TRANSCRIPTION

Company: **Platinum Capital Limited**

Date: **26 October 2023**

Time: **10:00AM AEDT**

[START OF TRANSCRIPT]

Margaret Towers: Good morning, ladies and gentlemen and welcome to today's Annual General Meeting, whether you're joining us in person or remotely. My name is Margaret Towers and I'm pleased to address you as a Director and Chair of Platinum Capital Limited. I'd like to begin by acknowledging that I'm speaking to you today from the land of the Gadigal people of the Eora Nation. I also acknowledge the Traditional Custodians of the various lands from which each of you are joining the meeting today.

I pay my respects to their Elders past, present and emerging. It is now 10:00am, the appointed time for holding the meeting, and I'm advised that the necessary quorum is present. I therefore declare the meeting open. This year we're again holding our AGM as a hybrid meeting, which gives you our shareholders the opportunity to attend the meeting in person or virtually. We hope that in doing so we've been able to encourage broader participation amongst our shareholders.

Before we proceed I have a couple of housekeeping items to address. Firstly, I'd appreciate those attending in person to ensure their mobile phones are turned to silent. For those joining us virtually through the online platform you'll be able to see the live stream on the left side of your screen and the slides being presented will appear on the right. At the bottom of the screen you'll have buttons for get a voting card and ask a question, along with the notice of meeting and online meeting guide.

Please submit your vote online at any time during the meeting. I encourage shareholders who would like to ask questions and are joining us virtually to enter your questions now so that we're able to address these under the relevant items of business later in the meeting. For shareholders who wish to utilise the teleconference facility, you must have your unique phone pin provided by Link Market Services. If you don't have a phone pin and would like to ask a question via the phone, please contact Link on +61 1800 990 363.

When you dial in via the phone line you will be asked to mute your online sound and listen to the meeting by phone. If you wish to ask a question you will need to dial star one on your keypad. That will indicate to the moderator you wish to ask a question. The moderator will ask your name and introduce you, prompting you to ask your question by unmuting your line at the relevant time. I will endeavour to answer all relevant questions from shareholders during today's meeting.

The order for taking a question will be as follows. Firstly from any shareholder attending in person, secondly from any shareholder who's submitted a question online and thirdly from any shareholder using the teleconference facility. Shareholder questions received prior to the meeting which are relevant to the business of the meeting will also be addressed. Voting will remain open during the formal business of the meeting, I will give you a warning when voting is about to close.

Andrew Clifford, the Company's Co-Portfolio Manager, will deliver an informal address and discuss his market outlook after the conclusion of the formal business at the meeting. He will also take any investment related questions that you may have. Lastly, a recording of my address and the market update by Andrew will be made available on Platinum's website in the next few days. Now to the formal business of the meeting. Please allow me to introduce my fellow Board members, Dick Morath independent non-executive Director and Chair of the Audit, Risk and Compliance Committee and Ian Hunter, independent non-executive Director and member of the Audit, Risk and Compliance Committee.

Joining us today from the Company's investment manager Platinum Asset Management is Andrew Clifford, the co-portfolio manager of the Company's investment portfolio. We also have present PricewaterhouseCoopers, partner in charge of the audit of our 2023 financial statements and statutory reports, Craig Cummins. Craig will be available to answer any questions you may have in relation to the conduct of the audit later in the meeting.

Financial summary and investment performance. Firstly, turning to the financial results and investment performance for the financial year ended 30 June '23. The Company made a statutory pre-tax operating profit of $54.1 million and a post-tax operating profit of $37.9 million for the financial year ended 30 June '23. A much improved financial performance compared with the 2022 financial year when a pre-tax loss of $27.8 million was posted.

This solid result was achieved through a period of difficult market conditions including rapid inflation and rising interest rates. As you can see from the charts on the slide, our earnings per share over the last five years have ranged from $0.234 to - $0.066 per share. The benefit of the listed company structure allows us to smooth your dividends despite this volatility. As previously stated, the Board maintains that the most appropriate measure of the Company's investment performance is the percentage change in its pre-tax net tangible assets or NTA.

On this measure, the Company delivered an investment return of 12.7% for the year ended 30 June '23. After fees and expenses adjusted for corporate taxes paid, capital flows and assuming the reinvestment of dividends. This return was achieved with an average net invested position of only 70%. The MSCI All World Index in $A returned 20.4% over the same timeframe. The performance differential arose mainly during the last quarter of the financial year, driven by an extraordinary bounce in the technology sector which had been up in the first six months of the calendar year and 13% for the last quarter of the financial year whilst China's stock markets performed poorly over that quarter due to concerns about the subdued nature of the Company's economic rebound and ongoing political tensions with the US.

The Company shares continue to trade at a discount to pre-tax NTA in line with the broader global equities closed-end listed investment market. The discount increased during the financial year resulting in a total shareholder return including franking credits of 7.1% for the year ended 30 June ’23. Since 30 June ’23 the discount has narrowed. At this point it’s probably worth making some observations regarding the differences between the Company's investment portfolio and the constituents of the MSCI index.

As mentioned in my Chair’s report in the 2023 Annual Report, Platinum’s investment style provides shareholders with a portfolio of investments quite differentiated from the constituents of the MSCI. For example at 30 September ‘23, the index was around 62% weighted to US market. The single largest stock constituent was Apple at 4.4% with China comprising only 3.2% of the index. Put differently, a single US stock had a larger weighting in the MSCI than the world's second largest economy by GDP.

The MSCI index being market cap weighted is generally an expression of what has worked recently rather than what will work in the future and Platinum being index agnostic and contrarian has a very different investment approach. As a reminder, the core tenants of Platinum’s investment philosophy are price matters and is a key driver for returns, mispricing is more likely to be found away from the spotlight, prices are influenced by emotion in short and medium term which can lead to decision errors and once lost capital is hard to earn back, so one should protect against the impact of large market falls.

This philosophy means that Platinum’s portfolio positioning is very different to that of the MSCI index. This is evident when you look at the Company's geographic positioning vis-a-vis the index as at 30 September ‘23 as shown on the slide behind me and on the screen. The first coloured bar shows the geographic positioning of the index with the second and third colour bars showing the geographic positioning of the Company’s long and short positions respectively, clearly showing a very different picture.

Platinum’s top 10 holdings are also highly differentiated from the top 10 constituents of the MSCI index. Unlike other global equity managers, the slide behind me and on the screen shows that there is a very large overlap between what the most popular active Australian based global equity managers, by inflows over the last four years, are holding in their portfolios as at 30 September ‘23, and the index. For example, from the universe of managers selected, 30% of those managers held Apple and 90% held Microsoft within their top 10 holdings.

Conversely, the Company's top 10 holdings at 30 September ‘23 are completely different. Lastly, an important part of Platinum’s investment approach is to seek to provide protection against large market downturns through the use of shorting and risk management of its cash positions. This is reflected by the Company's net invested position. So in summary, what all this means is that Platinum’s investment philosophy and approach delivers a highly differentiated investment portfolio vis-a-vis the index and Platinum's peers, providing a source of return which is much less correlated to other managers and investments which you may already hold in your investment portfolio.

This is evident in the slide behind me and on the screen which shows the Company's returns to September '23. The Company's annualised return by its pre-tax NTA since inception to 30 September '23 was 11% per annum, compared with 7.5% per annum for the index over the same period. This is an outstanding long term track record.

Dividends. The Company determined to pay 2023 fully franked final dividend of $0.03 per share, bringing the total dividends paid for the 2023 financial year to $0.06 per share.

This represents a grossed-up dividend yield of 6.8% based on the Company's 30 June closing share price. The Company's final dividend was fully franked at a tax rate of 30%. The Board aims to deliver a consistent stream of fully franked dividends to shareholders over time through its policy of dividend smoothing, subject to earnings, cash flows, franking credits and accounting profits. This is a key strength of its listed investment company structure.

Our shareholders have continued to benefit from the Company's ability to manage the level of fully franked dividend payments over time, with the Company delivering on average a dividend yield of 5.1% over the five years to 30 June '23. The ability to pay future fully franked dividends will continue to depend on the Company paying tax on realised profits.

Capital management. On 27 April '23, following on from the capital management initiatives announced to the market in October '22, the Company issued eligible shareholders with one bonus option for every four fully paid shares held at the record date.

Each bonus option has an exercise price of $1.37 and an expiry date of 28 March '24. When setting the option exercise price, the Board was of the view that the market environment at the time would be highly favourable for to Platinum's investment approach and that the Company's outperformance seen during the 2022 calendar year would continue and drive a rebound in the share price during the option exercise period. At the bonus option issue date the bonus options were trading slightly out of the money which was $1.33.

However, since the share price has moved further below the bonus option exercise price, the opportunity for shareholders has not materialised to date. Furthermore, like many other listed closed end investment vehicles, the Company shares continue to trade at a discount to pre-tax NTA during the financial year. Given the persistent share price discount, the Company revised its buy-back policy to remove the 20% share price discount guidance that had been communicated to the market in October '22 and thereafter began the execution of the company's 10/12 limit share buy-back program with effect from 18 October '23.

As at 25 October ’23, 319,021 shares have been bought back. As mentioned in previous years, the Board firmly believes that buy-backs do not succeed in eliminating share price discounts and the market has generally shown this to be the case. Accordingly, the Board's primary objectives in effecting the buy-back is to provide liquidity to existing shareholders and accretion to continuing shareholders rather than to narrow the discount.

The Board remains of the view that the key drivers to narrowing the share price discount are investment performance, reliable dividends, FUM scale and liquidity and shareholder engagement.

Performance for the 2023 financial year and market outlook. The Company delivered a negative 0.4% return for the calendar quarter ended 30 June ’23 in line with the index and for the 12 months to 30 September ‘23 delivered a return of 13.8% against the index return of 20.3%. The most recently disclosed, or released to market on Friday 20 October, was $1.4922.

As mentioned earlier, Andrew Clifford, the Co-portfolio manager of the Company's investment portfolio, will provide an update on markets and his outlook for the portfolio at the conclusion of the formal business of the meeting. Andrew recently made the decision to step aside as Platinum Asset Management’s Chief Executive Officer in order to fully concentrate on his role as Co-Chief Investment Officer and dedicate his time to his portfolio management duties.

Ladies and gentlemen, we now come to the items which comprise the formal business of the meeting which are outlined in the notice of meeting. The notice of meeting was dated the 22nd of September ‘23 and was sent to all shareholders so unless there are any objections, I will take the notice of the meeting as read. I note there are no objections. The resolutions for consideration today may only be voted on by shareholders including their proxy holders and company representatives.

Voting on each resolution will be conducted by way of a poll. Each resolution set out in the note of meeting is to be considered as an ordinary resolution and must be approved by majority of the votes cast by shareholders entitled to vote and voting on the resolution. Shareholders attending the meeting in person should have a voting card in which they will be able to cast their votes. If you have not received your voting card please see one of the Link Market Service representatives at the registration desk.

Shareholders attending the meeting online will be able to cast their vote using the electronic voting card once their online registration has been validated. Please refer to the online meeting guide for assistance. Please ensure that you select either for, against or abstain for each resolution requiring a vote. The financial statements and statutory reports. With respect to Item A in the notice of meeting I present the Company's Financial Report, Director’s Report and Auditor’s Report for the year ended 30 June ‘23 before the meeting.

Please note that there is no requirement for shareholders to approve these reports. Before I open up the questions to the floor, we have received three questions which are worth putting to the meeting. I'll just turn to these questions. They only came in in the last day and we haven't subsequently been able to get back to the individual investor. So question 1, does the Chair think it is appropriate to emphasise performance in the annual financial statements on a pre-tax NTA basis, when in fact your shareholders return is based on dividends and the market value of their shares?

I believe that the Board has previously stated that judging the investment manager by the pre-tax NTA is the best way to actually compare the fund's performance to other portfolios in the marketplace. We actually do state what the TSR is in the annual financial report as well. What effective steps are the Board going to take this year to deal with what is clearly a failed investment vehicle structure constantly trading at a discount? We don't believe that the LIC structure is a failed structure, we actually believe that it is performing as it should do.

The LIC structure provides our long term shareholders with the benefit of dividend smoothing and actually the non-crystallisation of assets required to meet redemptions and that the market is actually performing as it should do, that the discount to the share - the NTA is actually driven by the investor sentiment around the markets and the market segment that the portfolio manager is operating in. It's also driven by the performance of the fund manager and the style of the fund manager.

To me this was evident at the beginning of the year when Platinum Capital discount reduced considerably when we were actually at the 31 December 12% above the index and the discount reduced considerably. There are actually fund managers in the marketplace who have strong performance who are currently trading at a premium in the global equity environment.

Question 3, the Board would no doubt be aware of the developments at Magellan were the directors of Magellan Global Fund are considering a [roll over] of their investment - their listed fund into an unlisted NAV fund. Would the Board consider this approach in an endeavour to rectify the permanent discount of the shares in Platinum Capital Limited. As I said before, we believe that the performance is critical and it will actually bring the discount in.

So I don't believe that the discount is permanent. As I said at the beginning of the year, it had reduced considerably and I think is currently sitting around about 13%, so has come in considerably since 30 June. We have to think about all the best interests of all shareholders in the context of any restructure. It's a complex issue with regard to the tax of the Company and in Platinum Capital's perspective, actually the clawback of underperformance.

The Platinum Capital shareholders are in a good position that any outperformance from this point on actually will not be subject to a performance fee and it may not be in their best interest to actually move to an alternative structure. So, as previously stated, we believe that the investment performance is the key to actually narrowing that discount and that is what is evident in the marketplace. So I now open the meeting for any questions or comments on the financial statements and statutory reports or any questions for the auditor relevant to the conduct of the audit.

I will also take questions relating to the general business at the meeting. Firstly, are there any questions from anyone in the room?

Male 1: Thank you. I don't have a problem with the LIC structure but I'd just like to register a protest about smoothing of dividends.

Margaret Towers: Sorry, can you speak up a little bit?

Male 1: I'd like to register a protest about smoothing of dividends. I can't understand why anybody would rationally want or not want the franking credit account to be cleared every financial year because smoothing of dividends presumably doesn't do that. I'm not sure why the Board - presumably the Board thinks shareholders want that. Well, I've been a shareholder for probably 20 years and nobody's ever asked me.

Margaret Towers: Okay, as you'd probably be aware the tax process isn't absolutely, totally smooth and so therefore you're still paying 2023 tax in 2024 when you do your final tax wash up. But we do have a Board policy around - we don't - certainly don't want to stockpile franking credits. So we really are of the view that we would only have a maximum of two to three years' worth of smooth dividends. We have had questions in the past where people, shareholders, do actually enjoy the smoothing of the dividends and don't want the volatility that can sometimes be there and as indicated by the earnings per share, that there can be quite a lot of volatility and some shareholders do appreciate that smoothing.

But we will not stockpile and there will be a maximum number of years of franking credits that we would ever accrue. I think currently at 30 June it's one year's worth of dividend availability. So I think to me that is a benefit of the LIC structure.

Male 1: Well, I disagree. As I say, I can't see why anybody rationally, unless they're on a higher marginal tax rate, why they would not want franking credits to come out as soon as possible. Particularly, when we've got a government now that is obviously anti franking credits and is trying to get legislation through the Senate which will restrict the payment of franking credits which will affect every shareholder in Australia.

Margaret Tower: I take on board your comments and we'll discuss it further. You may remember when Bill Shorten put through his - tried to put through his franking credit proposal at the last two elections ago that we actually did pay out special dividends because we didn't want shareholders to get caught by that.

Male 1: That's assuming you're going to get notice. You may not get notice. This legislation is before the senate now.

Margaret Tower: But I think that's more around the $3 million cap than - and it's on the buy-back side of things.

Male 1: No, it’s restrictions on capital raising to pay dividends. That will affect every shareholder in Australia.

Margaret Tower: I agree. I'm not sure that that actually affects our industry. It is more targeted at the BHPs et cetera but we’ll take it on board and we’ll have a discussion at the Board about whether we would bring down the amount of franking credits that we hold back. Any other questions from the room? Thank you for your question. Okay. Are there any questions from anyone online?

Attendant: Thank you, Chair, we've received one question similar to one that's previously been asked, can you please advise what steps PMC is taken to reduce or remove the persistently high discount to NTA?

Margaret Tower: Okay, as we've previously mentioned, we believe that the discount is driven by two things. One is the investor sentiment towards the market overall and in particular the fact that people can now get 5% on cash and bonds, that equities have become less favourable. So that has probably driven some of the sentiment towards equities generally. But secondly, it comes down to the fund managers performance and I don't want to sound like a broken record but it really is key that if you can deliver that performance the discount definitely comes in.

We experienced that ourselves in the first quarter of this year and as I've said, there are other fund managers who have very strong results and their - well they're at a premium, basically. So I think this is one of the issues with the LIC market, that it can be, as other Company shares can be, subject to the whims of the investor world sentiment. We have tried to add value in different ways, though. That’s why we've undertaken the bonus option.

We positioned that at such a level that at that time we felt that the share market was favourable to Platinum’s style and that we wanted shareholders to enjoy the rebound in that market that we thought Platinum’ would eventuate. Unfortunately, that hasn't eventuated at this point in time but we’ve still got five months to go. In addition, the buy-back for those shareholders who do want to get out of their holding, we have increased the liquidity in the market. The downside to that or the upside to that is also accretive to continuing shareholders.

So we're trying to create shareholder value in different ways.

Attendant: Thank you. We have another question. I believe I just heard the Chair state that PMC was trading at a premium to NTA at 31 December, stated NTA was around 1.52 or 1.56 at that date and the share price closed at 31 December at 1.27. Could the chair please clarify? Thanks.

Margaret Tower: No, I didn't say that we were trading at a premium at 31 December, I actually said that we were outperforming the index in the calendar year to December ‘22 by about 12% and that our discounts reduced. We didn't go into a premium situation.

Attendant: Thank you. Third question, can you please let us know the fees received by the manager in comparison with return to shareholders via dividends and post-tax NTA?

Margaret Tower: Okay, PTM doesn't have any holding in PMC so it wouldn't be getting any dividends. The amount of the management fees is actually clearly stated in the financial statements.

Male: Page 69, Margaret.

Margaret Tower: Well, I suppose actually speaking generally, they get 1%. I mean, the management fee is 1.1% of the fees under management. So the financial statements have the dollar amount in there but the management fee is 1.1%. Obviously if there's an outperformance above the index they get a 15% performance fee but as I mentioned we currently have about over 30% of underperformance that needs to be clawed back before we start paying a performance fee.

Attendant: Chair, no further questions have been received through the online platform at this time.

Margaret Tower: Thank you for your questions. Thirdly, are there any questions from anyone on the telephone line?

Attendant: Chair, no questions have been received from the telephone line for this item.

Margaret Tower: Okay, thank you very much. If there's no more questions we'll move on to the resolutions. Okay, Item B, items for shareholder approval. As resolution one concerns the re-election of myself as a non-Executive Director, I will hand over to Dick to chair the meeting for this resolution.

Dick Morath: Thank you, Margaret. The first resolution that will require a shareholder vote is the re-election of Margaret Towers as a non-executive director. The Company's constitution provides that a director may not hold office for a continuous period in excess of three years or past the third Annual General Meeting following the director’s appointment, whichever is longer, without submitting for re-election. Margaret last stood for re-election at the 2020 AGM.

She is therefore retiring from office in accordance with accordance with the Company's constitution and offers herself for re-election. I now call upon Margaret to provide a statement in support of her re-election.

Margaret Tour: Thanks, Dick. After three years as a non-Executive Director and chairperson I offer myself for re-election. I'm a chartered accountant and graduate of the Australian Institute of Company Directors. I've had a career spanning the finance industry over 35 years, I've been a director of a number of listed, unlisted and not for profit organisations and throughout my executive career, I've held head of roles across finance, risk, technology and operations in both funds management, investment and retail banking and wealth management.

The markets we're currently experiencing are very challenging but not alien to me, having experienced the high interest rates of the ‘80s, the equities crash of ’87, followed by other downturns in property, technology and currencies amongst others. With this background I bring my finance, risk and governance and spirits to Platinum Capital’s Board as your representative and I'm pleased to offer myself for re-election.

Dick Morath: Thank you, Margaret. The screen behind me shows the proxies received for and against this resolution. In regards to open proxies given to me, I will be voting in favour of this resolution. I will now take any questions or comments on the re-election of Margaret Towers. Firstly, are there any questions or comments from anyone in the room? No. Thank you. Secondly, are there any questions from anyone online?

Attendant: Chair, no further questions have been received through the online platform at this time.

Dick Morath: Thank you. Lastly, are there any questions from anyone on the telephone line?

Attendant: Chair, no questions have been received through the telephone line for this item.

Dick Morath: Thank you. I will now hand back to Margaret to chair the remainder of the meeting. We have a question.

Attendant: Given PMC is a LIC, could Margaret please articulate what she sees as her key fiduciary duties and how she has executed them over the preceding year?

Margaret Tower: Okay, thank you for that question. As the shareholders representative, my role is to, well mainly, to look after the interests of shareholders and that takes many formats. It's to ensure the proper governance of the of the LIC and with regard to - and that covers all of the service arrangements we have in place in terms of investment management, shareholding and custody et cetera. In addition, it is to, in order to be able to serve the shareholders is to look for ways to ensure that the shareholders are getting the best returns that they can and some of those things around the share price.

As I've mentioned, the discount is set by investor sentiment and the performance of the fund manager. So that's why we've been looking at other alternatives such as the bonus options and the buy-backs to add additional shareholder value.

Dick Morath: Thank you, Margaret. Any other questions?

Attendant: No further questions on the online platform.

Dick Morath: Thank you. I'll now hand you back to Margaret to chair the meeting.

Margaret Tower: Thank you. Okay, moving on to resolution 2, which is the adoption of the Remuneration Report. This will require a shareholder vote on resolution 2 in the notice of meeting. Whilst it should be noted that the resolution is advisory only and non-binding, the directors take shareholder input on this matter seriously. In accordance with the *Corporations Act*, the Company will disregard any votes cast by key management personnel whose remuneration details were included in the Company's 2023 Remuneration Report or by any closely related party or proxy holders of any such persons.

The screen shows the proxies received for and against this resolution. In regards to open proxies given to me I'll be voting in favour of this resolution. I will now take any questions or comments on the adoption of the 2023 Remuneration Report. Firstly, are there any questions from anyone in the room? No. Thank you. Secondly, are there any questions from anyone online?

Attendant: Chair, no questions have been received through the online platform for this item.

Margaret Tower: Thank you. Thirdly, are there any questions from anyone on the telephone line?

Attendant: Chair no questions have been received through the top line for this item.

Margaret Tower: Okay, thank you very much. Ladies and gentlemen, that concludes the formal business of the meeting. A representative from Link Market Services will now collect the voting cards from the floor. For those voting via the online platform, voting will remain open for a further two minutes following which voting will close. Please ensure that you have cast your votes on all resolutions. The results of the poll will be announced to the ASX later today and published on Platinum’s website.

Andrew Clifford will shortly provide his informal address on investment performance and global markets more generally. He also take any questions you may have in relation to these matters. If you're joining virtually, you will be able to ask questions of Andrew through the online platform which will remain open. Please ensure that you stay online to hear from Andrew. I now declare the meeting closed. Over to you, Andrew.

Andrew Clifford: Thank you, Margaret, and thank you, shareholders, for your attendance this morning. The stock market today is a bit like a horror movie. I'm not sure if you're into that genre, I'm not particularly but you know how it starts. Typically someone comes home, they open the door. They know something's wrong. We all know something's wrong because we're watching. Do they turn around and leave called the police? No, they walk into the house, slowly exploring every single corner of it until whatever it is, a monster, a psychopathic killer comes out and they meet their gruesome end.

That's where we are in markets today. There are some very obvious things happening and investors are ignoring it. The most important thing that is going on is in the bond market, long term interest rates. This is true across the globe but I'll just use the US as it's the easiest reference point. The US 10 year bond recently touched 5%. This compares with where it peaked at 4.5% Just over a year ago. Now remember, a year ago we were at the peak of our fears about inflation and what central banks needed to do to put up interest rates.

Since then inflation has clearly receded. While we don't know when right the last rate rise has been in or when rates will be cut, it's clear that we're getting a lot closer to that point. Yet the most important interest rate is spiking higher. There's a pretty simple explanation for this. In the US there is a huge supply of US Treasuries coming down the pipe to fund an 8% fiscal deficit. It should be noted this deficit is not occurring as the economy is in deep recession and the government is stimulating to get the economy going, it's occurring while the economy is performing relatively well.

The US is a little different to the rest of the developed world in that sense where Europe is clearly struggling but facing pretty much the same dynamic. Then, of course, on top of this, central banks are continuing to unwind the policy of quantitative easing, now quantitative tightening, which is again increasing the supply of bonds to the market. Now despite the fact we now have the most important interest rates in the globe at the highest level since 2007, the markets are knocked down a great deal.

So the MSCI World Index, as a day or so ago, was down less than 10%, that's in US dollar terms. This is quite a resilient performance. Now, I think many of you will know that a feature of the market has been the performance of the big tech stocks, Nvidia, Microsoft, Apple and others and a big part of that excitement is around AI. But the issue is this, and it's what you will see in the pages of the Fin Review and elsewhere, is that there's an ongoing debate about whether a recession is likely and about the possibility of a full blown bear market.

For what it's worth, and to be frank I don't think this is worth a great deal, but for what it's worth, I think there likely will be a recession and a nasty one and it simply relates to the historical relationship that economic activity has with interest rates. I'll emphasise what we've been talking about for a year now and that is this is the biggest tightening cycle, biggest increase in interest rates seen in 50 odd years and it has happened more quickly than ever before.

It seems unlikely to me, though we can never know for sure, that the economy when every other occasion has responded to that, will not respond this time. With that, there is likely to be, broadly, a bear market in developed market equities given, again, that historical relationship with interest rates and how they impact earnings and stock prices. I think though this is where everyone else is focusing and as investors, it does not help us to focus where everyone else is looking.

It is better, I believe, at this point, to look for opportunities. Let’s look for the stocks where the recession has already occurred, where earnings have already started to adjust and stock prices have already experienced a bear market. While markets, as I noted earlier, have been very resilient on face value, underneath the surface there are many stocks that have fallen very hard. For example, there are companies that have already been hit by this significant increase in interest rates.

One of our holdings, Allfunds, where we have been continuing to buy, Allfunds is a fund platform different to the wrap platforms that are used by the financial planning industry in this country, is more akin to a Visa or MasterCard, where it is a network that simply exchanges funds and documentation between the clients of financial planners and the fund managers. They do this at an extraordinary low cost of three to five basis points which is charged to the fund manager.

Of course this business is a function or its revenues and profits are a function of the amount of assets under administration. A large part of the assets under administration for clients are bonds which have taken record hits in moves down in prices. So, this year earnings will not grow as one would have expected but ultimately this is a company we believe will take ongoing market share. There is a long runway, it is a high quality network type business, as I said, akin to Visa or MasterCard, and we're buying this on a very attractive valuation.

Or another example would be TransUnion. TransUnion is a US credit bureau. So when you as an individual apply for a mortgage or a car loan or a credit card, the financial institution will check with one of the big three credit bureaus in the US to check your credit rating. Mortgage applications in the US are down over 90%. We have never seen such a recession in the mortgage market ever. Mortgage rates by the way have gone up far, far more than the bond market.

We're seeing weakness and we'll expect to see weakness in car loans with where interest rates are and credit card applications. So this company is already experiencing its recession. It was a much loved stock, used to trade on very high valuations of 30 times earnings and above. Clearly it's having a recession in its earnings. The exciting thing about this company is that it is far more than a credit bureau today. The personal data on individuals in the US and in other parts of the world that they have are now used for a range of things like fraud detection, insurance underwriting, ecommerce providers use it to serve up the right ads or services to you.

This is a company we think is an extraordinary asset, again, is a long term grower which has seen a temporary setback and again is trading at a valuation of around 12 times today. It may not grow for a year or two but beyond that we think it'll grow very quickly. Intercontinental and other US stock, it has a range of businesses but one of the exciting parts again relates to them creating a digital trail in the mortgage market. Again, this company has had a setback as a result of the weakness in the mortgage market.

So these are companies all impacted by high rates. Another area would be where we have seen a very significant slowdown post COVID in the purchase of manufactured goods. So this can range from mobile phones and computers to bikes and all the sort of kit that we were buying when we were locked down. So this has impacted many of the semiconductor makers such as the memory chip companies, Samsung and Micron.

Or Taiwan Semiconductor, TSMC, one of the finest companies really on the planet, they have monopoly at the high end of semiconductor making and this company has had clearly a slowdown in its earnings, which it has from time to time, giving us an opportunity to buy this at, again, very attractive prices. Or we can look at travel businesses which we all know were impacted during COVID and are now in the recovery phase and we've been invested here for a long time but still this recovery will continue.

So you can own companies like Trip.com, the largest online travel agent in China, or low cost airlines such as IndiGo airlines in India or Ryanair and Wizz Air in Europe. Another set of opportunities are those companies here really the investment cases are very independent of the macro or their underlying earnings of those companies. Here the main reference is to Japan. In Japan today, companies are being forced by changes in governance regime to focus on profitability.

We have seen Aisin Seiki, a major part of the Toyota Group, make significant changes to their dividends buy-back policy, that is capital management, and make a commitment to focus on those parts of the business that are profitable and in raising profitability. When this arrives at the Toyota Group in Japan, I think we can assume that the message has got through to all of corporate Japan. So you can own a company like Toyo Seikan.

Toyo Seikan is one of the two leading companies in packaging, predominantly beverage packaging, aluminium cans, tin cans and glass and PET. It's one of two - the major players, they make up 80% of the market in Japan. This industry everywhere else in the world, which is consolidated down to two or three players by market is typically very, very profitable, but not in Japan. So in the first instance Toyo Seikan have committed to 100 billion in buy-backs over five years and an additional $80 billion to be paid out as dividends as they realise excess assets, investments in stocks and real estate and excess cash.

That $180 billion when it was announced, I think probably about six months ago, represented over 50% of the market capitalisation of that company at that point. So your return as a shareholder, you're going to get back in your hands directly indirectly more than 50%. You will still own your stake in Toyo Seikan, which indeed, they've also committed to focusing on improving the profitability of this company. Now this is one that has moved up a lot since we've bought it over the past year or more of the order of 70%. But today it still trades at around three quarters of its underlying book value.

Or there is China, a country that is already in recession, at least by its standards, where interest rates are already falling, fiscal stimulus is occurring and ongoing, restrictions on housing purchases that crashed the housing market, and these restrictions you must remember have been brought in over a 15 year period to try and keep property prices low, have all been released. Investment in housing, owning a second or third home is now being encouraged.

We all know about everything that is wrong with China, you only need to read the front page of the paper any given day. But here we can own companies like [ZTR] Express. It is the parcel delivery company, the leading parcel delivery company in China. It this year will deliver 30 billion packages. You compare that with FedEx and UPS in the US who together do about 12. They have come from 5 billion packages five years ago, extraordinary growth.

It's because the underlying market is growing but also they are taking market share. It has been a brutally competitive environment but now the pricing environment is on the mend. We expect their profits to be up 50% this year and the stock trades on less than 15 times earnings. This is a company that can grow for many years, it is a secular growth story. Or you can invest in high quality ecommerce plays like Tencent, probably the finest ecommerce property on the planet, or emerging stories such as PDD or Meituan.

Meituan is a range of things but it's your food delivery is one of the core businesses there and unlike those in the West, is immensely profitable. Now, I know many of you will be concerned about China for a variety of reasons. I hear some peers still talking about China being un-investable. What I would say to you is China is unavoidable. I expect that many investors will have in their portfolio other global equity managers. Perhaps you have some of the global ETFs and if you do, it's very likely that two of the biggest holdings in your portfolio are Apple and Nvidia. So let's have a look at Apple.

Our understanding is that all of the critical semiconductors that are needed to make their products are made in Taiwan, 95% of their products are manufactured in China. Yes, they have plans to bring that down. If successful, they may get that down to 75% in three years' time. Just to top it off, they make 20% of their profits from China. Apple, to its core, is a China stock. Nvidia, the stock of the moment, incredible story, its semiconductors, again we understand, because you never know these things for certain, that probably 100% of them are made in Taiwan.

These two companies encapsulate huge amounts of China risk and yet the market is clearly not concerned whatsoever. So maybe they should or maybe we shouldn't be. But all I would say is China is unavoidable, it is through your portfolio everywhere you look. So we can either take advantage of the opportunity markets are giving us here or we can just take the punishment by ignoring where we do have exposure and it has not been priced.

Finally, I would say there are still rich opportunities on the short side of the portfolio. From the speculative boom of 2021 there are still plenty of companies that are listed that have large valuations in the billions of dollars that have no business model and are fast running out of cash. There are many of these we expect to end up ultimately with a zero value. There are also many of the finer companies that are out there that sit on huge valuations, software companies on 15, 20 times revenue that are extraordinary.

They may well be down 80% from their highs but these are still valuations that are - they will have to do extraordinary things over a decade to justify them. Then there's another group of companies out there, we've already seen many cyclical stocks falling quite hard but there are many others that hold up near their highs on the belief that we've seen the downturn and we're about to recover. It's an odd recovery to have when we actually even haven't had the downturn.

So I would say to you all there are great opportunities, clearly from our returns they are not generating investment returns for Platinum Capital today. I'm confident that they will in time and that we're well positioned for the horror movie that we are living through. So I'll stop there and I'm very happy to take questions on it. anything you might like to ask about.

Male 2: Just on Allfunds, I think you said you're buying more?

Andrew Clifford: So we, as happens with investing, we had a very small position at the end of the bull market because it was exactly in the exciting part of what people wanted, essentially, these network type businesses and payments, so we had a very small position. We were holding that at the end of the bull market, so on that very initial position we have taken losses. But as the stock has fallen we have continued to buy. So if I'm, I'm going from memory, but I would think the average entry price is around eight and it trades in the high fives to six in recent weeks.

Male 2: Generally, that's a quite a high [unclear] stock, very sensitive to stock market and bond market values so if you're - think there's a pretty good chance at a recession, which may not necessarily mean a drop in the stock market, but it's - if you think the environment's risky, it's more risky than the average stock.

Andrew Clifford: Absolutely I take that point but I think it's sort of understanding quite the dynamics there. So I think, essentially this year their earnings are going to be down a little bit instead of growing 15% and that's in a - that's because they [have got a] – the business is growing very nicely. Also, the main pain for them has been that you look at portfolios and they're more - very heavily weighted towards bonds where there's been a lot more pain than the stock market.

So I suspect, we have seen the worst of the damage in the bond market but you also have to remember that the market is an anticipatory mechanism. So I think you do have to buy these things before you know you've reached the bottom. But I feel fairly comfortable with the valuation we're paying where we're at. It's interesting, historically, if you go back, because we had a lot of experience around these things and in past bear markets there've been opportunities in things like some of the stock markets around the world.

Deutsche Boerse is one that comes to mind and Deutsche Boerse was actually - had a lot more than the German stock market there, there were a range of businesses and again the interesting thing was that those businesses didn't really miss too much of a beat in the big downturns and it was wrong to shy away from them for the reasons that you're suggesting but each time can be a little bit different and each business is a little different.

Attendant: We have a question from the online platform. I could be wrong here but I believe Toyota trades around 10 times PE, while Volkswagen, GM, Renault trade around four times PE. Do you have any views you can share on the disparity here?

Andrew Clifford: So there's a - two weeks ago I was in Guangdong Province visiting companies and a big part of that trip were meeting with electric vehicle or one electric vehicle company but which was BYD and parts of the supply chain. So from companies that made capital equipment for battery makers, electrolyte producers, the chemicals, cathode materials for batteries and so on. What is happening in the car market is this, is that China with the leader, we are now at around 9 million, this is on a monthly basis not the annual, but 9 million electric vehicles annual sales, based on recent months, if we annualised that up, of a market of, let's call it 30 million.

So the car market in China is very strong at the moment. It is - BYD who are the global leader in electric vehicles, I think they're selling 3 million this year compared to, I think 1.5 for Tesla, I might have those numbers not exactly right, and also is very profitable based on their recent earnings upgrades, are far more profitable than Tesla. We have - what has happened in the electric vehicle market is that all of the foreign car makers and their suppliers of batteries have focused on making these cars have a longer range.

So when you charge it you go from 400 kilometres before you need to recharge to 500 to 800, that's been the game. The Chinese have taken a completely different approach. Their approach has been, how can we make an electric vehicle affordable. So they have focused on a completely different battery chemistry which was less energy dense. But then what they've done is they've gone to town in the way that they do and that whole supply chain has been working ruthlessly to improve the energy density of those batteries and bring the prices down and lots of clever things happening.

So simply, rather than worrying on the energy density of the battery, per se, worrying about how many batteries you can squeeze in the car. So the form of the batteries, if you like. So you talk to BYD and I just put it to them very simply, you've got this amazing position now but of course all of the foreign makers, they will catch up. They have immense resources and a very significant incentive to catch up. Their response is like a slogan but it's sort of an interesting one and they said, that's what everyone said about Nokia and Apple.

So I don't know how many of you are carrying a Nokia phone today. So they like to talk about the Apple moment in motor vehicles. Now, I don't know how much weight to put on that. There will be other electric vehicle makers, they acknowledge that, but they do tend to fear their other Chinese companies and pure EV makers because that's their only thing. So when you come to Toyota, BMW, Volkswagen and we did own BMW, because I believe they would have a credible EV strategy. In fact, they're doing rather better than the others because they are focusing on hybrid, so plug in hybrid models.

If you look at the European market now half of the vehicles are either hybrid, which is going to be Toyota, plug in hybrids or battery electric vehicles but much more focus on the hybrid and the plug in hybrids. So on one level BMW is doing somewhat better. But the other company that is doing incredibly well is Toyota who from the outset said, the electric vehicle strategy being pursued by all the foreign car companies will not work. They stuck, with great criticism, on their pure hybrid model and their next phase will be solid state batteries which they believe they'll have in commercial production, they're indicating 2028.

There's a lot of work to be done there or not, we'll see. But while car companies around the world all had this huge backlog of orders, today there really is only Toyota that has a significant backlog. So in some models, okay, that's not a big part of the business but it's an interesting one is that the Land Cruiser, I think, they want to take orders and you're waiting three years if you've got an order in, their hybrid models, very popular RAV4 model, I believe you're still waiting up to 18 months to get one.

This company also has, throughout its group, huge potential in terms of that corporate reform in terms of tidying up access or ownership of real estate, securities and cash. So really there are very few car companies performing well. Volkswagen is at the other extreme of a company that is completely - at least again with BMW, my position had been when we owned it, and by the way we made good money out of BMW and it's still doing okay, even though we're out of it, with the other car companies the problem is that Volkswagen, a big part of their business is low end, like cheap vehicles. They do not have a solution in EVs that is affordable.

Nor do most of their OEM peers. So, I think it's arguable you should think about whether you buy Volkswagen today, it's a very fine company and certainly we're thinking about that but it looks like a pretty grim future given the way, not just BYD, but there are numerous electric vehicle companies in China that are doing very well. So anyway, I'll leave it at that.

Attendant: Thanks. The next question from the online platform. Andrew, can you give an example have companies that are valued in the billions that you think may end up at zero value?

Andrew Clifford: I would love to but I never like to speak publicly about our short positions, people get offended. But there are plenty of places where we obviously have to disclose our portfolio so I would just encourage you to look there and you can probably work it out yourself with a little bit of Googling.

Attendant: No further questions have been received through the online platform.

Andrew Clifford: I don't know if we need to ask about the telephone lines?

Attendant: No questions have been received through the telephone line for this item.

Andrew Clifford: Another online?

Attendant: How have your shorts performed over the last few weeks of market falls?

Andrew Clifford: Great. Very well. I haven't measured them against the index but I would think far better. Any other questions? Okay. Thank you very much.

Margaret Tour: Thank you, Andrew. Hang on, we’ve got one coming back.

Attendant: Would you like to see the PMC options realised? I'm assuming yes. Will you try or recommend something new as the manager of PMC to close the NAV discount?

Andrew Clifford: Okay. So I think as the manager I can be a little more explicit about how we close the discount than Margaret was because she has to be reasonably polite and it's very simple the way the discount and premium works. You’ll remember over the long history there that the stock has traded at a premium for some significant time, although it is a while ago. It's very clear when investors want to trust Platinum with their savings, and you can see that in our funds, our unlisted funds, when money is coming in the door you will see that Platinum Capital trades at its NAV or higher. It makes sense. People are buying us.

When people do not want to invest with us, and money is going out the door, Platinum Capital trades at a discount. So as the manager we have only, and we know what - there are numerous things that make people want to or not want to trust us with their savings, but we know the one biggest variable is performance. So the main thing that I'm focused on is providing outstanding performance that will both build that business of Platinum Asset Management by attracting new clients and also, hopefully, at the same time attracting those who are interested in using the listed investment company format, which I think is a useful - everyone has their different positions on that, to attract them in to wanting to buy Platinum Capital.

So that is the plan A. I think a lot of the other things that we try to do are difficult to make a difference. The buy-back, which you may have noted we have started, I think will add significant value to shareholders but I don't particularly believe that that will close the discount on its own. Other proposals that we see elsewhere like converting it to an open ended fund, like that obviously would close the discount but what I would say is that while there are some shareholders very focused on wanting that closed, and I guess you might think it's obvious that we all want to closed but if you're a long term investor and you want our portfolio I would be very happy to be buying it at a discount.

But there are our shareholders who actually want the listed investment company format and if they didn't, they would probably be in our managed funds because the portfolios are essentially identical, very close to identical. So that is a possibility but really that's a question for all shareholders and my sense is shareholders, as a group, don't want it. Yes, there will be individuals and you certainly see them in the market who are loudly pushing for it but at the end of the day it would require a broad group of shareholders wanting to do that to, I think, for it to be something we would want to put forward as a proposal and we don't, from where we're sitting, that's not what we hear.

Attendant: Another question has come through. I would like to learn a way to understand the performance of PMC and wonder whether you can provide a five or 10 year comparison of fees paid by PMC and dividends paid to shareholders. I have no issue with paying fees to the manager but would just like to learn a way to evaluate whether there is value add to the shareholder. I have great respect for Andrew Clifford and the team in the way that they manage but I'm just looking for a way of evaluating PMC from a shareholder perspective.

Andrew Clifford: I think this is reasonably simple. So the management fee, as Margaret said earlier, is 1.1% of the asset value, although there is a performance fee that we have not earned for quite some time. So in terms of the fees coming out, 1.1% is relative to those return figures that we had up here earlier. Now, what I just need to check is when we had the portfolio return figures up here, were they pre fees or post fees?

Male: Post.

Andrew Clifford: Good. So if you want to look at like - and what would happen in the institutional market, everyone would look at the performance pre fees. So it's very simplistic and not totally precise but I think close enough is that you could look at any of those figures within the last five years and add 1.1% to it and you'll see what our returns are and see what we're taking as a percentage of that and that would be the framework that I would use.

Male: [Inaudible].

Andrew Clifford: So but did we not have pre tax returns up there previously?

Male: [Inaudible].

Andrew Clifford: Yes, yep.

Attendant: No further questions have been received through the online platform.

Andrew Clifford: We’ve got one up the back here as well.

Male 3: I have a question about balance or I suppose what you see as being the way the portfolio is set up at the moment for a perfect return. For example, if the market continues to value those top tech stocks very highly and the market goes up, well I guess Platinum may go up a bit as well but would probably underperform the broader market. If we're in for a recession or a downward turn in the share market then I guess those big stocks will tank and Platinum would maybe not tank as much but from a shareholder point of view, I'm not sure if we have the funds there to keep paying dividends if we go down for a couple of years.

So I guess I'm just saying in a - what would be your perfect scenario or how do you think the portfolio is balanced at the moment?

Andrew Clifford: So I can give you the perfect scenario but I don't want you to think that this is what we invest for because as I said when I was making my comments on macro and markets, it's for what it's worth because the unpredictability - we are - economic systems are incredibly complex and we haven't spoken about politics today but there's a whole lot of changes going on in the world that makes systems even more complex than they were.

The - so what we're always thinking about, I just want to say this before I give you your answer, is that like when we're looking at an individual company level if I go back to the Allfunds example I'm saying, I suspect markets will not be continuing to fall in five years, certainly not the bond market, savings are created each year. I think that company will take market share. I think it will be a substantially larger business in five years than it is today though the pathway to that could have all sorts of excitements attached to it.

So I think what we're set up for, the perfect scenario is an ever improving economic environment in China. Clearly business and consumer confidence are very low. The big problem in that economy is property, the property development sector. I don't think it's as - it is grim but it's typically spoken about as if there is no hope for it. Whereas what I would point out is that the numbers show, and the numbers are a bit rubbery, but since we had ownership of residential housing in China we've built about 260 million apartments.

So that's your modern housing stock predominantly in the big cities. Household sizes are high, you're probably talking about 500 million households. So not everyone is living in modern housing stock and in fact some of our older stuff is built 20 years ago is already pretty shabby. Countries build houses non-stop. So I think this is a - we have modern housing stock but we're still building plenty of new homes. So this industry I don't think in particular goes back to where it was but I think it does recover and with that I think you will get a broader recovery in that economy and I think consumer and business confidence returns and that affects people's willingness to buy stocks, to take risk.

So I think that happens probably slowly rather than quickly. There's plenty of signs of that market making a bottom, I would argue, but we'll see. I think on the other side, clearly we have very little in those very big, favoured tech stocks or things that look like that. I think interest rates will come to bear on their valuations but also I think there's very little thought given to how economically cyclical they are. Apple is a clear consumer cyclical and treated as if it's anything but that and they're clearly not growing at the moment and are on one of the - not as high valuation as they were two years ago but pretty enthusiastic.

Google or Alphabet, Facebook or Meta, whatever they like to call themselves, these are advertising businesses, particularly small, medium sized enterprises. Advertising we know is cyclical. I think we're starting - seeing plenty of signs that that economy is going to weaken. So that is the dream scenario where we - as markets fall, we make money and that does almost sound like a fantasy but it's happened before. It happened before in 2001 where precisely what happened was the tech stocks collapsed very heavily while the rest of the market that had been thrown out as old world and uninteresting came to be very attractive to investors.

That was a pretty good period for us. Be hard to do quite as good as we did then but we'll be giving it our best shot.

Attendant: Any concerns with Geoff Wilson's WAM strategic value holding a position in PMC? Have they been an active shareholder?

Andrew Clifford: I don't believe they are based on our - no. It’d be lovely to have such a fine investment manager having a stake in us.

Attendant: No further questions have been received through the online platform at this time.

Andrew Clifford: Okay, I think we might - I’ll hand back to Margaret.

Margaret Tour: Thank you, Andrew. We always feel more enlightened once you've spoken. I will just add one comment to the commentary about shareholders returns versus fund manager returns. If you go to page 5 of the Annual Report there is actually a total shareholder return number there since inception of 9.5% and obviously the fund manager gets 1.1%. So I think if you look at that table it's actually comparing it to the pre-tax NTA return of the portfolio rather than the fund managers return but the numbers still hold up.

Okay, so ladies and gentlemen, the results of the poll will be announced at the ASX later today and on behalf of the Board I'd like to thank all shareholders for your ongoing support and invite you to join us from some refreshments directly outside. Thank you all very much for attending.

[END OF TRANSCRIPT]