The Platinum Trust Quarterly Report

31 December 2002

Incorporating the:

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

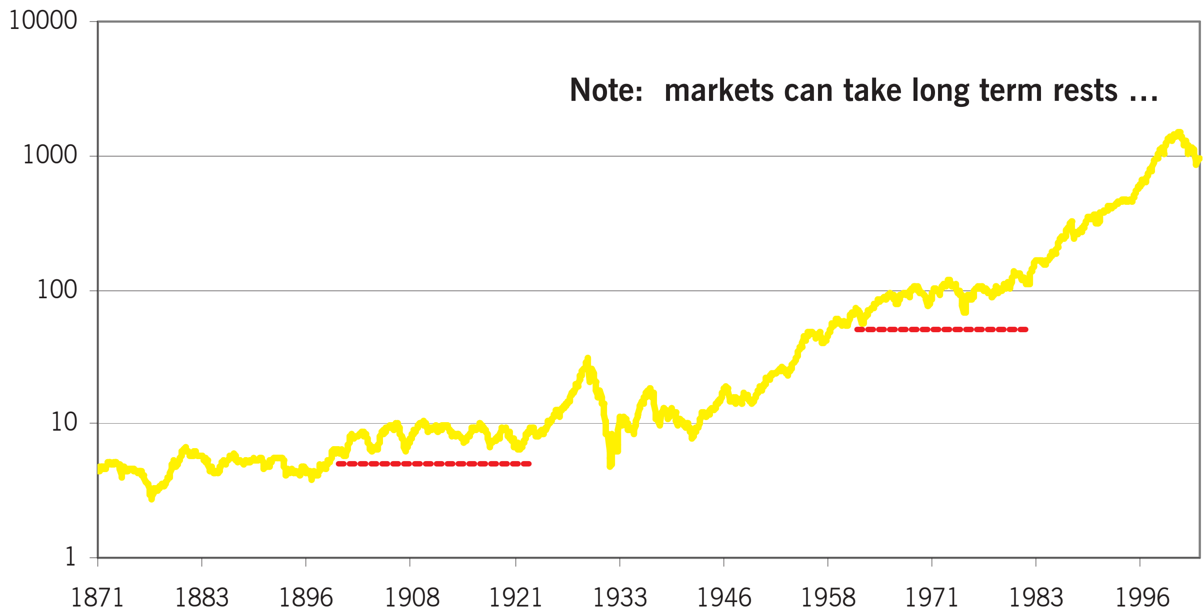
PERFORMANCE RETURNS TO 31 DECEMBER 2002

Fund	Fund Size	Quarter	1 Year	2 years (compound pa)	3 years (compound pa)	5 years (compound pa)	7 years (compound pa)
International Fund	**$2359mn**	**5.3%**	**-3.9%**	**5.5%**	**9.5%**	**19.9%**	**18.5%**
MSCI * World Index		3.9%	-27.2%	-18.9%	-12.4%	0.8%	6.6%
Japan Fund	**$68mn**	**-6.1%**	**-1.2%**	**-0.3%**	**-2.2%**	**-**	**-**
MSCI Japan Index		-9.0%	-18.4%	-20.9%	-19.1%		
European Fund	**$93mn**	**12.8%**	**-12.0%**	**-3.8%**	**12.5%**	**-**	**-**
MSCI European Index		7.0%	-25.8%	-19.7%	-11.4%		
International Technology Fund	**$32mn**	**12.1%**	**-21.5%**	**-1.4%**	**-**	**-**	**-**
MSCI World Technology Index		15.2%	-45.4%	-38.6%			
International Brands Fund	**$70mn**	**1.3%**	**6.8%**	**14.2%**	**-**	**-**	**-**
MSCI World Index		3.9%	-27.2%	-18.9%			
Micropal average int'l fund return (628 funds surveyed)			**-30.4%**				

* Morgan Stanley Capital International

Source: MSCI and Platinum

S&P COMPOSITE PRICE INDEX (US) (1870 - 2002)



Source: Robert J Shiller, Yale Department of Economics

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Phone: 1300 726 700 or 02 9255 7500 (NZ only - 0800 700 726) Facsimile: 02 9254 5590 e-mail: invest@platinum.com.au

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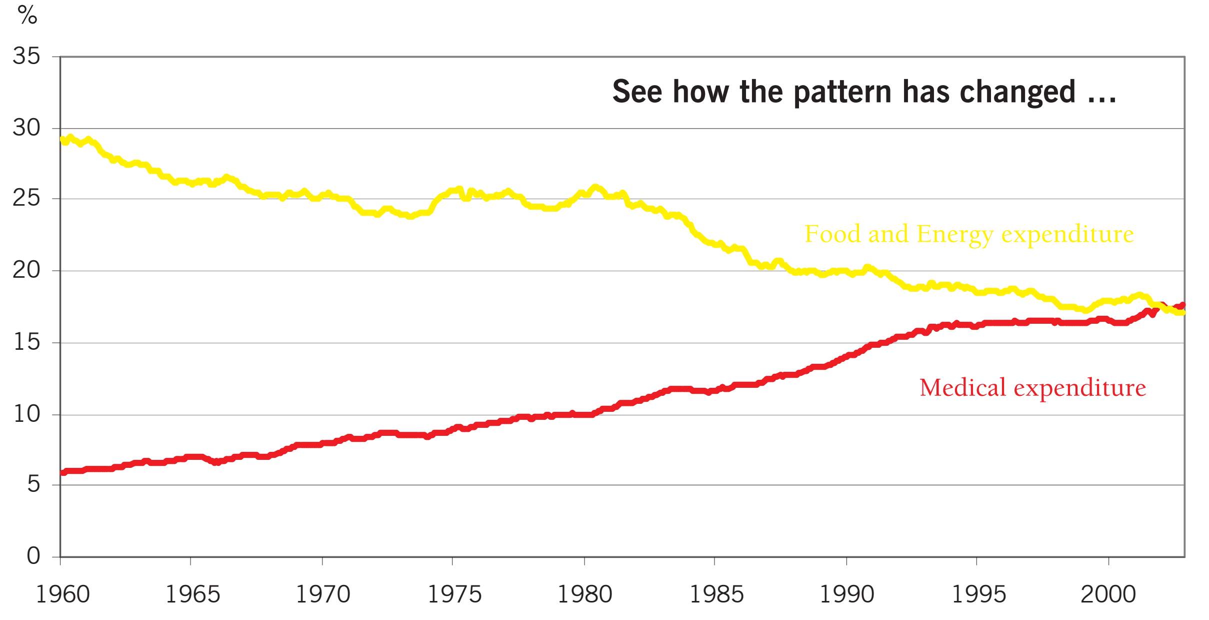
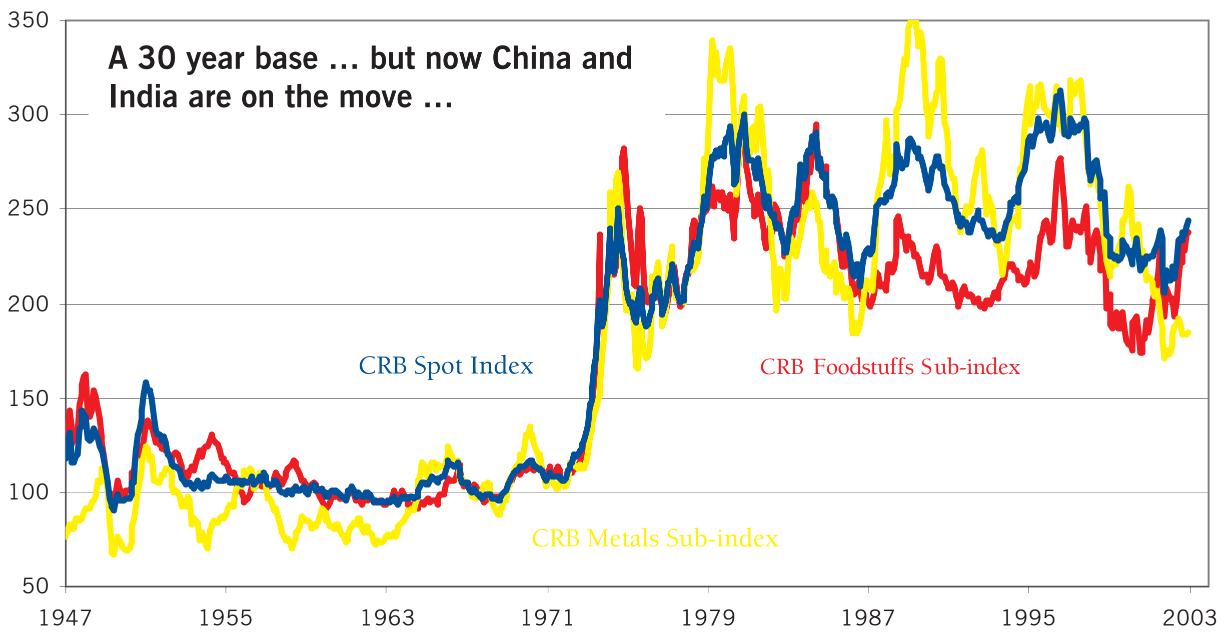
US CONSUMER SPENDING ON FOOD & ENERGY AND MEDICAL CARE



Source: ISI Group

(as a % of disposable personal income)

COMMODITIES INDICES (JANUARY 1947 – DECEMBER 2002)



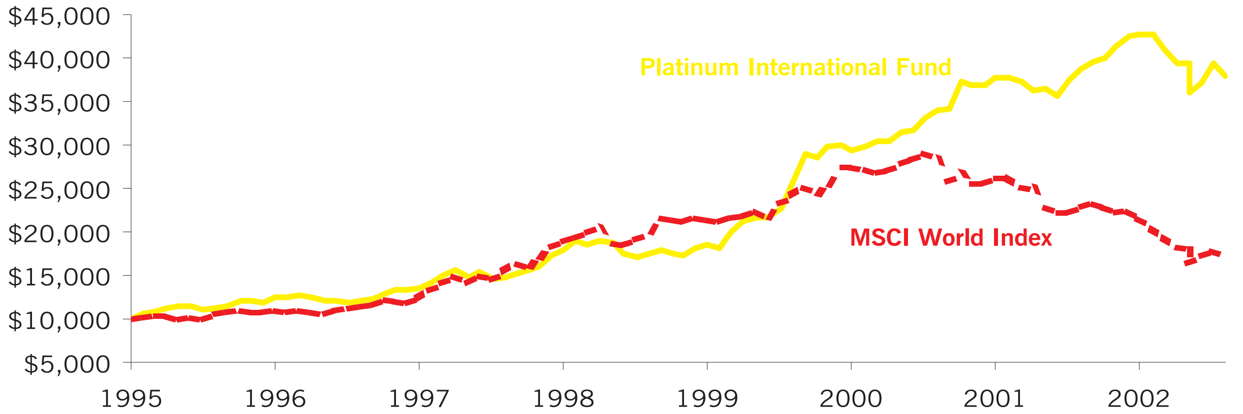
Source: Commodities Research Bureau (CRB)

Platinum International Fund

Performance

REDEMPTION PRICE: $1.5563

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



Source: Platinum and MSCI

The best description for 2002 is that it was not a pleasant experience. All the big markets were down hard by between 25% and 35%. Ironically, the emerging markets of Eastern Europe produced returns of around 15%. Russia was a stand-out, benefiting from its large oil producers. Other smaller markets were typically down by 15%.

Looking at the performance by economic sector, we find the contradiction of defensives and commodity producers out-performing the other sectors but still ending down by around 15% for the year. Over the last three months, the pariahs, telcos and IT leapt from their heavily oversold position and were up 24% and 15% respectively. They nevertheless dropped by 36% to 45% for the full 12 months.

For all our efforts to protect the Fund via stock selection, currency management and short selling we have ended the 12 months with a loss. The Fund is down 3.9% for the year. To some extent this is inevitable because we seldom have less than a net 50% long position and to this extent the theoretical damage should have been in the region of say, minus 12 to 15%.

In this respect we have been successful and it is certainly true that to build off a base of $96 (a loss of 4% on $100) is easier than the job facing others who start at $70 or $75 (losses of 25-30%). More importantly, the net returns that we have made over the last three years, approximately 10% compound pa means we start Year 4 at $132. Most international funds would have a similarly constructed starting figure well below $100.

MSCI WORLD INDEX – INDUSTRY BREAKDOWN

Sectors	3 months	1 year
Consumer Staples	-2.9%	-13.2%
Consumer Discretionary	-0.3%	-29.9%
Utilities	0.0%	-25.8%
Health Care	0.7%	-26.0%
Industrials	0.7%	-30.2%
Energy	3.5%	-16.4%
Financials	4.3%	-25.2%
Materials	6.1%	-14.5%
Information Technology	15.2%	-45.4%
Telecommunications	24.9%	-36.5%

Source: MSCI

Changes to the Portfolio

DISPOSITION OF ASSETS

Region	Dec 2002	Sep 2002
Western Europe	34%	31%
Japan	19%	18%
North America	14%	13%
Emerging Markets (incl. Korea)	10%	11%
Australia	2%	2%
Cash	21%	25%
Shorts	24%	27%

Source: Platinum

Weakness early in the quarter allowed us to add to existing positions. At the same time it threw up the opportunity to start to put together a mini portfolio of biotech companies. We have built a basket of seven biotechnology companies which are at the forefront of medical science, but have seen their share prices fall 80-90% since their valuation peaks in the biotech bubble of 2000. Currently, even though many have programs testing new drugs in the advanced stages of clinical trials, they are valued at little more than their cash holdings (1-2 times). Although the biotechnology arena provides almost daily excitement as new discoveries are made ranging from genetic identifiers of predisposition to disease, to potent new treatments for notoriously hard-to-treat diseases, it is still very risky. Any individual biotechnology company tends to be dependent on a key technology or core element of science, which is then developed into a few drug development programs limited necessarily by the smaller size and resources of these companies. Many of these companies have partnerships with the large pharmaceutical companies who in turn have their own in-house biotech departments. They need to replenish their drug pipelines as they face the threat of generic competition and political interference on drug pricing for their current ageing product portfolios. As the era of more focused treatments and the dream of personalised medicine develop, we believe it is the smaller, more focused companies that will reward the investor. The basket compensates for the risks of individual failures of some of the biotech drug development programs versus the attractions of scale and the cash flows of the established giants.

The weakness of the Nikkei index saw some of Japan's leading companies fall to attractive levels. In particular we started acquiring Canon, Fanuc and Sony. These are unquestionably leading global entities with long histories of growth, high profitability and now relatively low ratings. In the short term, Canon will benefit from very strong and profitable digital camera sales. As chip-making capex recovers, it is highly probable that Canon will gain share in the stepper market from Nikon. At the same time, sales of colour printers, copiers and of course toner and inks, which are wonderfully profitable, keep churning along. Sony is also feeling the slipstream of the digital revolution and in addition is looking very strong with Playstation and its movie business. Fanuc is the world's largest manufacturer of industrial robots. Apart from its scale advantages, which include the bizarre reality of robots making other robots, the company is unrivalled in profitability, making 26% return on capital employed. As important users such as automobile assemblers cut back their new investment, Fanuc is finding a growing market in other applications such as hazardous industries (foundries), picking and packing etc.

In Europe we introduced the Danish company, Great Nordic. Once a market darling because of its telco testing division, the shares have fallen a long way. The testing business has recently been sold and will no longer be a drain so the two other divisions will be the profit drivers. The company is ranked as number three in the global hearing-aid market and the second in the world headset business. Both these businesses are growing and benefit from the consolidation of production at a company-owned facility in China. An exciting twist for the company is the recent launch of "blue tooth" technology which allows headsets for fixed and mobile phones to be wireless and indeed for all aural devices to be untethered from the transmitter. We also took a small position in ThuyssenKrupp. This steel and engineering giant is now priced at a fraction of its steel-making replacement cost, even though it is now perhaps the lowest cost strip maker in Europe and has a portfolio of very interesting traditional and advanced engineering businesses.

On the selling front, we reduced our highly profitable holding in Gold Fields of South Africa in favour of the politically less risky Barrick Gold Corp. The latter partially hedges its gold production but if the gold market remains strong, the net affect of its hedging on performance may prove immaterial. We also sold Rinascenti which was bid for and eliminated Mediaset after a good price appreciation.

We continue to see opportunities for short positions, particularly in the United States. There are three broad themes that we are pursuing here. These are:

- Companies with opaque or incomprehensible accounting (of which Tyco recently disclosed years of "aggressive accounting").
- High valuation consumer product companies (which have often been bid to very high levels as investors seek shelter in perceived stability). These companies have often leveraged-up buying back stock at high prices and we believe that those seeking shelter might find there is more risk there than they previously considered.
- Financial institutions more generally (which we see as leveraged to the weak balance sheets and stretched consumers throughout the US).

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Dec 2002	Sep 2002
Cyclicals/Manufacturing	Schindler, Siemens, RMC, Bayer, Linde, Océ	21%	22%
Technology/Hardware	Agere Systems, National Semiconductor, Samsung, AMD	10%	8%
Retail/Services/Logistics	Hornbach, Jones Lang LaSalle, Fraport	8%	9%
Medical	Yamanounchi, Takeda, Draegerwerk, Novartis, Merck KGaA	8%	5%
Telecoms	Hellenic Telecom, Ericsson, NTT	8%	7%
Gold and Other	Barrick Gold, Newmont Mining, Gold Fields	8%	5%
Financials	Assicurazioni Generali, Allianz, Alleanza	7%	9%
Consumer Brands	Citizen Watch, Adidas Salomon, Lotte Confectionary	5%	7%
Software/Media	Sky Perfect Communications, Seoul Broadcasting	4%	3%

Source: Platinum

Currency

There has been no change in the currency position. The rise in the Euro relative to the US$ is working in our favour. We are positioned for the A$ to continue to rise relative to the US$ in 2003 with a hedged position of 60%.

Commentary

Late in the year we visited a broad cross section of high quality companies in Japan. The general impression was one of quiet yet growing confidence. One could sense a rise in their self-belief as the merits of pursuing their traditional patient and systematic planning and execution has begun to bear fruit. With the demise of Wall Street's fund-raising magic, which so tormented these great companies during the tech boom, there has been some backsliding regarding shareholder openness. This is not always fun for analysts but the Japanese have long valued a good engineer in preference to some deal-touting investment banker or fund manager.

The constant theme was to raise productivity and to reduce costs. This in Japan means finding ways to harness technology, and not necessarily throwing money at the problem, to reduce weight, size and to improve manufacturability. One is constantly reminded of the depth of know-how with tremendous specialisation by individuals and companies which through gradual incremental embellishments builds extraordinary competence. Most of the companies visited have been increasing their R&D spend, capex was typically below depreciation and where serious money was being spent it was in low cost countries. One of the benefits of specialisation and a loyalty to staff is clearly seen by the mutual trust and cohesion found in most Japanese companies. Yes, there are costs to this approach in the short term, but long term tenure was common in European companies well into the 70s and even the 80s. Our sense of the matter is that the hidden costs of hiring and firing, like many things in business, only reveal themselves when it's too late.

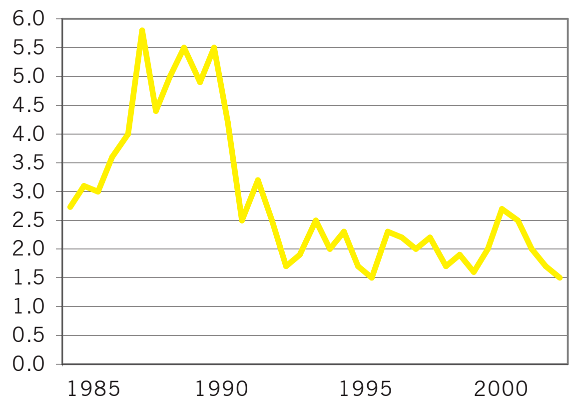
The big idea in Japan at present is the emergence of China as the next great market. To some extent, company management is using the threat of Chinese low production costs to drive through reforms on the home front. There was not a single company visited that was not expanding or enlarging its presence in China. Some of the figures quoted for the difference in costs were frightening and in some instances products were being landed in Japan at the value of their raw material costs. Shimano noted Chinese-made bicycles were being landed at Yen 3800 a unit - most bikes sell for 10 times this and more. Admittedly the quality verged on the dangerous.

On earlier visits we would spend time discussing incentive systems, lay-offs and board restructuring. These are no longer discussion topics as they have invariably been implemented. The new topic is price deflation, a subject that the Japanese are particularly well qualified to report and act upon. The quality companies are generally unusually well-positioned as their balance sheets are often debt free and cash rich. They have been operating in China for several years and have mastered many of the problems of quality local sourcing and distribution. They are not alone versus say the Koreans and leading Western companies but they are certainly not at the trailing edge either.

After perhaps a decade of price decay influenced by weak demand, new supply channels and by easier access to imports, domestic prices in Japan no longer seem out of alignment with those of other developed countries. At the current exchange rate this competitiveness is evident with the country being able to run a trade surplus of around US$100 billion per year. This attests to their producing what their trading partners want and gives Japan an ability to project considerable economic power abroad.

From our perspective, this last decade was not entirely lost by Japan and so long as savings are generated at home and locals own the Government bonds, it may be possible to extricate themselves from the mire without resorting to excessive use of the printing press. After all, interest rates are perhaps below the economy's medium term growth rate. The outstanding stock of debt is unquestionably large so it is likely to be a tight race. However, valuations in Japan reveal a total lack of belief in the ability of firms to earn a sensible return on assets employed (see chart below). For those who question the absence of commentary about the Japanese banking system and the rising bankruptcies, the answer lies in our ability to be highly selective with the shares we hold and to take appropriate positions regarding the currency.

PRICE/BOOK (TOPIX INDEX EX –BANKS)



Source: Smithers

One of the benefits of following the fall-out from the Japanese bubble is to attempt to identify lessons for the US market. We often hear that the US will prove much more responsive than Japan in getting to grips with its problems. This may be so though we believe there are obstructions to market-clearing such as Chapter 11 bankruptcy protection, litigation hurdles, state subsidies and so on. Either way, we would expect the US market to continue gradually to de-rate just as we saw in Japan. New share leadership will emerge and it is almost certain not to be the information technology sector. Companies heavily burdened by debt are likely to be ill-treated (the slogan being debt and deflation don't mix). So-called, “quality of earnings” is paramount in an environment of weak pricing power and a mere sniff of accounts fiddling will set off a fury of selling. Investors will pay above the odds for growth and certainty of earnings.

Several of these factors can already be seen at work in Wall Street and in the case of defensive stocks, it has perhaps been taken too far. This has given us some useful short selling opportunities. In particular selling consumer non-durable companies like

Anheuser Busch, Procter & Gamble and Colgate. The market also seems to be over optimistic in its expectations for the profit growth of several financials. This false optimism is all part of what we describe as using the "retrospectascope". By the time the bear market has woven its web, investors will have given up on any fantasy about the Fed or tax cuts as panaceas for the natural deflating of a massive financial bubble. Quite the contrary, it is probable that questions will be asked about the efficacy of the various forms of intervention.

Why shouldn't Europe share the same fate? There are some factors that suggest Europe should have a similar outcome but for the fact that debt is much lower on the Continent (than in the USA) and also valuations are considerably lower. The worst performing market and indeed the one with the worst outlook, Germany is however now capitalised at Euro 380 billion, putting it in line with Australia!! Even making adjustments for what is not listed in Germany, this is truly astonishing. Further we feel the accounting on the Continent is less promotional although it has become far less conservative than say, ten years back. There is one serious cloud that needs to be watched. Should the US dollar weaken further, one of the European drivers, namely exports, would suffer.

A weak dollar would of course have other serious implications including an adverse affect on US fixed interest securities and shares. Foreign ownership of US assets is now over 70% of US GDP (having more than doubled since 1990) and of the US treasuries in issue, over one third are held by foreigners, who also own some 23% of the corporate bond market and over 12% of US equities. With a relatively poor choice of alternatives, the mired Yen and the politically incohesive Euro, speculators seem to be seeking refuge in gold. Writing in a book just released, "Tomorrow's Gold – Asia's Age of Discovery" (published by CLSA Books), Mark Faber, a highly successful seasoned campaigner with great historic insight, suggests that the liquidity which has been created will find itself expressed in higher prices of many commodities including gold and silver. We share many of his views and see the Fund's 5% position in gold producers as protection against likely currency instability.

We think currencies will be a major topic as 2003 unfolds. As noted in our quarterly of June 2002, on the basis of purchasing power parity, the Chinese economy is massively larger than the current renminbi exchange rate would suggest. The growing trade surplus and foreign direct investment that is running at around US$120 billion per year, would normally ensure a strong appreciation of the Chinese currency. However, currency restrictions and other devices such as internal US$ accounts and now the opening up of an internal gold market all conspire to keep the currency fixed to the US$.

Conclusion

Terrorism, war and high oil prices are all damaging to consumer confidence and business investment in the short term. Longer term there is reason for optimism. Valuations have come back to sensible levels in markets of Asia and Europe and quality companies will be able to achieve modest earnings growth. The level of debt and general uncertainty will promote volatility as short term events are periodically given too much emphasis.

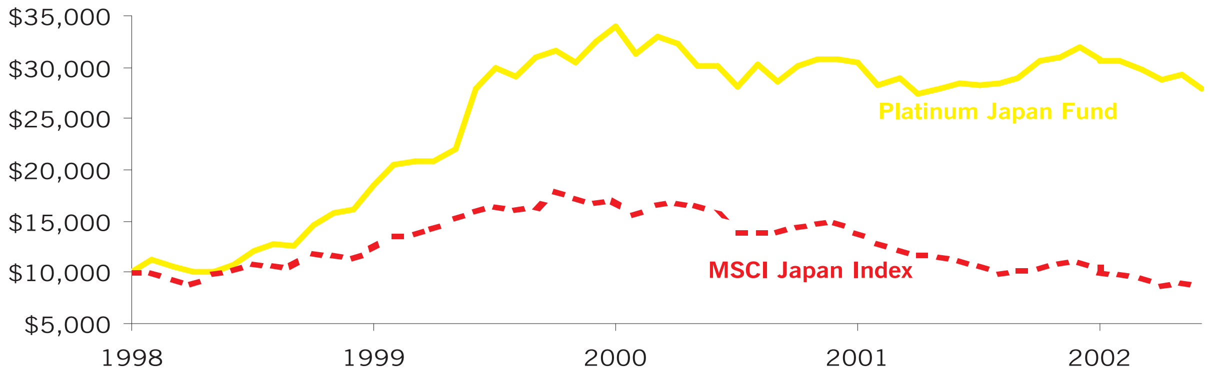
Kerr Neilson
Portfolio Manager

Platinum Japan Fund

Performance

REDEMPTION PRICE: $1.5883

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



Source: Platinum and MSCI

The Japanese and Korean markets continued to suffer from a deterioration in investor sentiment as a result of sluggish global growth and geopolitical fears. For the quarter, the Topix declined by 8% in local currency terms whilst in Korea the Kospi fell by 3%. Having performed better than global peers last quarter, both markets gave up those relative gains this quarter with a particularly notable turnaround in Japanese banking stocks. The continued failure to arrange a bailout of the banks saw an 8% gain in the previous quarter turn to a disastrous fall of 28% this quarter. At the close of the year Korea was impacted by fears relating to North Korea brinkmanship. Exchange rates generally rose as the US dollar started to decline on fears the US economy would not recover quickly. The yen, won and Australian dollar all rose by 2-3% against the US dollar and this looks set to continue.

The Fund fell by 6.1% over the quarter in A$ terms, somewhat less than the 9% decline in the MSCI Japan index. Stocks that performed well for the Fund included Yamanouchi, Alpine, NTT and Canon but ground was lost on our holdings of consumer finance stocks such as Aiful and Credit Saison. Exchange rates were broadly neutral concerning the performance of the Fund this quarter. For the year to 31 December 2002, the Fund fell 1.2% ahead of the MSCI Japan index which declined by 18.4%.

Changes to the Portfolio

DISPOSITION OF ASSETS

Region	Dec 2002	Sep 2002
Japan	75%	65%
Korea	16%	24%
Cash	9%	11%
Short Derivatives	-9%	
Long Derivatives	11%	13%
Net Derivatives	3%	
Net Invested	94%	

Source: Platinum

There were some quite large changes to the portfolio this quarter.

1) In November we became more bearish on the Korean market and decided to reduce positions. The market had experienced a strong bounce off October lows and with everyone positive, relative to the beaten down Japanese market which was trading at decade lows, it seemed to offer better value. This was especially so when you consider the depth of quality on offer in Japan at very cheap prices. By contrast Samsung Electronics is dominant, not expensive, but extremely well owned.

2) As a result, by the end of the quarter we had switched about 10% of our Korean exposure into Japan. Stocks sold in Korea included Korea Telecom (partial), Kangwon Land, Shinhan Financial and Kepco. In Japan we added some new names including Fanuc, Tokyo Broadcasting, Sony, Sohgo Security (IPO) and Nintendo, and we added to our position in Canon.

3) We dramatically reduced the short positions in the Fund and also rearranged them. We removed all of our stock shorts against Japanese stocks as the market plumbed new lows. However we retained and increased our short against the Kospi index. Toward the end of the quarter we instituted a long Nikkei index future as the market tested 19 year lows.

The end result of these changes is a portfolio more invested than hitherto. This reflects the range of very high quality stocks available in Japan at very cheap prices and that with the market so depressed it is hard to be negative even if the international environment suggests caution. We are also pleased to see that foreigners have sold Japan in an aggressive fashion in the second half of the year.

Commentary

The main point of interest this quarter was our trip to Japan in late November. However let us comment on two topical pieces of interest first.

In the next few months, Prime Minister Koizumi will make the decision on who will replace the retiring Bank of Japan (BOJ) governor Hayami. This is potentially an explosive decision as the government and the BOJ have been locked in debate about monetary policy. The BOJ posture is conservative and requires that the politicians clean-up the banks before there is much change in policy, while the government is asking for greater monetary easing. Blame is being passed around generally as Japan wallows in its political and ideological morass. Going on past experience, the government will stick with the conservative option of the status quo however there is a chance that they will put someone in with a more “like minded” approach. To this end the name of former board member Nakahara has been floated in the press. He is best known for his constantly dissenting opinions on BOJ policy in favour of inflation targeting. We cannot say with any certainty what will happen but if an inflation target is adopted it could have interesting consequences for bonds and especially the yen exchange rate. Watch this space.

The international press is full of comment about North Korea and its nuclear program. This is a serious development for North East Asia but should be seen in the context of a North Korea that over the years has made a name for itself in the art of brinkmanship. Having observed Korea for some time we note that it has paid to ignore such events from a market point of view. This is exactly what the market seems to be doing despite some wobbly action of late, which can also be traced to pre-election enthusiasm. A further significant decline below the 600 level would probably be a buying opportunity. This is not to say that we treat the event lightly but rather we would prefer to believe in the effectiveness of a nuclear deterrent on all parties concerned.

Japan Trip Impressions

In our latest round of company visits we talked with 18 companies. The immediate observation is that current business conditions are quite tough however the deeper and more lasting insight is that there is a confidence in the people we talk to about the underlying strengths of their companies. What we mean here is that the fundamental building blocks of any company such as long term commitments to people/knowledge, processes, products and innovation have never been stronger. This is too often mistaken in the press as Japanese resistance to change but we think that fails to give weight to the long term view of corporate entities. When we look objectively at the list of Japanese manufacturing companies that dominate their industries or indeed have increased their lead, it remains very impressive for a supposedly dysfunctional country that the press presents. The likes of Toyota, Sony, Canon, Fanuc, Fuji Photo and Murata are getting stronger versus their competitors despite ten years of poor economic growth. Whilst we were in Japan another huge US$8 billion monthly trade surplus was announced. It is easy to dismiss this as due to insufficient consumption by the cosseted domestic consumer in a dysfunctional economy however we believe it demonstrates real strength. It is dull that commentators rarely focus on this aspect of Japan, eager to play up the ineffectiveness of the banks, which are mere intermediaries in the economy and whether they are owned by the public or government it does not really matter. Rather the commentators hold out the US model as the only alternative but fail to see that many US companies have foregone their longer term competitive essence in their head-long rush for short term gain.

Another observation that contrasts heavily with accepted wisdom is that a lot has actually changed at the corporate level in Japan. Five years ago when we visited there was much talk about the need to reform company management structures to reduce top heaviness and speed decision making. The need to reform pay structures to reward results was also seen as essential. This time around there is not much talk about these issues but this is because they have already been adopted in a very quiet and understated way! The latest round of profit results would seem to bear this out with profits rising markedly on very little sales growth and we would expect this to become a trend in the future. Against this argument commentators hold up China as the big problem for Japan in that it will hollow out the country's manufacturing base. We say that China is the best change agent Japan could have! When we talk to the companies about China it is clear they are now quickly embracing the country although with some continuing reservations about local business partners and the need to tread cautiously with distribution channels and business terms. The unique feature of China is the extraordinary level of competence of local suppliers. Quality is still a problem but once reliable sources have been identified, their ability to scale-up production and meet ambitious production schedules is better than any other developing country they have operated in before. Hence companies are shifting production very quickly now (Yokogawa Electric just announced it would close all 12 Japanese based plants and shift to China) and are seeing great benefits in terms of costs.

On our trip we saw Olympus which has shifted digital camera production to a new China plant and is now making good margins in this area after years of losses. Also we note with interest that Daikin derives its highest operating margins in air conditioners from its China business. This challenges the often heard comment that no-one can make money out of China. The arbitrage of costs in China is allowing the companies to break open the labour situation in Japan. Of course, most of this "China advantage" may be competed away but the benefit resides in those high value-added Japanese manufacturers being able to trim their cost base. Further, their product and process superiority protects them against local competitors as they roll out distribution to the Chinese consumer.

One interesting company we spent time with under the shadow of Mount Fuji was Fanuc. This company is the world's largest maker of Computer Numerical Controllers (CNC's) for machine tools (50% share) and one of the world's largest producers of industrial robots (15% share). In its original form, it served as the machine tool arm of Fujitsu. The core strengths of Fanuc are:

- Single product area focus.
- Dominant position in high value added machine tool operating systems (the brains).
- Internal manufacturing of key components including CNC, Servo motors (arms and legs) and sensors.

These strengths have enabled Fanuc to record an average operating profit margin of 28% over the past 15 years, well above comparable company returns anywhere. This has given it the base from which to drive expansion into newer areas and also significant cash reserves on the balance sheet. We see growth coming from rising market shares in industrial robots and new applications such as injection moulding machines and "intelligent robots". The latter exhibit much improved sensory capabilities enabling the range of manufacturing tasks performed by robots to expand. China will be a particular area of growth for the company although this will partly be through lower end machines (fewer axes of movement). The company has an advantage over its competition in the shift of manufacturing power to China with many of its competitors in financially stretched conditions. Whilst the stock is not very cheap based on PE ratios, it has enormous cash holdings equal to 38% of its market capitalisation. It recently conducted a share buy back from Fujitsu which holds 37% of the stock and we expect this to continue as Fujitsu desperately needs the cash. Fanuc is the sort of stock that we favour in an environment where outstanding management should be priced at a premium on account of industry change and a testing environment.

Outlook

The global environment will continue to remain tough as the world continues to wean itself off US led growth - a process that could take some time. However, Japanese stocks remain particularly depressed and take little account of the work that has gone on quietly but steadily to enhance the competitiveness of these businesses. If China develops as we expect into a leading economic force, we are optimistic that quality Japanese manufacturers are among the best placed to both benefit from lower costs and the expanded sales opportunity. Korea should also benefit from the shifting of economic power to North East Asia.

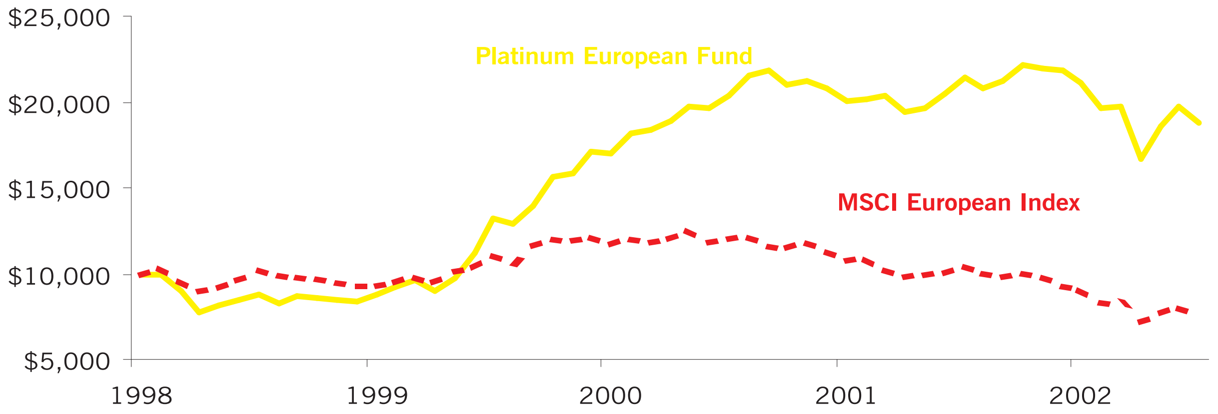
Jim Simpson
Portfolio Manager

The Platinum European Fund

Performance

REDEMPTION PRICE: $1.4406

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



Source: Platinum and MSCI

Markets stage muted rebound after September collapse

European stock markets experienced a dull fourth quarter rebound (+4%), to be down 35% for calendar year 2002. The inevitable October rally (after September's sharp falls) petered out quickly in December, as concerns over the German economy, the oil price, and world economic prospects weighed on both earnings forecasts and investors' risk appetites.

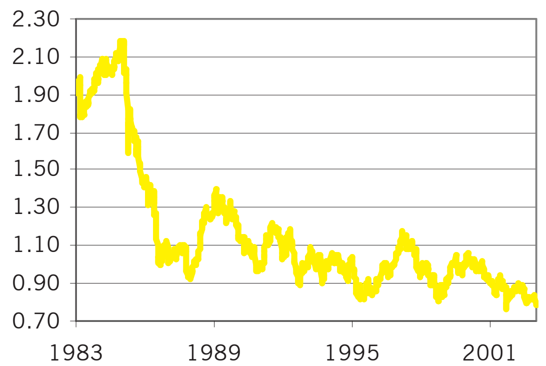
In the fourth quarter, technology (+28%), telecom (+22%) and insurance (+17%) shares rebounded, with "defensive" areas such as pharmaceuticals (-5%), and beverages (-12%) drifting down. These movements are partial reversals of the previous quarter's action. On a country by country basis, Germany rebounded a paltry 4% after the September quarter's 37% decline. The UK FTSE was up 6% and the French CAC +10% for the three months to December.

Among individual stocks, about 80 of Europe's largest 500 stocks rose 20% or more for the quarter, many of these from very distressed levels. Just 17 stocks fell 20% or more over the period, most of these in the UK.

The Australian dollar depreciated a further 3% against the euro. On 31 December the A$ had its lowest monthly close against the euro since that currency's inception four years ago; against the Swiss franc (to take a currency with a longer history), the A$ printed its lowest monthly closing price since being floated in 1983.

Flattered by the weaker A$, the MSCI Europe index (measured in A$) returned 7% for the December quarter; and it fell 26% for the calendar year 2002. The Platinum European Fund gained 13% for the quarter, despite its heavy weighting in German shares, and despite also suffering the drag of its 60% hedge into A$. For the year 2002, the Fund was down 12%.

SWISS FRANC PER A$ EXCHANGE RATE



Source: Factset

Commentary

The French government centre stage as usual; GE makes waves in medical equipment market

Several large companies listed on the Paris stock exchange saw surging share prices in the last three months; the involvement of the French government was the common factor. France Telecom (+140%) led the charge, as it recovered from a share price which reflected the difficulties it would have in repaying the E15bn debt due in 2003 (the company has over E70bn debt in total, and was financially vulnerable without new funds from shareholders). In the event, the government pledged E9bn in a complicated arrangement designed to trick Brussels (ie. as opposed to agreeing to European Union laws) – in this case France is once again breaking the EU ban on states bailing out private companies. France Telecom formally announced its plan to cut debt by E30bn over the next three years, by raising E15bn (!) in new equity (of which the E9bn mentioned above is the government's share) and by cutting investment, costs, jobs and dividends (!!).

Telecom equipment companies' shares have been declining since mid-2000 on the twin ideas of excess installed telecom capacity in most countries, and the near or actual bankruptcy of many erstwhile customers. Thus the government bail-out of France Telecom far outweighed the announcement of lower planned capital expenditures. Alcatel (for whom the custom of France Telecom is of crucial importance), was up 78% in the December quarter.

The last great French government bail-out was the Ffr125bn (A$40bn!!!) "rescue" of Credit Lyonnais in the mid 1990s, after the bank's adventures in real estate, Hollywood, golf courses etc. Thus December's final solution for Credit Lyonnais ends a sorry chapter in French banking. The chairman of the bank has made the finance ministry's task very difficult, as he has played off the need to keep the bank afloat from depositors' perspective against the desire of the government in Paris to have it acquired (including the state's 11% stake). Exasperated, the ministry decided to auction its stake on 23 November 2002. You may notice that this was a Saturday, and apologists may explain this by imagining the hard working public servants (!) of Paris. Such apologists will blush to learn that only three French financial institutions were told of this auction (the French have a uniquely opportunistic take on "one Europe"!), and thus it effectively became a closed bid battle between the two giants BNP and Credit Agricole. BNP paid E58 per share, a 49% premium to the previous day's share price to buy the 11% stake, and was suddenly regarded as the front-runner to buy the whole bank. However BNP was thwarted in mid-December when Credit Agricole bid for the whole of Credit Lyonnais at E56. Credit Agricole, only listed on the stock market for one year (though formed in 1894 to provide services to French farmers), paid nearly E20bn, of which two-thirds was in cash, to buy Credit Lyonnais. The new Cr. Agricole group, with E700bn in assets, will have around a third of the consumer banking market in France.

General Electric (US) made one of the larger cash bids of recent times when GE Medical announced just before Christmas its E2bn bid for anaesthesia monitoring specialist Instrumentarium of Finland. Instrumentarium has been a successful company for some time, being another one of the Finnish "multi-trading" groups (a la Nokia, Kone, Huhtamaki etc) which has successfully pared its activities down to a central core over the last 10-15 years, and then flourished. Instrumentarium had been working in the area of anaesthesia machines since the 1970s and was the first company to come up with the innovation of a combined dosing and monitoring machine in the early 1990s. Since then, and helped by buying distribution companies in the US, Instrumentarium has grown quickly thanks to its strong product range. GE, under pressure in the medical area from small companies like this, and also from the relentless product innovations from Siemens (GE had until recently been reducing R&D expenditures, presumably in the interest of propping up reported profits) admitted defeat and paid a big premium for its tormentor.

Siemens recently combined its patient monitoring equipment with machinery powerhouse Draegerwerk AG of Lubeck, Germany (in which the Fund is invested). Several commentators attribute GE's acquisition of Instrumentarium to this Siemens/Draegerwerk deal; either way the market is becoming considerably more concentrated (GE and Instrumentarium between them having bought several of the other players in the 1990s – particularly in the US). One interesting aspect of the GE acquisition is that Instrumentarium has secured GE's agreement to make Helsinki the centre for its medical IT systems effort in Europe. Software to link patient data from such devices (eg. such as anaesthesia monitors) into hospital databases for efficient management and storage of patient records is an important growth area for the big medical equipment companies, and GE's concession perhaps suggests how enthusiastic it was to buy Instrumentarium.

European Union, the common currency, and addressing structural flaws

In May 1950 the French proposed creating a common market in coal and steel, primarily to secure the peace by bringing countries together within an institutional structure that would allow them to co-operate as equals. (It is interesting to note that coal and steel were still the starting point: in 1919 the core of the French strategy for the "peace" treaty of Versailles was to destroy Germany's coal and steel supply lines in order to impose economic constraints on that country – the post-WWII strategy was a little more constructive).

In 1950, six countries (Germany, France, Italy, Netherlands, Belgium, Luxembourg) subscribed to the idea. In 1957 the arrangement was expanded through the creation of the European Economic Community (EEC) in the "Treaty of Rome". This was to allow the free movement of workers, goods and services between member countries, and abolished duties on manufactured goods. It is also from this period around 1960 that the (infamous) Common Agricultural Policy (CAP) dates.

Over subsequent decades the membership of the EEC expanded with UK, Denmark, Ireland joining in the 1970s, Greece, Spain and Portugal in the 1980s, and Austria, Sweden and Finland in the 1990s. Norwegians have twice rejected joining, in referenda in 1973 and again in 1994; Switzerland has never applied. And also over the decades, the role of the EEC (and subsequently the EU) expanded to include social, regional and environmental matters, and then progressed toward economic and monetary union (1970s onwards). "Europe" has slowly evolved toward political union; the debates about how much and how fast are as vigorous as those about federalism versus functionalism. Direct elections to the European Parliament have been made since the 1970s, additionally the European Council, composed of individual country leaders, meets regularly.

Since January 1999, European countries sharing the euro as their currency, have had, as a corollary, common monetary policy, and are all signatories to the so-called Maastricht treaty which includes the optimistically named "stability pact" provisions. Thoughtful critics of this arrangement note that a comparable (by population and economic diversity) area such as the USA has a strong federal government and a population with unsurpassed propensity to migrate when economic prospects demand it. Europe has neither. (Brussels has more than enough institutions, but they lack the legal clout – not to mention the moral authority – of a national parliament).

The continuing economic slump in Germany has brought the euro (and EU) setup under renewed scrutiny. The "stability pact" which insists that governments keep inflation, budget deficits etc within narrow limits to avoid putting strain on the monetary union, in fact has the opposite of its intended effect during recessions. In Germany today, as tax collections decline and welfare payments rise, the government is forced into contractionary fiscal tactics (ie. raising taxes and cutting discretionary spending) to meet the treaty obligations of Maastricht. This of course exacerbates the recession, and is roughly the exact opposite of what Keynes prescribed for such an economic circumstance. The unavailability of other tools (like lower German interest rates or a cheaper Deutsche mark) highlights the unbalanced nature of the current arrangements. In theory, it would be helpful if one or two million unemployed Germans could move to faster growing parts of Spain, the Netherlands, Ireland, etc (ie. the sort of arrivals California experienced last century and Texas is experiencing more recently). This is unlikely.

In practice, the crisis will (hopefully) prompt improvements to the institutional arrangements – it looks as though there is a flurry of action in Brussels with, for example, the plans for the proposed constitution of Europe being taken seriously (signalled by the active involvement by heavyweight politicians from Germany and France). Additionally, Chancellor Schroeder's announcement of half a dozen new taxes in a fortnight shows how unworkable things have become, and it looks as if he is ready to make some more fundamental changes both within Germany and in its relations with Brussels.

At the December European Council in Copenhagen, it was announced that negotiations had successfully concluded for ten countries (Estonia, Latvia, Lithuania, Poland, Hungary, Czech Republic, Slovak Republic, Slovenia, Malta and Cyprus) to become new member states of the EU from May 2004. It is generally accepted that many of these countries are working toward entering the EMU also (ie. taking on the euro currency and common monetary policy etc). In the light of the problems described above why do these countries wish to join the Union? And the post-reunification economic performance of eastern Germany compares poorly with that of the Czech Republic (but is that due to Germany or EU/euro?). Some combination of peace and prosperity seems to be the answer – the desire to engage deeply with "the west", rather than with the confusion available to their east and south; but also it looks as though the EU is kind to its poorer members. The money which has flowed from northern to southern Europe over the years beggars belief; plenty will flow from west to east too. The growing geographical, not to mention internal and external political complexity of the EU, as well as the economic problems of existing members, all argues for urgent reform and improvement.

In general we err on the side of presuming Europe will remain hampered by "too much" government, and the investment strategy thus concentrates in the main on companies which can prosper despite, rather than because of, their operating environment. However analysts which describe "Europe" as nothing more than the plaything of the political classes are too cynical, and the crisis centered in Germany should lead to more useful reforms (and sooner) than such cynics currently expect.

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Dec 2002
Pharmaceutical/Biotechnology	Novozymes, Novartis, Sereno	16%
Miscellaneous Services	Fraport, Hagemeyer	14%
Consumer	Adidas, Henkel, Michelin	14%
Retail	Hornbach, Metro, Kingfisher	14%
Capital Goods	Océ, Schindler, Siemens, Draegerwerk	12%
Chemicals/Materials	Linde, Merck KGaA	10%
Financials	Alleanza, Allianz, Assicurazioni Generali	7%
Tech/Media	Ericsson, Great Nordic	7%

Source: Platinum

Outlook

Stocks in Europe are in general modestly rated given the expected dull economic outlook. Earnings growth and/or catalysts for the re-rating of companies are in short supply. We are still avoiding those companies with too much debt, and medium sized companies are more attractively priced, in most cases, than the very large. We continue to find French stocks more expensive than other continental European markets; in the UK we find few interesting companies at all. Over half the portfolio is invested in Germany and Switzerland; we also have several holdings in each of Denmark and the Netherlands.

The portfolio is hedged over 60% into A$; the current consensus is that the euro is the "best of a bad bunch" (ie. compared with US$ and yen), and the A$ "will suffer on the crosses" (ie. strengthen against the US$ but not against the yen and certainly not against the euro). We are concerned that this widespread view exists primarily because it has worked in recent years, so while we concur that the euro is preferable to the US$, maintaining a considerable A$ hedge looks sensible at 54 euro cents.

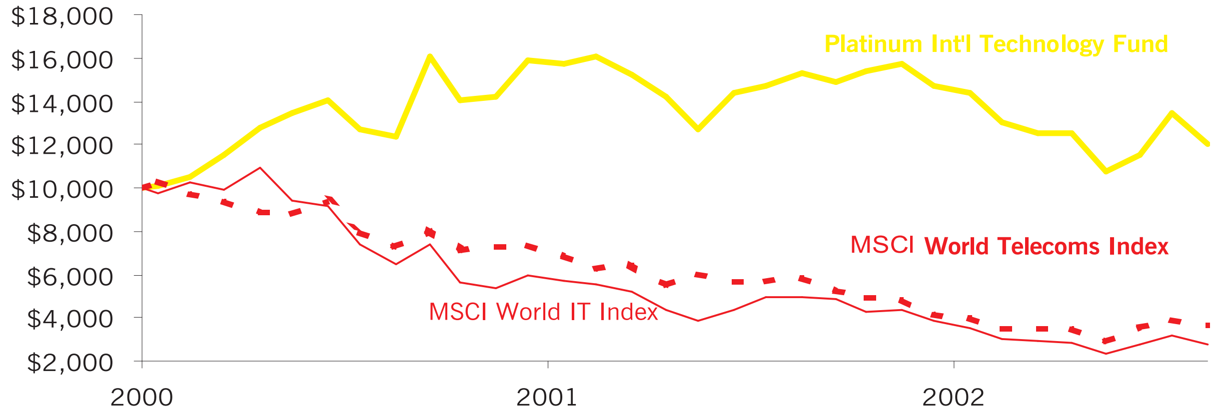
Toby Harrop
Portfolio Manager

Platinum International Technology Fund

Performance

REDEMPTION PRICE: $0.7845

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



Source: Platinum and MSCI

Technology and telecom stocks rebounded nicely resulting in the first positive quarter for these sectors this year. The MSCI Information Technology (A$) Index and the MSCI Telecommunication (A$) Index advanced 15% and 24% respectively. For the full year these indices returned –45% and –36%. Leading the charge were software companies, followed by telecom equipment and networking companies. These areas had previously been amongst the worst performers for the year. The Fund returned 12.1% for the quarter and –21.5% for the year. Strong contributors to performance this quarter included Ericsson (mobile phone systems) up 81%, Nvidia (graphic chips) up 34%, and Verisign (security software) up 59%.

Changes to the Portfolio

DISPOSITION OF ASSETS

Region	Dec 2002	Sep 2002
US	42%	43%
Other Asia (incl. Korea)	14%	17%
Japan	10%	9%
Europe	6%	4%
Cash and Other	28%	27%
Shorts	16%	17%
Net Invested	56%	56%

Source: Platinum

BREAKDOWN BY INDUSTRY

Region	Dec 2002	Sep 2002
Semiconductor	23%	24%
Telecom Equipment and Suppliers	17%	19%
Electronic Components	6%	7%
Software	6%	7%
Other	20%	16%

Source: Platinum

Adva Optical Networking was added to the portfolio during the quarter. Adva is a German provider of DWDM equipment used by companies to link their local area networks and storage networks via the optic fibre networks. (DWDM stands for Dense Wavelength Division Multiplexing, a technology which allows a large increase in the amount of data sent over optical networks by breaking the signal up into different wavelengths (or colours) of light). Like all networking equipment, the demand for DWDM products has collapsed over the last two years. Adva's niche is in metro DWDM products (for transmission across relatively short distances), a market segment that has performed somewhat better with sales down just over 50% from the peak.

The positive development for providers of metro DWDM equipment has been the collapse in the price of bandwidth, a result of the glut of fibre capacity rolled out during the boom. To take advantage of the current low price of bandwidth, both companies and their service providers need to invest in additional equipment. Adva, although a small company compared with its main competitors Ciena and Nortel, has, thanks to a very competitive set of products, been able to secure distribution agreements with major networking companies in Siemens, Alcatel, Fujitsu, and Cisco. As a result, the company has experienced a relatively small 16% decline in sales from peak levels achieved in 2000 and operates at break even levels. The stock trades at a fraction of the valuation of its major competitors (and other similar companies) despite having a solid position in an area that will see substantial growth once IT spending returns.

Another new name in the portfolio is Ushio Denki. Ushio manufactures highly specialised industrial lamps used in a broad range of applications from office automation equipment, speciality lighting, as well as semiconductor manufacturing. The company is most often associated with the semiconductor manufacturing arena even though this accounts for less than 10% of sales. As such, the negative sentiment surrounding the semiconductor industry has provided the opportunity to purchase the stock at attractive prices. The position in Verizon (a US telecom operator) was sold as we believe changes to the interconnect regime in the US will pressure the earnings of the incumbent operators.

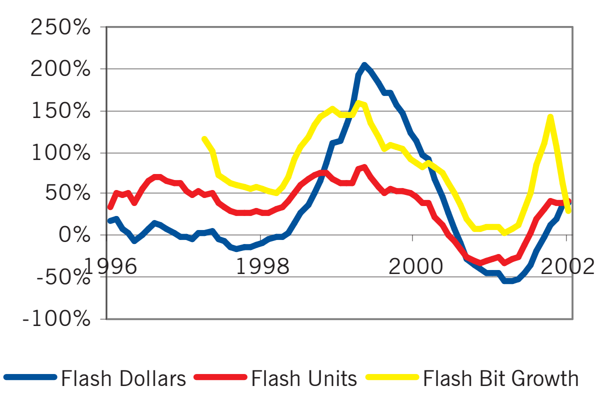
Commentary

In our commentary last quarter, our position was that although the outlook for spending on technology remains problematic as a result of excess capacity and highly geared balance sheets, prices for many technology stocks already reflected a very miserable environment. With the strong bounce in stock prices we have seen subsequently, the question then becomes whether this was a function of an improvement in the fundamental business environment or simply a bounce from oversold levels?

In an attempt to answer this question it is interesting to examine various players in the mobile phone industry. One segment where improvement is widely anticipated is mobile phones. Next generation handsets for the important GSM market have been launched in recent months with functionality from digital cameras and colour screens to e-mail and web browsing. Although one may well question how broadly these functions will be utilised, the existence of the functionality together with the ageing of the current "fleet" of phones is providing hope of a better upgrade cycle in 2003.

Even if growth in mobile phone shipments doesn't materialise, the average phone sold in 2003 will have greater functionality with 50% expected to have colour screens. The new functionality will be important for component suppliers who provide the enabling technology. For example, phones with colour screens require additional flash memory and as a result the market for flash memory chips is seeing an improvement in pricing. (Flash memory chips differ from the standard memory found in PC's in that it will retain data after power has been switched off). AMD, one of the Fund's investments, is a leading manufacturer of flash memory chips.

FLASH MEMORY PRICE CHART (YOY% CHANGE)



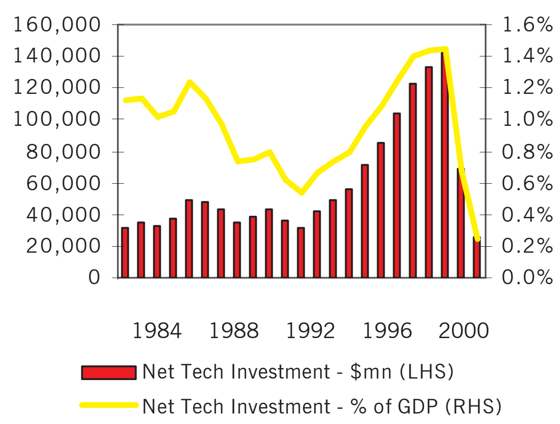
Source: Salomon Smith Barney

Elsewhere the news coming out of telecom equipment providers indicates that the market will deteriorate further in 2003, with mobile phone infrastructure providers such as Ericsson indicating that sales could fall as much as 10% from the already depressed levels seen this year. The weak balance sheets and poor profitability of the customers continues to depress capital spending plans. To add insult to injury, the early stage of the roll out of 3G networks will depress profitability as these products are not as finely tuned as the mature GSM product.

Business for the network operators varies widely depending on the region. The US mobile phone companies have the benefit of operating in one of the faster growing markets globally, with the subscriber base increasing 14% in the last 12 months to 137 million. One might conclude that this would be a good market but in fact the existence of six national operators and numerous regional players makes it one of the most competitive and unprofitable places to operate. Consider the fortunes of the market leader Verizon Wireless who in the year to September, gained a net 2.3 million subscribers by adding 11.2 million new customers and losing 8.9 million old ones. Almost 30% of customers at the start of the year will have been lost, incurring a not insignificant cost in sales, marketing, and administration expense, coming on top of the severe pricing pressure that creates such churning. In contrast to the US, the Korean and Japanese mobile phone companies operate in a much less competitive environment with only three major networks in each country. Not only is the business more profitable, the operators have been able to invest in provisioning and promotion of new products. As a result over 80% of NTT DoCoMo (Japan) subscribers and 50% of SK Telecom (Korea) subscribers are signed up for next generation services. (Popular services include downloadable pictures, ring tones, and games). The Fund has an interest in these businesses via its holdings in SK Telecom, Korea Telecom, and NTT.

The above discussion again highlights that the bright spot remains the consumer (especially in the US) who continues to spend on a wide range of products and the central problem of excess capacity holding back both profits and spending on capital goods. The following chart shows that the net investment into technology equipment in the US economy, as a percentage of GDP, is at a significant new low since the invention of the PC in the early 80s. Although the chart doesn't imply that spending must pick-up it is probably reasonable to argue that the worst of the declines are behind us. The major risk to this conclusion would be a pullback in spending by the US consumer.

US NET TECHNOLOGY INVESTMENT



Source: Credit Suisse First Boston

As for the stock market, many (but by no means all) technology stocks probably saw their lows in October. In our last report we highlighted how undervalued a number of our holdings had become and even with rallies of 30% or more, many stocks remain attractive at current levels. Nevertheless, until excess capacity is cleared and balance sheets rebuilt, the ride for technology investors will continue to be bumpy.

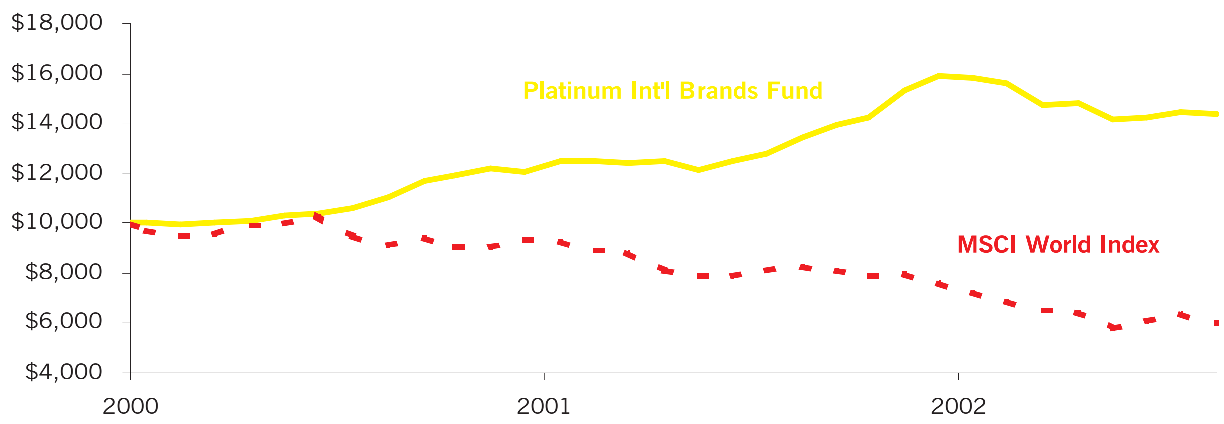
Andrew Clifford
Portfolio Manager

Platinum International Brands Fund

Performance

REDEMPTION PRICE: $1.3122

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



Source: Platinum and MSCI

The MSCI World Index rose by 3.9% in the quarter, whilst our proprietary index of branded goods and services fell by 2%. The International Brands Fund essentially held its value for the quarter with performance of 1.3%.

We began our previous quarterly report noting that we were concerned about the relatively high valuations of the large, very well known companies, notably Procter & Gamble, Coke, Colgate and Anheuser Busch. Over the past quarter these companies have *fallen* in value by between six and 12% and for reasons highlighted below, we continue to believe that these US global icons will sustain further share price declines. We have therefore maintained short positions in a number of these US stocks.

In Europe, we had noted that we were selectively buying into leading brand names such as Adidas, Beiersdorf (Nivea skin care) and Wella (haircare). We were not the only ones to have seen value in Beiersdorf. Not long after our purchase the European press began to speculate that Procter & Gamble were in discussions to purchase the company, the share price appreciated rapidly on this speculation and we decided to sell our position on this excitement. Since then, despite continued media speculation that the discussions are ongoing, the share price has gradually declined. We still believe that Beiersdorf with their leading brand Nivea, has outstanding prospects and we would be eager buyers at the right price.

Adidas (+19%) and Wella (+27%) also both performed exceptionally well. We had previously commented that Adidas was well positioned to benefit from a shift in consumer buying patterns to the mid-range priced products. Over the quarter Footlocker, a leading US retailer of sneakers, and Nike have been very public in their dispute over stocking of Nike's top of the range products. Footlocker appears to have wanted to stock less of the highest priced *marquee* products as they respond to a difficult retail environment and a frugal consumer. Nike appears to be resisting this and the outcome has been public announcements by Footlocker that they are reducing future orders for Nike products by US$300-400mn, up from previous commentary that orders would be reduced by US$150-250mn. Allowing the dispute to be seen to escalate publicly and publishing reductions in *planned* orders is clearly indicative of the stress within these companies, exasperated by a difficult environment.

adidas Originals Store

adidas

Examples such as this and ample evidence of discounting, price wars and an extremely competitive environment reinforces our cautious view of the universe of consumer companies. We would note though that to be successful it is not just about price, Adidas has also introduced new products. The consumer is still very discerning, it must also be the right product especially in the fashion and performance arenas, such as sneakers.

Changes to the Portfolio

We have added some new names to the portfolio, Canon (consumer products manufacturer) in Japan, Metro (a retailer) in Germany and Wolford (luxury stockings and bodywear) in Austria, each of these companies having strong brand names and positions in their respective markets. Wolford has struggled in the current market with the decline in spending by the consumer for luxury stockings leading to not only poor results but also a substantial drop in the company's valuation. New manufacturing facilities to support innovative materials (the world's finest biofibre) and a new product range position them well, evidence of rigorous cost control is also showing through in recent results. They report a strong improvement in the initial orders for the new range albeit the real success will be measured in the repeat orders and the follow on products, something we will watch for later this year.

Commentary

A recurrent issue this quarter has been the extremely competitive environment across many different consumer categories and geographies. Last quarter we highlighted that in the US, WalMart, despite their reputation as a leading discounter, was continuing to bring down expectations of their rate of sales growth. This has continued. We speculated that this would give rise to yet further discounting competition as smaller competitors attempt to stem the flow of customers to this leading retailer. Overlaid on this dynamic for many US retailers were concerns that the number of shopping days between Thanksgiving and Christmas were significantly reduced on the previous year, down from 32 to 26 days. Add to this an already difficult year and a consumer more interested in value and bargain hunting than in the joys of shopping per se and you have all the ingredients of a difficult and competitive environment. We are therefore not surprised that we see discounting and price wars.

In France, cosmetic retailers started to compete more aggressively on price with reductions of 15% across most of the range. This is unusual, the French retail market is more tightly regulated than most in respect of when and how discount "sales" happen. The key to us were the comments by the retailers that the cost of this discounting would be passed back to the suppliers, companies like L'Oreal and Clarins.

In the US, the evidence of discounting and price wars can be found in a number of categories, two examples being Burgers and Diapers (nappies). McDonald's have turned their attention back to a deteriorating home market and initiated a $1 menu promotion, a burger for a dollar, which forced competitors such as Burger King to respond with their own discounts. Despite the lower price, sales across the industry deteriorated, forcing Burger King's second largest franchisee with over 300 outlets, into bankruptcy proceedings. An industry term, HFFU pronounced "*hoofoo*", denotes "Heavy Fast Food Users", with this group characterised by the young single male that frequents, more than most others, the fast food outlets. "Heavy" meaning the frequency of visits, not their waistline, although the two may clearly be related. According to McDonald's, it is the impact of unemployment on the "*hoofoos*" that is contributing to the weakness in sales. That may be so, but it's only part of the story, we would add that an extended period of easy access to capital has seen a significant oversupply of fast food outlets and further closures voluntarily or through bankruptcy are inevitable.

As the different segments of the consumer population adjust to rising unemployment and deal with high debt levels, we would expect to see a continuation of the fierce competition for fewer consumer dollars. This scenario can be extrapolated to the US retail industry more generally as WalMart increases the price competition in an industry that has seen significant expansion of retail space over the years.

Likewise within the supermarket, we see companies competing for market share gains as a way of maintaining growth in categories that no longer afford easy gains for all. The Diaper market has been extremely competitive as Procter & Gamble attacks Kimberly-Clark's market leading position. Part of the tactics have been to reduce the pack count, reducing the number of diapers from 48 to 40 per pack whilst trying to maintain the price. To match Kimberly-Clark's shelf price (just under the US$10 mark) Procter & Gamble will sell their 48 pack for the same price as Kimberly's 40 pack until they can reconfigure their packs. We doubt whether the discounting will cease when the pack sizes are realigned.

Other leading global branded goods companies that were rewarded for the promise of sustainable growth are also showing signs of more difficulties to come. Coke's share price is still at a premium despite the issues that they face. The Coke promise to investors was to take this brand into regions like China, India and Eastern Europe, significant populations where the aspirations of consumers for affordable luxuries and images of success would ensure robust growth. Coke is currently facing difficult consumer conditions in many of its operations and the regional expansion is proving even more difficult in areas where boycotts of icon US companies and brands are taking effect. In the Middle East, an Iranian company has grown to 17 factories and 7,000 employees on the success of supplying their ZamZam Cola across the region and has plans to expand into Western Europe and Asia. Coke has also relied upon a system of "Bottlers", public companies that have raised capital to build the manufacturing and distribution networks essential to making Coke ubiquitous. The success of this from Coke's perspective has been to use external capital whilst controlling the profitability of the Bottlers (predominantly through supply agreements for the Coke concentrate "syrup"), the outcome of which is that the external investors have not seen anything like an acceptable return on that capital. Coke is under increasing pressure to restore the profitability of the Bottler network and ensure investors receive an adequate return on the capital.

With pressure on the growth of brand Coke and carbonated soft drinks generally, together with pressure on their profitability from the bottler network, Coke has turned to bottled water to drive growth and sustain profitability. There is no doubt that this has been a successful move for Coke, using their extensive distribution system, however we wonder how sustainable it is to be charging a price premium for bottled tap water. Bottled water can be either "named water" from a natural spring or well, or else it's tap water that's filtered and bottled. Both Coke with *Dasani* and Pepsi with *Aquifina* have bottled tap water brands, and neither of the brands can be considered as strong as the Coke or Pepsi brands, yet they are currently priced at a premium. Coke makes more profit selling a case of water than a case of cola. So we remain unconvinced that selling an undifferentiated product for a price premium will be sustainable. When the distribution gains stop delivering the growth, we suspect the companies will turn to price as the weapon of choice to sustain the growth.

Interbrand, the leading consultant of brand values ranks Coca-Cola as the world's most valuable brand and investors are still willing to pay a premium for the company. However we see a company, like many others, searching for the next leg of growth whilst having to correct past abuses, be they excessive price umbrellas, over-investment in capacity, under-funded pension liabilities or unsustainable profit targets. The retailer, the competitor, the regulator and above all the consumer are becoming more sophisticated and more demanding. Leading branded consumer companies must revisit the core proposition of their brands and rebuild the confidence of both the consumer and the investor in the value of the brand.

Outlook

The outlook for consumer branded goods companies remains uninspiring. Concerns surrounding the Middle East will continue to curtail tourism, high levels of consumer indebtedness (mortgages, car loans and credit card debt) in the US economy and an extremely competitive environment conspire to make trading difficult for many of our companies. In many cases valuations are also still relatively high as investors have sought out and paid a premium for the perceived security of reliable earnings. As companies bring down growth expectations and adjust to a harsher environment their valuations should continue to fall, perhaps even to interesting levels. We will continue to be opportunistic and invest only when we believe the fundamentals are not reflected in the share price.

Simon Trevett
Portfolio Manager

Myanmar Trip (December 2002)

As you will know by now, nothing delights us more than spotting an opportunity that others may overlook. The case in point is Myanmar (Burma) which is not yet on the tourist map. This is partly because of its military government and its relatively closed economy. It has many similarities with its southern neighbour Thailand – as it was in the late 1970s before industrialisation took hold. Tourism is rising with foreign visitors now numbering around 200,000 pa which is still pitifully few.

Why tell us about it? Well after nearly two weeks and four novels I need to "do something" and besides if you enjoy seeing places before the Big Macs, Coca Cola and other dreary Western exports crush the local offerings, it may be a place of interest. If you are engaged by other cultures, enjoy experimenting with exotic foods – that don't necessarily paralyse your jaw bone, the score is rising. Arts and crafts such as lacquer-ware, hand made textiles, wood carvings and silverware abound and will keep the most ardent shopper constantly amused – so long as they enjoy pleasant though incessant bargaining. Lastly, there is a huge variety of experiences that you will long linger over.

The vast open river plain of Pagan was our starting point. It is littered with an incredible collection of Buddhist temples, pagodas and stupas dating back to the height of its power in the 11^{th}-13^{th} Century. We then boarded the Pandaw III, a replica of the Yarrow-built river steamers that once plied the Ayeyawady River. (The river fleet of 600 vessels of the Irrawaddy Flotilla Company was once the largest in the British Empire until being scuttled ahead of the Japanese occupation in the 1940s). This was a magical experience. The Ayeyawady is a slow moving, broad, but shallow expanse of grey-brown water passing through flat lush fields and plantations – seemingly unchanged and unchanging. (A Nile cruise is fun, but this is gentler, calmer and the vessels carry no more than 36 passengers). En route to Mandalay we disembarked twice. First at Yandabo which is a secluded village dedicated to making terracotta pots. The second stop involved a delightful trishaw ride visiting various points of interest.

Mandalay, despite the mystical attraction of its name, was relatively dull. A large city of perhaps half a million and the trading centre of upper Burma for tea, precious stones and jade, and industrial imports from China. Better news was motoring from Heho Airport to Pindaya. At this time of year the harvest is being completed and one passes swathes of yellow sesame, ox carts galore, all the time sharing the road with one cylinder 25 HP Changhai diesel tractors. Seldom is it carrying fewer than 12 gleeful colourfully clad locals who gesticulate as we try to share the pot-holed single carriage road. (Our drivers were all excellent and the roads generally prevent one from travelling above 50km/h. Unless you can read the Myanmar script then don't even think of driving yourself).

At Pindaya the family was conned into hiking up the mountain to visit remote villages. Apart from the grunting and whining from behind, it was blissfully quiet, unpolluted by modern noise or activity. At around 4,500 feet, it is good tea and coffee growing country. Many of the traditional timber framed palm clad houses are making way for brick structures. It's at this point that one appreciates the irony of the term "unspoilt". We had trouble enough getting our unburdened bodies up the 6 to 7km mountainside track - to imagine doing so with a 50kg bag of cement was a tormenting thought – and don't forget dear, to drop off that 35kg sack of green tea at the market on Thursday …

Onto Inle Lake. A veritable paradise nestling in between the Shan hills. Many of the hotels are built on the lake on stilts and, Venice-style, one travels everywhere by boat passing cultivated floating gardens (borne on decaying water hyacinth). The locals perform a clever number, rowing with their one leg, while richer waterman spray past in their long boats powered by diesel inboard/outboards. (A cunning adaptation of the Thai design – with less muffling of the exhaust if that's possible).

After this visual and mercantile overload it was time for a rest. Ngapali Beach is over 3km of glistening white sand and azure bath water. There are three or four good but small beach hotels/chalets and the place feels deserted. Our accommodation was exquisite with the one drawback. It lacks any communication with the outside world in terms of international dialling and satellite TV.

We were offered a lift to the local post office but as it was said to be only ten minutes down the road through interesting terrain, we chose to walk. After about 1.5 hours inspecting road making by hand!, solar drying of fish, pepper and desiccated coconut and so forth, we finally found our objective. The building was probably erected in the early colonial days and the equipment would have fetched a high price in any telecommunications museum. The switchboard operator was most obliging and after spending 15 minutes trying to raise her opposite number in Yangon (Rangoon), I was through to Platinum Asset Management: War was back on the agenda, oil through $30, our shorts were working well and gold was bubbling … just before Andrew could launch into pleasantries, click … my five minutes were up … so please hand over the US$20. Trudging back was gruelling, by now the sun was high and hot. Fortunately the manager of the German-run resort stopped to offer us a lift. Without hesitation we hopped aboard the pick-up and were assured that being Italian-run, our place was the most stylish on the beach but that his customers wanted efficiency over effect! – hence their satellite TV, IDD from the rooms and excellent beer. He assured us that Australians were welcome and could perhaps liven up the place during happy hour. For those really wanting to escape, Ngapali is hard to beat, there are few distractions.

Tomorrow we are back to Yangon: a few more pagodas, some frantic pre-Christmas shopping and then home. This type of excursion is not for everyone I suppose, though our girls 18 and 15 years graded it highly. Burma can cater to all budgets, incomes are low and the people extremely friendly. If you are looking for a destination not pullulating with tourists, get here before they discover the place.

<u>Kerr Neilson</u>

Excesses amongst US executives

Mr Dennis Kozlowski, the former CEO of Tyco International has become a symbol of excess amongst US executives and is alleged to have stolen several hundred million. Tyco have released some of the supporting evidence in their civil case against the former CEO. The allegations include using company money to purchase a US$6,000 shower curtain and a US$2,300 gilded waste paper basket. The allegation that Tyco contributed in excess of US$1 million to a birthday party for Mr Kozlowski's wife caught our attention. Below is an unaltered email detailing the planning for this party.

"BJ, Ellen, Herni & Jimmy: Guests arrive at the club starting at 7:15 p.m. The van pulls up to the main entrance. Two gladiators are standing next to the door, one opens the door, the other helps the guests. We have a lion or horse with a chariot for the shock value. The guests proceed through the two rooms. We have gladiators standing guard every couple feel and they are lining the way. The guests come into the pool area, the band is playing, they are dressed in elegant chic. Big ice sculpture of David, lots of shellfish and caviar at his feet. A waiter is pouring stoll vodka into his back so it comes out his penis into a crystal glass. Waiters are passing cocktails in chalices. They are dressed in linen togas with fig wreath on head. A full bar with fabulous linens. The pool has floating candles and flowers. We have rented fig trees with tiny lights everywhere to fill some space, 8:30 the waiters instruct that dinner is served. We all walk up to the loggia. The tables are all family style with the main table in front. The tables have incredible linens with chalices as wineglasses. The food is brought out course by course, family style, lots of wine, and it's starting to get dark. Everyone is nicely buzzed, LDK gets up and has a toast for K.

Everyone is jumping from table to table. E Cliff has continued to play light music through dinner. They kick it up a bit. We start the show of pictures on the screen, great background music in sync with the slides. At the end Elvis is on the screen wishing K a Happy Birthday and apologizing that he could not make it. It starts to fade and Elvis is on stage and starts singing happy birthday with the Swingdogs. A huge cake is brought out with the waiters in togas singing and holding the cake up for all to see. The tits explode, Elvis kicks it in full throttle. Waiters are passing wine, after dinner drinks, and there is dancing. 11:30 light show starts. HBK is displayed on mountain, fireworks coming from both ends of the golf course in sync with music. Swingdogs start up and the night is young.

Here is the invitation:

Ottima Festa Ottima Amici

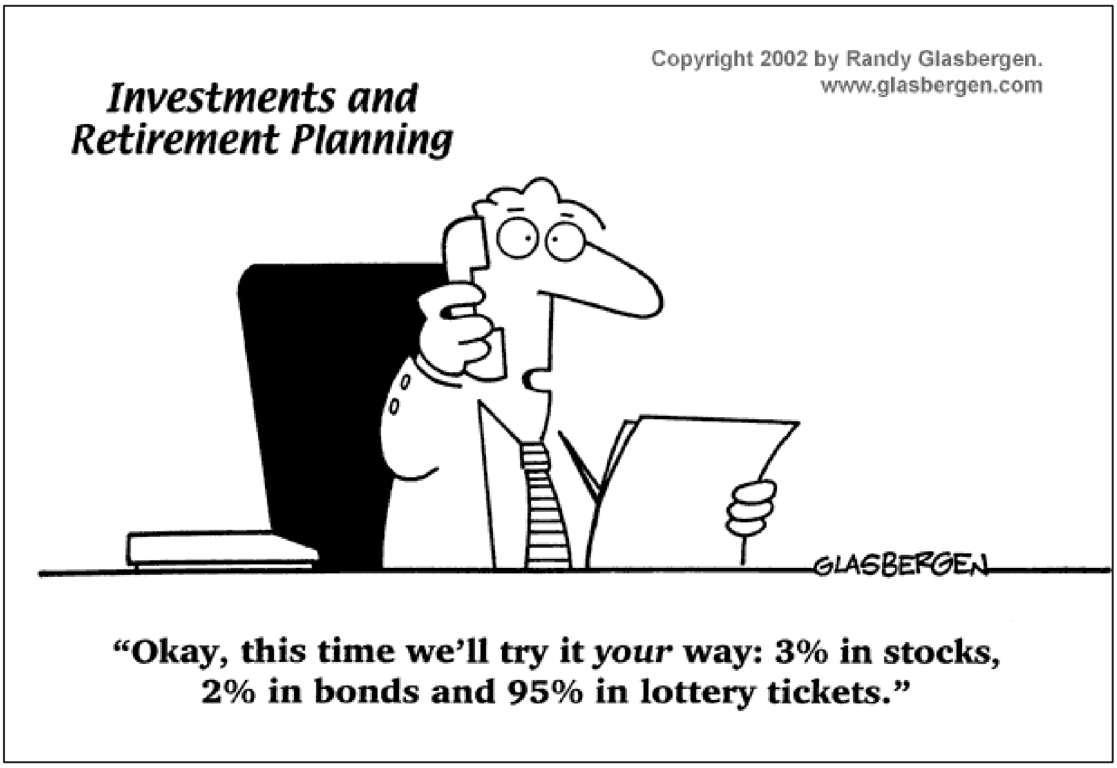
Our summer party is moving from Nantucket to Sardinia. Please join us in the celebration of friendships and Karen's 40th birthday in the scenic Costa Smeralda.

Accommodations have been arranged at the Hotel Cala dl Volpe Resort. We look forward to seeing you there - the fun begins the evening of June 10th.

Buon viaggio e felice arrivo - a prestol

Karen & Dennis

The best present for my birthday is your company so please, no gifts."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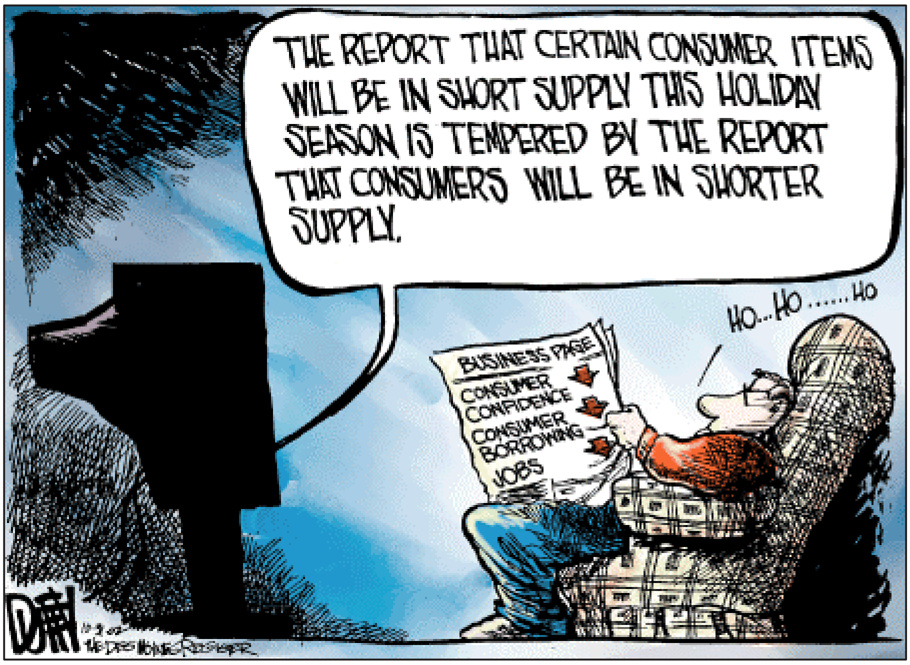
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