such a group would be well into 30 times earnings which we judge to be highly priced in a slow growing world *sans* a mild inflationary lubricant. Duller companies, which includes commodity and other cyclical companies, are generally more attractively priced and as we have noted before, smaller companies tend to be cheaper than the leviathans. We cannot identify those circumstances that are sufficiently helpful to allow leading big cap shares to trade on valuations that prevailed at the peak of the tech mania when everything basked in a golden light. At the very least, we cannot know that the world economy will recover strongly and that we will quickly return to peak margins. The positive argument that interest rates are so low that people feel compelled to buy shares is not durable. If indeed the world quickly resumes its traditional growth path, there would need to be some strange circumstances for capital to remain so cheap (ie. for interest rates to stay so low). These circumstances could relate to lopsided growth; to deflationary pressures; or something else that is some how asynchronous. We doubt such a scenario would be durable. One almost senses that market participants have transferred their affection away from the tech heroes to large multinationals and are spurning the small but vibrant companies.

We believe the most plausible reason for the high valuations of many large cap firms is the strong institutional bias of today's markets and the view that in difficult times, the giants will prevail. The problem with this stand is that there are other investment opportunities and while the giants may prevail, they are unlikely to ever attain the profitability levels imagined during the bubble.

Trying to read the daily ebb and flow of markets is exhausting and not very profitable. We know that by focusing on those parts of the market that are being neglected we have some chance to bring order to our investments and profit to our investors. However to do this, one needs to keep tabs on momentum and exaggerated enthusiasm.

Conclusion

We will be closely watching the employment, credit and consumer confidence figures in the USA. In the panic we were able to acquire some excellent businesses at modest valuations but there were many more whose prices did not promise an attractive return over the next three to five years. Even if the world economy does all the good things that the perennial optimists would wish, that may not be sufficient to justify the hope embedded in many share prices. For those who believe this is the beginning of a new bull market, we would caution that this would be the first to begin with a valuation of say 25 times forecast 2002 earnings. In other words, a price earnings ratio some 60% above the fifty year average.

Kerr Neilson
Managing Director
November 2001

Platinum Asset Management 1999 and 2000 Fund Manager of the Year for International Equities Money Management and Assirt.

If you have any questions about your investment in the MLC – Platinum Global Fund, please contact
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investor
REVIEW
NOVEMBER 2001

MLC
PLATINUM ASSET MANAGEMENT

MLC – Platinum Global Fund

QUARTERLY REPORT

Performance (to 31 October 2001)

Fund Size: $1.66bn	Last Quarter	Last 12 months	% pa Compound Return over 5 years	% pa Return Since Inception
MLC-Platinum Global Fund	-3.6%	-8.0%	21.6%	17.1%
Morgan Stanley Capital International World Index (Accumulation)	-11.1%	-23.5%	14.8%	13.0%

It has been a most testing quarter. The extent to which shares were seemingly indiscriminately sold was alarming but this also gave rise to some good buying opportunities. Strangely, there seems to have been more of a selling panic in Europe than the USA at the height of the uncertainty late in September. For the period, the MSCI World index declined by 11% in A$ terms. All of the ten designated sectors within the MSCI were negative for the period: consumer discretionary fell the most, -20%; followed by information technology -16%, industrials -15%, telecommunications -13% and financials -12%. Compared to these outcomes, the Fund's performance was relatively satisfactory even though it lost 3.6%. Mitigating the severe markdowns to some of our holdings, which are viewed as sensitive to a recession, was the strong performance of several holdings that benefit from the present uncertainty, such as defence and gold shares.

Changes to the Portfolio

On a geographic basis there was a slight drop in our exposure to the US and Japan while slightly more funds were employed in Europe and developing markets. Some of the new inflows were left in cash.

The small change in the US masks considerable activity. At the beginning of the quarter we continued to reduce the tech stocks that we had bought in the previous six months, like Peoplesoft and Foundry Networks, only to repurchase these at much lower prices at the end of the quarter, together with other tech names such as Parametric. We continued to add to i2 Technologies, Agere Systems and to some of our non-tech holdings. While we are very aware that there was a super-cycle in tech capital spending, and that capex will be subdued for some time to come, we believed this was adequately reflected in the weak share prices.

In Japan, we chose to surrender some long-held shares such as Fujitsu, Nomura and KDDI to build larger holdings in NTT, Toshiba, MEI and Furukawa. The latter is an interesting example of the market severely punishing a capital spending sensitive company. Furukawa which manufactures optic cable and components has now fallen 80%, back to its pre-boom base, having once enjoyed the reflected glory of JDS Uniphase (optic components) of which it owned nearly 20%. However, in the meantime it has sold down part of its JDS holding, raising some US$2 billion and used this to acquire the optic cable interests of Lucent. Yes, spending on cable will fall precipitously but along with this purchase, Furukawa acquired cross licence technology rights with Corning and was buying from a forced seller. In earlier negotiations, Lucent had been hoping to raise US$5.5 billion but both Perelli and Alcatel withdrew. Furukawa has agreed to pay US$2.5 billion for this business (and may pay less)

Platinum Global Fund Quarterly Report (Continued)

Disposition of Assets

Region	31 Oct 2001	31 Jul 2001
Western Europe	40.2%	39.4%
North America	16.8%	17.0%
Japan	15.2%	15.4%
Emerging Markets (including Korea)	14.8%	12.7%
Australia	1.2%	1.3%
Cash	11.8%	14.2%

The fund has a short position against the S&P500 index of 8%.

and this places them as the principal supplier after Corning. The shares at ¥680 are priced as they were before the boom and before it had enjoyed the windfall gains on its trade investment in JDS Uniphase, worth approximately ¥400 per share.

In Europe, we sold out of Diageo, Wella and reduced the Halifax position. The defensive qualities of these companies were being priced at a premium. Halifax has now merged with Bank of Scotland and our original case has been largely realised. We continued to add to existing positions and introduced Novozyme, the world's leading industrial enzyme producer, and Mediaset. This Italian media giant accounts for about 44% of the free-to-air TV audiences with its three channels and 66% of TV advertising spending. Along with other media plays it was hammered as the fairy dust of the internet settled and as growth expectations have shrivelled. It fell back to valuations that reflect the impending contraction of media spending and very little recognition was being given to its dominant position and its ability to generate free cash flow. It has subsequently recovered strongly.

Currency

The US$ has been remarkably resilient in the face of the assault of 11th September. Apart from a temporary strengthening of the Yen which experienced strong demand as money was funnelled home in response to uncertainty and mid-year repatriation, the currency markets were pretty uninteresting. At quarter end we were long A$ to 43%; Euro/Swiss Franc 43%, with the balance reflecting small positions in the US$, Yen and Won.

Commentary

The attack in the USA on 11 September exacerbated what we believe was an already deteriorating economic picture. The appalling loss of life and destruction has escaped no one's attention. What is more difficult to gauge is the likely impact on the behaviour of ordinary citizens. Regular readers will know of our deep concern about the rise in the use of debt, by both companies and individuals.

To appraise the current economic situation, many commentators focus on the historic pattern of economic adjustment and the swiftness of the response by the Federal Reserve Board. The Fed funds rate has now been cut by 4.5% since January to 2%, which reduces the cost of money to below the current inflation rate of 2.7%. There is an overwhelming belief that lower interest rates will promptly and significantly turn confidence around, even in the face of companies laying-off supposedly surplus workers. Admittedly the change in US employment is still relatively low, some half million workers, but the populace is made keenly aware of these actions as the media almost delights in trumpeting the startling scale of lay-offs by some companies - Boeing being conspicuous with its 30,000 slash. Given the prior commitments of the average family, corroborated by rising delinquencies and foreclosures, we believe that consumers will draw in their spending. The economists' term for this is a 'rise in liquidity preference'. Simultaneously, companies are entering a slow environment with all the capacity they need. The remaining impulses could come from an improvement in exports and increased spending by the Government. For the moment, however, the reduced cost of money and aggressive promotion of interest free deals by the auto companies is showing through with a remarkable recovery in the retail sales reported for October.

The rest of the world has also been feeling the consequence of US order cancellations and de-stocking. Euroland has been very disappointing as exports have slowed and private consumption has barely increased. Asia is in a similar predicament. We, along with others, have been dismayed by the lack of progress with the Japanese reform program. Ironically the social contract which requires firms to honour employment obligations may prove helpful to sustaining private consumption but at a heavy cost to industry. Essentially the social burden of over-employment is at the cost of company profitability.

When you looked at the value of your share investments at the end of September, you would have known that share markets were gripped with fear. The Japanese market was at a 17 year low, the French and German markets were about half the value of March 2000, while London and New York were down some 30%. The puzzle was that the European markets were showing much smaller changes in expectations about company profits and yet have fallen more than the US. The consensus is for earnings in Europe ex-UK to drop by 9% this year followed by an 8% increase in 2002. The same figures for the US are respectively -21% and +10%. Even prior to September, the consensus was for European earnings to be less affected than those of the S&P500 index.

As the effects of the shock have subsided and the retaliation has met with growing success, the markets have recovered strongly. With few exceptions, all major markets are now above the levels of 11 September. Investors have clearly taken the view that lower interest rates and an increase in government spending will sustain consumer optimism and prevent a decline in overall economic activity.

The way market professionals describe the recent stockmarket behaviour is that investors have been "climbing the wall of worry". Our reading is that we are close to ending this phase of the bounce-back from what were highly distressed levels. We see this in the very strong recovery in both media and technology companies that we bought in late September. These shares were then trading at valuations not seen for several years and made sense so long as there was not a protracted downturn. At current valuations they are far less compelling and in some instances we are gradually reducing these positions. In some cases perhaps a little early!

Apart from the concerns we have expressed earlier, the biggest difficulty we face in managing your savings is the high valuations being ascribed to many large capitalisation companies. Having trawled through our list of mouth-watering businesses, we are disappointed with the scant catch. Here we are assessing highly defensible franchises that can be expected from past experience to become bigger and stronger over the next few years. The average price earnings ratio of

Breakdown by Industry

Categories	Examples of Stock	Oct 2001	Jul 2001
Cyclicals/Manufacturers	RMC, Akzo, Bayer, Linde, Océ	24%	19%
Technology Hardware	Toshiba, Samsung, AMD, Foundry	15%	16%
Retail/Services/Logistics	Hornbach, Jones Lang LaSalle, Fraport, Stinnes	10%	12%
Financials	Lippo, Deutsche Boerse, Nordea, HBOS	10%	11%
Consumer Brands	Coke Bottlers, Adidas Salomon, Lottecon	7%	10%
Telecoms	NTT, Verizon, Korea Telecom	7%	7%
Software & Media	Mediasat, Novell, Peoplesoft, Nippon Broadcasting	7%	5%
Medical	Draegerwerk, Merck KGaA, Novartis	5%	3%
Gold and Other	Gold Fields, Newmont Mining	3%	3%