

## **Chairman's Address to the AGM on 5 November 2015**

Listing Rule 3.13.3

### **Introduction**

I will now move on to my address. In this, I will discuss the Company's performance, remuneration matters, the launch of new products, dividends, corporate governance issues and the outlook for 2015-2016.

### **Performance**

The amount of money that we manage, so-called funds under management (FUM), is the key variable for the Platinum business model and an important determinant of our profit performance for the annual period.

The Company had a successful year underpinned by strong growth in FUM, which was assisted by solid absolute investment performance of our individual funds and investment mandates. The average level of FUM increased by 17.3% over the annual period to 30 June 2015.

As a result of strong FUM growth, management fees increased by 18.5% or \$50.3 million to \$322.1 million. The increase in management fees, together with the gains made on our US cash holdings (up \$16.6 million), combined to more than offset the decrease in performance fees from \$27.4 million in the previous period to \$2.3 million for the 12 months to 30 June 2015.

Performance fees fluctuate materially from one annual period to the next. What is pleasing to report is that the Company was able to offset the decline in performance fees via an increase in FUM and management fees.

Costs have remained relatively constant with close monitoring and tight control. Staff costs decreased in the current year despite the increase in FUM and profit and this relates to the profit share scheme not operating, as it did not meet the investment outperformance hurdle. I will provide more detail on this when I discuss remuneration matters.

The revenue and expense outcomes combined to generate a lift in net profit before tax to \$301.6 million, an increase of \$40.5 million or 15.5%.

The net profit after tax was impacted by the fact that the Platinum Group had less performance fees to apply the Offshore Banking Unit (OBU) tax concessional rate of 10%. This caused income tax expense to increase and as a result net profit after tax was \$213.5 million (2014: \$189.9 million), an increase of \$23.6 million or 12.4%. This translated to diluted earnings per share of 36.7 cents per share, compared to 32.4 cents per share in FY2014, a lift of 13.3%.

The Company has a strong balance sheet with few liabilities.

### **Funds Under Management (FUM) Growth**

The closing level of FUM increased by \$3.9 billion or 17.1% to \$26.9 billion at 30 June 2015. The increase in FUM was driven by strong investment performance, which contributed \$5.3 billion. Fund distributions net of re-investments in our underlying Funds were \$1.4 billion, a record level. Net investment flows totalled \$0.08 billion.

### **Remuneration Matters**

Staff costs actually declined in the year ended 30 June 2015 (by \$3.2 million or 10.3%) despite solid FUM, profit, share price and dividend growth.

The level of bonuses paid to the investment team generally and the selected staff participation in the profit share scheme is dependent on achieving strong relative returns or outperformance of benchmark returns over a one and three year period. This close alignment between investment team remuneration and their ability to make money for our underlying investors is fundamental to what these talented men and women are employed to do.

Importantly, for a funds management business, one of the key drivers of FUM growth is investment performance. It is therefore appropriate that investment team remuneration is closely aligned to investment performance.

The alignment of remuneration to investment performance is a far better and more accurate measure of the firm's performance when compared to much simpler metrics such as the commonly used Total Shareholder Return (TSR). 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 issues in using TSR as a variable in employee remuneration. Shorter term variables, such as the macroeconomic environment or interest rates, are factors outside of the control of employees, but can 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, in our view, may encourage 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.

If PTM had used TSR as the basis of investment team remuneration in 2015, then bonuses may have increased significantly. This outcome would have occurred notwithstanding our relative investment returns, which, whilst acceptable, still lagged their respective benchmarks by the required outperformance margin.

It is our core belief that if Platinum successfully looks after its investors, then the resulting increase in performance and FUM will eventually reward shareholders through appreciation in the share price and increasing dividends.

### **Launching of New Products**

The Platinum Group has had an extremely busy year launching or preparing to launch a range of products that will assist investors both in Australia and overseas to diversify their investment portfolio into global shares, via a world class fund manager.

### ***The launch of a new mFund Product***

In September last year, PTM launched an mFund product, called Platinum Global Fund, on the ASX. This Fund has a long only investment strategy. It provides investors with the ability to invest directly via their broker or to invest directly in the product by coming through Platinum. The Fund's return grew some 20.2% between inception date and 30 June 2015.

### ***The launch of a new Listed Investment Company (LIC)***

In September, the Platinum Group completed an Initial Public Offering (IPO) associated with the launch of a new ASX listed investment company, Platinum Asia Investments Limited (PAI) and successfully raised \$292.9 million which was nearly double the minimum capital sought.

PAI takes advantage of long-term capital growth investment opportunities in a region that is undergoing deep transformation and offers compelling reasons to invest. PAI will be invested in a very similar fashion to the unlisted Platinum Asia Fund which has an outstanding investment track record of consistent outperformance against the index since inception in 2003.

The Platinum Group intends to be a long-term co-investor in the new LIC and, through its wholly-owned subsidiary, Platinum Investment Management Limited, has invested \$50 million of the total amount raised under the Offer of \$292.9 million.

PAI has traded very well since listing in a period of share market volatility and the share portfolio is currently around 74% invested.

We thank the many shareholders of PTM who took the same view as the Platinum Group and took advantage of the priority offer to invest in PAI.

### ***The Launch of a new Offshore Fund***

In my 2014 Chairman's Report, I mentioned that Platinum had been involved in extensive discussions with the Australian Government in relation to legislation that was aimed at removing the tax uncertainty that prevented Australian fund managers, like Platinum, from being able to market their product globally.

We are pleased to report that these extensive discussions and lobbying efforts have resulted in the passing of legislation that is workable from an industry perspective. As a result, we have recently gained approval to launch a new UCITS (Undertaking for Collective Investment in Transferable Securities) Fund, in Ireland, that will allow PTM to develop and grow its brand name offshore.

We expect the Fund to be seeded and launched in the next couple of weeks, following completion of some administrative procedures. PTM will be investing US\$25 million across 3 Funds to get the UCITS up and running.

These are really exciting opportunities for Platinum as the business moves to diversify the distribution of its investment products both here in Australia and internationally.

### **Dividends**

The Directors declared a fully-franked ordinary dividend of 20 cents per share which was paid on 22 September 2015.

A fully-franked ordinary dividend of 17 cents per share was paid on 18 March 2015.

This is in addition to the special dividend of 10 cents per share that was also paid on 18 March 2015. The special dividend was paid to return excess cash to shareholders, and in part represented proceeds received from the exercise of options offered in 2009. The proceeds received were \$28.5 million in the 2015 year and \$39.5 million overall.

The total dividend for the year is 47 cents per share (or 37 cents per share excluding the special dividend) and this represents an increase from the previous 12 months, in which total dividends paid out were 34 cents per share.

The Directors are confident that future dividends will be fully-franked.

Whilst the Company has a Dividend Reinvestment Plan in place, it has not been activated and is unlikely to be activated in the near term.

### **The Board and its Associated Committees**

During the year the Company was delighted to announce that Mr Stephen Menzies joined the PTM Board after a distinguished corporate law career. Stephen has proved to be an invaluable addition to the Board given his nearly three decades of legal background and experience, associated with new product offerings across the funds management industry. As Stephen was appointed as an independent director to fill a casual vacancy he will offer himself for re-election to the Board at this AGM.

In August 2015, Mr Andrew Stannard joined the PTM Board as the Group's Finance Director and Chief Financial Officer. Andrew has 25 years of funds management industry experience and most recently was AllianceBernstein's Chief Financial Officer for the Asia-Pacific region. The appointment followed Philip Howard's resignation from the Board on 25 May 2015. We thank Philip for his contribution to the Platinum team since 2001. Andrew will also offer himself for re-election to the Board at this AGM.

Both the Nomination & Remuneration Committee and Audit, Risk & Compliance Committee had productive years. The Nomination & Remuneration Committee has had to oversee changes to the way that Non-Executive Directors are remunerated and also changes to the composition of the Board.

The Audit, Risk & Compliance Committee have had to oversee many regulatory changes and the increased level of resources attributable to compliance is strongly linked to the growth of the business.

### **Commitment to Climate Action**

The Company continues to monitor its carbon usage. Carbon credits have been purchased by the Manager to offset any material carbon emissions made by the Company, for electricity usage and travel for the purposes of stock research conducted by the investment analysts.

### **Outlook 2015-2016**

The profit before tax for the quarter ended 30 September 2015 was \$92.2 million, up 23% on the previous comparable period of \$75.1 million. This increase was driven by FUM increasing by \$3.4 billion, or 14%, on the previous corresponding period, plus some non-operating investment gains related to our foreign currency bank accounts and recent corner-stone investment in PAIL.

The September quarter 2015 profit numbers do not include any estimate of performance fees. Accordingly, the annual profit result should not be projected on the basis of the first quarter's performance.

FUM at 30 September 2015 was \$26.7 billion, compared to \$26.9 billion at 30 June 2015. This represents a small decrease of \$177 million or 0.6% since 30 June 2015. It is pleasing that capital flows were able to partly offset the decline in investment performance, caused by the recent volatility in global markets.

Whilst the performance fee for the current half-year cannot be finalised until calendar year-end, at the end of the September quarter the estimated performance fee is small or immaterial and for the purposes of any forecasting, we recommend that no performance fees are factored in at this stage.

### **Conclusion**

In the 2015 financial year, investment performance contributed a \$5.3 billion lift to FUM growth which exceeded the net growth in total FUM of \$3.9 billion after adjusting for net new fund flows and net distributions.

There were reasonable flows from private investors though this was partly offset by some institutional accounts redeeming investments because of a desire to change their asset mix.

The present domestic and global economic policy settings tilt the risk/return profile in favour of global equities as an investment class. We continue to build our distribution strategy with an enhanced commitment to our retail and institutional clients.

It is anticipated that a well-diversified portfolio of company investment opportunities, that perform well over time, together with the downward pressure on the Australian dollar will further assist in positive net fund flows into Platinum's investment products in the year ahead.

Any further weakness in the \$A will generally enhance the \$A value of the Platinum FUM as the level of \$A hedging in the funds has traditionally been low. The resulting expansion at the FUM level will lift investment management fee generation and profitability.

The interests of our shareholders continue to be best served by the Managing Director, Kerr Neilson, and the Chief Investment Officer, Andrew Clifford, maintaining a sharp focus on delivering the best performance outcomes for our investors. In this endeavour, they are well supported by all Platinum staff.

Finally, I would like to thank my fellow Non-Executive Directors, Stephen Menzies, Margaret Towers and Bruce Coleman, for their assistance over the period.

Michael Cole  
5 November 2015