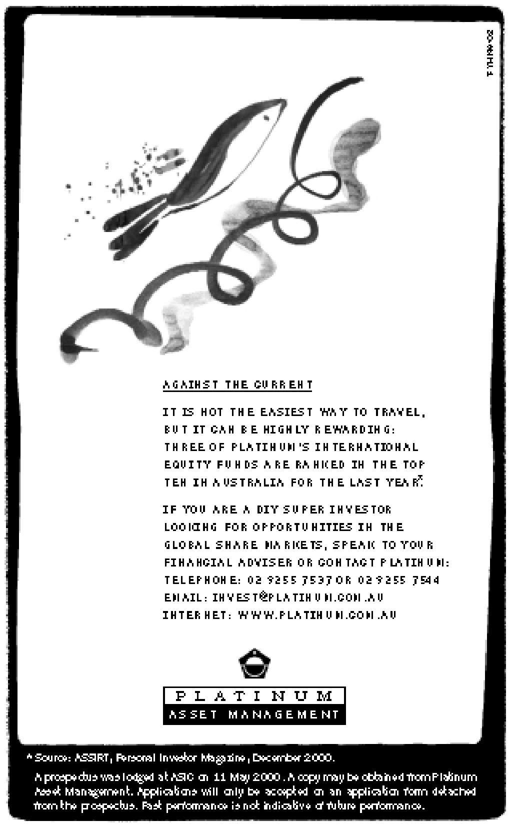
A new addition to the portfolio is Nintendo. It is a Japanese institution with a 111 year history, originating as a playing card company and gradually evolving into the supplier of both game hardware and software. The toy business at the best of times is unstable and it becomes all the more so with the rapid change in technology. This was highlighted when Sony entered the field in the mid-90s with its Playstation. In the face of an aggressive marketing push by Sony, who promote on the basis of quantity of games titles rather than quality, Nintendo has found itself losing market share, though not sales. Sony's philosophy is to offer the hardware platform and address a much wider market than that pursued by Nintendo. With much commotion, Sony is addressing an audience that includes 20-30 year olds. To date it has placed 80 million Playstations, with the expectation that each console will generate four software title sales per year.

Nintendo on the other hand has doggedly focussed on the market segment of up to and including 14 year olds. The concept is one of promoting clean family values and keeping a very tight rein on quality and content. They strongly believe that it is the quality of the titles that produces return trade to the brand. An analogy may be the work Disney produce in the animated world and in movies.

Our belief in the company's ability to create exciting and enduring games is well supported by past successes. No other game company can boast such adolescent heroes as the Mario Bros, Donkey Kong, Legend of Zelda and Pokemon. Unlike many of the other software producers, Nintendo seems to have the ability to create mega-hits where a game title may sell up to 3-4 million copies. The lesser companies are often saddled with much smaller production runs, say between 200,000-300,000, which completely changes the economics in this business. So where Nintendo looks to have long runs of few titles, the Sony model is to have many titles (up to 800) with shorter runs.

The strength of Nintendo is very evident when one examines the sales of the handheld Gameboy, and the company is soon to release its latest version Gameboy Advance. They expect to sell 23 million Gameboy Advance next year. Likewise the company will be launching the Gamecube (the N64 successor) and the specifications seem very impressive, especially with its ability to create 3D images. They have taken the bold step of viewing the Gamecube as a stand-alone games machine rather than following a broader appeal by incorporating a DVD player which is found on Sony's PS2 and Microsoft's X box. The break from the past will be the use of CD's rather than cassettes. The decision by Microsoft to enter this arena is testimony to the potential of the games market. We feel that Microsoft may find this exercise to be more difficult to execute than they believe.

<u>Kerr Neilson</u>
<u>Managing Director</u>
8 January 2001


AGAINST THE CURRENT
IT IS NOT THE EASIEST WAY TO TRAVEL, BUT IT CAN BE HIGHLY REWARDING: THREE OF PLATINUM'S INTERNATIONAL EQUITY FUNDS ARE RANKED IN THE TOP TEN IN AUSTRALIA FOR THE LAST YEAR.*
IF YOU ARE A DIY SUPER INVESTOR LOOKING FOR OPPORTUNITIES IN THE GLOBAL SHARE MARKETS, SPEAK TO YOUR FINANCIAL ADVISER OR CONTACT PLATINUM:
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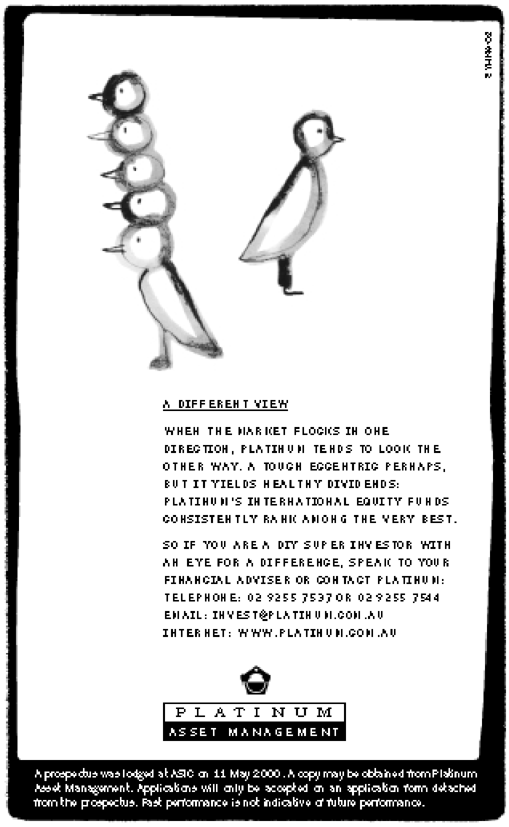
* Source: ASSIRT, Personal Investor Magazine, December 2000.
A prospectus was lodged at ASIC on 11 May 2000. A copy may be obtained from Platinum Asset Management. Applications will only be accepted on an application form detached from the prospectus. Past performance is not indicative of future performance.


A DIFFERENT VIEW
WHEN THE MARKET FLOCKS IN ONE DIRECTION, PLATINUM TENDS TO LOOK THE OTHER WAY. A TOUCH ECCENTRIC PERHAPS, BUT IT YIELDS HEALTHY DIVIDENDS: PLATINUM'S INTERNATIONAL EQUITY FUNDS CONSISTENTLY RANK AMONG THE VERY BEST.
SO IF YOU ARE A DIY SUPER INVESTOR WITH AN EYE FOR A DIFFERENCE, SPEAK TO YOUR FINANCIAL ADVISER OR CONTACT PLATINUM:
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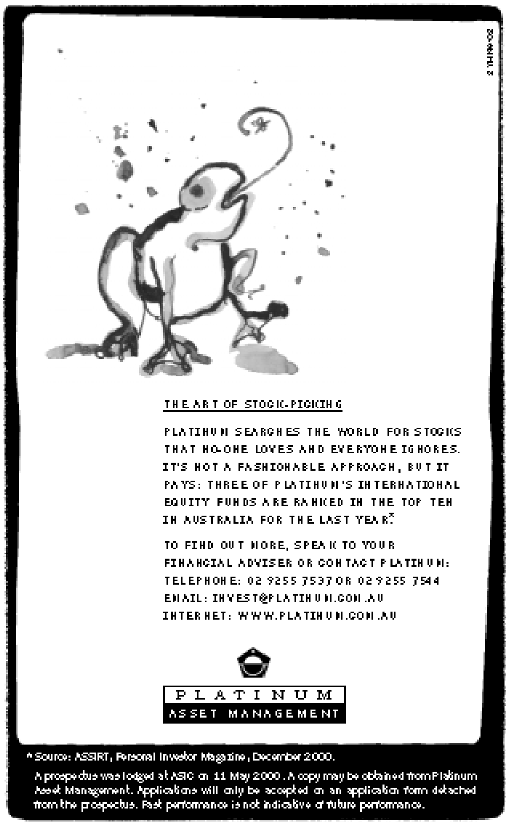
THE ART OF STOCK-PICKING
PLATINUM SEARCHES THE WORLD FOR STOCKS THAT NO-ONE LOVES AND EVERYONE IGNORES. IT'S NOT A FASHIONABLE APPROACH, BUT IT PAYS: THREE OF PLATINUM'S INTERNATIONAL EQUITY FUNDS ARE RANKED IN THE TOP TEN IN AUSTRALIA FOR THE LAST YEAR.*
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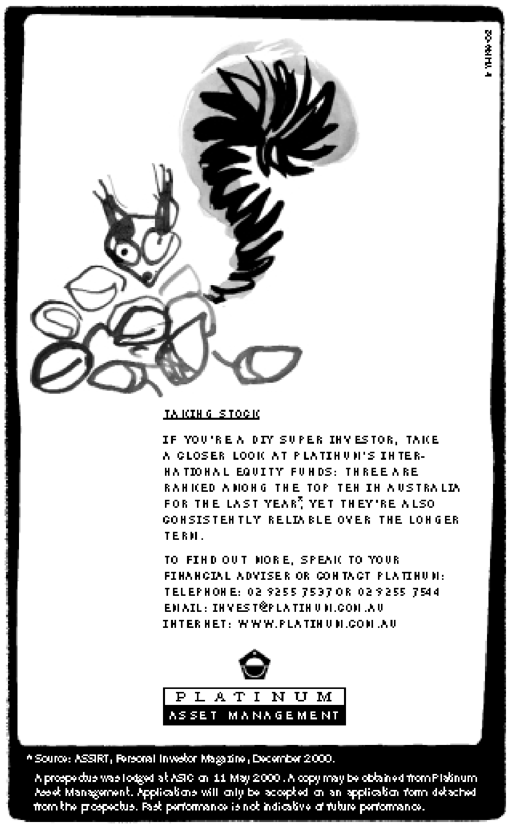
TAKING STOCK
IF YOU'RE A DIY SUPER INVESTOR, TAKE A CLOSER LOOK AT PLATINUM'S INTERNATIONAL EQUITY FUNDS: THREE ARE RANKED AMONG THE TOP TEN IN AUSTRALIA FOR THE LAST YEAR,* YET THEY'RE ALSO CONSISTENTLY RELIABLE OVER THE LONGER TERM.
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