

## **Chairman's Address to the AGM on 16 November 2017**

Listing Rule 3.13.3

### **Introduction**

Good morning ladies and gentleman and welcome to the 2017 Annual General Meeting of Platinum Asset Management Limited.

My address will discuss the Company's performance for FY17 and for the first few months of FY18, new business developments, changes to the fee structure, remuneration matters, dividends, corporate governance issues, environment and social issues and the outlook for 2017-2018.

### **Performance**

FY17 saw a number of interesting developments at Platinum. First and foremost, it was marked by improved returns for our clients. In some cases, the investment performance was nothing short of exceptional. For example, Platinum's long only global fund, Platinum Unhedged Fund returned nearly 32% after fees and costs for the 12 months to 30 June 2017. Platinum International Brands Fund returned 28% after fees and costs for the 12 months to 30 June 2017.

Platinum's flagship fund, Platinum International Fund returned 21% for the 12 months to 30 June 2017, which was well above its benchmark return of 15%.

The same three Funds have delivered 3 month returns to 31 October 2017 of between 12% and 14% and the Platinum Asia Fund has delivered a 3 month return of 16%.

The performance of all of our Funds and mandates continues to be strong, with most exceeding their benchmark.

It is gratifying to see that this performance is now being recognised by the market, with the Platinum Unhedged Fund and Platinum Japan Fund both winning industry awards in recent weeks.

As shareholders would be aware, improved investment returns, if sustained, generally pave the way for increased profits and dividends for the Company, but only after a period of time has elapsed, as investors take time to recognise and reward performance with increased funds.

In my Chairman's Report for 2017 that was included as part of the Company's 2017 Annual Report, I spent much time discussing the reasons why negative investor sentiment towards PTM during the first half of last year was misconceived. I am pleased to report that, perhaps as a result of our outstanding investment performance, strong branding and broadened product distribution strategies, our share price has increased significantly in the last 6 months and is now up over 70% since those negative articles were published.

### **Launch of our quoted managed funds**

In September 2017, Platinum successfully launched two new ASX quoted managed funds, called Platinum International Fund (Quoted Managed Hedge Fund) (ASX code: PIXX) and Platinum Asia Fund (Quoted Managed Hedge Fund) (ASX code: PAXX).

PIXX and PAXX feed directly into our existing respective flagship funds, the Platinum International Fund and the Platinum Asia Fund, thus giving investors access to the portfolio composition of these flagship funds, its portfolio managers and investment strategies.

PIXX and PAXX provide easy access for investors through the ASX, as well as live pricing. They require little paperwork relative to traditional managed funds.

We have been delighted with the level of investor support for these new funds.

FUM at 13 November 2017, was approximately \$143 million, with average trading volumes across both funds in the order of \$2 million per day.

### **New website**

A new website has been launched, one that will make it easier for new investors to appreciate the options available to them, whilst at the same time providing existing investors with easier navigation and insightful articles and videos. I would encourage you to visit the site and see the difference for yourself.

### **Changes in fees**

From 3 July 2017, we introduced a new performance fee option for the Platinum Trust Funds. This option provides a lower base fee, at a rate of 1.10% per annum plus a performance fee of 15% of the outperformance of relevant benchmark returns. With the introduction of the performance fee option, we also took the opportunity to reduce the base fee of the existing standard fee option to 1.35% per annum from the previous rate of 1.54% per annum, for each of the Platinum Trust Funds and Platinum Global Fund.

Whilst these changes may appear to be adverse to shareholders in the short-term, we believe that in the longer-term, the changes to the fee structure will enhance the attractiveness of Platinum's Funds to investors.

It is difficult to predict the impact these changes will have on FY18 revenue and profit, as the lower fee rates may be partly offset by:

- strong investment performance;
- increased investment inflows that may arise directly or indirectly from the fee reduction (or arise from other factors such as strong investment performance); and/or
- performance fees that may be earned from the new performance fee option, the new quoted managed funds or our mandates.

These countering factors, particularly the recent strong growth in FUM make it very difficult to predict the full-year impact of the fee reduction on FY18 profits but, at the time of the ASX announcement of the new fee structure in April 2017, we estimated that FY18 revenues could be reduced by up to \$24 million as a result of the fee initiatives. At that time, FUM was approximately \$24 billion. FUM has subsequently increased and each \$1 billion of increased FUM will increase our revenue by approximately \$12 million on an annualised basis.

### **Funds Under Management (FUM)**

Average FUM for the financial year decreased by 9.6% to \$23.4 billion from an average FUM of \$25.8 billion for the previous year. This fall in average FUM was due to net fund outflows more than offsetting the gains made from investment performance.

Strong investment performance and markets delivered \$4.7 billion of additional FUM for the year, but despite this, net fund outflows for FY17 were \$3.6 billion.

In addition to this, the 30 June 2017 net distribution from the Platinum Trust Funds was very large at \$1.1 billion.

On a more encouraging note, for the first four months of FY18, we have experienced net fund inflows of over \$580 million.

### **Fee revenue and profit**

In FY17, fee revenue declined by 7.5% to \$312.5 million (2016: \$337.9 million) largely on account of average FUM declining by 9.6%.

However, this fall was mainly offset by gains from our investment in Platinum Asia Investments Limited (PAI) and Platinum World Portfolios PLC. These collectively delivered mark to market returns of \$16.6m (2016: loss of \$2.9m).

Overall fee and investment revenue was down slightly, by 3.2%, to \$333.5 million.

Costs are always closely monitored and only increased marginally by less than 1% relative to the prior year. The total cost to income ratio was 19% with non-people costs down 13% from the prior year. However, this excellent result was due to some one-off savings in fund administration costs and delayed spending on advertising and marketing. Therefore, we expect expenses to increase in 2018.

Platinum's team of investment specialists had an extremely busy year in terms of adviser visits, client presentations and roadshows. Platinum sets itself apart from many of its competitors by ensuring that investment analysts accompany investment specialists on their travels, and thus share with investors and advisers, their investment and global market insights.

FY17 profit before income tax expense was \$270.6 million (2016: \$282.2 million) representing a decrease of 4.1% on the previous year. The profit after tax for the year was \$192.6 million (2016: \$199.9 million) representing a decrease of 3.6%.

### **Remuneration matters**

Staff costs increased in FY17 by \$3.8 million or 12.4%, reflecting both strong emerging investment performance and market pressure to retain only the best and most highly-qualified staff.

The \$3.8 million increase can be broken down as follows:

- there was a \$1.7m increase in variable incentive payments, 65% of which went to key investment staff;
- \$1.0m in same incumbent salary increases (56% being investment team related);
- \$0.5m in net new staff salary costs; and
- \$0.6m in recruitment and employment related on-costs, for example superannuation, payroll tax and annual leave accruals.

The bulk of additional incentives were paid to a handful of investment professionals that directly contributed to the strong investment performance generated in FY17. Outside of this handful of staff, the incentive pool was relatively flat for the year.

For the investment team, short-term incentives paid are dependent on achieving strong relative returns or outperformance of benchmark returns over a one and three year period. Despite the strong performance over the last 12 months, the below benchmark three year returns at the time the incentives were calculated, meant that only a small group of investment professionals benefitted.

It should be noted that, if strong relative performance persists in 2018, then the rewards to the analyst team under their remuneration plans may also increase significantly. We believe that this should be viewed positively by PTM shareholders, as strong returns should contribute to higher revenue, profits and ultimately dividends.

In line with the analyst plan requirement of strong performance over 1 and 3 years, Platinum's Chief Investment Officer, Andrew Clifford did not receive any form of short-term incentive over the last two years.

Two other members of KMP received short-term incentives in FY17, being the Director of Investment Services and Communications, Elizabeth Norman and the Finance Director, Andrew Stannard.

The variable compensation paid to Elizabeth Norman reflected her role as Director of Investor Services and Communications and her leadership and involvement in the development of several initiatives during the year, including the new quoted managed funds, new website design and expanding our communication efforts with both advisors and investors.

The variable compensation paid to Andrew Stannard reflected the leadership and strategic input that he provided into various development opportunities for the business, including overseeing the launch of the quoted managed funds and associated legal and regulatory requirements.

In an effort to help ensure ongoing retention of key staff, \$4.875 million in deferred awards were made under the "Deferred Incentive Plan" that was approved by the Nomination and Remuneration Committee, during the 2016 year.

### **Dividends**

The Directors declared a fully-franked final dividend of 15 cents per share that was paid in September 2017. A fully-franked interim dividend of 15 cents per share was paid in March 2017. This brought the total FY17 dividend to 30 cents per share (2016: 32 cents per share).

The Directors remain confident that future dividends will continue to be fully-franked.

Whilst the Company has a Dividend Reinvestment Plan in place, it has not been activated and is unlikely to be activated in the near term.

### **The Board and its Associated Committees**

Both, the Nomination and Remuneration Committee and the Audit, Risk and Compliance Committee had a productive year. The Nomination and Remuneration Committee has been active in overseeing changes to the composition of the Board and also in closely monitoring the effectiveness of the Company's remuneration framework.

The Audit, Risk and Compliance Committee has provided significant input into several focus areas for the business including over-sight and focus on cyber security risk for the Platinum Group, regulatory compliance, identification of key risks and risk mitigation strategies for the new quoted managed funds and overseeing compliance with accounting standards including the appropriate accounting treatment with respect to the deconsolidation of Platinum World Portfolios PLC.

### **Director Renewal**

In last year's Chairman's Report, I outlined a plan for Director renewal and additional Board replacements at a Non-Executive Director level.

Since then, two Directors have retired under the Director renewal plan. Ms Anne Loveridge was appointed to the PTM Board during September 2016, and succeeded Ms Margaret Towers who retired from the Board after nine years of service. Anne is currently a Non-Executive Director for the National Australia Bank (NAB) Group and NIB Holdings Limited and has over 30 years of experience as a former partner in the Financial Services Assurance practice at PricewaterhouseCoopers (PwC).

On 19 June 2017, Mr Bruce Coleman retired from the Board after ten years of service.

With respect to Bruce's replacement, we are continuing to speak with a number of highly qualified candidates and an announcement will be made in due course.

The Board of PTM would like to extend its thanks to Bruce for his invaluable contribution to the Board over an extended period of time.

In accordance with good governance and the ASX Corporate Governance Council's Principles and Recommendations, we intend to continue with our plan of Director renewal. Additional Board replacements, at a Non-Executive Director level, will likely be made in the future.

### **Environmental, Social and Governance (ESG)**

Platinum is an active participant in the global Carbon Disclosure Project (CDP) which enables companies, cities, states and regions to measure their environmental impact. In addition, for over 10 years, we have strived to make the firm "carbon neutral" via the purchase of sufficient carbon credits (which invest in rainforests) to offset the carbon emissions made by the Platinum Group (for example our electricity usage and air travel).

Platinum believe, based on both our own experience and studies by third party researchers, that incorporating ESG considerations into the investment process by employing a robust framework can lead to more informed and holistic investment decision-making and, ultimately, better investment outcomes for our investors. I would encourage those interested in this topic to read our most recent Platinum Trust Funds' Product Disclosure Statement (PDS) for more information.

## **Outlook 2017-2018**

At the end of October, PTM FUM was \$26.5 billion, which represents an increase of 17% from 30 June 2017, due to the combined effect of better investment returns and positive inflows in the first four months of the 2018 financial year.

The increase in FUM is attributable to both investment performance (increased by \$3.2 billion) and positive net fund flows (increased by \$0.6 billion).

The PTM Board does not provide earnings forecasts because of the uncertainty of net fund flows and equity market performance.

In particular, performance fee income can be volatile and can also be a material source of revenue. As an indicative guide, we are forecasting performance fees of around \$18 million for the 6 months to 31 December 2017. Provided performance is maintained over the last 2 months of the half-year, this increase in fees should help substantially offset the reduction in the base management fee rate that applied for the Platinum Trust Funds and Platinum Global Fund from 3 July 2017.

However, to reinforce my previous comment, provided that we can continue to deliver strong investment performance for our clients, there is good reason to believe that the current positive inflow trend can continue to bring in more revenue to the Company.

## **Conclusion**

There are a number of exciting initiatives being pursued by Platinum, both in Australia and overseas, and this includes the Company's recent announcement of the appointment of a US Distributor to distribute Platinum's global equity capabilities to the US and Canadian institutional market. This coupled with the recent improvement in investment performance, gives the Directors reason to be optimistic about the Company's future prospects.

The interests of our shareholders continue to be well served by the Managing Director, Kerr Neilson, and the Chief Investment Officer, Andrew Clifford, maintaining their sharp focus on delivering the best investment outcomes for our clients. In this endeavour, they are well supported by all Platinum staff.

Finally, I would like to thank my fellow Non-Executive Directors, Stephen Menzies and Anne Loveridge, for their assistance over the period.

Michael Cole  
16 November 2017