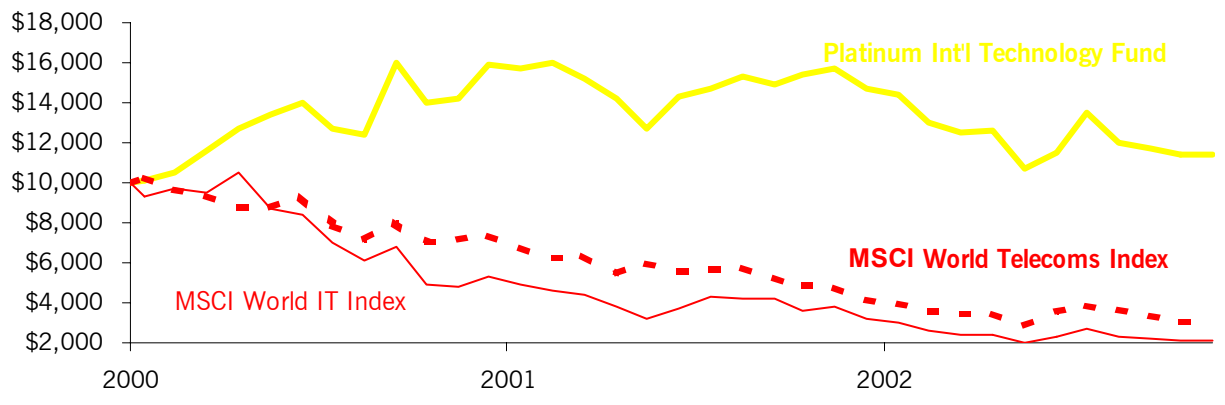
Platinum International Technology Fund

Performance

REDEMPTION PRICE: $0.7445

VALUE OF $10,000 INVESTED SINCE INCEPTION (18 MAY 2000 – 31 MARCH 2003)



Source: Platinum and MSCI

The Fund performance during the quarter was -5.1%, as telecoms and technology stocks retraced from the rally of late 2002. The MSCI Information Technology (A$) Index fell 8% and the MSCI Telecommunication (A$) Index fell 14% during the same period.

We reduced our net invested position to 45% and increased our cash position to 38%. While some of our US investments performed nicely during the period, the overall performance was mostly penalised by the price decline of our Korean and Japanese holdings. We continue to hold a 17% short position in some selected stocks which we consider excessively valued.

Changes to the Portfolio

DISPOSITION OF ASSETS

Region	Mar 2003	Dec 2002
US	32%	42%
Other Asia (incl. Korea)	11%	14%
Japan	10%	10%
Europe	9%	6%
Cash and Other	38%	28%
Shorts	17%	16%
Net Invested	45%	56%

Source: Platinum

BREAKDOWN BY INDUSTRY

Region	Mar 2003	Dec 2002
Semiconductor	20%	23%
Telecom Equipment and Suppliers	19%	17%
Software	11%	6%
Electronic Components	7%	6%
Other	5%	20%

Source: Platinum

During the quarter, we made a few changes to our portfolio.

We added two new positions in Europe: Siemens and Infineon Technology.

Siemens is a global electrical engineering group, with strong positions in power generations, medical solutions, transportation systems, automation, mobile telephony and network infrastructure. With a strong balance sheet and a lower dependency on Germany than generally thought (only 22 % of sales

are from Germany), Siemens is in a much better shape than many of its competitors. The stock price was marked down on the back of the general weakness of the German stock market and technology stocks and we were able to buy it at 0.35x sales and a PE of 14x.

Infineon Technology, formerly the semiconductor division of Siemens, is the third largest supplier of Dynamic Random Access Memory (DRAM), memory chips that are most commonly used in PCs. Between 2000 and 2002, despite an extremely competitive market environment for the semiconductor industry worldwide, Infineon improved its industry ranking from number nine to number six globally. Despite DRAMs being a highly competitive market, Infineon has some key competitive advantages: Infineon is the first company in the DRAM industry to produce chips on 300mm wafers technology (leading to a 2.2 times improvement in the number of chips per wafer produced compared to 200 mm technology). This will give them cost savings of as much as 30% over existing technology and what we believe is a one year lead time against its competitors. (Infineon began pilot production on 300mm wafers in 1999, two years ahead of its number one DRAM competitor Samsung).

While the general perception is that DRAM is tied to the slow growing PC market, new alternative applications for high end mobile handsets (as much as 64MB DRAM each) can represent a promising area of growth. Infineon is also the number one supplier in smart cards (cards with embedded microchips to store information), is the second largest semiconductor supplier to the automotive industry and is amongst the top three in the wireless semiconductor market. Infineon is valued at 0.9x sales, a substantial discount to most of its competitors.

We sold out of our position in Numerical Technologies after the company became the target of a tender offer by Synopsys. We sold our entire position in Furukawa Electric considering chances of a recovery in the global fibre optics industry in the medium term as remote, and that the company's restructuring efforts will not be enough to restore profitability. We sold LSI Logic because the company is seeing greater than expected pricing pressure in the consumer electronic business.

We closed our short positions in Dell, TSMC and Electronic Arts after those stocks reached their target levels. We introduced new short positions with Juniper Networks and France Telecom, which are priced by the market at levels already discounting a return to strong profit growth which we consider highly unlikely, given the difficulties of their respective industries.

Commentary

This quarter coincided with a series of Industry Conferences attended by Telecom analysts in exotic locations such as Cannes (GSM Annual Conference), New Orleans (CTIA Wireless 2003) or less exotic locations such as Hannover (CeBIT 2003). Although we did not personally enjoy the sunny "promenade" of the French Riviera we have tried to gather intelligence from those who were there, to understand how we can make money out of the ongoing developments in the mobile telephony industry.

While we are convinced that mobile phones will become an even more essential part of our daily life, with applications like video, music, messaging etc reaching levels we cannot even imagine now, the evidence is mounting that handset producers face a future of commoditisation (ie. available handsets will eventually be fairly similar in terms of features/price and profit margins will be shrinking due to the increased supply of products by an increasing number of competing producers). More specifically we will likely see a transfer of market share from US-European manufacturers to Asian producers.

Nevertheless, as we mentioned in our previous reports, the ageing of the current "fleet" of phones coupled with the availability of more functionality should help the replacement cycle and push the global handset market up 10% in 2003 to a total of 440 million phones.

The adoption of new phones that can transmit live-video, receive streams of digital data and can be used for new applications, is going to introduce an area of conflict between handset manufacturers and telecom operators. New generation handsets generally require complex software to run the handset's Operating System (OS). To understand the importance of this issue, think how important was

the dominance of Microsoft Windows OS to eventually lead the PC industry.

Until last year the two major operating systems were Symbian (backed by Nokia, supported by almost every handset manufacturer and widely adopted in Europe) and BREW (Binary Run-time Environment for Wireless) backed by Qualcomm, and widely adopted by CDMA operators and suppliers in Asia.

Microsoft had obviously spotted the potential market opportunity of the growing wireless industry and they started developing a slimmed-down version of their Windows software to be installed on mobile phones. In a revolutionary move for the industry Microsoft has now offered to seven telecom carriers (including Orange and Deutsche Telekom) a software platform to run on a custom-made Smartphone manufactured by the Taiwanese company High Tech Computer. The phone will ultimately carry the brand of the Telecom Operator. You can imagine that Nokia, Motorola and friends were not very happy about that …

A few weeks ago, in a similar move, Motorola (a founding member of the Symbian's consortium) announced its intention to use Linux (an open source code freely developed by software developers communities) as its operating system for handsets sold in Asia. The decision may be interpreted as a way to please authorities in China (where Motorola has 30% market share) who often suggested their preference for royalty-free software.

As if the war for the Operating System wasn't tough enough, last week another surprise announcement came from Vodafone and Orange. They became shareholders of a small American company called SavaJe, which is offering a self-sufficient (no other operating system required) Java-based operating platform (Java is a programming language licensed from Sun Microsystem, an investment of the Fund). This software will soon be offered to several mobile operators around the world and deployed in a number of handsets.

Alex Barbi
Portfolio Manager

All these trends are increasingly pushing the industry towards more fragmentation. We are not sure if and when one standard will eventually prevail, but in the short term we would expect some shake-outs to take place.

The battlefield for the mobile phone industry is also moving East.

China is increasingly a very significant buyer of mobile handsets (approximately 60 million or 15% of global demand in 2002), and an increasing portion of handsets is being assembled in China itself.

While Motorola and Nokia still command an aggregate 40-45% market share of the Chinese market, the number of local manufacturers are growing by the day. According to Deutsche Bank, in January 2003 there were more than thirty domestic suppliers accounting for nearly 37% of all handsets sold in China (up from 14% a year ago but still short of the government's goal of 80% in 2005).

Many semiconductor companies like Intel or Texas Instruments are keen to expand their potential market by offering Reference Platforms to entrepreneurial companies in China, where the assembly task can take place at a fraction of Western countries costs. Moreover, the number of local manufacturing facilities is mushrooming (Deutsche Bank estimates that in the last 6-9 months China has added enough manufacturing capacity to support between one third and two thirds of its domestic annual demand). As domestic demand is not expected to grow at such torrid pace - more like 10-12% over the next few years - sooner rather than later Chinese manufacturers will start looking outside of the country to fill their capacity.

Obviously we are not expecting all these manufacturers to survive, but, given the success enjoyed by other Asian manufacturers like Samsung or LG in the USA, we believe the emergence of at least some new low-cost manufacturers is going to create pressure on margins of existing market leaders (at least for the low price-mass market models).

We are looking at this industry to find investment opportunities and the Fund already has positions in semiconductor companies like National Semiconductors, AMD and Samsung Electronics, which we believe should be beneficiaries of these trends.