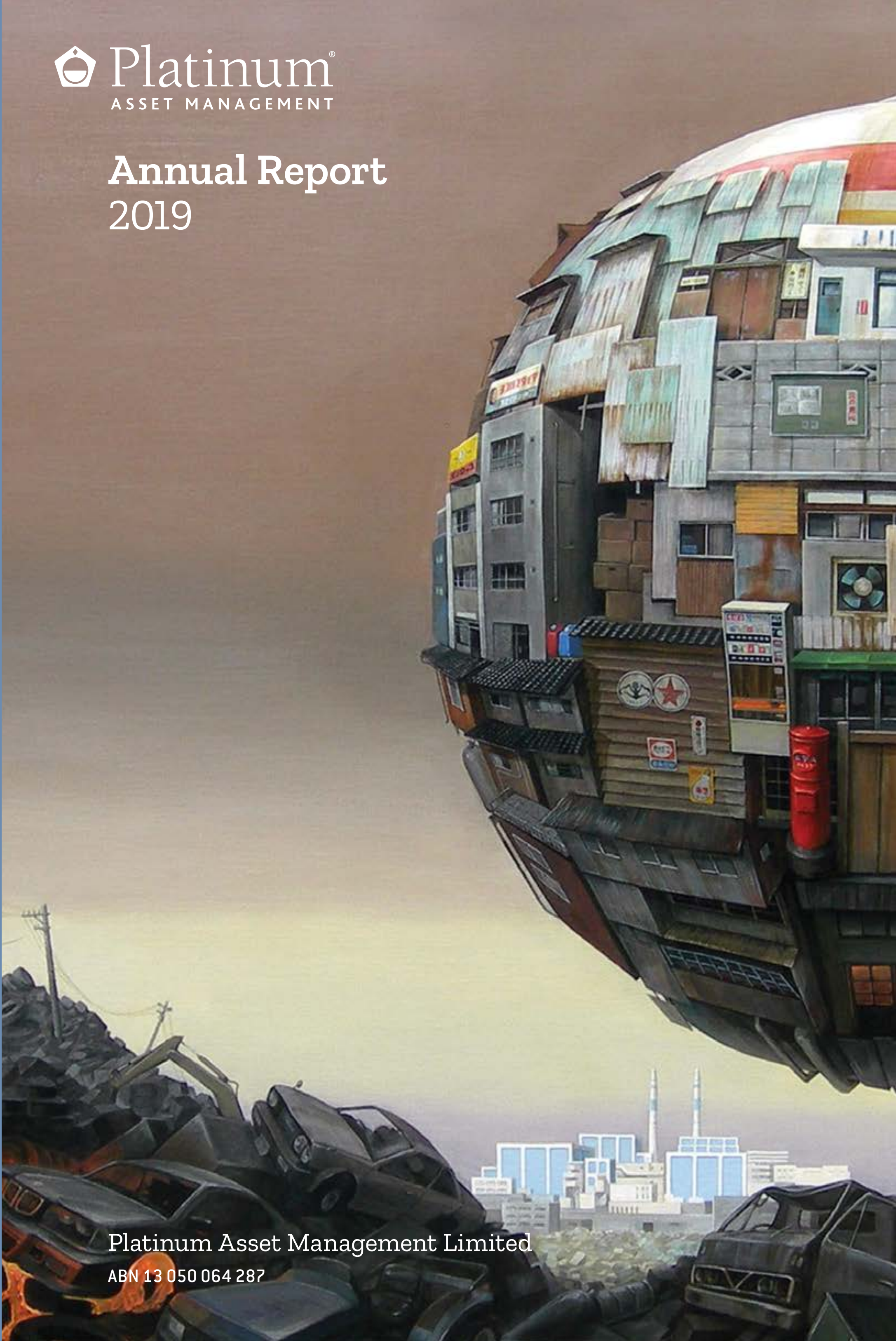
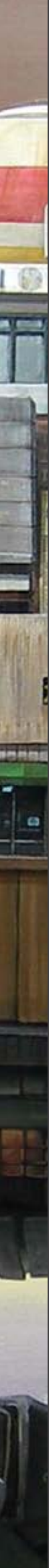
Platinum
ASSET MANAGEMENT

Annual Report
2019



Platinum Asset Management Limited
ABN 13 050 064 287



Directors
(as at 30 June 2019)

Michael Cole
Stephen Menzies
Anne Loveridge
Brigitte Smith
Tim Trumper
Andrew Clifford
Kerr Neilson
Elizabeth Norman
Andrew Stannard

Shareholder Liaison

Elizabeth Norman

Company Secretary

Joanne Jefferies

Registered Office

Level 8, 7 Macquarie Place
Sydney NSW 2000

Phone 1300 726 700 (Australia only)
Phone 0800 700 726 (New Zealand only)
Phone +61 2 9255 7500
Fax +61 2 9254 5555

Share Registrar

Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney NSW 2000

Phone 1300 855 080 (Australia only)
Phone +61 3 9415 4000
Fax +61 3 9473 2500

Auditor and Taxation Advisor

PricewaterhouseCoopers
One International Towers
Watermans Quay
Barangaroo NSW 2000

Securities Exchange Listing

Platinum Asset Management Limited shares are listed on the Australian Securities Exchange (ASX code: **PTM**)

Website

www.platinum.com.au/About-Platinum/ptm-shareholders

Corporate Governance Statement

https://www.platinum.com.au/PlatinumSite/media/About/ptm_corp_gov.pdf

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Chairman's Report 2019

Funds Under Management ("FUM")

It has been a challenging year for Platinum Investment Management Limited ("Platinum") with investment returns for most of our managed funds and portfolios lagging the broader market returns for the 12 months to 30 June 2019. This underperformance translated into lower fund flows, lower investment performance fees and a consequent decline in earnings per share, and dividends for Platinum Asset Management Limited ("the Company" or "PTM").

FUM at 30 June 2019 was approximately $24.8 billion, a decrease of 4% from the 30 June 2018 closing FUM of approximately $25.7 billion. The reduction in FUM was driven by net fund outflows of $0.2 billion and the year-end net cash distribution and other capital outflows of $0.9 billion, which was only partly offset by positive market returns of $0.2 billion.

Average FUM for the financial year decreased by 4% to $25.3 billion from an average FUM of $26.4 billion for the previous year.

The ongoing uncertainty in relation to the US-China trade war and the bleaker prospects for future economic growth caused investors in global equity markets to remain nervous, even as markets continued to appreciate in value. Investors generally reacted to these fears by favouring companies perceived to be immune from external events, such as the US-China trade war. In contrast, value stocks and/or those with a degree of earnings cyclicality were avoided by the majority of investors, and those stocks generally became cheaper.

Platinum has always believed that attractive valuations should be the starting point for any investment decision. This growing divergence between growth and perceived safety on one hand and attractive valuation on the other, led to some short-term investment underperformance for Platinum.

Operating Performance

For the 12 months to 30 June 2019, total revenue and other income for PTM decreased by 15% to $299.3 million (2018: $353.3 million). Profit after tax attributed to members decreased by 17% to $157.7 million (2018: $189.2 million). Earnings per share for the financial year were 27 cents per share.

This decline in total revenue and other income were mainly due to a $22 million drop in the investment performance fees received by Platinum and a $21 million decline in gains from Platinum's seed investments.

The Directors' Report contains a detailed explanation of the important role seeding investments has in product innovation, even though it can produce distortions to underlying profitability from year to year. The decline in investment management fees (excluding performance fees) was 4%, broadly consistent with the decline in average FUM. Average fee margins were maintained.

Remuneration

Included in the 2019 Remuneration Report on page 25 of the Company's 2019 Annual Report is a letter from the Chair of the Nomination and Remuneration Committee. I encourage all shareholders to read this letter, which outlines the remuneration policy of the Company and also its focus on investment performance based remuneration.

As a result of negative weighted average 1 and 3 year investment performance and also lower revenue and profit for the 2019 financial year, the aggregate variable remuneration across PTM was well down from that of the prior financial year.

Specifically, no member of the investment team received any variable awards under the Profit Share Plan and the Chief Executive Officer (CEO)/Chief Investment Officer, Andrew Clifford, elected not to receive any variable awards for the 2019 financial year, either under the CEO Plan or the Investment Team Plan. The two other executive key management personnel (KMPs), Elizabeth Norman (Director of Investor Services and Communications) and Andrew Stannard (Finance Director), both received reduced variable awards under the General Employee Plan for the 2019 financial year when compared to their awards for the prior financial year.

Dividends

The Directors have declared a 2019 final fully-franked ordinary dividend of 14 cents per share. This will be paid on 20 September 2019.

A 2019 interim fully-franked ordinary dividend of 13 cents per share was also declared during the year.

Whilst the Company has a Dividend Reinvestment Plan in place, it has not been activated.

Business Development

During the 2019 financial year, Platinum established a distribution office in London. A team of three new staff members is now in place. This initiative will strengthen our efforts in establishing a European business.

In addition, we continued to leverage our distribution relationship with AccessAlpha Worldwide in the US, with quarterly trips to the US being conducted by our investment specialists and members of our investment team, which included meetings with a number of institutional prospects.

Sell-down of shares by Kerr Neilson

In March 2019, the Company's founder and former CEO, Kerr Neilson together with Judith Neilson, disposed of 60 million ordinary PTM shares by way of a fully underwritten private placement to institutional and professional investors, thus deepening the Company's institutional shareholder base.

Following the sale, Kerr Neilson together with Judith Neilson retain voting control of approximately 43% of the Company's issued share capital. Kerr Neilson also remains on the Board and is an active member of the investment team.

Chairman's Report 2019 – continued

Hayne Royal Commission

With the Hayne Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry completed, it was gratifying to note that issues raised by Commissioner Hayne in relation to grandfathered commissions and conflicts of interest within vertically integrated advice businesses, were not applicable to Platinum. Platinum was vocal in advocating for change in the wealth management sector, and made three separate written submissions to the Royal Commission in 2018.

The Board and its Associated Committees

The Nomination and Remuneration Committee, and the Audit, Risk and Compliance Committee both had a busy and productive year.

The Nomination and Remuneration Committee set the new CEO's remuneration plan and KPIs, oversaw the smooth transition of the CEO responsibilities from Kerr Neilson to Andrew Clifford, recommended the aggregate 2019 variable remuneration pool and awards for the CEO, Executive Directors and other senior managers within Platinum, and continued with the Company's program of succession planning.

The Audit, Risk and Compliance Committee approved Platinum's risk management framework and internal audit plan, received regular reporting on risk management matters and the results of internal audits, considered the independence of the external auditor, recommended the appointment of the external auditor and monitored the impact of changes to the legal and regulatory environment affecting Platinum.

Finally

This has been a challenging period for value investors like Platinum but it retains a strong share of the Australian retail investor market, a highly differentiated product and a strong 25-year track record.

I encourage you to read the Managing Director's letter to shareholders by Andrew Clifford, which explains the basis of our investment philosophy and why Platinum may at times experience periods of investment underperformance. Andrew also discusses the investment outlook and some broader industry observations.

Michael Cole
Chairman

20 August 2019

Managing Director's Letter 2019

Investment Performance

Our flagship Platinum International Fund (the Fund) delivered a compound return of 9.5% p.a. over the five years to 30 June 2019 and a cumulative return of 57.3% for the same period, which on face value was a reasonable outcome. However, this outcome lagged the broader market, which delivered a compound return of 12.6% p.a. and a cumulative return of 81.4% over the same period. In the last 12 months, the Fund returned 0.7% against a market return of 11.3%.[1] This last year represents approximately three quarters of the Fund's underperformance over the last five years. The Fund's performance is representative of the performance of all our global equity mandates, which in total account for 65% of our funds under management (FUM).[2]

The reason for commencing an analysis of our business with a discussion of recent investment performance is straightforward. As I wrote in my letter to shareholders last year, Platinum was established on the premise that "we had an investment approach that had proven to produce good investment returns". While it has most certainly done that over our 25 years in business, it is certainly fair to question whether this has been the case in recent years.

To answer this question requires some context around the composition of market returns and how we have positioned the portfolios in response to those returns. The other reason to discuss recent investment performance is that it is the best lead indicator of short-term fund flows and thus near-term business performance.

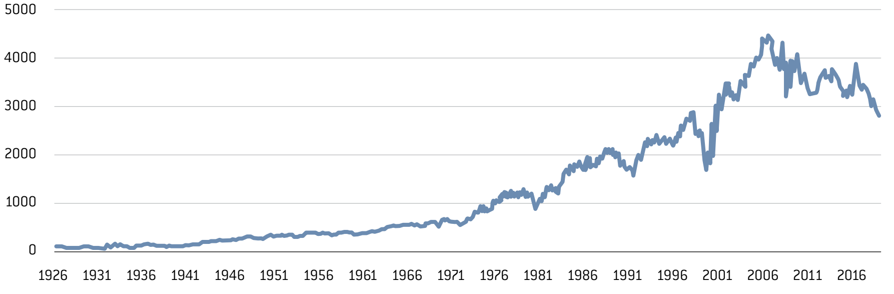
The defining characteristic of global equity markets in recent years has been the outperformance of the so-called growth stocks over value stocks. The investment industry terminology here refers to stocks that have high (for growth) or low (for value) valuations relative to earnings or net assets. We would not define value in this fashion, but nevertheless it serves the purpose for examination of the source of returns for equity markets over long periods of time. Chart 1 shows the performance of value over growth since 1926. When the line is rising, value is outperforming growth. Value, having outperformed growth for much of the period since the 1930s, has now trailed growth for 12 years, the longest period in history. Indeed, it is worth noting that the last period of significant outperformance of growth over value ended with the 'tech wreck' of 2001.

1. Source: Platinum Investment Management Limited and FactSet. Fund returns are C Class returns to 30 June 2019, after fees and costs, pre-tax, and assume the reinvestment of distributions. Market returns are the MSCI All Country World Net Index to 30 June 2019. Past performance is not a reliable indicator of future returns.

2. Source: Platinum Investment Management Limited.

Managing Director's Letter 2019 – continued

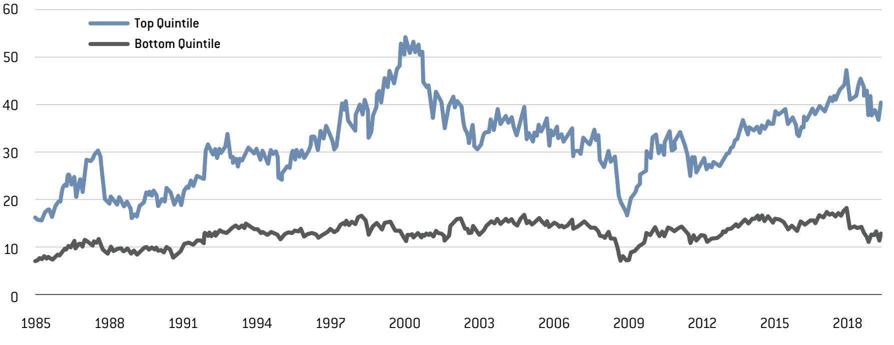
Chart 1 – Value Factor



Source: https://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html and Platinum Investment Management Limited. Calculated as the return on the 30% of stocks with the lowest price-to-book less the return on the 30% of stocks with the highest price-to-book for each period.

Low interest rates are the typical explanation offered for this unusual period. Undoubtedly, lower interest rates justify higher valuations of equities and indeed higher relative valuations of growth over value. What we see in the market at an aggregate level and an individual stock level is not in line with this expected outcome. While growth stocks have seen their valuation multiples rise significantly, value stocks have at best held their valuations or declined (see Chart 2). Interest rates account for part of the phenomenon but not all of it.

Chart 2 – US Valuation Dispersion



Source: Platinum Investment Management Limited. Top and bottom quintiles for listed US company price-to-earnings ratios.

We think the changing risk preferences of investors is a better explanation of the performance differential. Today, investors face a range of risks and variables that were, for the main part, not present prior to 2007. Negative or near zero interest rates are prevalent across much of the developed world, with over US$16 trillion[3] in fixed interest investments providing a return of less than zero to their owners. This certainly provides an incentive for investors to find alternative investments. However, the business landscape has become considerably more complex with many traditional businesses impacted by new business models due to the internet and growth in e-commerce. In addition, the political environment across the globe has deteriorated significantly. The most notable outcome has been the trade war initiated by the US, not only on China, but on many of its trading partners. Beyond this, there is also Brexit, the fall-out over the Iranian nuclear deal, ongoing protests in Hong Kong, and India's recent actions in Kashmir, just to name a few.

The intuitive response of investors in this environment is to seek out businesses they perceive to be immune to well-known risks and avoid those that are susceptible. As such, investors have strongly favoured defensive businesses (e.g. consumer staples, real estate, utilities, and infrastructure) and high-growth businesses, and avoided businesses directly exposed to the trade war or those with any degree of cyclicality. It is our assessment that this intuitive and fearful approach of the crowd has been critical in driving the differential in performance of value and growth stocks. This conclusion arises from a consideration of likely returns from a wide range of individual companies based on our expectations of future earnings and cash flows. Without doubt, we currently see far superior investment opportunities from the value end of the spectrum.[4]

As an example, consider the opportunity the market gave investors in US company, Micron Technology in the past year. Micron is one of three producers of memory chips (DRAM) and one of five producers of flash memory chips (NAND). These products are found in computers of all types from mobile phones to servers found in large data centres. During the year, the business experienced a cyclical downturn as mobile phone sales and investment in data centres slowed, and then found itself in the centre of the trade disputes as a major supplier to Huawei. The stock was sold off aggressively and traded at levels around book value, which was an extraordinary valuation given the accumulated intellectual property and industrial expertise in this company. Earnings have fallen sharply, but, in our conservative assessment, should recover to levels that place the stock (based on the lows of the year) on a price-to-earnings ratio (P/E) of 4 to 5 times. At this level, the recovered earnings represents an annual return of 20 to 25% to investors who purchased the stock at its lows, from a business that has net cash and has committed to using free cash flow to buy back stock. Compare this with a market favourite such as Paypal, a company that we exited in the past 12 months. Paypal is a well-positioned online payments business growing its business at a rate in the mid-teens. We have no great issue with the market's favourable view of Paypal, but the company trades on a P/E of over 50 times, or an initial earnings yield of a little under 2%. It needs to grow at a high rate for a long period of time to ever provide an investor with a reasonable return.

3. Source: Bloomberg, 18 August 2019 and https://www.abc.net.au/news/2019-08-18/a-third-of-global-bonds-17-trillion-dollars-have-negative-yields/11420860

4. Refer to Platinum's The Journal on our website for further reading: https://www.platinum.com.au/Insights-Tools/The-Journal/Macro-Overview-June-2019

Managing Director's Letter 2019 – continued

Conceptually, in our view the investment logic to sell Paypal and to buy Micron is absolutely rock solid. Of course, we may be wrong about the prospects for either of these individual stocks, but the point is that there are currently a multitude of opportunities for investors to sell high-flying favourites and to acquire more attractively priced but somewhat imperfect companies. Despite the sound logic of such a move, there is of course a significant dilemma in taking such a path; simply that investors' current preference for growth over value will remain in place and that in the short term, investment performance will continue to lag. Given the recent falls in interest rates and the escalation of the US trade war, this would appear to be a very real prospect.

However, as an investment manager we believe it is more important to minimise the risk of loss to clients than to achieve the maximum return possible, even if at times it means that our investment returns lag the competition. There is no question in our mind that Micron is a much safer and higher returning investment than Paypal over the long term. As such, not only have we continued to migrate our portfolios towards the better value available in markets, we have reduced our net exposure to markets through increased cash and short positions. Undoubtedly, these moves have suppressed investment returns in recent years as we have sought to reduce risk in portfolios. In addition, we also note that our portfolios are highly differentiated by both industry and geography from the growth strategies of many of our competitors that have not surprisingly been popular in recent years, providing an important diversification in portfolios for our clients. In assessing the adequacy of our medium-term returns, we would suggest that they be viewed in the context of our risk averse and differentiated approach.

Funds Under Management – Retention and Growth

Funds Under Management ($ million, to 30 June 2019)

FUNDS	OPENING BALANCE (1 JULY 2018)	FLOWS	INVESTMENT PERFORMANCE	DISTRIBUTION AND OTHER	CLOSING BALANCE (30 JUNE 2019)	% OF TOTAL
Retail offerings						
Platinum Trust Funds (excluding funds fed from PIXX and PAXX) and Platinum Global Fund (mFund)	16,927	(254)	46	(780)	15,939	64
Quoted Managed Funds (PIXX and PAXX)	313	201	5	(33)	486	2
Listed Investment Companies (PMC and PAI)	934	–	8	(94)	848	3
MLC Platinum Global Fund	970	(134)	(1)	–	835	3
Institutional mandates						
Management Fee Mandates	2,421	(13)	58	–	2,466	10
UCITS Platinum World Portfolios	444	(22)	(1)	–	421	2
“Absolute” Performance Fee Mandates	498	(55)	2	–	445	2
“Relative” Performance Fee Mandates	3,192	31	107	(1)	3,329	14
TOTAL	**25,699**	**(246)**	**224**	**(908)**	**24,769**	**100**

Source: Platinum Investment Management Limited

The ‘Distribution and Other’ figure is comprised of the distribution from the Platinum Trust Funds/PGF/PIXX/PAXX to investors and also to clients who have selected the “relative” performance fee mandate. The balance also includes dividend and tax payments made by the Listed Investment Companies – Platinum Capital Limited (ASX code: PMC) and Platinum Asia Investments Limited (ASX code: PAI).

Managing Director's Letter 2019 – continued

Short-term investment performance is the best lead indicator of fund flows in the asset management business. This is simply the result of human nature, as our cognitive biases strongly attract us to assets that performed well recently. In this light, the fact that funds under management only fell by 3.6% over the course of the year is a good result.

We would attribute this outcome to the strong understanding and appreciation of our investment approach by our clients and their advisers. Simply, they have benefited from our cautious approach in 'hot' markets before. In addition, our increased engagement with financial advisers and clients over recent years has ensured that they have remained well informed about our views on markets and the positioning of our funds.

Despite this relatively good outcome for the year ending 30 June 2019, this is unlikely to be maintained in the year ahead if performance remains subdued, particularly relative to the broader market. As expected, the trend in flows has deteriorated in the second half of the year, which saw net outflows of $935 million (excluding year-end fund distributions of $780 million) versus net inflows in the first half of the year of $689 million.

As always, there is a very clear focus within the business on investment results, though improved outcomes cannot be 'willed' into place. It is a case of maintaining our quality of research and discipline in the investment decision process. In the meantime, we are not simply sitting back and waiting for investment returns to improve. There is ongoing investment in the business, which will provide us with a solid platform for future growth.

Our investment specialists function, first established in 2013, has been a step change in our engagement with the adviser channel in Australia and New Zealand. We now have four investment specialists focused on the financial adviser channel, each with significant experience in financial markets, with three being former Platinum investment analysts. A full program of annual events for advisers has been developed, including a capital city roadshow (annual since 2012) and a regional adviser roadshow (annual since 2014), which this year will visit a combined 36 locations. The investment specialists also conduct several hundred meetings each year with advisers around the country, research professionals, and also speak at a range of industry events, dealer group conferences and at advisers' client events. Members of the investment team present at selected events on their specific areas of expertise. Our New Zealand annual roadshow has been going since 1999, and has extended its reach in recent years to some of New Zealand's smaller cities.

We have now made our direct investor roadshow across six capital cities an annual event (previously a biannual event having commenced in 1999). There are ongoing efforts to build informative and thoughtful content for investors, accessible via our website and widely distributed through external channels.

A key opportunity to grow the business lies with our offshore efforts. This commenced with the launch of our UCITS funds for the European market in 2015. In late 2018, we established our UK office to enhance our efforts to develop and service the European client base. The efforts of the UK team continue to be supplemented on a regular basis by visits from members of the investment team and investment specialists. Our partnership with AccessAlpha Worldwide to develop our US institutional client base is well advanced, with ongoing regular visits to potential clients by the team. In late 2018, appropriate fund structures were created for our prospective US clients.

In the local market, we are focused on improving access to our services to a wider range of investors. An example of this was our launch of our quoted managed funds in September 2017, which provided a mechanism for accessing our flagship International Fund and Asia Fund via the convenience of an ASX transaction. These funds have continued to experience inflows over the last 12 months. We continue to look for opportunities to expand investors' access to our various equity strategies.

We are quietly ambitious to grow our business, though we do have self-imposed limitations. Within the wealth management industry there is increasing innovation and complexity in product development, often with new incentive mechanisms to attract funds. At times, it is far from clear whether these innovations are for the benefit of the product manufacturer or the end client. As an investment-led business, we want to be clear that any initiative we pursue will be first and foremost for the benefit of potential clients. In addition, we are also equally clear that our efforts to grow the business must not impact our ability to deliver good investment outcomes to our longstanding and loyal clients.

Costs

The most important resource within Platinum is its employees, and as such accounts for well over half of the company's expenses. Total costs fell by $8.6 million to $76.4 million, driven by a $14.1 million fall in cash variable remuneration (bonuses). The fall in cash variable remuneration is a direct result of our approach to linking remunerating outcomes for employees within our investment team to investment performance. In an ideal world, I would prefer to see these costs rising, reflecting good client investment outcomes.

Excluding the fall in cash variable remuneration, costs otherwise increased by $5.5 million. The increase predominantly reflected an increase in the number of employees and ongoing increases in the amortisation costs associated with our Deferred Remuneration Plan. The increase in the size of our team reflects the ongoing investment in the business outlined earlier: in particular, an increase in the size of our investment specialists team, including our UK office, to support the increasing engagement with financial advisers locally and development of the business offshore. There has also been an ongoing increase in the development of the investment team's capacity, which as at 30 June 2019 accounted for 36 of Platinum's 114 employees.

Managing Director's Letter 2019 – continued

Selected employees are awarded stock under the Deferred Remuneration Plan, with a vesting period of four years. These grants are made annually to allow employees to gradually increase their ownership of the company. At the balance date, rights to 5.1 million shares were outstanding under the plan, and to date, none have vested with employees. The plan ensures that employees who contribute to the development of the business over the long term are rewarded, and serves as an important mechanism for employee retention.

Royal Commission

Much has been written about the Royal Commission into Misconduct in the Banking, Superannuation, and Financial Services Industry. For our business in particular, the long-term issue has centred on the conflicts of interest in the industry that have prevented us, as an independent investment manager, from participating in the entirety of the market. Ideally, in a post-Royal Commission world, the government and regulators will work with the industry to substantially reduce, if not eliminate, these conflicts.

The critical role a financial adviser plays in managing the financial affairs of individual investors should not be forgotten. In an environment where each individual is required to save (at a minimum via compulsory superannuation contributions), everyone is an investor. Investing well is not easy, not only because of the complexity of tax regulations, but also because our intuitive responses to investment issues often lead us astray. There remains an important role for independent financial advisers to guide individuals through the investing process.

Outlook

Our recent investment performance may lead one to a take a subdued view of our future prospects. However, I believe that the long period of outperformance of growth over value, discussed at the outset, is setting up an extraordinary opportunity for Platinum to make a substantial difference to our clients' investment outcomes. As such, I remain optimistic in our ability to grow the business over the long term. We have been here before.

Finally, I would like to thank our clients and shareholders for your support. I appreciate that our results over the last 12 months have been far from what you would have desired or expected. I can assure you that the entire team at Platinum has been and will continue to work diligently to improve both client and business outcomes. During the year, we celebrated 25 years in business. On the occasion, we recognised 21 employees who have worked with us for over 15 years. We are fortunate to have a team of great ability, and with this depth of experience, we will continue to work to serve the interests of our clients and shareholders.

Andrew Clifford
Managing Director

Financial Statements 2019

Platinum Asset Management Limited

General Information

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 20 August 2019. The Directors have the power to amend and reissue the financial statements.

Shareholder Information

The shareholder information set out below was applicable as at 15 August 2019.

Distribution of ordinary shares

Analysis of number of ordinary shareholders by size of holding:

	NUMBER OF HOLDERS OF ORDINARY SHARES
1 to 1,000	6,069
1,001 to 5,000	13,533
5,001 to 10,000	3,816
10,001 to 100,000	2,355
100,001 and over	70
	25,843
Holding less than a marketable parcel (less than $500)	501

Ordinary shareholders

Twenty largest ordinary shareholders

The names of the twenty largest shareholders of the Company are listed below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
J Neilson	126,037,421	21.48
K Neilson	126,037,420	21.48
HSBC Custody Nominees (Australia) Limited	65,175,020	11.11
Citicorp Nominees Pty Limited	34,282,877	5.85
Platinum Investment Management Limited (nominee)	29,364,201	5.01
JP Morgan Nominees Australia Limited	28,779,804	4.91
National Nominees Limited	10,629,682	1.81
Jilliby Pty Limited	6,500,000	1.11
Pacific Custodians Pty Limited	5,095,797	0.87
J Clifford	5,000,000	0.85
BNP Paribas Nominees Pty Limited	3,826,373	0.65
BNP Paribas Nominees Pty Limited	2,422,074	0.41
Citicorp Nominees Pty Limited	2,143,172	0.37
Xetrov Pty Limited	1,500,000	0.26
BKI Investment Company Limited	1,238,000	0.21
HSBC Custody Nominees (Australia) Limited	1,125,859	0.19
Mrs Michele Martinez	1,072,309	0.18
Warbont Nominees Pty Limited	942,325	0.16
Navigator Australia Limited	899,848	0.15
AMP Life Limited	878,590	0.15
	452,950,772	77.21

Unquoted ordinary shares

There are no unquoted ordinary shares, however under the Deferred Remuneration Plan, a total of 5,095,797 deferred rights have been allocated to eligible employees of Platinum Investment Management Limited, and on vesting and exercise of these rights, an equivalent number of PTM shares (that have already been acquired on-market) will be allocated to these employees (please refer to the Remuneration Report and Note 20 for further details).

Shareholder Information – continued

Substantial shareholders

The following parties have notified the Company that they have a substantial relevant interest in the ordinary shares of Platinum Asset Management Limited in accordance with section 671B of the *Corporations Act 2001*:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
J Neilson, K Neilson	252,074,841	42.97^
J Clifford, Moya Pty Limited, A Clifford	32,831,449	5.9^

^ **Based on the last substantial shareholder notice lodged.**

Distribution of Annual Report to Shareholders

The law allows for an "opt in" regime through which shareholders will receive a printed "hard copy" version of the Annual Report only if they request one. The Directors have decided to only mail out an Annual Report to those shareholders who have "opted in".

Financial Calendar

Ordinary shares trade ex-dividend	27 August 2019
Record date (books close) for dividend	28 August 2019
Dividend paid	20 September 2019

These dates are indicative and may be changed.

Notice of Annual General Meeting

The details of the Annual General Meeting (AGM) of Platinum Asset Management Limited are:

10am Wednesday 20 November 2019
Fort Macquarie Room
InterContinental Hotel Sydney
117 Macquarie Street
Sydney NSW 2000

Questions for the AGM

If you would like to submit a question prior to the AGM to be addressed at the AGM, you may email your question to invest@platinum.com.au.

Directors' Report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity', 'group' or 'Platinum') consisting of Platinum Asset Management Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

The following persons were Directors of Platinum Asset Management Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Michael Cole	Chairman and Non-Executive Director
Stephen Menzies	Non-Executive Director
Anne Loveridge	Non-Executive Director
Brigitte Smith	Non-Executive Director
Tim Trumper	Non-Executive Director (from 1 August 2018)
Andrew Clifford	Chief Executive Officer/Managing Director
Kerr Neilson	Executive Director
Elizabeth Norman	Executive Director and Director of Investor Services and Communications
Andrew Stannard	Executive Director and Chief Financial Officer

Principal Activities

The Company is the non-operating holding company of Platinum Investment Management Limited ("PIML") and its controlled entities. Platinum Investment Management Limited ("Platinum"), trading as Platinum Asset Management, operates a funds management business.

Operating and Financial Review

FUM at 30 June 2019 was $24.8 billion and this represented a decrease of 3.6% from the 30 June 2018 closing FUM of $25.7 billion. The FUM at 30 June 2019 is after the impact of the 30 June 2019 net distribution outflow of $0.8 billion. Average FUM for the year decreased by 4.1% to $25.3 billion from an average FUM of $26.4 billion for the previous year. The reduction in FUM was driven by net fund outflows of $246 million. Despite the fund outflows, the absolute investment return remained positive contributing $224 million to FUM during the financial year.

Our two ASX quoted managed funds, Platinum International Fund (Quoted Managed Hedge Fund) (ASX code: PIX) and Platinum Asia Fund (Quoted Managed Hedge Fund) (ASX code: PAX) continued to do well with total FUM increasing to $486 million at 30 June 2019 (30 June 2018: $312.5 million).

Directors' Report – continued

The profit before income tax expense, excluding performance fees, for the funds management business was $219.5 million for the year ended 30 June 2019, down 1.4% on the previous year (see table below).

FUNDS MANAGEMENT BUSINESS SEGMENT	JUNE 2019 $A'000	JUNE 2018 $A'000	% DECREASE
Profit before income tax expense*	219,491	244,436	
Less: Performance fees	30	21,878	
Profit before income tax expense, excluding performance fees	219,461	222,558	(1.4)%

* **Refer to note 11.**

Performance fee revenue was negligible for the year at $30,000 (2018: $21.9 million) and our seed investments made an overall loss for the year of $988,000, including dividends and distributions (2018: $19.5 million gain) and these two highly variable factors, which are dependent on investment performance and market conditions, combined to reduce overall profitability.

It is important to explain why PIML makes seed investments. Over the course of the last few years, Platinum has expanded the range of investment products offered by it thereby growing its investor base and FUM. Seeding is an important part of our overall growth strategy as it provides new products with some key benefits:

- It demonstrates the investment manager's commitment to the product and strategy;
- It aligns the interest of the investment manager with that of investors;
- It provides the additional scale required to effectively construct and manage the portfolio from inception;
- It helps to dilute and manage the impact of cash flows, providing stability to the portfolio; and
- It removes the investment and operational risks for initial investors who would otherwise be the first investor.

The investment manager's seeding of its newly created products is not intended to be a long-term commitment. As each product grows to sufficient size and scale, it is the intention of Platinum to reduce or eliminate its level of investment and to recycle that cash into other parts of the business. The decision to invest is driven by the strategic growth needs of the business. The investments are not intended to be held for the purposes of market speculation.

Total expenses decreased by $8.5 million or 10.1% from the previous financial year. The decrease primarily related to a 17.4% decline in staff costs (including share-based payments and related on-costs) from $52.8 million in 2018 to $43.6 million for 2019. This decline was mostly due to investment team remuneration decreasing in line with investment performance. Other non-staff expenses were controlled, increasing just 2% when compared to the previous year.

For the reasons noted, profit after tax attributed to members declined to $157.7 million (2018: $189.2 million) for the year. This represents a decline in profit after tax of 16.7%. Earnings per share was 27.03 (2018: 32.36) cents per share.

During the financial year, Platinum UK Asset Management Limited commenced operations in London as the European distribution and servicing centre for Platinum and Platinum World Portfolios Plc, which currently has three employees.

Platinum continues to be positioned for the future:

- The investment team are able to find good value in the market;
- The smooth leadership transition has helped ensure continuity of key people;
- The Company has made significant progress in relation to its future growth plans; and
- Platinum continues to invest in people, processes and technology.

The consolidated entity is in a strong financial position, with a strong balance sheet. However, the most significant driver of our sustainable future growth is, and will always be, the delivery of superior, long-term, investment returns for our clients.

Dividends

The Company has limited capital requirements and generally expects that most, if not all, future profits will continue to be distributed by way of dividends, subject to ongoing capital requirements.

Since the end of the financial year, the Directors have declared a 2019 final fully-franked dividend of 14 cents per share ($82,135,046), with a record date of 28 August 2019 and payable to shareholders on 20 September 2019.

A 2019 interim fully-franked dividend of 13 cents per share ($75,816,914) was paid on 18 March 2019. A 2018 final fully-franked dividend of 16 cents per share ($93,313,125) was paid on 21 September 2018.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year and up to the date of this report.

Environmental Regulation

The consolidated entity is not subject to any significant environmental regulation under Commonwealth, State or Territory laws.

Directors' Report – continued

Information on Directors

Michael Cole AM, BECON, MECON, FFIN
Independent Non-Executive Director, Chairman and member of the Audit, Risk & Compliance and Nomination & Remuneration Committees since 10 April 2007.

Mr Cole has over 41 years of experience in the investment banking and funds management industry. Mr Cole was an Executive Director/Executive Vice President at Bankers Trust Australia for over 10 years. Mr Cole is Chairman of Ironbark Capital Limited.

Stephen Menzies BECON, LLB, LLM
Independent Non-Executive Director and member of the Audit, Risk & Compliance and Nomination & Remuneration Committees since 11 March 2015 and Chair of the Nomination & Remuneration Committee since 19 June 2017.

Mr Menzies is Chairman of Silicon Quantum Computing Pty Limited and is a past Chairman of the Centre for Quantum Computation & Communication Technology. Mr Menzies retired as a partner at Ashurst law firm in 2015 and until his retirement was consistently ranked as one of Australia's leading corporate lawyers. As Head of China Practice for Ashurst, Mr Menzies oversaw the Shanghai and Beijing offices of that firm. Previously, Mr Menzies was National Director of Enforcement at the Australian Securities Commission and has a long history in the funds management sector. Mr Menzies is a director of Platinum World Portfolios Plc.

Anne Loveridge BA (HONS), FCA (AUSTRALIA), GAICD
Independent Non-Executive Director and member of the Audit, Risk & Compliance Committee and Nomination & Remuneration Committees since 22 September 2016 and Chair of the Audit, Risk & Compliance Committee since 24 February 2017.

Ms Loveridge is currently a Non-Executive Director for the National Australia Bank (NAB) Group and NIB Holdings Limited. Ms Loveridge retired as a partner and deputy chairman of PricewaterhouseCoopers (PwC) in 2015. At PwC, she had over 30 years of experience in the Financial Services Assurance practice. Ms Loveridge has extensive senior management and people leadership experience, knowledge of financial and regulatory reporting and risk management.

Brigitte Smith B.CHEM ENG (HONS), MBA, MALD, FAICD
Independent Non-Executive Director and member of the Audit, Risk & Compliance and Nomination & Remuneration Committees since 31 March 2018.

Ms Smith was co-founder and Managing Director of GBS Venture Partners for twenty years and has worked with Australian and US fast growth companies as an investor and board member, supporting business strategy, human resources and operations. Ms Smith has worked in the US and Australia in operating roles with fast growth technology based businesses, and at Bain & Company as a strategic management consultant.

Tim Trumper MBA, UNE
Independent Non-Executive Director and member of the Audit, Risk & Compliance and Nomination & Remuneration Committees since 1 August 2018.

Mr Trumper is Chair of the NRMA, advisor and shareholder in Quantium, Australia's leading data and analytics company and holds interests in several private high growth innovative companies. He is an authority on the utilisation of data to drive innovation, and corporate strategy. Mr Trumper is an experienced non-executive director, former CEO, and advisor for high-performance global and Australian companies. His career has spanned diverse categories including artificial intelligence and machine learning, big data, digital transformation, mobility and transport, financial services and media.

Along with fellow directors and the then Chairman the late Hon. R J Hawke, Tim helped to establish The Bestest Foundation. This charity has raised over $4 million for disadvantaged Australian children.

Andrew Clifford BCOM (HONS)
Managing Director since 1 July 2018 and Chief Investment Officer since 8 May 2013.

Mr Clifford joined Platinum as a co-founding member in 1994 in the capacity of director of Platinum Investment Management Limited and Deputy Chief Investment Officer. In May 2013, Mr Clifford was appointed Chief Investment Officer. Effective 1 July 2018, Andrew Clifford was appointed as the Chief Executive Officer/Managing Director of the Platinum group. Previously he was a Vice President at Bankers Trust Australia covering Asian equities and managing the BT Select Market Trust – Pacific Basin Fund.

Kerr Neilson BCOM, ASIP
Managing Director to 30 June 2018 and Executive Director since 12 July 1993.

Mr Neilson joined Platinum as a co-founding member in 1994 and was the Managing Director of the Company from incorporation to 30 June 2018. Prior to Platinum, Mr Neilson was an Executive Vice President at Bankers Trust Australia. Previously he worked in both the UK and South Africa in stockbroking.

Elizabeth Norman BA, GRADUATE DIPLOMA IN FINANCIAL PLANNING
Director of Investor Services and Communications since 8 May 2013.

Ms Norman joined Platinum in February 1994 in a role of Investor Services and Communications Manager. Previously she worked at Bankers Trust Australia in product development and within the retail funds management team.

Andrew Stannard BMS(HONS), GRADUATE DIPLOMA IN APPLIED FINANCE AND INVESTMENT, CA
Director and Chief Financial Officer since 10 August 2015.

Mr Stannard joined Platinum from AllianceBernstein where he held the position of Chief Financial Officer for the Asia-Pacific region. Mr Stannard has 29 years of finance experience with expertise in audit, financial control, operations, funds management, financial services regulation and corporate governance.

Directors' Report – continued

Information on Company Secretary

Joanne Jefferies BCOM, LLB
Company Secretary since 17 October 2016.

Ms Jefferies is an English law qualified solicitor with more than 24 years of legal experience in the asset management and securities services sectors, in England and across Asia Pacific.

Ms Jefferies joined Platinum in October 2016 as General Counsel and Group Company Secretary, having spent the previous six years at BNP Paribas Securities Services as Head of Legal Asia Pacific, Company Secretary for all Australian subsidiaries and a member of the Asia Pacific Executive Committee. Joanne has previously held senior legal positions with Russell Investments, Morley Funds Management (Aviva Investors) and Lord Abbett, and served as the General Counsel for the UK's funds management industry association, the Investment Association.

Meetings of Directors

The number of meetings of the Company's Board of Directors ("the Board") and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each Director were:

	BOARD (HELD 7) ATTENDED	NOMINATION & REMUNERATION COMMITTEE (HELD 5) ATTENDED	AUDIT, RISK & COMPLIANCE COMMITTEE (HELD 4) ATTENDED
Michael Cole	7	5	4
Stephen Menzies	7	5	4
Anne Loveridge	7	5	4
Brigitte Smith	7	5	4
Tim Trumper	6	4	4
Andrew Clifford	5	–	–
Kerr Neilson	5	–	–
Elizabeth Norman	6	–	–
Andrew Stannard	7	–	–

Tim Trumper was only eligible to attend 6 Board meetings and 4 Nomination & Remuneration/ Audit, Risk & Compliance Committee meetings as he joined the Board on 1 August 2018. During the financial year, in addition to the four scheduled Board meetings, three adhoc Board meetings were scheduled to approve an extension of the on-market share buy-back period, to approve the CEO's remuneration and Key Performance Indicators (KPIs) and to approve the release of the Company's cleansing statement in connection with Kerr Neilson's proposed controller sale.

Indemnity and Insurance of Officers

During the year, the Company incurred a premium in respect of a contract for indemnity insurance for the Directors and Officers of the Company named in this report.

Indemnity and Insurance of Auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Non-Audit Services

Details of the amounts paid or payable to the auditor for non-audit services provided during he financial year by the auditor are outlined in Note 22 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in Note 22 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

– All non-audit services have been reviewed and approved by the PTM Audit, Risk and Compliance Committee to ensure that they do not impact the integrity and objectivity of the auditor; and

– None of the services undermine the general principles relating to auditor independence as set out in APES 110: *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board.

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations *(Rounding in Financial/Directors' Reports)* Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Managing Tax Risk

The Board is committed to acting with integrity and transparency in all tax matters. The Company aims to meet all of its obligations under the law and pay the appropriate amount of tax to the relevant authorities.

Directors' Report – continued

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 43.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Michael Cole
Chairman

Andrew Clifford
Director

20 August 2019
Sydney

Remuneration Report

A Message from the Chair of the Nomination & Remuneration Committee

As shareholders may well know, the core purpose of the Company is to deliver exceptional investment returns to clients over the medium to long-term, consistent with a risk profile that seeks to preserve investors' capital. Platinum believes that long-term investment performance is the primary driver of fund inflows, profit growth and ultimately long-term value creation for shareholders.

The remuneration policy is shaped around this core purpose. The Company can only achieve exceptional investment performance by attracting and retaining superior investment talent, supported by a team of similarly talented client service and operational staff.

Platinum's remuneration program has two key elements, being fixed remuneration (salary and superannuation) and variable incentive awards, which are made either in the form of cash or by way of a deferred equity award. To ensure the alignment of the investment team with strong client investment returns, the size of the variable remuneration pool for the investment team largely varies with the extent of investment performance generated for clients, measured over both 1 and 3 year periods.

That said, there can be times when, despite Platinum's sound stock selection process, capital markets can work against Platinum's investment style, resulting in relative underperformance. As Platinum's investment approach builds portfolios from the bottom up on an index agnostic basis, periods of underperformance relative to the broader market are almost inevitable. In these transitory periods, the Directors retain the right to make appropriate discretionary awards.

The Board is also conscious of the need to align remuneration outcomes with shareholder returns. We note the trend by some other corporates to focus on Total Shareholder Return ("TSR") as a basis for designing Key Management Personnel ("KMP") and employee remuneration structures. TSR measures share price appreciation or depreciation plus dividend reinvestment between two points in time. Whilst, over long periods of time, TSR will usually reflect the underlying performance of a company's business, it is Platinum's view that there are a number of problems associated with the use of TSR as the primary factor for determining employee remuneration. Shorter term variables, such as the macroeconomic environment or interest rates, are factors outside of the control of employees, but these can often overwhelm underlying developments in the business, and determine a company's share price. The result is that employees may be either unduly rewarded or punished by variables outside of their control. The use of TSR as an incentive tool, in our view, encourages a focus on short-term outcomes such as current year earnings, or short-term investment returns, potentially at the expense of longer-term business outcomes. Given the strong alignment between employees and shareholders that already exists at Platinum due to the significant employee shareholding, we believe that Platinum's shareholders are better served by a remuneration policy that closely aligns remuneration with the investment performance that we generate for our clients.

Directors' Report – continued

Remuneration Report – continued

Your Nomination & Remuneration Committee has been active in the 2019 financial year and up to the date of this report. In particular, we have:

– Continued to push forward our program of Board renewal, including the appointment of Mr Tim Trumper to the Board in August 2018;

– Worked to ensure the smooth transition of CEO responsibilities to Mr Andrew Clifford, including the design and recommendation to the Board of his new remuneration arrangements and KPIs;

– Reviewed and recommended that the Board approve the aggregate 2019 variable remuneration pool for Platinum as well as the individual awards for the CEO, Executive Directors and Senior Managers;

– Reviewed and updated the Board skills matrix to better reflect the required skills of the Board;

– Conducted an annual review of UCITS V remuneration and disclosure rules; and

– Discussed the Company's remuneration practices with external stakeholders.

We will continue to refine and review our remuneration arrangements to ensure that they align with Platinum's core purpose and we welcome your feedback.

Stephen Menzies
Chair of Nomination & Remuneration Committee

Introduction

The Company's Directors present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the Company and consolidated entity for the year ended 30 June 2019. The Remuneration Report forms part of the Directors' Report.

The information provided in this Remuneration Report has been audited by the Company's auditor, PricewaterhouseCoopers, as required by section 308 (3C) of the *Corporations Act 2001*.

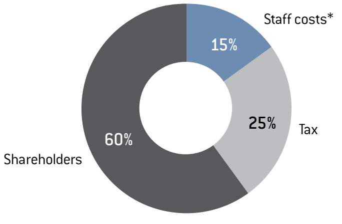
Summary of Remuneration Outcomes for 2019

- As noted in the Managing Director's letter, the investment team's remuneration is closely aligned with the investment returns that are generated for clients;
- The underperformance of our funds versus market indices and/or lower revenues for the 2019 adversely affected variable remuneration outcomes for Platinum's employees in aggregate. With the exception of a very small group of employees who each made outstanding contributions to the business, variable awards were significantly down on prior year and salary increases were kept modest, mostly reflecting increased competition for key staff;
- There were no awards made under the Profit Share Plan ("PSP") due to the underperformance of our funds versus the indices and the investment team and general employee plan pools were substantially reduced;
- The Chief Executive Officer/Chief Investment Officer, Mr Andrew Clifford, elected not to receive any variable awards in 2019;
- A total of $7.47m was awarded to eligible participants under the Deferred Remuneration Plan in the 2019 financial year. The accounting impact of the award will be expensed through the profit and loss statement over the five year period of the award, so the expense impact is apportioned;
- The allocation of 2019 profits attributed to both shareholders and employees is outlined in the first graph on the following page. It shows that the compensation awarded to employees was modest, relative to the returns to shareholders, with shareholders receiving a share of profits four times greater than staff; and
- The second graph shows that alignment between employees and the owners of the business also remains very strong, with several key staff being primarily remunerated by way of dividends and capital appreciation, in exactly the same way as other shareholders.

Directors' Report – continued

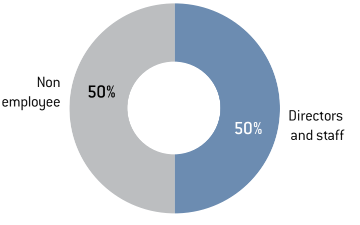
Remuneration Report – continued

Graph 1: Actual Share of 2019 Profit (pre tax and pre staff costs)



* Includes staff costs and share based payments expense

Graph 2: Composition of PTM share ownership



Guiding Principles of KMP and Staff Remuneration

The core purpose of the Company is to deliver exceptional investment returns to clients over the medium to long-term, consistent with a risk profile that seeks to protect against downside market risk. It achieves this purpose by attracting and then retaining superior investment talent, supported by a team of similarly talented client service and operational staff.

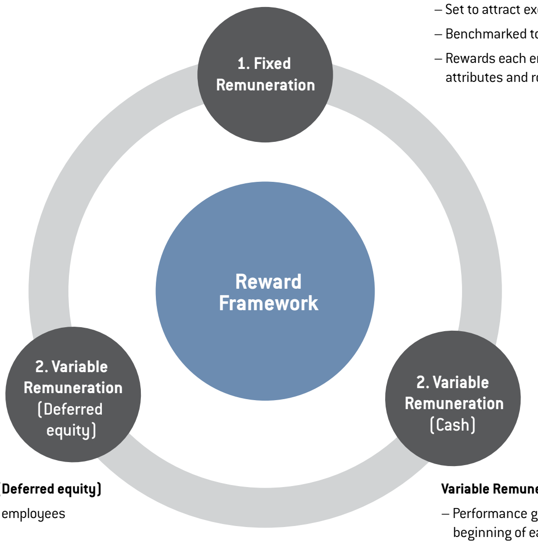
The success of our remuneration program can be evidenced by our strong long-term investment performance track record, a history of high retention rates amongst key investment and operational staff, and a record of profitable growth.

Platinum's remuneration program has two[1] key elements:

1. Fixed Remuneration: This is set at a level sufficient to attract exceptional talent. It includes salary, benefits and statutory entitlements. Fixed remuneration is benchmarked to market at least annually and reflects the scope of the individual role, and the required level of skill and experience.

2. Variable Remuneration: Each employee is assessed annually across a range of quantitative and qualitative factors, as well as appropriate risk management and behavioural criteria. Variable award recommendations are generally made annually on a discretionary basis following rigorous review by senior management and the Nomination & Remuneration Committee, which comprises non-executive directors only, before ultimately being approved by the Board. Variable awards can be made in the form of cash or a deferred equity award that vests over a four year period. This deferral element is designed to foster sustainable growth, as well as sound financial, operational and risk management practices, and to retain talent.

1. Platinum also has two inactive long-term Remuneration Plans, being an "Options and Performance Rights Plan" (OPRP) and a "Fund Appreciation Rights Plan" (FARP). There was no allocation under either plan in either the current or the prior year.



Fixed Remuneration
- Set to attract exceptional talent
- Benchmarked to market
- Rewards each employee for their skills, attributes and role accountabilities

Variable Remuneration (Deferred equity)
- Improves alignment of employees and shareholders
- Significant deferral element to foster sustainable growth and sound financial, operational and risk management practices

Variable Remuneration (Cash)
- Performance goals set annually at the beginning of each performance period
- Awards made annually with reference to individual performance
- Other performance conditions include:
  - Company performance
  - Risk management factors
  - Leadership and behavioural factors
  - Competition for key staff

Variable Remuneration Plans

There were three variable remuneration plans in operation during the 2019 financial year, which were supported by a Deferred Remuneration Plan. Each plan is overseen by the Nomination & Remuneration Committee. The investment team has access to the Investment Team Plan and the Profit Share Plan. All other staff are covered by the General Employee Plan. Each variable remuneration award is then apportioned between a cash amount, which is generally paid in June and a deferred amount, which will vest in four years so long as the employee remains employed by Platinum during that time.

Directors' Report – continued

Remuneration Report – continued

The table below summarises the main characteristics of each plan, each of which are then discussed in more detail in the following section.

PLAN SUMMARY	PARTICIPANTS	POOL FORMULA	CAP	HURDLE	AWARD TYPE
Investment Team Plan	Investment team	Weighted average 1 and 3 year performance[2]	2x salary of investment team (caps out at 5% outperformance)	0%	Cash and/or deferred equity award
Profit Share Plan	Investment team	Weighted average 1 and 3 year performance	5% of adjusted net profit (caps out at 6% outperformance)	1%	
General Employee Plan	Non-investment team staff	Discretionary Award	n/a	n/a	

Investment Team Plan (applies to members of the investment team only)

Under this plan, in a period where there is aggregate weighted average outperformance (relative to a weighted benchmark comprised of nominated market indices) the annual investment team award pool is calculated as a percentage of the aggregate base salary of the investment team. The percentage level relates to the weighted average of 1 year and 3 year rolling outperformance of all funds and mandates under management (relative to a weighted benchmark comprised of nominated market indices). The pool starts at 100% of the aggregate of the base salaries of the investment team. For each 1% increase in this average outperformance, the pool is increased by 20% and is then capped at 2 times salary when average outperformance is 5% or more.

The pool is allocated across the investment team based on performance assessments that are based on both quantitative and qualitative measures. Quantitative measures used to assess individual performance include the performance of any portfolios under the management of an individual and the performance of the individual investment ideas that the person has proposed. Individual investment performance is usually assessed over a rolling 1 year and 3 year time frame and is relative to a nominated market index.

The total remuneration outcome (comprising both fixed and variable components) for each investment professional is then benchmarked to appropriate external market data to ensure that their package remains competitive.

2. The Board can elect to make discretionary awards in excess of the pool amount should it be required. In this case, annual awards for investment team members may then be determined by an individual assessment of each employee's contribution.

In a period where there is aggregate weighted average underperformance or where performance is uneven across different funds or fund managers, annual awards for investment team members will then be determined by an individual assessment of each employee's contribution to the investment team during the period. Individual awards will generally range from 0% to 120% of base salary and reflect the business necessity of retaining high performing talent during the inevitable short term dips in weighted 1 and 3 year investment performance.

Profit Share Plan ("PSP") (applies to selected members of the investment team only)
The PSP is designed to reward key members of the investment team for their contribution to the development of Platinum's business through the generation of strong investment performance (relative to a weighted benchmark comprised of nominated market indices). Eligible members of the investment team are issued notional units in the PSP. The notional units have no capital value and cannot be sold or transferred to a third party. Notional units of an eligible member of the PSP are adjusted each year based upon a prospective assessment of each such member's long-term contribution potential to the future development of Platinum. Each year the profit share percentage pool is determined based upon the weighted average 1 year and 3 year rolling outperformance of all funds and mandates under management (relative to a weighted benchmark comprised of nominated market indices).

There is no profit share until weighted average 1 year and 3 year rolling outperformance is greater than 1%. So, for example, if the average of the 1 and 3 year rolling performance of our funds and mandates exceeded the weighted benchmark by 2.5%, then 1.5% of the Company's management fee-based[3] net profit before tax would be made available to the PSP pool. The profit share figure is limited each year to 5% of profit before tax, though the Nomination & Remuneration Committee may elect to carry over investment outperformance to future periods if investment returns indicate a profit share in excess of the 5% level.

General Employee Plan (applies to non-investment team staff)
Performance is assessed against pre-determined operational performance indicators relevant to each employee. These performance indicators take into account the responsibilities, skill and experience of each employee and their contribution during the year. Total remuneration outcomes (comprising both fixed and variable components) are then benchmarked to appropriate external market data to help ensure that high performing talent is retained.

3. Excluding investment related revenue and expenses.

Directors' Report – continued

Remuneration Report – continued

Deferred Remuneration Plan (applies to all staff)

In June 2016, the Nomination & Remuneration Committee approved the implementation of the Deferred Remuneration Plan. The main objectives of the Plan are to foster sustainable growth, as well as sound financial, operational and risk management practices, and to retain talent. Eligible employees are selected by the Nomination & Remuneration Committee, generally during the annual award cycle, and the proportion of each variable award that is deferred varies by employee. The number of deferred rights awarded is determined by dividing the discretionary deferred award amount by the PTM share price, using a volume weighted average price (VWAP) of the PTM shares over the seven (7) trading days prior to the award acceptance date. If an eligible employee remains employed at Platinum after the four year vesting period, the employee then has a further five years to exercise their deferred right. If an employee resigns from Platinum before they have met their service condition then, in most circumstances, the deferred rights will be forfeited.

In order to satisfy the obligation to the Company that arises from the granting of deferred awards, the Company intends to purchase shares on-market and then hold these shares within an Employee Share Trust. Upon vesting, eligible employees will receive one ordinary share in PTM from the Employee Share Trust in satisfaction of each of their rights. No amount is payable by any eligible employee on either award or on exercise. There is flexibility within the plan for the Committee to award cash or some other instrument rather than deferred shares, but the Committee currently envisages awarding shares only.

Eligible employees will have no voting or dividend rights until their deferred rights have been exercised and their shares have been allocated. However, the deferred rights also carry an entitlement to a dividend equivalent payment. Upon the valid exercise of a deferred right (or deemed exercise), an eligible employee will be entitled to receive an amount approximately equal to the amount of dividends that would have been paid to the eligible employee had they held the share from the grant date to the date that the deferred rights are exercised.

Long-Term Remuneration Plans

Platinum has two inactive long-term Remuneration Plans, being an "Options and Performance Rights Plan" (OPRP) and a "Fund Appreciation Rights Plan" (FARP). There was no allocation under either plan in either the current or prior year.

Key Management Personnel ("KMP")
For the purposes of this report, KMP of the consolidated entity in office at any time during the financial year were:

NAME	POSITION
Michael Cole	Chairman and Non-Executive Director
Stephen Menzies	Non-Executive Director
Anne Loveridge	Non-Executive Director
Brigitte Smith	Non-Executive Director
Tim Trumper	Non-Executive Director (from 1 August 2018)
Andrew Clifford	Chief Executive Officer (CEO) and Managing Director
Kerr Neilson	Executive Director
Elizabeth Norman	Executive Director and Director of Investor Services and Communications
Andrew Stannard	Executive Director and Chief Financial Officer

There were no other employees that held a KMP position within the Company or consolidated entity.

Managing Director and other KMP Remuneration
Managing Director/CEO Remuneration
With effect from 1 July 2018, Mr Andrew Clifford assumed the role of Managing Director/CEO in addition to his existing responsibilities as Chief Investment Officer (CIO).

As a consequence of this change, Mr Clifford was, from 1 July 2018, eligible for discretionary awards under the new CEO Plan (capped at A$1 million), subject to meeting certain key performance indicators (KPIs), as set by the Board.

In addition, Mr Clifford retained his entitlement to receive discretionary awards in relation to his role as CIO via the Investment Team Plan (subject to a $1.5 million cap) and the Profit Share Plan (subject to a $1.5 million cap)[4].

Despite the achievement of a number of KPI's, (see table on following page) in light of the disappointing investment performance achieved by the flagship funds and reduced profitability of the Company, Mr Clifford chose not to receive any variable incentive awards from the CEO Plan, Investment Team Plan or the Profit Share Plan. The Board accepted his election.

4. For further information on Mr Clifford's employment terms and remuneration package, please refer to the Company's ASX announcement dated 28 June 2018.

Directors' Report – continued

Remuneration Report – continued

CEO PLAN: SHORT TERM INCENTIVE	KEY PERFORMANCE INDICATORS AND PERFORMANCE	
	PERFORMANCE MEASURES (EQUALLY WEIGHTED)	FY19 PERFORMANCE AGAINST KPI'S
	Financial	Average fee margins maintained. Adjusted profit margin was not maintained. Average FUM fell 4%. Total Shareholder Return fell 11%. *Overall only partially met target*
	Strategic Execution	New distribution team in London established. Asset consultant ratings for key Australian funds were maintained. Significant increase in offshore client engagement. Advocacy on behalf of clients to both the Royal Commission and Franking Credit enquiry. Some progress on building offshore clients. However, due mostly to disappointing relative investment performance coupled with poor general equity market conditions, overall growth in client assets was disappointing in 2019. *Overall partially met target*
MAXIMUM AWARD: $1M AWARDED: NIL	People Leadership	Enhanced cohesion and stability of the investment team with no regretted departures. New hires in business development and investment research. Revised policies around work flexibility to enhance "employer of choice" status. *Overall met target*
	Risk Management & Operational Effectiveness	No significant regulatory issues identified in 2019. No significant errors or breaches of investment guidelines. Continued enhancement of risk management framework. Upgraded corporate governance framework. *Overall met target*

Other KMP Remuneration
Kerr Neilson continued to waive his ability to receive variable compensation. This waiver was accepted by the Nomination & Remuneration Committee and agreed by the Board.

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 marketing of new offshore funds (to support US business initiatives), ongoing work associated with our European business operations, the successful growth of the Quoted Managed Funds, the deployment of a new website and a substantial expansion of our communications with both advisors and investors.

The variable compensation paid to Andrew Stannard reflected the leadership and strategic input that he provided into various business development opportunities for the business. This included the implementation of a new investment trading platform and various operational initiatives as well as overseeing the operational set-up of the offshore business.

Remuneration of Executive Key Management Personnel (KMP)

The table below presents the remuneration provided by the consolidated entity to executive KMP of the consolidated entity, in accordance with accounting standards.

	CASH SALARY $	OTHER[1] $	SUPER-ANNUATION $	VARIABLE REMUNERA-TION (CASH)[2] $	VARIABLE REMUNERA-TION (DEFERRED)[3] $	TOTAL $	VARIABLE REMUNERA-TION AS A % OF TOTAL REMUNERA-TION[4]
2019							
Andrew Clifford	**450,000**	**23,512**	**20,531**	**–**	**174,000**	**668,043**	**26%**
Kerr Neilson	**450,000**	**(29,211)**	**20,531**	**–**	**–**	**441,320**	**0%**
Elizabeth Norman	**425,000**	**20,155**	**20,531**	**900,000**	**224,525**	**1,590,211**	**71%**
Andrew Stannard	**425,000**	**(14,154)**	**20,531**	**425,000**	**69,050**	**925,427**	**53%**
	1,750,000	**302**	**82,124**	**1,325,000**	**467,575**	**3,625,001**	**49%**
2018							
Andrew Clifford	450,000	4,428	20,049	2,632,000	174,000	3,280,477	86%
Kerr Neilson	450,000	(5,384)	20,049	–	–	464,665	0%
Elizabeth Norman	425,000	(3,364)	20,049	1,300,000	163,645	1,905,330	77%
Andrew Stannard	425,000	(4,151)	20,049	450,000	42,950	933,848	53%
	1,750,000	(8,471)	80,196	4,382,000	380,595	6,584,320	72%

(1) "Other" represents the increase/(decrease) in the accounting provision for annual and long service leave. These amounts were not received by the Executive Directors and represent provisions made in the consolidated entity's statement of financial position.

(2) See the "Variable Remuneration Plans" section for further details. Andrew Clifford received no cash variable awards from either the Investment Team Plan or the Profit Share Plan. The cash awards made to Elizabeth Norman and Andrew Stannard were made under the General Employee Plan.

(3) The accounting fair value attributed to each deferred award is spread over the five year service period. The accounting valuation of $174,000 attributable to Andrew Clifford represents the current year portion of the 2018 deferred award of $1,000,000. The accounting valuation of $224,525 attributable to Elizabeth Norman represents the current year portion of the 2019 deferred award of $350,000, the 2018 award of $350,000, the 2017 award of $300,000 and the 2016 award of $300,000. The accounting valuation of $69,050 attributable to Andrew Stannard represents the current year portion of the 2019 deferred award of $150,000, 2018 deferred award of $150,000 and the 2017 award of $100,000.

(4) Fixed remuneration refers to salary, superannuation and provisions or payments made for annual and long service leave. Variable remuneration refers to both cash and deferred components.

Directors' Report – continued

Remuneration Report – continued

The table below presents supplementary disclosure of the remuneration provided by the consolidated entity to executive KMP of the consolidated entity, based on the amounts awarded to the individuals during the year.

	CASH SALARY $	SUPER-ANNUATION $	VARIABLE-REMUNERATION (CASH)[1] $	VARIABLE-REMUNERATION (DEFERRED)[2] $	TOTAL $	VARIABLE REMUNERATION AS A % OF TOTAL REMUNERATION[3]
2019						
Andrew Clifford	**450,000**	**20,531**	**–**	**–**	**470,531**	**0%**
Kerr Neilson	**450,000**	**20,531**	**–**	**–**	**470,531**	**0%**
Elizabeth Norman	**425,000**	**20,531**	**900,000**	**350,000**	**1,695,531**	**74%**
Andrew Stannard	**425,000**	**20,531**	**425,000**	**150,000**	**1,020,531**	**56%**
	1,750,000	**82,124**	**1,325,000**	**500,000**	**3,657,124**	**50%**
2018						
Andrew Clifford	450,000	20,049	2,632,000	1,000,000	4,102,049	89%
Kerr Neilson	450,000	20,049	–	–	470,049	0%
Elizabeth Norman	425,000	20,049	1,300,000	350,000	2,095,049	79%
Andrew Stannard	425,000	20,049	450,000	150,000	1,045,049	57%
	1,750,000	80,196	4,382,000	1,500,000	7,712,196	76%

(1) See the "Variable Remuneration Plans" section above for further details. The "variable remuneration (cash)" attributable to Andrew Clifford is comprised of awards under the Investment Team Plan. The cash awards made to Elizabeth Norman and Andrew Stannard were made under the General Employee Plan.

(2) The "variable remuneration (deferred)" amount noted above reflects the award amounts attributed to each individual in the current financial year. These awards vest 4 years after the award date.

(3) Fixed remuneration refers to salary and superannuation. Variable remuneration refers to both cash and deferred components.

Remuneration of Non-Executive Directors

Remuneration Policy

The Company's remuneration policy for Non-Executive Directors is designed to ensure that the Company can attract and retain suitably-qualified and experienced directors.

It is the policy of the Board to remunerate at market rates. Non-Executive Directors receive a fixed fee and mandatory superannuation payments. Non-Executive Directors do not receive variable compensation and are not eligible to participate in any variable remuneration plans. The Executive Directors examine the base pay of the Non-Executive Directors annually and may utilise the services of an external advisor to assist with this.

The Executive Directors determine the remuneration of the Non-Executive Directors within the maximum approved shareholder limit. The aggregate amount of remuneration that can be paid to the Non-Executive Directors, which was approved by shareholders at a general meeting in April 2007, is $2 million per annum (including superannuation).

No other retirement benefits (other than mandatory superannuation) are provided to the Non-Executive Directors. There are no termination payments payable on the cessation of office and any Director may retire or resign from the Board, or be removed by a resolution of shareholders. The Constitution of the Company specifies that any change to the maximum amount of remuneration that can be paid to the Non-Executive Directors requires the approval of shareholders.

Remuneration Structure

The following table displays the current Non-Executive Directors and their roles at 30 June 2019.

	MICHAEL COLE	ANNE LOVERIDGE	STEPHEN MENZIES	BRIGITTE SMITH	TIM TRUMPER
Board	Chair	Director	Director	Director	Director
Audit, Risk & Compliance Committee	Member	Chair	Member	Member	Member
Nomination & Remuneration Committee	Member	Member	Chair	Member	Member

Directors' Report – continued

Remuneration Report – continued

The table below shows how the cash salary remuneration is allocated reflecting their roles at 30 June 2019.

	MICHAEL COLE	ANNE LOVERIDGE	STEPHEN MENZIES	BRIGITTE SMITH	TIM TRUMPER *
Board	$170,000	$130,000	$130,000	$130,000	$119,167
Audit, Risk & Compliance Committee	$15,000	$30,000	$15,000	$15,000	$13,750
Nomination & Remuneration Committee	$15,000	$15,000	$30,000	$15,000	$13,750
Total	**$200,000**	**$175,000**	**$175,000**	**$160,000**	**$146,667**

* We note that Tim Trumper was appointed as a Director on 1 August 2018.

Remuneration of Non-Executive Directors

The table below presents actual amounts received by the Non-Executive Directors.

	CASH SALARY $	SUPER-ANNUATION $	VARIABLE REMUNERATION (CASH) $	VARIABLE REMUNERATION (DEFERRED) $	TOTAL $
2019					
Michael Cole	**200,000**	**19,000**	**–**	**–**	**219,000**
Stephen Menzies	**175,000**	**16,625**	**–**	**–**	**191,625**
Anne Loveridge	**175,000**	**16,625**	**–**	**–**	**191,625**
Brigitte Smith	**160,000**	**15,200**	**–**	**–**	**175,200**
Tim Trumper (from 1 August 2018)	**146,667**	**13,933**	**–**	**–**	**160,600**
	856,667	**81,383**	**–**	**–**	**938,050**
2018					
Michael Cole	200,000	19,000	–	–	219,000
Stephen Menzies	175,000	16,625	–	–	191,625
Anne Loveridge	175,000	16,625	–	–	191,625
Brigitte Smith (from 31 March 2018)	40,000	3,800	–	–	43,800
	590,000	56,050	–	–	646,050

Stephen Menzies is Platinum Investment Management Limited's (PIML's) nominee on the Board of the offshore UCITS company, Platinum World Portfolios Plc (PWP) and payments are made directly by PWP. Amounts paid in the current year were Euro 24,000 (equivalent to A$38,309) (2018: Euro 22,032 (equivalent to A$34,257)).

Managing Director and other Senior Executive employment agreements
The key aspects of the KMP contracts are outlined below:

- Remuneration and other terms of employment for Non-Executive Directors are formalised in letters of appointment.
- All contracts (both Executive and Non-Executive) include the components of remuneration that are to be paid to KMP and provide for annual review, but do not prescribe how remuneration levels are to be modified from year to year.
- The tenure of all Directors, except for the Managing Director, Mr Andrew Clifford, is subject to approval by shareholders at every third AGM or other general meeting convened for the purposes of election of Directors.
- In the event of termination, all KMP are entitled to receive their statutory leave entitlements and superannuation benefits. In relation to variable remuneration plans, upon resignation, variable remuneration is only paid if the Executive Director is still employed at the date of payment. However, the Board retains discretion to make variable remuneration payments (both cash and deferred) in certain exceptional circumstances, such as bona-fide retirement.
- Mr Andrew Clifford can terminate his employment by providing twelve months' notice. Mr Kerr Neilson can terminate his appointment by providing three months' notice. All other Executive Directors can terminate their appointment by providing six months' notice.
- Mr Andrew Clifford has entered into a post-employment restraint whereby he may not solicit either employees or clients for a period of twelve months.
- Non-Executive Directors may resign by written notice to the Chairman and where circumstances permit, it is desirable that reasonable notice of an intention to resign is given to assist the Board in succession planning.

Directors' Report – continued

Remuneration Report – continued

Interests of Non-Executive and Executive Directors in shares

The relevant interest in ordinary shares of the Company that each Director held at balance date was:

	OPENING BALANCE	ADDITIONS	DISPOSALS	CLOSING BALANCE
Michael Cole	240,000	–	–	240,000
Stephen Menzies	40,000	–	–	40,000
Anne Loveridge	22,000	–	–	22,000
Brigitte Smith	41,666	–	–	41,666
Tim Trumper	–	18,900	–	18,900
Andrew Clifford[1]	32,831,449	–	–	32,831,449
Kerr Neilson	312,074,841	–	60,000,000	252,074,841
Elizabeth Norman[2]	766,748	–	–	766,748
Andrew Stannard[3]	–	–	–	–

(1) Andrew Clifford also has contingent rights to receive up to 165,563 shares pursuant to awards made under the Company's deferred remuneration plan.

(2) Elizabeth Norman also has contingent rights to receive up to 247,314 shares pursuant to awards made under the Company's deferred remuneration plan.

(3) Andrew Stannard has contingent rights to receive up to 78,996 shares pursuant to awards made under the Company's deferred remuneration plan.

Oversight and Governance

The Board, through its Nomination & Remuneration Committee, provides oversight of remuneration and incentive policies. This particularly includes oversight of the remuneration and employment packages and terms of employment for Executive Directors, Non-Executive Directors (NEDs) and Senior Managers.

The role of the Nomination & Remuneration Committee is set out in its Charter. Its responsibilities include the following functions that are relevant to remuneration:

– To review and make recommendations to the Board in respect of the CEO, Executive Director, and Non-Executive Director appointments;

– To review and make recommendations to the Board in respect of the variable remuneration awards in respect of the CEO/CIO, Executive Directors, Senior Managers and Portfolio Managers;

– To provide oversight on the overall aggregate variable remuneration outcome for Platinum, ensuring appropriate alignment with all stakeholders;

– To review significant changes in remuneration policy and structure, including deferred remuneration plans and benefits;

- To oversee the Company's strategic human resources initiatives, including diversity and inclusion;
- To make ongoing assessments of the collective skills required to effectively discharge the Board's duties;
- To review the composition, functions, responsibilities and size of the Board as well as Director tenure; and
- To ensure appropriate Board succession planning.

During the 2019 financial year, the Nomination & Remuneration Committee dealt with the following significant items that relate to remuneration arrangements:

- Designed and recommended the Board approve the incoming CEO's new remuneration arrangements and key performance indicators;
- Reviewed and made recommendations to the Board regarding Platinum's aggregate variable remuneration pool as well as the individual awards for the CEO, Executive Directors and Senior Managers;
- Ongoing implementation and review of Board succession plans, including the appointment of Mr Trumper as a Non-Executive Director in August 2018;
- Reviewed and updated the Board skills matrix to better reflect the required skills of the Board;
- Reviewed the UCITS V remuneration and disclosure rules; and
- Discussed with external stakeholders, the Company's remuneration practices.

Remuneration services provided to management and the Committee
The firm utilised Financial Institutions Remuneration Group (FIRG) as the primary source of remuneration benchmarking data and the firm has historically used PricewaterhouseCoopers (PwC) as a consultant to the remuneration and benefit plans both in Australia and also in the UK. In addition, certain KMP roles were benchmarked to publically available information at comparable companies.

No consultants were engaged by the Nomination & Remuneration Committee in relation to KMP remuneration during the year.

Directors' interests in contracts
The Directors received remuneration that is ultimately derived from net income arising from Platinum Investment Management Limited's investment management contracts.

Loans to KMP and their related parties
No loans were provided to KMP or their related parties during the year or at the date of this report.

Directors' Report – continued

Remuneration Report – continued

Other related party payments involving KMP

In the current year, the consolidated entity paid $70,000 (2018: $50,000) to OneVue Services Pty Limited for the provision of services associated with the build, customisation and enhancement of the Platinum web-site. OneVue is a related party of the Chairman of Platinum Asset Management Limited, Mr Michael Cole. These services are provided on an arms length basis and the Chairman was not involved in the decision to utilise OneVue's services.

Shareholders' Approval of the 2018 (prior year) Remuneration Report

A 25% or higher "no" vote on the Remuneration Report at an AGM triggers a reporting obligation on a listed company to explain in its next Annual Report how concerns are being addressed. At the last AGM, the Company's Remuneration Report was carried on a poll and received a vote in favour of 96.6%.

Link between performance and KMP remuneration paid by the consolidated entity

The table below shows Platinum's five year performance across a range of metrics and corresponding KMP incentive outcomes.

	2019	2018	2017	2016	2015
Revenue ($'000)	**299,320**	353,290	333,549	344,658	360,422
Expenses ($'000)	**76,421**	84,966	62,971	62,464	58,872
Operating profit after tax ($'000)	**158,336**	191,594	192,647	199,870	213,499
Basic earnings per share (cents per share)	**27.03**	32.36	31.74	34.24	36.66
Total dividends (cents per share)	**27**	32	30	32	47
Total aggregate fixed remuneration paid ($)[1]	**2,808,483**	2,510,503	2,558,913	2,518,991	2,362,901
Total aggregate variable remuneration paid ($)	**1,792,575**	4,762,595	1,721,800	1,452,200	1,125,000

(1) Total aggregate fixed remuneration paid represents salaries and superannuation (and includes the Director's Fees disclosed and paid to Stephen Menzies for his Directorship of the UCITS fund). The increase in 2019 reflects the appointment of additional Directors in FY2019 and FY2018.

The level of aggregate KMP remuneration paid each year reflects a combination of factors, including investment performance for clients, the operating performance of the firm, individual and team performance and also the degree of competition for executive talent.

Auditor's Independence Declaration

pwc

As lead auditor for the audit of Platinum Asset Management Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Platinum Asset Management Limited and the entities it controlled during the period.

R. B

R Balding
Partner
PricewaterhouseCoopers

20 August 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2019

	NOTE	CONSOLIDATED **2019** **$'000**	 2018 $'000
Revenue			
Management fees		**295,188**	306,803
Performance fees		**30**	21,878
		295,218	328,681
Other income			
Interest		**3,542**	3,744
Distributions and dividends	11	**3,714**	23,272
Share of (loss)/profit of associates	2, 11	**(2,599)**	9,211
(Losses) on financial assets at fair value through profit or loss	11	**(2,103)**	(12,954)
Foreign exchange gains on overseas bank accounts		**1,548**	1,296
Gains on forward currency contracts	11	**–**	40
Total revenue and other income		**299,320**	353,290
Expenses			
Staff		**38,743**	49,231
Custody and unit registry		**12,755**	13,348
Business development		**7,119**	7,429
Share-based payments	20	**4,858**	3,558
Legal, compliance and other professional		**2,892**	2,813
Research		**2,617**	2,214
Technology		**2,366**	1,995
Rent and other occupancy		**1,944**	1,661
Mail house, periodic reporting and share registry		**1,192**	990
Depreciation	7	**737**	724
Insurance		**589**	460
Audit fee	22	**447**	444
Other		**162**	99
Total expenses		**76,421**	84,966
Profit before income tax expense		**222,899**	268,324
Income tax expense	12(a)	**64,563**	76,730
Profit after income tax expense for the year		**158,336**	191,594

	NOTE	CONSOLIDATED **2019 $'000**	 2018 $'000
Other comprehensive income			
Exchange rate translation impact of foreign subsidiaries	15	**(16)**	7
Other comprehensive income for the year, net of tax		**(16)**	7
Total comprehensive income for the year		**158,320**	191,601
Profit after income tax expense for the year is attributable to:			
Owners of Platinum Asset Management Limited		**157,651**	189,221
Non-controlling interests		**685**	2,373
		158,336	191,594

		CENTS	CENTS
Basic earnings per share	10	**27.03**	32.36
Diluted earnings per share	10	**27.03**	32.36

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2019

	NOTE	CONSOLIDATED 2019 $'000	2018 $'000
Assets			
Current assets			
Cash and cash equivalents		**112,947**	163,799
Term deposits		**81,877**	27,876
Trade and other receivables	6	**27,922**	52,557
Income tax receivable		**–**	3,333
Total current assets		**222,746**	247,565
Non-current assets			
Equity investments in associates	2(a)	**117,593**	95,920
Financial assets at fair value through profit or loss	5	**183**	98,796
Fixed assets	7	**3,616**	2,986
Total non-current assets		**121,392**	197,702
Total assets		**344,138**	445,267
Liabilities			
Current liabilities			
Trade and other payables	8	**8,108**	23,544
Employee benefits	9	**3,809**	3,249
Income tax payable		**5,082**	–
Total current liabilities		**16,999**	26,793
Non-current liabilities			
Provisions	9	**1,560**	1,145
Net deferred tax liabilities	12(b)	**4,491**	6,214
Total non-current liabilities		**6,051**	7,359
Total liabilities		**23,050**	34,152
Net assets		**321,088**	411,115

	NOTE	CONSOLIDATED 2019 $'000	2018 $'000
Equity			
Issued capital	14	723,490	731,245
Reserves	15	(576,863)	(582,006)
Retained profits	16	174,461	185,940
Total equity attributable to the owners of Platinum Asset Management Limited		321,088	335,179
Total equity attributable to non-controlling interests:			
Non-controlling interests	4	–	75,936
Total equity		321,088	411,115

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

CONSOLIDATED	ISSUED CAPITAL $'000	RESERVES $'000	RETAINED PROFITS $'000	NON-CONTROLLING INTERESTS $'000	TOTAL EQUITY $'000
Balance at 1 July 2017	**742,933**	**(585,818)**	**177,959**	**–**	**335,074**
Profit after income tax expense for the year	–	–	189,221	2,373	191,594
Other comprehensive income					
Exchange rate translation impact of foreign subsidiaries (Note 15)	–	7	–	–	7
Total comprehensive income for the year	–	7	189,221	2,373	191,601
Transactions with owners in the capacity as owners					
Treasury shares acquired (Note 14)	(11,688)	–	–	–	(11,688)
Share-based payments reserve (Note 15)	–	3,805	–	–	3,805
Dividends paid (Note 17)	–	–	(181,240)	(16,845)	(198,085)
Decrease in retained earnings on deconsolidation of PIXX (Note 4)	–	–	–	(1,357)	(1,357)
Additional external investment in PAXX (Note 4)	–	–	–	91,765	91,765
Balance at 30 June 2018	731,245	(582,006)	185,940	75,936	411,115

CONSOLIDATED	ISSUED CAPITAL $'000	RESERVES $'000	RETAINED PROFITS $'000	NON-CONTROLLING INTERESTS $'000	TOTAL EQUITY $'000
Balance at 1 July 2018	**731,245**	**(582,006)**	**185,940**	**75,936**	**411,115**
Profit after income tax expense for the year	–	–	157,651	685	158,336
Other comprehensive income					
Exchange rate translation impact of foreign subsidiaries (Note 15)	–	(16)	–	–	(16)
Total comprehensive income for the year	–	(16)	157,651	685	158,320
Transactions with owners in the capacity as owners					
Treasury shares acquired (Note 14)	(7,755)	–	–	–	(7,755)
Share-based payments reserve (Note 15)	–	5,159	–	–	5,159
Dividends paid (Note 16)	–	–	(169,130)	–	(169,130)
Transactions with non-controlling interests	–	–	–	56,199	56,199
Decrease in retained earnings on deconsolidation of PAXX (Note 4)	–	–	–	(1,701)	(1,701)
Decrease in equity on deconsolidation of PAXX	–	–	–	(131,119)	(131,119)
Balance at 30 June 2019	**723,490**	**(576,863)**	**174,461**	**–**	**321,088**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2019

	NOTE	CONSOLIDATED **2019 $'000**	 2018 $'000
Cash flows from operating activities			
Receipts from operating activities		**299,886**	328,304
Payments for operating activities		**(75,982)**	(91,242)
Income taxes paid		**(57,569)**	(82,516)
Net cash from operating activities	13	**166,335**	154,546
Cash flows from investing activities			
Interest received		**3,435**	3,869
Purchase of term deposits		**(375,752)**	(518,250)
Proceeds on maturity of term deposits		**321,753**	565,394
Payments for purchases of fixed assets	7	**(1,367)**	(881)
Dividends and distributions received from seed investments		**2,421**	1,700
Receipts from sale of financial assets		**–**	36,695
Payments for purchases of financial assets		**–**	(52,949)
Purchase of units held directly by PAXX (whilst consolidated)	4	**(56,199)**	(64,673)
Net cash (used in) investing activities		**(105,709)**	(29,095)
Cash flows from financing activities			
Dividends paid	17	**(169,130)**	(181,240)
Proceeds from units issued (net applications into PAXX and other non-controlling interests)		**56,199**	64,673
Net cash (used in) financing activities		**(112,931)**	(116,567)
(Decrease)/ increase in cash and cash equivalents		**(52,305)**	8,884
Cash and cash equivalents at the beginning of the financial year		**163,799**	154,263
Effects of exchange rate changes on cash and cash equivalents		**1,453**	652
Cash and cash equivalents at the end of the financial year		**112,947**	163,799

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

30 June 2019

Statement of Compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

Basis of Preparation

The consolidated financial statements are presented in Australian Dollars, which is the consolidated entity's functional and presentation currency, with all values rounded to the nearest thousand dollars ('$000), in accordance with ASIC Corporations (*Rounding in Financial/Directors' Reports*) Instrument 2016/191, unless otherwise stated. The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of financial assets and liabilities at fair value through profit or loss.

Platinum Investment Management Limited ("PIML") has seeded or invested in a number of the products it offers to investors and this has impacted on the accounting treatment adopted in the consolidated financial statements as follows:

ENTITY	PIML OWNERSHIP INTEREST AT 30 JUNE 2019	ACCOUNTING TREATMENT ADOPTED IN THESE ACCOUNTS
Platinum Trust Funds	Interest is less than 1% in each Fund.	Fair value accounting applied (see Note 5).
Platinum Asia Fund (Quoted Managed Hedge Fund) ("PAXX")	14.7%	Consolidation accounting was applied until 20 May 2019. From 20 May 2019, PAXX has been treated as an investment in associate and equity accounting has been applied (see Note 2).^
Platinum World Portfolios Plc ("PWP")	14.6%	Investment in associate. Equity accounting applied (see Note 2).*
Platinum Asia Investments Limited ("PAI")	8.3%	Investment in associate. Equity accounting applied (see Note 2).*

^ PAXX's absolute return for FY2019 was lower than FY2018, and hence PIML' s exposure to variable returns was also relatively much lower. Furthermore, PIML's ownership interest in PAXX decreased during the period. These factors, in combination, led to the assessment that from 20 May 2019, PIML was no longer considered to control PAXX, and PAXX was deconsolidated from the consolidated group. PIML (and the consolidated entity) was assessed as having significant influence over PAXX and equity accounting was applied, following consideration of factors such as (i) ownership interest and (ii) exposure or rights to variable returns.

* At 30 June 2019, PIML (and the consolidated entity) was assessed as having significant influence over Platinum Asia Fund (Quoted Managed Hedge Fund) ("PAXX"), Platinum Asia Investments Limited ("PAI") and Platinum World Portfolios Plc ("PWP") (Refer to Note 2 for further details).

Notes to the Financial Statements

30 June 2019

In order to better present the accounting treatment of the investments adopted in these consolidated accounts (as presented in the table on the previous page), management has presented the notes in three parts:

PART A – Notes 1 to 4: Notes that explain the accounting treatment of the entities that form part of the Platinum consolidated group or investments in associates

PART B – Notes 5 to 22: Operations – Notes that explain the operations of the consolidated entity

PART C – Notes 23 to 27: Miscellaneous Notes that are required by the accounting standards

Significant accounting policies

The principal accounting policies have been included in the relevant notes to which the policy relates and consistently applied to all financial years presented in these consolidated financial statements.

Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements require management to make judgements, estimates and assumptions. The areas where assumptions and estimates are significant to the consolidated financial statements are outlined after the relevant accounting policy in the relevant notes. The accounting impact of the treatment of the products that PIML has seeded or invested in, is the most critical accounting judgement, estimate or assumption within these consolidated financial statements.

PART A – Notes 1 to 4

Notes that explain the accounting treatment of the entities that form part of the Platinum consolidated group or investments in associates

Notes 1 to 4 focus on the accounting treatment adopted in these accounts and contain key information relating to the parent entity, subsidiaries, controlled entities and associates.

Note 1 Subsidiaries and controlled entities

At 30 June 2019 and 30 June 2018, the Company's subsidiaries and the ownership interests were as follows.

NAME	PRINCIPAL PLACE OF BUSINESS/ COUNTRY OF INCORPORATION	OWNERSHIP INTEREST **2019** **%**	2018 %
McRae Pty Limited	Australia	**100.0**	100.0
Platinum Asset Pty Limited	Australia	**100.0**	100.0
Platinum Investment Management Limited	Australia	**100.0**	100.0
Platinum Employee Share Trust^	Australia	**100.0**	100.0
Platinum Investment Management Australia (PIMA) Corp.	United States	**100.0**	100.0
Platinum GP Pty Limited	Australia	**100.0**	100.0
Platinum UK Asset Management Limited*	United Kingdom	**100.0**	n/a

^ Platinum Employee Share Trust holds PTM shares on behalf of employees selected to participate in the Deferred Remuneration Plan (see Note 20 for further details).

* During the financial year, Platinum incorporated in the UK, Platinum UK Asset Management Limited, a wholly-owned subsidiary company.

Notes to the Financial Statements

30 June 2019

Note 1. Subsidiaries and controlled entities – continued

ACCOUNTING POLICY

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Platinum Asset Management Limited ("Company" or "parent entity") as at 30 June 2019 and the results of all subsidiaries for the financial year. Platinum Asset Management Limited and its subsidiaries together are referred to in these consolidated financial statements as the 'consolidated entity' or 'group'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns, through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are deconsolidated from the date that control ceases.

In preparing the consolidated financial statements, all intercompany transactions, balances and unrealised gains arising within the consolidated entity are eliminated in full.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income.

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each financial position presented are translated at the balance date;
- Income and expenses included in the consolidated statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income in the foreign currency translation reserve.

Critical accounting judgements, estimates and assumptions

Assessment of control: from 20 May 2019, the consolidated entity was assessed as no longer exerting control over PAXX, for the purpose of applying the consolidation accounting standard. On 20 May 2019, PIML's ownership interest in PAXX reduced, as did its exposure or rights to PAXX's variable returns. From 20 May 2019, PIML was considered to exert significant influence over PAXX, and equity accounting was applied.

Note 2. Equity investments in associates

At 30 June 2019, the consolidated entity's investment(s) in Platinum Asia Investments Limited ("PAI"), Platinum World Portfolios Plc ("PWP") and Platinum Asia Fund (Quoted Managed Hedge Fund) ("PAXX") represent interests in associates which are accounted for using the equity method of accounting. Information relating to this is shown below:

a. Interests in associates

ENTITY *(COUNTRY OF INCORPORATION)*	EQUITY INTEREST %		FAIR VALUE $'000		CARRYING AMOUNT $'000		REASON FOR ASSESSMENT OF SIGNIFICANT INFLUENCE
	2019	2018	**2019**	2018	**2019**	2018	
PAI *(Australia)*	**8.3**	8.3	**30,900**	37,800	**32,567**	34,972	Level of ownership interest was 8.3% at 30 June 2019; PIML acts as Investment Manager (IM) in accordance with the Investment Management Agreement; PIML provides performance and exposure reports to the PAI Board.
PWP *(Ireland)*	**14.6**	13.7	**63,444**	63,409	**61,631**	60,948	Level of ownership interest was 14.6% at 30 June 2019; PIML acts as Investment Manager (IM) in accordance with the Investment Management Agreement; the Company provides performance and exposure reports to the PWP Board and Stephen Menzies is a Director of PWP and a Director of Platinum Asset Management Limited.
PAXX *(Australia)*	**14.7**	19.9	**23,395**	19,641	**23,395**	n/a	Level of ownership interest was 14.7% at 30 June 2019; PIML acts as Investment Manager (IM) for PAXX and its underlying fund, Platinum Asia Fund.
			117,739	120,850	**117,593**	95,920	

Notes to the Financial Statements

30 June 2019

Note 2. Equity investments in associates – continued

a. Interests in associates – continued

The fair value of PAI reflects the 30 million shares held multiplied by the PAI closing share price at 30 June 2019 of $1.03 (2018: $1.26).

The fair value of PWP reflects the shares held in the sub-funds multiplied by their respective closing unit prices at 30 June 2019.

The fair value of PAXX reflects units held multiplied by the PAXX's 30 June 2019 ex-redemption price of $4.20 (2018: $4.40). PIML held more units in PAXX in 2019 relative to 2018 because PIML reinvested its 2018 distribution into additional units.

The carrying value reflects the consolidated entity's share of each associate's net assets, including assessment of any impairment (see Note 2b for further details).

b. Share of associates' statement of financial position

	PLATINUM ASIA INVESTMENTS LIMITED $'000	GROUP'S SHARE OF ASSOCIATE $'000	PLATINUM WORLD PORTFOLIOS $'000	GROUP'S SHARE OF ASSOCIATE $'000
30 June 2019				
Total assets	**401,222**	**33,221**	**426,498**	**62,311**
Total liabilities	**7,900**	**654**	**4,653**	**680**
Net assets	**393,222**	**32,567**	**421,845**	**61,631**

	PLATINUM ASIA FUND (QUOTED MANAGED HEDGE FUND) ("PAXX") $'000	GROUP'S SHARE OF ASSOCIATE $'000
Total assets	**168,320**	**24,810**
Total liabilities	**9,602**	**1,415**
Net assets	**158,718**	**23,395**

Total group's share of associates' statement of financial position (share of PAI's net assets of $32,567,000, PWP's net assets of $61,631,000 and PAXX's net assets of $23,395,000) = $117,593,000.

Note 2. Equity investments in associates – continued

b. Share of associates' statement of financial position – continued

	PLATINUM ASIA INVESTMENTS LIMITED $'000	GROUP'S SHARE OF ASSOCIATE $'000	PLATINUM WORLD PORTFOLIOS $'000	GROUP'S SHARE OF ASSOCIATE $'000
30 June 2018				
Total assets	432,464	36,038	446,975	61,235
Total liabilities	12,788	1,066	2,098	287
Net assets	419,676	34,972	444,877	60,948

Total group's share of associates' statement of financial position (share of PAI's net assets of $34,972,000 and PWP's net assets of $60,948,000) = $95,920,000.

c. Carrying amount of investment using the equity method

	2019 $'000	2018 $'000
Opening balance	**95,920**	91,692
Initial recognition of PAXX as an equity investment on deconsolidation	**24,272**	–
Share of associates' profit (see Note 2d on following page)	**1,100**	8,031
Dividends paid (see Note 2d on following page)	**(3,699)**	(1,700)
Partial disposal of PAI	**–**	(21,252)
Acquisition of additional PWP units (Japan sub-fund)	**–**	19,149
Closing balance (see Note 2a)	**117,593**	95,920

Notes to the Financial Statements

30 June 2019

Note 2. Equity investments in associates – continued

d. Associate's net income

	PLATINUM ASIA INVESTMENTS LIMITED $'000	GROUP'S SHARE OF ASSOCIATE $'000	PLATINUM WORLD PORTFOLIOS $'000	GROUP'S SHARE OF ASSOCIATE $'000
2019				
Total investment income	6,284	520	(18,038)	(2,635)
Total expenses	(6,552)	(543)	(6,791)	(992)
(Loss)/profit before tax	(268)	(23)	(24,829)	(3,627)
Income tax benefit	110	8	–	–
(Loss)/profit after tax	(158)	(15)	(24,829)	(3,627)
Dividend received and dilution of unitholding throughout the year and foreign currency translation impact		(2,390)		4,310
Realised and unrealised gain on investment in associate		(2,405)		683

	PLATINUM ASIA FUND (QUOTED MANAGED HEDGE FUND) ("PAXX") $'000	GROUP'S SHARE OF ASSOCIATE $'000	GROUP'S SHARE OF ALL ASSOCIATES (TOTAL) $'000
Total investment income	2,757	406	(1,709)
Total expenses	–	–	(1,535)
Profit/(loss) before tax	2,757	406	(3,244)
Income tax benefit	–	–	8
Profit/(loss) after tax	2,757	406	(3,236)
Dividend received and dilution of unitholding throughout the year and foreign currency translation impact		(1,283)	637
Realised and unrealised gain/(loss) on investment in associate		(877)	(2,599)

The other comprehensive income was $nil.

Note 2. Equity investments in associates – continued

d. Associate's net income – continued

	PLATINUM ASIA INVESTMENTS LIMITED $'000	GROUP'S SHARE OF ASSOCIATE $'000	PLATINUM WORLD PORTFOLIOS $'000	GROUP'S SHARE OF ASSOCIATE $'000
2018				
Total investment income	79,884	6,679	37,276	5,107
Total expenses	(6,940)	(578)	(6,454)	(884)
Profit before tax	72,944	6,101	30,822	4,223
Income tax expense	(21,466)	(1,789)	–	–
Profit after tax	51,478	4,312	30,822	4,223
Realised equity accounting gain on partial disposal of PAI shares, dividend received and dilution of unitholding throughout the year and foreign currency translation impact		1,180		(504)
Realised and unrealised gain on investment in associate		5,492		3,719

	GROUP'S SHARE OF ALL ASSOCIATES (TOTAL) $'000
Total investment income	11,786
Total expenses	(1,462)
Profit before tax	10,324
Income tax expense	(1,789)
Profit after tax	8,535
Realised equity accounting gain on partial disposal of PAI shares, dividend received and dilution of unitholding throughout the year and foreign currency translation impact	676
Realised and unrealised gain on investment in associate	9,211

The other comprehensive income was $nil.

Notes to the Financial Statements

30 June 2019

Note 2. Equity investments in associates – continued

ACCOUNTING POLICY

Investments in associates are accounted for using the equity method. The share of profit recognised under the equity method is the consolidated entity's share of the investment in associate's profit or loss based on the ownership interest held. Associates are entities in which the consolidated entity, as a result of its voting rights and other factors, has significant influence, but not control or joint control, over its financial and operating policies.

Investments in associates are carried at the lower of the equity accounted carrying amount and the recoverable amount. When the consolidated entity's share of losses exceeds the carrying amount of the equity accounted investment (including assets that form part of the net investment in the associate), the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has obligations in respect of the associate.

Dividends from associates represent a return on the consolidated entity's investment and, as such, are applied as a reduction to the carrying value of the investment. Unrealised gains arising from transactions with equity accounted investments are eliminated against the investment in the associate to the extent of the consolidated entity's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Other movements in associates' reserves are recognised directly in the consolidated entity's consolidated reserves.

Critical accounting judgements, estimates and assumptions
Assessment of significant influence: At 30 June 2019, the consolidated entity was assessed as having significant influence over Platinum Asia Investments Limited ("PAI"), Platinum World Portfolios Plc ("PWP") and Platinum Asia Fund (Quoted Managed Hedge Fund) ("PAXX"), as a result of its direct investment and investment management activities and other factors outlined on page 55.

We have conducted an impairment assessment of the carrying amount of the investment in associates, including a look-through of each of the underlying assets and liabilities. Our assessment is that at 30 June 2019, no impairment write-down was required for PAI because the underlying value of each asset and liability has been measured in accordance with the accounting standards. The carrying value of the PWP investment is less than its fair value and the carrying value of the investment in PAXX is equal to its fair value.

Note 3. Parent entity information

Set out below is supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	PARENT	
	2019 $'000	2018 $'000
Profit after income tax	**169,120**	181,222
Total comprehensive income	**169,120**	181,222

Statement of financial position

	PARENT	
	2019 $'000	2018 $'000
Total current assets	**118,574**	110,734
Total assets	**749,062**	744,557
Total current liabilities	**(5,082)**	–
Total liabilities	**(5,082)**	–
Net assets	**743,980**	744,557
Equity		
Issued capital	**723,490**	731,245
Capital reserve	**18,854**	11,666
Retained profits	**1,636**	1,646
Total equity	**743,980**	744,557

Notes to the Financial Statements

30 June 2019

Note 4. Non-controlling interest(s)

On 20 May 2019, the consolidated entity no longer exerted control over Platinum Asia Fund (Quoted Managed Hedge Fund) ("PAXX") for the purpose of applying the consolidation accounting standard but exerts significant influence for the purpose of the investment in associates accounting standard (see note 2). As a result of the deconsolidation from the Platinum group, the external (non-related parties) non-controlling interest in the Platinum group was $nil at 30 June 2019.

	2019 $'000	2018 $'000
Opening balance	**75,936**	–
Profit after income tax attributable to non-controlling interests – PAXX	**685**	1,016
Additional external investment into PAXX during the year	**56,199**	91,765
Decrease in retained earnings on deconsolidation of PAXX/PIXX	**(1,701)**	(1,357)
Decrease in equity on deconsolidation of PAXX	**(131,119)**	–
Distribution paid to external unitholders of PAXX	**–**	(16,845)
Profit after income tax attributable to non-controlling interests – PIXX	**–**	1,357
	–	75,936

PART B – Notes 5 to 22

Operations – Notes that explain the operations of the consolidated entity

Note 5. Non-current assets – financial assets at fair value through profit or loss

	2019 $'000	2018 $'000
Platinum Trust Fund investments	**183**	194
Unit trust – held directly by Platinum Asia Fund (Quoted Managed Hedge Fund) ("PAXX")^	**–**	98,602
	183	98,796

^ **At 30 June 2019, the financial assets of PAXX have been classified as an equity investment in an associate and have been valued in the consolidated statement of financial position based on PIML's share of PAXX's net assets (see note 2).**

ACCOUNTING POLICY

Under AASB 9: *Financial Instruments*, the consolidated entity's investments are managed on a fair value basis and the consolidated entity evaluates the information about its investments on a fair value basis together with other related financial information. Consequently, these investments are measured at fair value through profit or loss.

The consolidated entity has applied AASB 13: *Fair Value Measurement* as the basis to value its financial assets at fair value through profit or loss. AASB 13 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market employees at the measurement date".

The standard prescribes that the most representative price within the bid-ask spread should be used for valuation purposes. With respect to the consolidated entity, the last-sale or "last" price is the most representative price within the bid-ask spread, because it represents the price that the unit last changed hands from seller to buyer.

The fair value includes the impact of the 30 June distribution.

Notes to the Financial Statements

30 June 2019

Note 6. Current assets – trade and other receivables

	2019 $'000	2018 $'000
Management fees receivable	**24,467**	27,959
Performance fees receivable	**5**	1,180
Interest receivable	**246**	138
Prepayments	**1,561**	1,693
Sundry debtors	**329**	36
Distribution receivable from PAXX since deconsolidation	**1,314**	–
Distribution receivable – PAXX investment in Platinum Asia Fund whilst consolidated	**–**	21,551
	27,922	52,557

Management and performance fees receivable(s) are received between three to 30 days after balance date.

Interest receivable comprises accrued interest on term deposits and cash accounts. Interest on term deposits is received on maturity.

ACCOUNTING POLICY

All receivables are measured at amortised cost, are not discounted, and are recognised when a right to receive payment is established. Any debts that are known to be uncollectible are written off. Distributions are recognised when the consolidated entity becomes entitled to the income.

Note 7. Non-current assets – fixed assets

	2019 $'000	2018 $'000
Computer equipment – at cost	**1,710**	1,530
Less: Accumulated depreciation	**(1,312)**	(1,204)
	398	326
Software and applications – at cost	**6,010**	5,775
Less: Accumulated depreciation	**(4,691)**	(4,321)
	1,319	1,454
Communications equipment – at cost	**163**	146
Less: Accumulated depreciation	**(131)**	(120)
	32	26
Office premises fit out – at cost	**3,473**	2,566
Less: Accumulated depreciation	**(1,761)**	(1,547)
	1,712	1,019
Furniture and equipment – at cost	**756**	729
Less: Accumulated depreciation	**(601)**	(568)
	155	161
	3,616	2,986

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	COMPUTER EQUIPMENT $'000	SOFTWARE & APPLICATIONS $'000	COMMUN-ICATIONS EQUIPMENT $'000	OFFICE PREMISES FIT OUT $'000	FURNITURE & EQUIPMENT $'000	TOTAL $'000
Balance at 1 July 2017	217	1,208	21	1,250	133	2,829
Additions	216	570	13	23	59	881
Disposals	–	–	–	–	–	–
Depreciation expense	(107)	(324)	(8)	(254)	(31)	(724)
Balance at 30 June 2018	326	1,454	26	1,019	161	2,986
Additions	181	235	17	907	27	1,367
Disposals	–	–	–	–	–	–
Depreciation expense	(109)	(370)	(11)	(214)	(33)	(737)
Balance at 30 June 2019	**398**	**1,319**	**32**	**1,712**	**155**	**3,616**

Notes to the Financial Statements

30 June 2019

Note 7. Non-current assets – fixed assets – continued

At 30 June 2019, there was software and applications in the course of construction and development of $10,800 (2018: $406,252), which is included as part of the software & applications additions and balance at 30 June 2019.

ACCOUNTING POLICY

Fixed assets are stated at historical cost less depreciation. Fixed assets (other than in-house software and applications in the course of construction and development) are depreciated over their estimated useful lives using the diminishing balance method.

The expected useful lives are as follows:

Computer equipment	4 years
Software	2 1/2 years
In-house software and applications	4 years
Communications equipment	4 – 10 years
Office fit out	3 – 13 years
Office furniture and equipment	5 – 13 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

A fixed asset is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Critical accounting judgements, estimates and assumptions

Estimation of useful lives of assets: Management exercises judgement in determining the estimated useful lives and related depreciation charges for its fixed assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation charge will increase where the useful lives are less than previously estimated.

Note 8. Current liabilities – trade and other payables

	2019 $'000	2018 $'000
Trade payables	**5,995**	4,326
GST payable	**2,113**	2,373
Distribution payable – PAXX to unitholders (whilst consolidated)	**–**	16,845
	8,108	23,544

ACCOUNTING POLICY

Payables represent amounts owing at balance date. Trade payables relate to services provided to the consolidated entity at balance date, which are unpaid. Due to their general short-term nature, they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 14 to 30 days of being invoiced.

Note 9. Current and non-current liabilities – employee benefits

	2019 $'000	2018 $'000
Current liabilities		
Annual leave	**1,489**	1,337
Long service leave	**2,320**	1,912
	3,809	3,249
Non-current liabilities		
Payroll tax on Deferred Remuneration Plan	**1,560**	1,145

ACCOUNTING POLICY

Employee benefit liabilities represents accrued wages, salaries, annual and long-service leave entitlements and other incentives (including any provision for estimated staff incentive payments and related on-costs), that are recognised in respect of employee services up to balance date and are measured at the amounts expected to be paid when the liabilities are settled and include related on-costs, such as payroll tax.

Critical accounting judgements, estimates and assumptions
With respect to the interim/half-year financial report, in accordance with AASB 137: *Provisions, Contingent Liabilities and Contingent Assets*, management may include a provision at 31 December for staff incentive payments, if the consolidated entity has achieved strong performance for its clients at that point in time, even though the annual assessment period is from 1 April to 31 March.

Notes to the Financial Statements

30 June 2019

Note 10. Earnings per share

	2019 $'000	2018 $'000
Profit after income tax attributable to the owners of Platinum Asset Management Limited	**157,651**	189,221
	NUMBER	NUMBER
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**583,162,543**	584,732,213
	CENTS	CENTS
Basic earnings per share	**27.03**	32.36
Diluted earnings per share	**27.03**	32.36

ACCOUNTING POLICY

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Platinum Asset Management Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year. Treasury shares are excluded from the weighted average number of ordinary shares used to calculate basic (and diluted) earnings per share.

Diluted earnings per share
Diluted earnings per share adjusts the weighted average number of shares used to determine basic earnings per share to take into account any options that are "in the money", but not exercised.

Note 11. Operating segments

The consolidated entity is organised into two main operating segments being:

- Funds management: through the generation of management and performance fees from Australian investment vehicles, its US-based investment mandates and Platinum World Portfolios Plc. ("PWP") and associated costs including those of the London office; and
- Investments and other: through the consolidated entity's investment in the (a) ASX quoted, Platinum Asia Investments Limited (b) PWP (c) unlisted Platinum Trust Funds and (d) the quoted managed fund, PAXX. Also included in this category are Australian dollar term deposits as well as associated interest derived from these.

Note 11. Operating segments – continued

The segment financial results, segment assets and liabilities are disclosed on the following page(s).

2019	FUNDS MANAGEMENT $'000	INVESTMENTS AND OTHER $'000	TOTAL $'000
Revenue			
Management and performance fees	295,218	–	295,218
Interest	265	3,277	3,542
Distributions and dividends*	–	3,714	3,714
Net losses on financial assets and equity in associates^	–	(4,702)	(4,702)
Net foreign exchange gains on overseas bank accounts	–	1,548	1,548
Total revenue and other income	295,483	3,837	299,320
Expenses	(75,992)	(429)	(76,421)
Profit before income tax expense	219,491	3,408	222,899
Income tax expense	(64,289)	(274)	(64,563)
Profit after income tax expense	155,202	3,134	158,336
Other comprehensive income	(16)	–	(16)
Total comprehensive income	155,186	3,134	158,320
Assets			
Cash and cash equivalents	8,294	104,653	112,947
Financial assets and equity in associates	–	117,776	117,776
Term deposits	–	81,877	81,877
Receivables and other assets	29,978	1,560	31,538
Total assets	38,272	305,866	344,138
Liabilities			
Payables and provisions	13,477	–	13,477
Tax liabilities	6,848	2,725	9,573
Total liabilities	20,325	2,725	23,050
Net assets	17,947	303,141	321,088

Notes to the Financial Statements

30 June 2019

Note 11. Operating segments – continued

2018	FUNDS MANAGEMENT $'000	INVESTMENTS AND OTHER $'000	TOTAL $'000
Revenue			
Management and performance fees	328,681	–	328,681
Interest	436	3,308	3,744
Distributions, dividends and gains on forward currency contracts*	–	23,312	23,312
Net losses on financial assets and equity in associates^	–	(3,743)	(3,743)
Net foreign exchange gains on overseas bank accounts	–	1,296	1,296
Total revenue and other income	329,117	24,173	353,290
Expenses	(84,681)	(285)	(84,966)
Profit before income tax expense	244,436	23,888	268,324
Income tax expense	(69,013)	(7,717)	(76,730)
Profit after income tax expense	175,423	16,171	191,594
Other comprehensive income	7	–	7
Total comprehensive income	175,430	16,171	191,601
Assets			
Cash and cash equivalents	4,299	159,500	163,799
Financial assets and equity in associates	–	194,716	194,716
Term deposits	–	27,876	27,876
Receivables and other assets	37,187	21,689	58,876
Total assets	41,486	403,781	445,267
Liabilities			
Payables and provisions	11,093	16,845	27,938
Tax liabilities	1,496	4,718	6,214
Total liabilities	12,589	21,563	34,152
Net assets	28,897	382,218	411,115

Note 11. Operating segments – continued

* The amount in the tables on the previous pages disclosed as "Distributions, dividends (and gains on forward currency contracts)" is comprised of:

	2019 $'000	2018 $'000
Dividend received by PIML from its investment in PAXX since deconsolidation	**1,299**	–
Distribution received by PAXX from Platinum Asia Fund whilst consolidated	**–**	21,551
Dividend received by PIML from its investment in PAI	**2,400**	1,700
Distribution received by PIML from its investment in the Platinum Trust Funds	**15**	21
Distributions and dividends (total as appears in the consolidated statement of profit or loss and other comprehensive income)	**3,714**	23,272
Net gains on forward currency contracts	**–**	40
	3,714	23,312

^ The amount in the tables on the previous pages disclosed as "Net (losses)/gains on financial assets and equity in associates" is comprised of:

	2019 $'000	2018 $'000
Realised/unrealised losses from PAXX (during the period of consolidation)	**(2,092)**	(12,968)
(Un)realised losses on Platinum Trust Fund investments	**(11)**	14
Losses on financial assets (total as appears in the consolidated statement of profit or loss and other comprehensive income)	**(2,103)**	(12,954)
Share of (loss)/profit of associates	**(2,599)**	9,211
	(4,702)	(3,743)

The consolidated entity derived management and performance fees from Australian investment vehicles, its "absolute" US performance fee mandates and PWP and also derived investment income from its seed investments, as follows:

	2019 $'000	2018 $'000
Revenue breakdown by geographic region		
Australia	**291,238**	320,719
Offshore: United States and Ireland	**8,082**	32,571
	299,320	353,290

Notes to the Financial Statements

30 June 2019

Note 11. Operating segments – continued

ACCOUNTING POLICY

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ("CODM"). The CODM refers to the Board of the Company, who are responsible for the allocation of resources to operating segments and assessing their performance. Revenue as disclosed in the consolidated statement of profit or loss and other comprehensive income is measured at the fair value of the consideration received or receivable and is recognised if it meets the criteria below:

– *Management fees:* recognised based on the applicable investment management agreements and recognised as they are earned. The majority of management fees were derived from the Platinum Trust Funds C Class. The management fee for this Class was calculated at 1.35% per annum of each Fund's daily Net Asset Value.

– *Performance fees:* recognised as income at the end of the relevant period to which the performance fee relates, when the consolidated entity's entitlement to the fee becomes certain.

– *Interest income:* recognised in the consolidated statement of profit or loss and other comprehensive income and is based on the effective interest method.

– *Distributions:* recognised when the consolidated entity becomes entitled to the income.

– *Dividend income:* brought to account on the applicable ex-dividend date.

– *Net gains/(losses) on financial assets at fair value through profit and loss:* relates to net gains/(losses) on seeded and other investments, and recognised as and when the fair value of these investments change and if disposed, the proceeds less costs on sale of investments.

Note 12. Taxation

(a) Income tax expense

The income tax expense attributable to profit comprises:

	2019 $'000	2018 $'000
Current tax payable	**65,985**	71,318
Deferred tax – recognition of temporary differences	**(1,723)**	5,165
Deferred tax – credited to share-based payments reserve	**301**	247
Income tax expense	**64,563**	76,730
Numerical reconciliation of income tax expense:		
Profit before income tax expense	**222,899**	268,324
Tax at the statutory tax rate of 30%	**66,870**	80,497
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Tax rate differential on offshore business income	**(557)**	(3,758)
Non-taxable losses/(gains) on investments	**(1,010)**	447
Other non-deductible expenses	**8**	95
Franking credits received	**(748)**	(551)
Income tax expense	**64,563**	76,730

(b) Non-current liabilities – net deferred tax liabilities:

	2019 $'000	2018 $'000
Deferred tax liabilities comprises temporary differences attributable to:		
Unrealised foreign exchange gains on cash	**851**	402
Deferred Remuneration Plan	**4,082**	3,633
Employee provisions	**(1,143)**	(975)
Unrealised gains on investments	**1,874**	4,316
Capital expenditure on fixed assets not immediately deductible	**(829)**	(836)
Expense accruals	**(344)**	(326)
Net deferred tax liabilities	**4,491**	6,214

Notes to the Financial Statements

30 June 2019

Note 12. Taxation – continued

The net deferred tax liability figure is comprised of $2,316,000 (2018: $2,137,000) of deferred tax assets and $6,807,000 (2018: $8,351,000) of deferred tax liabilities.

It is estimated that most of the non-investment related deferred tax assets will be recovered or settled within 12 months, and are estimated to be $1,487,000 (2018: $1,301,000).

ACCOUNTING POLICY

Current tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax

Deferred tax is accounted for in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the asset can be utilised.

Tax consolidation

The Company and its wholly-owned Australian controlled entities are part of a tax consolidated group under Australian tax legislation. The Company is the head entity of the tax-consolidated group.

Offshore Banking Unit ("OBU") Legislation

In June 2010, the Australian Taxation Office declared that the consolidated group is an Offshore Banking Unit (OBU) under Australian Taxation Law. This allows the consolidated group to apply a concessional tax rate of 10% to net income it derives from its offshore mandates. The concession was applied from 1 July 2010.

Critical accounting judgements, estimates and assumptions

Recovery of deferred tax assets: Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Note 13. Reconciliation of profit after income tax to net cash from operating activities

	2019 $'000	2018 $'000
Profit after income tax expense for the year	**158,336**	191,594
Adjustments for:		
Depreciation expense	**737**	724
Cash outlay on shares and transaction costs associated with the Deferred Remuneration Plan	**(7,470)**	(11,703)
Share-based payments accounting expense (see Note 20)	**4,858**	3,558
Foreign exchange differences	**(1,548)**	(1,138)
Interest income	**(3,542)**	(3,744)
Dividend and distribution income pre-deconsolidation	**–**	(23,272)
(Gain)/loss on investments	**4,702**	3,703
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	**4,667**	(377)
(Increase) in sundry debtors	**(293)**	–
Increase/(decrease) in income tax payable	**5,082**	(3,333)
Decrease/(increase) in prepayments	**132**	(535)
Increase in trade creditors and GST	**1,409**	989
(Decrease) in income tax provision and expense	**–**	(7,757)
(Increase)/decrease in deferred tax assets	**(166)**	18
(Decrease)/increase in deferred tax liabilities	**(1,544)**	5,147
Increase in employee provisions and payroll tax	**975**	672
Net cash from operating activities	**166,335**	154,546

Notes to the Financial Statements

30 June 2019

Note 13. Reconciliation of profit after income tax to net cash from operating activities – continued

ACCOUNTING POLICY

In accordance with AASB 107: *Statement of Cash Flows*, cash includes deposits at call and cash at bank that are used to meet short-term cash requirements. Cash equivalents include short-term deposits of three months or less from the date of acquisition that are readily convertible into cash. Cash and cash equivalents at the end of the financial year, as shown in the consolidated statement of cash flows are reconciled to the related item in the consolidated statement of financial position.

Under AASB 107, term deposits that have maturities of more than three months from the date of acquisition are not included as part of "cash and cash equivalents" and have been disclosed separately in the consolidated statement of financial position. All term deposits are held with licensed Australian banks.

Payments and receipts relating to the purchase and sale of term deposits are classified as "cash flows from investing activities".

Receipts from operating activities include management and performance fees receipts. Payments for operating activities include payments to suppliers and employees.

Note 14. Equity – Issued capital

	2019 SHARES	2018 SHARES	**2019 $'000**	2018 $'000
Ordinary shares – fully paid[a]	**586,678,900**	586,678,900	**751,355**	751,355
Treasury shares[b]	**(5,095,797)**	(3,471,866)	**(27,865)**	(20,110)
Total issued capital	**581,583,103**	583,207,034	**723,490**	731,245

(a) *Ordinary shares:* entitles shareholders to participate in dividends as declared and in the event of winding up of the Company, to participate in the proceeds in proportion to the number of and amounts paid on the ordinary shares held. Ordinary shares entitle the shareholder to one vote per share, either in person or by proxy, at a meeting of the Company's shareholders. All ordinary shares issued have no par value. On 13 September 2016, the Company announced an on-market share buy-back program, in which shares will be bought-back if the Company's shares trade at a discount to its underlying value. No shares have been bought-back.

(b) *Treasury shares:* are shares that have been purchased by the Employee Share Trust, pursuant to the Deferred Remuneration Plan (Refer to Note 20). Treasury shares are held by the Employee Share Trust for future allocation to employees. Details of the balance of treasury shares at the end of the financial year were given below:

	2019 SHARES	2018 SHARES	**2019 $'000**	2018 $'000
Opening balance	**3,471,866**	1,626,026	**20,110**	8,422
Additional shares held by the Employee Share Trust	**1,623,931**	1,845,840	**7,755**	11,688
Shares allocated to employees	**–**	–	**–**	–
Balance at the end of the financial year	**5,095,797**	3,471,866	**27,865**	20,110

Note 14. Equity – Issued capital – continued

ACCOUNTING POLICY

Ordinary shares
Ordinary shares are recognised as the amount paid per ordinary share, net of directly attributable issue costs.

Treasury shares
Where the consolidated entity purchase shares in the Company, the consideration paid is deducted from total shareholders' equity and the shares treated as treasury shares. Treasury shares are recorded at cost and when restrictions on employee shares are lifted which is dependent on vesting and exercise of the rights, the cost of such shares will be adjusted to the share-based payments reserve.

Note 15. Equity – reserves

	2019 $'000	2018 $'000
Foreign currency translation reserve	**105**	121
Capital reserve	**(588,144)**	(588,144)
Share-based payments reserve	**11,176**	6,017
	(576,863)	(582,006)

Foreign currency translation reserve
Exchange differences arising on translation of foreign controlled entities are recognised in other comprehensive income and accumulated as a separate reserve within equity. The balance of the foreign currency translation reserve was $105,000 at 30 June 2019 (30 June 2018: $121,000).The movement in the current year relates to translation of the Platinum UK Asset Management Limited net assets.

Capital reserve
In 2007, in preparation for listing, a restructure was undertaken in which the Company sold or transferred all of its assets, other than its beneficial interest in shares in Platinum Asset Pty Limited and sufficient cash to meet its year to date income tax liability.

The Company then split its issued share capital of 100 shares into 435,181,783 ordinary shares. It then took its beneficial interests in Platinum Investment Management Limited to 100%, through scrip for scrip offers, in consideration for the issue of 125,818,217 ordinary shares in the Company.

As a result of the share split and takeover offers, the Company had 561,000,000 ordinary shares on issue and beneficially held 100% of the issued share capital of Platinum Investment Management Limited. Subsequently, 140,250,000 shares on issue representing 25% of the issued shares of the Company were sold to the public by existing shareholders.

The amount of $588,144,000 was established on listing as a result of the difference between the consideration paid for the purchase of non-controlling interests and the share of net assets acquired in the minority interests.

Notes to the Financial Statements

30 June 2019

Note 15. Equity – reserves – continued

Share-based payments reserve

In June 2016, the consolidated entity established the Deferred Remuneration Plan. The amount in the share-based payments reserve is comprised of the amortisation of the rights granted and any associated future tax deduction.

Please refer to Note 20 for further information.

Movements in reserves:

Movements in each class of reserve during the current and previous financial year are set out below:

	SHARE-BASED PAYMENTS $'000	FOREIGN CURRENCY $'000	CAPITAL $'000	TOTAL $'000
Balance at 30 June 2017	2,212	114	(588,144)	(585,818)
Exchange rate translation impact of foreign subsidiaries	–	7	–	7
Movement in share-based payments reserve	3,805	–	–	3,805
Balance at 30 June 2018	6,017	121	(588,144)	(582,006)
Exchange rate translation impact of foreign subsidiaries	–	(16)	–	(16)
Movement in share-based payments reserve	5,159	–	–	5,159
Balance at 30 June 2019	**11,176**	**105**	**(588,144)**	**(576,863)**

Note 16. Equity – retained profits

	2019 $'000	2018 $'000
Retained profits at the beginning of the financial year	**185,940**	177,959
Profit after income tax expense attributable to owners of the Company	**157,651**	189,221
Dividends paid (Note 17)	**(169,130)**	(181,240)
Retained profits at the end of the financial year	**174,461**	185,940

Note 17. Equity – dividends

Dividends paid

Dividends paid during the financial year were as follows:

	2019 $'000	2018 $'000
Final dividend paid for the 2018 financial year (16 cents per share)	**93,313**	–
Interim dividend paid for the 2019 financial year (13 cents per share)	**75,817**	–
Final dividend paid for the 2017 financial year (15 cents per share)	**–**	87,758
Interim dividend paid for the 2018 financial year (16 cents per share)	**–**	93,482
	169,130	181,240

Dividends not recognised at year-end

Since 30 June 2019, the Directors declared to pay a 2019 final fully-franked dividend of 14 cents per share, payable out of profits for the 12 months to 30 June 2019. The dividend has not been provided for at 30 June 2019, because the dividend was declared after year-end.

Franking credits

	2019 $'000	2018 $'000
Franking credits available at reporting date based on a tax rate of 30%	**64,017**	77,903
Franking credits/(debits) that will arise from the payment/(refund) of the provision for income tax at the reporting date based on a tax rate of 30%	**5,082**	(3,333)
Franking credits available for subsequent financial years based on a tax rate of 30%	**69,099**	74,570

ACCOUNTING POLICY

A provision is made for the amount of any dividend declared by the Directors before or at the end of the financial year but not distributed at balance date.

Notes to the Financial Statements

30 June 2019

Note 18. Financial risk management

Financial risk management objectives

The Company's and consolidated entity's activities expose it to both direct and indirect financial risk, including: market risk, credit risk and liquidity risk. Material direct exposure to financial risk occurs through the impact on profit of movements in funds under management ("FUM") and through its direct investments in:

– Platinum Asia Investments Limited ("PAI");

– the offshore European-based fund, Platinum World Portfolios Plc ("PWP"); and

– its investments in Platinum Asia Fund (Quoted Managed Hedge Fund) ("PAXX").

Indirect exposure occurs because PIML is the Investment Manager for various investment vehicles, including:

– investment mandates;

– various unit trusts, namely the Platinum Trust Funds, Platinum Global Fund, PIXX and PAXX;

– its ASX-listed investment companies, Platinum Capital Limited and PAI; and

– PWP.

The consolidated entity does not derive any management fees or performance fees directly from PIXX and PAXX. Management and performance fees are borne at the Platinum International Fund/Platinum Asia Fund level and are paid directly by these Funds to the consolidated entity.

This note mainly discusses the direct exposure to risk of the consolidated entity. The consolidated entity's risk management procedures focus on managing the potential adverse effects on financial performance caused by volatility of financial markets.

Market risk

The key direct risks associated with the consolidated entity are those driven by investment and market volatility and the resulting impact on FUM or a reduction in the growth of FUM. Reduced FUM will directly impact on management fee income and profit because management fee income is calculated as a percentage of FUM. FUM can be directly impacted by a range of factors including:

(i) Poor investment performance: absolute negative investment performance will reduce FUM and relative under performance to appropriate market benchmarks could reduce the attractiveness of Platinum's investment products to investors, which would impact on the growth of the business. Poor investment performance could also trigger the termination of Investment Mandate arrangements;

(ii) Market volatility: Platinum invests in global markets. It follows that a decline in overseas markets, adverse exchange rate or interest rate movements will all impact on FUM;

Note 18. Financial risk management – continued

Market risk – continued

(iii) A reduction in the ability to retain and attract investors: that could be caused by a decline in investment performance, but also a range of other factors, such as the high level of competition in the funds management industry;

(iv) A loss of key personnel; and

(v) Investor allocation decisions: investors constantly re-assess and re-allocate their investments on the basis of their own preferences. Investor allocation decisions could operate independently from investment performance, such that funds outflows occur despite positive investment performance.

A decline in investment performance will also directly impact on performance share fees and performance fees earned by the consolidated entity. Historically, the amount of performance share fees earned by the consolidated entity has fluctuated significantly from year to year and can be a material source of fee revenue.

For those investment mandates that pay a performance share fee, the fee is based on a proportion of each Mandate's investment performance, and is calculated at the end of each calendar year and is based on absolute (and not relative) return.

Performance fees may be earned by the consolidated entity, if the investment return of a Platinum Trust Fund, Platinum Capital Limited, Platinum Asia Investments Limited, Platinum World Portfolios or applicable mandate exceeds its specified benchmark. Should the actual performance of one or more of these entities be higher than the applicable benchmark or index, a performance fee would be receivable for the financial year. As at 30 June 2019, performance fees of $4,842 (2018: $1,180,270) were receivable.

If global equity markets fell 10% over the course of the year and consequently the consolidated entity's FUM fell in line with global equity markets, it follows that management fees would fall by 10%. If there was a 10% decrease in performance of investment mandates over the course of the year that resulted in an actual negative performance for the Investment Mandate for the year, then no performance fee would be earned.

The above analysis assumes a uniform 10% fall across all global equity markets. This is extremely unlikely as there is a large degree of variation and volatility across markets. For example, it is quite feasible for the Chinese market to fall whilst other Asian markets go up.

To mitigate the impact of adverse investment performance on FUM, the Investment Manager may employ hedging strategies to manage the impact of adverse market and exchange rate movements on the funds it manages. Market risk may be managed through derivative contracts, including futures, options and swaps. Currency risk may be managed through the use of forward currency contracts.

The section on the following pages mainly discusses the direct impact of foreign currency risk, price risk and interest rate risk on the consolidated entity's financial instruments held at 30 June 2019.

Notes to the Financial Statements

30 June 2019

Note 18. Financial risk management – continued

Foreign currency risk

The consolidated entity is exposed to foreign currency risk, because:

– it holds US Dollar cash, either directly or through its direct investments;

– it derives management and performance fees from its US Dollar investment mandates; and

– it directly invests in Platinum World Portfolios, Platinum Asia Investments Limited and PAXX.

US Dollar cash

At 30 June 2019, the consolidated entity held US$24,204,470 (equivalent to A$34,481,758) in cash (2018: US$18,525,503 (equivalent to A$25,032,773). If the Australian Dollar had been 10% higher/lower against the US Dollar than the prevailing exchange rate used to convert the balance with all other variables held constant, net profit before tax would have been A$3,132,878 lower/ A$3,828,578 higher (2018: A$2,277,530 lower/A$2,783,989 higher).

US Dollar fees

If the Australian Dollar had been 10% higher/lower against the US Dollar than the prevailing exchange rate used to convert the US mandate and PWP fees, with all other variables held constant, then net profit before tax would have been A$542,546 lower/A$749,602 higher (2018: A$2,496,946 lower/A$3,051,711 higher).

Investment in PWP

Platinum Investment Management Limited's (PIML's) investment in PWP is denominated in US Dollars. If the Australian Dollar had been 10% higher/lower against the prevailing exchange rate at 30 June 2019, then the consolidated entity's net assets would have been A$5.6m lower/ A$6.8m higher (2018: A$5.8m lower/A$7.0m higher) (exchange rate translation effect).

Platinum World Portfolios' investments are denominated in various foreign currencies specific to the investments held in each of the portfolios. The foreign currency with the largest impact on profit before tax, if there was a 10% currency movement at 30 June 2019, was the Japanese Yen (2018: Hong Kong Dollar). A 10% increase/decrease in the Australian Dollar would have caused net profit before tax to be A$2,081,556 lower/A$2,544,124 higher, based on PIML's interest in PWP at 30 June 2019 (2018: A$2,180,699 lower/A$2,719,894 higher).

Investment in PAI

Platinum Asia Investments Limited's investments are also denominated in foreign currencies. The foreign currency with the largest impact on profit before tax, if there was a 10% currency movement at 30 June 2019, was the US Dollar (2018: Hong Kong Dollar), which was the currency with the largest exposure in this entity at 30 June 2019. A 10% increase/decrease in the Australian Dollar would have caused the consolidated entity's net profit before tax to be A$1,535,900 lower/A$1,877,211 higher (2018: A$1,417,016 lower/A$1,731,890 higher).

Note 18. Financial risk management – continued

Foreign currency risk – continued

Investment in PAXX

PAXX is a feeder fund that invests in Platinum Asia Fund (PAF), which invests in undervalued companies across the Asian region-ex Japan. The foreign currency with the largest impact on profit before tax, if there was a 10% currency movement at 30 June 2019, was the US Dollar (2018: Hong Kong Dollar), which was the currency with the largest exposure in PAXX at 30 June 2019. A 10% increase/decrease in the Australian Dollar would have caused the Company's net profit before tax to be A$980,579 lower/A$1,198,486 higher (2018: A$1,774,000 lower/ A$2,168,000 higher).

The US Dollar was the largest exposure because PAI/PAF was partly hedged back into the US Dollar, via forward contracts.

Price risk

At 30 June 2019, the consolidated entity is exposed to indirect price risk through its equity-accounted investments in Platinum Asia Investments Limited, Platinum World Portfolios and PAXX. The impact of price risk is summarised in the table below:

Entity

IMPACT ON NET PROFIT BEFORE TAX OF 10% INCREASE/(DECREASE) IN 30 JUNE NET ASSET VALUES	**2019 $'000 INCREASE/(DECREASE)**	2018 $'000 INCREASE/(DECREASE)
PAI	**3,257/(3,257)**	3,497/(3,497)
PWP	**6,163/(6,163)**	6,094/(6,094)
PAXX	**2,339/(2,339)**	1,964/(1,964)

Interest rate risk

At 30 June 2019, cash and term deposits are the only significant assets with potential exposure to interest rate risk held by the consolidated entity. A movement of +/-1% in Australian interest rates occurring on 30 June 2019 will cause the consolidated entity's net profit before tax to be $763,999 higher/lower (2018: $422,751 higher/lower), based on the impact on its interest-bearing cash balances. An interest rate movement at 30 June 2019 will not impact the profit earned from term deposits, as term deposit interest rates are determined on execution.

Notes to the Financial Statements

30 June 2019

Note 18. Financial risk management – continued

Credit risk

Credit risk relates to the risk of a counterparty defaulting on a financial obligation resulting in a loss to the consolidated entity (typically "non-equity" financial instruments). Credit risk arises from the financial assets of the consolidated entity that include: cash and term deposits. All term deposits are held with licensed Australian banks that all have a AA- (2018: AA-) credit rating.

The maximum exposure to direct credit risk at balance date is the carrying amount recognised in the consolidated statement of financial position. No assets are past due or impaired.

Any default in the value of a financial instrument held within any of the entities that Platinum Investment Management Limited acts as Investment Manager, will result in reduced investment performance. There is no direct loss for the consolidated entity other than through the ensuing reduction in FUM, as noted in the section on "market risk". The Investment Manager employs standard market practices for managing its credit risk exposure.

The credit quality of cash and term deposits held by each entity in the consolidated entity, by counterparty, can be assessed by reference to external credit ratings. At 30 June 2019 and 30 June 2018, the relevant credit ratings were as follows:

	2019 $'000	2018 $'000
Rating		
AA–	**194,070**	166,582
A	**754**	24,886
BBB+	**–**	207
	194,824	191,675

Liquidity risk

Liquidity risk is the risk that the consolidated entity will encounter difficulty in meeting obligations associated with its liabilities. The consolidated entity manages liquidity risk by maintaining sufficient cash reserves to cover its liabilities and receiving management fees to meet operating expenses on a regular basis. Management monitors its cash position on a daily basis and prepares forecasts on a weekly basis.

Note 18. Financial risk management – continued

Liquidity risk – continued

Remaining contractual maturities

The following table details the consolidated entity's remaining contractual maturity for its liabilities. The table has been drawn up based on the undiscounted cash flows of liabilities based on the earliest date on which the liabilities are required to be paid.

2019	AT CALL $'000	WITHIN 30 DAYS $'000	BETWEEN 1 AND 3 MONTHS $'000	OVER 3 MONTHS $'000	TOTAL $'000
Trade payables	–	**5,995**	–	–	**5,995**
GST payable	–	**2,113**	–	–	**2,113**
Current tax payable	–	–	–	**5,082**	**5,082**
Employee-related provisions	**3,809**	–	–	**1,560**	**5,369**
Total	**3,809**	**8,108**	–	**6,642**	**18,559**

2018	AT CALL $'000	WITHIN 30 DAYS $'000	BETWEEN 1 AND 3 MONTHS $'000	OVER 3 MONTHS $'000	TOTAL $'000
Distribution payable – PAXX to unitholders	–	16,845	–	–	16,845
Trade payables	–	4,326	–	–	4,326
GST payable	–	2,373	–	–	2,373
Employee-related provisions	3,249	–	–	1,145	4,394
Total	3,249	23,544	–	1,145	27,938

Financial liabilities at fair value through profit or loss

The consolidated entity had no financial liabilities at fair value through profit or loss at 30 June 2019 or 30 June 2018.

Accordingly, the consolidated entity does not have a significant direct exposure to liquidity risk.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Notes to the Financial Statements

30 June 2019

Note 18. Financial risk management – continued

Capital risk management

(i) Capital requirements

The Company has limited capital requirements and generally expects that most, if not all, future profits will continue to be distributed by way of dividends, subject to ongoing capital requirements.

(ii) External requirements

Platinum Investment Management Limited is required to hold an Australian Financial Services Licence (AFSL) issued by the Australian Securities and Investments Commission (ASIC). The AFSL authorises Platinum Investment Management Limited to provide investment management services and act as a Responsible Entity of Registered Managed Investment Schemes.

Platinum Investment Management Limited has complied with all externally imposed requirements to hold an AFSL during the financial year.

Note 19. Fair value measurement

Fair value hierarchy

AASB 13: *Fair Value Measurement* requires the consolidated entity to classify those assets measured at fair value using the following fair value hierarchy model (consistent with the hierarchy model applied to financial assets and liabilities at 30 June 2018):

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices) (level 2); and

(iii) Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs) (level 3).

At 30 June 2019, the investments by PIML in PAXX, PAI and PWP have not been measured at fair value because they have been classified as equity investments in associates. If these were to be measured at fair value, they would be classified as level 2.

The following table analyses within the fair value hierarchy model, the consolidated entity's assets and liabilities, measured or disclosed at fair value, using the three level hierarchy model at 30 June 2019 and 30 June 2018. The consolidated entity has no assets or liabilities that are classified as level 3.

	LEVEL 1 $'000	LEVEL 2 $'000	TOTAL $'000
2019			
Assets			
Platinum Trust Fund investments	**–**	**183**	**183**
	–	**183**	**183**
2018			
Assets			
Unit trust – held directly by Platinum Asia Fund (Quoted Managed Hedge Fund) ("PAXX")*	–	98,602	98,602
Platinum Trust Fund investments	–	194	194
	–	98,796	98,796

* At 30 June 2018, assets held directly by PAXX were classified as fair value investments, because PAXX was consolidated into the Platinum group.

Valuation techniques used to classify assets and liabilities as level 2

PIML's direct investments in the Platinum Trust Funds are valued using their respective Net Asset Values (adjusted for the buy-sell spread) of the underlying assets and liabilities and includes the impact of the 30 June distribution. Accordingly, management has assessed the fair value investments as being Level 2 investments.

Note 20. Share-based payments

Deferred Remuneration Plan (*applies to all staff*)

In June 2016, a "Deferred Bonus Plan" (now known as a "Deferred Remuneration Plan") was approved by the Nomination & Remuneration Committee of Platinum Asset Management Limited. The main objective of the Plan is to recognise the contributions made by key employees and to retain their skills within the firm.

Notes to the Financial Statements

30 June 2019

Note 20. Share-based payments – continued

Deferred Remuneration Plan (*applies to all staff*) – continued

PLAN	DESCRIPTION	VESTING CONDITION
Deferred Remuneration Plan	Upon vesting and exercise of the deferred rights, employees will receive ordinary shares in the Company. The deferred rights also carry an entitlement to a dividend equivalent payment. Upon the valid exercise of a deferred right, or deemed exercise, of a deferred right, an eligible employee will be entitled to receive an amount approximately equal to the amount of dividends that would have been paid to the eligible employee had they held the share from the grant date to the date that the deferred rights are exercised.	Continuous employment for a period of 4 years from the grant date.

The number of rights granted and the accounting expense for the current and comparative year is shown below. The trust has purchased an equivalent number of PTM shares and will hold these shares until the vesting date (four years from each grant) and subsequent exercise.

	2019 NUMBER OF DEFERRED RIGHTS GRANTED	2018 NUMBER OF DEFERRED RIGHTS GRANTED
Opening balance	**3,471,866**	1,626,026
Granted during the year	**1,623,931**	1,878,168
Cancelled during the year	**–**	(32,328)
Closing balance	**5,095,797**	3,471,866

Accounting expense

	2019 $'000	2018 $'000
Deferred rights granted in 2019	**1,300**	–
Deferred rights granted in 2018	**2,144**	2,144
Deferred rights granted in 2017	**797**	797
Deferred rights granted in 2016	**617**	617
Total share-based payments expense	**4,858**	3,558
Associated payroll tax expense on additional deferred rights granted during the year	**416**	689
Total	**5,274**	4,247

Note 20. Share-based payments – continued

Deferred Remuneration Plan (*applies to all staff*) – continued

ACCOUNTING POLICY

AASB 2: *Share-based Payments* requires an organisation to recognise an expense for equity provided for services rendered by employees. The amount that is recognised as an expense for share-based payments is derived from the fair value of the equity instruments granted. Deferred incentives to be settled in the Company's shares are considered to be a share-based payments award.

The fair value of the equity instruments granted and measured at grant date is recognised over the term of the service period. The accounting expense will commence when there is a "shared understanding" of the terms and conditions of the offer. The service period may commence prior to grant date. In this case, the expense is estimated and trued-up at grant date.

The fair value of the rights granted is recognised in the consolidated financial statements as an expense with a corresponding entry to reserves. The fair value is measured at grant date and amortised on a straight-line basis over the vesting period that the employees become unconditionally entitled to the share. In measuring the fair value, an allowance has been made for the risk or probability of forfeiture, which measures the risk of selected eligible employees leaving Platinum and forfeiting their rights.

At each balance date, the Company reviews the number of deferred rights granted. Adjustments are made to the share-based payments expense, if the number of deferred rights granted has changed (e.g. through forfeitures). The impact of any revision to the original estimate will be recognised in the consolidated statement of profit or loss and other comprehensive income with the corresponding entry to reserves.

The purchase of shares on-market by the Company through an Employee Share Trust for future allocation to key employees is shown in the consolidated statement of financial position as a debit entry to the "treasury shares" account with the corresponding credit entry to "cash".

Notes to the Financial Statements

30 June 2019

Note 21. Key management personnel disclosures

	2019 $'000	2018 $'000
The aggregate remuneration that the consolidated entity provided Executive and Non-Executive Directors was as follows:		
Cash salary, Directors' fees and short-term incentive cash awards	**3,932**	6,722
Accounting expense related to the KMP unvested allocation under the Deferred Remuneration Plan^	**468**	381
Superannuation	**163**	136
Decrease in the consolidated entity's annual and long service leave provision	**–**	(8)
	4,563	7,231

^ Andrew Clifford, Elizabeth Norman and Andrew Stannard were the only members of KMP to receive an allocation of rights under the Deferred Remuneration Plan. The expense attributable to KMP are based on the allocation of deferred rights in the current and prior years, that have still not vested and is as follows:

	2019 GRANT	2018 GRANT	2017 GRANT	2016 GRANT	TOTAL
Number of rights allocated to KMP during the year	**108,696**	248,346	86,208	48,623	**491,873**
Accounting expense attributed to KMP	**$87,000**	$261,001	$67,393	$52,201	**$467,575**

The accounting valuation of $467,575 represents the amount expensed through the income statement in the current year, with respect to grants made in each year between 2016 and 2019.

Interests of Non-Executive and Executive Directors in shares

The relevant interest in ordinary shares in the Company that each Director held at balance date was:

	OPENING BALANCE	ADDITIONS	DISPOSALS	CLOSING BALANCE
Michael Cole	240,000	–	–	240,000
Stephen Menzies	40,000	–	–	40,000
Anne Loveridge	22,000	–	–	22,000
Brigitte Smith	41,666	–	–	41,666
Tim Trumper	–	18,900	–	18,900
Andrew Clifford	32,831,449	–	–	32,831,449
Kerr Neilson	312,074,841	–	60,000,000	252,074,841
Elizabeth Norman	766,748	–	–	766,748
Andrew Stannard	–	–	–	–

Note 22. Remuneration of auditors

During the financial year, the following fees were paid or payable for services provided by PricewaterhouseCoopers (the auditor of the Company) and its overseas network firms:

	2019 $	2018 $
Audit services – PricewaterhouseCoopers		
Audit and review of the financial statements and AFSL audit	**96,542**	93,730
Audit services for managed funds that Platinum Investment Management Limited acts as responsible entity – PricewaterhouseCoopers		
Audit and review of the financial statements and compliance plan audit	**295,992**	300,369
Audit services for managed funds that Platinum Investment Management Limited acts as responsible entity – overseas PricewaterhouseCoopers firms		
Audit of financial statements	**54,478**	50,000
Total audit services	**447,012**	444,099
Taxation services – PricewaterhouseCoopers		
Compliance services	**116,745**	87,090
Taxation services for managed funds for which Platinum Investment Management Limited acts as responsible entity – PricewaterhouseCoopers		
Taxation services	**556,017**	487,580
Taxation services – overseas PricewaterhouseCoopers firms		
Foreign tax agent fees	**42,597**	17,855
Services provided to Platinum UK Asset Management Limited	**62,926**	–
PwC US work associated with the set-up of the Cayman Funds	**–**	3,892
Total taxation services	**778,285**	596,417
Other services – PricewaterhouseCoopers		
Compliance and assurance services	**163,943**	148,083
Total other services	**163,943**	148,083
Total fees paid and payable to the auditor and its related practices	**1,389,240**	1,188,599

Notes to the Financial Statements
30 June 2019

PART C – Notes 23 to 27
Miscellaneous Notes – Miscellaneous Notes that are required by the accounting standards

Note 23. Related party transactions
Subsidiaries and associates
Interests in subsidiaries and associates are set out in Note 1 and Note 2.

Key management personnel
Disclosures relating to key management personnel are set out in Note 21 and the Remuneration Report in the Directors' Report.

Tax consolidation and dividend transactions
Any tax payable on income and gains from any entity within the tax consolidated group and dividends are sourced from the main operating subsidiary, Platinum Investment Management Limited ("PIML"), and paid out under the Company. Platinum Asset Management Limited is the head entity of the consolidated tax group and is the parent entity, and consequently, is the entity that ultimately pays out dividends to shareholders. The amounts paid are disclosed in the consolidated statement of cash flows.

Fees received
Platinum Investment Management Limited provides investment management services to:

(i) Its related party unit trusts – the Platinum Trust Funds and Platinum Global Fund;

(ii) Its European-based offshore fund, Platinum World Portfolios Plc;

(iii) Its two ASX-listed investment companies (LICs), Platinum Capital Limited (PMC) and Platinum Asia Investments Limited (PAI); and

(iv) Its two ASX quoted managed funds, Platinum International Fund (Quoted Managed Hedge Fund) (ASX code: PIX) and Platinum Asia Fund (Quoted Managed Hedge Fund) (ASX code: PAX).

Platinum Investment Management Limited is entitled to receive a monthly management fee, either directly or indirectly, from each of these entities and a performance fee based on the relative investment performance of the Platinum Trust Funds, Platinum World Portfolios Plc, Platinum Capital Limited ("PMC") and Platinum Asia Investments Limited ("PAI"). The consolidated entity does not derive any management fees or performance fees directly from PIXX and PAXX. Management and performance fees are borne at the Platinum International Fund/Platinum Asia Fund level and are paid directly by these funds to the consolidated entity. The total related party fees recognised in the statement of profit or loss and other comprehensive income for the period ended 30 June 2019 and 30 June 2018 were as follows:

Note 23. Related party transactions – continued

Fees received – continued

	30 JUNE 2019 $	30 JUNE 2018 $
Related party fees	**245,515,816**	257,492,273

Included in these figures, is related party fees receivable, disclosed in the statement of financial position as at 30 June 2019 and 30 June 2018 as follows:

	30 JUNE 2019 $	30 JUNE 2018 $
Related party fees receivable	**19,001,623**	23,317,632

Investment transactions

During the year, PIML received the final 2018 fully-franked dividend of $1,800,000 (2018: $500,000) and the interim 2019 fully franked dividend of $600,000 (2018: $1,200,000) from its investment in PAI.

PIML also received the 30 June 2019 distribution of $1,298,813 (2018: $4,816,109) from PAXX and $15,000 from the Platinum Trust Funds (2018: $21,000).

Other related party transactions

Mr Stephen Menzies is PIML's nominee on the Board of PWP. PIML reimburses Stephen Menzies for any incidental travel and accommodation associated with attendance at Board meetings in Ireland. During the year, the amount reimbursed was $17,523 (2018: $nil).

In the current year, the consolidated entity paid $70,000 (2018: $50,000) to OneVue Services Pty Limited for the provision of services associated with the enhancement of the Platinum website. OneVue is a related party of the Chairman of Platinum Asset Management Limited, Mr Michael Cole.

During the current financial year (on 17 September 2018), Platinum UK Asset Management Limited was incorporated and PIML transferred A$1,094,920 as funding for Platinum UKs operations and expenses. The service fee incurred by PIML was $1,902,272.

The Company allocated additional rights to eligible employees under the Deferred Remuneration Plan. In the current year, the amount transferred to the Platinum Employee Share Trust was $7,470,000 (2018: $11,873,050) and the Trust still retained $899,970 (2018: $170,518) at balance date mainly to settle a purchase of shares that was due to settle on 1 July 2019. A further $300,000 was transferred after 30 June 2019 in order to settle a pre-30 June 2019 trade.

Loan Agreements with related parties

There were no formal loan agreements executed with related parties at the current and previous reporting date, but there are intercompany receivables and payables.

Notes to the Financial Statements

30 June 2019

Note 24. Disclosure of interests in other entities

Structured entity disclosures (excluding subsidiaries and associates)

A structured entity is an entity that is not part of the consolidated entity, despite one or more entities within the consolidated entity purchasing units or shares in the other (structured) entity. The relevant activities of unconsolidated structured entities are directed by the Investment Manager by means of contractual arrangements, such as an Investment Management Agreement.

At 30 June 2019, the consolidated entity holds an investment that can be described as a structured entity, via Platinum Investment Management Limited ("PIML") holding investments of less than 1% in each of the Platinum Trust Funds and receiving fees for its role as Investment Manager.

The following table provides information in relation to this investment:

	2019 $'000	2018 $'000
Net Asset Value attributable to all investors		
Platinum Trust Funds	**17,705,018**	18,421,972
Maximum exposure (includes PIMLs interest & fees receivable)		
Platinum Trust Funds	**18,175**	20,879

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

There are no guarantees entered into by the parent entity in relation to debts of its subsidiaries, no contingent liabilities and no capital commitments.

ACCOUNTING POLICY

The consolidated entity has applied AASB 12: *Disclosure of Interests in Other Entities*. AASB 12 requires disclosure about the nature of, and risks associated with, the consolidated entity's interest in other entities. An interest in another entity refers to involvement that exposes the entity to variability of returns from the performance of another entity (excluding subsidiaries and associates). The consolidated entity will apply the standard to its interest in the Platinum Trust Funds.

Note 25. Commitments

	2019 $'000	2018 $'000
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	**1,838**	1,768
One to five years	**8,102**	7,796
Greater than five years	**1,279**	3,422
	11,219	12,986

On 23 June 2017, the consolidated entity entered into a new lease over the premises it occupies. The lease is due to expire in January 2025.

The consolidated entity has no commitments for significant capital expenditure.

Please refer to Note 27 that discusses changes to the accounting for leases that will apply from 1 July 2019.

ACCOUNTING POLICY

Platinum Investment Management Limited has entered into a lease agreement for the premises it occupies and pays rent on a monthly basis. Payments made under the operating lease are charged to the consolidated statement of profit or loss and other comprehensive income.

Note 26. Events after the reporting period

Apart from the dividend declared in August 2019, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Notes to the Financial Statements

30 June 2019

Note 27. Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that are of relevance to the consolidated entity but are not mandatory and have not been early adopted for the annual reporting period ended 30 June 2019, and the consolidated entity's assessment of the impact of these issued or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 16: *Leases*

AASB 16 will apply for annual reporting periods commencing 1 July 2019. The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and requires lease assets and lease liabilities to be recognised in the statement of financial position, initially measured at present value of future lease payments. In addition, depreciation of the lease assets and interest on lease liabilities will be recognised in the statement of profit or loss and other comprehensive income and the statement of cash flows will need to separate the total amount of cash paid into a principal portion and interest. This standard has been assessed as increasing the value of the consolidated entity's gross assets and gross liabilities, however the standard has been assessed as not having a material impact on the consolidated entity's net assets, operations or results. The adoption of the standard for annual reporting periods commencing 1 July 2019 will result in increased disclosure.

An assessment has been made on existing leases held by the consolidated entity and the adoption of this standard is expected to result in the recognition of existing leased assets and liabilities of approximately A$10,734,000 and A$10,889,000 respectively from 1 July 2019. The difference relates to the inclusion of depreciation for the leased assets and interest for the lease liabilities.

There are no other standards that are not yet effective that are expected to have a material impact on the consolidated entity in the current or future reporting periods and on foreseeable future transactions.

Note 28. Accounting Standards adopted during the financial year

(a) Adoption of AASB 15: Revenue from contracts with customers and associated amendments

The consolidated entity has adopted AASB 15 for reporting periods commencing 1 July 2018. The standard provides a single revenue recognition model based on the transfer of goods and services and the consideration expected to be received in return for that transfer. Revenue recognised by an asset manager can only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in future periods. This means that performance fees will only be recognised once the contractual measurement period is completed. However, management fees are recognised based on the applicable investment management agreements and earned on a daily basis. These are consistent with how performance and management fees are already recognised in the consolidated entity's accounts. AASB 15 has been applied by the consolidated entity and did not result in a material change in revenue recognition for the consolidated entity.

Note 28. Accounting Standards adopted during the financial year – continued

(b) Adoption of AASB 9: Financial Instruments (and applicable amendments) ("AASB 9")

AASB 9: *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. It introduced revised rules around hedging accounting and impairment. The standard was applicable from 1 January 2018.

The consolidated entity has adopted AASB 9 for reporting periods commencing 1 July 2018. AASB 9 replaces the classification and measurement model in *AASB 139: Financial Instruments: Recognition and Measurement* with a new model that classifies financial instruments based on the business model within which the financial instruments are managed, and whether the contractual cash flows under the instrument solely represent the payment of principal and interest.

Under the new standard, financial instruments are classified as:

– Amortised cost if the objective of the business model is to hold the financial instruments to collect contractual cash flows and those cash flows represent solely payments of principal and interest (SPPI);

– Fair value through other comprehensive income if the objective of the business model is to hold the financial instruments to collect contractual cashflows from SPPI and to sell; or

– All other financial instruments must be recognised at fair value through profit or loss. An entity can, at initial recognition, also irrevocably designate a financial instrument as measured at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income.

AASB 9 has been applied retrospectively by the consolidated entity. Given no debt instruments are held by the consolidated entity, which could result in a reclassification of the financial instruments to amortised cost or fair value through other comprehensive income ('FVOCI'), the adoption of AASB 9 did not have any impact on the recognition and measurement of the consolidated entity's financial instruments.

There are no other standards that are effective for the first time in the current year that are expected to have a material impact on the consolidated entity in the current or future reporting periods and on foreseeable future transactions.

Directors' Declaration

30 June 2019

In the Directors' opinion:

– the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

– the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described under Basis of Preparation to the financial statements;

– the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and

– there are reasonable grounds to believe that the Company and consolidated entity will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001.*

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the *Corporations Act 2001.*

On behalf of the Directors

Michael Cole
Chairman

Andrew Clifford
Director

20 August 2019
Sydney

Independent Auditor's Report

To the members of Platinum Asset Management Limited

Report on the Audit of the Financial Report

Our opinion

In our opinion:

The accompanying financial report of Platinum Asset Management Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001.*

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2019
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the Directors' declaration.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO Box 2650, Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Independent Auditor's Report

To the members of Platinum Asset Management Limited

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

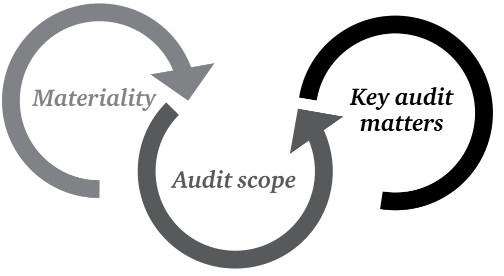
We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Our audit approach takes into account work undertaken by key third party service providers relevant to our audit. This includes the administrator which proves custodian and administration services for the trusts that the Group manages.



MATERIALITY	AUDIT SCOPE

MATERIALITY

- For the purpose of our audit we used overall Group materiality of $11.1 million, which represents 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utlised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

AUDIT SCOPE

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We conducted an audit of the most significant entities within the Group being Platinum Investment Management Limited (PIML) and Platinum Asia Fund (Quoted Managed Hedge Fund (PAXX)). The Group engagement team directed the involvement of component auditors. All other audit procedures were performed by the Group engagement team.
- For the work performed by component auditors, we considered the level of involvement we needed to have in their audit work to be able to evaluate whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial report as a whole. This included active dialogue during the audit and review of their work.

Independent Auditor's Report

To the members of Platinum Asset Management Limited

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit, Risk and Compliance Committee.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Revenue *Refer to note 11 – Operating segments* This was a key audit matter because revenue is the Group's most significant account balance in the consolidated statement of profit or loss and other comprehensive income, as well as the related party nature that makes them sensitive. Additionally, although there was no significant judgement involved in their determination, performance fees fluctuate depending on market performance.	We performed the following audit procedures, amongst others: – Obtained the most recent report issued by the third party service provider to assess the design and operating effectiveness of relevant controls over the funds under management (FUM). This report included an unqualified independent audit opinion over the design and operating effectiveness of those controls. – Assessed our ability to place reliance on the administrator's auditor's report by considering the auditor's independence, experience, competency and the results of their procedures. – Assessed whether the revenue accounting policy was consistent with the requirements of Australian Accounting Standards. – Agreed a sample of management fees back to relevant supporting external evidence, such as management agreements, underlying fund financial statements and third party calculations. – Recalculated a sample of management fees.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Accounting for investment vehicles *Refer to note 1 – Subsidiaries and controlled entities* This was considered a key audit matter given the judgement required in determining the appropriate classification and accounting for the Group's investments in subsidiaries and controlled entities in accordance with Australian Accounting Standards. This included: – The level of influence the Group has over each investment vehicle – The extent of exposure to returns or rights to variable returns from the Group's involvement – The ability for the Group to use its power to affect the amount of the return from each investment. At 20 May 2019, the Group concluded that it no longer controlled Platinum Asia Fund (Quoted Managed Hedge Fund) ("PAXX") and as a result, this previously consoidated investment was recognised as an investment in associate and equity accounted from that date.	To assess the classification and accounting treatment of the investment in each vehicle we performed the following audit procedures, amongst others: – Inspected the offer documents, constitutions and the Investment Management Agreement between PIML and each investment vehicle to develop an understanding, evaluate and assess the scope of the power and decision making authority held by the Group – Assessed the Group's exposure to each investment vehicles' returns by considering the ownership percentage of the Group and multiplying the expected management and performance fees by the ownership percentage of the Group.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' report, the Chairman's report, Shareholder information and the Corporate directory. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Independent Auditor's Report

To the members of Platinum Asset Management Limited

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf.

This description forms part of our auditor's report.

Report on the Remuneration Report

Our opinion on the Remuneration Report

We have audited the remuneration report included in pages 25 to 42 of the Directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Platinum Asset Management Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

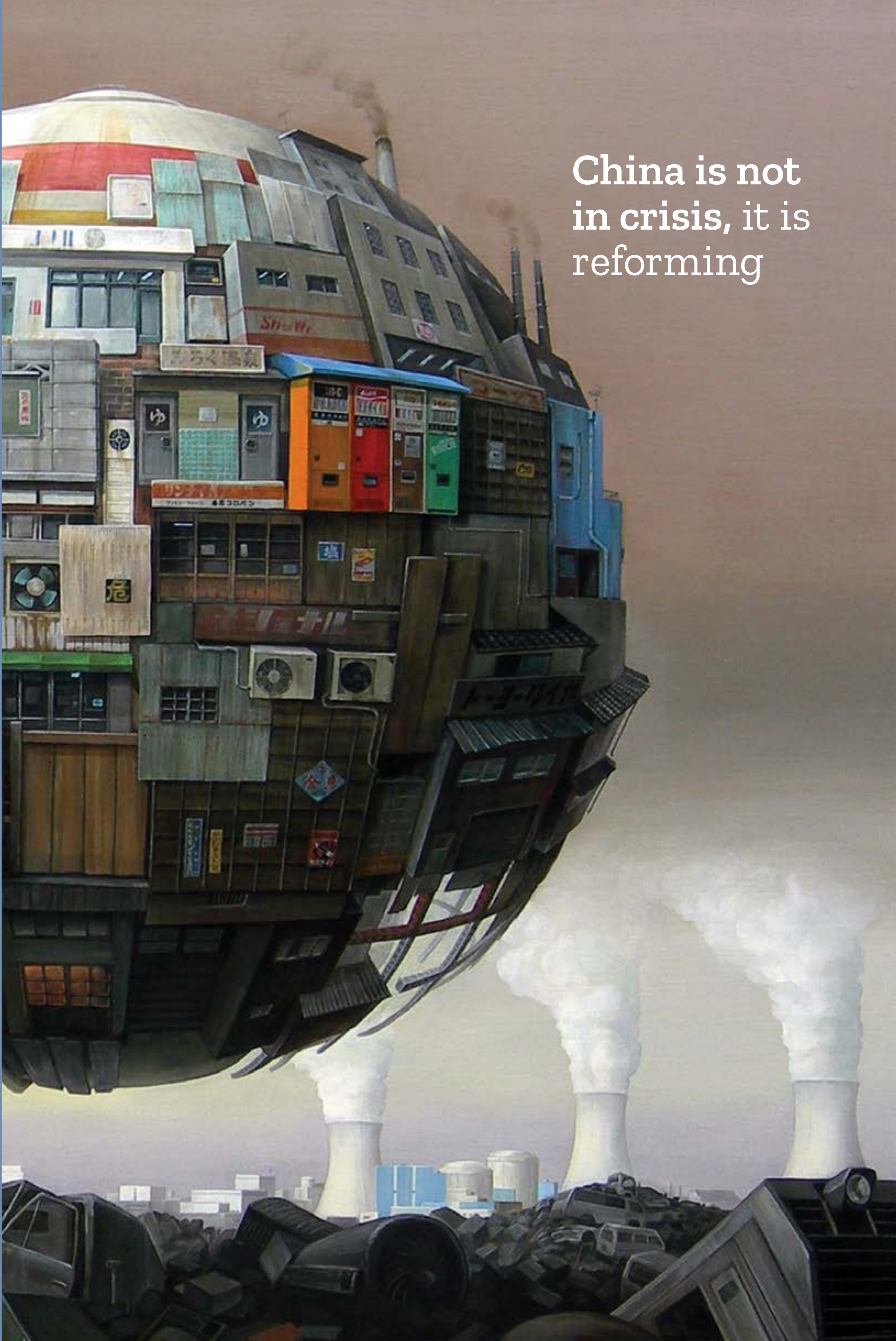
The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

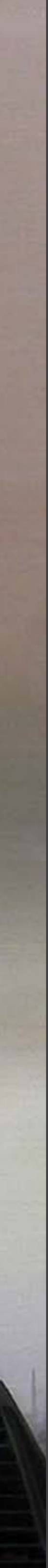
PricewaterhouseCoopers

R Balding
Partner

20 August 2019
Sydney

China is not in crisis, it is reforming





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Article

China is not in crisis, it is reforming
By Julian McCormack
Investment Specialist,
Platinum Asset Management

Artwork by

Sashie Masakatsu
http://sal-s.com

The transition from a centrally planned economy to a more market-oriented economy of the world's most populous country is a huge feat, the scale of which we have never seen, and unlikely to ever see again. It hasn't been a smooth journey to be sure, but no economic transformation is.

Preface

The US-China trade war has been a key focus for markets over the past 18 months or so. Its impact has been far-reaching – well beyond the US and China's borders – extending across Asia and Europe.

The global economy has slowed, business and consumer confidence has slumped and investment plans are in disarray[1]. A number of central banks have responded by easing interest rates or changing their stance to an easing bias[2]. Markets have understandably ebbed and flowed on the uncertainty and implications – weakening as the trade impasse dragged on, and strengthening on glimmers of hope of a trade deal.

The market reaction highlights two things: How interconnected the global economy is today; and how important China has become in the global economy.

In a relatively short period, China has become an economic powerhouse. The numbers speak for themselves. China's economic output (gross domestic product) has increased more than 10-fold since the turn of this century from US$1.2 trillion in 2000 to US$13.6 trillion in 2018[3]. It is now the second-largest economy in the world (or the largest if measured on a purchasing power parity basis) and the largest exporter of goods[4].

In a bid to engineer more sustainable economic growth, there has been a concerted effort by the Chinese government to re-orientate its economy away from investment and export-led growth to consumption-driven growth, which is succeeding. It is now the biggest market for many goods, notably automobiles (with sales of 23 million cars in 2018 versus 17 million in the US[5]) and smartphones (454 million handsets shipped in 2017 versus 201 million for North America US[6]). With consumption only representing around 40% of China's GDP[7] (vs. 60%-70% for the more developed economies) and a population of just over 1.4 billion, this growth trajectory still has some way to go. Only 11% of China's population has reached the 'upper-middle class'[8]. With these households being the primary consumer of non-essential items, as this sector grows, so will their demand for lifestyle products such as clothing, entertainment, eating out, travel and technology.

I have been analysing the China market for 30 years, starting back in 1989 when I joined the Bankers Trust global equities team led by Kerr Neilson and managed the BT Pacific Basin Fund. When I look back at how China has changed, I am astounded.

The transition from a centrally planned economy to a more market-oriented economy of the world's most populous country is a huge feat, the scale of which we have never seen, and unlikely to ever see again. It hasn't been a smooth journey to be sure, but no economic transformation is.

From my own personal experience, one of the standout sectors that has undergone the most significant change is technology. It's fascinating how quickly the population has taken up the internet. China is now the largest internet market in the world with around 830 million subscribers (followed by India with 560 million and the US with 293 million). Its internet penetration rate of 58%, while lower than the OECD average, is growing at a rapid rate, and what's more, 98% of the internet is accessed via mobile devices[9]. China will by all accounts be the largest 5G market in the world.

The internet take-up, particularly by the younger generation, has driven considerable growth and investment opportunities in China's e-commerce sector. China accounted for 42% of the global e-commerce market in 2016 – up from less than 1% in 2005 and vs. 24% in the US[10]. Its online presence has helped to rank Chinese consumers among the most sophisticated in the world. Consumers can order a wide variety of goods and services (such as food, books, clothes, taxis and flowers), follow celebrities, send money, book holidays and even meet their life partners – all via apps and pay instantly with their mobile devices – not a credit card in sight.

Progress can however get lost in the mist of short-termism as markets focus on the day-to-day economic releases and geopolitical issues. Not to mention, the misrepresentation and a lack of understanding of the economic data.

It is with this in mind that Julian McCormack, Investment Specialist at Platinum, has written our feature article *"China is not in crisis, it is reforming"*. Julian provides a succinct overview of the *real* state of the Chinese economy and seeks to dispel many of the myths.

China is on a long journey of economic transformation. It has made tremendous progress – and there have been missteps along the way, with more to come no doubt. Amid all the negative market commentary though, it's important to take a step back, digest the progress, appreciate the success (and failures) and prepare for the future – as China's role in the global economy is only set to increase and we expect that investment opportunities will continue to abound.

Andrew Clifford,
Chief Executive Officer & Chief Investment Officer,
Platinum Asset Management
August 2019

China is not in crisis, it is reforming

By Julian McCormack

China is frequently presented as a source of crisis or instability for the global economy[11]. We see little evidence of crisis in China. The picture that is apparent to us is one of imperfection, not one of peril.

At the heart of Chinese catastrophism is the assertion that loan growth in China has been "unsustainable" and China's "economic model is based on debt rising at an ever-increasing rate"[12].

There has indeed been a rapid increase in lending in the banking system and indebtedness more broadly in China since 2008. Loans outstanding exploded from 2008 to 2018, from 20 trillion Chinese renminbi (US$2.9 trillion) to 140 trillion renminbi (US$20.4 trillion). But you know what else grew a lot? Deposits.

Deposits in the banking system also exploded, leaving a loan to deposit ratio of 77% at the end of 2018 (Australia's banks have a loan to deposit ratio of about 112%[13]). There are off-balance sheet liabilities outside of this, no question, but given the massive deposit base of the Chinese banks, there are about US$6 trillion of deposits in excess of loans. That's about 40% of China's gross domestic product (GDP). There is a lot of slack to absorb bad loans in off-balance sheet activities[14].

The principal reason for the massive deposit base of the Chinese banking system is that Chinese households save a lot. Indeed they are forced to. The erosion of the "iron rice bowl" (a system that guaranteed lifetime employment) and the chains of the *hukou* system, whereby residents are registered to live in a certain area, mean that Chinese households need to save for their retirement (this is changing at the margin[15]). Stringent loan to value requirements mean Chinese home buyers also need to save for large deposits, and migrant workers need to save for the education of their children and their healthcare needs[16]. The result is household savings rates higher than any other country globally: Chinese households save approximately 35% of their disposable income on average[17]. And with an illiberal capital account, these savings largely get trapped in the banking system.

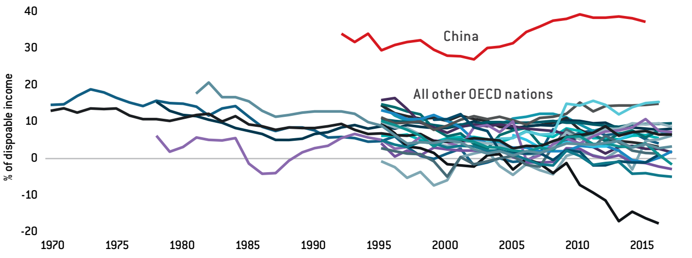
To provide a sense of the unfairness of the current situation under the *hukou* system, allow me to demonstrate by example. I was born in Perth, but grew up in Sydney after my dad moved the family for work. Our family would have had no free access to state education or healthcare if we had made an equivalent move in China, say from Datong to Shanghai. But local Shanghai residents, local *hukou* holders, do have access to state-provided healthcare and educational services[18]. Hence the need for savings on the part of the hundreds of millions of non-*hukou* holders.

China has generated a current account surplus for 25 years. It has relatively little foreign currency debt[19] as a result. Interestingly, 2018 has seen China's current account surplus shrink and it posted a deficit in early 2018, albeit for the full year it still posted a small current account surplus[20]. This is exactly what should be expected from an economy moving from savings and investment to boost domestic consumption as a share of its economy.

China's aggregate debt to GDP is high for a developing country but relatively moderate for a developed country, at approximately 250% of GDP. Given its intermediate status as an emerging middle income country – this does not strike us as alarming.

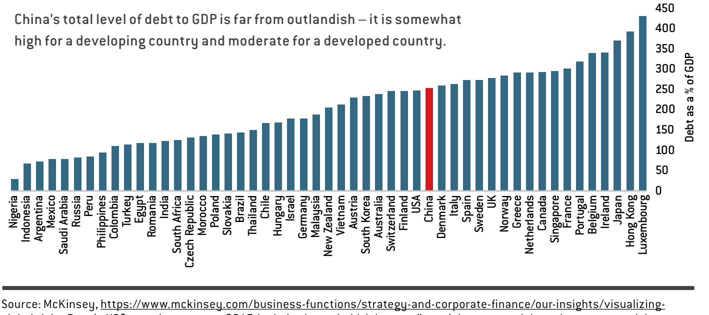
For a good framework for understanding China's debt, please see the work of Yukon Huang – his book *Cracking the China Conundrum*, for instance[21].

HOUSEHOLD SAVINGS RATES BY COUNTRY



Source: OECD, February 2019

CHINESE VS. OTHERS' DEBT TO GDP



Source: McKinsey, https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/visualizing-global-debt. Data in US$ as at June quarter 2017. Includes household debt, non-financial corporate debt and government debt.

More alarming is the rate of change of total debt in China. Clearly – credit creation peaking at over 30% p.a. and exceeding 20% p.a. for years in an economy growing at a real (i.e. inflation adjusted) rate of ~10% is too fast.

This occurred from 2009 to 2011. But note that Chinese credit creation has been below 15% since 2012, and over much of the period since 2012 has been roughly in line with nominal GDP[22]. Or stated another way, total debt to GDP in the Chinese economy has not meaningfully increased in years[23]. This was China's Quantitative Easing and Zero Interest Rate Policy and Negative Interest Rate Policy – but it was conducted via the banking system, rather than via central bank purchases of treasury securities[24]. And it's over.

However, it's easy to be sceptical – surely the explosion of credit continued in other areas outside of the banking system, amid shadow banks and other mysterious channels, and is somehow hidden from official statistics, this being China after all?

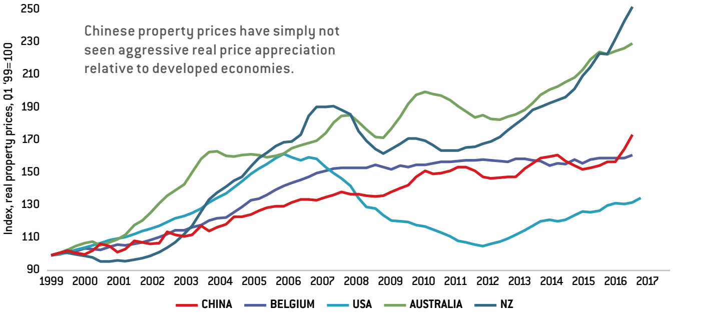
There is no evidence of this. Money supply growth in recent years of approximately 8% p.a. in official statistics has been lower than nominal GDP and this is backed up by M2[25] proxies such as one measured by investment bank China International Capital Corporation (CICC)[26]. And there's little evidence of a general boom in asset prices of the sort that would be expected in an economy replete with Minsky-style Ponzi financing – credit does not simply disappear from an economy, it manifests itself in asset price or general price inflation[27]. Chinese consumer price inflation has averaged approximately 2% in recent years[28]. So let's look at asset prices in China.

We would like to invite you to play a guessing game. Please guess which country saw the highest real property price appreciation out of China, Belgium, the USA, Australia and New Zealand, from 1999 to the last available observation point in early 2017[29]. Note that the period encompasses the birth of the national market in residential property in China in 1999, until the imposition of property tax, resale and lending restrictions directed at property investment activity in 2017.

Try to guess where China sits, versus developed world peers? The answer is right in the middle.

Real property prices in Belgium have performed roughly in line with Chinese property prices over the last 20 years – with Australia and New Zealand property prices well in excess of this level and the USA considerably below.

CHINA'S PROPERTY BOOM – CHINA VS. DEVELOPED MARKETS



Source: The Economist, https://infographics.economist.com/2017/HPI/ ; and also see https://www.economist.com/graphic-detail/2018/08/09/global-cities-house-price-index for Shanghai versus other global cities, sourced February 2019, latest available data.

Further, when comparing Chinese property prices with various countries in the emerging world we find that Chinese property prices have performed far less strongly than in India or Brazil over 10 years (our data set is shorter for emerging markets). Over the last 10 years, real property prices in China have performed in line with Singapore property prices[30].

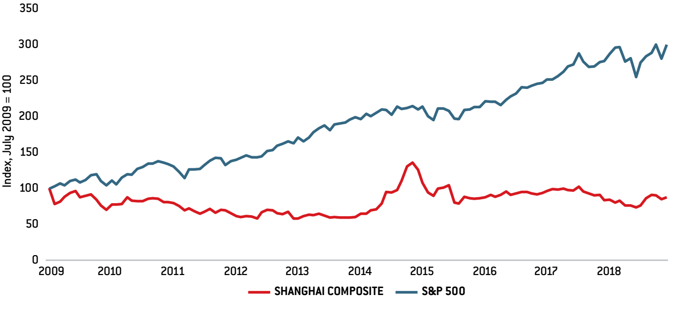
China has had a huge property boom. That seems natural in a place that had no property market 20 years ago. On our analysis, around 100 million dwellings have been built in China since 1999. Please search for yourself to see what pre-1999 housing in China looked like. It wasn't good, with shared kitchen and bathroom facilities among multiple families commonplace.

So, there has been a construction boom, driven by newly available modern housing, plus growing incomes. But we just don't have anything like the excesses or fragility implied by most breathless reporting of Chinese property prices.

More broadly, China does not seem to be in the grip of an asset price bubble. Actually, quite the reverse – equity prices have gone nowhere for over 10 years. This is an immature market, dominated by retail investors, with low levels of institutional ownership and little international participation. There are wild swings, with stasis for long periods, followed by wild booms, then crashes, albeit to higher lows[31].

China has gone from hosting among the most expensive equity markets in the world, to among the cheapest[32]. The S&P 500 Index has outperformed the Shanghai Composite Index by 200% over the last 10 years[33].

CHINA'S EQUITY MARKETS HAVE GONE NOWHERE FOR 10 YEARS

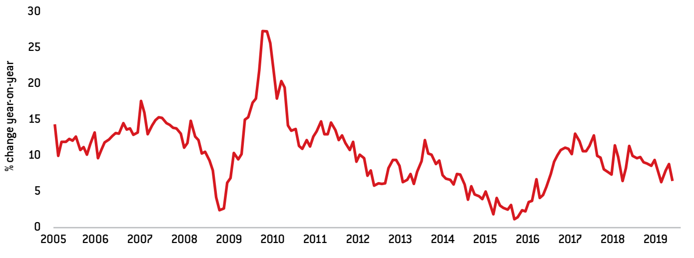


Source: Bloomberg. Monthly data to June 2019.

This has none of the hallmarks of a bubble. This looks much more like a bubble that has burst. So are we sliding into depression, marked by debt deflation in the mould of the USA in the 1930s...?

It does not look like it, based on the Li Keqiang Index – a composite of growth in lending, power generation and rail freight movements expressed as an index. It is named after Li Keqiang, China's current Premier, who cited these measures as far better indicators of China's economy than 'man-made' GDP numbers[34].

THE LI KEQIANG INDEX: NOT SPECTACULAR, BUT SOLID



Source: Bloomberg. Data to May 2019. The LKI is the average of power demand growth, rail freight movement growth and credit growth. See also https://www.economist.com/asia/2010/12/09/keqiang-ker-ching

Based on this measure, we are at slightly below the average levels of growth witnessed over the last 15 years and well above the recent trough in 2015[35]. This does not look like a collapse. Indeed it looks more like a slow recovery from a protracted industrial recession in the wake of a crash.

So – China has an excess savings and debt problem, with debt having increased dramatically, likely leading to misallocation of capital, but leaving debt no higher than most industrialised economies and with massively higher savings rates and somewhat faster growth rates. There is little evidence of an asset price bubble in comparison with other developed and developing nations and finally, industrial activity, while moderating, does not appear anything more than in a mild downturn.

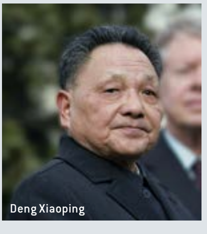
However, not all is "steady as she goes" in China. Xi Jinping's vision for China is a significant break from previous administrations. To provide a sense of how significant, it's worth setting out some scaffolding for understanding the Chinese economy.

The place to start for this is 1978 and the accession to power of Deng Xiaoping, following the inauspicious years in power of Hua Guofeng who succeeded Mao Zedong upon his death in 1976[36].

The earthy, profane, pragmatic Deng is one of the most important human beings to have lived in the 20th century. He established the fundamental underpinnings of China's hybrid market-socialist economy, achieving the following:

- The establishment of special economic zones which became the foundation of China's export-led development model
- The de-collectivisation of farm land
- The allowance of private ownership of farm land
- The establishment of a de-centralised model of economic development with provincial level governments competing for capital and party officials competing for advancement on the basis of largely economic measures
- Support for private enterprise in his iconic Southern Tour[37].

It is no exaggeration to say that thanks to Deng, modern China emerged. He was also responsible for repression and death, notably in the crushing of the Tiananmen demonstrations of 1989. We are not dealing with a saint.


Deng Xiaoping

Deng's aphorisms reveal much of the man and his thinking about the world:

"On economic matters, relaxed controls; for political matters, tight controls."[38]

"It doesn't matter if the cat is black or yellow, as long as it can catch mice, it is a good cat."[39]

"Cross the river by feeling for stones."[40]

The design of China's economy in the Deng Xiaoping model is far from monolithic. The 34 provincial level governments and lower levels of administration, which control 70-80% of government spending in China, each compete with each other, with Party officials promoted in a vaguely meritocratic fashion, or perhaps seeking at least not to disqualify themselves from advancement[41]. Infrastructure, like motherhood or democracy, sounds like an unadulterated positive.

Dinny McMahon, who wrote an excellent survey of the Chinese economy and the challenges it faces, frames this differently. Instead of infrastructure, think of 'public works' – this may convey some of the waste and self-aggrandisement that occurs on the public purse. A Chinese aphorism captures the spirit of this system: "Heaven is high and the Emperor far away"[42]. While Beijing rules, the provinces implement policy with quite some latitude.

That said, successful ideas or methods generated at lower levels of government, particularly those conforming to Beijing's wishes, *are* implemented elsewhere. Advancement for Party officials relies on success across multiple jurisdictions. In short – this is a competitive, decentralised system, albeit administered from a strong centre[43].

China's hybrid system of market signals, plus state ownership of assets, plus the transference of usage rights of state-owned assets, incentivises productivity *and* corruption. As long as production outcomes are being met, with applicable safety, environmental and other guidelines met, the state tolerates the capture of rents by agents in the system. In return, China has enjoyed a massive boom in productive capacity for a generation[44].

However, at higher levels of capital stock to GDP, this system is inappropriate. China needs better – not just more activity. And herein lies the need for reform.

And then along comes Xi Jinping. Apparently Xi was selected as a 'safe pair of hands', a centrist candidate spanning the middle ground between liberal reformers and Maoist, old guard hold outs[45]. So much for that.

The first moves of the administration – the corruption crackdown (including a suspended death sentence of the wife of former Chinese politician Bo Xilai[46]) and an emphasis on "beautiful China" and the "Chinese dream" were pure populism[47]. This is a populist leader, happy to tread on the toes of elites, who purged the Party early and established a centralisation of power not seen since Mao – in formal terms (it's arguable that Deng had much more power than Xi, and did not need the titles to prove it[48]).

So, perhaps Xi is just a megalomaniac bent upon the acquisition of power without scruples. Or maybe something else is going on.

While the overwhelming impression when talking to China strategists is one of disappointment in the Xi administration's reform efforts, there has been a great deal of reform undertaken. A couple of these reforms in particular ought to be stressed. The first is the huge success of industry consolidation and capacity closure in Chinese heavy industry. China has done this sort of thing before – for instance before accession to the World Trade Organisation (WTO) in 2001[49]. But nonetheless, the implementation of swingeing cuts to capacity in industrial stalwart industries such as steel (150 million tonnes per annum capacity cut) and coal (800 million tonnes per annum capacity closed)[50], while eliminating credit provision to unviable firms has been impressive.

Consider the price recovery of aluminium, copper, steel and coal since 2015, to name but a few examples of commodity prices that foretold of deflation from 2011 to 2015, but have since recovered markedly. The world dodged a bullet in the form of deflationary capacity growth funded by Chinese policy banks.

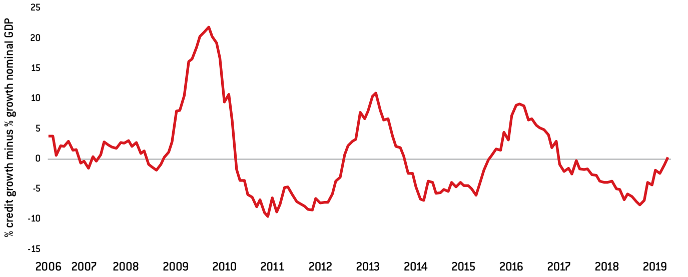
It ought to be noted that rather than opening the spigots of the banking system to lend to heavy industry, as has occurred in the past – notably in the response to the global financial crisis (GFC) when the banking system was the core of a 4 trillion yuan stimulus[51] – the government is targeting monetary stimulus and fiscal stimulus via liquidity injections and effective tax cuts.

Fiscal/monetary reform (tightening)[52]	Offsetting stimulus
Corruption crackdown	Reserve ratio requirements lowered
Environmental standards enforcement	Interbank liquidity injections
Capacity closure and industry consolidation	Introduction of Targeted Medium-term Lending Facilities (TMLF)
Deleveraging in materials sector	Increase in the tax-free threshold
Curtailing lending to local governments	Allowance of tax deductions for healthcare, education and elderly care expenses
Restriction of capital account (preventing of money leaving China)	Tax cuts for small-to-medium enterprises
Enforced use of bond markets by local governments	Incentives for construction of rental properties on collectively-owned land
Crackdown on informal lending channels: Trust structures, peer-to-peer lending	Limited infrastructure projects (notable acceleration in December 2018)
Tax and loan to value restrictions in property markets	

This is a far more market-based series of stimulus measures than has been seen previously in China. There has latterly been an increase in the approval of infrastructure projects, with US$160 billion in December 2018, but this is small compared to the 4 trillion yuan (approximately US$635 billion) of the post-GFC stimulus.

To June 2019, electricity grid investment was down 20% for the year-to-date versus a year ago, and total fixed asset investment is growing at approximately 4% p.a. in 2019 (slower than nominal GDP), versus rates of over 20% p.a. in earlier years[53]. Credit growth in China has been slower than nominal GDP growth since March 2017 until June 2019 – in other words the 'credit impulse' in the economy has only just turned positive[54].

CHINA'S CREDIT IMPULSE JUST KICKING IN



Source: Bloomberg. Monthly data to June 2019.
Year-on-year difference of the 12-month rolling sum of China credit increment over the four-quarter rolling sum of nominal GDP.

While lending growth and money supply growth have been muted in recent years in China, one area of the economy has seen a huge leap in credit availability – Chinese households.

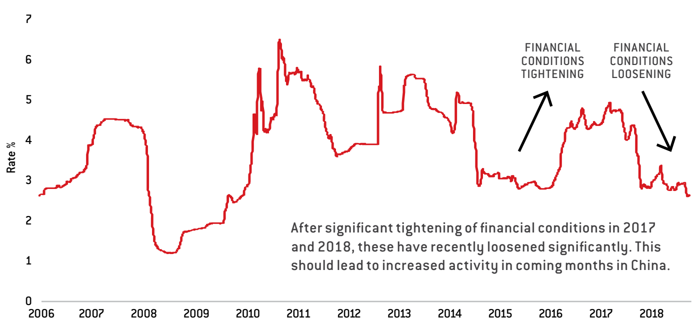
As credit availability was curtailed to heavy industry and local governments, credit to households exploded.

China's household debt-to-GDP ratio increased from 18% in 2008 to 49% at the end of 2017[55]. And note – this has been an area of focus for Chinese regulators in the last two years or so, with peer-to-peer lending, trust structures and other non-formal lending channels coming under particular scrutiny[56].

External events conspired to see that China's reforms and credit restraints resulted in China being excessively tight in terms of both monetary and fiscal policy in 2018.

Chinese authorities maintained relatively tight policy through the first half of 2018: for instance significant efforts to lower the Shanghai Interbank Offered Rate, or Shibor, via liquidity injections were not apparent until June 2018[57].

SHIBOR - LOOSENING APPARENT



Source: Bloomberg. Data to 22 July 2019.

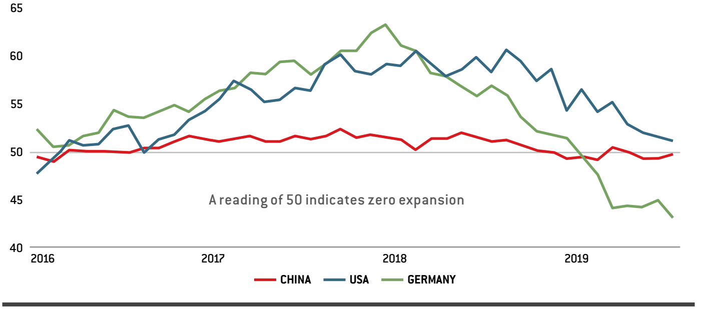
As such, it would appear that the Chinese did not take the threat of a global slowdown in trade seriously – and to be fair they were not alone.

> The trade war between the world's two largest economies affects everyone in a world where trade equates to 70% of GDP[58] and supply lines are incredibly complex.

Many firms have thousands, or tens of thousands, of suppliers. When you try to bludgeon the great entrepôt economy of the world – you affect everyone.

Clearly the threat of tariffs has affected China – its Purchasing Managers' Index (PMI), which is a good indicator of the economic health of the manufacturing sector, sagged from slightly positive to negative. But German PMIs have suffered far more, falling from the low 60s to the low 40s, while manufacturing confidence has softened markedly in the US also, albeit its PMI remains in mild expansion territory[59]. The weakness has helped drag global manufacturing PMIs into contraction (below 50)[60]. Trade wars affect everyone.

TRADE WARS HURT EVERYONE: US, CHINA & GERMANY MANUFACTURING PMIs



Source: FactSet. Data to July 2019.

To understand why, imagine you have to run supply lines for a firm in Hamburg, Seattle or Guangzhou and you don't know what rate of tariff will apply to what product in two months' time. If you believe tariffs will rise, you should order ahead of them and build inventories. If you think they'll fall, you should run inventories down. This is a staggering level of uncertainty weighing on supply lines globally.

Now imagine being the Chief Financial Officer of the same firm – should you abandon current, highly efficient supply lines in China and invest in capacity in Vietnam, Cambodia or Bangladesh? You don't know if tariffs are permanent or a bargaining chip which will disappear soon, making long-term investment decisions difficult as well.

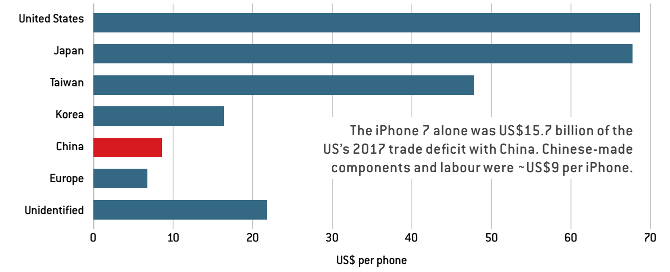
And we really must understand what is meant by taxing Chinese exports. We stated earlier this was an entrepôt economy, by which we meant that China imports goods, assembles or modifies them, and then ships them back out.

As a result, net exports are a mere 6% of Chinese GDP[61] – while total trade exposure (imports plus exports) is 38% of GDP[62]. This means that taxing Chinese exports is effectively taxing global supply lines.

Take for example the iPhone. We have good data for the iPhone 7. This costs about US$240 to make in China and was exported at cost to the US or wherever it ended up, to be sold for US$700 or so. Of the US$240 that would be subject to a tariff – only US$9 per phone is value that originates in China[63]. US$9... out of US$240.

TARIFFS: TAXING COMPLEX SUPPLY LINES

SHARE OF IPHONE 7 FACTORY COST



Source: Dedrick Kraemer Linden, "We estimate China only makes $8.46 from an iPhone – and that's why Trump's trade war is futile", https://theconversation.com/we-estimate-china-only-makes-8-46-from-an-iphone-and-thats-why-trumps-trade-war-is-futile-99258; Allison Shrager, "The iPhone alone accounts for $15.7 billion of the US trade deficit with China", https://qz.com/1234437/the-iphone-alone-accounts-for-16-billion-of-the-us-trade-deficit-with-china/

This is a very high margin product with a very complicated supply chain, so it's not representative of all of the trade imbalance between the US and China. But it demonstrates a point by example. When you tax the exports of the world's great entrepôt economy, you are taxing global supply lines.

But, the tariffs have 'supposedly' worked.


塩

Many seem to think this. Perhaps a better interpretation is that tariffs have impeded global growth, impinged on US corporates' profits and/or forced US consumers to pay more for products in order to harm an economy that has not grown exports to GDP for years. This seems like madness.

But, in true 'Trumpian' fashion, there's an element of luck and a grain of truth here. The tariffs and overall trade impact have impacted China at an awkward moment.

As mentioned previously – Chinese authorities maintained relatively tight monetary and unsupportive fiscal policies throughout most of 2018, then had to play catch-up when it became clear that the tariffs were actually going to happen.

We ought to be careful to avoid the image of Chinese monetary authorities lurching from tight to loose to tight policy like so many drunken sailors. Rather, we'd like to leave you with an alternative image... one of an enormous ship, cumbersome and moving with great momentum. Nearly a decade ago, this ship was on a dramatically different course, in response to collapsing global demand. For the last five years and more, this ship has been cutting a far more sustainable course, of gradual monetary and fiscal tightening. But at times the ship will over-correct, and when it does it must be steered back on course. China ended up over-tightening in 2018 and its tiller has shifted back to loosening now.

The reason all of this matters is that cyclical, industrial assets are remarkably cheap – globally, not just in China. Many cyclical companies on various measures are roughly as cheap as they have ever been. So it matters if the world's largest economy measured in purchasing power parity is not in crisis and is now stimulating.

It may matter a great deal.

1 OECD Data.

2 Source: Bloomberg https://www.bloomberg.com/news/articles/2019-07-17/the-only-way-is-down-for-central-bankers-already-at-peak-rates

3 Source: The World Bank.

4 Source: CIA World Factbook.

5 Source: VDA and https://www.best-selling-cars.com/international/2018-full-year-international-worldwide-car-sales/

6 Source: https://www.gfk.com/nl/insights/press-release/smartphone-unit-sales-rose-6-in-north-america-in-4q17-highest-growth-in-two-years/

7 Source: CEIC Data, as at December 2018 https://www.ceicdata.com/en/indicator/china/private-consumption--of-nominal-gdp

8 Source: CSIS China Power Project, Pew Research Centre as at 2013. Upper-middle class is defined as those who spend between US$20-US$50 per day https://chinapower.csis.org/china-middle-class/

9 Source: Statista, March 2019 https://www.statista.com/statistics/262966/number-of-internet-users-in-selected-countries/

10 Source: McKinsey Global Institute https://www.mckinsey.com/featured-insights/china/digital-china-powering-the-economy-to-global-competitiveness

11 For an example please see https://www.bloomberg.com/news/articles/2019-01-17/forget-the-trade-war-china-is-already-in-crisis. A Google search will yield dozens of such pieces.

12 See for example http://www.quorumcentre.com/reports/chinas-economic-model-is-unsustainable-and-heading-for-disaster-and-could-lead-to-global-economic-instability/

13 https://www.apra.gov.au/publications/monthly-banking-statistics. Chinese data sourced under licence from CEIC.

14 See https://www.moodys.com/research/Moodys-China-banking-system-outlook-stable-but-high-economy-wide--PR_389416 for an outlook on the Chinese banking system.

15 https://www.economist.com/leaders/2012/08/11/social-security-with-chinese-characteristics; https://www.economist.com/china/2014/04/05/paying-for-the-grey

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30 Ibid.

31 Market data from FactSet.

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38 McGregor, op cit, p95.

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40 McGregor, op cit, p471. It was actually fellow Party official Chen who coined this lovely image – Deng however embraced and popularised it.

41 Huang, op cit; Yongsheng Zhang, "*How will China's central–local governmental relationships evolve? An analytical framework and its implications*" http://press-files.anu.edu.au/downloads/press/p95681/pdf/ch048.pdf

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