investor
REVIEW
FEBRUARY 1999

MLC - Platinum Global Fund

QUARTERLY REPORT
AS AT 31 JANUARY 1999

Performance

Fund Size: $376mn	Last Quarter	Last 12 months	Return Since Inception
MLC-Platinum Global Fund	6.9%	18.8%	87.7%
Morgan Stanley Capital International World Index (Accumulation)	17.0%	32.1%	137.6%

The fund continues to produce sound workman-like returns but our absence from the US market is costly in terms of relative returns. A more expedient approach, and a more profitable one, would have been to ignore valuation risk, though we are sure that late in the third quarter unitholders felt differently and enjoyed having the protection. As a reminder, the fully protected US position is predicated on the view that the US is the leader in this profit cycle and is also regarded as the benchmark for the pricing of global financial assets. All our work points to a dearth of attractively priced investments in that market. Our objective is to create value from stock picking and indeed the efficacy of this approach is borne out by our gains in Europe and Japan, 39% and 46% respectively over 1998 (A$).

Top Ten Holdings as at 31 January 1999

Stock	Country	Industry	Holding
Rinascente	Italy	Retail	4.9%
Samsung Electronics	Korea	Electronics	3.8%
Sony	Japan	Electrical Equipment	2.9%
WPP	UK	Advertising	2.9%
Siemens	Germany	Electrical Engineering	2.9%
Sanyo Coca Cola	Japan	Bottler	2.6%
Mikuni Coca Cola	Japan	Bottler	2.6%
Suzuken	Japan	Pharmaceutical Wholesaling	2.6%
Lagardere	France	Media/Defence	2.5%
Softbank	Japan	Information Technology	2.5%
TOTAL			**30.2%**

Report from Platinum A

DISPOSITION OF ASSETS

Region	31 January 1999	31 October 1998
Western Europe	39%	45%
Japan	32%	24%
North America	7%	8%
Other Asia	6%	3%
Australia	3%	2%
South America	2%	3%
Cash	11%	15%

Portfolio

In Europe, we used the October sell-off to acquire new holdings and add to existing positions. These included WPP (advertising), Toro (insurance), Deutsche Bank, Rinascente and Telecom Italia.

In Japan, we continue to take advantage of the mispricing of shares in that dysfunctional economy. As the economy washes in a morass of bad news, opportunities are being thrown up regularly as share cross-holdings are dislodged or shares are violently sold down. We have segmented the market into distinct categories and find the growth companies, and cyclical growth companies, to be among the cheapest in the world. Among the cyclicals, we are commonly finding companies at values last seen twenty years ago (when they were smaller and weaker enterprises), some trading for less than the cash on their balance sheets.

We have very few investments in South East Asia and have regarded Korean companies as being some of the most prospective investments. Our principal holding is the Samsung group which has been highly rewarding. As the standard bearer of excellence in that country and as an emerging micro-electronics powerhouse, the shares have been aggressively purchased as investors confidence has returned. We added to our position in the dark days and have seen the shares rise 150% since. They are still not expensive.

Our holdings in Latin America have been dull. The stock markets, punished by the retreat of foreign capital, have now fallen to bargain basement prices. On a medium term view, there are companies which are likely to give far better returns than most traditional western companies. We are tentatively repositioning our holdings away from the defensive plays that have outperformed in a weak environment.

Currency

We have been adding to the A$ hedge. Presently 42% of assets are hedged into A$, 38% remain in the Euro, Pound and Swiss Franc, 12% in Yen and the balance, 8%, in US$ and related currencies. From a technical view point, the A$ is behaving well but at this stage we are reluctant to add further to the hedge. The generally weak outlook for global industrial production and hence the demand for our traditional exports is being outrun by strong home demand for imports.

Commentary

The issues that seemed so vivid to investors when the markets were collapsing in early October have faded. Indeed, the US consumer barely paused for breath in the face of stockmarket adversity (even though consumer sentiment dipped). Important developments include the provision of stand-by facilities to Brazil and the action of the Federal Reserve Board which lowered interest rates three times in seven weeks. The result was a sharp v-shaped recovery in Wall Street led by the triumphant tech stocks. The intra-market behaviour, which has seen companies that issue profit warnings being duly penalised, confirms that the market has clearly accepted the negative aspects of the deflationary shock, and the loss of pricing power, that we have been warning about for some time. Indeed, the hunger for returns in the face of low nominal yields continues and is focused increasingly on those few remaining market segments that can produce exciting revenue growth, namely info tech stocks in general and internet stocks in particular. Combined with related sectors such as telecoms, this group constitute less than 20% of the S&P500 index and are the motor behind the market's extraordinary turnabout since October's gloom.

Where to now? There seems little prospect of much reduction of pricing pressure. If anything, capital spending in the US looks to be continuing imperiously even though capital utilisation is running at only 80% - recession type levels. In Europe and Asia, the same picture emerges of oversupply. This will keep the lid on prices for the while and in the face of a weak consumer, particularly in Europe and Asia, the general growth rate must be subdued.

With this difficult tendency, central bankers are likely to further lower short term rates to contribute to price stability and help employment (especially in Europe and Asia). In the US, the immense growth in lending for financial activity since October, (40% annualised), could add to stockmarket euphoria, but the likelihood of a weak US$, could lead to further instability. Hot as the info-tech stocks have been in 1998, the excitement could be heightened even further in 1999 by the growing availability of broad band cable, further developments in mobile phone/palm-sized organiser technology and a marked acceleration in e-trading. E-commerce is now on the cusp of more general usage and thus could invigorate the existing excitement in the trading of internet related shares. In December, activity in these shares was frantic with many rising over 40% in the month and Schwab (an e-trade broker), rising 70% in eight trading sessions.

After a pause to refresh, this gold-boom-like mentality could build into an even greater frenzy. All conditions are present - an underlying logic, easy and cheap credit and the response that has been learned through this 18 year old bull market to buy the dips. As in all great booms, there is a paradox. Investors are conscious that markets cannot make everyone rich. There is therefore the inherent contradiction that one must get in before it is too late and yet pitch ones activity just right so as not to be caught without a seat when the music stops. Further, adding to the tempo is the awareness of retirement needs and the favourable treatment given to pension contributions (401K plans).

While the internet is here to stay, albeit plagued periodically by viruses, system overload and so forth, the very nature of technological change adds to uncertainty and hence risk. So for the relatively few winners there are bound to be massive losers. Dull as warnings are, we wish again to restate the dangers. The US economy is displaying some serious imbalances. Apart from external pressures, domestic capacity is growing faster than final sales, corporate profits are showing signs of contracting and the corporate sector has a growing dependence on external funding. Simultaneously, the consumer is becoming increasingly indebted with savings having almost turned negative. Traditional observations of money growth fails to reveal rising leverage in the system. As consumption and loan growth are increasingly predicated on asset prices, some of which are inflating at alarming rates, it is evident that the system is becoming inherently less stable. At the same time, there may be a greater reluctance by the Japanese to play a part in augmenting this liquidity. Witness the recent weakness in the dollar versus the yen. The performance of the internet stocks and the seemingly infallible Fed, give the impression that the economic cycle has been banished.

In the meantime, most of Western Europe has embarked on the great experiment of monetary union with the formation of the Euro on 1 January 1999. General enthusiasm abounds at the moment, and as the internal and external implications of the new world of "euroland" become apparent, we anticipate considerable changes in the corporate sector of the continent.

The "restructuring story" to which we have referred for several years should accelerate. Pricing clarity and lower costs of doing business in the region will demand consolidation in many industries as companies try to take advantage of, and defend themselves in, the enlarged "domestic" market.

The sort of consolidation witnessed in pharmaceuticals recently (Astra merging with Zeneca, Hoechst with Rhone Poulenc and Sanofi with Synthelabo) can be expected to spread to industries such as automobiles, banking, insurance, chemicals and retail etc.

An important issue as always this year will be general economic conditions in Europe. The slowdown in Asia and Latin America and the collapse in Russia considerably reduced the industrial momentum of the large European economies in the final quarter of 1998. It looks as though GDP growth in Europe (ex the UK) will be down to 2% this year with a better outlook dependent on greater consumer enthusiasm.

For Japan, we can see no reason to contradict the forecasts of the majority. Apart from the well rehearsed problems within the financial system (not merely the banks), the other great problems that will get plenty of airing in 1999 are the country's almost non-existent welfare safety net, and the urgent need for labour reform. The lifetime employment "contract" is now proving to be one of the greatest impediments to the efficient working of the Japanese economy. Change is taking place with progressive companies changing remuneration to reflect ability and contribution rather than age alone, new recruits are hired on short-term contracts and so forth - but the lifetime employment system that had produced such success in the past and indeed carries reciprocal "rights" is unlikely to be toppled overnight. Without more labour flexibility, however, it will be very difficult for the traditional Japanese company to cut costs and re-engineer processes as their competitors, (not least the Koreans), are doing and hence improve their profitability.

For those readers who sense a contradiction to our stance on the US versus Japan, with the former economy working and the latter floundering, the issue simply relates to relative valuations.

In South East Asia, generally lower interest rates and booming exports to the West have allowed some recovery. These factors and commensurately stronger exchange rates have reduced pressure on corporate solvency. Nevertheless there is still much to do to refinance the banking industry in Asia - a principal facilitator of growth. For example, in Thailand, non-performing loans are now put at close to half of all bank loans which explains why the banks are actually paying out more interest than they are receiving. And this is before normal operating overheads!

If you have any questions about your investment in the MLC – Platinum Global Fund, please contact

MLC Customer Service on

131 831

from anywhere in Australia or

0800 442 550

from New Zealand

Outlook

Within this framework of easy credit, weak growth and weak pricing power, currency instability and low tolerance to shock, returns from equities will be patchy. Though central banks may be inclined to keep credit easy, the enormous bond selling task facing the Japanese government will have global implications. Higher bond yields detract from the valuation of shares - notably growth companies - which have been a favourite with investors for some time now. We believe that money can be made because of the sharp rotation among industries. It is not necessary to change one's investment style and participate in the information technology euphoria, but rather to continue seeking those companies which will show inherent growth but which are not directly in the spotlight. In markets that are obsessed with a small sub-set of companies, there are many businesses whose shares have fallen to below their long term inherent value.

Found in The Financial Times 100 years ago column:

A representative tells us of an incident in the Gold Commissioner's office. "Along came a man who said he wanted to record a claim on Banana Creek. 'Upon which bank of the creek?' asked the clerk. 'Um, I dunno,' responded the applicant. 'When a man goes out with a pick and walks a bit, he ain't much on direction.' The clerk persisted, 'But was it west or east; you could surely tell by the sun.' 'Nope, weren't no sun that day.' The clerk tried hard to get some measurable information about the claim, but finally had to send the man away. I followed the man out and the waiting crowd asked him if he had got the claim recorded. He started telling the crowd that the Commissioner had refused to record his claim because he had not offered money. I told the crowd the truth."

Sound familiar!?

Kerr Neilson
Platinum Asset Management

For those interested, please visit our website at http://www.platinum.com.au