PLATINUM ASSET MANAGEMENT

The Platinum International Brands Fund

Quarterly Report

31 December 2000

Redemption Price: $1.1016 Fund Size: $4 Million

Performance

Markets have been under pressure with the MSCI 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.

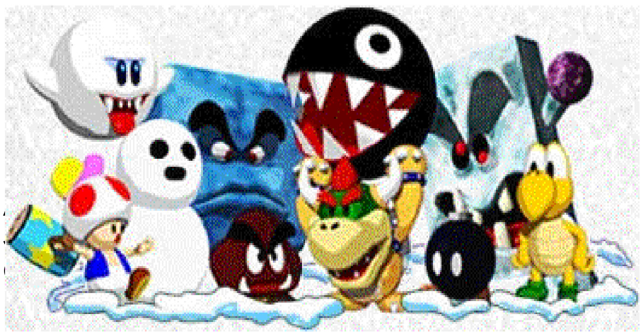
The auction process saw Diageo and Pernod Ricard jointly bid against others including the Bacardi/Brown-Forman team. The previous favourite, Allied Domecq, dropped out after it seemingly managed to cherry pick the prized Captain Morgan rum brand from the portfolio without making a full bid. Captain Morgan 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 speciality 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.



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 with 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.