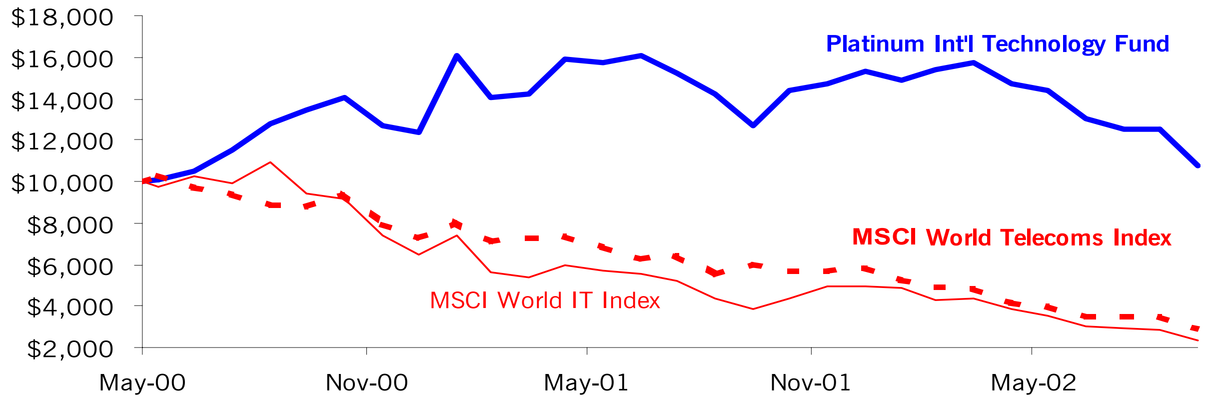
Platinum International Technology Fund

Performance

REDEMPTION PRICE: $0.6999

VALUE OF $10,000 INVESTED SINCE INCEPTION (18 MAY 2000 – 30 SEPTEMBER 2002)



Source: Platinum

The Fund fell 18% during the quarter as technology and telecom stocks continue to experience severe markdowns as a result of ongoing profit downgrades. The MSCI Information Technology (A$) Index fell 23% and the MSCI Telecommunication (A$) Index fell 18%. This is a disappointing result given the level of cash and short positions the portfolio held. Almost every holding in the portfolio experienced significant price falls, and although the short positions provided some offset to the poor performance, we closed a number of these (with the benefit of hindsight) too early.

Changes to the Portfolio

DISPOSITION OF ASSETS

Region	Sep 2002	Jun 2002
US	43%	45%
Other Asia (incl. Korea)	17%	12%
Japan	9%	13%
Europe	4%	3%
Cash and Other	27%	26%
Shorts	17%	25%
Net Invested	56%	49%

Source: Platinum

BREAKDOWN BY INDUSTRY

Region	Sep 2002	Jun 2002
Semiconductor	24%	23%
Telecom Equipment and Suppliers	19%	18%
Electronic Components	7%	11%
Software	7%	8%
Other	16%	14%

Source: Platinum

The Fund added a number of new positions during the quarter. Sun Microsystems, a leading provider of Unix computer systems, was once again added to the portfolio as the stock price fell substantially below levels we sold late in 2001. Nvidia is the dominant provider of graphics chips used in PCs and gaming consoles and was marked down due to concerns over falling PC sales. China Mobile is the leading provider of mobile phone services in the PRC, and is one of the few telecom companies that is continuing to show healthy growth in its subscribers and profits. We also took advantage of lower prices to add significantly to our holdings in Ericsson, LSI Logic (semiconductors), and National Semiconductor. Positions in Toshiba and NEC were sold as these companies continual failure to restructure have left them further and further behind the competition in key markets and in a precarious financial position.

Commentary

Throughout the quarter there has been a steady stream of announcements from technology companies warning of weakening demand for their products. Of particular note was a forecast by EDS that its revenues could fall by as much as 5% for the quarter, a dramatic reversal for a company that has had a long and steady track record of growing at between 5% to 10% annually. EDS's main business is managing the information technology infrastructure of large companies under long term contracts. The company also picks up additional revenues for completing individual projects for their customers. Although there are other company specific issues, it is this project work that has dried up leaving the company short of its revenue target. The implication is simply that companies are cutting back further on technology spending with ramifications for all IT vendors.

So is there an end in sight to this downward spiral in spending on technology? The simple answer is that technology is (in the most part) a capital good and companies will continue to cut capital expenditures when profits are under pressure. As discussed in past quarterly reports, one of our greatest concerns is that excess capacity in many industries combined with highly geared balance sheets and a dull economic environment will continue to squeeze profitability. Thus the answer for the moment is a simple no. It does not follow though that technology stocks will continue their precipitous declines.

Prices for many technology stocks already reflect a very miserable environment. In order to reflect on this hypothesis it is worth considering a number of the Fund's key holdings.

KEY HOLDINGS

Company	Stock Price Decline from High	Market Capitalisation (USD millions)	Net Cash (USD millions)	Sales 12 months to Dec 2000	Sales 12 months to Jun 2002
Sun Microsystems	95%	8,120	4,200	19,182	12,493
Parametric	93%	470	200	924	792
National Semiconductor	86%	2,160	800	2,380	1,580
Ericsson	98%	5,334	950	29,000	20,100

Source: Platinum

As the table above illustrates, the punishment handed out to investors who held these from the high in the market has been severe, with declines ranging from 86% to 98%. Currently these companies are operating at no better than break even, with Ericsson still incurring substantial operating losses. The combination of price declines and the lack of profits creates an impression for some that these are low quality, inconsequential companies, and implies a significant risk of bankruptcy. However, the position of these companies in their markets together with the current level of sales would suggest they are anything but inconsequential and the low net debt (in fact net cash position) on the balance sheets makes bankruptcy a remote scenario.

Sun Microsystems has over a third of the world market for Unix servers, computers that are used to run networks for large companies. Besides the obvious problem of depressed IT spending, there is an additional concern that the company's Unix boxes (which utilise proprietary versions of the Unix operating system - Solaris and proprietary microprocessors) are facing additional competition at the low end from boxes using Intel processors and the Linux operating system (a free version of Unix modified to run on Intel chips). In response to the threat, Sun has launched its own Intel box using the Linux platform. Where this leaves Sun in the short term is in a very depressed market and the prospect of deteriorating profitability over time. An eventual recovery in IT spending will boost Sun's revenues but with a smaller cut for shareholders than in the past.

Even with this grim conclusion we would argue that Sun's stock is considerably undervalued.

There are a number of reasons for one to be more optimistic however. Sun have a significant R&D budget (an average of $1.5 billion pa for the last five years) and the development of new products may allow them to earn better profits than those accruing to a mere commodity producer. Areas of interest include grid computing (where computing tasks are directed to servers on the network that are not being used, so increasing utilisation rates), and blade servers (a new architecture for servers that may yield cost savings). In addition, the merger of Hewlett Packard and Compaq is an interesting development. Although we have no particular insights into the progress at the new Hewlett Packard, mergers of this magnitude are invariably difficult, potentially handing Sun an opportunity to take market share.

Ericsson is the largest supplier of mobile telephone systems in the world. The world's ten largest mobile operators are among Ericsson's customers and the company estimates that some 40% of all mobile calls are made through Ericsson systems. The company has seen a significant collapse in sales as telecom operators have been forced to cut capital expenditures due to falling profits and weak balance sheets. This has plunged the company into the red, recording a loss of SEK13.2 billion (US$1.4 billion) over the last twelve months. The company was forced to have a heavily discounted rights issue to shore up its balance sheet ahead of the costs to be incurred in downsizing the business. This restructuring now is under way, with the handset business, which has been a perennial problem for the company, being placed in a joint venture with Sony.

The next major cycle in spending on mobile networks will be the upgrade to 3G systems. Although there is much scepticism today about the requirement for such networks, next generation services such as multi-media services (or MMS, which for the moment essentially entails taking and sending photographs by phone) are actually taking hold amongst early adopters. Nevertheless, such a pick up in spending seems some way off for the moment. In the meantime, it is not just Ericsson that is under stress with a number of its smaller competitors in the mobile world, such as Lucent, Nortel, and Alcatel are also in dire straits. It is likely that when the next cycle begins Ericsson will face a smaller number of competitors.

National Semiconductor is a semiconductor company that has transformed itself over the last five years by refocussing its R&D efforts on the "system-on-a-chip" (SOC) concept. A SOC is simply the combination of all the various semiconductor components of a given system on a single chip. The concept embodies the idea that more and more functionality can be squeezed onto a single chip, and thus the ability to design these more complex chips will be required to both protect and grow the business. This is more easily said than done as it requires the combination of analog and digital components which have historically been manufactured using substantially different processes. Although the company has delivered numerous solutions from these efforts, one of the more interesting has been placing the functionality of a GSM phone into four chips. The commercial significance of this is that when a handset manufacturer uses this chip set, National can earn US$20 per phone sold rather than the typical $2 per phone it would earn by selling individual components. In addition to the SOC efforts, the company has concentrated its traditional analog business on faster growing markets such as mobile phones and flat panel displays. Parametric is one of three major providers of computer aided design (CAD) software. The company built an outstanding position through the nineties based on its technological leadership that allowed it to grow from a start up to a company with over US$1 billion dollars in revenue. By the end of the decade, it was facing enormous pressure from low end offerings that offered less functionality but at a greatly reduced price. Along with a maturing of the market, the result was significant falls in both revenues and sales. Parametric have since fought back with their own "cut down" version of their product and a significant upgrade of their top of the line offering. The excitement at Parametric however is not in the CAD business but in a new product arena known as product lifecycle management (PLM). PLM is essentially a suite of "collaboration" tools that can be used from the design phase of a product, to manufacturing, and through to after sales service and maintenance. As esoteric as it may sound, it is a major area of focus for enterprise software companies such as SAP, but what Parametric brings to the party is a tight integration of its PLM tools with the CAD files of all the major providers. Although Parametric is suffering along with all other IT companies, it has established a clear leadership position in the PLM arena with its Windchill product which will be a substantial source of profits in a recovery.

The point of highlighting these four companies is that the portfolio holds investments in many companies with similar characteristics. They are all suffering from a significant downturn in revenues and struggling to break even, a recovery appears distant, and share prices have collapsed. One could respond that such investments are high risk given the poor short term prospects and profitability and we would agree. However, the stock prices are such that we are at least being compensated to take such risks. The alternative would be to invest in companies such as Microsoft, Cisco, Nokia, or Dell who continue to perform relatively well, and where the business risk is much lower. But our assessment is that the stock prices of these companies are high and that returns from owning them are unlikely to be attractive.

One major risk remains for owners of technology stocks and that is the consumer. Although consumers have cut back their spending on technology products such as phones and PCs, a further deterioration is easily imagined if the US consumer were to start fearing for his job. Although in the most simple terms we would assess the stocks held by the portfolio as significantly undervalued, such an event would see further mark downs in stock prices.

Andrew Clifford
Portfolio Manager