Conclusion

It seems highly likely that world growth will be very strong this year even if somehow the US consumer retrenches. Interest rates will rise which together with high valuations and fluctuations of currencies will destabilise share markets. Apart from gradually moving away from the hottest areas of the market, we will be attempting to reduce the risks by continuing to run short positions in the US market against our investment there. Moreover, to the extent we cannot make sense of valuations, we will allow cash to build-up.

Stock Story – Linde (Germany)

As has been noted in the above text and in earlier correspondence, the glitter of the new internet world has mesmerised investors. There are swathes of companies in the "old economy" which are unlikely to be harmed by e-commerce and yet have tended to be dull stock market performers. Linde is such a company and has a history of above average earnings growth during a period of difficult economic circumstances in its principal markets.

When describing the underlying divisions, one is at a loss to make them sound fascinating. Linde's main business is industrial gases. This involves separating air into its component parts of nitrogen, oxygen and argon via cryogenic fractional distillation or, more recently, the use of clever membranes. Once separated, the gases are either piped to large customers, transported and stored in liquid form for smaller users or indeed distributed in steel bottles to smaller users still. The business tends to grow at twice the pace of the economy and as old uses such as oxygen feed to steel plants decline in importance, new uses such as the purification of waste water emerge. Other examples of new applications include preservation of food and the use of the rarer gases in the manufacture of semi-conductors.

The attraction of this business is the global concentration that is taking place. Linde is now the second largest air-separation company in Euroland, following its acquisition of the Swedish company AGA and it is negotiating to acquire Messer which will take it to the position of number two worldwide. Though heavily concentrated in Europe these acquisitions/mergers bring considerable economies and vastly enhance the company's longer term strategic standing. Savings are made through combining depots, sharing existing pipelines, optimising research and so forth.

The merger also brings a deeper set of skills, such as a membrane technology from AGA, and broader geographic coverage. AGA, for example, is the largest player in Latin America. The most important outcome from combining these companies including Messer is the prospect of reduced competition. Both AGA and Messer, who like Linde have been investing heavily, have tended to aggressively cut prices in order to improve the loadings of recently erected plants.

The group's second largest division manufactures and distributes fork-lift trucks. It is ranked number one in the world with sales 50% larger than the likes of Nacco and Toyota. This industry too has seen massive consolidation with Linde itself acquiring six companies since 1989. The business has consistently produced profits, though they are cyclical. Helping to smooth out the business cycle is the move to outsourcing. Here firms rely on suppliers like Linde to own and manage the fleet under long-term fleet management agreements. The company continues to improve its geographic reach with, for example, a joint venture in China. This factory will also target export markets in South East Asia.

Linde's other two businesses are engineering and contracting, and refrigeration. These have become less important as industrial gases now account for 75% of profits and will be even more prominent if the merger with Messer proceeds. However, they are both strong global businesses which have entrenched themselves through their commitment to R&D and global sourcing.

When investors resume the search for underlying value, companies like Linde will benefit. It is relatively inexpensively priced, in fact cheap by historic standards, especially as it now has a stronger commercial position than in the past. Profits are likely to accelerate as the European economy gathers momentum and as plant loadings rise and as competition diminishes.

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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investor
REVIEW
JANUARY 2000

MLC - Platinum Global Fund

QUARTERLY REPORT
AS AT 31 JANUARY 2000

Performance

Fund Size: $780mn	Last Quarter	Last 12 months	% pa Compound Return over 5 years	Return Since Inception
MLC-Platinum Global Fund	27.6%	63.2%	24.3%	206.3%
Morgan Stanley Capital International World Index (Accumulation)	4.8%	13.5%	23.4%	169.8%

Share markets have displayed an unusual dispersion of returns over the last quarter. The larger markets have varied from a small negative for the UK (-2.7% in A$ terms), to gains of 3.4% in the US, 6.1% for Japan and somewhat higher returns in Continental Europe; Germany achieving 16.3%. A notable feature was the performance of emerging markets with countries such as Brazil and Korea achieving respectively 43% and 20%. This suggests that investors are willing to assume greater risk in recognition of these countries improved prospects in a strongly growing world economy. This left the MSCI up 4.8% for the three months to 31 January.

Your MLC Platinum Global Fund has enjoyed its strongest period ever, achieving 27.6% for these three months. As the table above attests, the 12 month returns have also been excellent, outperforming the MSCI by a factor of four times. Over a five year term, the compound return has been 24.3%; better than the MSCI and substantially better than the mid-teen returns achieved by the average manager in the Micropal survey of global managers.

The massive divergence in performance over one year is principally the result of our often stated position that we will invest on the basis of where we find the most attractive investments. This is in stark contrast with the conventions of the day which favour tight adherence to the weightings of a benchmark such as the MSCI. With this approach, fund managers believe they reduce their so-called business risk* by producing outcomes that are not too distant from the performance of the benchmark; a type of convoy investing if you like.

By emphasising stock-picking over asset allocation, we believe we give our clients an alternative style in what is becoming an increasingly homogenous field. There will, of course, be times when our returns are below those of the field – as we experienced in 1996/97, but on balance we believe through time our returns will be superior to the field and perhaps provide investors with an attractive complement to their other investments.

** Refer to the AFR article by Rob Prugue from Van Eyk Research, 9 February 2000.*

Report from Platinum Asset Management (Continued)

PORTFOLIO ANALYSIS OF BUSINESS ACTIVITY

		January 2000	October 1999
Telecoms & Equipment	DDI, NTT, GTE, Ericsson, Alcatel	15%	19%
IT Hardware	Toshiba, Fujitsu, Samsung, Kyocera, AMD, Seagate	11%	9%
Manufacturing	SIG, Schindler, Lagardere, MHI, Linde, Bayer, Akzo Nobel	11%	8%
IT Software	JD Edwards, Baan, Novell, PeopleSoft	9%	14%
Consumer Electrical	Canon, MEI, Sony, Citizen Watch	8%	10%
Finance	Nomura, Daiwa and Nikko Securities, Toro	8%	6%
Services	Jupiters, WPP, Kuhne & Nagel	8%	6%
Medical	Acuson, Diagnostic Products	7%	5%
Consumer Goods	Unilever, Wella, Lotte Confectionery, Coke Bottlers	4%	9%
Retail	Rinascente, Douglas, Hornbach, Escada	3%	7%

Top Ten Holdings

Stock	Country	Industry	% Holding
NTT	Japan	Telecoms	3.5%
Sony	Japan	Electronics/Entertainment	3.3%
PeopleSoft	US	Enterprise Software	3.1%
Nikko Securities	Japan	Securities	3.1%
SK Telecom	Korea	Telecoms	2.7%
Matsushita Electric	Japan	Electrical Equipment	2.7%
Siemens	Germany	Electrical Engineering	2.3%
Linde	Germany	Chemicals	2.0%
Kyocera	Japan	Electrical Components	2.0%
JD Edwards	US	Enterprise Software	1.9%
TOTAL			**26.6%**

Changes to the Portfolio

The challenge over the period was to take advantage of the exponential rise in share prices of "new technology" stocks whilst at the same time not losing sight of the need for companies eventually to establish fundamental value. Fortunately, we have been well represented in the Information technology and telecommunications sectors from an early stage. As the share prices of many of these companies have doubled or more over the past twelve months, often on changes of perception rather than corporate development, we have gradually taken profits and reduced exposure to companies such as DoCoMo, DDI, Ericsson and Alcatel.

The portfolio analysis by business activity pinpoints our actions. There has been a gradual shift out of the very hot areas of telecoms and IT software towards the hardware facilitators and also to the traditional "old economy" companies. In the arena of hardware, we have bought companies such as National Semiconductor, American Xtal, Seagate and AMD. We have found that as investors have fallen over themselves to play "tech", those companies that are going through product transition or a temporary dull patch get unfairly punished. This was the fate of AMD as investors lost faith in the face of Intel's remorseless onslaught. However, by developing a completely new logic chip and producing it to low tolerances, AMD is now challenging Intel's dominance in processing speeds and is gaining market share. Our other purchases display similar mis-matches between investors' perceptions and each company's market position.

In our last report we enthused about the prospects of the enterprise software companies. We highlighted the important role that these firms would have in the post-Y2K period if e-commerce was to flourish. However, in some instances the shares have seemingly moved ahead of themselves. i2 is a case in point where the share price has risen from $34 last July to its present level of $250 per share. We have been steadily selling the shares once they rose above $90 and finished our selling program at $200.

To the extent that we look at the portfolio on a geographic basis, it might be described thus: information technology holdings are concentrated in the US, telecoms in Asia and cyclical type of companies in Europe. As we have sold down the telecom equipment companies (Ericsson and Alcatel) we have been adding the likes of Akzo, Bayer, Linde and Stinnes. These companies are deeply unfashionable at present but nonetheless have dominant positions in parts of their various businesses, have a history of continuous growth, even through the recession of recent years and continue to work assiduously on their costs and asset utilisation.

We see Euroland entering one of the most positive cycles in recent history as increasing attention is being paid to supply-side reforms now that member countries no longer have individual control of their interest rates and exchange rates. The reduction of government deficits has ceased (this acted as a drag on activity) and traded goods prices are no longer falling (thereby improving the pricing power of companies). Importantly, the service sector faces significant price erosion with costs of electricity and telecom services falling significantly. This will have the affect of keeping downward pressure on general price levels and obviate the need for the European central bank to aggressively raise interest rates. Further, credit reflation, rising optimism and surging exports, aided by a weak Euro, will allow economically sensitive companies that were on the receiving end of deflationary pressures to benefit over the next two to three years.

Currency

Presently 46% of assets are hedged into A$; a further 21% remain in Euros, Pounds and Swiss Francs, 20% are in Yen and the balance, 13%, are in US$ and related currencies.

Commentary

Investors with broad market experience will probably find this to be the most exuberant bull market in memory. The narrowness of the advance, being led by the technology shares; plentiful credit; the excitement of the new paradigm with its seemingly boundless opportunities, sufficient to dull one's critical faculties; the alchemy that allows newcomers to create fortunes almost overnight and the willingness of investors to pay up for promise, *on the basis that it is different this time,* all point to a classic bubble.

Consider for example in 1991, Microsoft was well recognised as an exciting company with a virtual monopoly in the fastest growing industry in the world. Its market capitalisation was $10 billion on annual sales of $1.8 billion and net profits of $462 million. In 2000, i2 (mentioned above), is capitalised at $20 billion on projected annual sales of $850 million and profits of $80 million.

Jonathan Wilmot, a global strategist with CSFB, puts it well "...factoring the technology revolution into stock-price performance is not a question of tidy, sensible valuations, but rather a chaotic discovery process that will eventually sort-out a relatively small number of huge winners from the hopeful crowd". He then takes readers through the economics of winning technology companies with s-curves and steep start-up hump curves and so forth, which indeed is the way of the e-world. What none of us can know is when expectations exceed what is likely to be delivered.

The same sort of problem prevailed in the early 1970s during the "Nifty Fifty" bull market. This group of branded goods and information technology companies outperformed the general index for 5-6 years and *peaked* in mid-1970 yet their combined earnings continued to rise faster than the market average for the subsequent 17 years! Some of the super heavy-weights of that era such as Disney and McDonalds achieved earnings growth of twice that of the S&P index over the subsequent 27 years and yet *still underperformed the market over that period!* In short, it is not so much the potential of the present era that is the question, but the price we should pay for the promise.

The concentration of assets and flows into the hands of leading fund managers is accentuating price movements. Strange as it may seem to lay investors, once a company has a capitalisation in excess of US$10 billion, it attracts the interest of large capitalisation managers. This factor is made all the more important when a stock is included in the index against which they are measured. There tends to follow a buying splurge as these managers seek to re-weight their portfolios to include the new entrant.

Having said all of the above, it remains likely that the scale of the opportunity, the sheer excitement of the daily announcements and the plentiful supply of credit will lead to further advances on Nasdaq, probably after a short period of indigestion. How do we participate? The nature of the present market tends to reward slow sellers but our predilection for allowing a margin for error and to try to identify factors that are not common currency does test our mettle. Hence we are re-entering segments of the "old economy" that will not necessarily surrender their share of the cake – to the benefit of the "new economy" - and indeed will continue to earn attractive returns on capital employed. Over the coming months we are likely to build these investments at the expense of those IT and telecom stocks that have risen to such extreme valuations.