

## **Chairman's Address to PTM's AGM**

4 November 2008

### **Introduction**

The ASX listed company, Platinum Asset Management (PTM) is the non-operating holding company of the investment manager, Platinum Investment Management Limited, which trades as Platinum Asset Management.

### **Performance**

Once the impact of the "pre-acquisition" elements are eliminated, the operating profit before tax derived by the consolidated entity for the year ended 30 June 2008 is \$238.7m (2007 \$248.5m) a decline of 3.9%. Similarly, operating profit after tax for the year ended 30 June 2008 is \$162.0m (2007: \$171.5m) a decline of 5.5%.

The diluted EPS (earnings per share) for 2008 was 27.6 cents compared to 30.4 cents for the previous year.

The reduction in operating profit is due to:

- a decline in performance fees from \$37.6m in 2007 to \$28.7m in 2008. Performance fees are volatile, largely in line with absolute investment returns; and
- a decline in management fees from \$251.0m in 2007 to \$238.5m in 2008.

The Company earns management fees as a percentage of Funds Under Management, or "FUM" in industry jargon. FUM fell over the 2008 year, from \$21.2 billion to \$14.995 billion. The \$6 billion FUM reduction is split almost equally between the negative impact of market value declines and net redemptions plus net distributions. The FUM at 30 September 2008 remained at \$14.995 billion with positive investment performance being broadly offset by continued net redemptions. The FUM at 30 October 2008 was \$14.334 billion.

Costs fell from \$60.8 million to \$44.4 million, largely as a result of the cost of the IPO being incurred in 2007.

### **Dividends**

As a financial service provider with limited capital requirements, there are at present relatively small needs for high retentions. Owing to the volatility of revenues, the Directors intend to smooth Dividend payments and plan to pay out 80% to 90% of net profit after tax.

Dividends in respect of the 2008 year total 24 cents per share. The two dividends were fully franked.

### **Outlook for 2008-2009**

Since November 2007, the world's stock markets have been adjusting downward, with record high levels of volatility! No stock has been immune to these wild gyrations. Indeed, PTM has seen daily movements in its own share price of +10% and -10% - one would be normally happy to see the former over the course of in a year!

The investment performance for Platinum's clients has been good on a relative basis and more recently has delivered positive absolute performance. Our flagship fund, the Platinum International Fund, has returned +7.51% against the MSCI's +1.46% [and the ASX S&P 200's -10.48%] for the September 2008 quarter. The one year numbers are -9.19% against the MSCI's - 17.96% [and the ASX S&P 200's -29.95%].

Indeed the bulk of our competitors are typically reporting declines of 20 to 30%.

To get a measure of the durability and efficacy of the process may I direct you to the ten-year returns. In the last 10 years in A\$ terms the MSCI compounded at 1.4% per annum. By contrast the flagship Platinum International Fund, compounded by 12.94% per annum. Incidentally, the returns from our regional and other specialist funds show a similar pattern of superior returns.

I take comfort from the recent improved relative performance as it reinforces our belief in the investment methodology and philosophy of Platinum. It also shows that it is an all-weather approach to investing. For this reason, I believe the Platinum investment management franchise to be stronger than ever.

With this in mind, we are committed to developing an effective global distribution and greater diversity of our client base. Currently we are selectively engaging with institutional funds in Australia and we continue efforts to identify the best person to develop our business development function.

The business model continues to have high operational leverage to resurgence in global equity markets and positive fund flows because of its low and largely fixed cost structure.

The fact that FUM, investment management fees and profitability have declined over the past year is hopefully a short-term cyclical issue reflecting that markets continue to be highly troubled and investors remain wary and largely invested in government guaranteed cash.

Platinum, in its most recent Quarterly Investment Report to clients notes that it is "becoming increasingly excited about the choice of companies that are now available" and it "can identify broad swathes of value across the globe". However, this is not calling a bottom in markets generally.

The net profit before tax for the 3 months to 30 September 2008 was \$50.7 million compared to the comparative 30 September 2007 of \$58.7 million.

For the full 2009 financial year, we remain cautious and recognise that markets remain highly volatile. Costs are generally tracking predictably; the unknown factors are investment performance, funds flow and FUM. As indicated in the Annual Report it is most likely nil performance fees will be earned in the current year.

Consistent with our policy the Board does not offer earnings guidance or forecasts.

### **Conclusion**

Platinum has now completed 18 months as an ASX listed company and the transition from private ownership has been remarkably smooth. The Board's highest priority has been to ensure that the focus of the investment management team continues to be exclusively on our primary goal of making money for our investors.

To this end, the Board through the work of the Remuneration and Audit Committee's has assisted in refining the incentive reward structure and compliance processes. I would like to thank my fellow Directors, Margaret Towers and Bruce Coleman for their assistance over the period.

The management team led by Kerr, Andrew Clifford and Malcolm Halstead and the rest of the staff are to be congratulated for their outstanding efforts over the year in a very difficult global equity market.

**M Cole**  
**Chairman**