The Platinum Trust Quarterly Report

30 June 2002

Incorporating the:

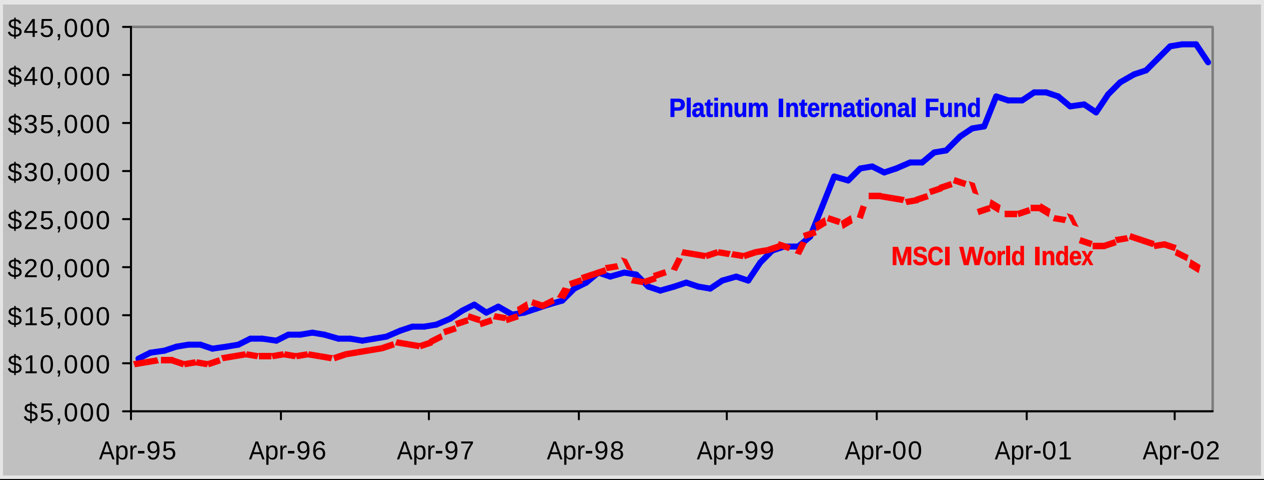
International Fund
European Fund
Japan Fund
International Technology Fund
International Brands Fund

Platinum International Fund

Performance

REDEMPTION PRICE: CUM $1.8028 EX $1.6758

VALUE OF $10,000 INVESTED SINCE INCEPTION (1 MAY 1995 – 30 JUNE 2002)



The revelations regarding the excesses that accompany any worthwhile financial mania have rained down on the optimists and called into question the very institutions that were so fervently praised in the aftermath of the demise of central planning. Once again the worst affected sectors were IT and telecom, but there were no hiding places in a sectoral sense. By geography, the bright spots were Japan and Greece. This has left the MSCI down by 13.6% for the quarter, -16.9% for the six months and a withering -23.2% for the year.

We have not come out unscathed as the upward re-rating of smaller capitalisation shares came to an end and some shares were marked down on growth fears. Our short sales were a mitigating factor and contributed some 3% to the quarterly return. Thus the last three months saw the Fund decline by 3.8%, while it rose by 3.4% for the six months and increased by 9.8% for the last 12 months. Readers may be interested to note that the average return from 601 managers in the Micropal survey of International equity funds lost 27% this last 12 months.

MSCI WORLD INDEX – INDUSTRY BREAKDOWN

Sectors	3 months	1 year
Information Technology	-29.3%	-43.4%
Telecommunications	-25.1%	-42.6%
Health Care	-17.1%	-21.0%
Consumer Discretionary	-14.8%	-26.3%
Industrials	-13.3%	-25.2%
Utilities	-10.2%	-26.7%
Financials	-9.3%	-20.2%
Energy	-8.3%	-10.0%
Consumer Staples	-4.8%	-1.9%
Materials	-3.6%	-4.1%

Source: MSCI

Changes to the Portfolio

Once again we progressively added to existing positions. Our eagerness to start accumulating positions notably in EDS (IT outsourcing) and Ericsson has cost us money as these companies sold off with the techs. Other significant additions were mainly Japanese companies: Takeda, Sky Perfect Communications, Credit Saison, Aiful and Denso.

With the exception of the latter, these are domestic plays that are largely unaffected by the movement of the yen. This provides balance to the export component of the portfolio and exposes the Fund to the growth industries in the moribund Japanese economy. Takeda is the country's principal drug producer, with an interesting portfolio, and has sold off in sympathy with its international peers. Trading on around 20 times earnings with 20% of this capitalisation in cash, it is close to its cheapest valuation ever.

DISPOSITION OF ASSETS

Region	Jun 2002	Mar 2002
Western Europe	38%	37%
Japan	18%	15%
Emerging Markets (incl. Korea)	12%	15%
North America	10%	11%
Australia	1%	1%
Cash	20%	21%
Shorts	20%	15%

Sky Perfect was IPO'd with all the fanfare of the internet boom and has subsequently fallen over 65%. This entity was one of several licence holders to broadcast digital TV via satellite but as time has passed it has merged with JskyB, and another competitor, DirectTV Japan, has terminated its service. Sky is now the sole communications satellite digital platform over Japan, aggregating some 180 channels, with nearly three million subscribers. By the nature of this business, its costs are front-end loaded which means that at the current net sign-on rate of around 40,000 per month, it will break even by year-end. This is an unattractive proposition to many institutions in Japan given the clear emphasis on solvency and free cash flow. We believe this is the main suppressant on the share price, as subscriber growth has been good, a competing analog station providing two movie channels is losing ground, and in the next few months there will be the added attraction of a horse racing channel with on-line betting facilities. Should Sky eventually gain say, six million subscribers (out of 46 million households), the share will prove to be a gift.

Credit Saison and Aiful are a means to participate in the growing credit card market in Japan. Obstructing the acceptance of cards are the high merchant fees and social values. However this is changing, particularly among those below 30. Both companies have excellent growth records throughout this last 10 years of recession. Credit Saison is aiming to be the leading card processor in the country while Aiful will continue to develop its traditional short term lending business through the offering of credit cards. Both have very low balance sheet gearing, borrowings to equity being around five times and as credit markets expand in Japan, the potential for leverage, as witnessed in Korea, is enormous.

Lastly, Denso is one of the reminders of why one invests in Japanese companies. Its commitment to product excellence and innovation is partly revealed by its R&D budget of 9% of sales. Further, it is targeting to reduce its costs by 30% by 2003. At the same time it is at the leading edge of auto electronic technology. Sales growth, while partly linked to Toyota's fortunes, can be greater because of the adoption of electronics in autos. For example, Denso is the leader in car navigation and will ship close to half a million sets this year. More importantly though, the company will benefit from the intensifying digitisation of cars, be it in pollution abatement or mobile communication and control. Best of all, its recently spun off competitors such as Visteon (from Ford) and Delphi (General Motors) are showing signs of capitulating to expediency in the face of investor short-termism!

Turning to shares sold, we removed Coke, Kimberly-Clark, Lagadere, Tokyo Broadcasting, Sony and Zhejian Highway. These shares have each been profitable as investors sought the sanctuary of defensive plays. They no longer offer good value.

On the short selling front, we have gradually migrated from the technology sector such as Intel and the chip making companies to financials and consumer sensitives such as Sears and the government sponsored enterprises, Freddie Mac and Fannie Mae.

Currency

Almost every currency appreciated against the US$ in this period. The latter is now seen as risky and notwithstanding their problems, the Euro and even the Yen, for a while, look more compelling. The Fund was relatively well positioned having held by our long term preference for the A$ and the Europeans. At the end of June, 65% of assets were hedged into A$; 22% held in European currencies, with the rest mainly in Korean Won.

BREAKDOWN BY INDUSTRY

Categories	Examples of Stocks	Jun 2002	Mar 2002
Cyclicals/Manufacturers	RMC, Bayer, Linde, Océ	17%	22%
Retail/Services/Logistics	Hornbach, Jones Lang LaSalle, Fraport, Stinnes	12%	10%
Financials	Deutsche Boerse, Alleanza	10%	8%
Consumer Brands	Adidas Salomon, Lotte Confectionary	10%	8%
Technology/Hardware	Toshiba, Samsung, AMD	8%	10%
Software/Media	Mediaset, Nippon Broadcasting, Seoul Broadcasting	6%	6%
Medical	Draegerwerk, Merck KGaA, Novartis	6%	6%
Telecoms	NTT, Verizon, Ericsson	6%	5%
Gold and Other	Gold Fields, Newmont Mining	5%	3%

Commentary

An interesting feature of the unfolding of this bear market is the synchrony across the major markets of the world. From the coverage given on bubble vision (CNBC) one might think that the excesses were confined to US corporations. The trouble is that the excitement of the Internet mania was a world-wide phenomenon and adversely affected the business judgment of management and investors alike. Far from being limited to the new floats of the *neuer markts* of the world, the Panglossian tide swept across the boardrooms of Europe and Asia submerging reason with the promise of a brave new world which required flair and decisiveness. The consequence has been stunning losses of investor equity even in formerly staid giants such as France Telecom 73%; Vivendi 61%; Marconi 99%; Ericsson 73% ; Swiss Life 71%; Reuters 62% (these figures reflect the share price losses in just the last six months!!).

Yes, it is true that US companies probably do deserve recognition as the premier performers in the contest for director self-enrichment and the most creative accounting, but they are not alone. Many great companies are now over-leveraged and operating in markets that are over-supplied. They have lost their operating flexibility and in some instances have surrendered formerly impregnable positions to previously weak adversaries. They are much riskier entities and many will not survive in their present form. Auditor and public scrutiny will reach fever pitch and new legislation will follow. This is leading to a **general de-rating of equities** in all major markets.

The second factor weighing heavily on equities is **currency imbalances.** Like the great empires of the past, the United States now finds itself carrying an imperial burden. Big government is back and the weight on the exchequer is growing. History leads us to believe that the currency is entering a weak phase and the cost of debt (long interest rates) will trend higher.

Over the last few years we have held the view that the unlocking of the potential of the vast labour pools of Asia and in particular China, would suppress the price of traded manufactured goods and thereby cap an important element of inflation. Further aiding this tendency is the falling price of communications which has promoted the development of services which can be performed remotely at low cost (eg. call-centres or software development in India). This would all be fine in an environment of stable exchange rates but as the US dollar cheapens, it may have a **deflationary effect** on world aggregate demand and prices abroad. (US producers are able to win back some export markets while at home, US consumers feel the bite of more expensive imports and associated price rises.)

If one is swayed by the argument that Asia is unable to grow without the help of strongly growing export markets, perhaps deflationary pulses will continue.

We tend to take the opposite view about **Asian growth prospects**, though expecting a lower trajectory than hitherto. The bigger emerging countries of the region have seen their net external indebtedness decline since the '98 crises and bank loan-to-advance ratios have improved markedly. Company balance sheets are much improved and inter-regional trade is flourishing. To be sure, weak currencies have helped to spur exports but an important new development is emerging. Extensive use of consumer credit has changed the balance between domestic growth and that generated by external demand. In Korea for example, spending on capital formation has dwindled from over 35% of GDP in the early 1990s to around 28%, and in its place the consumer's share of the economy has been bolstered to over 64%, from 55% formerly. A strong rise in consumer credit and real wages have driven this but because of the competitiveness and improved solvency, trade is in surplus and net foreign assets have been rising.

The interesting question relates to **commodity prices**. Having now retested the lows last seen in the 1930s in real terms, do they skid further or will tepid growth in the West and improving living standards of Asia result in a gradual shift upwards on account of marginal incremental demand? In nominal terms the emerging economies of Asia seem too small to have an impact, representing about 9% of world output. However, if one looks at output on the basis of **purchasing power parity** (PPP) to take account of their unduly cheap currencies and to give weight to the physical content of their output, one can draw a very different conclusion. Far from being insignificant, a study by Morgan Stanley suggests that China and India on a PPP basis, together account for 17% of world GDP, representing more than twice that of Japan at 7% and just ahead of Euroland's 16%. Should these economies continue to grow at twice or more the rate of developed economies, one could make a case that the real price of commodities have bottomed. This could partially offset the deflationary pulses elsewhere. Equally, it has important implications for commodity producing companies and commodity producing nations like Australia.

Latin America is a different story. The main problem stems from weak institutions. Instead of using the period of strong investment flows from abroad to reform its fiscal recklessness, Argentina squandered the opportunity. The strong currency (then pegged to the dollar) was the final straw as foreign flows faltered and investors realised they would be seeing very little of their $150 billion back. Argentina's economic future looks very bleak.

Brazil has been far more disciplined and is running government surpluses before interest payments of over 3.5% of GDP. However, domestic government debt is very large at 269 billion Reals and interest payments are absorbing around 8.5 % of GNP. Worst still, these government obligations are some 90% inflation or exchange-linked and have a maturity of just 35 months on average. Given the uncertainty of the upcoming election (with the lead being held by Lula da Silva), a throw back to the radical left, a weakening currency and enormous government debt, leaves the country's future on a knife edge. This is exacerbated by a small trade component relative to this large economy. The government has little room to manoeuvre.

Japan is also vulnerable to unstable currencies. Just as it was starting to see the benefits of an export surge due to the weak yen, Japan is again facing obstacles. We have long held the view that the yen is the safety valve in that dysfunctional economy. On a recent trip we were dismayed at the seeming complacency among large employers. The giant electrical companies are a classic example. The cost of tenaciously standing by their worker obligations is putting their technological standing at risk. This year for example, the combined spend on IC chip facilities by the big five Japanese semi-conductor companies will be US$2.7 billion which is about the same as last year. This will be less than that of their nemeses in Korea, Samsung. Keep in mind their sales are more than three times as large as Samsung's. As pure manufacturers, the Japanese are still very competitive but the overmanning of support staff is a major problem. Even so, there are many facets to this enormous economy, which allows stock pickers to find inexpensive investments.

Conclusion

Investors can expect the media to give plenty of attention to whether Wall Street has reached a bottom. We think this will prove premature speculation and follows the normal pattern of false optimism that can be expected after an 18 year bull market (1982-2000).

Our medium term caution is based on the amount of consumption that has been brought forward from the excessive use of debt by companies and individuals, the still stifled criticism directed at key institutions and the willingness of investors to pay such high prices for true earnings (valuations are still too high). Where is investor revulsion caused by these swingeing losses? Money is still hiding in yesterday's winners, new issuance hovers in the wings but as money is withdrawn from equity mutual funds, even wonderful companies will be revalued downwards. **There is simply still too much faith in equities for this to be a fundamental bottom!**

Such a scenario is no fun for fund managers because of the likely volatility. Even with our short positions there are times when we will close positions on a trading view and in all likelihood forego opportunities. Alternatively our longs will periodically fail because of growth and competition proving worse than we anticipated or by our misjudging what is priced into expectations. Hopefully by scouring the world and being prepared to avoid the popular shares we may give investors some protection. In the short term there **could be a decent bounce** on account of the high level of investor pessimism.

Kerr Neilson
Managing Director

"Nasdaq Accounting Definitions"

Following last quarter's comment on accounting nonsense, we were taken by the following "Nasdaq Accounting Definitions" from the internet:

EBITDA – Earnings Before I Tricked the Dumb Auditor

EBIT – Earnings Before Irregularities and Tampering

CEO – Chief Embezzlement Officer

CFO – Corporate Fraud Officer

EPS – Eventual Prison Sentence