

## **Chairperson's address to the AGM on 5 November 2020**

### Introduction

Good morning Ladies and Gentlemen.

My name is Margaret Towers the Chairperson of Platinum Capital Limited ("PMC" or the "Company"). I am delighted to welcome you to today's Annual General Meeting ("AGM").

As you can appreciate, these are extraordinary times and this AGM is unlike any that we have ever held before. In light of the COVID-19 pandemic we have adapted our procedures to practice social distancing and to adhere to public health advice, with the result that today's meeting is being held in Sydney at Platinum Investment Management Limited's ("Platinum") office by webcast and teleconference.

By accessing the weblink provided in the Notice of Meeting, shareholders will be able to listen to and view the meeting, view the slides and actively participate in the meeting by asking questions relating to the business of the meeting. I thank all of you for tuning in.

Please note that you will only be able to ask questions once you have registered to vote. Please could I ask that you submit your questions in a timely manner so that they may be responded to after each item of business.

### Investment performance and the financial results for the 30 June 2020 financial year<sup>1</sup>

The Company made a statutory pre-tax operating loss of \$15.3 million and a post-tax operating loss of \$10.1 million for the financial year ended 30 June 2020.

However, the Board maintains that a more appropriate measure of the Company's performance is the percentage change in its pre-tax net tangible assets or "pre-tax NTA". The pre-tax NTA is after fees and expenses, adjusted for corporate taxes paid, any capital flows, and assumes the reinvestment of dividends. Using the pre-tax NTA allows investors to make a more meaningful comparison between the performance of the investment portfolio and the index, and other like products.

On this measure, the Company experienced a disappointing investment return of negative 3.5% for the 12 months to 30 June 2020 versus the MSCI AC World Net Index ("Index") which returned 4.08%. This return occurred against a challenging backdrop across global markets due to the COVID-19 pandemic and geopolitical tensions.

PMC's poor investment returns over the last year were largely attributable to losses on short positions in the portfolio. On average our long positions performed broadly in line with the market despite our smaller exposure to the large technology stocks of Amazon, Apple and Microsoft.

The impact of the shorts on our portfolio warranted further consideration of shorting as part of our investment strategy. To this end, the investment manager has recently commented that:

*"Certainly, in periods where markets are rising, it will always appear to be a futile exercise. However, we are in an unprecedented environment in financial markets and we expect markets to remain highly volatile for some time. As such we continue to be of the view that maintaining short positions and cash holdings is appropriate to provide a level of downside protection."*

It is important to acknowledge that while this cost has been considerable, there are parallels with the Company's experience in the later stages of the technology "bubble", which peaked in 2000. At that time, and some of you may remember, standing in the way of a mania was costly, but proved to be critical to protecting shareholders in the aftermath.

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<sup>1</sup> Source: Platinum and FactSet Research Systems. Past performance is not a reliable indicator of future results.

Focusing on the Company's recommended investment time horizon of 5 to 7 years, the Company has delivered annualised returns to 30 June 2020 (on a pre-tax NTA basis) of 4.4% and 8.0%, respectively, while the Index has delivered annualised returns of 8.8% and 12.3%, respectively.

Whilst our investment performance over the last two years has dragged down recent year's annualised investment performance numbers, the Company's since inception pre-tax NTA return to 30 June 2020 remains solid at 11.3% per annum against a return of 7.1% per annum for the Index.

The Board actively monitors the investment performance of the Company and to this end receives reporting and an investment update from the portfolio manager at each quarterly Board meeting. The Board also has the opportunity to, and does, ask questions of the portfolio manager during these meetings. The Board is satisfied that throughout this time, Platinum has been true to label by consistently applying its bottom up, index agnostic approach to stock selection.

Platinum has recently talked at length about the dispersion in markets, namely a raging bull market in a concentrated number of over-valued technology stocks, and a bear market in economically sensitive stocks. Unsurprisingly, considering Platinum's investment philosophy is to seek out undervalued and overlooked companies, PMC's relative investment performance has suffered.

Notwithstanding this, the Board remains confident in Platinum's investment philosophy and process which has delivered strong results over the longer term and good absolute returns.

I note that the Company's shares, which have historically traded at a premium to pre-tax NTA, have recently been trading at a discount to pre-tax NTA, resulting in a total shareholder return over the year of negative 16%. Whilst the Company's investment performance is a key contributor, other factors have exacerbated this, namely: the general widening of discounts across the broader listed investment company market; and the increased level of investor uncertainty due to COVID-19 and geo-political tensions.

To keep shareholders fully informed, Platinum releases weekly and monthly calculations of the Company's net tangible asset backing per share to the ASX, and publishes monthly investment performance updates and quarterly investment reports.

#### Dividends

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 and available franking credits.

This approach enabled the payment of both an interim and final fully-franked dividend for the financial year ended 30 June 2020, each of 3 cents per share, bringing the total dividends declared to 6 cents per share. The dividend yield for the year was 4.8% based on the 30 June 2020 closing share price of \$1.25.

The ability to manage the level of fully-franked dividend payments over time is a key feature of listed investment companies. Over the last 3 and 10 years the dividend yield for the Company has been 5.3% and 4.6%, respectively. The ability to pay future fully-franked dividends will continue to depend on the Company's ability to generate realised profits and pay tax.

#### Capital management

As already mentioned, like many other listed investment companies, the Company's shares have recently been trading at a discount to pre-tax NTA.

The Board has been actively monitoring the discount and on 8 April 2020 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 to date.

Based on other Australian listed investment company ("LIC") participants, it is not clear that any buy backs implemented to date have narrowed existing discounts. Some market participants have wound up their LICs and transferred to other structures incurring costs and foregoing the benefit of ongoing smoothed

franked dividend income. The Board therefore reserves the use of a buy back for when the discount is at extremes.

The Board has also been monitoring actions overseas to determine the best course of action to reduce the Company's discount to NTA. However, unlike in the UK, the Australian regulatory environment does not allow listed investment companies to purchase and hold their own shares on balance sheet. Instead, any shares bought back by an Australian domiciled LIC must be cancelled, resulting in a permanent diminution in the issued share capital of the company, with the flow on effects of reduced liquidity and increased costs for remaining shareholders.

We believe that improved investment performance should be the biggest contributor to closing this discount, given that the portfolio is comprised of high-quality liquid stocks and the listed investment company structure is simply an alternative investment vehicle to open-ended active ETFs, which typically trade close to their NTA.

#### Other corporate governance matters

The Company's investments are managed and administered by Platinum through two key agreements previously approved by shareholders, namely the investment management agreement and the administration services agreement. The Board continues to monitor the performance of Platinum and its adherence to these agreements with the full and transparent co-operation of Platinum's management team.

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 you, our shareholders.

In April 2020 the Board met with Platinum during the Australia-wide stage 3 lockdown as a consequence of COVID-19, to understand how the Company's investment and operational risks were being managed by Platinum during this period. Pleasingly, Platinum did not experience any disruptions to its business, and to date remains fully operational.

#### Performance for the 2021 financial year and outlook

As at 31 October 2020, the most recent monthly pre-tax NTA released to the market was \$1.42.

The investment manager has recently noted that:

*"We have talked ad nauseum about the dispersion in markets – indeed we have described "two stock markets" – the mania in much-loved growth stocks and a bear market in the economically sensitive stocks....."*

The gains made by the 'high speed market' have been made in the context of unprecedented fiscal support for businesses and individuals within an environment of continuing uncertainty.

Throughout this period, Platinum has remained true to its investment philosophy by:

- moving away from some of the growth stocks and seeking out sectors of the market that are, in the investment manager's view, at a low point in their cycle and whose prospects should continue to improve in the post COVID environment; and
- seeking to minimise losses in the event of a market downturn.

While undoubtedly there will be many political and economic surprises ahead, the investment manager is optimistic about the current positioning of the portfolio, having regard to the Company's recommended investment time horizon of 5 to 7 years.

Andrew Clifford, will deliver an informal address and discuss his market outlook at the conclusion of the formal business of the meeting. He will also take any investment-related questions that you may have.

On behalf of the Board I would like to thank you for your ongoing support.

Margaret Towers  
Chairperson  
5 November 2020

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