

## **Chairman's Address to the AGM on 8 November 2018**

Listing Rule 3.13.3

### Introduction

Good morning ladies and gentleman and welcome to the 2018 Annual General Meeting of Platinum Capital Limited ("**PMC**" or the "**Company**").

I will now move on to my address. I will concentrate on a number of key issues that have impacted on the Company.

### Investment Performance and Financial Results for the 2018 financial year

For the financial year ended 30 June 2018, the Company delivered a return of 15.6% in A\$ terms (measured by its pre-tax net tangible assets ("**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 is compared to the MSCI All Country World Net Index in A\$ terms, which delivered a return of 15.0% for the same period.

During the month of June 2018, the Company lost ground and surrendered part of the strong performance it had enjoyed earlier in the year. This was largely due to market volatility and the heavy sell-off in China and other emerging markets as a result of global trade tensions and rising interest rates in the US.

Nevertheless, on the measure of its pre-tax NTA, the Company outperformed the index for the 12 month period to 30 June 2018, whilst maintaining an average net equity exposure of approximately 79%, with cash reserves providing downside protection for the portfolio. The strongest performing sectors for the Company during the year were Information Technology, Energy and Materials.

For the 5 years to 30 June 2018, the Company delivered an annualised compound return of 12.1% per annum (measured by the Company's pre-tax NTA), which was behind the MSCI All Country World Net Index in A\$ terms, which delivered a compound annualised return of 14.2% per annum for the same period. The Company's five year performance was close to the index for most of the 2018 financial year. However, as mentioned, the month of June saw a setback given the Company's significant exposure to the Asian region and underweighting to the US market.

From inception (29 June 1994) to 30 June 2018, the Company's compound annualised return (measured by the Company's pre-tax NTA) was 12.5% per annum, compared to a compound annualised return of 7.0% per annum for the MSCI All Country World Net Index in A\$ terms for the same period.

I note that, over all of the rolling five-year periods, commencing each month since inception in 1994 to 30 June 2018, the Company achieved positive returns 96% of the time. In contrast, the MSCI All Country World Net Index in A\$ terms achieved positive returns 62% of the time. For all rolling monthly five-year periods since inception to 30 June 2018, the Company exceeded a return of 8% compound per annum 75% of the time, versus 41% of the time for the index.

The Board believes that the Company's long-term track record demonstrates the success of the investment philosophy and process of the Company's investment manager, Platinum Investment Management Limited ("**Platinum**").

### Statutory accounts

For the financial year ended 30 June 2018, the Company made a statutory pre-tax operating profit of \$71.6 million and a post-tax operating profit of \$50.4 million.

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 achieved a return of 15.6% for the 12 months to 30 June 2018.

### Dividends

A fully-franked final dividend of 6 cents was declared as at 30 June 2018, making 10 cents for the 2018 financial year.

Based on the 30 June 2018 share price of \$2.09, this represents a dividend yield of 4.8% or 6.8% including franking credits.

Since the Company's inception in 1994, the average franked dividend yield has been 6.7% per annum or 9.6% including franking credits.

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.

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.

After the payment of the 2018 final dividend, the dividend profit reserve had a balance of 32.11 cents per share, based on the number of shares on issue.

The Board wishes to flag that the Dividend Reinvestment Plan ("**DRP**") is currently under review for three main reasons. Firstly, for some time it has achieved only a modest level of support from shareholders. Secondly, it is relatively complex to administer for both participating shareholders and the Company and thirdly, it can impede the Company's flexibility to implement other capital initiatives. Accordingly, the Company is considering either amending the structure and pricing of the DRP or suspending it altogether. We will keep shareholders informed.

I can confirm that for the financial year ended 30 June 2018, the Company was not affected by any changes in the small company tax rate and the Company was able to distribute franking credits at a tax rate of 30%. This is due to the fact that the Company's turnover for the financial year exceeded the \$25 million threshold.

### Proposal to remove the refund of tax paid on franking credits

I note the announcement by the Federal Opposition to remove the cash refund of franking credits. The Board is of the view that this proposal, if implemented, will result in adverse tax treatment for certain zero or marginal tax rate listed investment company ("**LIC**") investors, creating an uneven playing field between LICs and unit trusts. Accordingly, the Board does not support this proposal.

Platinum, with the Board's support, wrote to the Leader of the Federal Opposition and the Shadow Treasurer on 9 July 2018, to express its concerns, and further requested that LICs be exempt from the proposal. We are yet to receive a response.

Platinum has also written to the Parliamentary Standing Committee on Economics which has established an inquiry to look into the merits of the proposal, and is a member of the Listed Investment Companies

and Trusts Association, which is affiliated with the Financial Services Council and intends to lobby against the proposal.

#### Changes to portfolio management responsibilities

As part of Platinum's long-term succession planning, on 1 July 2018, the portfolio management responsibilities for the Company were reallocated from Kerr Neilson to Andrew Clifford, Platinum's Chief Investment Officer. Andrew also assumed the role of Chief Executive Officer of the Platinum Group from Kerr with effect from 1 July 2018. Andrew, a founding member of Platinum in 1994, is a very experienced global equities portfolio manager and has a long standing relationship with Platinum Capital Limited. He was a founding director of the Company in 1994, and remained a director until 2015. Andrew previously managed the Platinum International Technology Fund and the Platinum Asia Fund and has been managing money on behalf of Platinum's flagship fund, the Platinum International Fund for the last seven years.

The Board wishes to acknowledge the long-standing contribution of Kerr Neilson as the portfolio manager of the Company since 1994. Supported by Platinum's deep pool of talented analysts and experienced portfolio managers, Kerr has guided the Company's portfolio through various market cycles over the last 24 years, successfully protecting and growing investors' capital. The same time-tested investment approach will continue to be applied going forward under Andrew Clifford's leadership.

Kerr Neilson remains a full time executive director of Platinum Asset Management Limited and a member of Platinum's investment team, continuing to work on the generation of investment ideas and company research.

#### Director renewal and change of Company Chairperson

On 31 March 2018, Bruce Coleman resigned as a Director and the Chairman of the Company and I replaced Mr Coleman in both of these roles. Prior to his resignation, Mr Coleman had served as the Chairman of the Company since 2014 and as a Director of the Company since 2004.

The Board would like to extend its thanks to Bruce for his invaluable contribution to the Company.

#### Other corporate governance matters

The Company's investments are managed and administered by Platinum through two key agreements previously approved by shareholders: the Investment Management Agreement and the Administration Agreement.

During the financial year ending 30 June 2018, the Board continued to monitor the performance of Platinum and its adherence to the agreements with the full and transparent co-operation of Platinum and its management team. Accordingly, I am confident in the integrity and reporting of the Company's financial results to shareholders.

#### Performance for the 2019 financial year and the outlook for the rest of the financial year

For the first four months of the 2019 financial year, the Company's pre-tax NTA decreased by 6.3%, and in comparison, the index increased by 0.6%.

At 31 October 2018, the most recent monthly pre-tax NTA released to the market was \$1.57.

The investment manager has recently noted that *"....concerns around a potential slowdown in China, exacerbated by a trade war with the US and rising US interest rates, have led to greater risk aversion among investors..... This has meant avoiding companies that face any degree of uncertainty.... The result has been very strong stock price performance over the last six months from high growth sectors such as software, internet and biotech, while companies perceived to be more cyclical have lagged or been sold*

*down.....For the present, we are well and truly out of step with the market in terms of where we believe the attractive investments are in the current environment.”*

What is interesting is that the investment manager has stated that “*over the last six months, the businesses of our portfolio companies have by and large performed as expected, even though some of their share prices have not. The result is that today many of our portfolio holdings represent, in our view, extraordinary value.*”

The investment manager also recently noted:

*“the valuations of our current holdings give us cause for optimism about their future returns, though predicting when our investment cases might unfold is always problematic. Any abatement of concerns around global economic growth and the trade war is likely to lead to improved share price performance from our holdings. Alternatively, if rising US interest rates start to impact on the market, our cash and short positions should leave us well placed to take advantage of any further weakness in stock prices.”*

### Finally

The long-term performance of the Company continues to endorse the investment philosophy, process and expertise of the Investment Manager. Accordingly, I wish to express my appreciation of the work done by Andrew Clifford, Kerr Neilson and broader team at Platinum.

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

Margaret Towers  
Chairperson  
8 November 2018

Note: The pre-tax NTA represents 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 assumes the reinvestment of all dividends. Returns have not been calculated using the Company’s share price.

Past performance is not a reliable indicator of future results. Figures are subject to rounding.  
Source: Platinum Investment Management Limited, MSCI Inc.