investor
REVIEW
MAY 2000

PLATINUM
ASSET MANAGEMENT

MLC - Platinum Global Fund

QUARTERLY REPORT
AS AT 30 APRIL 2000

Performance

Fund Size: $905mn	Last Quarter	Last 12 months	% pa Compound Return over 5 years	Return Since Inception
MLC-Platinum Global Fund	4.3%	54.4%	24.0%	245.6%
Morgan Stanley Capital International World Index (Accumulation)	12.2%	27.5%	22.4%	202.6%

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, reality eventually caught up with over exuberant expectations in late March, prompted by rising rate expectations and adverse utterances by the US Justice Department against Microsoft. 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.

For the three months to April, the MSCI rose by 4.8% but when expressed in the weak Australian dollar, the equivalent figure was 12.2%. The rise was led by a strong showing on Wall Street, up 13.5%, and mirrored in Europe; Japan was a laggard, rising only 6.6%, while the smaller peripheral markets tended to lose favour with the likes of Korea down by nearly 7%. This divergence in geographic performance has not suited the Fund with its continued short position against the S&P and the Nasdaq 100 index and large exposure to Japan. Also contributing to the quarter's under-performance has been the maintenance of the 40% hedge back into the Australian dollar. The Fund has nevertheless outperformed the MSCI by a factor of two over the last twelve months.

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. We also cut our exposure to telecoms by selling NTT Mobile, Korea Telecom and Hanero Telecom. In the booming conditions, several long standing, and highly rewarding shares were also sold and these included Manugistics, WPP and Lagardere, Nippon Electric Glass and Seagate. Purchases were made in the integrated chip (IC) area through Galileo (network IC's), Shinko (leading chip packager), Dupont Photomasks, Silicon Valley Group (chip production equipment) and Anritsu (electronic testing equipment). However, the main thrust was to add to "old economy" companies like Bayer, Linde, Akzo Nobel, Stinnes, Schindler, Wella, Pernod Ricard and Nordic Baltic Holdings. Each of these companies has the prospect of strong profit growth on the back of buoyant economic conditions.

The change in the emphasis of the portfolio is shown on the following page.

Report from Platinum As

PORTFOLIO ANALYSIS OF BUSINESS ACTIVITY

		April 2000	January 2000
Telecoms & Equipment	DDI, NTT, GTE, Ericsson, Alcatel	13%	15%
Manufacturing	SIG, Schindler, Linde, Bayer, Akzo Nobel	13%	11%
IT Software	JD Edwards, Baan, Novell, PeopleSoft	11%	9%
IT Hardware	Toshiba, Fujitsu, Samsung Electronics, AMD	9%	11%
Finance	Nomura, Daiwa and Nikko Securities, Toro, Nordic Baltic	9%	8%
Medical	Acuson, Diagnostic Products	6%	7%
Consumer Electrical	MEI, Sony, Citizen Watch	5%	8%
Consumer Goods	Unilever, Wella, Lotte Confectionery, Coke Bottlers	5%	4%
Services	Kuhne & Nagel, Stinnes	4%	8%
Retail	Rinascente, Douglas, Hornbach, Escada	3%	3%

Currency

Presently 41% of assets are hedged into A$; a further 35% remain in Euros, Pounds and Swiss Francs, 11% are in Yen and the balance, 13%, are in US$ and related currencies. We have been surprised by the weakness of the A$ but believe that the slowing of the domestic economy following the introduction of a GST in July, may ameliorate some of the downward pressure on the currency.

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

DISPOSITION OF ASSETS

Region	30 April 2000	31 January 2000
Japan	32.8%	37.7%
Western Europe	25.4%	23.0%
North America	16.3%	14.3%
Other Asia	6.6%	9.6%
Australia	0.3%	0.3%
South America	0.2%	0.2%
Cash	18.4%	14.9%

TOP TEN HOLDINGS

Stock	Country	Industry	Holding
NTT	Japan	Telecoms	3.3%
Advance Micro Device	US	Semiconductor	3.2%
Matsushita Electric	Japan	Electrical Equipment	2.6%
Nikko Securities	Japan	Securities	2.5%
SK Telecom	Korea	Telecoms	2.4%
Siemens	Germany	Electrical Engineering	2.3%
PeopleSoft	US	Enterprise Software	2.2%
Nippon Broadcasting	Japan	Broadcaster	2.1%
Citizen Watch	Japan	Consumer Goods	2.0%
Sony	Japan	Electronics/Entertainment	2.0%
TOTAL			24.6%

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 Technologies 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. Having just witnessed a Fed Fund rate rise to 6.5%, the view could make the rounds that Mr Greenspan can now follow a more lenient line on rates thereby facilitating a "soft landing" – particularly so if the weak tech sector filters through to slow consumer demand.

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, over 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.

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. However, a rise in interest rates in the US will be a test for the Asian economies where there is still much financial rebuilding to be done. In addition, the region's dependence on exports, and electronic goods in particular, does raise its vulnerability to potential consumer retrenchment in the US.

Distribution

This year's distribution is abnormally large on account of our realising profits to "lock-in" some of the abnormal valuations that have been ascribed to shares within the portfolio.

Conclusion

The rotation back towards "old world" companies, even though valuations are highish, suggests the investors are still reluctant to leave the market, perhaps reflecting the thoroughly 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. One such company that found themselves neglected was Advanced Micro Device.

Advanced Micro Device (US)

Advanced 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* has awarded Platinum Asset Management their 1999 Fund Manager of the year award for International Equities.

Kerr Neilson
Platinum Asset Management

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

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