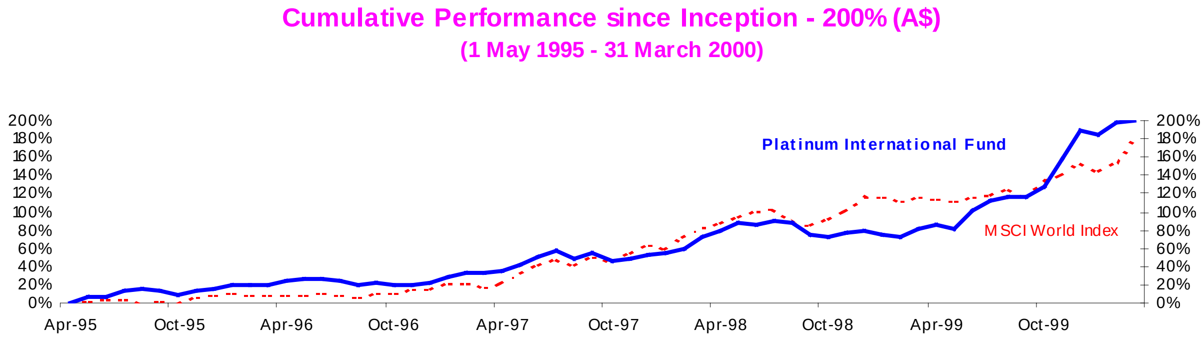
The Platinum International Fund

Quarterly Report

31 March 2000

Performance



Information technology, the internet and bio-tech were the focus in most markets of the world from January through to mid-March with strong advances being recorded. However, in synchrony with the rise of mortgage interest rate spreads versus US treasuries, there was a fierce sell-off in late March. Investors, showing their inclination to remain fully committed, immediately rotated into financials, consumer staples and pharmaceuticals. The striking pattern was the like-minded behaviour across nearly all markets from New York to Tokyo. One moment it was the cybernaughts, the next it was "old economy" dodos.

Having begun to switch out of the hotter end of the market late last year, Platinum did not extract full value from some of the tech shares we had held. In compensation some of the new additions made a useful contribution. This is not apparent from the quarter's performance because of our shorts on the NASDAQ 100 index and the S&P 500 which went against us point to point. In addition, our 40% hedge back into the A$ was expensive.

In brief, the Fund continued to pay for protection against the possibility of a serious fall in markets, particularly the high tech market in the US. The cost of this protection eroded the gains achieved through successful stock selection. The net result was to limit the advance in the value of the fund over the quarter to 3.4% pre-tax. This compares with our yardstick, the MSCI which rose by 1% in US$ terms, translating to an 8.9% gain in A$ terms.

Changes to the Portfolio

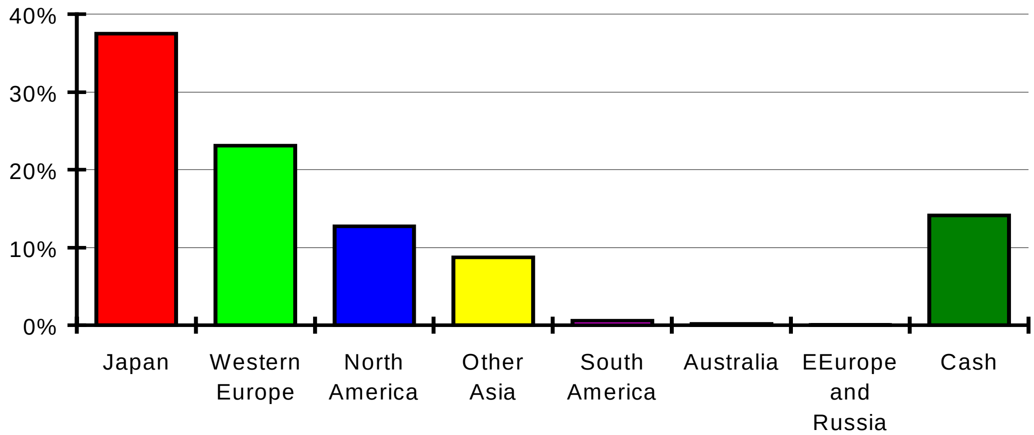
Platinum has been active in repositioning the portfolio. Notably we took advantage of the savage sell-off of Lucent, down 30% in response to disapppointing earnings, to add to our telecom facilitators, while trimming Ericsson and Alcatel. All the Korea Telecom and Hanero Telecom were sold and SK Telecom was reduced. Highly rewarding investments such as Nippon Electric Glass, Seagate, Manugistics, WPP and Lagardere were sold and several purchases were made in the integrated chip (IC) area through Hyundai Electronics (mainly D-rams), Galileo (network IC's), Shinko (leading chip packager), Dupont Photomasks and Silicon Valley Group (chip production equipment). However, the main thrust was to add to "old economy" companies like Bayer, Linde, Akzo, Stinnes and Nordic Baltic Holdings. Each of these companies has the prospect of strong profit growth on the back of buoyant economic conditions. Two of the companies bought in Japan, Nippon Express and Komatsu should see a similar benefit but were purchased more on the basis of distressed price levels following end of financial year selling of cross-holdings.

The change in the emphasis of the portfolio is shown below.

Breakdown of Industries

Categories	Examples of Stocks	Mar 2000	Dec 1999
Telecoms	NTT, DDI, GTE, S K Telecom, Lucent, Alcatel	16%	16%
Cyclicals	RMC, Akzo, Bayer, Stinnes, Sekisui Chemical	15%	12%
Software & Media	Novell, JD Edwards, PeopleSoft, Nippon & Tokyo Broadcasting	15%	19%
Technology	Toshiba, Samsung, Kyocera, AMD, Fujitsu	12%	12%
Financials	Lippo, Toro, Japanese Brokers, Nordic Baltic	9%	6%
Medical	Acuson, Draegerwerk, Medison	7%	5%
Consumer Durables	MEI, Citizen Watch, Sony	6%	7%
Consumer Brands	Lotte Confectionary, Japanese Coke Bottlers	4%	5%
Retail/Services	Douglas, Hornbach, Continente	3%	3%

Disposition of Assets



The fund has added to its short positions; being 11% against the Nasdaq 100 and 17% against the S&P500.

The Fund Size is currently $87 million

Currency

Presently 41% of assets are hedged into A$; 33% remain in the Euro, Pound and Swiss Franc; 15% in Yen and the balance, 11%, in US$ and related currencies.

Commentary

Recent extreme volatility on Wall Street reminds us of George Soros' concept of reflexivity. Starting with a view that markets are inherently unstable, he notes that the underlying fundamentals are reflected by share prices but as an underlying trend develops there is mutual reinforcement ie. fundamentals and share prices interact and gradually become more and more intertwined with each leap-frogging the other. Nowhere is this better illustrated than with the Internet mania. Few have difficulty in accepting the importance of the shift in the way we communicate and commercially interact and many are prepared to pay highly for this. However, as this realisation reaches its climax, there has been an associated appreciation of stock prices that reinforces sentiment (confidence) which in turn allows inflated share prices to be used to transact earlier unimaginable deals, viz AOL's takeover of Time Warner. In a recent visit to Hong Kong, we were exposed to this alchemy of finance in a manner which was so implausible and daring that only mass delusion could permit it to succeed. For those who are ardent believers that this time it is different, may we recommend that you read The Way We Live Now by Anthony Trollope written in 1873.

We have emphasised in earlier correspondence the increasing use of debt in the US by both individuals and companies. The former have done so to consume and to participate in the stock market as it has risen higher, while the latter has used half the new debt raised to buy back shares at seemingly very high prices. Of equal consequence has been the willingness of foreigners to support growing US indebtedness, which is reflected in the rise of the current account deficit to over $300 billion, and which has sustained a strong US$. A reversal of sentiment would plainly have many adverse consequences.

A recent development in the US has been a shifting of sentiment. The super-hot technology sector was starting to lose power by early March as the share price of business to business vendors (B2B) and related companies peaked. By early April many were off by 50%, including our old friend i2 which we sold earlier. The new focus is the "old economy" companies. Many of these have already seen corrections of 30-50%, retracements that fully correspond with a severe bear market though admittedly coming from some extreme valuations, and are now being purchased. The theory could make the rounds that now the heat has come out of the cyber world, Mr Greenspan can follow a more lenient line on rates thereby facilitating a "soft landing".

The rest of the world would be a strong beneficiary should this occur. Euroland is growing strongly and although continent-wide inflation is creeping above 2%, resources are generally still abundant and monetary conditions not restrictive. Moreover the weakness of the Euro versus US$ is greatly aiding the export-oriented sector.

Japan has produced conflicting evidence of recovery with consumer spending still depressed and yet industrial production is rising strongly, plus 8% year on year. From a recent visit we discern a slowing in the pace of lay-offs but partly countering this, from our perspective of corporate profitability, is growing evidence of tighter financial controls, through divisional accountability and a gradual change in remuneration packages. Further, we see the beginning of hostile take-overs and believe by year end this tendency will be strengthening. This together with the repositioning of savings out of the Post Office savings bank and into equities, will create exciting share market opportunities.

Growing inter-regional trade and expanding business investment, facilitated by high domestic savings, is rewarding the rest of Asia. Foreign injection of funds and the sale of strategic interests have allowed many Asian companies to deal with their over-borrowed balance sheets in the absence of help from their domestic banks. In the case of Korea, the Government has taken on some of these obligations.

As noted in last quarter's review we have been progressively reducing our tech exposure, in favour of the so-called "old economy". Somewhat surprising has been the resilience of the older tech plays such as Sun, IBM et al and the simultaneous kick back by stalwarts like Wal Mart. The surprise resides in the breadth of the move and the apparent availability of funds to support such breadth. Perhaps it is an action-replay of April last year when the cyclicals appreciated by 30% before falling out of fashion again.

Conclusion

The rotation back towards "old world" companies, even though valuations are highish, suggests the investors are very reluctant to leave the market, perhaps reflecting the thoroughly well learned response of buying on dips. Whatever the case, sound stock picking will remain paramount. In the US we are seeking investments which have low sensitivity to economic conditions. In Europe and Asia this consideration plays a lesser role.

Stock Stories

Last quarter we wrote about some of the attractions of old economy companies. However, it is not unusual to find investors temporarily overlooking new economy companies in their unswerving pursuit of the hottest tech idea. Two such companies that found themselves neglected are Seagate and Advance Micro Devices.

Seagate (US)

The idea of Seagate (SEG) came to us when we were studying electronic component suppliers. The starting observation was that none of those companies involved in hard disk drives (HDDs) was making money, save SEG. Closer study confirmed its dominance as a fully integrated manufacturer with a fifth of the global desktop market and 40% of the so-called high end enterprise market. The problem from the market's perspective was the cyclical nature of profitability and the constant decay of the selling price of HDDs. For example, to meet the requirements of PC vendors addressing the sub-$1000 market, the average selling price of HDDs went from $129 to $89 per unit in a matter of months. The company was able to achieve this by leading the advance in the storage capacity of the platter as well as the speed at which the data can be addressed. The market's view was that this price decay in an environment where the growth rate for PCs was falling from 15% to 10% per annum, was not the most exciting place to be.

What stood out for us, however, was the company's leadership in terms of both size and technology which resulted in it producing some 25 million desktop HDD units per year. Further, the research & development spend, $580 million per year, was twice that of its next competitor and this showed with its innovations in storage densities and pick-up speeds. Even when its competitors were losing money, SEG showed profits and achieved an average return on capital, through time, in excess of 20%.

When we committed to buy the stock, it looked as though price decay was beginning to stabilise and there was some prospect of the use of HDDs entering the home entertainment market. Furthermore, the company's underlying interest in software businesses such as its 33% stake in Veritas and others, plus its cash horde, meant we were buying the HDD industry leader for very little. The ride was a lot shorter than we had anticipated on account of the massive appreciation in SEG's underlying interest in Veritas and the share doubled within five months. The company was subsequently the subject of a takeover bid.

Advance Micro Device (US)

Advance Micro Device (AMD) was a more difficult company on which to reach a buy decision. In the mid-nineties it had made large profits from being a clone supplier of Intel's X86 logic chip. There was a subsequent dispute with Intel and the company went through a very difficult time being kept afloat by its other interests, memory devices and communication ICs. By now the market had learned from the Microsoft experience and indeed Intel, that there was little to be gained from challenging blood-thirsty near-monopolies. The share price kept dropping and few analysts had faith in AMD's ability to meet the challenge as Intel kept driving down the prices of logic chips by 20-30% per annum thereby constantly eroding AMD's sale base.

In the face of this adversity, the company hung onto its belief in the potential for low cost PCs and through the acquisition of NexGen, it acquired the technology to produce a competitive product to Intel, winning some 40% of the low cost PC market with its K6 chip. The big breakthrough only came, however, in mid-1999 with the launch of the Athlon chip. Fortune had smiled on the company when it employed Dirk Myer who had led the design team of the Alpha chip for DEC. The team produced a novel solution to challenge Intel at its own game. For the first time, AMD had a product everything as good as the Pentium and most important of all, they were able to boast superior chip clock speeds. This was significant as Intel had heavily promoted clock-speed as the pre-eminent measure of a chip's worth. (Clock speed is actually a very crude measure of comparison for chips). Historically Intel had fended off competition by dropping prices of lower speed chips while maintaining premium prices of its very fast chips. The significance of the launch of Athlon was that if Intel was to use a price weapon it would reduce its revenues across its entire range whereas in the past, price cuts had only affected a fraction of its sales. This was a turning point for AMD as it won as much as 40% of the US low priced PC market and also started to make good profits on its high speed chips. As a shareholder we were delighted when they pipped Intel by offering the first commercial logic chip operating at over one GHz.

As often happens when the market's perception starts to change, commentators are now focusing on AMD's other strengths. Flash memory, for example, is a market that is nearly doubling each year at present. Recently the company has signed long term flash memory supply contracts with leading communications equipment suppliers such as Cisco and Alcatel, further affirming our belief in its technical prowess. There is also some excitement about AMD's use of so-called copper interconnect technology which it licensed from Motorola, and its new wafer fabrication facility in Dresden.

From our entry point of $18, the share price has appreciated significantly and the company is starting to fully reflect its potential as a secondary source to the once almost monopolistic Intel. The latter is still the stronger company but it is capitalised at $457 billion with sales of $29 billion while AMD is capitalised at $11.5 billion with sales of $4 billion. On our optimistic earnings forecast, the company is on a PE of around 16-17 times 2000 earnings, still very low for the sector in which it operates.

We are delighted to report that Money Management magazine has awarded us their 1999 Fund Manager of the year award for International Equities.

Please note also that the Platinum International Fund now accepts Australian non-super money.

Previously this product was only available to Australian investors through their own superannuation funds. Entry can now be gained to all three funds in the Platinum Trust - International, European and Japan Fund for 1.5%pa MER and $20,000 minimum with no restrictions on the type of investor.

12 April 2000