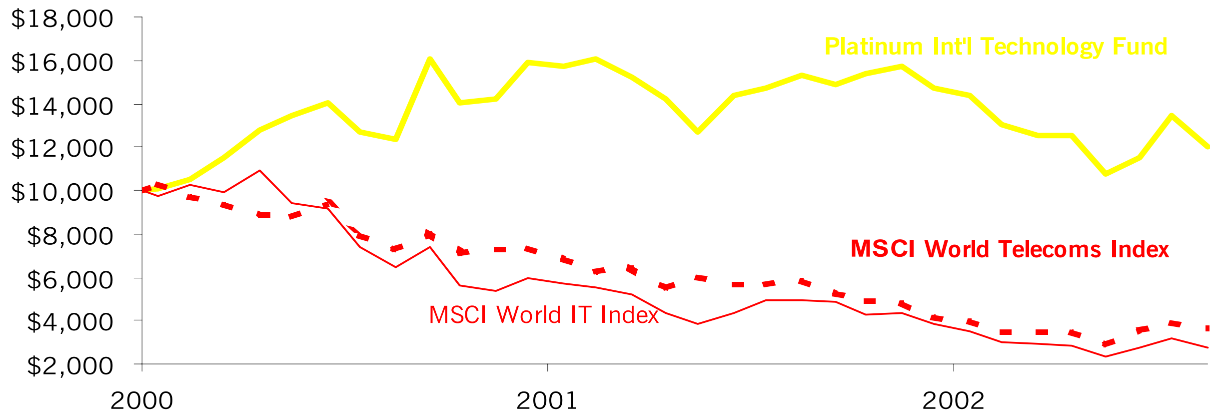
Platinum International Technology Fund

Performance

REDEMPTION PRICE: $0.7845

VALUE OF $10,000 INVESTED SINCE INCEPTION (18 MAY 2000 – 31 DECEMBER 2002)



Source: Platinum and MSCI

Technology and telecom stocks rebounded nicely resulting in the first positive quarter for these sectors this year. The MSCI Information Technology (A$) Index and the MSCI Telecommunication (A$) Index advanced 15% and 24% respectively. For the full year these indices returned –44% and –36%. Leading the charge were software companies, followed by telecom equipment and networking companies.

These areas had previously been amongst the worst performers for the year. The Fund returned 12.1% for the quarter and –21.5% for the year. Strong contributors to performance this quarter included Ericsson (mobile phone systems) up 81%, Nvidia (graphic chips) up 34%, and Verisign (security software) up 59%.

Changes to the Portfolio

DISPOSITION OF ASSETS

Region	Dec 2002	Sep 2002
US	42%	43%
Other Asia (incl. Korea)	14%	17%
Japan	10%	9%
Europe	6%	4%
Cash and Other	28%	27%
Shorts	16%	17%
Net Invested	56%	56%

Source: Platinum

BREAKDOWN BY INDUSTRY

Region	Dec 2002	Sep 2002
Semiconductor	23%	24%
Telecom Equipment and Suppliers	17%	19%
Electronic Components	6%	7%
Software	6%	7%
Other	20%	16%

Source: Platinum

Adva Optical Networking was added to the portfolio during the quarter. Adva is a German provider of DWDM equipment used by companies to link their local area networks and storage networks via the optic fibre networks. (DWDM stands for Dense Wavelength Division Multiplexing, a technology which allows a large increase in the amount of data sent over optical networks by breaking the signal up into different wavelengths (or colours) of light). Like all networking equipment, the demand for DWDM products has collapsed over the last two years. Adva's niche is in metro DWDM products (for transmission across relatively short distances), a market segment that has performed somewhat better with sales down just over 50% from the peak.

The positive development for providers of metro DWDM equipment has been the collapse in the price of bandwidth, a result of the glut of fibre capacity rolled out during the boom. To take advantage of the current low price of bandwidth, both companies and their service providers need to invest in additional equipment. Adva, although a small company compared with its main competitors Ciena and Nortel, has, thanks to a very competitive set of products, been able to secure distribution agreements with major networking companies in Siemens, Alcatel, Fujitsu, and Cisco. As a result, the company has experienced a relatively small 16% decline in sales from peak levels achieved in 2000 and operates at break even levels. The stock trades at a fraction of the valuation of its major competitors (and other similar companies) despite having a solid position in an area that will see substantial growth once IT spending returns.

Another new name in the portfolio is Ushio Denki. Ushio manufactures highly specialised industrial lamps used in a broad range of applications from office automation equipment, speciality lighting, as well as semiconductor manufacturing. The company is most often associated with the semiconductor manufacturing arena even though this accounts for less than 10% of sales. As such, the negative sentiment surrounding the semiconductor industry has provided the opportunity to purchase the stock at attractive prices. The position in Verizon (a US telecom operator) was sold as we believe changes to the interconnect regime in the US will pressure the earnings of the incumbent operators.

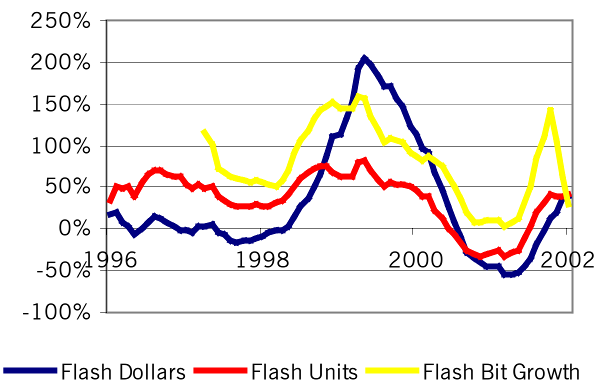
Commentary

In our commentary last quarter, our position was that although the outlook for spending on technology remains problematic as a result of excess capacity and highly geared balance sheets, prices for many technology stocks already reflected a very miserable environment. With the strong bounce in stock prices we have seen subsequently, the question then becomes whether this was a function of an improvement in the fundamental business environment or simply a bounce from oversold levels?

In an attempt to answer this question it is interesting to examine various players in the mobile phone industry. One segment where improvement is widely anticipated is mobile phones. Next generation handsets for the important GSM market have been launched in recent months with functionality from digital cameras and colour screens to e-mail and web browsing. Although one may well question how broadly these functions will be utilised, the existence of the functionality together with the ageing of the current "fleet" of phones is providing hope of a better upgrade cycle in 2003.

Even if growth in mobile phone shipments doesn't materialise, the average phone sold in 2003 will have greater functionality with 50% expected to have colour screens. The new functionality will be important for component suppliers who provide the enabling technology. For example, phones with colour screens require additional flash memory and as a result the market for flash memory chips is seeing an improvement in pricing. (Flash memory chips differ from the standard memory found in PC's in that it will retain data after power has been switched off). AMD, one of the Fund's investments, is a leading manufacturer of flash memory chips.

FLASH MEMORY PRICE CHART



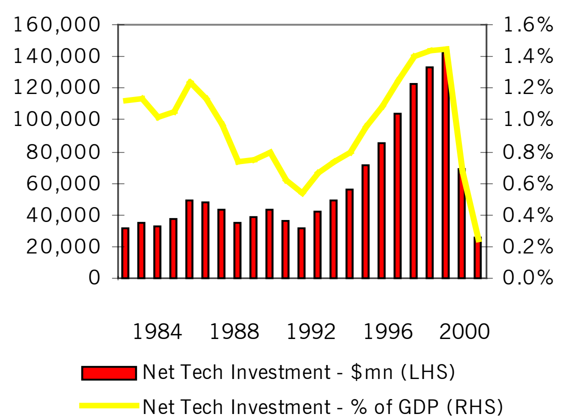
Source: Salomon Smith Barney

Elsewhere the news coming out of telecom equipment providers indicates that the market will deteriorate further in 2003, with mobile phone infrastructure providers such as Ericsson indicating that sales could fall as much as 10% from the already depressed levels seen this year. The weak balance sheets and poor profitability of the customers continues to depress capital spending plans. To add insult to injury, the early stage of the roll out of 3G networks will depress profitability as these products are not as finely tuned as the mature GSM product.

Business for the network operators varies widely depending on the region. The US mobile phone companies have the benefit of operating in one of the faster growing markets globally, with the subscriber base increasing 14% in the last 12 months to 137 million. One might conclude that this would be a good market but in fact the existence of six national operators and numerous regional players makes it one of the most competitive and unprofitable places to operate. Consider the fortunes of the market leader Verizon Wireless who in the year to September, gained a net 2.3 million subscribers by adding 11.2 million new customers and losing 8.9 million old ones. Almost 30% of customers at the start of the year will have been lost, incurring a not insignificant cost in sales, marketing, and administration expense, coming on top of the severe pricing pressure that creates such churning. In contrast to the US, the Korean and Japanese mobile phone companies operate in a much less competitive environment with only three major networks in each country. Not only is the business more profitable, the operators have been able to invest in provisioning and promotion of new products. As a result over 80% of NTT DoCoMo (Japan) subscribers and 50% of SK Telecom (Korea) subscribers are signed up for next generation services. (Popular services include downloadable pictures, ring tones, and games). The Fund has an interest in these businesses via its holdings in SK Telecom, Korea Telecom, and NTT.

The above discussion again highlights that the bright spot remains the consumer (especially in the US) who continues to spend on a wide range of products and the central problem of excess capacity holding back both profits and spending on capital goods. The following chart shows that the net investment into technology equipment in the US economy, as a percentage of GDP, is at a significant new low since the invention of the PC in the early 80s. Although the chart doesn't imply that spending must pick-up it is probably reasonable to argue that the worst of the declines are behind us. The major risk to this conclusion would be a pullback in spending by the US consumer.

US NET TECHNOLOGY INVESTMENT



Source: Credit Suisse First Boston

As for the stock market, many (but by no means all) technology stocks probably saw their lows in October. In our last report we highlighted how undervalued a number of our holdings had become and even with rallies of 30% or more, many stocks remain attractive at current levels. Nevertheless, until excess capacity is cleared and balance sheets rebuilt, the ride for technology investors will continue to be bumpy.

Andrew Clifford
Portfolio Manager