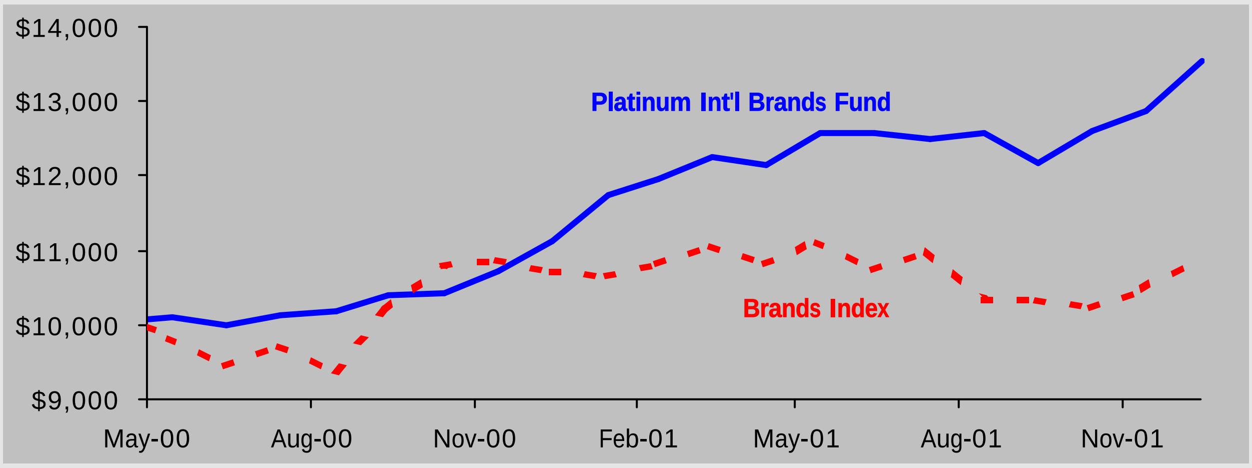
The Platinum International Brands Fund

REDEMPTION PRICE: $1.3053

Performance

VALUE OF $10,000 INVESTED SINCE INCEPTION (18 MAY 2000 – 31 DECEMBER 2001)



Both the International Brands Fund and our brands index were very strong in the December quarter: units in the Fund gained 11.3% and the index was up 5.6%. This performance is flattered by the weakness of markets after the September attack.

- US retailers were very strong. Circuit City and The Limited were up by 108% and 49% respectively. So-called "big box retailers" also participated with Home Depot up by 28% and Wal-Mart by 12%.
- Beverage companies and brewers in Europe and the US were generally flat. Coke, Pernod Ricard and Interbrew were all up fractionally.
- Household and personal care companies were also generally flat. Two exceptions were Gillette up by 8%, and Procter & Gamble up 5%.
- The food sector was mixed: two notable performers were Unilever PLC, a share we own, which rose by 4%, and Danone – down 10%.
- Hospitality and leisure companies rebounded very strongly from panic driven selling: Royal Caribbean Cruises, Carnival Cruises, Hilton, Accor and Host Marriott were all up 23% or more.
- Perhaps the best indicator of the market's belief that consumers will regain their confidence and spend is the strong performance of luxury goods companies: Tiffany, Hermes and LVMH were all up more than 23%.

So at the end of December we are looking at a market that seems convinced that 2002 will see an upswing in the US economy. The majority of branded goods companies have regained their pre-11th September valuations. This willingness to buy defensive companies at a time when investors generally anticipate a recovery is intriguing. It is as though low interest rates are driving people back into the market, yet in their uncertainty investors are hedging their bets by having exposure to both cyclicals and defensives.

Commentary

The Japanese Conundrum

Despite a poor economic environment, sales of luxury goods in Japan have proven resilient, even as slowing consumption in the US and Europe crimps the profits of groups like Gucci and LVMH. Faced with great uncertainty and recessionary conditions, the consumer is still seduced by status, style and stardust, as evidenced by the recent opening of the

Hermes "mega-store" in Ginza, Tokyo. This event was covered on network television and by magazines, prompting such interest that people queued from the early hours of the morning to be present at the store's opening. The crush of the crowd obliged Hermes to issue tickets to limit numbers in the name of safety. Hermes' new store helped lift its third quarter sales in Japan by 58%. It is not the only luxury goods company performing well in Japan. Gucci reported retail sales growth of 29% in its third quarter (ending October) while LVMH remarked on its continued growth in that country.

This strength may, however, be a mixed blessing. Japanese tourists account for a very large proportion of sales – as much as 20% for companies like Gucci and LVMH. Far fewer Japanese are now travelling abroad: the number of overseas travellers fell 27% in September and 40% in October in comparison to the previous year. Sales at popular destinations for Japanese travellers, such as Hawaii, have fallen steeply. We suspect that the strength of domestic Japanese demand for luxury goods may in fact be a transfer of sales, rather than real growth.

An explanation for the historic success of luxury goods companies in Japan may lie in demographics. As is well known, the country faces an aging population, but this may be beneficial for companies offering luxury items, due to a tendency for young women to avoid early marriage, live at home at low cost and consequently to enjoy large disposable incomes. It has become a game on our visits to Japan to wager about the number of Louis Vuitton bags that we will find when we enter a subway carriage. The distribution consistently falls between three and twelve! With the yen weakening and no signs of meaningful reform or improved economic conditions in Japan, we think that continued growth in luxury goods sales in that country should not be taken for granted. A real risk is that tastes change due to over-exposure or a preference develops for less conspicuous consumption.

Corporate Activity

There has been an intriguing revelation relating to Interbrew, a component of the Fund. The Financial Times published documents indicating that a bid for South African Breweries was imminent. This would be an enormous purchase – SAB has a combined value of debt and market capitalisation of nearly £7 billion, greater than two thirds of the value of Interbrew. The documents reproduced in the press turned out to be a composite of fabrication and genuine analysis by Interbrew. The important point here is the continuing prospect of consolidation among the leading global brewers. SAB and Interbrew combined would sell around 14 billion litres per year, nearly as large as Anheuser Busch, the world's largest brewer, with 14.5 billion litres.

The year ended on a strong note for Interbrew. It has just concluded a deal whereby Coors will buy its Carling lager business for US$1.7 billion. Following Interbrew's acquisition of Whitbread and Bass, competition concerns led the British government to require that the company divest part of the Bass assets. This is a very good sale for Interbrew and the company can now focus fully on developing its global portfolio, including the Beck's purchase of August.

At last the FTC has approved the acquisition of Seagram's liquor brands by Diageo and Pernod Ricard. This was conditional upon the sale by Diageo of its Malibu rum brand to prevent excessive power accruing to it once it acquires Captain Morgan rum through the Seagram deal. The situation is not resolved though, as Diageo is still in dispute with Allied Domecq over Captain Morgan brand ownership.

Kimberly-Clark – a new holding

During the quarter we built a position in Kimberly-Clark. This traditional producer of pulp and paper has gradually transformed itself into a consumer goods company by inventing such products as packaged, rolled toilet paper and substituting tissue for cotton in feminine hygiene products. Today, it has a leading position in the US with brands such as Kleenex and Huggies. It accounts for around half of the facial tissue and diaper/nappy markets and it has shares of 17% to 25% in products such as toilet tissue and paper towels. An important change came for Kimberly in 1995 when it acquired Scott Paper for $9 billion. It subsequently streamlined its business by selling tangential activities, reducing the amount of pulp made in-house and disposing of some of its forestry interests. This has enabled the company to increase its sales gradually, but on account of improving profitability, earnings per share have risen strongly.

The market is treating the shares with some circumspection at present, because of concerns about earnings growth in the face of private label encroachment and aggressive price initiatives from its principal competitor Procter & Gamble. These are real concerns, but fortunately lower plastic and pulp prices will alleviate some of these pressures in the short term and there is no evidence that this company has been out-marketed by Procter & Gamble over the last ten years. Performance over this period point to the exact opposite. This is a company with an excellent record of profitability and growth, a great deal better than the market average, yet it is selling at a multiple of earnings 25% below the market average. We concede that its profits will grow more slowly than recently, but believe it is a superior business to the market average and that it should reward us with sound returns in the future.

Outlook

As noted earlier, as the global economy shows more signs of recovery, investors tend to move to more aggressive portfolio positions and eschew defensive companies. We can participate in this to some extent by owning durable goods producers and retailers. We will however only do so if the valuations make sense.

Kerr Neilson/Julian McCormack
Portfolio Manager