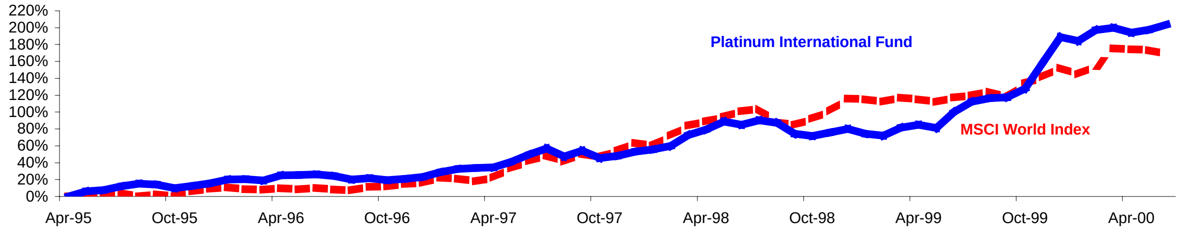
PLATINUM ASSET MANAGEMENT

Platinum International Fund

Quarterly Report
30 June 2000

Performance

Cumulative Performance since Inception - 204%
(1 May 1995 - 30 June 2000)



It was a better half year for bonds than equities as central banks moved in to choke off excess demand. Apart from central bank rate rises, the big news item was the demise of many dot coms. Paved with gold as it is, the internet still yields to the investment principal of discounted cash flows. While the MSCI returned 6.2%, there was the normal distribution of outlying winners (Canada 34.2%, France 15.6%, Italy 13.3%) and losers (UK -3.8%, Indonesia –38.4% and Greece –19.1%).

The industry segmentation revealed very weak performance from materials -16% and services (mainly telecoms, media and technology) -15%. Producing good returns were elements within capital equipment +9.9%, healthcare +14.8% and financial services +7.6%. The Platinum International Fund benefited from its earlier switch away from telecoms, media and technology stocks to older world companies and to some extent from its shorts; overall it returned 1.3% for three months and 5.1% over the six months.

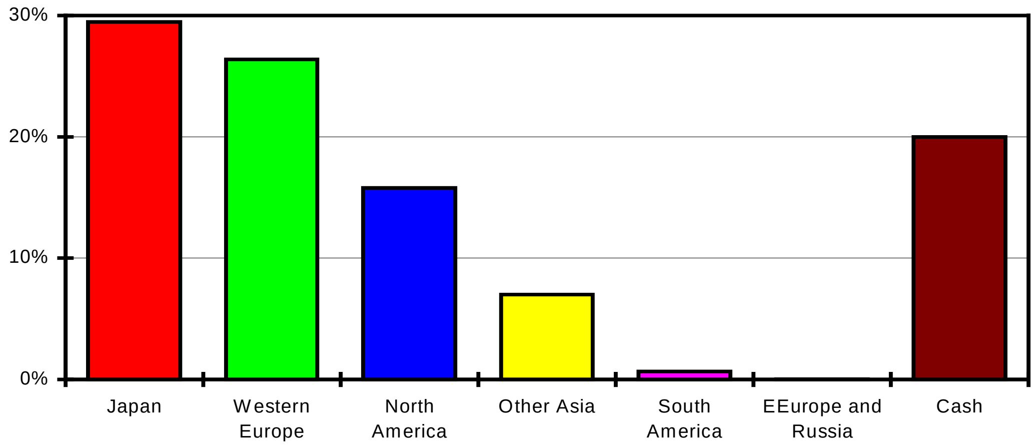
Changes to the Portfolio

Activity was principally directed at consolidating our larger holdings at the expense of the more recently acquired positions. Sales included Hyundai group companies, Komatsu, Nippon Express, Okumara and Gallileo. Among the new ideas introduced were Ambac (a US based financial insurer), Loews Corporation (deep value contrary play on insurance, tobacco and oil drilling), Mercury General (an auto specialist establishing a presence in states outside California); Smiths Industries (a niche player in global avionics, disposable medical devices and specialist industrial connectors) and UPM (the Finnish based paper products giant).

Breakdown of Industries

Categories	Examples of Stocks	Jun 2000	Dec 1999
Cyclicals	RMC, Akzo, Bayer, Stinnes, Sekisui Chemical	17%	12%
Telecoms	NTT, DDI, GTE, S K Telecom, Lucent, Alcatel	11%	16%
Technology	Toshiba, Samsung, Kyocera, AMD, Fujitsu	11%	12%
Software & Media	Novell, JD Edwards, PeopleSoft, Nippon & Tokyo Broadcasting	9%	19%
Financials	Lippo, Toro, Japanese Brokers, Nordic Baltic	9%	6%
Consumer Brands	Lotte Confectionary, Japanese Coke Bottlers	6%	5%
Medical	Acuson, Draegerwerk, Medison	5%	5%
Consumer Durables	MEI, Citizen Watch, Sony	4%	7%
Retail/Services	Douglas, Hornbach, Continente	3%	3%
Cash		20%	14%

Disposition of Assets



The Fund Size is currently $109 million.

Currency

Presently 40% of assets are hedged into the A$, 35% remain in the Euro, Pound and Swiss Franc; 12% in Yen and the balance, 13%, in the US$ and related currencies.

Commentary

Last quarter we flagged the prospect that the bursting of the cyber bubble could give rise to investors alighting upon the prospect of a soft landing. Since then, several leading US economic indicators such as retail sales and housing starts have turned down. The view now predominates that the Fed can hold off tightening further and that the economy can fall back to a growth rate which is within the bounds of its inherent capacity, thereby obviating the need for further rate hikes.

By the nature of such forecasts, we can’t know whether the hike in interest rates, a weaker Nasdaq and higher gasoline prices induce anything more than a temporary lull in consumer effervescence. Unlike some, we believe that the strong stock market has heavily influenced consumer confidence and the willingness to borrow and spend. Further, we believe that this influence has grown and indeed partly explains the apparent dissaving by the American public. As has been well documented, stock

ownership now far exceeds its previous peak of the mid-sixties when more than a third of households owned shares compared to the present figure of over half. More importantly, the appreciation relative to GNP from 54% to 170% of the capitalisation of the stock market over the last ten years, has contributed to a massive rise in capital gains. Bridgewater Associates calculates that realised and unrealised gains now account for close to 40% of other forms of household income, principally salaries. This factor, combined with the rising use of credit, which we have highlighted in earlier reports, increases consumers' sensitivity to market values and does raise the risk of a slowing economy turning into something less attractive. We need to watch consumer confidence closely. At present, it is very high but June witnessed its largest decline in 20 months.

By contrast, European consumers have been very reluctant shoppers notwithstanding surging industrial production, and consumer confidence recovering steadily over the last 18 months to reach a 15 year high. The main culprits are the Italians and Germans; in peripheral Euro zone countries such as Ireland and Spain, consumer spending is very strong. The counterpoint to this is a deteriorating current account for Spain and inflation of over 5% in Ireland. However, as employment increases we strongly believe that consumption will follow the traditional pattern in Germany and Italy – just as we have seen occur in France. In that country, retail sales have strengthened as unemployment has fallen markedly from 12.5% to around 10% over the last 18 months.

These divergences clearly reveal strains within this one-size-fits-all monetary area. To offset cyclical inflationary pressures, there is a need for individual governments to have countervailing fiscal policy. However, tax reform (influenced by competitive pressures) is working against this in some countries, notably in the high fliers like the Netherlands, Spain and Portugal. This clearly exacerbates the task facing the European Central Bank (ECB) and leads to mixed views in the currency market. Nevertheless, the prospect of Europe growing faster than the US over the next year or so, plus the prospect of further rate hikes by the ECB suggest that the Euro will continue to strengthen against most other currency blocks. From an investment stand point, this has important implications amongst other things for currency flows, corporate profitability and stock selection.

Turning to Japan, most commentators are still among the half-empty brigade. We are optimistic given the strong recovery in industrial production (though the comparison will taper off over the second half of the year from the present 10% growth rate). Measures such as job creation, price levels, auto and housing sales suggest a gradual broadening of confidence and economic activity. From lamentably low levels, corporate profits are rebounding strongly and look set to rise by 20% or more for this year and next. There is a tendency to believe that the economy will automatically fall back into recession as it did on occasions in the 1990s. However, care should be taken when analysing the past to exclude special factors such as the consumption tax, the decline of public investment and of course, the Asian crisis.

It is the prospect of the corporate sector earning a satisfactory return on invested capital that is at the heart of our exposure to companies in Japan. We admittedly have been a little disappointed at the apparent lessening of urgency of corporate reform but the legislative framework for reform has improved immeasurably. While still in the formative stages, merger & acquisition activity is growing and one can expect various forms of buy-outs and divestments to become more common. Even though the Japanese bull market has been in place for two years, it strikes us as an extraordinary opportunity when still 50% of companies in the first section of the Tokyo Stock Exchange are selling below book value. Goldman Sachs have identified over a

100 companies selling at less than cash backing alone. Your Fund owns three such holdings – and in our opinion, they are not value traps!

If we look at the world at an enterprise level, the striking feature has been the magnitude of corporate activity. Mergers and acquisitions in the first half of the year totalled $874 billion in the US and $1,900 billion in Europe. Industry consolidation remains the catch phrase with mammoth deals in Telecoms (Vodaphone acquired Mannesman and France Telecom acquired Orange); Entertainment (AOL acquired Time Warner, Vivendi bidding for Seagrams); Banking (Bank of Scotland acquired NatWest, Citibank acquired Schroders); Drugs (Glaxo bidding for SmithKline); Autos (Daimler Benz taking 33% of Mitsubishi Motor, GM 20% of Fiat and Volkswagon 19% of Scania). In food, Unilever has bid for Bestfoods having earlier revealed plans for slimming its workforce by 25,000. The whole area of food and packaged goods is finding profit growth elusive in the face of low inflation, slow volume growth and growing market power by the retail chains – who themselves have grown through acquisition. In many cases, these depredations signal an underlying deterioration of profit growth in many industrial sectors. This has led to highly dichotomous market valuations. For example, perceived high growth markets like Nasdaq sell at 130 times earnings while the S&P500 index trades on 23 times this year's earnings. Further, within the S&P, smaller and/or traditional companies are rated well below the average with the median PE being about 15 times. The same pattern prevails in Europe where shares on the Neuer market sell at multiples of sales while traditional old world shares are seemingly punished for their lower growth rates.

Conclusion

Stock markets can look forward to another northern summer of debate about the strength or weakness of consumer spending. Should spending prove stronger than is presently anticipated, central banks can be expected to squeeze rates higher. Though outside the US, there is spare capacity, rising input costs will be evident in most countries. Hence, equity markets look to be range bound until some of the generously priced growth expectations are met.

30 June 2000 Distribution

This year's distribution of 36.08 cpu is abnormally 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 36 cent distribution.

12 July 2000