Platinum®
CAPITAL LIMITED

ANNUAL REPORT 2020

Platinum Capital Limited

ABN 51 063 975 431

Directors

Margaret Towers
Richard Morath
Jim Clegg

Company Secretary

Joanne Jefferies

Investment Manager

Platinum Investment Management Limited
(trading as Platinum Asset Management®)

Platinum Investment Management Limited neither guarantees the repayment of capital nor the investment performance of Platinum Capital Limited

Shareholder Liaison

Elizabeth Norman

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Share Registrar

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Auditor and Taxation Advisor

PricewaterhouseCoopers

Securities Exchange Listing

Platinum Capital Limited shares are listed on the Australian Securities Exchange (ASX code: **PMC**)

Website

www.platinumcapital.com.au

Corporate Governance Statement

https://www.platinum.com.au/PlatinumSite/media/Find-a-form/pmc_corp_gov.pdf

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CHAIRPERSON'S REPORT 2020

Summary

Platinum Capital Limited's ("**PMC**" or the "**Company**") overall investment return was negative 3.5% for the year ended 30 June 2020, as measured by its pre-tax net tangible asset backing per share. The negative return from the Company's investment portfolio resulted in a net loss after tax of $10.1 million for the 2020 financial year.

The Company's investment performance during the 2020 financial year can be broken into two distinct periods:

– **The six-month period from 1 July 2019 to 31 December 2019**, during which the Company's portfolio delivered an investment return of 7.2%.

– **The six-month period from 1 January 2020 to 30 June 2020**, during which the Company's investment return was negative 10.0%. The Company's cautious positioning resulted in significantly reduced investment returns during this period, mostly attributable to losses on its short positions.

The Company declared a fully-franked 2020 final dividend of 3 cents per share. This brings the full-year fully-franked dividend to 6 cents per share representing a grossed up yield of 6.9% based on the closing share price of $1.25, demonstrating the value of the Licensed Investment Company Structure and the Company's dividend smoothing strategy.

Investment Performance

As mentioned, for the 12-month period to 30 June 2020, the Company delivered a return of negative 3.5% measured by its pre-tax net tangible assets ("pre-tax NTA") i.e. the combined capital and income return of the Company's investments after the deduction of fees and expenses, adjusted for corporate taxes paid and any capital flows, and assuming the reinvestment of all dividends. This can be compared to the MSCI All Country World Net Index in A$ terms ("index")[1], which increased by 4.1% for the same period.

The Investment Manager, Platinum Investment Management Limited, acknowledges that the Company has experienced its weakest relative investment performance over a 12-month period since 1999. Whilst cautious positioning of the investment portfolio contributed to this outcome, the Investment Manager continues to consider cautious positioning appropriate.

1 MSCI Disclaimer: The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).

In this regard, the Investment Manager has observed that:

> *"Global equity markets staged an extraordinary rally over the last quarter despite the global economy only just starting to recover from the depths of the largest economic setback in modern economic history.*
>
> *Investors at a time of significant uncertainty have further increased their preference for ownership of businesses that are fast growing or defensive in nature, further widening the differential in valuations and stock price performance between 'growth' stocks and 'value' stocks.*
>
> *The Company's cautious positioning has resulted in significantly reduced investment returns over the last year and quarter, entirely attributable to losses on our short positions. We are in an unprecedented environment in financial markets and we continue to believe that maintaining short positions and cash holdings is appropriate to provide a level of downside protection."*

Throughout this period the Investment Manager has remained true to style looking for mispriced investment opportunities and migrating from hotter areas of the market to those where the price reward profile is more favourable, such that the current average yield of the portfolio is approximately 6% versus the index average yield of 4-5%.

The Company's since inception (June 1994) to 30 June 2020 compound return, measured by the Company's pre-tax NTA, was 11.3% per annum, compared with the index compound return of 7.1% per annum for the same period.

I note that over all rolling five-year periods, commencing each month since inception in 1994 to 30 June 2020, the Company achieved positive returns 96% of the time. In contrast, the Index achieved positive returns 65% of the time. For all rolling monthly five-year periods since inception to 30 June 2020, the Company exceeded an annualised compound return of 8% per annum 73% of the time, versus 46% of the time for the Index. These statistics can be seen in the table below.

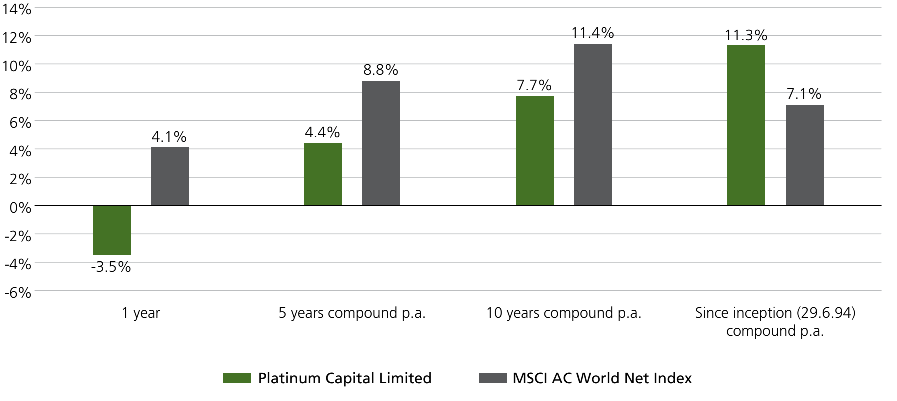
5 year compound per annum pre-tax NTA returns since inception

	PMC	Index
Total number of 5 year periods to 30 June 2020	253	253
Periods where return was positive (% of total)	96%	65%
Periods where return was negative (% of total)	4%	35%
Largest 5 year gain (% compound per annum)	27%	23%
Largest 5 year loss (% compound per annum)	(2)%	(8)%
Periods > +8% compound per annum (% of total)	73%	46%
Periods where PMC return was > Index (% of total)	67%	NA

CHAIRPERSON'S REPORT 2020
CONTINUED

A summary of the compound returns as compared to the index over the 1 year, 5 year and 10 year periods and since inception, is shown in the graph below.

PMC's Pre-Tax Net Tangible Asset (NTA) Return (%) versus MSCI AC World Net Index in $A terms to 30 June 2020 (%)



Source: Platinum Investment Management Limited (PMC returns) and FactSet Research Systems (MSCI returns). Returns have not been calculated using the Company's share price. Past performance is not a reliable indicator of future performance.

It is disappointing to note that the Company's shares, which have historically traded at a premium to pre-tax NTA are now trading at a discount to pre-tax NTA. This has resulted in a negative shareholder return over the year of 16%. There are a number of contributing factors to this result. In addition to the company's investment performance, the other significant factor has been a widening of the discount to pre-tax NTA across the broader Listed Investment Company (LIC) market, along with greater investor uncertainty due to COVID-19 and geopolitical tensions. In our opinion a deviation from the underlying asset value as encompassed in the pre-tax NTA is not rational. The Board is continually looking at ways to improve this for shareholders through capital management tools and to this end, announced a buy-back program on 8 April 2020. No shares have been bought-back as at 30 June 2020.

However, the share price discount does present an opportunity for investors to buy shares at a price which is lower than the intrinsic value of the Company's investment portfolio.

Statutory accounts

For the financial year ended 30 June 2020, the Company made a statutory pre-tax net loss of $15.3 million and a post-tax net loss of $10.1 million. The loss was primarily attributable to losses on short positions.

Under Australian Accounting Standards, realised profits and losses are added to, or reduced by unrealised changes in the market value of the Company's total assets. This can lead to large variations in recorded statutory profits or losses from any one year to the next.

The Board maintains that a more appropriate measure of the Company's performance is the percentage change in its pre-tax NTA (i.e. after the deduction of fees and expenses, adjusted for corporate taxes paid and any capital flows, and assuming the reinvestment of all dividends). On this measure, the Company has delivered a return of negative 3.5% for the 12 months to 30 June 2020.

To keep shareholders fully informed, PMC releases weekly and monthly calculations of its NTA backing per share to the ASX. Platinum publishes monthly investment performance updates and also sends out quarterly investment reports to shareholders.

Dividends

The Company declared a fully-franked 2020 final dividend of 3 cents per share, bringing the total dividends declared for the 2020 financial year to 6 cents per share. The dividend yield for the year was 4.8% based on the 30 June 2020 closing share price. The Company's dividend policy, as described below, enabled the payment of fully-franked dividends even though there was an accounting loss for the 2020 financial year.

The Board aims to deliver a consistent stream of fully-franked dividends to shareholders over time through its policy of dividend smoothing, subject to future earnings, cash flows, franking credits and accounting profits. The ability to pay future fully-franked dividends will continue to depend on the Company's ability to generate realised profits and pay tax.

To the extent that any profits are not distributed as dividends, the Board may set aside some or all of the Company's undistributed profits to a separate dividend profit reserve, to facilitate the payment of future fully-franked dividends, subject to the balance of the franking account. The ability to manage the level of fully-franked dividend payments over time is a key strength of the listed investment company structure.

The Company's Dividend Reinvestment Plan ("DRP") provides shareholders with the option to receive some or all of their future dividends as ordinary shares in the Company instead of cash. The DRP discount of 2.5% will be considered for this year's final dividend at the 4 August 2020 ARCC meeting (i.e. the DRP issue price for the new PMC shares allotted under the DRP will be at a 2.5% discount to the relevant market price, being the volume-weighted average price of the Company's shares traded on the ASX over the five business days subsequent to the date on which the Company shares cease to trade cum-dividend).

CHAIRPERSON'S REPORT 2020

CONTINUED

Capital Management

The Company did not engage in any capital raising activities during the financial year.

On 8 April 2020, the Company announced an on-market share buy-back for up to 10 per cent of PMC's issued share capital to be implemented over a period of up to 12 months. No shares have been bought-back as at 30 June 2020, but the Board continues to monitor the situation.

Like other listed investment companies, at any time the Company's shares may trade on the ASX at a premium or discount to the pre-tax NTA. The share price is largely determined by the activity of buyers and sellers on the ASX. The Board actively monitors the premium or discount and considers ways to manage these should they become extreme.

Other Corporate Governance Matters

The Company's investments are managed and administered by Platinum Investment Management Limited ("Platinum") through two key agreements previously approved by shareholders, namely the Investment Management Agreement and the Administration Agreement.

During the financial year ending 30 June 2020, the Board commissioned an independent external legal review of both agreements. This review resulted in a number of amendments being made to those agreements, all of which benefitted shareholders. Of particular note was the change to the circumstances under which a termination fee is payable to Platinum under the Investment Management Agreement. Previously, a termination fee was payable to Platinum upon termination of the Investment Management Agreement, by either party, whether for cause or for convenience. The Investment Management Agreement has since been amended such that the termination fee will only be payable to Platinum in circumstances where the Company terminates the Investment Management Agreement for convenience.

Throughout the course of the year there were a number of additional Board meetings held to consider legal, regulatory and good governance practices in a timely manner. The most significant amongst these covered:

- adopting a new Whistleblower Protections Policy,
- performing an initial review of the Company's non-financial risk practices, following publication of the report from ASIC's Corporate Governance Taskforce on Director and Officer Oversight of Non-financial risk, and
- adopting a new risk appetite statement, risk metrics and Board skills matrix.

The Board met with the Investment Manager, during the Australia-wide stage 3 lockdown as a consequence of COVID-19 in April 2020 to understand their management of investment and operational risks. Pleasingly, the Investment Manager's investment and business functions remained fully operational during the lockdown and continue to do so.

Lastly, the Board continued to monitor the performance of Platinum and its adherence to the investment management and administration agreements with the full and transparent co-operation of Platinum's management team.

Accordingly, I am confident in the integrity and reporting of the Company's financial results to shareholders.

Outlook for 2020-2021

As highlighted recently by the Investment Manager, *"When taking into consideration the collapse in the global economy, very low interest rates, aggressive money creation by central banks, rapidly rising government debt, together with stock markets close to all-time highs and at near peak valuations, we are in uncharted waters for financial markets and there are likely to be shocks and surprises."*

"We expect that the major economies will slowly recover to previous levels of output over a period of three years or more, providing the basis for a strong recovery in earnings for many of the Company's holdings. When we assess our holdings, we see the potential to earn good returns at the individual stock level over the next three to five years and thus for the portfolio as a whole."

Annual General Meeting

My fellow Directors and Platinum are pleased to invite you to the Company's Annual General Meeting ("AGM") on 5 November 2020.

Due to COVID-19 and the related health concerns, the Company's AGM will be held live through an online platform where you can attend and participate in the AGM. The AGM Notice, including details on how to join the meeting, will be dispatched to shareholders in the coming weeks.

Finally

On behalf of the Board, I wish to express our appreciation of the hard work done by Andrew Clifford and the broader team at Platinum during these difficult times.

On behalf of the Board, I thank shareholders for their continued support.

Margaret Towers
Chairperson

21 August 2020

FINANCIAL INFORMATION SUMMARY

30 JUNE 2020

-3.5%	3cps	4.8%
12 month performance[i] (based on pre-tax NTA)	Final fully-franked dividend	Dividend yield[ii]

Inception Date	29 June 1994
Market capitalisation	363.1mn
Share price	$1.25
Shares on issue	290,485,178
Net Tangible Assets (pre-tax) per share	$1.4080
Net Tangible Assets (post-tax) per share	$1.4231
Net assets	$413.3m
Dividend profit reserve[iii]	23.27cps
Fully franked dividend capacity[iv]	3.88cps

PMC's pre-tax NTA return % versus MSCI AC World Net Index:

	PMC	MSCI
1 year	-3.5%	4.1%
5 years	4.4%	8.8%
10 years	7.7%	11.4%
Since inception	11.3%	7.1%

5 year compound per annum pre-tax NTA returns since inception[i]

	PMC	MSCI
Total number of 5 year periods to 30 June 2020[v]	253	253
Periods where return was positive (% of total)	96%	65%
Periods where return was negative (% of total)	4%	35%
Largest 5 year gain (% compound per annum)	27%	23%
Largest 5 year loss (% compound per annum)	(2)%	(8)%
Periods > +8% compound per annum (% of total)	73%	46%
Periods where PMC return was > MSCI (% of total)	67%	NA

i The pre-tax NTA return is calculated after the deduction of fees and expenses, adjusted for corporate taxes paid, and any capital flows and assumes the reinvestment of dividends.

ii Dividend yield is based on the 2020 interim dividend of 3 cents per share plus the 2020 final dividend of 3 cents per share and the share price as at 30 June 2020.

iii Dividend profit reserve is after providing for the 2020 final dividend of 3 cents per share.

iv This is the maximum fully-franked dividend that can be paid based on the franking credit balance as at 21 August 2020 after adjusting for the 2020 tax receivable and the 2020 final dividend of 3 cents per share.

v Commencing each month since inception to 30 June 2020.

Source: Platinum Investment Management Limited (PMC returns) and FactSet (MSCI returns). Returns have not been calculated using the Company's share price. **Past performance is not a reliable indicator of future performance.**

FINANCIAL STATEMENTS 2020

Platinum Capital Limited

General Information

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 21 August 2020. The Directors have the power to amend and reissue the financial statements.

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 20 August 2020

Distribution of Equity Securities

Analysis of number of ordinary shareholders by size of holding:

	NUMBER OF HOLDERS OF ORDINARY SHARES
1 to 1,000	1,130
1,001 to 5,000	2,258
5,001 to 10,000	2,307
10,001 to 100,000	5,680
100,001 and over	360
	11,735
Holding less than a marketable parcel (of $500)	706

Substantial Holders

Twenty largest shareholders

The names of the twenty largest shareholders of the Company are listed below:

	ORDINARY SHARES NUMBER HELD	% OF TOTAL SHARES ISSUED
Sysha Pty Limited	14,000,000	4.82
HSBC Custody Nominees (Australia) Limited	7,152,363	2.46
Lekk Pty Limited	4,000,000	1.38
Nulis Nominees (Australia) Limited	3,094,573	1.07
Mr William Kerr Neilson	1,977,646	0.68
Jorlyn Pty Limited	1,900,000	0.65
Moya Pty Limited	1,694,406	0.58
BNP Paribas Nominees Pty Limited	1,606,446	0.55
Navigator Australia Limited	1,005,688	0.35
Mr John Steven Page & Mrs Gillian Kay Page	931,108	0.32
Citicorp Nominees Pty Limited	840,520	0.29
Mr Raymond Ireson	797,587	0.27
Howmains Pty Limited	756,972	0.26
Netwealth Investments Limited	741,582	0.26
Netwealth Investments Limited	679,788	0.23
HSBC Custody Nominees	627,277	0.22
Donald Cant Pty Limited	558,231	0.19
BNP Paribas Nominees Pty Limited	514,647	0.18
Australian Executor Trustees Limited	511,651	0.18
Eramu Pty Limited	502,700	0.17
	43,893,185	15.11

There are no substantial holders in the Company.

SHAREHOLDER INFORMATION

CONTINUED

Voting Rights

Ordinary shares

Every member is entitled to one vote and upon a poll, each share shall have one vote.

Distribution of Annual Report to Shareholders

The law allows for an "opt in" regime through which shareholders will receive a printed "hard copy" version of the Annual Report only if they request one. The Directors have decided to only mail out an Annual Report to those shareholders who have "opted in".

Financial Calendar

Ordinary shares trade ex-dividend	31 August 2020
Record date (books close) for dividend	1 September 2020
Dividend paid	21 September 2020

These dates are indicative and are subject to change.

Notice of Annual General Meeting (AGM)

The Annual General Meeting of Platinum Capital Limited will be held through an online platform at 10am Wednesday, 5 November 2020. Details of how to join the meeting will be included in the AGM notice.

Questions for the AGM

If you would like to submit a question prior to the AGM to be addressed at the AGM, you may email your question to invest@platinum.com.au.

INVESTMENT STRUCTURE, OBJECTIVES AND METHODOLOGY

Investment Structure

Platinum Capital Limited (the "Company" or "PMC") is a listed investment company, or "LIC", whose shares are listed on the Australian Securities Exchange ("ASX") and traded in the same way as other listed shares. Being a LIC, the Company:

– is closed-ended which means that the underlying portfolio can be managed without concern for fluctuating cashflows;

– is taxed at source and can therefore distribute available profits to shareholders in the form of dividends, usually fully-franked (depending on the availability of franking credits); and

– has established a dividend profit reserve which provides the possibility for the smoothing of dividends from year to year, at the discretion of the Board.

Shares in the Company can trade at a premium or discount to their net tangible asset ("NTA") backing per share, which is calculated and announced to the ASX weekly and monthly.

The Company delegates its investment management and administration functions to Platinum Investment Management Limited (trading as Platinum Asset Management) (the "Investment Manager"), which employs a team of experienced investment professionals and administration personnel to perform those services. The Company and the Investment Manager are separate legal entities.

Investment Objective

The investment objective of the Company is to provide capital growth over the long-term through investing in companies worldwide which the Investment Manager perceives to be undervalued by the market.

Investment Methodology

The Investment Manager's index-agnostic investment approach has been well tested over many years. The principles on which it is based have not varied since the Company's inception, although the investment process has evolved and been refined over time.

The Investment Manager seeks to invest globally in companies whose businesses and growth prospects are, in its view, inappropriately valued by the market. Just as optimism and pessimism ebb and flow in stock markets, similar sentiments also affect individual companies. This means that transitory events often have a disproportionate effect on the share prices of companies, be they positive or negative, and there is thus a tendency for share prices to deviate significantly from their inherent trend line. The Investment Manager's investment methodology seeks to identify and take advantage of the opportunities created by the divergence between a company's share price and its intrinsic value.

INVESTMENT STRUCTURE, OBJECTIVES AND METHODOLOGY

CONTINUED

The Investment Manager uses various methodologies to make sense of the universe of stocks around the world, including using both quantitative and qualitative screening to short-list companies for in-depth study. After identifying key themes and preferred industries, with due consideration of the macro environment, the portfolio is then built up through a series of individual stock selections based on detailed fundamental research. Care is taken to understand and monitor the inter-relationship of stocks within the portfolio.

The Investment Manager's investment team is based in Sydney, Australia. Having a single location facilitates the cross pollination of ideas and free flow of information between analysts with different geographic and industry responsibilities. It has the further benefit that distance acts as a filter, enabling a more objective assessment of "noisy" markets. The research process, however, is well supported by extensive visits to companies and key regions.

The wealth of research and detailed analysis that leads to the addition/retention/reduction of a stock in the portfolio takes form in a disciplined process that is subject to the scrutiny of divergent thinking peers. This process serves to challenge and encourage analysts and to "test" investment theses, as well as add accountability to the process.

For a more detailed description of Platinum Investment Management Limited's investment process, we encourage you to visit Platinum's website.

Managing Currency Exposures

International equity investments create an exposure to foreign currency fluctuations, which can change the value of the equity investments when measured in the reporting currency of the Company's portfolio, which is the Australian dollar. It is part of the Company's investment strategy to assess the potential returns and risks created by currency exposures and to seek to position the portfolio with the aim of capturing those returns while minimising those risks. Currency exposures in the portfolio are actively managed by the Investment Manager.

The Investment Manager may manage the currency exposures of the Company's portfolio using foreign currency forward contracts, currency swaps, non-deliverable forwards and currency options, as well as spot foreign exchange trades.

Strategies Aimed at Containing Losses and Delivering Solid Absolute Returns

While generating capital growth over the long-term is the Company's primary objective, the Investment Manager also seeks to mitigate the risk of capital losses and employs a variety of strategies with the aim of achieving this.

Strategies aimed at containing capital losses include adjusting cash levels, deploying funds from overvalued to undervalued stocks and short selling (usually through equity derivatives).

The Investment Manager has historically endeavoured to maintain an effective cash level of between 15% and 30% of the portfolio value. In the event of a significant downturn, cash positions not only act as a valuable cushion, but also provide much needed "fire power" to take advantage of opportunities that may become available.

Timing the implementation of these strategies is always challenging and, though the rewards can be gratifying, patience is often required. The nature of markets means it can take some time for inappropriately valued regions, industry sectors or individual stocks to become more widely recognised and to revert to prices close to their inherent values.

DIRECTORS' REPORT

In respect of the year ended 30 June 2020, the Directors of Platinum Capital Limited (the "Company") submit the following report prepared in accordance with a resolution of the Directors.

Directors

The following persons were Directors of the Company during the financial year and up to the date of this report:

Margaret Towers – Chairperson and Independent Non-Executive Director
Richard Morath – Independent Non-Executive Director
Jim Clegg – Independent Non-Executive Director

Principal Activities

The Company is a listed investment company established to provide capital growth over the long-term through investment of funds internationally into securities of companies, which are perceived by the Investment Manager to be undervalued. The Company's capital management strategy includes managing the level of dividends over time. There were no significant changes in the nature of the Company's activities during the year.

Operating and Financial Review

For the 12 months to 30 June 2020 the net loss before income tax was $15,268,000 (2019: $20,000) and net loss after tax was $10,125,000 (2019: $373,000).

For the 12 months to 30 June 2020, the Company delivered a return of negative 3.5%[1] (measured by its pre-tax NTA) versus a return of 4.1% for the MSCI All Country World Net Index in A$ terms[2].

1 Source: Platinum Investment Management Limited (PMC returns) and FactSet Research Systems (MSCI returns). Returns have not been calculated using the Company's share price. **Past performance is not a reliable indicator of future performance.**

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The Directors consider that the pre-tax net tangible asset backing per share, after the deduction of fees and expenses, adjusted for corporate taxes paid and any capital flows, and assuming the reinvestment of dividends ("pre-tax NTA"), is a better measure of performance of the Company than the reported profits or losses. This is because the pre-tax NTA per share is the most accurate way to assess the investment performance of the Company's investment portfolio. For the 12 months to 30 June 2020, the Company's pre-tax NTA per share decreased from $1.57 to $1.408. This is after the payment of 7 cents per share in dividends and the equivalent of 3 cents per share in taxes paid during the financial year.

The Investment Manager has recently commented that *"When one also considers that growth stocks are trading at around their highest valuations on record, 10-year government bond yields are below 1% across the developed world, at a time when government debt is rising rapidly (funded by central banks in many cases), in the midst of a global pandemic and a global economic collapse, it is clear that… financial markets… are sailing into uncharted waters.*

In this context, the cautious positioning of the portfolio has resulted in significantly reduced investment returns over the 12-month period to 30 June, entirely attributable to losses on our short positions. This again, raises the question of the merits of holding short positions at all. Certainly, in periods where markets are rising, it will always appear to be a futile exercise. However, as we stated earlier, we are in an unprecedented environment in financial markets and we continue to be of the view that maintaining short positions and cash holdings is appropriate to provide a level of downside protection."

The Company continues to have a strong balance sheet with few liabilities.

During the course of the year, discussions have been held with the Investment Manager on their management of the investment portfolio and operations in relation to COVID-19. The Investment Manager noted that COVID-19 may continue to adversely affect the global economy, the economies of certain nations and individual issuers, all of which may impact on investment performance. The Investment Manager has implemented measures to maintain the ongoing safety and well-being of employees including allowing employees to work from home. COVID-19 has not had a direct impact on the ability of the Investment Manager to perform business activities.

The Company has not received any COVID-19 related financial assistance or support.

Dividends

For the 12 months to 30 June 2020, PMC's earnings per share was negative 3.50 cents per share. However, in accordance with its policy of dividend smoothing, the Board has declared a final 2020 fully-franked dividend of 3 cents per share ($8,715,000), with a record date of 1 September 2020, payable to shareholders on 21 September 2020, out of the dividend profit reserve.

The Company's ability to pay franked dividends is dependent on the Company paying income tax. At 21 August 2020, after allowing for the 2020 fully-franked final dividend of 3 cents per share and adjusting for the 30 June 2020 tax receivable, the Company has an ability to pay fully-franked dividends of up to 3.88 cents per share. The Board has a policy of dividend smoothing and endeavours to ensure that there are sufficient franking credits available to pay fully-franked dividends in the future.

DIRECTORS' REPORT
CONTINUED

After the payment of the 2020 final dividend, the balance in the dividend profit reserve is $67,583,000, which translates to 23.27 cents per share, based on the shares on issue at the date of this report. For the comparative reporting period, a fully-franked dividend of 4 cents per share ($11,543,000) was paid.

The dividend reinvestment plan ("DRP") is in operation. The relevant DRP price will be the volume-weighted average share price of the Company's shares sold on the ASX over the five business days subsequent to the date on which the Company's shares cease to trade cum-dividend. A 2.5% discount will apply to the DRP price.

Capital Management
The Company's capital management policy, as previously advised, is outlined below.

The Board will give active consideration, as appropriate, to enhancing shareholder value through:

- the management of the level of dividends to shareholders;
- the issue of shares by methods such as rights offers, share purchase plans or placements; or
- the use of share buy-backs.

The Company announced a buy-back scheme on 8 April 2020. This allows the Company to buy back up to 10% of the issued share of the company within a 12-month period.

Matters Subsequent to the End of the Financial Year
Apart from the dividend declared, no matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Likely Developments and Expected Results of Operations
The Company will continue to pursue its investment objective, which is to provide capital growth over the long-term through investing in companies worldwide which the Investment Manager perceives to be undervalued by the market. The methods of operating the Company are not expected to change in the foreseeable future.

Environmental Regulation
The Company is not adversely impacted by any particular or significant environmental regulation under Commonwealth, State or Territory laws.

Managing Tax Risk
The Board is committed to acting with integrity and transparency in all tax matters. The Company aims to meet all of its obligations under the law and pay the appropriate amount of tax to the relevant authorities. The Company has established a Tax Risk Management and Governance Policy, which ensures an adequate framework is in place to allow for the effective management of tax risks in an appropriate and consistent manner. The policy describes the Company's approach to managing tax risk including key responsibilities, key controls and reporting mechanisms.

Information on Directors

Margaret Towers CA, GAICD
Chairperson, Independent Non-Executive Director and member of the Audit, Risk and Compliance Committee since 31 March 2018

Ms Towers has over 37 years of experience operating at board and senior management levels, within the wealth management and investment banking sectors of the Australian financial services industry. Ms Towers is a non-executive director of IMB Limited and is chairperson of Platinum Asia Investments Limited. Ms Towers has also previously been a non-executive director of Platinum Asset Management Limited (ASX code: PTM), chairperson of PTM's Audit, Risk and Compliance Committee and a member of PTM's Nomination and Remuneration Committee.

Richard Morath BA, FIAA
Independent, Non-Executive Director since 27 March 2009 and Chairman of the Audit, Risk and Compliance Committee.

Mr Morath has over 45 years of experience in life insurance, funds management, banking and financial planning. Mr Morath is currently a non-executive director and the chairman of the Advice & Licences Boards of all financial planning companies at MLC. Mr Morath is also a director of JANA Investment Advisors Limited, BNZ Life and the chairman of BNZ Investment Services Limited.

Jim Clegg BRURSC (HONS), DIPAGEC
Independent, Non-Executive Director since 5 June 2015

Mr Clegg has over 35 years of experience in the financial services industry. Mr Clegg was the founding managing director of Pembroke Financial Planners and has been a director of Godfrey Pembroke, Berkley Group and Centric Wealth. Mr Clegg is currently a director of CCube Financial Software Pty Ltd.

Information on Company Secretary

Joanne Jefferies BCOM, LLB
Company Secretary since 17 October 2016.

Ms Jefferies is an English law qualified solicitor with more than 23 years of legal experience in the asset management and securities services sectors, in England and across Asia Pacific.

Ms Jefferies joined Platinum in October 2016 as General Counsel and Group Company Secretary, having spent the previous six years at BNP Paribas Securities Services as Head of Legal Asia Pacific, Company Secretary for all Australian subsidiaries and a member of the Asia Pacific Executive Committee. Ms Jefferies has previously held senior legal positions with Russell Investments, Morley Funds Management (Aviva Investors) and Lord Abbett, and served as the General Counsel for the UK's funds management industry association, the Investment Association. Ms Jefferies is also Company Secretary of Platinum Asia Investments Limited and Platinum Asset Management Limited.

DIRECTORS' REPORT

CONTINUED

Meetings of Directors

The number of meetings of the Company's Board of Directors ("the Board") and Audit, Risk and Compliance Committee held during the year ended 30 June 2020, and the number of meetings attended by each Director/Committee member were:

	BOARD (HELD 8) ATTENDED	AUDIT, RISK AND COMPLIANCE COMMITTEE (HELD 4) ATTENDED
Margaret Towers	8	4
Richard Morath	8	4
Jim Clegg	8	4

The Audit, Risk and Compliance Committee meet at least one week prior to the formal adoption of the annual and interim financial statements, in order to carry out a detailed review of the financial statements.

Indemnity and Insurance of Directors or Officers

During the year, the Company incurred a premium in respect of a contract for indemnity insurance for the Directors and officers of the Company named in this report.

Indemnity and Insurance of Auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company against a liability incurred by the auditor. During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company.

Non-Audit Services

Details of the amounts paid or payable to the auditor for audit and other (non-audit) services provided to the Company during the financial year by the auditor are outlined in Note 20 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in Note 20 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110: *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board.

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations (*Rounding in Financial/Directors' Reports*) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with this Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 26.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Margaret Towers
Chairperson

Richard Morath
Director

21 August 2020
Sydney

DIRECTORS' REPORT
CONTINUED

Remuneration Report (audited)
Executive Summary
- The Company had three key management personnel ("KMP") during the financial year, being the Directors of the Company.
- The aggregate annual remuneration paid by the Company to the Chairperson during the financial year was $65,700 (including superannuation).
- The remuneration paid by the Company to each of the other Non-Executive Directors was $60,225 (including superannuation).
- There has only been one increase in base pay for the Company Chairperson and other Non-Executive Directors in the last 15 years.
- The Company does not pay bonuses to any of its Directors.

Introduction
The Directors of Platinum Capital Limited present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the year ended 30 June 2020.

The information provided in this Remuneration Report forms part of the Directors' Report and has been audited by the Company's auditor, PricewaterhouseCoopers, as required by section 308 of the *Corporations Act 2001*.

Key Management Personnel ("KMP")
For the purposes of this report, the KMP of the Company in office during the financial year were:

NAME	POSITION
Margaret Towers	Chairperson and Independent Non-Executive Director
Richard Morath	Independent Non-Executive Director
Jim Clegg	Independent Non-Executive Director

Shareholders' Approval of the 2020 Remuneration Report
A 25% or higher "no" vote on the remuneration report at an AGM triggers a reporting obligation on a listed company to explain in its next annual report how concerns are being addressed.

At the last AGM, the Company's Remuneration Report passed on a show of hands, after validly appointed proxies indicated a "for" vote of 83.57%. Despite this outcome, we have set out to fully explain the basis and structure of the remuneration paid to KMP.

Principles, Policy and Components of Non-Executive Directors' Remuneration
The Constitution of the Company requires approval by shareholders at a general meeting of a maximum amount of remuneration to be paid to the Non-Executive Directors.

The aggregate amount of remuneration that can be paid to the Non-Executive Directors, which was approved by shareholders at the 2005 Annual General Meeting, was $350,000 per annum (including superannuation). Despite the ability to pay remuneration up to this level, only $186,150 in aggregate was paid to the Directors in 2020 (2019: $186,150).

Remuneration paid to the Non-Executive Directors is designed to ensure that the Company can attract and retain suitably qualified and experienced directors.

It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Non-Executive Directors. Non-Executive Directors received a fixed fee and mandatory superannuation. There has only been one increase in base pay for the Company Chairperson and other Non-Executive Directors in the last 15 years. Directors do not receive performance-based or earnings-based remuneration and are not eligible to participate in any equity-based incentive plans.

Remuneration for the Non-Executive Directors is reviewed annually by the Board and set at market rates commensurate with the responsibilities borne by the Non-Executive Directors. Independent professional advice may be sought. No other retirement benefits (other than mandatory superannuation) are provided to the Directors. Any Director may retire or resign from the Board, or be removed by a resolution of shareholders.

Remuneration for Directors
The table below presents amounts received by the Directors in the current and prior year.

NAME	CASH SALARY $	SUPER-ANNUATION $	SHORT-TERM INCENTIVES $	LONG-TERM INCENTIVES $	TOTAL $
Margaret Towers					
FY 2020	60,000	5,700	–	–	65,700
FY 2019	60,000	5,700	–	–	65,700
Richard Morath					
FY 2020	55,000	5,225	–	–	60,225
FY 2019	55,000	5,225	–	–	60,225
Jim Clegg					
FY 2020	55,000	5,225	–	–	60,225
FY 2019	55,000	5,225	–	–	60,225
Total remuneration					
FY 2020	170,000	16,150	–	–	186,150
FY 2019	170,000	16,150	–	–	186,150

DIRECTORS' REPORT
CONTINUED

Employment Arrangements of KMP
The key aspects of the KMP contracts are as follows:

- Remuneration and other terms of employment for Directors are formalised in letters of appointment that all Directors have signed.
- All contracts with Directors include the components of remuneration that are to be paid to KMP and provide for annual review, but do not prescribe how remuneration levels are to be modified from year to year.
- The tenure of the Directors is subject to approval by shareholders at every third AGM or other general meeting convened for the purposes of election of Directors.
- In the event of termination, all KMP are only entitled to receive their statutory entitlements.
- Directors may resign by written notice to the Chairperson and where circumstances permit, it is desirable that reasonable notice of an intention to resign is given to assist the Board in succession planning.

Link between the Remuneration of the Directors and Company Performance

	2020	2019	2018	2017	2016
Total net investment income/(loss) ($'000)	**(8,940)**	6,538	78,807	77,086	(20,310)
Expenses ($'000)	**(6,328)**	(6,558)	(7,170)	(6,023)	(6,481)
Net (loss)/profit after tax ($'000)	**(10,125)**	(373)	(50,353)	49,927	(18,764)
Earnings per share (cents per share)	**(3.50)**	(0.13)	17.66	20.03	(8.00)
Dividends (cents per share)	**6.0**	10.0[1]	10.0	10.0	7.0
Net Tangible Asset backing (pre-tax) (30 June) ($ per share)	**1.408**	1.57	1.75	1.63	1.44
Closing share price (30 June) ($)	**1.25**	1.57	2.09	1.685	1.62
Total fixed remuneration (salary and superannuation) paid ($)	**186,150**	186,150	186,150	186,150	186,150

The remuneration of the Directors is not linked to the performance of the Company.

1 Includes the payment of a 3 cents per share special dividend paid in March 2019.

Interests of Directors in Shares

The relevant interest in ordinary shares of the Company that each Director held at balance date was:

	OPENING BALANCE	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Margaret Towers	50,000	–	–	50,000
Richard Morath	42,372	–	–	42,372
Jim Clegg	59,972	–	–	59,972

AUDITOR'S INDEPENDENCE DECLARATION

pwc

As lead auditor for the audit of Platinum Capital Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

CJ Cummins
Partner
PricewaterhouseCoopers

21 August 2020
Sydney

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	**2020 $'000**	2019 $'000
Investment income			
Dividends		**7,539**	10,078
Interest		**99**	342
Net losses on equities and other derivatives		**(27,579)**	(5,295)
Net gains/(losses) on foreign currency forward contracts		**8,346**	(547)
Net foreign exchange gains on overseas bank accounts		**2,655**	1,960
Total investment (loss)/income	2	**(8,940)**	6,538
Expenses			
Management fees	19	**(4,900)**	(5,107)
Custody		**(243)**	(230)
Share registry		**(138)**	(123)
Continuous reporting disclosure		**(150)**	(150)
Directors' fees	21	**(186)**	(186)
Auditor's remuneration and other services	20	**(98)**	(161)
Brokerage and transaction costs		**(280)**	(361)
Other expenses		**(333)**	(240)
Total expenses		**(6,328)**	(6,558)
Loss before income tax expense		**(15,268)**	(20)
Income tax benefit/(expense)	3(a)	**5,143**	(353)
Loss after income tax expense for the year attributable to the owners of Platinum Capital Limited		**(10,125)**	(373)
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive (loss)/income for the year attributable to the owners of Platinum Capital Limited		**(10,125)**	(373)
Basic earnings per share (cents per share)	12	**(3.50)**	(0.13)
Diluted earnings per share (cents per share)	12	**(3.50)**	(0.13)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	NOTE	**2020 $'000**	2019 $'000
Assets			
Cash and cash equivalents	13(a)	**52,554**	65,056
Receivables	6	**2,249**	2,684
Financial assets at fair value through profit or loss	4	**357,867**	390,347
Income tax receivable	3(b)	**2,880**	–
Deferred tax asset	3(c)	**1,454**	–
Total assets		**417,004**	458,087
Liabilities			
Payables	7	**629**	1,696
Financial liabilities at fair value through profit or loss	5	**3,046**	2,732
Income tax payable	3(b)	**–**	2,161
Deferred tax liability	3(c)	**–**	10,449
Total liabilities		**3,675**	17,038
Net assets		**413,329**	441,049
Equity			
Issued capital	11	**387,838**	385,202
Retained earnings/(losses)	8	**(50,807)**	(19,137)
Dividend profit reserve	9	**76,298**	74,984
Total equity		**413,329**	441,049

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020

	ISSUED CAPITAL $'000	RETAINED EARNINGS $'000	DIVIDEND PROFIT RESERVE $'000	TOTAL EQUITY $'000
Balance at 1 July 2018	**380,682**	**(18,764)**	**109,369**	**471,287**
Loss after income tax expense for the half to 31 December 2018	–	(29,077)	–	(29,077)
Profit after income tax expense for the half to 30 June 2019	–	28,704	–	28,704
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	(373)	–	(373)
Transactions with owners in their capacity as owners:				
Issue of shares in relation to the dividend reinvestment plan and reinvestment of unclaimed dividends (Note 11)	4,520	–	–	4,520
Dividends paid (Note 10)	–	–	(34,385)	(34,385)
Balance at 30 June 2019	**385,202**	**(19,137)**	**74,984**	**441,049**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2020 – CONTINUED

	ISSUED CAPITAL $'000	RETAINED EARNINGS $'000	DIVIDEND PROFIT RESERVE $'000	TOTAL EQUITY $'000
Balance at 1 July 2019	**385,202**	**(19,137)**	**74,984**	**441,049**
Profit after income tax expense for the half to 31 December 2019	–	21,545	–	21,545
Loss after income tax expense for the half to 30 June 2020	–	(31,670)	–	(31,670)
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive loss for the year	–	(10,125)	–	(10,125)
Transactions with owners in their capacity as owners:				
Transfer of profit after income tax for the half to 31 December 2019, to the dividend profit reserve (Note 8 and 9)	–	(21,545)	21,545	–
Issue of shares in relation to the dividend reinvestment plan and reinvestment of unclaimed dividends (Note 11)	2,636	–	–	2,636
Dividends paid (Note 10)	–	–	(20,231)	(20,231)
Balance at 30 June 2020	**387,838**	**(50,807)**	**76,298**	**413,329**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	**2020 $'000**	2019 $'000
Cash flows from operating activities			
Payments for purchase of financial assets		**(287,173)**	(208,022)
Proceeds from sale of financial assets		**300,779**	263,107
Dividends received		**7,017**	10,408
Interest received		**136**	339
Management fees paid		**(4,943)**	(5,150)
Other expenses paid		**(1,492)**	(1,498)
Income tax paid		**(11,457)**	(16,573)
Net cash from operating activities	13(b)	**2,867**	42,611
Cash flows from financing activities			
Dividends paid – net of dividend re-investment plan	10	**(17,739)**	(30,005)
Proceeds from issue of shares in relation to unclaimed dividends	11	**87**	118
Net cash (used in) financing activities		**(17,652)**	(29,887)
Net (decrease)/increase in cash and cash equivalents		**(14,785)**	12,724
Cash and cash equivalents at the beginning of the year		**65,056**	51,254
Effects of exchange rate changes on cash and cash equivalents		**2,283**	1,078
Cash and cash equivalents at the end of the year	13(a)	**52,554**	65,056

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on a historical cost basis, except for financial assets and liabilities measured at fair value.

The statement of financial position is presented on a liquidity basis. Specifically, assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current assets and liabilities. The majority of receivables and payables are expected to be recovered or settled within 12 months, whereas tax and investment balances may be recovered after 12 months.

Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, which management believes to be reasonable under the circumstances.

Fair value measurement hierarchy (refer to Note 17)

The Company is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require adjustments based on unobservable inputs.

Note 1. Summary of significant accounting policies – continued

Basis of preparation – continued

Recovery of deferred tax assets (refer to Note 3(c))

Deferred tax assets are recognised for deductible temporary differences only if the Company considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Functional currency (refer to the "foreign currency transactions" policy)

Items included in the Company's financial statements are measured using the Australian Dollar, which is the currency of the primary economic environment in which it operates (the "functional currency") and reflects the currency of the country in which the Company is regulated, and the currency in which capital is raised and dividends are paid. However, most of the Company's assets and revenues are not denominated in Australian Dollars.

Financial assets/liabilities at fair value through profit or loss

Recognition

The Company recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement and recognises changes in the fair value of financial assets or financial liabilities from this date. Investments are derecognised when the contractual right to receive cash flows from the investments have expired or have been transferred, and the Company has transferred substantially all of the risks and rewards of ownership.

Measurement

The contractual cash flows of equity securities, derivatives and foreign currency forward contracts held by the Company are not comprised of principal and interest. Consequently, these financial assets and financial liabilities are measured at fair value through profit or loss.

At initial recognition, the Company measures financial assets and financial liabilities at fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of profit and loss and comprehensive income.

Subsequent to initial recognition, gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the statement of profit and loss and comprehensive income within "net (losses)/gains in equities and derivatives at fair value through profit or loss" or "net (losses)/gains on foreign currency forward contracts" in the period in which they arise.

Fair value

AASB 13: *Fair Value Measurement* defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The standard prescribes that the most representative price within the bid-ask spread should be used for valuation purposes. With respect to the Company, the exit or "last" price is the most representative price within the bid-ask spread, because it represents the price that the security last changed hands from seller to buyer. The Company has applied last-sale pricing as the fair value measurement basis for equities and derivatives it holds.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

Note 1. Summary of significant accounting policies – continued

Financial assets/liabilities at fair value through profit or loss – continued

The fair value of financial assets and liabilities traded in active markets uses quoted market prices at reporting date without any deduction for estimated future selling costs.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, discounted cash flow techniques or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions. Options are valued with reference to the quoted price of the underlying index or share. If there is no liquid market available, options are valued based on option prices provided by an arm's length broker. These valuations are based on option pricing models.

Participatory notes are sometimes used as a convenient means of investing in local securities by a foreign investor. Participatory notes are generally traded over-the-counter, as they are issued by a counterparty to provide the investor with exposure to an individual equity, basket of equities or an index, in markets where liquidity, custody or other issues make ownership of the local securities sub-optimal. The valuation of participatory notes depends on the level of trading. If the participatory notes are actively traded, then the market price is used. If the participatory notes are not actively traded, counterparties provide a daily valuation that is based on the intrinsic value of the individual security.

Offsetting a financial asset and a financial liability

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is a legally enforceable right to offset recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Operating segments

Operating segments are presented using a single operating segment. However, AASB 8: *Operating Segments* requires certain entity-wide disclosures. Refer to Note 2 for further information.

Foreign currency transactions

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the country in which the Company is regulated, and the currency in which capital is raised and dividends are paid. The Australian dollar is also the Company's presentation currency.

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit or loss.

Note 1. Summary of significant accounting policies – continued

Investment income

Interest income

Interest income from financial assets at amortised cost is recognised on a time proportionate basis using the effective interest method and includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and may include interest from debt securities.

Dividend income

Dividend income is brought to account on the applicable ex-dividend date.

Directors' entitlements

Liabilities for Directors' entitlements to fees are accrued at nominal amounts calculated on the basis of current fee rates. Contributions to Directors' superannuation plans are charged as an expense as they are paid or become payable.

Income tax

The income tax expense or benefit for the period is the tax payable or receivable on that period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable. Withholding tax expense on foreign dividends has been included as part of income tax expense.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

Note 1. Summary of significant accounting policies – continued

Receivables

Receivables include proceeds from the sale of financial assets, dividends, GST, Indian Capital Gains Tax and interest receivables, where settlement has not occurred at the end of the reporting period. Receivables are generally received within 30 days of being recognised as a receivable.

Due from/due to brokers for unsettled trades

Amounts due from/due to brokers represent receivables for proceeds from the sale of financial assets (as disclosed in Note 6) and payables on purchase of financial assets/liabilities (as disclosed in Note 7) that have been traded, but not yet settled at reporting date. Proceeds from sale of financial assets are usually received between two and five days after trade date. Payables on purchase of financial assets/liabilities are usually paid between two and five days after trade date.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, cash held as collateral in margin accounts by derivatives clearing houses and counterparties, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Payments and receipts relating to the purchase and sale of investment securities are classified as "cash flows from operating activities" as realised and unrealised gains (and losses) on financial assets and liabilities represent the Company's main operating activity.

Trade and other payables

These amounts represent liabilities for services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

A provision is recognised if the Directors declare or determine to pay a dividend on or before balance date that has not been paid at balance date.

Note 1. Summary of significant accounting policies – continued

Dividend profit reserve

The Company has created a dividend profit reserve. The Board considers transfers of profits to the dividend profit reserve on a semi-annual basis. Dividends are paid from this reserve and undistributed profits are available to be used for dividends in future periods to enable smoothing of dividends for its shareholders. The reserve is included when determining the overall equity of the Company for accounting purposes.

Expenses

All expenses, including management fees and performance fees (if any), are recognised in the statement of profit or loss and other comprehensive income on an accrual basis.

Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the profit attributable to the owners of Platinum Capital Limited, by the weighted average number of ordinary shares outstanding during the financial year.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (*Rounding in Financial/Directors' Reports*) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in these financial statements have been rounded off in accordance with this Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New accounting standards and interpretations adopted for the first time

New and amended accounting standards adopted by the Company

There are no new standards, interpretations, or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2019 that have a material impact on the amounts recognised in the prior periods, or will affect the current or future periods.

New Accounting Standards and Interpretations not yet mandatory for the 30 June 2020 reporting period.

A number of other new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2020 and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

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Note 2. Operating segments

Identification of reportable operating segments

The Company is organised into one main operating segment with the key function of the investment of funds internationally. AASB 8: *Operating Segments* requires disclosure of revenue by investment type and geographical location, which is outlined below:

	2020 $'000	2019 $'000
(a) Investment (loss)/income by investment type		
Equity securities	**14,078**	4,540
Derivatives	**(34,118)**	243
Foreign currency forward contracts	**8,346**	(547)
Bank accounts	**2,754**	2,302
Total	**(8,940)**	6,538
(b) Investment (loss)/income by geographical area		
Japan	**1,762**	1,363
Asia ex Japan	**2,983**	15,178
Australia	**(846)**	(1,811)
Europe - Euro	**(13,236)**	(2,403)
Europe - Other	**614**	2,017
North America	**(7,020)**	(5,501)
South America	**3**	3
Africa	**(1,546)**	(1,761)
Unallocated investment income - Net gains/(losses) on foreign currency forward contracts	**8,346**	(547)
Total	**(8,940)**	6,538

Please refer to Note 16 for a breakdown of the geographic (physical) and currency exposure of the Company's underlying investments.

	2020 $'000	2019 $'000
Note 3. Income tax		
(a) Income tax benefit/(expense)		
The income tax benefit/(expense) attributable to the operating (loss)/profit comprises:		
Current income tax provision	**(6,415)**	(12,686)
Movement in deferred tax liability	**10,449**	13,493
Movement in deferred tax asset	**1,454**	–
Withholding tax on foreign dividends	**(345)**	(1,202)
Over provision of prior period tax	**–**	42
Income tax benefit/(expense)	**5,143**	(353)
The income tax benefit/(expense) attributable to the financial year differs from the prima facie amount payable on the operating (loss)/profit. The difference is reconciled as follows:		
(Loss) before income tax expense	**(15,268)**	(20)
Prima facie income tax at tax rate of 30%	**4,580**	6
Additional Australian tax payable on underlying investments	**–**	(382)
Foreign tax credits	**563**	(19)
Over provision of prior period tax	**–**	42
Income tax benefit/(expense)	**5,143**	(353)
(b) Income tax receivable/(payable)		
The income tax receivable/(payable) as disclosed in the statement of financial position is comprised of:		
Current income tax provision	**(6,415)**	(12,686)
Income tax instalments paid	**9,295**	10,525
Income tax receivable/(payable)	**2,880**	(2,161)

NOTES TO THE FINANCIAL STATEMENTS

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Note 3. Income tax – continued

(c) Deferred tax asset/(liability)

In line with our existing accounting policy, the Company has exercised judgement in determining the extent of recognition of deferred tax balances. The deferred tax asset/(liability) figure in the statement of financial position is comprised of:

	2020 $'000	2019 $'000
Deferred tax liability on dividends accrued	**(249)**	(215)
Deferred tax asset/(liability) on unrealised losses/(gains) on investments	**1,571**	(10,432)
Deferred tax asset on expense accruals	**60**	56
Deferred tax asset of capital raising and legal costs (deductible over 5 years)	**72**	142
Deferred tax asset/(liability)	**1,454**	(10,449)

At 30 June 2020, the Company is in a deferred tax asset position and this is predominantly because the Company has net unrealised losses on investments of $5,237,000 (2019: net unrealised gains of $34,773,000). The tax impact on these unrealised losses of $1,571,000 (2019: unrealised gains of $10,432,000) formed a major part of the overall net deferred tax asset.

The realised tax balance will depend on the actual gains or losses generated as and when the investments are sold.

Note 4. Financial assets at fair value through profit or loss

Equity securities	**357,684**	388,789
Derivatives	**29**	943
Foreign currency forward contracts	**154**	615
	357,867	390,347

Note 5. Financial liabilities at fair value through profit or loss

Derivatives	**1,981**	1,516
Foreign currency forward contracts	**1,065**	1,216
	3,046	2,732

	2020 $'000	2019 $'000
Note 6. Receivables		
Proceeds from sale of financial assets	**807**	1,806
Capital Gains Tax receivable	**20**	18
Dividends receivable	**1,237**	715
Interest receivable	**–**	37
Goods and Services Tax receivable	**41**	46
Prepayments	**144**	62
	2,249	2,684
Note 7. Payables		
Payables on purchase of financial assets	**–**	1,006
Trade creditors (unsecured)	**599**	630
Unclaimed dividends payable to shareholders	**–**	57
PAYG Tax payable	**3**	3
Interest payable	**27**	–
	629	1,696

Information relating to the Company's exposure of payables to liquidity risk is shown in Note 16.

Note 8. Retained earnings/(losses)		
Opening balance	**(19,137)**	(18,764)
Loss after income tax expense	**(10,125)**	(373)
Transferred to dividend profit reserve (see Note 9)	**(21,545)**	–
Closing balance	**(50,807)**	(19,137)

NOTES TO THE FINANCIAL STATEMENTS

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Note 9. Dividend profit reserve

The Company may set aside some or all of the undistributed profits to a separate dividend profit reserve, to facilitate the payment of future franked dividends, rather than maintaining these profits within retained earnings/(losses). The profit after income tax expense for the half year ended 31 December 2019 was transferred to the dividend profit reserve. A summary of the movements in this account is shown below.

	2020 $'000	2019 $'000
Opening balance 1 July 2019 (1 July 2018)	**74,984**	109,369
Transfer of operating profit after tax from retained earnings	**21,545**	–
Dividends paid (see Note 10)*	**(20,231)**	(34,385)
Closing balance	**76,298**	74,984

* **Dividends are paid out of the dividend profit reserve. Subsequent to 30 June 2020, the 2020 final fully-franked dividend of 3 cents per share was declared out of the reserve. The balance in the dividend profit reserve after providing for the 2020 final dividend is $67,583,000 (or 23.27 cents per share, based on the current shares on issue).**

Note 10. Dividends

Dividends paid during the financial year were as follows:

Final dividend paid for the 2019 financial year (4 cents per share)	**11,543**	–
Interim dividend paid for the 2020 financial year (3 cents per share)	**8,688**	–
Final dividend paid for the 2018 financial year (6 cents per share)	**–**	17,155
Interim dividend paid for the 2019 financial year (3 cents per share)	**–**	8,615
Special dividend paid for the 2019 financial year (3 cents per share)	**–**	8,615
	20,231	34,385

The "dividends paid – net of dividend re-investment plan" figure shown in the statement of cash flows is determined as follows:

Gross dividends paid (from above)	**(20,231)**	(34,385)
Decrease in unclaimed dividends payable (Note 7)	**(57)**	(22)
Dividend reinvestment plan allotment (Note 11)	**2,549**	4,402
Dividends paid – net of dividend re-investment plan	**(17,739)**	(30,005)

Note 10. Dividends – continued

Dividends not recognised at year-end

In addition to the above dividends paid during the period, on 21 August 2020, the Directors declared the payment of a 2020 final fully-franked dividend of 3 cents per share. The aggregate amount of this dividend expected to be paid on 21 September 2020, but not recognised as a liability at year-end, is $8,715,000. The dividend will be paid out of the dividend profit reserve.

	2020 $'000	2019 $'000
Franking credits		
Franking credits available at the balance date based on a tax rate of 30%	**11,447**	8,633
Franking credits that will arise from the tax (receivable)/payable at balance date based on a tax rate of 30%	**(2,880)**	2,161
Franking credits available for future franked dividends based on a tax rate of 30%	**8,567**	10,794
Franking debits that will arise from the payment of dividends declared subsequent to the balance date based on a tax rate of 30%	**(3,735)**	(4,947)
Net franking credits available based on a tax rate of 30%	**4,832**	5,847

At 21 August 2020, the available franking credits balance after providing for the 2020 final dividend would enable the payment of a fully-franked dividend of up to 3.88 cents per share fully-franked.

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	2020 SHARES	2019 SHARES	**2020 $'000**	2019 $'000
Note 11. Issued capital				
Ordinary shares – fully paid	**290,485,178**	288,569,783	**387,838**	385,202

DETAILS	DATE	SHARES	$'000
Balance	30-Jun-18	285,921,034	380,682
Dividend reinvestment plan[a]	12-Sep-18	1,219,301	2,191
Reinvestment of unclaimed dividends[b]	19-Sep-18	28,170	54
Dividend reinvestment plan[a]	19-Mar-19	1,360,673	2,211
Reinvestment of unclaimed dividends[b]	21-Mar-19	40,605	64
Balance	30-Jun-19	288,569,783	385,202
Dividend reinvestment plan[a]	13-Sep-19	985,222	1,431
Reinvestment of unclaimed dividends[b]	27-Sep-19	34,291	51
Dividend reinvestment plan[a]	19-Mar-20	867,524	1,118
Reinvestment of unclaimed dividends[b]	30-Mar-20	28,358	36
Closing balance	30-Jun-20	290,485,178	387,838

(a) Shares were issued under the dividend reinvestment plan at a 2.5% discount to the volume-weighted price of the Company's shares traded on the Australian Securities Exchange (ASX), over the five business days subsequent to the date on which the Company shares ceased to trade cum-dividend.

(b) Dividends that remain unclaimed after 6 months from payment date are automatically reinvested into additional shares in the Company.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Every member is entitled to one vote and upon a poll, each share shall have one vote.

Rights issue or share buy-back

There is no rights issue currently in place. On 8 April 2020, the Company announced an on-market share buy-back program, in which shares will be bought-back, should the Board consider that such is in the interest of shareholders as a whole. No shares have been bought-back as at 30 June 2020.

	2020 $'000	2019 $'000

Note 12. Earnings per share

	2020	2019
(Loss)/profit after income tax attributable to the owners of Platinum Capital Limited	**(10,125)**	(373)
	NUMBER	NUMBER
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**289,633,027**	287,317,516
	CENTS	CENTS
Basic earnings per share	**(3.50)**	(0.13)
Diluted earnings per share	**(3.50)**	(0.13)

There have been no conversions to, calls of, or subscriptions for ordinary shares during the current or previous period other than those issued under the dividend reinvestment plan and reinvestment of unclaimed dividends. Therefore, diluted earnings per share equals basic earnings per share.

Note 13. Notes to the statement of cash flows

(a) Components of cash and cash equivalents

	2020 $'000	2019 $'000
Cash at bank*	**49**	76
Cash on deposit held within the portfolio**	**52,505**	64,980
	52,554	65,056

* Cash at bank includes $49,000 (2019: $76,000) held in respect of unclaimed dividends on behalf of shareholders.

** Cash on deposit includes $8,878,000 (2019: $19,566,000) on deposit to 'cash cover' derivative contracts' deposits and margin calls. These amounts are held by the relevant derivatives clearing houses and counterparties as collateral. If losses are realised, the cash collateral is set off against those losses. If profits are realised on the close out of derivative contracts, the cash collateral is returned to the Company.

The Company maintains bank accounts to enable the settlement of purchases and sales of investments and to conduct other normal banking transactions. All accounts are at call and the majority bear floating interest rates in the range of -0.75% to 0.175% (2019: -0.35% to 1.7%).

NOTES TO THE FINANCIAL STATEMENTS

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	2020 $'000	2019 $'000
Note 13. Notes to the statement of cash flows – continued		
(b) Reconciliation of (loss)/profit after income tax to net cash from operating activities		
(Loss)/profit after income tax expense for the year	**(10,125)**	(373)
Adjustments for non-operating and non-cash items:		
Foreign exchange (gains)	**(2,283)**	(1,078)
Decrease in investment securities and foreign currency forward contracts	**32,794**	58,799
Change in operating assets and liabilities:		
(Increase)/decrease in deferred tax asset	**(1,256)**	85
Decrease in settlements receivable	**999**	2,149
Decrease/(increase) in settlement payable	**(1,006)**	269
Decrease/(increase) in interest receivable	**37**	(4)
Increase in interest payable	**27**	–
(Increase)/decrease in dividends receivable	**(522)**	331
(Increase) in prepayments	**(82)**	(3)
(Increase)/Decrease in Capital Gains Tax receivable	**(2)**	30
(Decrease) in trade and other payables	**(31)**	(91)
(Decrease) in deferred tax liability	**(10,647)**	(13,578)
Decrease in Goods and Services Tax receivable	**5**	5
(Decrease) in income tax payable	**(2,161)**	(3,930)
(Increase) in income tax receivable	**(2,880)**	–
Net cash from operating activities	**2,867**	42,611

	2020 $'000	2019 $'000

Note 14. Statement of Post-tax Net Tangible Asset Backing (NTA)

Reconciling Net Tangible Asset backing (post-tax) in accordance with Australian Accounting Standards to that reported to the ASX	2020 $'000	2019 $'000
Post-tax Net Tangible Asset backing per statement of financial position	**413,329**	441,049
Realisation costs and accruals*	**64**	(963)
Deferred income tax asset on realisation costs*	**–**	254
Post-tax Net Tangible Asset backing as reported to the ASX	**413,393**	440,340

The post-tax Net Tangible Asset backing per share at 30 June 2020 was $1.4231 per share (30 June 2019: $1.5259).

* From 1 December 2019, the ASX Listing Rules were changed to allow for the ASX reporting of Net Tangible Asset Backing per share to be prepared in accordance with Australian Accounting Standards. Therefore, there were no material differences between NTA reported to the ASX and NTA reported in the statement of financial position for 30 June 2020.

Note 15. Investment Portfolio

All Investments below are ordinary shares, unless stated otherwise.

	QUANTITY	2020 $'000
Japan		
Itochu	169,211	5,271
Lixil	252,050	5,094
Minebea Mitsumi	347,700	9,112
Nitto Denko	92,189	7,546
Sumco Corp	317,515	7,026
Sumitomo Metal Mining	125,183	5,055
Takeda Pharmaceutical	167,200	8,634
Toyota Industries	92,600	8,402
Total Japan		**56,140**
Asia ex Japan		
China		
Alibaba Group – American Depositary Receipt	24,950	7,797
Anta Sports Products	234,833	3,003
China ZhengTong Auto Services Holdings	2,994,872	621
China Overseas Land & Investment	1,820,512	7,981
MMG Ltd	5,898,965	1,764
Momo Inc – American Depositary Receipt	37,784	957

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	QUANTITY	2020 $'000
Note 15. Investment Portfolio – continued		
Asia ex Japan – continued		
China – *continued*		
PICC Property and Casualty Co	4,898,113	5,851
Ping An A – Participatory Note	795,816	11,600
Tencent Holdings	83,323	7,766
Trip.com Group – American Depositary Receipt	154,991	5,821
Weichai Power – Participatory Note	1,342,000	3,772
Weichai Power – Long Equity Swap	243,740	(13)
Weichai Power	721,398	2,030
ZTO Express – American Depositary Receipt	230,459	12,257
		71,207
Hong Kong		
AIA Group	601,068	8,124
EcoGreen International Group	5,097,839	1,134
		9,258
India		
Ashok Leyland	1,486,145	1,339
Axis Bank	295,396	2,305
		3,644
Thailand		
Kasikornbank	252,706	1,107
		1,107
South Korea		
LG Chem	16,488	9,742
KB Financial	26,902	1,100
Samsung Electronics	131,893	8,389
Samsung Electronics P class	96,000	5,378
		24,609
Total Asia ex Japan		**109,825**
Australia		
Evolution Mining	261,876	1,485
Total Australia		**1,485**

Note 15. Investment Portfolio – continued

	QUANTITY	2020 $'000
Europe – Euro		
Austria		
Raiffeisen Bank	140,319	3,623
		3,623
Belgium		
Galapagos	1,832	522
		522
France		
Safran	13,069	1,898
Sanofi	55,375	8,171
Valeo	109,601	4,168
		14,237
Ireland		
Bank of Ireland	211,403	620
Ryanair Holdings – Long Equity Swap	299,967	(382)
		238
Italy		
Intesa Sanpaolo	1,423,693	3,948
Saras	1,350,668	1,539
		5,487
Germany		
Bayer AG	52,277	5,599
Bayerische Motoren Werke	101,553	9,393
MTU Aero Engines	15,585	3,911
		18,903
Netherlands		
Just Eat Takeaway – Short Equity Swap	3,052	(31)
		(31)
Spain		
Amadeus IT Group	156,946	11,850
		11,850
Total Europe – Euro		**54,829**

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	QUANTITY	2020 $'000
Note 15. Investment Portfolio – continued		
Europe – Other		
Denmark		
Pandora	32,459	2,555
		2,555
Switzerland		
Glencore	3,506,637	10,780
Roche	15,239	7,654
		18,434
United Kingdom		
Beazley	139,227	1,025
Technip	307,642	3,050
		4,075
Total Europe – Other		**25,064**
North America		
Canada		
Barrick Gold	91,793	3,583
Seven Generations Energy	596,090	1,928
		5,511
United States		
Ally Financial Inc	168,783	4,849
Alphabet Inc	1,035	2,126
Alphabet Inc C Class	3,473	7,113
American Eagle Outfitters	108,384	1,712
Bluebird Bio Inc	13,695	1,211
Booking Holdings	4,182	9,648
Carrier Global Corp	63,167	2,034
Church & Dwight Co – Short Equity Swap	(32,620)	(136)
Colgate-Palmolive Company – Short Equity Swap	(9,606)	(2)
Chipotle Mexican Grill – Short Equity Swap	(425)	(26)
Esperion Therapeutics	21,539	1,601
Facebook Inc	27,313	8,986
FedEx Corp	10,435	2,120
Freeport-McMoran	57,544	965

	QUANTITY	2020 $'000
Note 15. Investment Portfolio – continued		
North America – continued		
United States *– continued*		
General Electric	1,025,279	10,146
Gilead Sciences	45,839	5,116
Intel Corp	71,280	6,179
Kimberly Clark Corporation – Short Equity Swap	(13,411)	(55)
Lam Research Corp	8,335	3,906
Medallia Inc	63,773	2,332
Microchip Technology	58,128	8,869
Micron Technology	114,619	8,556
Mongo DB Inc – Short Equity Swap	(11,934)	(510)
Peabody Energy Corp	79,389	331
Rockwell Automation – Short Equity Swap	(4,049)	(15)
Russell Mini – Short Future September 2020	(123)	(225)
Skyworks Solutions	33,272	6,164
Starbucks Corporation – Short Equity Swap	(5,864)	29
Tesla Motors – Short Equity Swap	(4,847)	(385)
The Clorox Co – Short Equity Swap	(12,264)	(201)
Vail Resorts Inc	7,613	2,009
Warrior Met Coal Inc	34,200	763
Wabtec Corp	1,156	96
		95,306
Total North America		**100,817**
South America		
Brazil		
BRF SA	374,698	2,128
		2,128
Peru		
Peru Holding De Turismo	1,667,523	–
		–
Total South America		**2,128**

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	QUANTITY	2020 $'000
Note 15. Investment Portfolio – continued		
Africa		
South Africa		
Great Basin Gold Ltd	192,636	–
		–
Zambia		
First Quantum Minerals Ltd	373,281	4,309
		4,309
Zimbabwe		
Axia Corp	1,391,123	85
Cassava Smartech	2,336,111	235
Econet Wireless	7,549,210	778
Old Mutual Ltd	7,701	8
Simbisa Brands	268,491	28
		1,134
Total Africa		**5,443**
Total equities and derivatives (Note 4 and Note 5)*		**355,731**

* From Note 4 (financial assets), the total of equity securities was $357,684,000 and the total of derivatives was $29,000, less, from Note 5 (financial liabilities), the total of derivatives of $1,981,000. This results in a total of $355,731,000.

Add	
Receivable from the proceeds from sale of financial assets (Note 6)	807
Dividends receivable (Note 6)	1,237
Withholding tax receivable	(433)
Cash and cash equivalents (Note 13)	52,554
Foreign currency forward contracts (Note 4 and Note 5)	(911)
Total Investment Portfolio (reconciles to Note 16: Foreign exchange risk)	**408,985**

During the year, the number of transactions was 8,728 and the total brokerage paid was $1,158,000 ($280,000 on purchases and $878,000 on sales).

Note 16. Financial risk management

Financial risk management objectives, policies and processes

In pursuing its investment objectives, the Company is exposed to a variety of financial risks: market risk (including interest rate risk, foreign exchange risk and price risk), credit risk and liquidity risk. The management of these risks is carried out by the Investment Manager under policies approved by the Directors. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Company uses different methods to measure different types of risk to which it is exposed. These methods are explained below.

The Investment Manager's investment style:

- adopts a bottom-up stock selection methodology, through which long-term capital growth is sought by investing in undervalued securities across the world;
- seeks absolute returns and not returns relative to any index;
- invests excess funds in cash when undervalued stocks cannot be found; and
- actively manages currency.

The Company uses financial derivative instruments (both Over-the-Counter (OTC) derivatives and exchange traded derivatives) for risk management purposes and to take opportunities to increase returns, including, for example:

- to gain access to markets not readily available to foreign investors;
- to create a short position in a security;
- to build a position in a security as a short-term strategy to be reversed when physical securities are purchased; and
- to aid in the management of the Company's cash flows (e.g. some stock markets require pre-funding of stock purchases that may be avoided through the use of derivatives).

The underlying value of the Company's derivatives positions may not exceed 100% of the Company's net asset value ("NAV"). The underlying value of the Company's long stocks and derivative positions may not exceed 150% of the Company's NAV. Where options are employed, the underlying value will be the delta-adjusted exposure. The Company will typically have 50% or more net equity exposure. The Company's exposure against these limits is regularly monitored by the Investment Manager. In addition, quarterly exposure reports are provided to the Audit, Risk and Compliance Committee. As ordinary shares of the Company are fully paid, a shareholder's exposure to any losses would not exceed the value of their shareholding.

NOTES TO THE FINANCIAL STATEMENTS

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Note 16. Financial risk management – continued

The tables below summarise the Company's investments at fair value and long and short derivatives effective exposure.

2020	**PHYSICAL $'000**	**LONG DERIVATIVES CONTRACTS $'000**	**SHORT DERIVATIVES CONTRACTS $'000**	**NET EXPOSURE $'000**
Japan	**56,140**	**–**	**–**	**56,140**
Asia ex Japan*	**109,838**	**686**	**–**	**110,524**
Australia	**1,485**	**–**	**–**	**1,485**
Europe – Euro	**55,242**	**4,277**	**(461)**	**59,058**
Europe – Other	**25,064**	**–**	**–**	**25,064**
North America	**102,344**	**–**	**(38,132)**	**64,212**
South America	**2,128**	**–**	**–**	**2,128**
Africa	**5,443**	**–**	**–**	**5,443**
	357,684	**4,963**	**(38,593)**	**324,054**

2019	PHYSICAL $'000	LONG DERIVATIVES CONTRACTS $'000	SHORT DERIVATIVES CONTRACTS $'000	NET EXPOSURE $'000
Japan	47,979	–	(13,739)	34,240
Asia ex Japan	163,072	1,634	(4,148)	160,558
Australia	2,597	–	(1,142)	1,455
Europe – Euro	32,797	4,148	(14,047)	22,898
Europe – Other	39,108	–	(2,922)	36,186
North America	98,030	–	(65,488)	32,542
South America	2,539	–	(927)	1,612
Africa	2,667	–	–	2,667
	388,789	5,782	(102,413)	292,158

The "Physical" column represents the location of the Company's investments. The Investments shown on the "Physical" column (totalling $357,694,000 for 2020) reconciles to the fair value of equity securities disclosed in Note 4, being $357,684,000 for equity securities.

* The three largest contributors to the "Asia ex Japan" category at 30 June 2020 were as follows:

	PHYSICAL EXPOSURE $'000	NET EXPOSURE $'000
Chinese investments (including Chinese investments listed on the Hong Kong stock exchange)	71,221	71,906
Korea	24,609	24,609
India	9,258	9,258

Note 16. Financial risk management – continued

The "Long/Short Derivatives Contracts" columns include the effective exposure of long/short equity swaps and futures. The "Net Exposure" column represents an approximation of the Company's exposure to movements in markets. This is calculated by making an adjustment to the "Physical" position, by adding any long (bought) derivative positions in shares or share index futures and subtracting the principal notional amount of any short (sold) positions. For example, if 5% of the Portfolio was invested in Japan, but there was a 2% short position in Nikkei futures, then the net exposure column would show 3%. Conceivably, the figure could show a negative exposure, which would indicate that the Portfolio was net short the Japanese market. All securities, including equity swaps and derivatives, present a risk of loss of capital. For equity securities, this loss is limited to the fair value disclosed in the statement of financial position.

Market risk

Foreign Exchange risk

Foreign exchange risk is the risk the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates internationally and is exposed to foreign exchange risk arising from buying, selling and holding investments denominated in foreign currencies. The Investment Manager selects stocks based on value regardless of geographic location. The Company undertakes a significant number of its transactions denominated in foreign currencies and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Active currency management is an integral part of the management of market risk. The Investment Manager may position the Company's portfolio in what it believes will be stronger performing currencies. The Investment Manager may use foreign currency forward contracts, currency swaps, non-deliverable forwards and currency options, as well as spot foreign exchange trades to position the portfolio in the desired currencies. A currency exposure may be hedged into a different currency from that which the physical exposure is maintained (for example, US Dollar hedges may be used to hedge the currency risk of holding investments in the Japanese Yen).

Where there have been major currency movements or where currencies are perceived to be over or undervalued, the Investment Manager may look for investments whose operating environment has been distorted by the lower currency as part of the search for undervalued stocks. There may be opportunities to invest in stocks impacted by a lower currency (for example, export-oriented stocks).

NOTES TO THE FINANCIAL STATEMENTS

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Note 16. Financial risk management – continued

Market risk – continued

Foreign exchange risk – continued

The table below summarises the Company's investment exposure at fair value to foreign exchange risk. The total "Physical" column and "Net Exposure" column reconciles to the total investment portfolio in Note 15.

2020	**CASH $'000**	**PHYSICAL $'000**	**BOUGHT $'000**	**SOLD $'000**	**NET EXPOSURE $'000**
Japan	**2,185**	**56,217**	**22,831**	**–**	**81,233**
Asia ex Japan*	**8,359**	**137,313**	**–**	**–**	**145,672**
Australia	**1,614**	**574**	**40,640**	**911**	**43,739**
Europe – Euro	**2,461**	**54,864**	**45,207**	**–**	**102,532**
Europe – Other	**8,546**	**27,846**	**–**	**–**	**36,392**
North America	**29,388**	**71,743**	**–**	**(109,589)**	**(8,458)**
South America	**–**	**2,429**	**–**	**–**	**2,429**
Africa	**1**	**5,445**	**–**	**–**	**5,446**
	52,554	**356,431**	**108,678**	**(108,678)**	**408,985**

2019	CASH $'000	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Japan	3,655	46,967	22,532	–	73,154
Asia ex Japan	11,659	150,050	–	(68,115)	93,594
Australia	366	2,025	602	–	2,993
Europe – Euro	25,074	32,288	–	–	57,362
Europe – Other	4,236	29,908	7,914	–	42,058
North America	20,032	123,259	67,433	(30,366)	180,358
South America	–	1,966	–	–	1,966
Africa	34	2,667	–	–	2,701
	65,056	389,130	98,481	(98,481)	454,186

* The largest contributors to the "Asia ex Japan" category at 30 June 2020 were as follows:

	NET EXPOSURE $'000	CURRENCY EXPOSURE %
Chinese yuan	98,040	24.2
Korean won	24,609	6.1
Hong Kong dollar	18,211	4.5
Indian rupee	3,705	0.9
Other Asian currencies	1,107	0.3
	145,672	

Note 16. Financial risk management – continued

Market risk – continued

Foreign exchange risk – continued

Foreign currency forward contracts are adjusted against the "Physical" column to arrive at a "Net Exposure" for each currency grouping. The Company generally utilises short dated (90 day maturity) currency agreements with high-credit rated counterparties. The existing foreign currency forward contract positions' maturity date is 80 days from the balance sheet date.

Foreign exchange risk sensitivity analysis

The table below summarises the sensitivities of the Company's profit to foreign exchange risk. The analysis is based on the assumption that the Australian Dollar strengthened by 10% against the United States dollar and Euro (shown in the +10% column) and weakened by 10% against the United States dollar and Euro (shown in the -10% column). These two currencies are the material foreign currencies to which the Company was exposed at 30 June 2020.

A sensitivity of 10% has been selected as this is considered reasonably possible given current exchange rates and the volatility observed both on a historic basis and after factoring in possible future movements. The sensitivity has been undertaken on a combined basis for both monetary assets and liabilities and financial assets and liabilities measured at fair value through profit or loss, as the Company believes this accurately portrays the Company's exposure to foreign exchange risk.

2020	**INCREASE % CHANGE**	**AUD STRENGTHENED EFFECT ON PROFIT BEFORE TAX $'000**	**DECREASE % CHANGE**	**AUD WEAKENED EFFECT ON PROFIT BEFORE TAX $'000**
United States dollar	**10%**	**(5,082)**	**(10%)**	**6,212**
Euro	**10%**	**(9,346)**	**(10%)**	**11,422**
Other currencies	**10%**	**(22,926)**	**(10%)**	**28,020**
		(37,354)		**45,654**

2019	INCREASE % CHANGE	AUD STRENGTHENED EFFECT ON PROFIT BEFORE TAX $'000	DECREASE % CHANGE	AUD WEAKENED EFFECT ON PROFIT BEFORE TAX $'000
United States dollar	10%	(17,606)	(10%)	21,518
Euro	10%	(5,415)	(10%)	6,618
Other currencies	10%	(15,075)	(10%)	18,426
		(38,096)		46,562

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

Note 16. Financial risk management – continued

Market risk – continued

Foreign exchange risk sensitivity analysis *– continued*

The weakening of the AUD will increase the operating profit. A strengthening of the AUD will decrease the operating profit.

The sensitivity analysis shows that the Company is materially affected by exchange rate movements (other things being equal), given the global nature of the investments held.

Interest rate risk

Interest rate risk is the possibility the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The majority of the Company's financial assets and liabilities are non-interest bearing as the Company has a policy of not borrowing, other than for settlement of trades. Cash holdings are directly affected by interest rate movements, but at balance date, interest rates on these cash accounts were low (and ranged from -0.75% to 0.175%).

Interest rate risk indirectly affects the Company as interest rate movements will affect forward points used in determining gains or losses on forward contracts. The impact of interest rate movements on our investments is not capable of precise estimation. At 30 June 2020, if interest rates had changed by +/- 100 basis points with all other variables held constant, the direct impact on interest income would not have been significant for the Company.

Price risk

Market prices fluctuate due to a range of factors specific to the individual investments, or factors affecting the market in general. The Investment Manager's stock selection process is core to the management of price risk. The Investment Manager adopts a thematic stock selection approach and is an "active manager". The Investment Manager seeks a broad range of investments whose businesses and growth prospects, it believes, are being undervalued by the market. Accordingly, investment holdings in the Company may vary considerably from the make-up of the MSCI All Country World index on the basis that the Investment Manager remains index agnostic.

As an additional risk management tool, the Company may enter into short equity swaps and futures to protect against market movements. At 30 June 2020, the Company maintained short positions against market indices and company-specific stocks.

Note 16. Financial risk management – continued

Price risk – continued

Price risk sensitivity analysis

Price risk exposure arises from the Company's investment portfolio, which comprises investments in securities and derivatives. The below analysis is based on net positions.

At 30 June 2020, the two markets that the Company had the biggest investment exposure to were China (including Chinese investments listed on the foreign stock exchanges) and Japan. The effect on profit due to a possible change in market prices, as represented by a -/+10% movement in these markets with all other variables held constant, is illustrated in the table below:

2020	**INCREASE % CHANGE**	**EFFECT ON PROFIT BEFORE TAX ($'000)**	**DECREASE % CHANGE**	**EFFECT ON PROFIT BEFORE TAX ($'000)**
United States	**10%**	**7,252**	**(10%)**	**(7,252)**
China (including Chinese investments listed on the Hong Kong stock exchange)	**10%**	**7,191**	**(10%)**	**(7,191)**
All other markets	**10%**	**20,155**	**(10%)**	**(20,155)**
		34,598		**(34,598)**

2019	INCREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX ($'000)	DECREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX ($'000)
United States	10%	4,508	(10%)	(4,508)
China (including Chinese investments listed on the Hong Kong stock exchange)	10%	10,441	(10%)	(10,441)
All other markets	10%	19,715	(10%)	(19,715)
		34,664		(34,664)

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

Note 16. Financial risk management – continued

Credit risk

Credit risk relates to the risk of a counterparty defaulting on a financial obligation resulting in a loss to the Company (typically through derivatives transactions, currency forward contracts and cash holdings).

The exposure to credit risk for cash and cash equivalents, futures, equity swaps, and foreign currency forward contracts is any unrealised profit and collateral paid on the positions (the money the Company would lose if the counterparty defaulted) at reporting date. The table below shows the Company's counterparty credit risk exposure by credit rating.

RATINGS	**2020 $'000**	2019 $'000
A	**–**	–
A-	**5,707**	21,477
AA-	**42,434**	47,241
BBB+	**16,416**	38,809
Total	**64,557**	107,527

Independent rating agencies consider a credit rating of BBB or higher to be investment grade.

The Investment Manager regularly monitors the Company's credit risk exposure to counterparties and seeks to manage the risk by diversifying the Company's exposure over a number of different counterparties. Over-the-Counter derivatives transactions are entered into by the Investment Manager on behalf of the Company under standard ISDA (International Swaps and Derivatives Association) master agreements and English law governed Credit Support Annexes, which employ two-way margining of unrealised profits and losses. The Investment Manager also limits the duration of derivatives contracts to short-term. Transactions in listed securities and investments are entered into with the Investment Manager's approved brokers. Payment for securities purchased is typically only made once a broker has received securities and delivery of securities sold typically only occurs once the broker has received payment.

Liquidity risk

Liquidity risk is the risk the Company will encounter difficulty in meeting obligations associated with financial liabilities. This includes the risk that the Company will:

(i) not have sufficient funds to settle a transaction on the due date; and

(ii) be forced to sell financial assets at a value which is less than what they are worth.

Note 16. Financial risk management – continued

Liquidity risk – continued

Remaining contractual maturities

The table below details the Company's remaining contractual maturity for its financial and non-financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial and non-financial liabilities based on the earliest date on which the financial and non-financial liabilities are required to be paid.

2020	**WITHIN 3 MONTHS $'000**	**BETWEEN 3 AND 12 MONTHS $'000**	**TOTAL $'000**
Non-financial			
Payables (Note 7)	**480**	**150**	**630**
Income tax payable (Note 3)	**–**	**–**	**–**
Total non-financial	**480**	**150**	**630**
Financial			
Derivative contractual outflows (Note 5)	**1,981**	**–**	**1,981**
Foreign currency forward contractual outflows (Note 5)	**1,085**	**–**	**1,085**
Total financial	**3,046**	**–**	**3,046**

2019	WITHIN 3 MONTHS $'000	BETWEEN 3 AND 12 MONTHS $'000	TOTAL $'000
Non-financial			
Payables (Note 7)	1,680	16	1,696
Income tax payable (Note 3)	–	2,161	2,161
Total non-financial	1,680	2,177	3,857
Financial			
Derivative contractual outflows (Note 5)	1,516	–	1,516
Foreign currency forward contractual outflows (Note 5)	1,216	–	1,216
Total financial	2,732	–	2,732

At 30 June 2020, there are no other contractual amounts payable after 12 months.

The Company has sufficient funds to meet these liabilities as most of the Company's assets can be realised in one year or less.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

Note 16. Financial risk management – continued

Liquidity risk – continued

Remaining contractual maturities *– continued*

All securities, including equity swaps and other derivatives, present a risk of loss of capital. For equity securities, this loss is limited to the fair value disclosed in the statement of financial position.

The risk management guidelines adopted are designed to minimise liquidity risk by:

(i) ensuring that there is no significant exposure to illiquid or thinly traded financial instruments; and

(ii) applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

The Investment Manager prepares daily cash forecasts on behalf of the Company and maintains sufficient cash to meet normal operating requirements. The Company has a policy of not borrowing money, other than on a short-term basis for settlement, trading and like purposes.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Capital risk management

The Company considers its capital to comprise ordinary share capital, reserves and accumulated retained earnings.

The Company's key investment objective is to provide capital growth over the long-term through investing in companies worldwide which the Investment Manager perceives to be undervalued by the market.

The Board regularly and actively reviews the most efficient manner by which the Company manages its capital, in response to changing market conditions and risks, with the sole aim of enhancing shareholder value, through:

- the management of the level of dividends to shareholders;
- the issue of shares by methods such as rights offers, share purchase plans and/or placements; and/or
- use of share buy-backs.

The Company is an ASX-listed investment company and is subject to various ASX Listing Rules. For example, the Company must report its Net Tangible Asset backing per share (NTA) to the ASX on a monthly basis. The Company complies with all externally-imposed capital requirements.

Note 17. Fair value measurement

Fair value hierarchy

AASB 13: *Fair Value Measurement* requires the Company to classify its assets and liabilities held at fair value through profit or loss using the following fair value hierarchy model:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The Company measures and recognises the following financial assets and liabilities at fair value, pursuant to AASB 13, on a recurring basis:

(i) Equity securities, long equity swaps and long futures;

(ii) Short equity swaps and short futures; and

(iii) Foreign currency forward contracts.

The following table details the Company's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy model.

30 JUNE 2020	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Assets				
Equity securities	**306,472**	**50,085**	**1,126**	**357,683**
Derivatives	**–**	**29**	**–**	**29**
Foreign currency forward contracts	**–**	**155**	**–**	**155**
Total assets	**306,472**	**50,269**	**1,126**	**357,867**
Liabilities				
Derivatives	**225**	**1,756**	**–**	**1,981**
Foreign currency forward contracts	**–**	**1,065**	**–**	**1,065**
Total liabilities	**225**	**2,821**	–	**3,046**

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

Note 17. Fair value measurement – continued

Fair value hierarchy – continued

30 JUNE 2019	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Assets				
Equity securities	343,003	43,119	2,667	388,789
Derivatives	–	943	–	943
Foreign currency forward contracts	–	615	–	615
Total assets	343,003	44,677	2,667	390,347
Liabilities				
Derivatives	1,236	280	–	1,516
Foreign currency forward contracts	–	1,216	–	1,216
Total liabilities	1,236	1,496	–	2,732

The figures presented above can be reconciled to Note 4 or Note 5 and the statement of financial position.

Rationale for classification of assets and liabilities as Level 1

As at 30 June 2020, 88% (2019: 88%) of the equity securities held by the Company were valued using unadjusted quoted prices in active markets and were classified as Level 1 in the fair-value hierarchy model.

Rationale for classification of assets and liabilities as Level 2

There were certain financial instruments that were classified as Level 2, because a degree of adjustment has been made to the quoted price i.e., whilst all significant inputs required for fair value measurement are observable and quoted in an active market, there was a degree of estimation involved in deriving the fair value. Participatory notes were classified as Level 2 because they were generally traded over-the counter and were often priced in a different currency to the underlying security. Foreign currency forward contracts are classified as Level 2 even though forward points are quoted in an active and liquid market. The forwards themselves are based on interest rate differentials.

Rationale for classification of assets and liabilities as level 3

As at 30 June 2020, the Company held (approximately) A$1,134,202 in Zimbabwean securities (based on the adjusted value applied by the Investment Manager), which constituted approximately 0.32% (2019: 0.69%) of the Company's total fair value of investments at 30 June 2020.

Whilst the Reserve Bank of Zimbabwe publishes an official daily ZWL to USD exchange rate, there are no external quoted exchange rates available. Hence, the Investment Manager used the Old Mutual Implied Rate (OMIR) as a proxy exchange rate which incorporates a liquidity discount arising from the restriction on repatriating funds out of Zimbabwe. The OMIR is based on a trade weighted average of the Old Mutual securities listed on both the London and South African stock exchanges.

Note 17. Fair value measurement – continued

Rationale for classification of assets and liabilities as level 3 – continued

As a result of this manual adjustment to the ZWL price quoted on the Zimbabwe stock exchange, in order to derive or translate the local currency fair value into Australian Dollars, the Zimbabwean securities have been classified as Level 3 for the purposes of applying the fair value hierarchy model at 30 June 2020 and were also classified as Level 3 at 30 June 2019. Please refer to the 2019 Annual Report for a discussion on how the Zimbabwean securities were valued in the comparative year.

The value of Zimbabwean securities recorded in the statement of financial position was $1,201,318 lower than the value that would have applied if the 30 June 2020 quoted closing market price for these securities in A$ had been used when preparing the Company's statement of financial position. A summary of the Level 3 fair value applied relative to the "Level 1" equivalent fair value is disclosed in the table below.

30 JUNE 2020 **NAME OF ZIMBABWEAN SECURITY**	**FAIR VALUE USED TO VALUE THE SECURITY IN THE ACCOUNTS (A$) (LEVEL 3 VALUE USED)**	**FAIR VALUE BASED ON THE QUOTED CLOSING MARKET PRICE AT 30 JUNE 2020 (A$) (EQUIVALENT LEVEL 1 VALUE)**	**% DISCOUNT**
Axia Corp	**85,309**	**175,666**	**51**
Econet Wireless Holdings	**234,946**	**483,794**	**51**
Cassava Smartech	**777,751**	**1,601,525**	**51**
Old Mutual	**7,745**	**15,948**	**51**
Simbisa Brands	**28,451**	**58,587**	**51**
Total	**1,134,202**	**2,335,520**	

30 JUNE 2019 NAME OF ZIMBABWEAN SECURITY	FAIR VALUE USED TO VALUE THE SECURITY IN THE ACCOUNTS (A$) (LEVEL 3 VALUE USED)	FAIR VALUE BASED ON THE QUOTED CLOSING MARKET PRICE AT 30 JUNE 2019 (A$) (EQUIVALENT LEVEL 1 VALUE)	% DISCOUNT
Axia Corp	119,075	164,566	28
Econet Wireless Holdings	654,423	1,197,433	28
Cassava Smartech	866,425	904,437	28
Innscor Africa	625,444	864,388	28
Masimba Holdings	120,156	166,061	28
Old Mutual	11,127	15,379	28
Simbisa Brands	270,084	373,266	28
Total	2,666,734	3,685,530	28

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2020

Note 17. Fair value measurement – continued

Rationale for classification of assets and liabilities as level 3 – continued

Below is a table showing the Level 3 fair value movement during the year.

	2020 $	2019 $
Opening balance	**2,666,734**	3,926,980
Transfers to Level 3	**–**	–
Movement during the year	**(1,532,532)**	(1,260,246)
Level 3 closing balance	**1,134,202**	2,666,734

Valuation process

The valuation of each investment that the Company holds is the primary responsibility of the Investment Manager. The Investment Manager's Securities Pricing Committee has authority to review and approve valuation methodologies to be applied to determine the fair values of portfolio securities and other assets held by the Company for which no quoted market price is readily available, and to make recommendations to the Board.

The Securities Pricing Committee also assesses whether an adjustment is required to the quoted market price of any security, if it is considered that the quoted market price is not reasonable (for example securities with a so-called "stale" price). A register is maintained documenting the valuation used and the basis for the valuation of any security or investment that may be manually adjusted or manually priced. The Securities Pricing Committee meets on a quarterly basis, and also on an ad hoc basis as is required.

Note 18. Offsetting of financial assets and financial liabilities

Offsetting and master netting agreements

The Company enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements. In general, under these agreements the amounts owed by each counterparty on a single day in respect of the same transaction type outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other, if:

I. there is a legally enforceable right to set-off the financial asset and financial liability; and

II. the Company intends to settle the financial asset and financial liability on a net basis, or realise the financial asset and settle the financial liability simultaneously.

Note 18. Offsetting of financial assets and financial liabilities – continued

Offsetting and master netting agreements – continued

The gross and net positions of financial asset and liabilities that have been offset in the Statement of Financial Position are disclosed in the first three columns below:

	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT SET-OFF IN THE STATEMENT OF FINANCIAL POSITION		
	GROSS AMOUNTS $'000	GROSS AMOUNTS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION $'000	NET AMOUNTS IN THE STATEMENT OF FINANCIAL POSITION $'000	FINANCIAL INSTRUMENT[1] $'000	CASH COLLATERAL $'000	NET AMOUNT $'000
Financial assets						
2020						
Derivatives	**29**	**–**	**29**	**–**	**–**	**29**
Foreign currency forward contracts	**154**	**–**	**154**	**(154)**	**–**	**–**
2019						
Derivatives	943	–	943	–	–	943
Foreign currency forward contracts	783	(168)	615	(572)	–	43
Financial liabilities						
2020						
Derivatives	**1,981**	**–**	**1,981**	**–**	**–**	**1,981**
Foreign currency forward contracts	**1,065**	**–**	**1,065**	**(154)**	**(479)**	**432**
2019						
Derivatives	1,516	–	1,516	–	–	1,516
Foreign currency forward contracts	1,384	(168)	1,216	(572)	(530)	(114)

1. Shows the impact of arrangements between the Company and the relevant counterparty on financial instruments that provide a right to set-off that becomes enforceable and affects settlement of individual financial assets and liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of business. These arrangements are not set-off in the Statement of Financial Position, as they are not currently enforceable.

NOTES TO THE FINANCIAL STATEMENTS

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Note 19. Investment Manager

The Investment Manager, Platinum Investment Management Limited receives a monthly management fee for investment management services provided in accordance with the Investment Management Agreement. This Agreement provides for a management fee payable monthly and calculated at 1.1% (2019: 1.1%) per annum of the adjusted portfolio value (which includes cash and deposits).

The Agreement also provides for a performance fee at 15%, at 30 June, of the amount by which the portfolio's annual performance exceeds the return achieved by the MSCI International All Country World Net Index in $A. Where the portfolio's annual return is less than the index, the amount of the underperformance is aggregated, carried forward and deducted from the annual performance in the subsequent year before calculating any performance fee for that year. The aggregate underperformance from prior periods is carried forward until a performance fee becomes payable.

For the 12 months to 30 June 2020, the performance of the portfolio was negative 3.55%[1] and the performance of the index was 4.08% for the same period. This represents an underperformance of 7.63% against the index. Taking into account the aggregate underperformance of 21.55% from the prior periods, no performance fee has been accrued. A total aggregate underperformance, for the purposes of calculating the performance fee, of 29.18% will need to be made up before a performance fee will be payable. The management fees paid and payable are shown in the table below.

	2020 $	2019 $
Management fees paid	**4,524,947**	4,689,730
Management fees payable	**374,858**	417,736
Total	**4,899,805**	5,107,466

In the event of termination of the Agreement by the Company for convenience, the Investment Manager will be eligible to receive a termination fee equivalent to the management fee of 1.1% of the portfolio value (adjusted for any taxes paid/refunded, dividends paid and capital flows) and the performance fee (calculated as set forth above) if any, for the period from the first business day of the month in which termination is effective to the date which is the first anniversary of that date. No termination fee is payable if the Investment Manager terminates the Agreement.

1 This figure represents the 12 month return of the "Portfolio Value" (as defined in of the Investment Management Agreement), which is defined as the aggregate value of each asset or investment of the Company's portfolio. This differs from the Company's 12 month pre-tax NTA return of negative 3.5% referred to in the Directors' Report, which also includes non-portfolio and non-investment related assets and liabilities.

Note 19. Investment Manager – continued

A summary of the salient provisions of the Investment Management Agreement ("Agreement") is contained below:

(a) The terms of the Agreement require the Investment Manager to, amongst other things:

- (i) invest and manage the portfolio in accordance with the Agreement;
- (ii) keep the portfolio under review and confer with the Board of the Company at regular intervals in respect of the investment and management of the portfolio;
- (iii) exercise all due diligence and vigilance in carrying out its functions, powers and duties under the Agreement; and
- (iv) promptly notify the Board of any instructions given to it by the Company which have not been complied with.

(b) Each party is required to provide three months' notice to terminate the Agreement. However, the Company may terminate the Agreement at any time by written notice to the Investment Manager where:

- (i) receiver and manager, administrative receiver or similar person is appointed with respect to the assets and undertakings of the Investment Manager;
- (ii) the Investment Manager goes into liquidation;
- (iii) the Investment Manager ceases to carry on business in relation to its activities as an investment manager;
- (iv) the Investment Manager breaches any material provision of the Agreement, or fails to observe or perform any representation, warranty or undertaking given by it under the Agreement and fails to correct such breach or failure within 10 business days of receiving notice in writing from the Company specifying such breach or failure;
- (v) the Investment Manager sells or transfers or makes any agreement for the sale or transfer of the main business and undertaking given by it or its beneficial interest therein, other than to a related body corporate for purposes of corporate reconstruction on terms previously approved in writing by the Company;
- (vi) relevant law required the Agreement to terminate.

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Note 20. Remuneration of auditors

During the financial year, the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Company:

	2020 $	2019 $
Audit services – PricewaterhouseCoopers		
Audit and review of the financial statements	**80,070**	88,055
Other services – PricewaterhouseCoopers		
Tax compliance services	**18,035**	73,344
	98,105	161,399

Note 21. Key management personnel disclosures

Key Management Personnel

Details of remuneration paid to the Non-Executive Directors are outlined in the statement of profit or loss and other comprehensive income and in aggregate terms was $186,150 (2019: $186,150), with $170,000 (2019: $170,000) paid as cash salary and $16,150 (2019: $16,150) paid as superannuation. Refer to the Remuneration Report for further details.

Interests of Directors in shares

The relevant interest in ordinary shares of the Company that each Director held at balance date was:

	OPENING BALANCE	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Margaret Towers	50,000	–	–	50,000
Richard Morath	42,372	–	–	42,372
Jim Clegg	59,972	–	–	59,972

Note 22. Related party transactions

Management fees

Disclosures relating to management fees paid and payable to the related party, Platinum Investment Management Limited are set out in Note 19.

Administration fees

The Investment Manager provides various administrative services to the Company. These include accountancy, secretarial, performance analytics, taxation, compliance and risk monitoring services. The services provided extend to liaison with the share registry to ensure that accurate share records are maintained and services are provided to shareholders in a timely and efficient manner.

Note 22. Related party transactions – continued

Key management personnel

Disclosures relating to key management personnel are set out in Note 21 and the Remuneration Report.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 23. Contingent Assets, Liabilities and Commitments to Capital Expenditure

No contingent assets or liabilities exist at 30 June 2020 or 30 June 2019. The Company has no commitments for uncalled share capital on investments.

Note 24. Events after the reporting period

Apart from the dividend declared as disclosed in Note 10, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 25. The Company

Platinum Capital Limited, is a company limited by shares, incorporated and domiciled in New South Wales, Australia. Its current registered office and principal place of business is:

Level 8, 7 Macquarie Place
Sydney NSW 2000

A description of the nature of the Company's operations and its principal activities is included in the Directors' Report.

DIRECTORS' DECLARATION

30 JUNE 2020

In the Directors' opinion:

(a) the financial statements and notes set out on pages 27 to 71 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving true and fair view of the Company's financial position as at 30 June 2020 and of its performance for the financial year ended on that date, and

(b) there were reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Margaret Towers
Chairperson

Richard Morath
Director

21 August 2020
Sydney

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

pwc

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Platinum Capital Limited (the Company) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2020
- the statement of profit or loss and other comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO Box 2650, Sydney NSW 2001

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Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

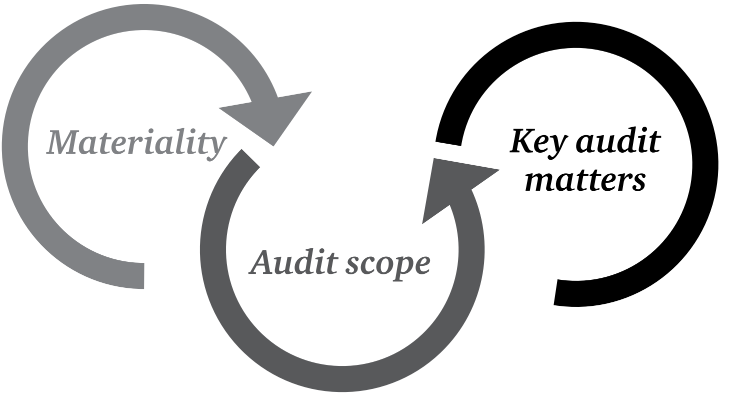
We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Company, its accounting processes and controls and the industry in which it operates.

Platinum Capital Limited is an investment company listed on the ASX. The Company primarily makes investments in international equities.



MATERIALITY	AUDIT SCOPE	KEY AUDIT MATTERS
– For the purpose of our audit we used overall materiality of $4.133 million, which represents approximately 1% of the Company's net assets. – We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.	– Our audit focused on where the Company made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. – Our audit approach reflects the nature of the investments held by the Company and the consideration of the work undertaken by third party service providers. The Company outsources certain functions including custody and share registry.	– Amongst other relevant topics, we communicated the following key audit matter to the Audit, Risk and Compliance Committee: • Investment valuation and existence. – This is further described in the *Key audit matters* section of our report.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

MATERIALITY	AUDIT SCOPE	KEY AUDIT MATTERS
– We chose net assets because, in our view: • it is the metric against which the performance of the Company is most commonly measured, and • a generally accepted benchmark for listed investment companies. – We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	– The Company's third party service provider engaged an external auditor to provide assurance reports over the design and operating effectiveness of the third party service providers' key internal controls.	

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Investment valuation and existence *Refer to Note 1 (summary of significant accounting policies), Note 4 and 5 (financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss), and Note 17 (fair value measurement).* At 30 June 2020, investments in financial assets at fair value through profit or loss of $357.867 million and financial liabilities at fair value through profit or loss of $3.046 million were comprised primarily of investments in equity securities, participatory notes, futures contracts, OTC ("over-the-counter") derivatives and foreign currency contracts. The existence and valuation of financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss was a key audit matter because financial assets and financial liabilities represent the principal element of the statement of financial position in the financial statements, accounting for 85.84% of net assets. A discrepancy in the valuation or existence of investments could cause net assets to be materially misstated which could also impact the Company's performance as the valuation of financial assets and financial liabilities is the main driver of movements in the profit of the Company.	Our audit procedures over investment valuation included the following, amongst others: – We developed an understanding of the Company's pricing policy and read the Securities Pricing Committee minutes. – For a sample of participatory notes held by the Company, we obtained price data from a third party price vendor for the underlying equity security of the participatory note in local currency. We translated the price into Australian dollars and compared it to the participatory note price used to value investments held by the Company. – For material investments held by the Company, we obtained price data from third party price vendors and compared it to the prices used by the Company.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
	Our audit procedures over investment existence included, amongst others: – We obtained the most recent System and Organization Controls ("SOC 1") Report issued by the custodian, setting out the controls in place at that service organisation, which included an independent audit opinion over the design and operating effectiveness of those controls. – We assessed our ability to place reliance on the service organisations' independent audit reports by considering the auditors' objectivity, experience, competency and the result of their procedures. – We evaluated the relevant key controls over investment existence, the tests undertaken by the auditor and the results of these tests and the auditor's conclusions on the design and operational controls to the extent relevant to our audit of the Company. This report and audit opinion is comparable to the Australian equivalent, Australian Standards on Assurance Engagement 3402 issued by the Auditing and Assurance Standards Board. – We obtained investment holding confirmations from the custodian as at 30 June 2020 and compared these to the units recorded by the Company. For material differences, we obtained relevant evidence to substantiate the accounting record was correct. We assessed the adequacy of the disclosures to the financial report in light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained include the Corporate directory, Shareholder information, Investment Structure, Objectives and Methodology and Director's Report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 22 to 25 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Platinum Capital Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 200*1.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

CJ Cummins
Partner

21 August 2020
Sydney

THE DAM HAS BROKEN

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Article

The Dam Has Broken
By Julian McCormack
Investment Specialist,
Platinum Asset Management

Artwork by

Dan Tague
www.messageinthemoney.com

Nothing
is so permanent
as a temporary
government program.

Milton Friedman

PREFACE

As we heralded in the New Year little did we know what lay ahead. Full of promise, following a long-awaited 'phase one' trade deal between the US and China in December, as well as resolution on the Brexit saga, 2020 looked to be a less troublesome year for investors. The optimism was reflected in equity markets, with the MSCI AC World Index soaring to record highs in February[1].

The arrival of a global health pandemic, however, stopped investors in their tracks. Markets don't like surprises and COVID-19 is as bad as it gets, sending the world into lockdown. We soon grasped the true meaning of 'globalisation', with the disease spreading quickly across the world – bringing the global economy to a standstill virtually 'overnight'.

It was unexpected. So too was the market's response. After the initial shock and sell-off, far from being struck down, markets quickly collected themselves and continued their upward march, to close not far below their February highs by the end of June.

Markets have seemingly ignored the economic reality of collapsing businesses, dissipating earnings and significant job losses. The extraordinary recovery in stock markets amid the most severe economic downturn in modern history is in stark contrast to other periods of economic weakness, such as the global financial crisis (GFC), where even five years later, markets had not recovered to their previous highs.

All is not what it seems though. In reality, it's been a tale of two very different stock markets. The pre-COVID market leaders (i.e. growth stocks) have continued to move from strength to strength, particularly those involved in technology and e-commerce as work and shopping activities increasingly shift online, sending their valuations to exorbitant levels and in some cases to new record highs. Defensive stocks that are benefiting from the pandemic, as we stock up our pantries and buy more hygiene and health-related items, have also rallied hard.

While many of these growth stocks are great companies with promising futures, the current valuations simply can't be justified. At Platinum, we have always maintained that a stock's return is a function of the price you pay – and we believe the price people are paying for some of these stocks right now, make them high-risk investments.

Then we have the 'other' market, where most stocks reside, which has been left behind – performing as expected when faced with such a major economic collapse. While many stocks have bounced from their March lows, they remain well below their pre-COVID highs.

1 Source: FactSet Research Systems.

Record amounts of fiscal and monetary stimulus from governments and central banks have undoubtedly fuelled the rally. The cash has made its way to banks, businesses, households and markets.

As the adage goes though "there is no such thing as a free lunch", and no truer words could be said of the current situation.

Such levels of money creation are inflationary. While it may not be reflected in the prices of goods and services just yet, it is evident in asset prices, notably bonds and selected parts of the equity market. Consumer prices will likely follow in time – as economies recover and demand rebounds.

They could rely forever on central banks – but the implications are almost certainly inflationary. They will need to increase taxes and/or borrow from the public by issuing government bonds. An increased supply of bonds will place downward pressure on bond prices (i.e. long-term yields will rise), which will have implications for equities, particularly those with stretched valuations.

The value of any asset is a function of the future cashflows that it will produce and the appropriate risk-adjusted interest rate. In theory, the lower interest rates are, the higher the value that should be ascribed to an asset for a given set of expected future cashflows. Conversely, the higher interest rates are, the lower the value that should be ascribed.

With 10-year bond yields below 1% and even negative in many countries, and economies floundering, it may be hard to imagine higher interest rates now – but history shows that things can change very quickly.

This pandemic is very much front and centre in our minds currently. However, it's worthwhile stepping back from the events of today and looking to the past.

In our feature article, Julian McCormack, investment specialist at Platinum, argues that the global economy has likely shifted away from an inflation-targeting world with fiscal policy secondary to monetary policy. The emergence of populists in response to anaemic growth and social inequality began the process – history teaches us that populists of all political stripes do not fear spending money.

The massive budget deficits in response to the impact of COVID-19 may prove to be the coup de grâce for the post Reagan-Thatcher period of ever-lower inflation and a belief in the primary efficacy of monetary policy. We may soon have to live with structurally higher inflation amid much higher government deficits.

Andrew Clifford,
Chief Executive Officer & Chief Investment Officer,
Platinum Asset Management
August 2020


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THE DAM HAS BROKEN

By Julian McCormack

The dogmas of the quiet past, are inadequate to the stormy present... As our case is new, so we must think anew, and act anew. We must disenthrall ourselves...

Abraham Lincoln

Markets are behaving as if inflation is dead, growth is and will remain slow, and investors must hew to bond-like equities plus the few technology companies that can promise a future of growth. All else must be left in the dust.

Perhaps this is true – the motto of a new era. A new paradigm, if you will. However, the global political economy has changed markedly in recent years. Populists have taken power in countries across the globe, fiscal rectitude was eroding in that context… and then COVID-19 struck. The world has changed.

Beware the dogmas of the quiet past.

Most readers will be familiar with the 40-year collapse in interest rates globally, summarised in the chart below using the US 10-year Treasury yield[1].

YIELDS ON US 10-YEAR TREASURY NOTES

SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS.

This has coincided with: atomisation of the workforce; installation of independent central banks, which target inflation levels via interest rates; opening of vast new pools of labour globally; decreasing trade barriers; and an anchoring amid elected officials to the notion that government spending is regulated by bond market vigilantes.

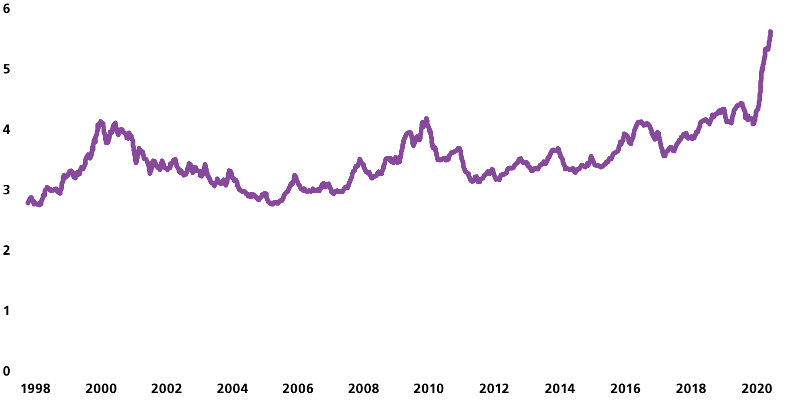
Many of these factors have changed radically, yet markets continue to price ongoing low inflation and market commentary is dominated by the notion that high multiples can be paid for businesses due to low interest rates, especially in a low nominal growth world[2].

This has translated into enormous dispersion in markets – with highly fancied companies reaching new highs of valuation versus those out-of-favour.

The charts below show the dispersion between the highest and lowest price-to-earnings (PE) stocks and price-to-book (PB) stocks around the world. We sort all the stocks in each industry in each country into quintiles based on their PE and PB.

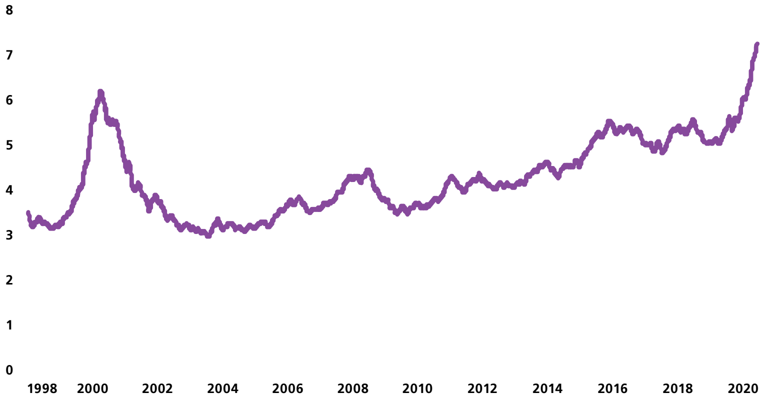
To illustrate, if there are 500 US software stocks and five Australian gold mining stocks, then each quintile will contain 100 US software stocks and one Australian gold mining stock. With thanks to James Bullock, quant analyst at Platinum.

RATIO OF HIGH PE TO LOW PE STOCKS



SOURCE: FACTSET RESEARCH SYSTEMS, PLATINUM INVESTMENT MANAGEMENT LIMITED.

RATIO OF HIGH PB TO LOW PB STOCKS



SOURCE: FACTSET RESEARCH SYSTEMS, PLATINUM INVESTMENT MANAGEMENT LIMITED.

As at all times of extreme valuation, this feels inevitable to many. In truth though, the pre-conditions allowing for the current extremes in markets have been changing for years. The regime of declining rates and tepid fiscal support for economies appears to have ended.

TAKING A STEP BACK

The dollar gold standard of the Bretton Woods period ended in 1971, with the Nixon Shock. Since then we have all navigated a world of currencies tending toward pure fiat or unbacked currency, with no intrinsic worth. However, our institutions and language tend to be anchored in the prior period of notes of exchange backed by, and exchangeable for, gold and/or silver.

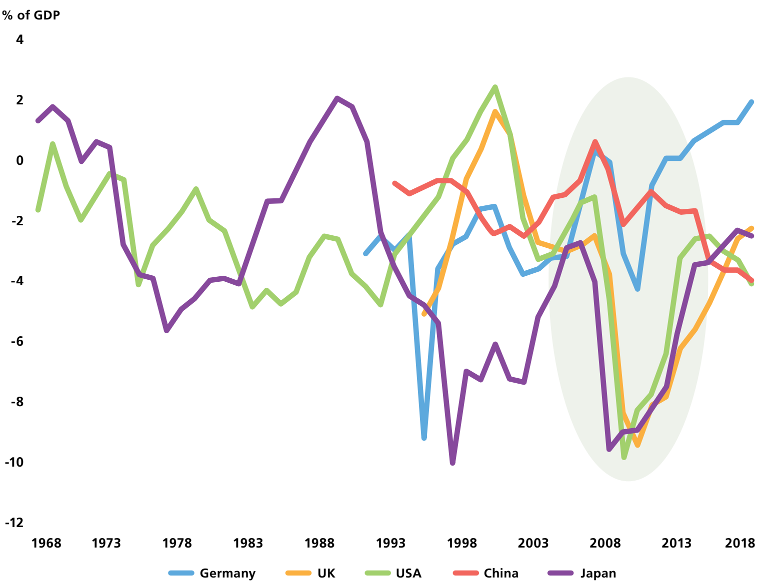
Governments have tended toward attempts, at least superficially, to balance budgets and pay down debt. No more salient example of this is the response of major economies to the recession following the global financial crisis (GFC) of 2008.


GET ENOUGH

All major economies saw large increases in budget deficits from 2007-2010. Most major economies then shrank those deficits from 2010 to 2016.

Stated differently, fiscal policy in major economies exercised a drag on gross domestic product (GDP) growth from 2010 onward, rather than adding to it. In the short run, every 1% of GDP by which a government deficit shrinks is a 1% diminution of GDP.

SELECT MAJOR ECONOMY GOVERNMENT SURPLUSES/(DEFICITS)



SOURCE: BLOOMBERG.

Amid the long, but tepid expansion following the GFC, central banks the world over have been suggesting, nay begging, that the governments of their respective countries spend money in order to take up the slack of economies running well below potential for most of the post-GFC period[3]. This is a stark reversal of the purpose of independent central banking, which was to provide an independent counterpoint to spendthrift politicians[4].

Coincident with the slow growth of the post-GFC period, politics in numerous countries was riven by the emergence of potent populist movements, many of which have been elected to power. Populism is nothing new, but more regimes globally can be characterised as populist and more political speech is populist in nature in the wake of the GFC[5]. The focus of attention has been largely on the erosion of institutions and the ugly ethno-nationalist overtones of populists.

We live in a world characterised by stuttering growth in the wake of a GFC, with politics tending toward extremes... sounds familiar. Numerous commentators have drawn parallels with the 1930s, perhaps most notably Ray Dalio[6].

LESSONS ON THE NATURE OF POPULISM FROM THE 1930s

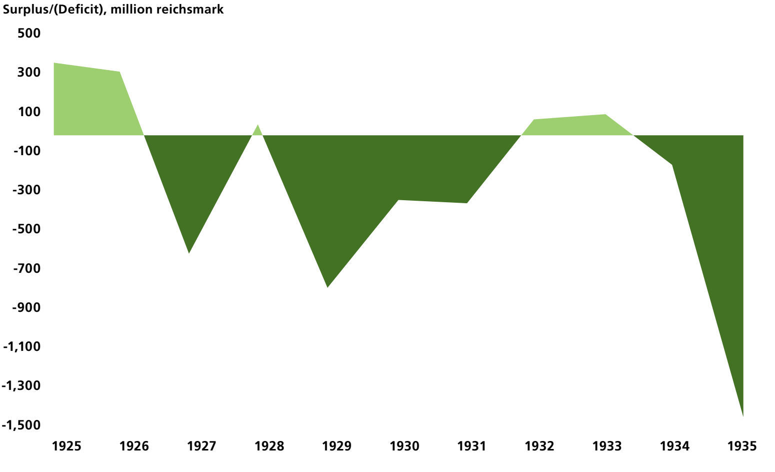
The 1930s saw the aftermath of a global financial crisis, trade wars, geopolitical tension and the emergence of populists on both the Left and the Right… it really does sound familiar. For us, one of the most important lessons of the period appears to have been largely overlooked.

Populists spend money.

Take for example, Germany under Hitler. His regime…

"... suspended the gold standard, embarked on huge public-works programs like autobahns, protected industry from foreign competition, expanded credit, instituted jobs programs, bullied the private sector on prices and production decisions, vastly expanded the military, enforced capital controls, instituted family planning, penalized smoking, brought about national healthcare and unemployment insurance, imposed education standards, and eventually ran huge deficits."[7]

GERMAN GOVERNMENT FISCAL POSITION, 1925-1935

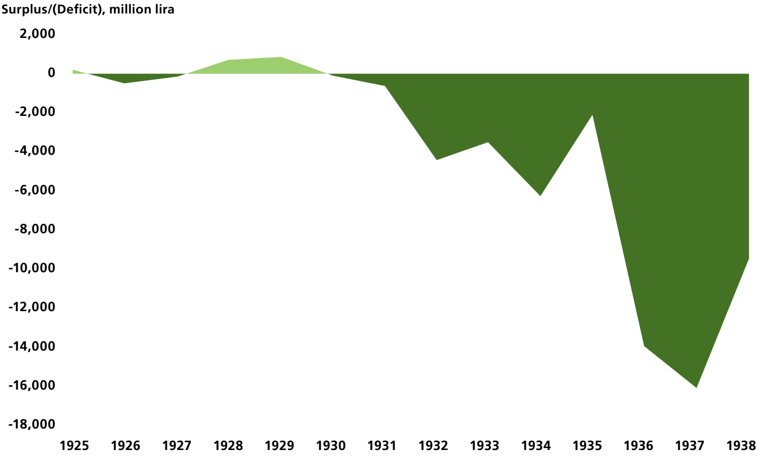


SOURCE: RECONSTRUCTED FROM LEAGUE OF NATIONS ARCHIVES VIA NORTHWESTERN UNIVERSITY, "PUBLIC FINANCE. SUMMARY OF BUDGET ACCOUNTS" SECTION. LATEST REVISIONS USED, LOANS EXCLUDED FROM REVENUE AND REPAYMENTS OF LOANS EXCLUDED FROM EXPENDITURES. NOTE THAT GERMANY CEASED REPORTING PUBLIC FINANCES TO THE LEAGUE OF NATIONS FROM 1935. *HTTPS://WAYBACK.ARCHIVE-IT.ORG/6321/20160901163315/HTTP://DIGITAL.LIBRARY.NORTHWESTERN.EDU/LEAGUE/STAT.HTML*

In Mussolini's Italy, similarly, the gold standard was suspended, the lira allowed to depreciate and a wave of public works, social programs and militarisation was undertaken.

For instance, Mussolini spent seven times more on education in the 20 years following 1922 than had been spent in the history of the Italian Republic dating back to 1862… seven times more in a third of the time[8].

ITALIAN GOVERNMENT FISCAL POSITION, 1925-1938



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In pre-war Japan, the Showa banking crisis of 1927 preceded the Great Depression of the West. It was met by a series of hitherto unorthodox measures by Finance Minister and briefly Prime Minister Takahashi Korekiyo, "Japan's Keynes".

These now read like a standard response to an economic crisis. Takahashi:

1) De-pegged the yen from gold and allowed it to depreciate steeply;

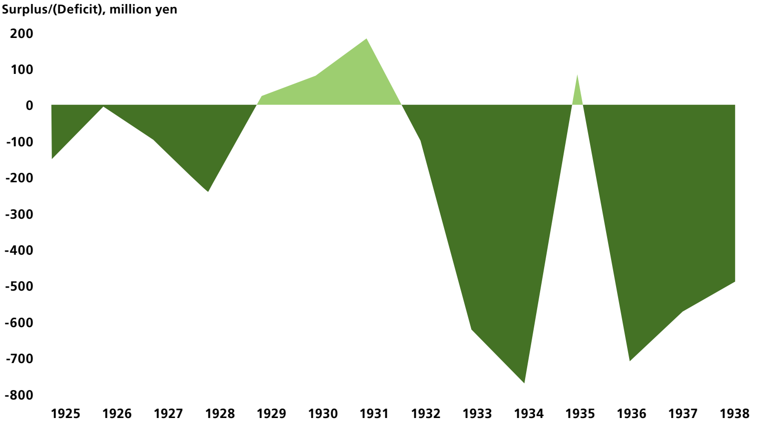
2) Lowered interest rates;

3) Impelled the bank of Japan to buy Japanese government bonds at low rates in order to finance government spending (this is exactly the same as quantitative easing).

The "Takahashi Intervention" appears to have raised Japan out of the Depression by approximately 1933, with the country enjoying strong industrial production growth in the mid- and late-1930s.

For his services, Takahashi was awarded the status of Baron among many other honours. Ultimately, though, he fell afoul of Japan's military by seeking to rein in military spending in Manchuria, and was assassinated in 1936[9].

JAPANESE GOVERNMENT FISCAL POSITION, 1925-1938



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CANT BUY
ME LOVE

Lest we assume that only fascists spent money in response to the Great Depression, let us consider the policies of the great American populist of the Left, Franklin Delano Roosevelt (FDR). He was elected in a landslide in 1932 in response to the tone-deafness and ineptness of the Hoover administration in response to the onset of the Great Depression. He went on to win an unprecedented and never to be matched four elections and died in office in 1945[10].

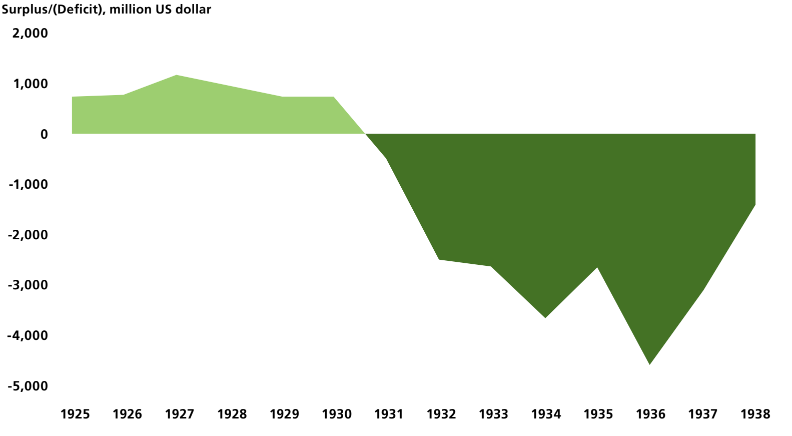
FDR doubled US government debt in his first two terms (before the US entered World War II) from 1933-37 and 1937-41, from US$19 billion to US$42 billion[11]. When he won re-election in 1940 for a record third term, FDR did so in one of the greatest avalanches in US history – he won 38 of 48 states and 449 of 531 electoral college votes: a narrower victory than in 1936, but still a landslide[12].

The lesson is clear – public spending is popular. Remember – the key characteristic of populists is that they spend money.

Perhaps more importantly, the Democratic administration of FDR altered the role of the state in American life forever – it was a genuine institutional revolution. As historian Eric Foner said, the New Deal "made the government an institution directly experienced in Americans' daily lives and directly concerned with their welfare", where it had never been so before[13].

As part of the New Deal, FDR's key collection of policies, a dozen or so bodies were established, such as the National Recovery Administration, the Tennessee Valley Authority, the Securities and Exchange Commission and the Public Works Authority[14].

US GOVERNMENT FISCAL POSITION, 1925-1938



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A KEYNESIAN RESPONSE?

Many readers will identify the deficit spending described above as a 'by-the-book' Keynesian response to a deficiency of aggregate demand… except there was no book. John Maynard Keynes, while many of his ideas had been expressed before and was one of the most famous public intellectuals of his generation, did not publish his most important work, the General Theory, until 1936. This is three years after both Hitler and FDR came to power and 16 years after Mussolini's ascension to rule Italy.

FDR, for example, had very little theoretical understanding of economics, nor much respect for the discipline. He was literally trying things out as he went[15].

As is so often the case, practice led and economic theory followed, seeking to explain or justify that which has already occurred.

ANOTHER REVOLUTION IN ECONOMICS?

A far less famous figure than John Maynard Keynes may have already begun another revolution in economics. Warren Mosler is acknowledged as the father of what is today known as Modern Monetary Theory (MMT). Far from being an ivory tower type, Mosler was a successful macro trader in fixed income markets in the 1990s.

It was his insights into the monetary system that facilitated his career in markets. And it was this understanding that led to him setting out his ideas in two brief, accessible and free-to-download books.

In summary, the key ideas of MMT are:

- There is nothing "debt like" about government debt in its own currency – it can be extinguished instantly and is functionally an offset account to reserves in the banking system – Mosler argues that it might perhaps be better known as the **"Interest Rate Maintenance Account".**
- Taxes are not collected in order to spend the money, as money can be created instantly via issuance or purchase of government bonds (again these are just offset accounts to bank reserves).
- Fiat currency has a value because we have to pay tax in that currency – try not to pay tax in domestic currency and someone will show up at your door with a court order to pay.
- There is no inter-generational burden of government debt in a government's own currency – *remember* – it can be extinguished instantly.
- The limiting factor on government bond issuance (or straight out money creation) is currency weakness and inflation – NOT insolvency.
- Taxation is also useful in order to slow an economy down, in the event that it reaches capacity and inflation begins to rise[16].

While the policy prescriptions of MMT may be controversial, its description of a modern, fiat currency system is not. In our view, it is insightful and useful.

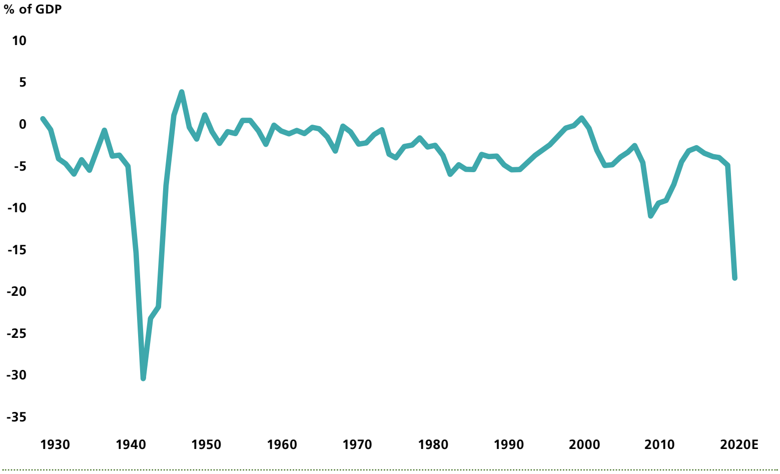
AN UNINTENTIONAL MMT ADVOCATE?

We have an example of an economy which was relatively late in an economic cycle, but growing modestly with spare capacity, which saw a significant fiscal boost: the USA under Donald Trump. The contraction of US deficits of the post-GFC period was reversed by the Trump administration's *Tax Cuts and Jobs Act of 2017,* resulting in a resumption of relatively large deficits in the US. Before the impact of COVID-19 was felt, the Trump tax cuts appeared to have entrenched structural deficits of approximately US$1 trillion, or approximately 4.5% of GDP (in a nominal growth economy of approximately 4.5%)[17].

A long history of deficits in the US provides useful context. While these appear relatively large compared to the 1950s, they are dwarfed by the deficits posted in the 1940s. These deficits were drawn down to fund the US war effort.

The USA's entry into World War II is widely seen as the factor which finally dragged it out of the Great Depression, after a mistaken tightening of monetary and fiscal policy in 1937-38[18].

US FEDERAL GOVERNMENT FISCAL POSITION 1930-2020E, WITH LATEST CONGRESSIONAL BUDGET OFFICE (CBO) ESTIMATE FOR 2020E



SOURCE: *HTTPS://WWW.WHITEHOUSE.GOV/OMB/HISTORICAL-TABLES/*; *HTTPS://WWW.CBO.GOV/PUBLICATION/56335*

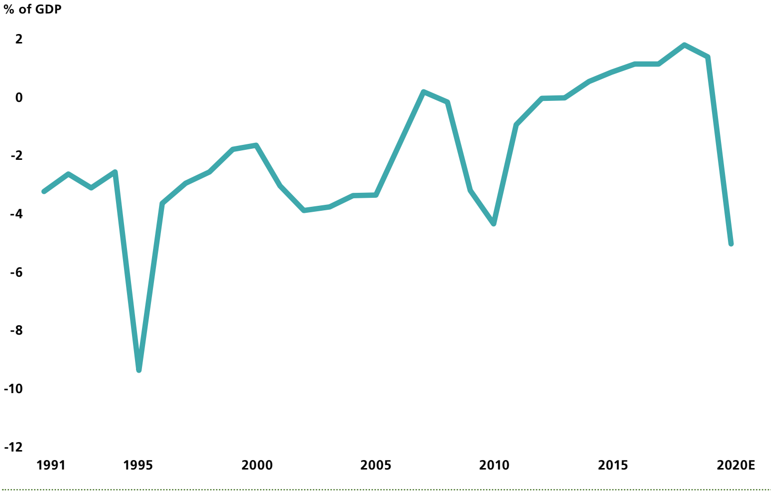
The impact of COVID-19 and the response it forced on policymakers globally has now pushed government budget deficits to levels unprecedented in peace time. In the US for instance, current projections are for a US$3.7 trillion deficit in fiscal 2020 – or 18% of GDP[19].

This pattern is repeated all over the world, but to a lesser degree. Governments are incurring deficits in order to finance their responses to the threat of COVID-19 and ameliorate the damage done to their economies.

Investors might be well served to ask themselves if such stimulus can be rapidly withdrawn by policymakers. When choosing between a double-dip recession and some future inflation, the choice is, in our view, predictable.

As of late May 2020, it is expected that the German federal government budget position will turn from a surplus in 2019 to a deficit of 5% of GDP[20].

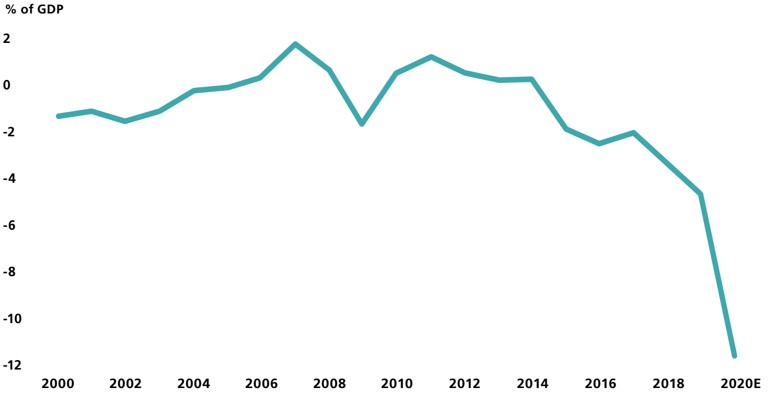
GERMAN FEDERAL GOVERNMENT FISCAL POSITION 1991-2020E, WITH BLOOMBERG ESTIMATE FOR 2020E



SOURCE: BLOOMBERG, OECD.

As of late May 2020, it appears that China will see a consolidated budget deficit (including provincial governments and the central government) of approximately 11% of GDP in 2020[21].

CHINESE CONSOLIDATED FISCAL POSITION 2000-2020E, WITH FITCH ESTIMATE FOR 2020E



SOURCE: FITCH.

As of mid-April 2020, it appears that Japan will record a fiscal deficit of approximately 8% of GDP in 2020[22].

JAPANESE FISCAL POSITION 1960-2020E, WITH FITCH ESTIMATE FOR 2020E

SOURCE: BLOOMBERG, FITCH.

In 2017, the world witnessed a period of gentle economic expansion, heralded at the time as global synchronous growth. The US 10-year Treasury yield exceeded 3%, emerging market and cyclicals performed strongly. Yet that period saw only 3.2% global GDP growth, basically on trend for the last 40 years[23].

Since that time, the world has seen a trade war escalate between its two largest national economies and a global pandemic.

In the immediate term, the impact of the COVID-19 pandemic is likely to remain deflationary, with significant underemployment in all major economies and the cessation of whole areas of economic activity, such as travel and tourism.

In the longer term, one might do well to consider the changes obscured by a deflationary pulse:

- Increasing calls by central banks globally for governments to spend money to support economic activity;
- The emergence of populist political figures globally, many with an overt preference for big spending and tax cuts;
- An emerging, influential body of economic ideas which call for governments to create money and spend, with the only restraint on this being the emergence of inflation – in other words, print and spend until inflation emerges;
- The onset of colossal budget deficits in response to the COVID-19 pandemic, particularly in the US, with the attendant, tricky task of withdrawing this stimulus.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There is every chance that the economic context of the post-GFC world has shifted. This may entail higher rates of inflation and nominal growth than previously, along with steeper yield curves and somewhat higher interest rates – certainly higher than those prevailing now.

This may feel a remote prospect, but inflation regimes can change rapidly: In 1915, US consumer price inflation (CPI) was 1% p.a. – in 1917, it was 20% p.a.; in 1945, US CPI was 1% p.a. – in 1947, it was 19% p.a.; in 1972, US CPI was 2% p.a. – in 1975, it was 12% p.a.[24].

Investors who assume that low growth and low inflationary conditions will persist indefinitely, and who therefore seek the safety of bond-like equities and the excitement of profit-free growth may find these assets a poor store of wealth in the years to come. ■

1 *https://fred.stlouisfed.org/series/DGS10*

2 See, for example: *https://www.afr.com/wealth/personal-finance/why-lower-interest-rates-could-boost-equities-20190409-p51ce0*

3 See, for example: *https://www.bloomberg.com/news/articles/2019-11-11/ecb-s-mersch-adds-voice-in-call-for-more-fiscal-stimulus*; *https://www.brookings.edu/blog/ben-bernanke/2020/01/04/the-new-tools-of-monetary-policy/*; *https://www.theguardian.com/australia-news/2019/jul/02/reserve-bank-governor-calls-for-more-federal-spending-to-boost-economy*; *https://www.washingtonpost.com/opinions/2019/03/07/risk-our-economy-secular-stagnation/*; *https://www.afr.com/topic/monetary-policy-5zu*

4 See, for example: *https://www.economist.com/leaders/2019/04/13/the-independence-of-central-banks-is-under-threat-from-politics*

5 For an excellent study of this see *https://www.theguardian.com/world/ng-interactive/2019/mar/06/revealed-the-rise-and-rise-of-populist-rhetoric*

6 *https://www.linkedin.com/pulse/three-big-issues-1930s-analogue-ray-dalio/*

7 *https://mises.org/library/hitlers-economics*

8 See *https://www.cato.org/publications/commentary/economic-leadership-secrets-benito-mussolini* & *https://www.econlib.org/library/Columns/y2015/Samuelsfascism.html*

9 For a fuller understanding of Takahashi, please see Mark Metzler, **"Lever of Empire, The International Gold Standard & Crisis of Liberalism in Prewar Japan"**, University California Press, 2006; Richard J Smethurst, **"From Foot Soldier to Finance Minister: Takahashi Korekiyo, Japan's Keynes"**, Harvard University Asia Center, 2009; for a good, brief discussion of his policies see *http://bilbo.economicoutlook.net/blog/?p=32355* and *https://www.japantimes.co.jp/news/2016/07/19/business/economy-business/helicopter-cash-presents-hopes-japan-history-shows-can-trigger-hyperinflation/*

10 The 22nd Amendment to the US Constitution limits presidential terms at two. It was brought into law in 1947: *https://www.270towin.com/1940_Election/index.html*

11 Jim Rickards, **"Aftermath, Seven Secrets of Wealth Preservation in the Coming Chaos"**, Penguin, New York, 2019, p56

12 *https://www.270towin.com/1940_Election/index.html*

13 Eric Foner, **"FDR and the Evolution of American Freedom in Depression and War"**,1 April 2009; and *https://www.abc.net.au/radionational/programs/saturdayextra/eric-foner---freedom-and-america/3253998*

14 *https://www.newyorker.com/magazine/2013/03/04/how-the-deal-went-down*

15 For more see John Brooks, **"Once in Golconda: A True Drama of Wall Street 1920-1938"**, Wiley & Sons, 1969. John Brooks is one of the best market historians of the twentieth century, and is greatly under appreciated.

16 Warren Mosler, **"Seven Deadly Innocent Frauds of Economic Policy"**, *https://moslereconomics.com/wp-content/powerpoints/7DIF.pdf*; Warren Mosler, **"Soft Currency Economics"**, *http://moslereconomics.com/wp-content/uploads/2018/04/Soft-Curency-Economics-paper.pdf*

17 *https://www.cbo.gov/publication/56309*

18 See, for example: *https://www.thebalance.com/the-great-depression-of-1929-3306033*. However, the position is far from unanimous, see *https://www.forbes.com/sites/peterferrara/2013/11/30/the-great-depression-was-ended-by-the-end-of-world-war-ii-not-the-start-of-it/#1ea84e0657d3*

19 *https://www.cbo.gov/publication/56335*. The US government fiscal year runs from 1 October to 30 September.

20 *https://www.bloomberg.com/news/articles/2020-04-22/german-public-deficit-to-widen-to-more-than-7-of-gdp-this-year*

21 *https://www.fitchratings.com/research/sovereigns/china-npc-signals-restrained-approach-to-policy-stimulus-26-05-2020*

22 *https://www.fitchratings.com/research/sovereigns/japan-coronavirus-response-increases-public-debt-challenge-15-04-2020*

23 *https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG*

24 Quoting Grant Williams; see also Robert Shiller's CPI data *http://www.econ.yale.edu/~shiller/data.htm*