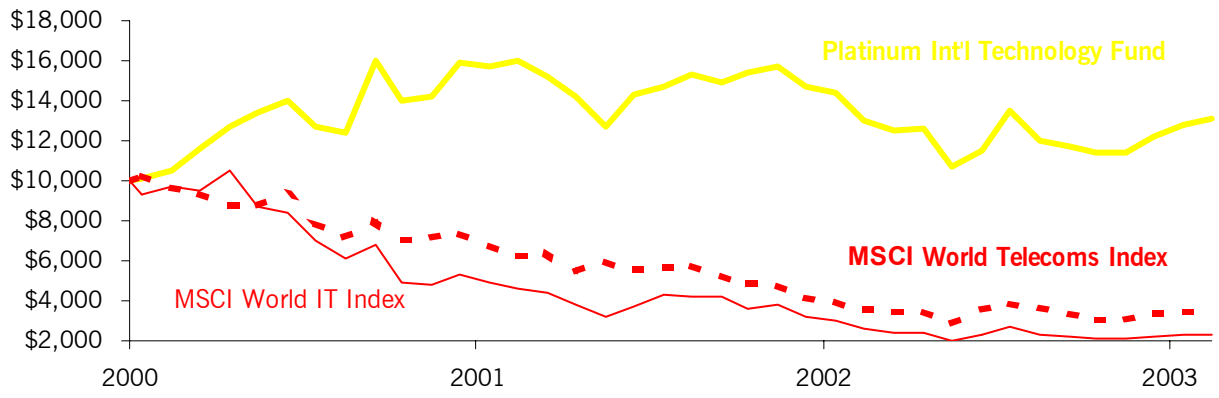
Platinum International Technology Fund

Performance

REDEMPTION PRICE: CUM $0.8553 EX $0.7702

VALUE OF $10,000 INVESTED SINCE INCEPTION (18 MAY 2000 – 30 JUNE 2003)



Source: Platinum and MSCI Refer to Note 2

The Fund performance during the quarter was a positive 14.9%, as technology stocks were strong across all segments. The MSCI World Technology Index (A$) was up 7.9% during the same period. In the US, the technology index Nasdaq was up 21%, the best quarterly performance since the fourth quarter of 2001 when the index climbed 30.1%. The Fund also benefited from our 61% exposure to the A$, which appreciated by 10% versus the US$ during the period.

The most exuberant stocks generally were in the small to medium capitalisation groups. Investors were aggressive buyers of internet stocks like Yahoo (+38%), Amazon (+38%) or USA Interactive (+40%) with even more enthusiasm for exotic names like Chinadotcom (+158%) or Sina.com (+153%). In most cases we think this is reminiscent of the same valuation excesses experienced before the Internet bubble burst. Strong performances were also recorded by electronic manufacturing services companies like Celestica (+33%) and Sanmina (+42%) in anticipation that clients (IBM, Sun, Hewlett Packard, etc) would soon increase their orders.

In terms of stocks in the Fund, strong performers were Adva Optical in Germany (+130%, on expansive expectations for metropolitan area networks in Europe), Nvidia (+78%, strong sales from new graphic cards for PCs), VSNL in India (+66%, local investors recognising the undervaluation of the stock) and Agere Systems in the US (+53%, market share gains in communication semi-conductors).

On the negative side, our short positions on selected stocks and the Nasdaq Index detracted from our performance.

Changes to the Portfolio

We have taken the view that valuations of some US technology stocks are approaching unsustainable levels and we have therefore looked for investment opportunities in markets we consider more attractive.

We reduced our exposure to some US holdings which had reached valuation targets and increased our positions in Europe and Asia.

We finished the quarter with a net 49% invested position and we reduced the cash position to 28%. The Fund now has a short position of 12%, concentrated in US stocks and Nasdaq Index, and cash of 23%.

Purchases included a new position in Agilent Technologies (US), the dominant test and measurement equipment supplier in the world, with

particular strengths in the communication and semi-conductor industries. Business conditions have stabilised following two years of decline, and test and measurement equipment remains an attractive business in the long term with high barriers to entry. We bought Marconi Corporation (UK), a reincarnation of the once troubled Marconi Telecommunication (a strong position with major clients like British Telecom, Telecom Italia and Telstra, together with strong R&D capabilities and a debt-free balance sheet that will help them re-establish solid profitability).

We introduced new positions in Bharat Electronics (India), a major supplier of electronics to the defence and telecommunication industries, and we bought Telkom Indonesia, the integrated provider of fixed-line and mobile services in that country.

Taking the opportunity of a temporary weakness in the stock price following a convertible bonds issue, we increased our position in Infineon Tech.

We sold or reduced some of our positions in semi-conductors stocks Nvidia, National Semi-conductor and Agere after their strong performance.

DISPOSITION OF ASSETS

Region	Jun 2003	Mar 2003
Europe	24%	9%
US	21%	32%
Other Asia (incl. Korea)	17%	11%
Japan	10%	10%
Cash and Other	28%	38%
Shorts	23%	17%
Net Invested	49%	45%

Source: Platinum

BREAKDOWN BY INDUSTRY

Region	Jun 2003	Mar 2003
Telecom Equipment and Suppliers	29%	19%
Semiconductor	18%	20%
Software	11%	11%
Electronic Components	6%	7%
Other	8%	5%

Source: Platinum

Commentary

In the US, we have now been waiting a number of years for signs of consolidation in tech, but a number of factors have been working against a quick rationalisation of many of the substantially oversupplied segments of the economy.

The ability of companies to "survive" out of Chapter 11 bankruptcy is slowing down the process. Believe it or not, Worldcom is back in business with a lot of the capacity it had before its collapse and Global Crossing is up for grabs with all its 160,000 kilometres of optical fibres intact and ready to be lit-up, etc. Moreover, the increased appetite for "yield" from bond investors around the world is facilitating additional capital raising (mostly convertible bonds) even for the most distressed corporate borrowers. Over the last three months: Alcatel raised E1 billion in convertible bonds, Juniper issued US$350 million zero coupon convertible and Lucent US$1.3 billion convertible.

In most cases this money is used to re-finance existing credit lines or to replace more expensive bonds dangerously close to their due date - a direct effect of the easy monetary policy instigated by the US Federal Reserve Bank. Unfortunately while these companies are fixing their balance sheets, total installed capacity is not being reduced as per the theory of the creation/destruction forces of free markets.

A turning point this quarter was Oracle (the second largest US software company) launching a hostile US$6.2 billion take-over bid for Peoplesoft (an Enterprise Applications Software vendor). The bid launched by flamboyant Mr Ellison followed Peoplesoft's decision to merge with smaller rival JD Edwards in a friendly deal for US$1.75 billion in cash and stocks.

Mr Ellison also suggested that after an initial integration period, Peoplesoft products would be abandoned and clients "freely migrated" to Oracle's new applications (still under development!). This idea has not been welcomed by most of Peoplesoft customers with large systems installed, who now face an uncertain transition. The winner could ultimately be a third player like SAP which has historically dominated the Enterprise Application segment.

So why did a much larger company like Oracle ($67 billion market cap) decide to take-over a much smaller company (Peoplesoft $5.6 billion market cap) which was involved in a friendly merger with an even smaller player (JD Edwards $1.7 billion market cap) in such a disruptive way?

The reality is that probably Oracle is trying to protect itself from potential attack by big players like Microsoft and IBM. Oracle's core strength is in relational databases, an area attracting strong interest from companies able to leverage their offers on broader product platforms (IBM with hardware and Microsoft with Windows). On the other side of the Atlantic, SAP remains the dominant global vendor of Enterprise Applications Software (54% market share) well ahead of Oracle and Peoplesoft. Oracle's move increasingly looks like a disruptive/defensive move, to pre-empt rivals gaining market share and to attack the weakest players during a period of deteriorating market conditions.

Moreover, it's interesting to note that these deals are happening at a time when business software licences are still declining quickly (Peoplesoft -40%, Siebel -55% and SAP -12% yoy).

More than 75% of US listed technology companies now have a market capitalisation of less than $250 million. If the large players feel the need to combine through mergers and acquisitions, this could signal the start of a broader consolidation process.

Communication equipment stocks were up 15% driven by a perception that capital expenditure in the telecom industry is approaching its trough.

A review of major European telecom operators in the first quarter 2003 shows that the aggregate industry capex-to-sales ratio was just 7.9%. Even considering the seasonality of the statistic (the bulk of capex is generally booked in December quarter), we have to go back to 1995 to find similarly depressed figures. To understand the gravity of the decline, consider that this same ratio was at 25% of peak in 2000.

Looking forward, the major telecom operators capex budgets for 2003 indicate a ratio of 12% and this would suggest an improving outlook.

Similar trends are emerging from the US telecom industry, where the capex-to-sales ratio was still a depressed 9-11% for major operators in the same period (lower densities over larger geographic areas is the reason for these ratios being higher in the US compared to Europe). In the US however, the Federal Government is trying to lend a helping hand by implementing a number of IT projects in relation to the "Homeland Security Act"; mostly upgrading the nationwide telecom/data networks. Our understanding is that major national suppliers are likely to be the key beneficiaries of this capex.

Another area of rare optimism is in DSL (Digital Subscriber Line) installations. All major European fixed-line telecom operators are keen to spend on high-speed internet equipment as a way to increase revenue per subscriber. In the US, incumbent phone companies are accelerating their DSL roll-outs, under pressure from cable companies offering competitive high speed data services through cable modems.

The two largest global mobile-phone manufacturers, Nokia and Motorola, warned in June that SARS-influenced sales troubles in China hurt second-quarter revenue growth. Both companies lowered sales estimates for the quarter, and Motorola lowered its profit outlook for the quarter and the year. The recent favourable developments in terms of SARS containment, and the gradual return of Chinese shoppers in the streets, suggest that demand is slowly recovering.

Perhaps the most interesting news we came across in this segment was the revelation that leading Chinese mobile phone manufacturer Bird has witnessed a surge in demand in recent months, with strong momentum in May. Bird is soon going to take the number one spot in China ... and they did not have to blame SARS! This confirms our view that Asia-based mobile phone manufacturers will be formidable competitors to more established European and American players.

In IT hardware, several key end markets like PCs have experienced recovery in demand, driven by new applications such as wi-fi (wireless fidelity or wireless internet through notebook computers) and upgrades of an ageing installed base.

While the two largest US IT distributors, Ingram Micro and TecData, issued cautious comments on the weak IT demand in the US, their sales in Europe and Asia are recovering. Estimated growth for worldwide PCs in 2003 is expected to be +4-6% and the lion's share is likely to come from Asia (due to under-penetration). Moreover, the global installed base of 120 million portable computers will go through an upgrade cycle fuelled by the introduction of the new

Centrino mobile chip from Intel (enabling your notebook to wirelessly connect to the internet and also enjoy longer battery life).

A review of monthly national statistics for computers and electronics in the US (see accompanying chart), suggests that IT capex may have reached the trough. New orders are slowly growing from their low of $22 billion in September 2001 to a current $27.4 billion. Similarly inventories are currently at $39.7 billion, a level not seen since the early nineties and book-to-bill has stabilised above 1:1 after nearly two years of depressed levels.

The weakness of the US dollar is also helping hardware companies with a large presence in Europe and Asia (ie. IBM and Sun Microsystem have more than 30% of their sales in Europe).

Another potentially powerful key driver for PC demand is the greater adoption of Microsoft Windows XP in the commercial desktop market. Current Windows 98 or NT workstation users will gradually shift to XP as application development for Windows 98/NT declines. It is a common perception that the advanced features of XP are better suited to more powerful and faster machines with large memory. Interestingly Microsoft has decided to gradually terminate support (telephone, bug fixes and patches, etc) for their older Windows and NT versions ... advantages of being in a dominant position!

In **semi-conductors and semi-conductor equipment** there are signs of stabilisation.

Demand for Wireless semi-conductors suffered from the above mentioned sluggish demand in Asia due to SARS, while demand for new applications like wi-fi and digital TV is growing strongly, although from a low base.

DRAM prices continued to remain under pressure, where average prices declined from $4.50 to $3.75 per 256Mb DRAM chip over the quarter. The DRAM market was reflective of the subdued environment in the traditionally weakest quarter of the year. However, since June DRAM makers negotiated price increases of as much as 5-10%. We can infer that the end market (PC) is no longer deteriorating, so much so that the PC and the DRAM makers stand to benefit from the “normal” seasonal demand.

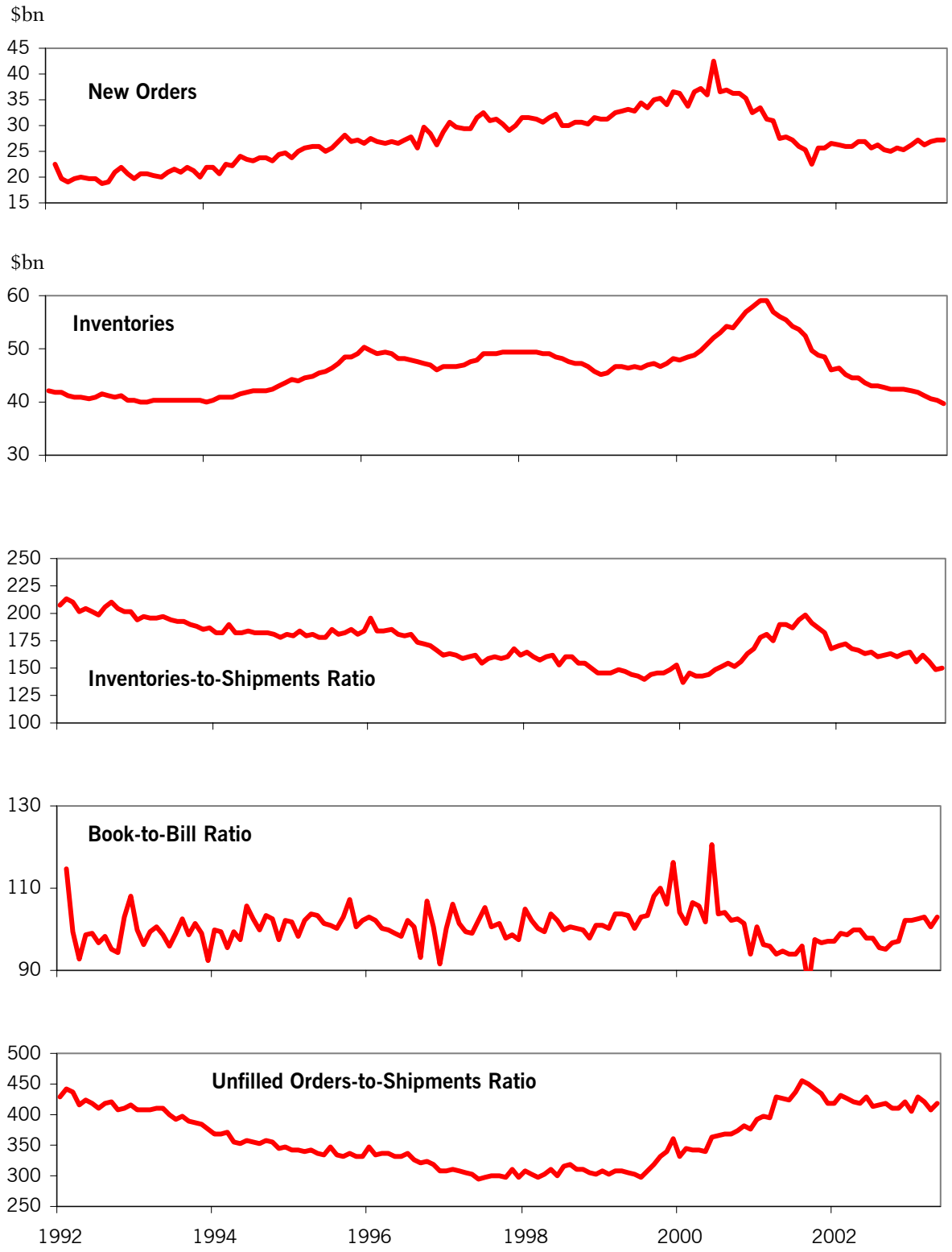
Outlook

During the quarter the market has been strongly anticipating the recovery and has pushed stock prices upwards without much distinction or regard for valuation.

We see indications that some sectors of technology have reached a bottom in terms of the underlying cycle and growth is slowly coming back. However, we believe that valuations in US stocks are relatively too high and have positioned the Fund more aggressively in Asia and in some selected European stocks, where we think there is more upside.

Alex Barbi
Portfolio Manager

COMPUTERS AND ELECTRONIC PRODUCTS STATISTICS



Source: Ned Davis Research

Notes

1. The returns represent the combined income and capital return for the specified period. They have been calculated using withdrawal prices, after taking into account management fees (excluding any performance fees), pre-tax, and assuming reinvestment of distributions. The returns shown represent past returns of the Fund only. Past performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, returns can be negative (particularly in the short-term).

2. The investment returns depicted in the graphs are cumulative on A$10,000 invested in the Funds since inception and relative to their Index (in A$) as per below:

   Platinum International Fund:
   Inception 1 May 1995, MSCI World Accumulation Net Return Index in A$

   Platinum Asia Fund:
   Inception 3 March 2003, MSCI Asia Free ex Japan Net Return Index in A$

   Platinum European Fund:
   Inception 1 July 1998, MSCI Europe Accumulation Net Return Index in A$

   Platinum Japan Fund:
   Inception 1 July 1998, MSCI Japan Accumulation Net Return Index in A$

   Platinum International Brands Fund:
   Inception 18 May 2000, MSCI World Accumulation Net Return Index in A$

   Platinum International Technology Fund:
   Inception 18 May 2000, MSCI Global Technology index in A$

   The investment return in the Funds is calculated using withdrawal prices, after taking into account management fees (excluding performance fees), pre-tax and assuming reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.