MLC
A National Company
PLATINUM ASSET MANAGEMENT
investor REVIEW
MAY 2002

MLC – Platinum Global Fund

QUARTERLY REPORT

Performance (to 30 April 2002)

Fund Size: $2.32bn	Last Quarter	Last 12 months	% pa Compound Return over 5 years	% pa Return Since Inception
MLC-Platinum Global Fund	7.3%	4.9%	22.4%	18.0%*
Morgan Stanley Capital International World Index (Accumulation)	-5.7%	-18.0%	12.1%	11.7%

*** The inception date for the MLC-Platinum Global Fund was 23/06/1994**

Markets cast off some of their doubts as the quarter progressed and then swooned. The table below highlights investors recent preference for cyclical areas, such as energy and materials, but also shows that they hedged their bets by staying with consumer staples. The massive debt burden taken on by the telecom companies when they bought competitors and bid for third generation mobile licences continued to weigh heavily on their share prices. The IT sector also suffered as expectations of a cyclical rebound wilted in the face of the reality of the magnitude of the over-investment during the tech bubble.

MSCI World Index – Industry Breakdown (A$)

Sector	3 months	1 year
Information Technology	-21.6%	-35.7%
Telecommunications	-20.9%	-43.8%
Health Care	-7.9%	-11.3%
Industrials	-5.5%	-22.0%
Consumer Discretionary	-3.5%	-18.7%
Financials	-1.1%	-14.0%
Utilities	-0.5%	-22.2%
Materials	0.9%	-6.4%
Energy	1.6%	-12.2%
Consumer Staples	4.1%	4.7%

Against an overall decline by the MSCI for both the quarter and the year (of -5.7% and -18% respectively), Platinum's performance is pleasing (at +7.3% and +4.9% respectively). The main driver of this outperformance was the application of cash balances after the Trade Centre attacks in September. Some of this money went into previously owned tech shares but these were resold by early December so your fund has largely escaped the carnage within the IT/telecoms sectors. We have also made very substantial returns from aggressively positioning the fund in Korean shares when that market was out of favour some 12 months ago. Fossicking among depressed gold shares was rewarded and our overall currency positioning has been sound. Short selling the S&P 500 index also contributed to the return. However, of the 23% outperformance over the last 12 months, this short position contributed only 1.5 percentage points. The real difference came from having a completely different mix of companies than the field (≡ index). Our portfolio tends to have smaller capitalisation stocks which have way outperformed the highly popular large capitalisation stocks.

Platinum Global Fund Q

Disposition of Assets

Region	April 2002	January 2002
Western Europe	39.7%	42.0%
Japan	15.6%	15.8%
North America	14.3%	16.0%
Emerging Markets (including Korea)	14.1%	16.6%
Australia	1.3%	1.0%
Cash	15.0%	8.6%

*** These asset allocations may differ to those stated by MLC due to cash flow timing.**

Breakdown by Industry

Categories	Examples of Stock	April 2002	January 2002
Cyclicals/Manufacturers	RMC, Bayer, Linde, Océ	23%	24%
Retail/Services/Logistics	Hornbach, Jones Lang LaSalle, Fraport, Stinnes	11%	13%
Technology Hardware	Toshiba, Samsung, AMD, Foundry	11%	9%
Consumer Brands	Adidas Salomon, Lotte Confectionary	9%	12%
Financials	Deutsche Boerse, Alleanza	9%	9%
Software & Media	Mediasat, Novell, Nippon Broadcasting, Seoul Broadcasting	7%	8%
Medical	Draegerwerk, Merck KGaA, Novartis	6%	8%
Telecoms	NTT, Verizon, Korea Telecom	6%	4%
Gold and Other	Gold Fields, Newmont Mining	3%	4%

The fund has a short position against the S&P500 index of 9.6%.

Changes to the Portfolio

We have been adding to some existing positions while trimming others, notably in Korea, such as LG Chemical, LG Household and Health, and Lotte Confectionery. Other sales were Nordea and Akzo Nobel. There have been four major new names introduced to the portfolio in the last three months: Hagemeyer, Henkel, Michelin and EDS.

Hagemeyer is a very old established Dutch based trading company which went badly astray investing indiscriminantly around the world in the early nineties. There was a change in management some two years ago following which the business was refocussed on its biggest division, electrical wholesaling. This may not normally fire up one's imagination but there is a fundamental need for a stockist/distributor to sit between the manufacturer and the end user. In this case the user is the electrical contractor and the manufacturers comprise the giants of the industry such as Philips, Siemens, GE and Schneider. The really exciting element relates to Hagemeyer rolling out its integrated supply solution. Apart from a general improvement in activity this roll-out should add to earnings quality and growth (see Hagemeyer stock story). The present very low valuation reflects past problems and not present strengths.

Henkel interests us from the restructuring it has done recently and the fact that it now derives over 70% of its sales and profits from branded goods such as Persil washing powder, the leader in the category in Europe. The market is not giving the company the benefit of the doubt and still rates Henkel as a mediocre chemical company. It is also the world leader in adhesives which will benefit from the eventual resumption of growth.

No one can have missed the publicity given to accidents involving the Ford Explorer which caused such animosity between Ford and Firestone. We believe this and the fact that the three major suppliers to the global tyre market are deeply indebted will lead to a significant shift in relationships within the industry to the betterment of profitability. Recent price rises have stuck and there is evidence that manufacturers are prepared to walk away from original equipment contracts if the terms are too pernicious. As the global leader, Michelin is best placed, both in truck and auto tyres.

As many clerical functions take on more of the character of an industrial process so outsourcing gains momentum. In addition, many IT functions can be more readily outsourced and even allowing for the servicers' margin, it can make sense for corporations to cede this task to others. EDS fulfills this roll admirably. At present its share price is being adversely influenced by concerns of off-balance sheet liabilities. We believe these to be over-blown and see the price weakness as a buying opportunity.

Currency

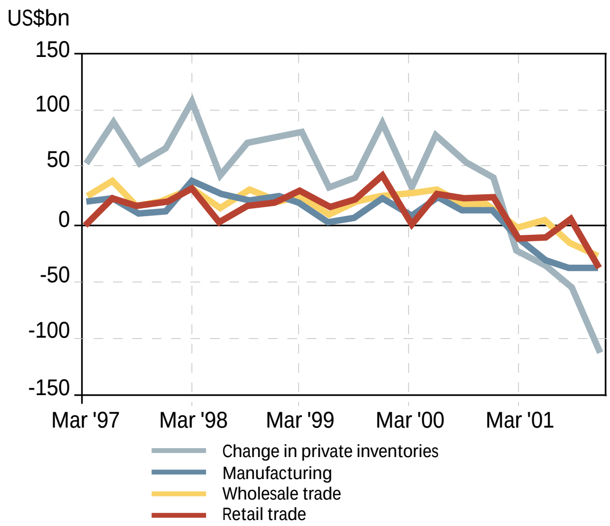
The shift in our currency preference was to add further to our A$ hedging at the expense of the Euro. Nearly 65% of the fund is now denominated in Australian dollars and the balance is largely Euros and Swiss Francs.

Commentary

Low cost money and a restocking of the pipelines was the fuel that investors have been relying upon to reinvigorate the world economy. Up till recently, it looked as though the US economy was gaining momentum. While in Europe, the influential Germany survey conducted by IFO, showed promising signs. This scenario has softened recently as employment growth has proved disappointing.

Some countries, Sweden and New Zealand, have started to lift rates, to fend off inflationary dangers but the leader of the pack, the US Federal reserve board, seems in no hurry. We have voiced reservations in the past regarding the likely power of the recovery. Yes, one can anticipate a lift in factory output as stocks are replenished. The accompanying chart shows the extraordinary level of destocking across the board in the US and highlights the potential of a turnaround. However, in the aftermath of the excess of the last few years, companies do not have the need, willingness and in some cases, money, to spend on new plant and equipment. The burden therefore lies heavily upon the consumer. Low mortgage interest rates and special discounts are helpful but as regular readers will know, we do see the high and mounting level of consumer debt as unstainable. Should unemployment fears rise, the consumer may be less enthusiastic than the optimists believe.

Annualised change of US inventories (Q ON Q)



The piece we wrote last quarter on Enron proved prescient so we do not share the general feeling of surprise and betrayal. We have long bored our readers with complaints of wholesale transference of corporate ownership via vast stock options – which in addition fail to be accounted for correctly. We have complained about accounting practices, dubious recognition of revenues and worse still, the role played by investor relations officers to apply spin at every turn. Another matter that gets less than due coverage is the predilection of investment bankers/analysts to value shares on operating earnings – so called EBITDA (Earnings Before Interest, Tax, Depreciation & Amortisation). This may suit those pursuing M&A fees but does little to inform real investors. The

"D&A" part masks all manner of accounting iniquities and the "I" part confuses the fact that shareholders are the last in line to get free cashflow, the source of dividends, retained earnings and the ultimate reason for INVESTING.

The above comments may not seem important to some but illustrate a system that is facing serious imbalances. The Enron debacle and revelations of dubious associated dealings highlighted the amount of off-balance sheet risk that prevails. This risk becomes more real as interest rates turn and positions have to be covered.

It has been the ability of the Government's sponsored enterprises such as Freddie Mac and Fannie Mae to cope with massive housing mortgage refinancing that allowed the US consumer to fund housing at progressively lower rates throughout the economic slowdown and simultaneously to free up funds for the purchase of other goods. These entities have progressively increased their exposure to interest rate risk and credit risk. They are, in fact, monumental hedge funds with equity gearing of 64 times through their guaranteeing of mortgages against default and their ownership of portfolios of mortgages. (By contrast, a typical bank may lever its shareholder's funds by 12 times). A high proportion of their borrowings are funded short term which at present low rates allows them to make good spreads. To mitigate the risk of a rise in rates they are obliged to be aggressive users of options instruments. As matters stand today a rise in rates need not necessarily cause them great loss but there is no telling whether there will be a period of volatile interest rates nor is one able to predict the behaviour of borrowers. It is difficult to calculate the option premiums they are paying annually but between the two of them it could be as high as US$4 billion. Receiving those fees are investment banks and other institutions. In unstable times these interest rate "insurance policies" could become credit risks as margin calls mount and the credit standing of the investment banks is brought into question (all the more alarming if they face charges and fines for misleading investors).

The important thing for investors to recognise at this point is that the tide may have now turned. Regulation of corporations will become more stringent, money will tighten and input prices may be on the rise. This is the very opposite of the experience of recent years and implies downward pressure on the reported profits of some companies.

As we look at world markets we continue to be attracted to the values we find in Europe. While this economic block may be slower to come out of the trough than the US we are reasonably comfortable the shares we own are realistically valued. Below is Morgan Stanley's price earnings ratio projections for the US, Europe and Japan.

Prospective Price Earnings Ratios

Region	2002	2003	2004
Europe MSCI	18.8	15.8	14.9
US	30.6	24.8	23.4
Japan	24.1	18.7	17.9

We are reluctant to follow the crowd and tilt the portfolio decisively in favour of cyclicals because of the reservations voiced above. We have been adding to companies that are in defensive industries because they are attractively priced but somewhat neglected as investors chase after cyclicals; this is another way to say that the market is already building into cyclicals a fair degree of recovery.

The other fashionable area at present is emerging markets. We see Korea as our representative in this arena though we also have some money in China and India. Some of our Korean shares have been exceedingly strong and as noted above we have tended to sell into that strength. For completeness it should be said that we remain comfortable with our positions in Japan with the caveat that we continue avoiding the Japanese Yen.

Conclusion

It seems likely that the markets will gyrate from optimism to doubt about the degree of recovery over the next few quarters. Valuations are reasonable in some areas but in a broad sense are not compelling, particularly as we believe there will be gradual leakage of funds out of overvalued sectors such as the big capitalisation names and also retailing shares in the US. The predeliction of the giants in the funds management industry to buy the index – which implies owning shares for their place in the index – rather than for their inherent worth – may allow for controlled deflation of share values. We will endeavour to avoid these pitfalls with our stock-picking approach. This methodology pays no heed to the constituents of the index and may give more protection in turbulent markets.

We are proud to announce that for the third consecutive year we have been awarded Fund Manager of the Year for International Equities – 2000, 2001, 2002

Money Management and Assirt

Stock Story – Hagemeyer (Netherlands)

Hagemeyer is a Dutch distribution company specialising in electrical products (anything from warehouse lighting to home security systems), health and safety products (eg. hard hats or protective gloves) and other MRO products (maintenance, repair and operations – anything in an industrial facility which is not for transformation and resale).

With retail the question may be whether a supermarket is merely renting out space to the branded goods purveyors, (or is it selecting, buying, promoting, differentially pricing, and allocating good or bad shelf space etc to goods)? Similarly, the question with the distributors is whether they are mere vassals of Siemens, GE, Philips etc, or whether their role "adds value" and is thus profitable and defensible. Over the last decade or so a shift has occurred from the former ("vassal") to the latter ("value-added crucial link in supply chain"). This shift can be perhaps traced to the disengagement of the manufacturers from distribution. Siemens sold its German distribution business in 2001 to a venture capitalist – its subsequent bankruptcy perhaps suggests there is more to the task than meets the eye! GE is the last of the US manufacturers to have its own distributor (ie. for the US market), but it is only the US #4, it is not so profitable, and its existence probably speaks to GE's proclivity for opacity in pricing and profitability …

But more generally, the emergence of sophisticated software and managerial systems for coping with vast product ranges, diverse customers and the ever-greater demands for quick delivery is requiring the distribution company to become a "logistics" expert. Given a range of say, 60,000 electrical products, for which the demand will be quite different in the various regions of Germany, how many should be stocked at the local Hagemeyer outlet (called a store), and how many should be kept at one of the vast regional warehouses (called a "DC" for distribution centre)? When does it make sense to accept the higher transport costs to completely fill an order from the DC rather than "open" it three times at different stores before delivery, or would it be optimal to deliver some today and some tomorrow? How should the various options be priced and to whom? There are certainly not prices displayed on these items and one customer will pay quite a different price for his light fittings than the next customer. And how do you (the distributor) cost the different options to ensure you are making money where and when you think you are?

Right now, for example, Hagemeyer is transforming the distribution logic of its US business by building a DC in the south-east (the company's strong region – it will then build another on the mid-Atlantic coast). This DC will stock 80,000 products, and the hundreds of Hagemeyer stores will be able to cut the range of stock they hold from up to 20,000 lines down to 1,500-2,500 fast moving items.

Interestingly, building products companies and plumbing suppliers (and of course Hagemeyer's competitors in the electricals field) are all going through the same process at the moment – this "coincidence" is probably a function of the demands of customers, the consolidation of suppliers, and the stimulus provided by modern supply chain software and systems.

Hagemeyer, however, is interesting to us for two reasons. One is its price (see over) and the other is that the company is taking the evolution of the distributor's role to its next logical step while others watch and wonder (with increasing attention, we detect). That next logical step is what the company refers to as "Integrated Supply", where for large industrial customers (eg. a car plant), Hagemeyer can take over the supplying and management of the customer's entire MRO requirement (ie. those products not forming part of, in this case, the car being built – or the robots building it). As with all these things, the number of items needed in an industrial plant (from heavy duty cleaning products to lighting and air filtering etc) is many more than you first imagine. And just as importantly, companies tend to buy such products erratically and unprofessionally and then store them without discipline (compare this to the devotion they bring to wringing the last cent from their hapless parts suppliers, and their insistence that panels, window glass etc are delivered into the plant only as they are required to go onto the assembly line). MRO products are, after all, not that important compared to engines and assembly robots.

And perhaps "not that important" would be the favourite words of any company in the business of providing services to another. To Hagemeyer (and its subsidiary CamBar who developed the integrated supply strategy 15 years ago), MRO products are important. Hagemeyer is professional and focused in buying them, and is very disciplined in storing them (ie. not having more on hand than is required). In addition, the integrated supply offering removes the fundamental basis of dissension between suppliers and users – which is of course price. When Hagemeyer enters into an integrated supply arrangement with a new customer, a fee is agreed, and any savings which are made above those contracted (eg. if Hagemeyer achieves a better price with one of it suppliers) are passed straight on to the customer. The books are open on both sides so that a sort of partnership is achieved. Done properly, integrated supply contracts are low risk, reliable return annuity streams (to Hagemeyer). And the plan is to just replicate the service again and again – this is a market where the market leader (CamBar) has 50 contracts in the US (it is just starting in countries like Australia and does not really exist yet in Europe) and 500 US contracts would only be scratching the surface. Of course the integrated supply service sounds easy but can only work when there is a dense distribution network and great buying power behind it. Hagemeyer's sales in 2001 were E8.8bn (A$14.6bn).

Despite a good rally from April 2000 when new management started to shake the company out of its apathy, the stock fell heavily in 2001 as the slowing global manufacturing economy began to harm volumes (and distribution, despite the endless changes that the business undergoes, is fundamentally a volume game). By late last year the valuation (at 8-9 times depressed earnings) reflected the economic cycle but included nothing for the benefits from the tighter focussing of the company, nor for the potential of the integrated supply strategy. We met the CEO late in 2001 in Sydney (Hagemeyer has large Australian and Asia-Pacific businesses) and again in March 2002 at the company headquarters in Amsterdam. Just as importantly, we met one of the company's leading proponents of the integrated supply strategy in December 2001 and it was then that we understood the renewed sense of purpose and energy at the core of Hagemeyer. We bought stock around E19 and will continue to build the position if and when it comes back from current levels

Kerr Neilson

Managing Director

If you have any questions about your investment in the MLC – Platinum Global Fund, please contact MLC Customer Service on

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

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