managing customer and supplier relationships rather than internal processes such as human resources. Given this "outward" focus it became necessary to "web-enable" software applications so that they could be accessed over the internet even if they were not loaded on the individual PC (ie. by using a web browser). Peoplesoft, along with the other leading enterprise software companies, saw sales of new products collapse and profits disappear.

In May 1999, Craig Conway joined the company, initially as chief operating officer and then as CEO. Conway's history included eight years at Oracle in senior sales and marketing roles as well as with two successful software start-ups. The critical decision was made to "redesign" all of Peoplesoft's applications completely so that they could be accessed through a web browser. This was a significant effort that required rewriting over 30,000 screens and a research and development investment that absorbed over 25% of revenues during the last year. The other important development was the acquisition of Vantive which was the number two player in customer relationship management (CRM) software, one of the new fast growing areas. The company also partnered with Commerce One to develop e-procurement software used by companies to hook into business to business electronic exchanges. Peoplesoft continued to develop new applications in areas such as supply chain and analytics.

This effort culminated in the launch of Peoplesoft 8 in July 2000, a suite of web-enabled applications addressing both traditional and new fast growing segments. The company is well positioned versus its traditional competitors who are at the very early stages of re-writing applications for the web or still struggling to enter new areas such as CRM. Versus the many new entrants in the software market, not only does the company have an already profitable and cash-flow positive business, with cash balances in excess of $600 million, but it also has the advantage of a significant existing and highly satisfied customer base. The last stages of the turnaround are now under way with the company building up its sales force for the launch of Peoplesoft 8.

Platinum initially purchased Peoplesoft during 1999 at prices around $15. The stock price then ran up with the explosive take-off in technology and telecom stocks only to return to $15 in the second quarter sell off. By this stage, the "bull case" had become even clearer with the development of Peoplesoft 8 near completion. At this point, Platinum doubled its position in the stock. At $15 the company was valued at just over twice revenues which are expected to grow at a rate of 30% for at least the next three years. Meanwhile, major competitors such as Oracle are valued at almost 20 times revenue while growing at similar rates (at best). Subsequent to our recent purchases the stock has moved up to over $43 following increased recognition of the prospects for revenue growth post the launch of Peoplesoft 8.

Kerr Neilson

Managing Director

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

MLC Customer Service on

131 831

from anywhere in Australia or

0800 442 550

from New Zealand or

61 2 9466 7114 from overseas

www.mlc.com.au

MLC
PLATINUM
ASSET MANAGEMENT

investor
REVIEW
NOVEMBER 2000

MLC - Platinum Global Fund

QUARTERLY REPORT

Performance as at 31 October 2000

Fund Size: $1.13bn	Last Quarter	Last 12 months	% pa Compound Return over 5 years	Return Since Inception
MLC-Platinum Global Fund	7.4%	44.1%	25.0%	246.5%
Morgan Stanley Capital International World Index (Accumulation)	7.4%	24.3%	23.7%	220.5%

The Fund has been performing well with a 12 month gain of 44.1%. Part of the gains have come from a weaker A$, but for the most part it has been good stock selection and the profitable use of derivatives.

As noted in the last quarterly, Platinum Asset Management is prepared to go against the mainstream and will use cash and derivatives in an attempt to protect unitholders from loss. During the quarter we introduced short positions against the Nasdaq index and subsequently closed the position at a good profit. We continue to run a short position against the S&P500 index in the belief that many highly weighted companies in that index are still trading well above their intrinsic value.

An area where we performed poorly is in currency management. As you will be aware, we take on the responsibility of adjusting the currency exposures according to our evaluation of exchange rates. With this in mind, we have continued to hedge our US$ and most of our Japanese Yen exposure back into Australian dollars.

As the A$ has progressively fallen over the last 12 months, we have consequently foregone the potential gain from this move. The holdings in Euro have hardly helped as it has been nearly as weak as the A$. Presently 40% of assets are held in A$; 39% in the Euro, Pound and Swiss Franc; 3% in Yen; 4% in Won and the balance, 14%, in US$.

We constantly reassess our currency posture and are unable to find a convincing case to change it. Our sense is that the A$ and Euro are close to their bottom and many of the arguments we now hear against these currencies have a vacuous ring. In particular, the US$ is highly dependent on foreign investment flows to compensate for the yawning trade gap. The currency is floating on a tidal wave of foreign inward investment which totalled an annualised $700 billion in the first six months of this year – equivalent to 7% of US GDP. Part of this flow represents the force of globalisation; as Euro-based firms choose to bolster their US presence by way of corporate acquisitions. In addition, the depth and breadth of the US equity market has enormous attractions to foreigners. A loss of momentum of the deals and/or flows or worse still, a reversal of flows, would have a damaging effect on the exchange value of the US$.

Looking at the very short term, the last quarter has been poor for shares. All the major markets fell when expressed in home currencies, except for the UK which rose by 2%. These figures however belie extraordinary turbulence within each market. In particular, there has been significant decay in the value of so-called "new world" companies, while the "old world" has made a strong come-back. So for example while the S&P500 index was down by only 0.1%, the Nasdaq index was off by 10.5%. In A$ terms, the overall picture is brighter, because of the weak A$ and hence the positive reading in the table above.

Report from Platinum Asset Management (Continued)

PORTFOLIO ANALYSIS OF BUSINESS ACTIVITY

Categories	Examples of Stock	Oct 2000	Jul 2000
Cyclicals	RMC, Akzo, Bayer, Linde	15%	12%
Technology Hardware	Toshiba, Samsung, National Semi, AMD, Fujitsu	13%	11%
Telecoms	NTT, DDI, SK Telecom, Lucent	11%	14%
Software & Media	Novell, Peoplesoft, Nippon & Tokyo Broadcasting	8%	9%
Medical	Draegerwerk, Medison, Merck KGaA	8%	5%
Retail/Services/Other	Hornbach, Raytheon, Loewes, Stinnes	8%	7%
Consumer Brands	Lotte Confectionary, Japanese Coke Bottlers, Adidas Salomon	7%	6%
Financials	Japanese Brokers, Nordic Baltic Holdings	6%	8%
Consumer Durables	MEI, Sony	6%	7%

Changes to the Portfolio

The main themes we are pursuing are convergence of valuations; capital starvation in "old world" industries and the peaking of interest rates. This has led us to sell most of our remaining highly valued tech stocks like Alcatel and JD Edwards and to add to our holdings in the "old world" with companies likes Mitsui OSK (shipping), LG Chemical, Schindler and UPM (paper).

Financial companies tend to benefit from a peaking of interest rates. This should help recent additions like Nordic Baltic holdings (banking) and MBIA (credit insurance).

Reinforcing our view of convergence of valuations (ie. the "old world" being cheap in relation to the "new world") is recent corporate behaviour.

The change in the emphasis of the portfolio is shown below.

DISPOSITION OF ASSETS

Region	31 October 2000	31 July 2000
Western Europe	31.6%	30.5%
Japan	22.5%	26.7%
North America	22.3%	19.5%
Emerging Markets	4.7%	5.4%
Australia	0.3%	0.0%
Cash	18.6%	17.9%

The fund's short position is 9% against the S&P500.

Commentary

"Priced for perfection" has been a frequent description of stock valuations over the last two years. Productivity has certainly improved; inflation has been remarkably subdued, and now with the slowing of the US economy, the threat of more expensive money is in abeyance. However, two imperfections have arisen. The oil price has risen sharply and the weak Euro, which was initially shrugged off, is having unexpected consequences.

The current oil price movement is not far short of the spike experienced during the first shock of 1973. A price of some US$30 per barrel is nearly three times that of January 1998 and the average oil price for this year will probably be twice that of 1999. The consequence of earlier shocks was to drive the world economy into recession. This time around, the benefits of lower oil dependency, broad technology-led growth, a milder inflationary undertone and a somewhat less panicky consumer response should militate against too dramatic an impact. OPEC is seemingly less belligerent too and has agreed to bolster its production by a total of 3.2 million barrels per day, a rise of over 11%, and equivalent to approximately 4.2% of world consumption. However, because of bottlenecks throughout the supply chain and the desire by some to increase their national strategic reserves (China, Korea and Poland), it looks unlikely that the oil price will recede below $30 for some time.

That this will have a negative impact on consumer spending is clear. Furthermore, unlike the 1973-74 episode when inflation was prevalent, the ability of firms today to pass on cost increases is much reduced so one must expect compression of companies' profit margins.

The weak Euro is exacerbating these cost pressures as oil is priced in US$. Since its formation in January 1999, the Euro has depreciated by 25% versus the US currency. European companies are feeling the squeeze through higher prices for fuel, chemicals, plastic packaging etc. For American based multi-nationals there is the added damage of European-sourced profits being translated into fewer US$. Hence the profit warnings from Gillette, P&G, DuPont et al.

As signs of an economic slow-down become more evident so investors are increasingly sceptical about the growth promised in the valuation of tech and other highly rated stocks. Business computers and peripheral equipment already account for $60 out of each $100 spent on durable equipment in the US versus $10 in 1975. The market may well be readying itself for a reassessment of the further growth in IT spending and, by extension, the valuation of the sector. We believe the earning warnings by Intel, Apple, Dell & Co are precursors of this adjustment.

In their search for new opportunities, investors have rotated into financials and utilities although other areas that have historically proved attractive refuges have not benefited. Pharmaceuticals are under pressure from Mr Gore's populist promises; consumer goods are suffering from having already achieved the benefits from improved systems and upward pricing drift and now face more difficult times in the face of limited volume growth combined with cost pressures. Retailers are likewise facing a less buoyant future as a result of the legacy of earlier large additions to selling space and a fickle public. Marks & Spencer, the venerable UK-based store group epitomises these problems aggravated by the additional burdens of complacency and arrogance. Changing shopping patterns are taxing even the more agile groups including Gap and Hennes & Mauritz. After years of continual growth, they are struggling to read consumers' present desires. Adding to their problems is convergence of shopping habits and the frightening prospect of Walmart adding 40 million square feet in 2001 – 8% of its current selling space. For perspective, one million square feet is the equivalent of a good sized regional shopping centre.

Even though there is significant rotation, there is still a massive difference in the valuations between so-called "growth" and "value" stocks. Recent work by Goldman Sachs on their global universe of 1,300 companies shows how the valuation of "growth" stocks has moved up from 22 times earnings in 1991, to 57 times now, while "value" stocks have remained on PEs of 11 times. Goldman calculates that the "growth" shares are priced with the expectation of 15% pa cash flow growth over the next 15 years compared with a 2% pa rise for the "value" stocks. This differential is at an extreme; the past ten years' earnings record of the "value" universe has been 8% pa, while the "growth" universe has achieved 19% pa.

It would be surprising if the valuation gap doesn't narrow. It is common to hear financial commentators referring to respectable, if unexciting companies, as "dead money". This ignores the fact that it is precisely these companies that are the target of take-over bids. In the last few months, we have received bids for three of our holdings, Acuson, Silicon Valley Group and Toro simply on the grounds of industrial logic. These bids were pitched at up to 60% above the prevailing market price. This process can be expected to continue as globalisation favours size and reach. On a risk-adjusted basis we would rather place our bets on industrial logic than investment fashion.

Optimists who favour the high valuation segment continue to point to the strong inflows into mutual funds and the evident growth prospects that result from the internet revolution. We have no argument with either of these observations other than to point to supply. Investment bankers have hardly been idle of late, recommending to their clients all manner of schemes that will supposedly unlock shareholder value. Tracking stocks are all the rage but more delicious still is the prospect of listing small in-house technology hot houses in the belief that their listing will unleash an even greater level of animation on the part of shareholders.

Conclusion

The valuation of shares remains highly dichotomous although reservations are emerging as to the business dynamics and valuations of many high-tech companies. Companies with poorer growth prospects such as chemicals, paper, forest products and construction materials, are back to the levels of 6-8 years ago.

We believe there will be further erosion in the valuation of high growth companies but that there is a large constellation of opportunities in the middle ground. These are generally smaller companies that have the ability to achieve growth and yet are priced to deliver almost none.

Stock Story – Peoplesoft (US)

Peoplesoft was one of the early providers of software products designed to run on networked PC's (known as a client-server environment) that could be used by large companies to run their businesses. Peoplesoft built leading positions in human resources and financial applications while competing against companies such as SAP and Oracle. From 1993 to 1998, revenues increased more than twenty fold to over $1.3 billion.

Two major problems appeared in early 1999. Companies started to cut back on software purchases, having already completed year 2000 remedial work on their IT systems. Then the focus of corporate IT spending moved to the internet and companies became more focused on spending on "outward facing" applications that concentrated on