The Platinum Trust Quarterly Report

30 June 2002

Incorporating the:

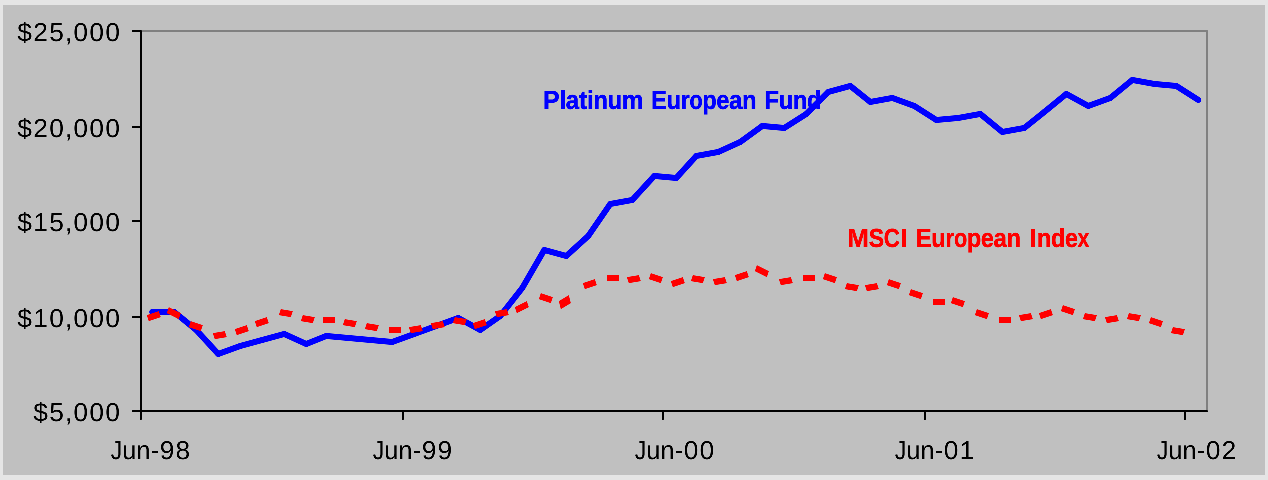
International Fund
European Fund
Japan Fund
International Technology Fund
International Brands Fund

Platinum European Fund

Performance

REDEMPTION PRICE: CUM $1.7262 EX $1.6138

VALUE OF $10,000 INVESTED SINCE INCEPTION (1 JULY 1998 – 30 JUNE 2002)



Bear market gathering breadth, telecom and technology stocks capitulating

European share prices were down heavily in the three months to 30 June 2002, led by capitulation in the "bubble" parts of the stock market: telecom equipment -47%, computer services -40%, computer hardware/software -38%, telecom services -32% and media -27%. Insurance companies (-20%) suffered in sympathy with stock markets, despite the strong bond market (German ten year yields rallied from 5.25% to 4.95% over the quarter). It is noteworthy that several growth-sensitive parts of the market fell, as doubts crept in over the strength (and timing) of the much-heralded global economic recovery: auto parts -17%, manufacturing -17%, and industrial products -20%. Perhaps most tellingly, only one sector (tobacco, +2%) was up for the quarter, and that is hardly an inspiring area of the stockmarket.

As the sector movements suggest, the bear market in stocks broadened these last three months. Of the 500 largest European listed companies, just 13 saw their share prices increase by over 10%, while 180 had declines of over 15% and 50 lost a third or more of their market capitalisation.

The MSCI Europe index was down 15% measured in local currencies, while a steadily strengthening euro (particularly against the US$, but also versus the yen and Australian dollar) reduced the index loss to 9% measured in A$.

The Platinum European Fund was down 5% in the quarter. The Fund had solid performances from most of its large holdings (especially Stinnes, Hornbach, Novozymes, Givaudan, SGS Surveillance) and some protection from the short positions (especially Nokia, Adecco, AstraZeneca). However these were offset by the weakening of the previously steady "mid-cap" (market capitalisations of Euro 1 billion – Euro 10 billion) part of the stock market where most of the Fund is invested, and also by three holdings – Ericsson, Hagemeyer and Serono – which performed very poorly. In addition, our decision to expose two thirds of the Fund to the A$ (and only a third to European currencies) was costly given the 7% appreciation of the Euro against the A$ over the period.

Commentary

European stocks fell more than US markets despite many US-domestic problems

The performance of European equity markets in the light of the US problems of crooked executives etc illustrates the point that in fact the front page headlines are merely coincident, perhaps catalytic, but not the core of the problem. Simply put, western world sharemarkets are expensive after the two-decade bull market, and just as European stocks climbed higher than their US counterparts in the 1990s, they are falling faster today. This is partly due to the constituents of the index (telecoms etc are (were!) a larger part of the European than the US indices), but also due to the depth of the markets – in Europe the public enthusiasm for shares was a wildfire which was quickly extinguished. Hence the price adjustment.

By 1999/2000 valuations of the "new economy" stocks were, as we have written about for ten quarters, wildly optimistic. The issue today is what to make of valuations in the broader market. Clearly investors are now starting to discount a recession of some sort, after last year's patchy slowdown was reversed through very low central bank interest rates (falsely?) propping up housing and consumption. The first thing to say is that in general we feel positive about markets when we find a lot of modestly valued stocks. During the sell-off of August/September 2001, this was clearly the case, and at the extreme of the selling in the nine days following the World Trade Centre attacks, we put all of the cash in the Fund into the market.

Unfortunately things are not so tempting today – either we are failing to find the interesting investments, or they are not yet available. Indices have returned to the September 2001 lows, but this is disproportionately due to the collapse of technology/telecoms (ie. the decline of the erstwhile high capitalisation technology and telecom stocks harmed the indices but the rest of the market has fallen somewhat less). The great companies are still expensive, the weak and/or indebted companies' prices are low but these shares are dangerous rather than cheap. We are working in the middle ground, and trying to address the question of relative valuations and risks. For example the shares such as Adidas, Siemens and Linde to which we added aggressively in September are 70%, 50% and 35% higher respectively. Where and when should we be selling out of those in preference for other stocks which have fallen more than the fundamentals justify? We have been running 20% cash and 10-15% shorts for most of the quarter for a net exposure of under 70%. Not until we see many interesting valuations will we be likely to take this net exposure back over 90%.

Ericsson, Hagemeyer, Serono – all very weak, Fund adding to all three (gently)

As mentioned above, three of the Fund's holdings have performed very poorly. Ericsson is a stock which we bought at around SEK40 in mid 1999 and sold over the subsequent eight months for SEK150-205. The stock peaked at SEK229 in March 2000 and was back at SEK44 by early 2002. Somewhat unimaginatively we again bought a modest position at this level, and have regretted it ever since. We reduced the position at SEK28 and have since added to the position at prices down to SEK14. Today it is SEK15 and some commentators have questioned the likelihood of Ericsson's survival. The company has little debt today but faces a difficult couple of years and heavy cash expenses as it cuts staff to focus on its core area of mobile telephony infrastructure. In this field it remains the clear world leader, however doubts over the timing of mobile telecom operators upgrading to "third generation" kit means that this leadership position is not yet yielding profits. Our view is that the product strengths (both its existing customer base and its powerful "3G" offering) of this company means its place is not easily usurped, although clearly the lax attention to cost management of the past needs to change quickly (which it is). More to the point, the absurd financial position of many of Ericsson's customers is being confused with the prospects for broadband mobile telephony (which we believe are sound). Thus at this very low price, but with the recovery in Ericsson's profitability still some quarters away, we have been adding gently and have around 2.5% of the Platinum European Fund in the stock as at 30 June.

We wrote about Hagemeyer last quarter and suggested we would get another chance to buy the stock. With the continuing weakness in the US and German industrial economies, and the evidence that the restructuring story of Hagemeyer is a "work-in-progress", the stock has come back under Euro15 versus our E19 entry price (December 2001) and the peak of E26 it achieved a few months later. We have spoken to the management twice in recent weeks (once face-to-face, once by phone) and are adding gently to the position as the continuing low volumes at their customer facilities offsets the attractive valuation. 3% of the Fund is invested in Hagemeyer, but we are not yet making it a very big position, as the risks associated with the transformation of the company could result in further panic sell-offs in the stock.

Serono is a “biotech” stock based in Switzerland, which performed strongly after our February investment, when in March they received US FDA approval to sell their most important product (Rebif, for multiple sclerosis) in the world's biggest market for drugs. This approval, along with some important technical backing from the FDA allowing Serono to claim superiority over the existing treatment, is a transforming event for the company's profits over the next five years. This happy scenario, however, has become secondary to the US-led capitulation in biotech stocks. With even the heavyweight champion Amgen succumbing (it has fallen from $60 to $37 in three months), Serono was bound to follow its sector down and is now 25% below our CHF1,240 entry price. We have been adding to the stock because although other (much smaller, very narrowly focused) biotech companies are available at valuations near or below their cash balances, they have no prospect of earnings soon, while Serono's earnings are growing strongly due to the Rebif approval. Clearly in this economic environment, growing earnings streams are not so common. The Fund has 2% in Serono and is adding carefully to the position.

Portfolio Activity and Outlook

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Jun 2002	Mar 2002
Chemicals/Materials	Linde, Givaudan, Merck KGaA, Novozymes	18%	18%
Miscellaneous Services	Hagemeyer, Fraport, Stinnes	17%	21%
Retail	Kingfisher, Rinascente, Hornbach	12%	8%
Capital Goods	Océ, Schindler, Siemens	11%	13%
Consumer	Adidas, Michelin, Henkel	10%	11%
Health Care	Novartis, Serono	5%	7%
Financials	Deutsche Boerse, Alleanza, Assicurazioni Generali	4%	8%
Tech/Media	Ericsson, Intentia	4%	4%

Outlook – dare we say it again? – difficult!

As this report is being written various events are occurring in Europe which may point to a short term crescendo in the selling, with many of the bull market leaders having capitulated. In Paris there is talk of the government “renationalising” France Telecom. The state owns 56% of the company, and with the shares down 96% (ninety-six percent) since their peak, the 44% minority owned by investors is worth only E5bn (A$9bn). France Telecom has over E60bn of debt and needs to be recapitalised (anyway, but short term to avoid its credit rating being lowered to “junk” status with the attendant increase in interest rates it would then have to pay, leading to more debt etc). Clearly since the French government would have to put up over half the money in a rights issue, it makes economic sense to reabsorb the company so that it pays French government interest rates instead. Economic sense, maybe, but politically? The company was bought by (over one million, voting) French individuals for E28 in 1997 so they may not like being relieved of their stock for E10-15 per share. More interestingly, the French government is pondering the “capitalist failure” tag that may apply if they take the company off the stock exchange. It will be an interesting debate, but the point is that resolutions are starting to be considered for the stocks which have led the bear market thus far.

Another event (also in Paris) which suggests change is the sacking, by the French business establishment, of the once-lauded Jean-Marie Messier who has presided over the transformation of the profitable water utility Generale des Eaux into the debt laden, loss-making Vivendi Universal. His rise and fall marks the western world cycle of greed and misjudgment that perhaps best explains why European stock markets have been unable to resist the lead of Wall Street in both the bull and bear markets.

As implied in the discussion above, we see a good chance of a broadening sell-off in markets, to which the Platinum European Fund obviously will not be immune, but from which the Fund may find some good investment opportunities in the months ahead. To reiterate, the broad market is now dependent upon the progress of the world economy, but there are surprisingly few bargains available at the moment.

Toby Harrop
Portfolio Manager