investor
REVIEW
OCTOBER 1999

MLC - Platinum Global Fund

QUARTERLY REPORT
AS AT 31 OCTOBER 1999

Performance

Fund Size: $551mn	Last Quarter	Last 12 months	% pa Compound Return over 5 years	Return Since Inception
MLC-Platinum Global Fund	2.8%	36.7%	17.1%	140.1%
Morgan Stanley Capital International World Index (Accumulation)	6.5%	22.0%	20.6%	157.8%

The share markets continued to roll higher this quarter. Continental Europe and the US each rose by around 2.5% in terms of their domestic currencies while Japan was flat. There was some divergence in the emerging markets with Brazil rising by 13% and Korea falling by a similar amount on account of concerns about the indebtedness of some *chaebols*. All up, the MSCI rose by close to 3% and because of our weaker currency, this translated to a 6.5% advance in A$ terms. On account of the fund being partly hedged back into Australian dollars, we did not capture the full benefit of the underlying gain in the portfolio and achieved a return of 2.8%.

As I write, these numbers have changed dramatically (for the better) so as ever it is more useful to focus on the longer term figures. For example, over the last 12 months, the fund has significantly outperformed the MSCI achieving a return of 36.7%. This is also approximately twice that of the average international fund in the Micropal survey of managers worldwide. Over the full five years the performance is highly favourable, returning 17.1% per annum.

Returns however are not the full story. Controlling the risk of loss is also of great concern to us and hence our use of derivatives to give some protection against capital loss. This has cost us from maximising our gains brought about by our sound stock selection. It has also removed nasty surprises. Year on year, the fund has had but one day of negative returns over five years!

Changes to the Portfolio

The main changes this quarter related to our holdings in the US and Europe with the increase in holdings in the US relating exclusively to the purchase of a group of companies involved in Enterprise Software. These products are used by companies to manage various aspects of their business such as accounting functions, manufacturing operations, and human resources. With one exception, each of these companies has fallen to a fraction of its former peak price on concerns of a sharp slow down in growth following the boom in preparation for the millennium bug. The reality is that Y2K related spending artificially bloated their results in earlier times, and investors are now over-reacting to the inevitable slowdown. However, if e-commerce is to be the reality many of us believe, the importance of these companies in providing web enablement will grow considerably. Remember the greatest problem that e-commerce brings to businesses is the ability to respond quickly to customers on-line enquiries. These software vendors help traditional bricks-and-mortar companies to adapt to this new paradigm by supplying so-called "outward-

BREAKDOWN OF PORTFOLIO

Telecoms & Equipment	DDI, NTT, Korea Telecom, GTE, Ericsson, Alcatel	19%
IT Software	i2, JD Edwards, Baan, Novell, PeopleSoft, Samsung Corp	14%
Consumer Goods	Unilever, Citizen Watch, Lotte Confectionery	11%
IT Hardware	Toshiba, Fujitsu, Samsung Electronics, Kyocera	9%
Consumer Electrical	Canon, MEI, Sony	8%
Manufacturing	SIG, Schindler, Lagardere, MHI, Yokogawa	8%
Retail	Rinascente, Douglas, Hornbach, Escada	7%
Finance	Daiwa and Nikko Securities, San Paolo, Toro	6%
Services	Jupiters, WPP, Kuhne & Nagel	6%
Medical	Acuson, Diagnostic Products	5%

facing" packaged solutions. The companies accumulated include PeopleSoft, i2 Technologies, JD Edwards and Baan (in Europe).

Conversely, the de-weighting in Europe stemmed from the sale of companies that had reached our price objectives, namely ICI and Deutsche Bank while drug pipeline problems at Hoechst and a change of business strategy at Scapa encouraged us to remove these holdings.

Within the Japanese portion of the portfolio, we added Nippon Electric Glass which is presently being adversely affected by the twin concerns of substitution of cathode ray tube (CRT) monitors by liquid crystal displays (LCD), and the strength of the Yen. This is the world's premier producer of the technically stringent glass shells used in CRT's, with over 30% of the market. Even with substitution, its underlying market should grow by 4% per annum. We also added to our holdings of broadcasting stocks on the basis of their low valuations and prospects for much improved profits as the advertising cycle recovers with an improving economy. The unchanged weighting in Japan comes from sales of Tokyo Electric Power, Trans Cosmos and Intec. Several of our holdings in Korea reached very high valuations and we chose to sell these company's shares. We established a small position in Samsung Corporation which has the prospect of becoming an important on-line shopping mall and also bought shares in SK Telecom. This is the country's premier mobile telecoms operator with some 10 million subscribers. At the time of purchase, the shares were significantly depressed by forced selling by the hedge funds which faced massive redemptions. The removal of this overhang has seen the shares subsequently rise by 50%.

DISPOSITION OF ASSETS

REGION	31 OCTOBER 1999	31 JULY 1999
Japan	40%	40%
Western Europe	29%	28%
North America	13%	9%
Other Asia	8%	6%
Australia	1%	2%
South America	1%	1%
Cash	8%	14%

Currency

Presently 47% of assets are hedged into A$; a further 23% remain in Euros, Pounds and Swiss Francs, 15% are in Yen and the balance, 15%, are in US$ and related currencies.

Commentary

All the indicators point to an acceleration in growth around the world with the recovery in Europe becoming more robust and Asia continuing to benefit from strong exports (albeit at a slower rate than hitherto) and a return of foreign investment. However, the US is faced with the prospect of very tight labour markets and the likelihood of rising interest rates. After the initial surge in economic-sensitive stocks back in April, they have surrendered most of those gains and continue to drift off. Our interpretation of this is that the markets still believe in low inflation. The corollary of this is that the valuation of strongly growing companies will stay high and that the rewards from those companies that benefit from inflation will remain subdued.

TOP TEN HOLDINGS

STOCK	COUNTRY	INDUSTRY	% HOLDING
Sony	Japan	Electronics/Entertainment	3.4%
NTT	Japan	Telecoms	3.2%
NTT Mobile	Japan	Mobile Telephony	2.9%
Siemens	Germany	Electrical Engineering	2.8%
i2 Technologies	US	Enterprise Software	2.7%
Nikko Securities	Japan	Securities	2.4%
Alcatel Alsthom	France	Telecoms	2.4%
PeopleSoft	US	Enterprise Software	2.4%
Suzuken	Japan	Pharmaceuticals	2.3%
JD Edwards	US	Enterprise Software	2.3%
TOTAL			**26.8%**

On the subject of Wall Street, we can find little to alter our underlying view that many companies are very expensive and will probably fall short of expectations. As we have noted in earlier correspondence, the market has systematically migrated from one set of favourites to another with the last bastion of hope being the information technology sector. Two years ago we wrote about the over-valuation of the very highly rated consumer stocks such as Coke and Gillette and these indeed have subsequently been weak performers with their prices having gradually drifted down by over 35%. Likewise, we have accepted some aspects of the new paradigm but we still have immense problems with present valuations. For example, the NASDAQ 100 index, which incorporates such illustrious names as Microsoft, Cisco, Intel and Amazon, is trading on over 100 years estimated 1999 earnings. The beauty of this sector is quite evident in its growth, but equally this is achieved in a highly unstable business environment where new competitors can ambush the market with complete surprise. A most interesting example of this element of opportunity and surprise comes from Cisco paying $6.9 billion for a two year old start-up, with virtually no sales. This company has apparently developed clever mathematical solutions in the field of routing which will allow Cisco to cover this new area of technology. By acquiring this company, Cisco simultaneously achieves better coverage and also removes a potential competitor.

In an environment where the leading market could come under threat, investors are likely to face weakening prices in equity markets in general. However, underlying economic conditions do seem much more robust than this time last year. In the case of the European and Japanese markets, many of the companies we own have continued to restructure and are closer to achieving strong profit growth.

When examining developments at an industry level, it is clear that globalisation continues apace. To gain greater market leverage (critical mass) or entry into new markets, firms are merging on a grand scale. This quarter witnessed further amalgamations in telecommunications, notable were the US telecom carriers seeking to gain the full gamut of services; long distance, local loop and cellular. As we write, Vodafone is bidding for Mannesman. The latter has a very strong position in the German and Italian mobile markets with approximately 18 million subscribers as well as several fixed line interests. Even so, this is an extraordinarily large deal with the initial offer being set at A$180 billion – making some of our telecom holdings appear cheap!

The air separation business saw Air Liquide and Air Products bid for British Oxygen Company, which was followed by Linde acquiring AGA while continuing its talks to acquire the majority stake in Messer-Gresheim from Hoechst. Volvo (now mainly a truck maker having sold its car business earlier to Ford), reached agreement to acquire its former Swedish rival, Scania, and subsequently agreed to establish a partnership with Mitsubishi – giving it better coverage in Asia. Retailing is seeing the same transitional evolution with US based WalMart, having acquired Asda, one of the UK's top super and hyper-market retailers, turning its attention to adding further outlets in Europe. This was followed quickly by Carrefour merging with Promodes to make it second in sales volume to WalMart, worldwide.

These developments suit the positioning of the fund. In telecoms it is good news for the likes of GTE, NTT, Korea Telecom, SK Telecom and OTE with their broad offerings of fixed line and mobile. It also underlines the remarkable value in NTT with its control of some 85 million phones, 25 million of which are mobile and indeed its almost impregnable position in the world's second largest economy. Further it gives a hint of the fate of local carriers like OTE with its dominant position in Greece and emerging interests in the Balkans. Likewise, Linde should benefit from fewer competitors in its air separation business, while its highly profitable related businesses will gain from stronger world growth. The WalMart move has important implications for our holdings in Rinascente, which is effectively controlled by the private company, Auchan. The latter is believed to have had talks with WalMart. It also benefits Continente (hyper-markets and supermarkets in Spain) and Hornbach (hyper-DIY and garden centres in Germany, Austria and Holland). The latter has adopted an aloof posture to potential suitors but as the German economy continues to recover it should produce superb returns: throughout the last three years of dreary economic performance, Hornbach has continued to aggressively add to its number of stores. This tends to artificially suppress profits as initial start-up expenses are only gradually covered by rising sales per new store. Even if the company continues to reject the advances of suitors, we believe that the share is trading at 50% of its intrinsic value.

Conclusion

We believe that the fund has a sound balance of exposure both by industry and geography. There are large positions in fast growing and fast changing areas such as telecommunications and IT and yet it also has an array of companies that will benefit from stronger world growth. More importantly, these category of companies are not pure price-takers such as commodity producers. The significance of this lies in our belief that neither inflation nor growth will reach such levels as to create shortages which would reward highly levered entities such as the commodity producers. Having said that, the consolidation in many of these commodity producing industries has significant structural implications for profits. Another issue to be closely watched is the relative movement of input costs (so-called producer prices) and sales revenues. In some industries there is evidence of a growing squeeze on margins.

We retain an almost fully hedged position on Wall Street through the medium of selling S&P index futures. We do this in the belief that the US is the most susceptible to downward revaluation being the most advanced country in terms of the economic cycle and that such an event would have a damaging consequence for most share markets. Cash levels will oscillate according to the opportunities we find.

Kerr Neilson

Platinum Asset Management

For a greater insight into our process, please visit our web site at www.platinum.com.au

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