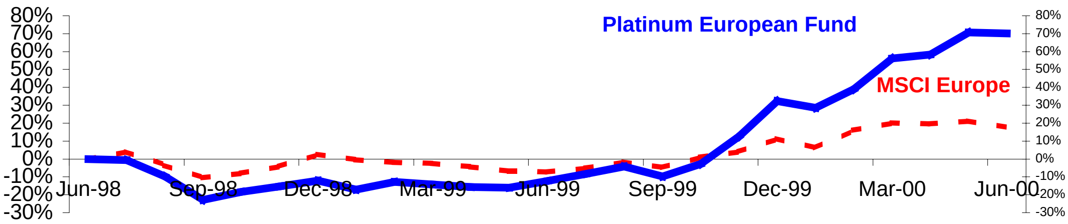
PLATINUM EUROPEAN FUND

QUARTERLY REPORT
30 JUNE 2000

Performance – stock markets struggling for conviction as US macroeconomic debate rages

Cumulative Performance Since Inception - 70%
(1 July 1998 - 30 June 2000)



MSCI Europe fell 3% in local currency, and slight weakness of the Australian dollar against the Euro boosted the return a little to -2% measured in A$. The broad European index traded in a fairly tight 7% range without much conviction in either direction. However within that, the volatility in stocks and sectors was as savage as ever. Computer services stocks fell more than 40% for the period while telecom operators were down nearly a quarter – refer below. Elsewhere steel stocks (-15%) and autos (-12%) reflected investor concerns that rising interest rates would end the global economic expansion. Winning sectors included the "defensive" areas of tobacco, food, water utilities, and pharmaceuticals – predictable (if dull) profitability in these areas attracts investors at times of macroeconomic uncertainty.

Platinum European Fund was ahead 9% for the quarter, as strong performances from its brewing and spirits holdings (Bass, Pernod Ricard, Diageo) and from its financial stocks (Nordic Baltic Holdings in Scandinavia and IMI-St Paolo bank and Toro insurance in Italy) were complemented by our selection of telecom equipment stocks (Alcatel, Siemens, Ericsson), which held firm, over our exclusion of the large, suffering telecom operators. The Fund also shorted some overpriced stocks which was a moderate success and provided a good hedge on the sharp downward days in the stockmarket.

Mobile phone licence costs crystallise/exacerbate telephone stock correction

Perhaps the major business event for the quarter was the outcome of the third generation digital mobile telephone ("3G") licence auction in the UK. The UK was the first major economy to auction licences for the radio frequencies required by the operators to offer 3G services. Five licences were up for sale, and there were 14-15 bidders. Clearly several of these were not credible, but the existing four operators plus several deep-pocketed continental ex-monopolists were credible, perhaps desperate. Incumbent national telecom companies have evolved in the newly competitive markets to the extent that they see mobile as their most profitable offering, internet connections as their strongest growth area, local services as their cash cow, and national/international fixed line services as a dangerous place where previously outrageous profits are rapidly disappearing. With this profile in mind, one can understand the desperation of such operators as France Telecom, Deutsche Telekom etc to bid for 3G licences in other European markets as well as their own home market.

From a game theoretic perspective, the vendor (the UK government) played its hand optimally (setting the rules, demanding huge deposits for allowing prospective licensees to bid, limiting the number of licences and not limiting the price). The bidders did little to improve their position (they could have at least colluded to the extent that up-coming auctions in other European countries would allow a sharing of opportunities). As it happened, the outcome was that the five licences were bought for a total of £23 billion – with prices ranging from £4 billion to £6 billion. The Exchequer was the only really happy player at the end of the process.

This licence outcome is the main explanation of the performance of the telecom-related stocks over recent months. Operators saw their share prices come down as suspicions of their weakened position (competition in all areas of the business) were exacerbated by fears of financial strains from these enormous licence costs. The stocks were over-priced to start with – the shortage of listed European technology plays (versus the depth of the US market) and the enthusiasm of investors for technology stocks (very loosely defined in the telecom operator area) had driven the prices to crazy levels by February-March of this year.

The other thesis to which the market subscribed was that expensive licence fees meant a rapid deployment of 3G wireless equipment (ie to start earning a return on the licence fee as soon as possible). This idea meant that even as technology stocks were selling off everywhere, the European telecom equipment stocks remained quite firm.

Software stock performance reflecting valuation and sluggish product market

Software stocks were very harshly treated over the quarter with the main French and Scandinavian stocks down 35-45%, the perplexingly expensive UK software consulting/services companies down 25-35%, heavyweight SAP down another 23%, and Baan eventually being bought out after halving over the period. The stocks generally were over-priced; partly reflecting the “too-many-investors-and-not-enough-technology-stocks” problem referred to above.

The more interesting issue, however, is the reluctance of the customer base to continue its technology investment binge in this area. In both Europe and the US it seems that small-mid sized enterprises are reluctant to commit to “web-enabling” software. It is not clear whether they are still busy with ERP implementations (or recovering from the experience!) or whether they do not feel that there is such a rush to invest in “outward facing” software just yet (surveys suggest they believe they need to do it; just not at the moment). Perhaps it is just the natural slowdown from the huge pre-Y2K investments. We sold our position in the troubled ERP company Baan; and late in the quarter we sold our stock in Swedish ERP company Intentia (the stock was not suffering like its peers but the many promising customer “short-list” positions being achieved by the company were taking time to translate into concrete orders).

European growth and long term employment issues

The economic growth that has been gathering momentum and breadth in Europe for several quarters continued in Q2. One issue occupying analysts’ attention is whether the sign of a little more inflation is due only to the oil price (and/or to the weak Euro – and if so what is the appropriate policy response) or whether the economic growth is starting to cause a premature and worrying rise in inflation. This remains to be seen but it must be remembered that rates were very low a year ago and some normalisation should not curtail the economic expansion.

The more exciting thing is that for the first time in several cyclical upswings, the economy is starting to generate a disproportionate amount of new jobs. This happy circumstance has even led some commentators to ponder the chances of a 1990s US-style employment miracle occurring in Europe. With this in mind the usual preoccupation with policy and policy makers is ongoing. Signs of back-peddling on German tax reform are greeted with concern; while others are expressing hope that rates can stay moderate/low against a backdrop of declining oil prices and a slowly strengthening Euro.

Holdings

As mentioned above, the two software companies Baan and Intentia were sold during the quarter. In addition shorts were initiated at very favourable prices in LVMH and Nokia.

L'Oreal was also shorted which has worked against the fund in the late part of the quarter as L'Oreal is one of the most favourite (though very expensive) "defensives". We added to Siemens, Hornbach, Rinascente and IMI-St Paolo over the period. New additions included Spanish media group Prisa (domestic publishing/broadcasting leader enjoying the strong media spending growth in Spain), Swiss drug company Novartis (few friends, sensible valuation and steadily improving prospects), Swedish forestry/paper company AssiDoman (good prospects for an extended economic cycle, the industry is rapidly consolidating and for once not expanding capacity too rapidly) and we also re-introduced Alcatel.

The Fund size is currently $14 million.

Outlook

The stock market has lacked any conviction in recent months and this is partly because of the end of the tech-media-telecom bubble of November 1999 – March 2000, and partly because of the mixed signals for economy sensitive stocks (with growth strong but conviction about impending euro strength mitigating investors' enthusiasm for the sector).

We continue to shun the telecom operators (even as they seem poised for a new round of cross-border mergers and acquisitions) and maintain instead our economy sensitive exposure and modest hedge position.

30 June 2000 Distribution

This year's distribution of 23.97 cpu is large on account of our opportunistic rotation in a volatile market. Please note that the apparent fall in the unit price is entirely attributed to this 23 cent distribution.

12 July 2000