

## **Chairperson's Address to the AGM on 14 November 2019**

Listing Rule 3.13.3

### Introduction

Good morning ladies and gentlemen and welcome to the 2019 Annual General Meeting of Platinum Capital Limited (“**PMC**” or the “**Company**”).

My address will focus on a number of key issues that have impacted the Company.

### Investment performance and the financial results for the 30 June 2019 financial year<sup>1</sup>

The Company's overall investment return for the 2019 financial year was flat, measured by its pre-tax net tangible asset (“**pre-tax NTA**”). The pre-tax NTA is calculated after deducting fees and expenses, adjusting for corporate taxes paid, any capital flows and assuming the reinvestment of dividends.

This return occurred against a backdrop of significant volatility across global markets. The year can be split into 3 distinct periods:

- the first 5 months to the end of November 2018, where the portfolio delivered a negative return of 8.6%, predominantly due to an economic slowdown in China, strong US\$, rising US interest rates and ongoing US/China trade tensions;
- the next 5 months to the end of April 2019, where the portfolio delivered a positive return of 12.5% as China's economic indicators improved; and
- finally, with the re-emergence of trade tensions in May 2019, the portfolio delivered a negative 2.6% return for the last two months of the financial year.

Platinum<sup>2</sup>, the Company's investment manager, has observed that as the 2019 financial year progressed, global markets became increasingly bifurcated with investors gravitating towards stocks that were perceived to offer safety, whilst shunning stocks that were perceived to be exposed to the global trade tensions, exhibit cyclicity or economic sensitivity. The result of this has been extreme divergence in valuations between so-called “growth” stocks and “value” stocks. Platinum has seen this market phenomenon before, with the technology bubble of 1999/2000 exhibiting similar valuations.

Throughout the year the investment manager took action to protect the portfolio by raising cash levels, and shorting stocks and indices.

Whilst in the short-term, investment performance is not what I would have hoped for, the Company's medium to long-term performance (measured by its pre-tax NTA) has remained solid, with the Company delivering a 5 year annualised return (to 30 June 2019) of 8.6% per annum and a since inception annualised return (to 30 June 2019) of 12.0% per annum. The comparable returns for the MSCI All Country World Net Index (\$A) for the same periods were 12.6% per annum and 7.2% per annum, respectively. These returns have been achieved with a fair degree of built in protection along the way.

I note that over all monthly rolling five year periods, since inception in 1994 to 30 June 2019, the Company achieved positive investment returns 96% of the time. In contrast, the index achieved positive returns 63% of the time. The Company also exceeded an annualised compound return of 8% per annum 74% of the time, versus 44% of the time for the index.

Despite the Company's disappointing short-term investment performance, the Board remains confident in Platinum's investment philosophy and process, the success of which has been clearly demonstrated by the Company's long-term investment performance.

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<sup>1</sup> 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.**

<sup>2</sup> Platinum Investment Management Limited

### Statutory accounts

For the financial year ended 30 June 2019, the Company made a statutory pre-tax operating loss of \$20,000 and a post-tax operating loss of \$373,000.

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. On this measure, the Company's return for the 12 months to 30 June 2019 was flat.

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

### Dividends

The Company declared a fully-franked 2019 final dividend of 4 cents per share, bringing the total dividends declared for the 2019 financial year to 7 cents per share. This excludes the special dividend that was paid in March 2019 of 3 cents per share. The dividend yield for the year, excluding the special dividend paid, was 4.5% based on the 30 June 2019 closing share price of \$1.57.

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

The Company prefers not to pay unfranked dividends. Unfranked dividends are taxed in shareholders' hands, in effect handing funds to the Government, which could otherwise be invested by the Company, with the aim of generating returns for shareholders.

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 2019 final dividend, the dividend profit reserve had a balance of 21.91 cents per share, based on the current number of shares on issue.

### Capital management

The Company did not engage in any capital raising activities during the 2019 financial year. The Company has a flexible capital management policy in place which allows the Board to efficiently manage the Company's capital in response to changing market conditions and risks, with the sole aim of enhancing shareholder value. Potential capital management options available to the Board include the management of dividends paid, the use of placements, rights issues and/or share-buy backs.

Currently, LICs appear to be out of favour with the market. Consequently, we note that the Company's share price has been periodically trading at a small discount to its pre-tax NTA. We will continue to monitor this situation.

### 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 services agreement.

During the financial year ended 30 June 2019, the Board continued to monitor the performance of Platinum and its adherence to the 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.

#### Performance for the 2020 financial year and outlook

For the first four months of this financial year, the Company's pre-tax NTA increased by 4%.

The most recent weekly pre-tax NTA released to the market, was the pre-tax NTA, for 8 November 2019, which was \$1.62 per share.

Platinum has recently commented that:

*"Over the last 12 months, we have noted the attractive valuations across the portfolio as a reason to be cautiously optimistic about the Company's future returns. We continue to hold this view....."*

*The question is then, when are returns likely to be realised from the portfolio?.....*

*We note that the last 18 months have been characterised by a slowing global economic environment...significant political uncertainties...at some point we should move through this period of weakness in activity and expect this to coincide with better stock price performance from our investments.....*

*After such a period of deterioration, it is difficult to imagine this inflexion point. Yet when we turn our mind to the many exciting developments unfolding, such as the roll-out of 5G mobile phone networks, ongoing investment in data centres required for e-commerce and artificial intelligence, electric vehicles, autonomous vehicles, and the ongoing growth of the Chinese consumer, there are many reasons to be positive. The risk is that the rhetoric and actions of political leaders around the world damage this potential."*

#### Finally

On behalf of the Board, I wish to express our appreciation of the work done by Andrew Clifford and the broader team at Platinum in what has been a year epitomised by very difficult markets. And I thank the shareholders for their continued support.

Margaret Towers  
Chairperson  
14 November 2019