

## **Chairman's Address to the AGM on 29 October 2015**

Listing Rule 3.13.3

### **Introduction**

I will concentrate on a number of key issues that currently impact the Company, namely the Company's recent Investment Performance and Financial Results, Dividends, Changes to the Board and Secretariat, the Capital Management Programme, and the Outlook for 2015-2016.

### **Investment Performance and Financial Results**

I am pleased to report that Platinum Capital Limited has had another good year. The Company remains an excellent long-term investment, supported by the payment of fully-franked dividends over time.

In the year ending 30 June 2015, our net asset value (NAV) increased by 17.6% pre-tax after fees and expenses, and assuming the reinvestment of dividends, versus the 23.7% gain of the MSCI World Index benchmark in Australian Dollar terms. The 12 months return from the Australian All Ordinaries Accumulation Index was 5.7%. After allowing for all tax liabilities, both realised and unrealised, the Company's NAV increased by 13.1%.

For the six months to 30 June 2015, the pre-tax return of the Company was 9.9%, after fees and expenses, and assuming the reinvestment of dividends, as compared to the benchmark MSCI World Index return of 9.3%.

These pleasing results are a direct result of the Investment Manager's investment style of identifying companies that have sound businesses and promising growth prospects but are temporarily out of favour with the markets. The Investment Manager has been progressively tilting the portfolio towards Asia and this disposition is quite different to that of most global investment managers in the Australian market. Whilst in the short-term, this has not been rewarding, we remain confident in the longer term prospects for Asia, and we are well positioned to take advantage of future growth.

Total shareholder returns, measured in terms of Company share price plus dividends paid, was 6.0% for the 12 months, following the exceptional 27.2% for the 12 months to 30 June 2014.

Since inception, the compound annual appreciation of the Company's net assets on a pre-tax basis has been 13.1% per annum compared to the return from the MSCI World Index of 6.6%. The comparable return from the Australian All Ordinaries Accumulation Index has been 9.5% annually over the same 21 years.

Your Board believes that the proven track record over the short-term, medium-term and long-term demonstrates that opportunities and rewards are there for patient investors.

For the year ended 30 June 2015, the Company made a statutory pre-tax operating profit of \$63.5 million and a post-tax operating profit of \$44.8 million. This represents a 35.7% increase in pre-tax operating profit and 36.3% in post-tax profit from the prior year.

However, under Australian Accounting Standards, realised profits and losses are added to, or reduced by, changes in the market value of the Company's total assets. This can lead to large variations in recorded statutory profits from any one year to the next.

Therefore, despite the profits made this year, your Directors continue to maintain that a more appropriate measure of the Company's results is the percentage change in pre-tax NAV plus dividends paid. On this measure, the pre-tax NAV was \$1.70 per share at 30 June 2015 as compared to \$1.64 per share at 30 June 2014. After adjusting for fees and expenses and assuming reinvestment of dividends, the Company's pre-tax NAV increased by 17.6%.

At 30 September 2015, the pre-tax NAV has decreased to \$1.60 and this is after the payment of the 6 cents per share fully franked dividend that was paid out in September 2015.

### Dividends

I am pleased to report that the Company is now building up its pool of available franking credits as a result of the strong level of realised profits derived during the year and the associated tax payments.

The Company continues its policy of dividend smoothing and does its best to ensure that there are sufficient franking credits available to pay fully-franked dividends in the future. The ability to generate fully-franked dividends will continue to be dependent on the Company's ability to generate realised profits and pay tax.

The Board has recently adopted a new accounting policy, which allows for the creation of a dividend profit reserve. This will mean that to the extent that any current year or prior period profits are not distributed as a dividend, the Board will set aside all or part of those undistributed profits to a separate profit reserve for the payment of future franked dividends, rather than including those profits within retained earnings.

The benefit of adopting this policy will ensure that any undistributed profits will not be netted against future losses and will remain available for future franked dividend payments. This will enable the Company to set aside some or all of the gains made in years where returns are strong, and will allow any realised gains to be distributed as franked dividends in future years when returns are small or negative.

### Establishment of new Asian LIC

We note that the Investment Manager has successfully completed an Initial Public Offering (IPO) for a new Asian Listed Investment Company (LIC), Platinum Asia Investments Limited (PAI). The IPO raised \$292.9 million which was nearly double the minimum capital sought. PAI shares commenced trading on the ASX on 21 September 2015. As the inaugural Chairman of PAI, I am pleased to see the Investment Manager offering a product that offers regional exposure that supplements the global exposure offered by PMC. Many shareholders of PMC shared this view and took advantage of the priority offer to invest in PAI.

### Changes to the Board and Secretariat

There have been a number of changes to the governance of PMC that I would like to summarise. On 5 June 2015, Bruce Phillips resigned as Chairman of the Company and Non-Executive Director after a period of six years. Mr Phillips is committed to some new and significant business projects in another industry and unfortunately could no longer commit to the position of Company Chairman. We thank Bruce for his valuable contribution to the Company over the past 6 years.

On the same day that Mr Phillips resigned, I was appointed to the position of Company Chairman after serving as Non-Executive Director for the past 11 years. This provides the Board with good continuity for the governance of the Company.

In addition, Philip Howard resigned as Finance Director on 25 May 2015 after a period of four years. Mr Howard's role as Company Secretary has been filled by Ms Janna Vynokur who joined Platinum Asset Management from Allens Linklaters on 25 May 2015.

Jim Clegg, who has significant Financial Services experience, was appointed to the Board as Non-Executive Director on 5 June 2015.

On 21 August 2015, the Company announced further changes to the Board, which are designed to ensure that the structure of the PMC Board is:

- in keeping with present corporate governance principles to have a majority of independent Directors; and
- consistent with the Board structure of the new Platinum LIC, Platinum Asia Investments Limited.

The change to the PMC Board involved Kerr Neilson and Andrew Clifford relinquishing their position as Board members. They continue in their positions as current Chief Executive Officer (CEO) and Chief Investment Officer (CIO) respectively of Platinum Investment Management Limited (PIML) and Executive Directors of Platinum Asset Management Limited (PTM).

The PMC Board structure which has been effective from 21 August 2015, consists solely of Non-Executive Directors, being myself as Chairman, Dick Morath and Jim Clegg. We will continue to manage the Company's affairs in accordance with company law and ASX requirements.

It is important for shareholders to understand that there is no change in the investment mandate responsibility of PIML. In fact, this change will have the effect of increasing the time available for Kerr Neilson and Andrew Clifford to focus on the investment portfolio. They will continue to regularly report to the PMC Board, provide quarterly investment reporting to PMC shareholders and also annual investment updates for shareholders at PMC Annual General Meetings.

### Capital Management

With respect to capital management, the Board has a non-binding Capital Management Policy in place which was introduced at the 2009 AGM. Under this policy, if the Company's share price trades at a significant premium or discount to pre-tax NAV for an extended period of time, the Board will consider implementing a rights offer or share buy-back.

The Board closely monitors the performance of our shares and have been actively considering Capital Management as the shares have traded at a significant premium to our pre-tax NTA in recent weeks. As at yesterday, the premium has been over 10% for the past ten weeks - a reasonable length of time – and in fact, has exceeded 15% on a number of those days. Incidentally, our recent change to reporting NTA figures on a weekly basis will help shareholder visibility on this issue.

One of the most important considerations in determining whether to activate the Capital Management Policy is whether the Investment Manager is comfortable that attractive investment opportunities are available. Obviously, given the necessary lead times, this is not always an exact science.

We are currently considering a range of possibilities, which would include a placement, rights offer, the issue of bonus options and re-activation of the share purchase plan. Should the premium hold and should the investment Manager be comfortable with the timing, then the Board may look to consider further capital management initiatives in the short to medium-term.

### Other Corporate Governance matters

As shareholders are aware, Platinum Capital Limited is managed by Platinum Investment Management Limited (PIML) pursuant to two key agreements previously approved by shareholders: the Investment Management Agreement and the Administration Services Agreement. The Investment Management Agreement will be amended if the proposed new management fee structure is approved.

In the past year, the Non-Executive Directors are again pleased to report they have continued to monitor the performance of the Investment Manager and its adherence to the agreements with the full and transparent co-operation of PIML's management team. We are accordingly confident in the integrity and reporting of the Company's financial results to shareholders.

### Outlook for the rest of 2015 and 2016

For the first three months of the year, the pre-tax return declined by 2.26%, based on a pre-tax NAV at 30 September 2015 of \$1.60. At 23 October 2015, the pre-tax NAV increased to \$1.63. This has been caused by favourable market movements during October.

The Investment Manager has recently noted:

“As the September quarter came to a close, one could observe the concerns emanating from the realisation that China was no longer the reliable growth locomotive it once was. However, share prices have adjusted fiercely in the case of cyclicals and the emerging markets. There have been massive outflows from emerging markets since July, around US\$45 billion, of which about 40% came out of Hong Kong and China. We cannot know whether they have reached a bottom, but we do know that the markets are no longer presuming the best of outcomes and the

fierceness of the sell-off of highly cyclical stocks and commodities world-wide looks very much like capitulation of a bear trend.

We are pleased with the buying opportunities the sell-off has given us and feel confident that the portfolio is well balanced for the months ahead”.

Finally

The long term performance record of the Company speaks volumes about the skill and expertise of the Investment Manager and I wish to express my appreciation of the outstanding contribution made by Kerr Neilson, Andrew Clifford and their team over the last year.

Bruce Coleman  
Chairman  
29 October 2015