



# Annual Report 2017

Platinum Asset Management Limited

ABN 13 050 064 287



## Directors

(as at 24 August 2017)

Michael Cole	Andrew Clifford
Stephen Menzies	Elizabeth Norman
Anne Loveridge	Andrew Stannard
Kerr Neilson	

## Shareholder Liaison

Elizabeth Norman

## Company Secretary

Joanne Jefferies

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## Securities Exchange Listing

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

## Corporate Governance Statement

[www.platinum.com.au/documents/shareholders/ptm\\_corp\\_gov.pdf](http://www.platinum.com.au/documents/shareholders/ptm_corp_gov.pdf)

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## Chairman's Report 2017

This year has seen a number of interesting developments at the company (ASX code: PTM). First and foremost though, it was marked by increased returns for the company's investment clients. Indeed, in some cases, recent investment performance has been nothing short of exceptional. For example Platinum's long only global fund, Platinum Unhedged Fund returned nearly 32% after fees and costs for the 12 months to 30 June 2017.

These investment returns, if sustained, may pave the way for increased profits and dividends but only after a period of time has elapsed, as investors tend to take time to recognise and reward performance with increased funds.

The lag between improved investment performance and additional revenue was very much on display in 2017 and best illustrated by the behaviour of the company's share price, which closed at \$5.76 at 30 June last year, then bottomed at \$4.23 in May 2017 before rebounding to around \$5.72 in August 2017. I realise that this volatility of the PTM share price may have caused some consternation amongst some shareholders, so please allow me to take some time out to explain what I believe to be the underlying cause of this.

During late 2016, a combination of analysts and short sellers went public with their reasons as to why they believed PTM was a "sell". Their arguments can be summarised into four main categories: Platinum Investment Management Limited's ("Platinum") short-term investment returns, the strong support for indexed funds, fee pressures for active managers, and an apparently under-resourced product distribution team.

Each of these points is addressed below:

### 1. Platinum's Returns

It is true that in late 2016, the investment performance of Platinum's flagship global fund, Platinum International Fund ("PIF"), underperformed in the short-term and there is no denying that, following this period of underperformance, fund outflows for Platinum were significant which heavily influenced research coverage against the stock.

However, investment performance has lifted significantly over each quarter of FY 2017 as highlighted in the table opposite. This table shows the performance of PIF and some of the other larger Platinum Trust Funds, relative to their respective nominated index returns.

**Performance relative to the nominated index (%)**

FUND	1 YEAR: 30/6/16	1 YEAR: 30/6/17	5 YEAR ANNUALISED: 30/6/16	5 YEAR ANNUALISED: 30/6/17
Platinum International Fund	-5.7% pa	6.0% pa	-2.1% pa	0% pa
Platinum Unhedged Fund	-9.2% pa	16.4% pa	-2.4% pa	1.5% pa
Platinum International Brands Fund	-4.2% pa	12.4% pa	-3.9% pa	-1.0% pa
Platinum Asia Fund	-1.2% pa	-3.3% pa	2.9% pa	1.6% pa
Platinum European Fund	1.8% pa	11.0% pa	2.3% pa	1.9% pa
Platinum Japan Fund	2.0% pa	8.3% pa	7.0% pa	9.3% pa

Source: Platinum Investment Management Limited. Returns of the funds are based on Class C Units (which do not have an investment performance fee), and represent the combined income and capital returns for the specified period. They are net of fees and costs (excluding the buy-sell spread). All returns are pre-tax and assume the reinvestment of distributions. Past performance is not a reliable indicator of future results. Investment returns are calculated relative to: the MSCI All Country World Net Index in A\$ for Platinum International Fund, Platinum Unhedged Fund and Platinum International Brands Fund; the MSCI All Country Asia ex Japan Net Index in \$A for the Platinum Asia Fund; the MSCI All Country Europe Net Index in \$A for the Platinum European Fund; and the MSCI Japan Net Index in \$A for the Platinum Japan Fund.

To take one example, the very strong one-year investment returns of the flagship Platinum International Fund contributed to its five-year annualised investment return relative to its benchmark, which recovered from -2.1% for the year ended 30 June 2016 back to the benchmark return for the year ended 30 June 2017. It is worth noting that, PIF's annualised returns since inception have remained essentially unchanged, delivering around 6% per annum above the index.

## 2. Support for Indexed Funds

In the United States, indexed or passive equity strategies now account for approximately 40% of funds under management (FUM).

By contrast, in Australia, passive equity investment strategies only account for 20% of all FUM. Since January 2016, net flows to active managers for both local and global strategies (\$914 million) continue to exceed net flows to passive strategies (\$804 million)<sup>1</sup>.

Active investment management still continues to be valued by Australian institutional and retail investors but it would be remiss to ignore the strong overseas trend towards passive equity management.

Most research into this topic indicates that the momentum to passive management appears to be mostly driven by the recent underperformance of active managers, especially since the GFC. The implication being drawn is that the pool of so-called "alpha" available to active managers to deliver outperformance may have been significantly diminished by the enhanced efficiency and lower volatility of equity markets in recent years, perhaps best illustrated by the rise of algorithmic trading.

1 Bloomberg Business Week 1 June 2017.

## Chairman's Report 2017 – continued

The theoretical construct observed by Professor William Sharpe certainly remains unchanged. Cumulative investment performance by all active managers against the relevant index is a zero sum game. That is, every active manager that underperforms the index will be offset by an active manager that delivers an equivalent amount of out-performance. This aggregate zero return then becomes negative after fees and transaction costs. However, what is true in aggregate does not extend to every individual manager. The key is not to lose faith in active management, but rather to pick the right active managers. That is, pick those active investment managers with proven track records, a strong investment process and a deep research team. I believe that this rare group of managers should remain well placed to deliver for clients in, what is likely to remain, a very uncertain and volatile environment.

The next question is the one perennially asked by asset consultants/rating agencies: "Can a given active manager prove its ability to deliver regular outperformance, on a repeatable basis, over time?"

I think the answer is a resounding yes. More specifically, with respect to Platinum, whilst the investment management process continues to be refined over time to accommodate market dynamics, Platinum's commitment to value investing and capital protection remains intact and is at the core of its investment management process. The long-term outperformance of the Platinum Trust Funds since inception, relative to their indices, supports this view and, I believe, demonstrates the robustness and integrity of Platinum's investment process.

### 3. Fee Pressure for Active Managers

Declining investment management fees for active investment strategies is a world-wide phenomenon, partly driven by the low cost of index funds as well as the difficulty in generating outperformance in a low volatility, lower return world.

This fact of life for investment managers has resulted in many competitors significantly discounting fees in an attempt to retain their funds under management.

For all the noise about the benefits of passive investing, the truth is that for a given level of risk, the best measure for investors remains a manager's investment performance, net of fees. However, this important message has been subjugated by marketing spin into a relentless quest to seek the lowest average investment management fee, no matter the performance achieved.

Platinum's response has been to take a more measured approach and avoid joining the "race to the bottom". As mentioned previously, the firm's ability to deliver investment outperformance over the long-term is a very scarce commodity. Therefore, I believe that Platinum is better placed than many of its competitors to command a fee premium and resist the urge to heavily discount.

Nonetheless, following a fee review by management, a fee reduction to 1.35% pa was implemented for investors in the Platinum Trust Funds and Platinum Global Fund. In addition, Platinum also introduced a performance fee class to provide investors with the option to pay a lower base management fee, albeit at the cost of paying a 15% performance fee should the fund outperform its index.

This is the balance that Platinum has struck between believing in its ability to deliver out performance consistently over time, with the reality of the investment management landscape.

Although I believe that this is the right decision for the long-term, in the short-term, it was estimated that the fee realignment would reduce annual revenues for PTM by around 9% in the absence of stronger fund flows, and PTM made an announcement to this effect in April 2017. The initial impact of this fee decrease announcement placed downward pressure on the PTM share price.

#### 4. Under-Resourced Product Distribution

Platinum's primary focus is on the investment management process and delivering strong investment returns over time. If outperformance is generated consistently and investor's capital is protected, then strong support should follow at both the retail and institutional levels.

Platinum does not have a sales driven business model. Instead it focuses its resources on investment performance and brand. Platinum will continue to concentrate on direct interaction with retail investors, through the biannual investor road show programme and other related initiatives. In addition Platinum has a highly capable team of technically strong investment specialists, who are former Platinum investment analysts, servicing the needs of the retail financial advisors and platform distribution channels for regular communication and interaction.

However, many sell side analysts instead focus on short-term retail funds flows as the main indicator of short-term share price movements, and have queried whether the absence of a large sales team and sales culture is an impediment to long term success.

Platinum's view has been consistent over the last 20 years, that the primary driver of long-term success will always be delivering investment returns for clients and that the costs of large sales forces, in terms of culture and distraction to the investment team, far outweigh the short-term benefits.

## Chairman's Report 2017 – continued

Consistent with a strong branding strategy, Platinum has also begun to broaden its reach by offering new funds both domestically and internationally. The most recent additions are the Dublin domiciled UCITS funds and the shortly to be released ASX Quoted Managed Funds ("QMF's"). The table below sets out the broad range of PTM investment products that are available, or will shortly be available, across domestic and international markets by distribution channel:

STRATEGY	UNIT TRUST		ASX QUOTED FUNDS			DUBLIN UCITS FUNDS	US FUNDS*
	AUSTRALIA RETAIL	AUSTRALIA WHOLESALE	LISTED INVESTMENT COMPANY ("LIC")	MFUND	QMF		
Global Equities	X	X	X (ASX code: PMC)	X	X (ASX code: PIXX)	X	X
Asia Equities	X	X	X (ASX code: PAI)		X (ASX code: PAXX)	X	
Japan Equities	X	X				X	X

\* Via a distribution arrangement with Optima Funds.

### Concluding thoughts

Despite a strong marketing presence by index managers, it remains an irrefutable fact that active investment management will continue to co-exist with indexed funds and I believe that both have a place in the market.

PTM does not provide market guidance. However, our silence on this point does not in any way reflect a diminishment in the Board's belief in the business or its future.

Now turning to a re-cap for the year.

### Funds under Management ("FUM")

FUM at 30 June 2017 was \$22.7 billion and this was similar to the 30 June 2016 closing FUM of \$22.7 billion. Average FUM for the year decreased by 9.6% to \$23.4 billion from an average FUM of \$25.8 billion for the previous year. This fall in average FUM was due to net fund outflows more than offsetting the gains made from investment performance.



As already highlighted, the overwhelming majority of Platinum Group's underlying funds and mandates delivered strong relative investment performance during the period, thus validating Platinum's benchmark-agnostic investment approach and the quality of the research work undertaken by Platinum's investment team. Strong investment performance delivered \$4.7 billion of additional FUM for the year. Long-term performance across each and every Platinum Trust Fund remains strong, and you would seldom find an investment manager, either in Australia or internationally, that has managed such large sums of money and delivered such consistent investment returns over such a long period of time.

Despite this, the Board was disappointed to report that total net investment outflows for the year were \$3.6 billion. This was in part due to a small number of large account outflows. In addition to this, the 30 June 2017 net distribution from the Platinum Trust Funds was very large at \$1.1 billion.

### Operating Performance

In the current year, fee revenue declined by 7.5% to \$312.5 million (2016: \$337.9 million) on account of average Funds Under Management ("FUM") declining by 9.6%.

The investment held by the Platinum Group in Platinum Asia Investments Limited (PAI) and the contribution of Platinum World Portfolios PLC to the consolidated entity's results, together, delivered excellent investment gains of \$16.6 million (2016: loss of \$2.9 million).

Costs are closely monitored and only increased marginally relative to the prior year. The Platinum Group has chosen to defer much of its business development spend to FY 18 in line with the launch of the new quoted managed funds and public website. The total cost to income ratio was 18.9% with non-people costs down 12.9% from the prior year.

Platinum's team of investment specialists have had an extremely busy year in terms of adviser visits, client presentations and roadshows. Platinum sets itself apart from many of its competitors by ensuring that investment analysts accompany investment specialists on their travels, and thus share with investors and advisers, their investment and global market insights.

Profit before income tax expense was \$270.6 million (2016: \$282.2 million) representing a decrease of 4.1% on the previous year. The profit after tax for the year was \$192.6 million (2016: \$199.9 million) representing a decrease of 3.6%.

## Chairman's Report 2017 – continued

### Remuneration Matters

Staff costs increased in the current year by \$3.8 million or 12.4%, reflecting market pressure to retain the best, highly-qualified and investment management staff. Extra incentives were paid to a handful of investment professionals that directly contributed to the strong investment performance generated in the current financial year. Outside of this handful of staff, the incentive pool was relatively flat for the year. Increases also occurred due to new staff hires and salary increases were in line with additional staff responsibilities.

For the investment team, short-term incentives paid are dependent on achieving strong relative returns or outperformance of benchmark returns over a one and three year period. Despite the strong performance over a one year period, the three year returns generated meant that only a small group of investment professionals benefitted.

Platinum's Chief Investment Officer, Andrew Clifford has not received any form of short-term incentive over the last two years.

Two other members of KMP received short-term incentives in 2017, being the Director of Investor Services and Communications, Elizabeth Norman and the Finance Director, Andrew Stannard.

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 new Quoted Managed Funds, new website design and expanding our communication efforts with both advisors and investors.

The variable compensation paid to Andrew Stannard reflected the leadership and strategic input that he provided into various development opportunities for the business, including overseeing the launch of the Quoted Managed Funds and associated legal and regulatory requirements.

In the current year, Platinum made an additional allocation of deferred incentives totalling \$4,875,000, under the "Deferred Incentive Plan" that was approved by the Nomination and Remuneration Committee.

### Dividends

The Directors have declared a fully-franked ordinary dividend of 15 cents per share and this will be paid on 22 September 2017. A fully-franked ordinary interim dividend of 15 cents per share was paid on 22 March 2017. This brings the total FY 17 dividend to 30 cents per share (2016: 32 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.

### Launch of New Products

In late April this year, PTM announced that it intended to launch two new Quoted Managed Funds in August 2017, which will allow investors to indirectly access the Platinum International Fund (22+ year track record) and the Platinum Asia Fund (14+ year track record) via the ASX.

We are pleased to report that these new products are expected to commence trading shortly.

### Investment into PTM's UCITS and Underlying ASX Vehicles

The offshore UCITS fund (Platinum World Portfolios PLC) has continued to perform strongly since its launch in November 2015. As at 21 August 2017, the UCITS FUM totalled A\$314 million, reflecting its strong investment performance since inception and also the work done by our core team of investment professionals in promoting the Platinum brand name offshore.

Further evidence in the strength of the Platinum brand name, came in the form of capital raisings undertaken by the Platinum Group's two LICs, Platinum Capital Limited (ASX code: PMC) and Platinum Asia Investments Limited (ASX code: PAI). PMC raised \$70.1 million from a placement to institutional investors and a share purchase plan to existing investors. PAI announced that it raised a total of \$66.2 million as a result of the exercise of options by PAI shareholders.

### Director Renewal

In last year's Chairman's Report, I outlined a plan for Director renewal and additional Board replacements at a Non-Executive Director level.

Since then, two Directors have retired under the Director renewal plan. Ms Anne Loveridge was appointed to the PTM Board during September 2016, and succeeded Ms Margaret Towers who retired from the Board after over nine years of service. Anne is currently a Non-Executive Director for the National Australia Bank (NAB) Group and NIB Holdings Limited and has over 30 years of experience as a former partner in the Financial Services Assurance practice at PricewaterhouseCoopers (PwC).

On 19 June 2017, Mr Bruce Coleman retired from the Board after over ten years of service. With respect to Bruce's replacement, we are continuing to speak with a number of highly qualified candidates and an announcement will be made in due course.

The Board of PTM would like to extend its thanks to Margaret and Bruce for their invaluable contributions to the Board over an extended period of time.

In accordance with good governance and the ASX Corporate Governance Council's Principles and Recommendations, we intend to continue with our plan of Director renewal. Additional Board replacements, at a Non-Executive Director level, will likely be made in the future.

## Chairman's Report 2017 – continued

### The Board and its Associated Committees

Both the Nomination and Remuneration Committee and the Audit, Risk and Compliance Committee had productive years. The Nomination and Remuneration Committee has had to oversee changes to the composition of the Board and closely monitor the Company's remuneration framework.

The Audit, Risk and Compliance Committee has provided invaluable input into many key areas of focus for the business including over-sight and focus on cyber security risk for the Platinum Group, identification of key risks and risk mitigation strategies for the Quoted Managed Funds (QMF's) and overseeing compliance with accounting standards including the appropriate accounting treatment with respect to the deconsolidation of Platinum World Portfolios Plc.

### Environmental, Social and Governance (ESG)

Platinum is an active participant in the global Carbon Disclosure Project (CDP) which enables companies, cities, states and regions to measure their environmental impact. In addition, for over 10 years, we have strived to make the firm "carbon neutral" via the purchase of sufficient carbon credits (which invest in rainforests) to offset the carbon emissions made by the Platinum group (for example our electricity usage and air travel).

Even more significantly, Platinum now incorporates ESG considerations into its investment process by employing a robust framework that can lead to more informed and holistic decision-making and, ultimately, better investment outcomes for investors. I would encourage those interested in this topic to read our most recent Platinum Trust Funds PDS for more information.

### Conclusion

The Managing Director's Letter to Shareholders addresses the recent strong investment performance of the underlying funds, key initiatives that have been undertaken and the investment outlook.

**Michael Cole**

Chairman

24 August 2017

## 2017 Managing Director's Letter to Shareholders

It is a relief that I do not have to launch into an economic treatise, as I did last year, to take shareholders through the travails of managing money in a central bank-obsessed world.

The concerns about economic growth have dissipated as activity spread and sped up. Yes, there are still concerns about excessive levels of debt and the likely consequences of central banks reducing their holdings of the assets they had purchased to prop up liquidity.

Apart from the spreading warmth of economic expansion, the concerns around the Chinese economy have diminished. To many observers, China is seen as the likely source of the 'next' problem. However, it seems as though the policy position described by the leadership in the first half of last year has to a degree already percolated through the system. The most notable has been the closure of excess capacity in various industries, both to assist in pollution abatement and, equally, to allow a recovery in pricing power. There have been remarkable improvements in the pricing of various basic materials, from steel, cement, float glass to PVC, which have put the remaining players on a far healthier footing to meet their debt obligations. This in turn has softened concerns about the likely scale and state of non-performing loans in the banking system. At the same time, the vitality within the Chinese economy is causing some to recalibrate how China may be able to adjust to a world of tighter credit. Apart from solemn declarations about the central importance of a healthy financial system, the government has followed up with action to force aggressive private firms to reduce their indebtedness via asset sales. The purpose here is to reduce the risk to the large banks who may have acted as final guarantors on these entities' foreign borrowings. As China is indubitably the largest contributor to overall world growth, this change of emphasis has profound consequences.

### Investment Performance

As the prospects for growth have broadened, so have the opportunities across global stock markets. After a statistically abnormal period of US stock market leadership, of some eight years, other markets have taken up the running, most notably in Asia, much to the benefit of the positioning of Platinum's funds and mandates. According to Morningstar's global equity fund rankings, the Platinum Unhedged Fund and the Platinum International Brands Fund **ranked first and second** in their respective categories **for the year to June 2017**.<sup>1</sup> Their respective returns were 32% and 28% for the 12 months to 30 June 2017 (after fees and costs). Not much further down the list was the Platinum International Fund with a return of 21%. The MSCI AC World Net Index (A\$) over this period returned 15%.

Over the last five years, our regionally-focused funds of Asia, Europe and Japan have each handily outperformed their respective benchmarks, after fees and expenses. The global funds and mandates have matched or outperformed their benchmarks even though they have carried protection of cash and, where permitted under the mandate, short positions. The tide has turned as far as we can gauge!

1 Platinum Unhedged Fund topped the Equity World Large Value category while the Platinum International Brands Fund ranked second in the Equity World Large Blend category.

## 2017 Managing Director's Letter to Shareholders – continued

### Staff

As a firm, we are remarkably blessed, in my view, by a team of individuals who really believe in the value we can add to those who put their trust in our hands. As the firm's operation has grown in sophistication, we have been fortunate to add to the talent that has taken up the challenge of excellence. Although there is more specialisation within individual corporate functions, sometimes forced on us by a seemingly ever-growing burden of regulatory compliance in many guises, there has been no loss of cohesion or collective purpose. Shareholders may be inclined to regard these comments as standard corporate rhetoric, but I can assure you, it is not so.

Of the 91 employees at the firm, 30 are employed in our engine room of managing clients' money. The team has grown by 2 this year, and will likely expand further to meet the challenges of an ever-wider choice of listed investments available to a global manager. Within the investment team, overall average tenure at Platinum remains high at 6 years, with portfolio managers averaging 14 years with the firm.

The investment sub-teams are building a steady rhythm of idea generation and this bodes well for growing clients' wealth. The quantitative systems employed in our investment process continue to evolve and strengthen in their capability to both assess possible opportunities and augment managers' judgements. The dealing desk has continued to deepen the investment team's market insights.

### Costs

Staff costs account for about half of the firm's outgoings. As we have described previously, there is a slight upward drift which reflects small increases in numbers and a scaling among members of the investment team to account for growing knowledge and skill. Last year we introduced a Deferred Bonus Plan which is applied across the firm for those leaders whom we believe will carry the company over the next decade. It entails issuing stock to participants with deferred vesting four years hence. These grants are made annually, performance permitting, to allow employees to gradually increase their ownership in the company.

The Profit Share Plan was not activated this year. Under the Profit Share Plan, an additional pool of reward is made available to members of the investment team when the weighted return of funds under management (FUM) exceeds the relevant benchmark by more than 1% for both the last one year and the last three years. Apart from staff remuneration, most costs are largely in line with those of last year. Custody, administration and trustee costs have actually fallen.

There is one peculiar line in the income statement which relates to the *consolidation* of the rise in the value of the three UCITS (Undertakings for Collective Investment in Transferable Securities) funds that we seeded in November 2015 under the umbrella Platinum World Portfolios Plc. This appears under the heading of 'Gains on financial assets'. This is an accounting convention to acknowledge that at the launch of these UCITS funds, we were the principal funder and hence the entities should be consolidated in the accounts. Please note that this entry is substantially countered at the bottom of

the statement by an entry "Non-controlling interests" which reflects the after-tax effect of its earlier inclusion.

## Fees

Having considered the changing nature of competition in our industry and the current popularity of exchange-traded funds (ETFs) and the like, together with the fall in some aspects of our costs, we decided to reset the fee base. As was announced to the ASX in April, we have used this opportunity to introduce a new **performance fee option** to the Platinum Trust Funds. This comes with a lower base fee, set at 1.1% (inclusive of GST), with the firm participating in 15% of the outperformance. Under the standard fee option, the previous management fee of 1.54% (inclusive of GST) has been cut to 1.35% (inclusive of GST).

At this stage we cannot know how popular the new performance fee option will be. In our ASX release, we suggested that based on our historic ability to outperform benchmarks, we believe the performance option will prove no cheaper for unitholders over time. However, we feel some clients are attracted to the notion of a scalable **fee that rewards evident long-term skill**.

The effect of the announced fee cuts, which became live at the start of the new financial year, is estimated to reduce our revenues, on a steady state basis, by A\$24 million. However, it is very difficult to predict the full-year effect on profits as there are countering factors such as changes in FUM and prospective performance fees.

## Funds Under Management (FUM) – Retention and Growth

There is still great interest in distribution power, presumably because of the influence that the 'big five' financial institutions exercise over financial advice in Australia. We are fully aware of this argument and, without underestimating the might of these organisations, we know that **performance is the main attribute that generates FUM** over time.

In an investment world characterised by massive product proliferation, helped along by the present enthusiasm for ETFs and 'passive' investing, we understand the **importance of our brand**. The amount of choice is bewildering to all but the most enthusiastic investors. Those with a passing interest crave simplicity and seemingly convenient answers to rather complex choices. For them, name recognition and association is important. For investors with a deeper understanding of the complexity of investing, the attraction of our brand lies not only in past performance, but in the explicit enunciation of our stock-picking approach which is reinforced by our quarterly reports and online commentaries. These publications give investors an insight into the **process and mentality** that contribute to systematic long-term successful investing.

While the term 'brand' is a much-abused concept, we know it can only have value if it is entrenched by authenticity of intent and action. We believe this is demonstrated by the emphasis we place on ongoing, considered communication with existing clients, rather than an emphatic drive for FUM gathering.

## 2017 Managing Director's Letter to Shareholders – continued

It is nevertheless important that we communicate clearly and broadly the attributes of our products to prospective investors. There are apparently some 1.5 million Australian households who pay for professional financial planning, though this number has tended to fall over the last several years. It is therefore important that we provide these planners with the necessary understanding of the benefits we can bring to their clients' portfolios.

To this end, we have also enhanced the investment specialist team with an additional member, taking the team in the field to five. Via active participation they have added considerably to our interaction with financial advisors in Australia and New Zealand. As noted in the past, what distinguishes Platinum's investment specialists is that these individuals are former investment analysts and can therefore speak authoritatively about our investment decisions and portfolios, rather than simply following a sales script that lacks depth and understanding.

To add further to the quality of our communication in the field, individual portfolio managers and analysts accompany the investment specialists to visit advisory firms to give additional insights of changes taking place in specific industries. This in turn empowers financial advisors to speak more authoritatively to their clients. This tends to set us apart from the competition! In addition, we have an annual roadshow directed at the financial intermediaries. During the year, the team addressed approximately 3,000 professional advisors covering 33 cities and towns around the country as they participated in the Financial Planning Association roadshow.

Other important aspects of communication revolve around the rising sophistication of the firm's website, a new version of which will launch in October. *The Journal*, which contains topical investment subjects and video presentations from our investment professionals, is proving very popular – there is no harm in telling your friends about it!

We hold a biannual meeting with clients where the emphasis is on conveying insights rather than being image-promoting jamborees. The efficacy of this open approach is revealed by the fact that as many as 15% of the audience are friends of unitholders who have been invited to learn about markets.

The Irish-domiciled UCITS funds that we launched nearly two years ago are starting to attract attention. These three funds have now grown to A\$314 million.<sup>2</sup> We are currently exploring the establishment of a permanent representative office in Europe. Our strong performance and unique attributes provide a strong base to expand this business measurably.

We are also pleased that our new **quoted managed funds (QMFs)** will shortly be launching in September. I made mention of this in last year's letter. The two proposed QMFs are feeder funds that will feed into our unlisted managed funds, the Platinum International Fund and the Platinum Asia Fund. Both underlying funds have long track records of



22 years and 14 years respectively, and each has a history of substantial absolute and relative performance. Through the QMFs, investors can gain exposure to the same actively-managed, diversified portfolios as the underlying unlisted Platinum International Fund and the Platinum Asia Fund, but the QMFs allow investors the convenience of buying and selling units by **placing orders on the ASX**. As you are aware, the creeping hand of bureaucracy has made form-filling a national past time in the funds management industry. Through these listed entities, prospective investors can obviate the lengthy application form that currently confronts them. Furthermore, the QMFs provide investors the added advantage of knowing the fund's indicative net asset value unit price before placing a trade, whereas the forward-pricing mechanism used by the unlisted managed funds means that unit prices are unknown at the time investors make their application.

### Funds Under Management (\$mn, to 30 June 2017)

FUNDS	OPENING BALANCE (1 JULY 2016)	FLOWS	INVESTMENT PERFORMANCE	DISTRIBUTION	CLOSING BALANCE (30 JUNE 2017)	% OF TOTAL
<b>Platinum Funds</b>						
Platinum Trust Funds and Platinum Global Fund	16,539	(2,548)	3,330	(1,072)	16,249	72
Listed Investment Companies PMC and PAI	616	103	139	-	858	4
Platinum World Portfolios - UCITS Funds	63	168	32	-	263	1
MLC Platinum Global Fund	918	(149)	192	-	961	4
<b>Institutional mandates</b>						
Management Fee Mandates	1,849	(158)	398	-	2,089	9
"Absolute" Performance Fee Mandates	548	(192)	118	-	474	2
"Relative" Performance Fee Mandates	2,155	(789)	454	(1)	1,819	8
<b>TOTAL</b>	<b>22,688</b>	<b>(3,565)</b>	<b>4,663</b>	<b>(1,073)</b>	<b>22,713</b>	<b>100</b>

Source: Platinum Investment Management Limited

## 2017 Managing Director's Letter to Shareholders – continued

### Outlook

It is heartening to see a reversal of flows as investors focus on the unique offer we make regarding their longer term wealth aspirations. Australian investors are more aware than ever about the possibilities of global investing and the need for diversification. The launch of the UCITS puts us in a strong position to seek investors abroad and we are pursuing this with energy. We are also following other initiatives.

As the firm's very existence is predicated on markets being driven by fashion and crowding, please believe that our confidence in the future is driven by this understanding rather than complacency. The last several years of economic turmoil have been the most aberrant in our 23 year history. Despite this, our ability to add value is undiminished because of our rigour, discipline and mental agility.

**Kerr Neilson**  
Managing Director

# Financial Statements 2017

Platinum Asset  
Management Limited

## **General information**

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 24 August 2017. The Directors have the power to amend and reissue the financial statements.

## Shareholder Information 30 June 2017

The shareholder information set out below was applicable as at 21 August 2017.

### Distribution of Equity Securities

Analysis of number of equity security holders by size of holding:

	NUMBER OF HOLDERS OF ORDINARY SHARES
1 to 1,000	7,169
1,001 to 5,000	16,204
5,001 to 10,000	4,185
10,001 to 100,000	2,477
100,001 and over	74
	30,109
Holding less than a marketable parcel (less than \$500)	316

## Equity Security Holders

### Twenty largest quoted equity security holders

The names of the 20 largest security holders of quoted equity securities are listed below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
J Neilson	156,037,421	26.60
K Neilson	156,037,420	26.60
HSBC Custody Nominees (Australia) Limited	31,633,453	5.39
Platinum Investment Management Limited (nominee)	29,364,201	5.01
Citicorp Nominees Pty Limited	22,661,452	3.86
JP Morgan Nominees Australia Limited	14,031,322	2.39
Jilliby Pty Limited	6,500,000	1.11
J Clifford	5,000,000	0.85
National Nominees Limited	4,307,744	0.73
RBC Investor Services Australia Nominees Pty Limited	3,298,589	0.56
BNP Paribas Nominees Pty Limited	2,511,326	0.43
Xetrov Pty Limited	2,000,000	0.34
Pacific Custodians Pty Limited	1,626,027	0.28
BNP Paribas Nominees Pty Limited	1,254,228	0.21
Mrs Michele Martinez	1,072,309	0.18
Navigator Australia Limited	1,058,093	0.18
BNP Paribas Nominees Pty Limited	916,891	0.16
BNP Paribas Nominees Pty Limited	910,000	0.16
HSBC Custody Nominees (Australia) Limited	890,721	0.15
CS Third Nominees Pty Limited	886,472	0.15
	441,997,669	75.34

### Unquoted equity securities

There are no unquoted equity securities, however under the Deferred Incentive Plan, a total of 1,626,026 deferred rights have been allocated to eligible employees of Platinum, 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. Therefore, no new shares will be issued under the Deferred Incentive Plan (please refer to the Remuneration Report and Note 20 for further details).

## Shareholder Information 30 June 2017 – 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	312,074,841	53.2 <sup>^</sup>
J Clifford, Moya Pty Limited, A Clifford	32,831,449	5.9 <sup>^</sup>

<sup>^</sup> Based on the last substantial shareholder notice lodged.

### Voting Rights

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Employees that have been allocated deferred rights under the Deferred Incentive Plan, have no entitlement to vote, attend meetings of shareholders or receive dividends, until the deferred rights have been exercised (refer to the Remuneration Report and Note 20 for further details).

### 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	30 August 2017
Record (books close) date for dividend	31 August 2017
Dividend paid	22 September 2017

**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 Thursday, 16 November 2017  
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](mailto: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 2017.

### 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 (appointed 22 September 2016)
Kerr Neilson	Managing Director
Andrew Clifford	Executive Director and Chief Investment Officer
Elizabeth Norman	Executive Director and Director of Investor Services and Communications
Andrew Stannard	Executive Director and Chief Financial Officer

In accordance with the Board's Plan for Director renewal, Margaret Towers and Bruce Coleman were Non-Executive Directors until their respective resignations on 22 September 2016 and 19 June 2017. Both Margaret Towers and Bruce Coleman were appointed as Directors in April 2007, on the same day that the Company became a public company, as a precursor to the Company's ASX listing in May 2007.

### Company Secretary

Joanne Jefferies was appointed Company Secretary on 17 October 2016, replacing Mr Andrew Stannard who was the interim Company Secretary prior to Ms Jefferies' appointment.

### Principal Activities

The Company is the non-operating holding company of Platinum Investment Management Limited ("PIML") and its controlled entities. Platinum Investment Management Limited, trading as Platinum Asset Management, operates a funds management business. The amount of money that we manage, so-called funds under management ("FUM") is the key variable for the business and an important determinant of our profit.

FUM at 30 June 2017 was \$22.7 billion, which was similar to the 30 June 2016 closing FUM of \$22.7 billion. Average FUM for the year decreased by 9.6% to \$23.4 billion from an average FUM of \$25.8 billion for the previous year. This fall in average FUM was due to net fund outflows more than offsetting the gains made from investment performance.



Whilst net fund flows have been negative over the last year, it is pleasing to report that most of the Funds managed by the consolidated entity have delivered strong investment performance over the last 12 months, with some of our Funds delivering exceptional returns. For example, our global unhedged fund, Platinum Unhedged Fund delivered 31.72% for the 12 months to 30 June 2017. Our flagship Fund, Platinum International Fund returned 21.34% for the 12 months to 30 June 2017, outperforming its benchmark by 6.03%, proving that our tried and tested approach to managing money is working well.

The signs from our overseas clients have been encouraging. Whilst growing the Irish offshore fund, Platinum World Portfolios Plc ("PWP") is a long-term project, we are starting to gain traction. A period of just over 20 months has elapsed since PWP launched in November 2015, and total FUM for PWP is already A\$314 million (as at 21 August 2017). PWP continues to attract strong interest.

The decrease in average FUM from the previous corresponding period resulted in fee revenue of \$312.5 million (2016: \$337.9 million), which represents a decrease of 7.5%.

Other investment income increased to \$21.1 million (2016: \$6.8 million) which was largely explained by gains generated from the investments in PWP and Platinum Asia Investments Limited of \$16.6 million (2016: loss of \$2.9 million). This was partly offset by the drop in foreign exchange gains on overseas bank accounts to \$0.1 million from \$5 million, as almost all of PIML's foreign currency cash exposure was removed in December 2016, with all significant US Dollar balances being repatriated into Australian Dollar term deposits, due to the weakening US Dollar.

Expenses increased marginally by 0.8% or \$0.5 million relative to the previous year, driven mainly by increased staff costs offset by savings on custody and business development costs. Cost control remains a key focus of the business.

Profit before income tax expense was \$270.6 million (2016: \$282.2 million) which represents a decrease of 4.1% on the previous year. The profit after tax for the year was \$192.6 million (2016: \$199.9 million) which represents a decrease of 3.6%.

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

In April 2017, Platinum announced that it intended to launch two active Quoted Managed Funds ("QMFS") offering an International Fund (ASX code: PIXX) and an Asian regional Fund (ASX code: PAXX), both with an active investment strategy, in response to demand from the self-managed superannuation fund (SMSF) sector. The two Funds will be feeder funds into the master Platinum International Fund and Platinum Asia Fund and are expected to shortly commence trading. PIML has allocated \$50 million to help seed these Funds, with an investment of \$25 million in each Fund.

## Directors' Report – continued

Platinum remains an investment-led organisation. Provided that we can continue to deliver strong investment performance for our clients, there is good reason to believe that strong sustainable investment inflows will occur into our underlying Funds and we will continue to build on the early success of PWP to expand our presence in Europe.

Our FUM will likely grow over time through the increasing trend for Australian investors to increase their exposure to world stock markets, the strengthening of our relationship with the professional investor community and accessing the continuing growth of the self-managed superannuation fund (SMSF) sector.

### Change in Fee Options

Effective from 3 July 2017, PIML added a new performance fee option to each of its eight Platinum Trust Funds, whilst at the same time reducing the total fees and charges under the standard fee option for each of the Platinum Trust Funds and Platinum Global Fund.

Under the new fee options for the Platinum Trust Funds, investors now have the choice between:

- a performance fee option, comprising a management fee of 1.10% per annum plus a relative outperformance fee of 15%; or
- a standard fee option, comprising a management fee of 1.35% representing a reduction from the previous management costs rate of 1.50% per annum. This reduction benefits all new and existing investors into those products. Platinum Global Fund unitholders also benefit from this fee reduction.

### Dividends

Since the end of the financial year, the Directors have declared a 15 cents per share (\$87,757,931) fully-franked ordinary dividend, with a record date of 31 August 2017 and payable to shareholders on 22 September 2017.

A fully-franked ordinary dividend of 15 cents per share (\$87,913,098) was paid on 22 March 2017.

A fully-franked ordinary dividend of 16 cents per share (\$93,773,971) was paid on 22 September 2016.

### 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, other than the change in fee options as outlined above.

### Matters Subsequent to the End of the Financial Year and Expected Results of Operations

Since the end of the financial year, the Directors are not aware of any matter or circumstance, not otherwise dealt with in this report or financial statements that has

significantly affected, or may significantly affect, the operations of the consolidated entity or the results of its operations in subsequent financial periods.

### Environmental Regulation

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

### Information on Directors

#### **Michael Cole** BECON, MECON, FFIN

Independent Non-Executive Director, Chairman and member of the Audit, Risk & Compliance and Nomination & Remuneration Committees since 10 April 2007. (Age 69)

Mr Cole has over 39 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, Chair of the Nomination & Remuneration Committee since 19 June 2017 and member of the Audit, Risk & Compliance and Nomination & Remuneration Committees since 11 March 2015. (Age 61)

Mr Menzies is currently a Director of Century Australia Investments Limited and Freedom Insurance Group Limited and 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 for 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), FCA (ENGLAND AND WALES), GAICD  
Independent Non-Executive Director since 22 September 2016, Chair of the Audit, Risk & Compliance Committee since 24 February 2017 and member of the Nomination & Remuneration Committee since 22 September 2016. (Age 55)

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 with a range of clients in banking, property, private equity and wealth management sectors. Ms Loveridge has extensive knowledge of financial and regulatory reporting, risk management, controls and compliance frameworks.

## Directors' Report – continued

**Kerr Neilson** BCOM, ASIP

Managing Director since 12 July 1993. (Age 67)

Mr Neilson was appointed as Managing Director upon incorporation. He is the Managing Director of Platinum Investment Management Limited. 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.

**Andrew Clifford** BCOM (HONS)

Director and Chief Investment Officer since 8 May 2013. (Age 51)

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. Previously he was a Vice President at Bankers Trust Australia covering Asian equities and managing the BT Select Market Trust – Pacific Basin Fund. In May 2013, Mr Clifford was appointed Chief Investment Officer. Mr Clifford is co-manager of Platinum International Fund with Kerr Neilson.

**Elizabeth Norman** BA, GRADUATE DIPLOMA IN FINANCIAL PLANNING

Director of Investor Services and Communications since 8 May 2013. (Age 49)

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. Ms Norman's role as a Director of Investor Services and Communications reflects the widening of Platinum's client base and the consolidated entity's commitment to supporting retail and institutional clients with dedicated investment specialists.

**Andrew Stannard** BMS(HONS), GRADUATE DIPLOMA IN APPLIED FINANCE AND INVESTMENT, CA

Director and Chief Financial Officer since 10 August 2015. (Age 50)

Mr Stannard joined Platinum from AllianceBernstein where he held the position of Chief Financial Officer for the Asia – Pacific region. Mr Stannard has 27 years of finance experience with expertise in audit, financial control, operations, funds management, financial services regulation and corporate governance.

## 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 2017, and the number of meetings attended by each Director were:

	BOARD ATTENDED	BOARD HELD	NOMINATION & REMUNERATION COMMITTEE ATTENDED	NOMINATION & REMUNERATION COMMITTEE HELD	AUDIT, RISK & COMPLIANCE COMMITTEE ATTENDED	AUDIT, RISK & COMPLIANCE COMMITTEE HELD
Michael Cole	5	6	3	3	6	6
Stephen Menzies	4	6	3	3	5	6
Anne Loveridge (from 22 September 2016)	3	3	2	2	4	4
Margaret Towers (until 22 September 2016)	2	3	1	1	2	2
Bruce Coleman (until 19 June 2017)	5	6	3	3	6	6
Kerr Neilson	4	6	-	-	-	-
Andrew Clifford	5	6	-	-	-	-
Elizabeth Norman	6	6	-	-	-	-
Andrew Stannard	6	6	-	-	-	-

## 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 the financial year by the auditor are outlined in Note 19 to the financial statements.

## Directors' Report – continued

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 19 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 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.

### 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



**Kerr Neilson**

Director

24 August 2017  
Sydney

## Remuneration Report

### 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 2017. 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 2017

- Whilst the performance of our underlying funds has been excellent, the decline in earnings per share and profit negatively impacted the variable compensation paid to all Platinum employees. With the exception of a few, high performing individuals and changes in responsibilities, variable compensation was generally flat for most employees year on year and salary increases modest;
- The Managing Director waived his ability to receive a variable award in 2017 and this was ratified by the Nomination & Remuneration Committee;
- Despite the strong absolute and relative performance over the last 12 months by Platinum International Fund, Platinum's Chief Investment Officer and Co-Manager of Platinum International Fund, Andrew Clifford also did not receive a variable award in 2017, because his incentives are based on a weighted average 1 year and 3 year outperformance;
- Only two members of Key Management Personnel ("KMP") received a variable award in 2017, being the Director of Investment Services and Communications, Elizabeth Norman and the Finance Director, Andrew Stannard;
- There were no payments made under the Profit Share Plan ("PSP") or under the Long Term Incentive Plans to any staff; and
- In the current year, variable awards under the Deferred Incentive Plan were made to 27 employees which totalled \$4.875 million. In accordance with accounting standards, the accounting impact of these awards has been expensed through the profit and loss statement over the five year service period of the award, so the expense impact is smoothed. PTM shares were acquired by an Employee Share Trust on-market so the awards did not dilute existing shareholders.

## Directors' Report – continued

### 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 (from 22 September 2016)
Margaret Towers	Non-Executive Director (until 22 September 2016)
Bruce Coleman	Non-Executive Director (until 19 June 2017)
Kerr Neilson	Managing Director
Andrew Clifford	Executive Director and Chief Investment Officer (CIO)
Elizabeth Norman	Executive Director and Director of Investor Services and Communications
Andrew Stannard	Executive (Finance) Director

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

### Shareholders' Approval of the 2016 (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 95.33%. Platinum takes the opportunity to fully explain the basis and structure of the remuneration paid to KMP.

### Guiding Principles of KMP and Staff Remuneration

The business of Platinum is to manage clients' money with the goal of providing superior investment returns over the medium to long-term. Platinum's position is simple: if Platinum continues to responsibly and successfully manage the money of its clients then, over time, the Funds Under Management ("FUM") of the firm will increase, and so will the profits of the Platinum consolidated entity. In the last 12 months, the Investment team has delivered strong absolute returns, whilst delivering downside protection and our portfolio managers remain comfortable with the composition of the portfolios.

Consideration is given to overall returns earned by all clients, as well as the contribution made by individual members of the investment team as a result of their specific investment ideas. The performance of other essential members of the Platinum team, such as client services and corporate and fiduciary functions, are assessed against pre-determined operational performance indicators that are



relevant to each employee. Platinum's Remuneration Policy aims to reward staff in line with the contribution that they have made to deliver these objectives and outcomes.

We are conscious of the need to align remuneration outcomes with shareholder returns and indeed some firms prefer to focus on simpler performance metrics such as Total Shareholder Return (TSR) as a basis for designing 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 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.

### **Structure of Remuneration for Executive Directors and all Platinum staff**

**Fixed remuneration** consists of salary and compulsory superannuation contributions. Salaries approximate market rates and take into account the contribution, skill and experience of each employee.

**Variable remuneration** in 2017 consists of performance related short-term incentive payments and profit share amounts. Variable awards are discretionary and are approved after assessing individual performance against a range of qualitative and quantitative factors specific to each employee. Variable compensation may take the form of an annual cash payment or deferred award and are designed to reward superior performance. Platinum has established various Short-Term Incentive Plans ("STIP"), as the basis for rewarding staff. These are discussed below.

### **Short-Term Incentive Plans**

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

A remuneration framework for investment team variable compensation is overseen by the Nomination & Remuneration Committee. Under this framework, the award pool was determined as a percentage of the aggregate base salary of the investment team. The percentage level was related to the average of 1 year and 3 year outperformance of all funds under management. For each 1% increase in this average outperformance, the pool is increased by 20% and is then capped when average outperformance is 5% or more.

## Directors' Report – continued

The pool is then allocated across members of the investment team based on performance assessments that are based on both quantitative and qualitative measures. In a period where there is aggregate underperformance of client funds, annual awards for investment team members are then determined by an individual assessment of each employee's contribution to the investment team during the period. Quantitative measures used to assess individual performance include the performance of any portfolios under the management of an individual and the performance of individual investment ideas that have been proposed. Investment performance is usually assessed over a 1 year and 3 year time frame and is relative to an appropriate benchmark. As the weighted average 1 and 3 year investment returns were below benchmark in the current and prior year, no amount was applied from the pool for this 2017 year and the annual performance awards for investment team members were instead determined by an individual assessment of each employee's contribution to the investment team during the period. No amount from the pool was allocated or paid to the Managing Director, Kerr Neilson or Chief Investment Officer, Andrew Clifford.

### *Profit Share Plan ("PSP") (applies to members of the investment team only)*

The Nomination & Remuneration Committee ratified the PSP in 2014. The PSP was designed to reward key members of the team for helping in the development of Platinum's business through strong investment performance (relative to benchmarks). Individual members of the investment team were issued notional units in the profit share plan. The notional units have no capital value and cannot be sold or transferred to a third party. Notional units are adjusted each year based upon the assessment of each staff member's long-term contribution potential to the future development of Platinum. Each year the profit share percentage is determined based upon the weighted average 1 year and 3 year outperformance of all funds under management. For example, if the average of the 1 and 3 year rolling performance of our Funds exceeds the weighted benchmark by 2.5%, then 1.5% of the Company's fee-based net profit before tax is made available to this pool.

There is no profit share until weighted average 1 year and 3 year outperformance is greater than 1%, inclusive of prior year underperformance carry forward. The profit share figure is limited to 5% of profit before tax, though the Nomination & Remuneration Committee may elect to carry this over to future periods if investment returns indicate a profit share in excess of the 5% level. There were no payments made under the Profit Share Plan in the current or prior year.

### *General Employee Plan (applies to non-investment team staff)*

Performance was assessed against pre-determined operational performance indicators relevant to each employee as assessed by the Directors of the Platinum consolidated entity and ratified by the Nomination & Remuneration Committee. These performance indicators took into account the responsibilities, skill and experience of each employee and their contribution during the year, and emphasised the fact that the business is run extremely efficiently with a total number of employees of 91,

despite total FUM at 30 June 2017 being \$22.7 billion. Other than the named Executive Directors disclosed in this Report, variable cash awards paid to employees in 2017 were generally flat and salary increases limited.

*Deferred Incentive Plan (applies to all staff)*

In June 2016, the Nomination & Remuneration Committee approved the implementation of the Deferred Incentive Plan. The main objectives of the Plan are to recognise the contributions made by key employees and to retain their skills within the firm. Eligible employees are selected by the Nomination & Remuneration Committee during the annual award cycle and the proportion of each short-term incentive award that is deferred varies by employee. The number of deferred rights are determined by dividing the discretionary deferred award amount allocated to each eligible employee 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 grant acceptance date. If an eligible employee remains employed at Platinum after the four year vesting period expires, the employee has a further five years to exercise their deferred right. If an employee resigns from Platinum before they have met the service condition then, in most circumstances, the deferred rights will be forfeited.

An award of deferred rights was made in June 2016 and an additional award was made in June 2017. It is anticipated that further grants will occur in the future, most likely in June of each year. In order to satisfy the obligation to the Company that arises from the granting of deferred awards, the Company intends, over time, to purchase shares on-market and hold these shares within an Employee Share Trust. On 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 grant or on exercise. There is flexibility for the Board to pay cash to the eligible employee on vesting, but the current plan envisages allocating PTM 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, 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.

In the current year, the value of deferred incentives granted was \$4,875,000 (2016: \$3,550,000). The number of rights to PTM shares allocated in the current year was 1,050,656 rights. The Employee Share Trust has purchased 1,050,656 PTM shares and will hold these shares until the vesting date (four years from the grant date) and subsequent exercise.

## Directors' Report – continued

A summary of the grants of deferred rights made in 2017 and 2016 appears in the table below.

	<b>2017 GRANT</b>	2016 GRANT	TOTAL
Value of Deferred Awards converted to deferred rights (\$)	<b>4,875,000</b>	3,550,000	8,425,000
Total number of new deferred rights allocated to employees	<b>1,050,656</b>	591,578	1,642,234
Total number of deferred rights cancelled	–	(16,208)	(16,208)
Total number of deferred rights allocated to employees at 30 June 2017	<b>1,050,656</b>	575,370	1,626,026
Volume-Weighted Average Price (VWAP) of PTM shares over the seven (7) trading days prior to grant date (\$)	<b>4.64</b>	6.17	n/a
Estimated number of deferred rights expected to vest based on assessment at balance date (%)	<b>87%</b>	87%	87%
Grant Date	<b>20 June 2017</b>	20 June 2016	n/a
Vesting Date	<b>20 June 2021</b>	20 June 2020	n/a
Service period used to determine accounting expense	<b>5 years</b>	5 years	5 years
Accounting expense (\$)	<b>848,250</b>	600,300	1,448,550

### Long-Term Incentive Plans

Platinum has two long-term incentive plans in place, being:

- Options and Performance Rights Plan (OPRP); and
- Fund Appreciation Rights Plan (FARP).

There was no allocation under either plan in the current or prior year, as we consider that the Deferred Incentive Plan is a better way of advancing the business, by providing an incentive for key employees to remain with Platinum.

## **Managing Director and other Senior Executive Remuneration in the 2017 Year**

### *Managing Director Remuneration*

Kerr Neilson continued to waive his ability to receive variable compensation. This has been ratified by the Nomination & Remuneration Committee.

### *Other Senior Executive Remuneration*

Andrew Clifford's variable compensation was based on his role as Platinum's Chief Investment Officer and Co-Manager of Platinum International Fund and is based on the Investment Team Plan.

Despite strong absolute and relative performance over the last 12 months of Platinum International Fund, Platinum's Chief Investment Officer and Co-Manager of Platinum International Fund, Andrew Clifford did not receive a variable award in 2017, as his incentives are generally based on a weighted average 1 year and 3 year outperformance.

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 new Quoted Managed Funds, new website design and expanding our communication efforts with both advisors and investors.

The variable compensation paid to Andrew Stannard reflected the leadership and strategic input that he provided into various development opportunities for the business, including overseeing the launch of the Quoted Managed Funds and its legal and regulatory requirements associated with enhancing our corporate communications to analysts and shareholders.

## Directors' Report – continued

### Details of remuneration of Executive Directors

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

	CASH SALARY \$	OTHER <sup>(1)</sup> \$	SUPER- ANNUA- TION \$	SHORT- TERM INCEN- TIVE (CASH) <sup>(2)</sup> \$	SHORT- TERM INCEN- TIVE (DEFERRED) <sup>(2)</sup> \$	LONG- TERM INCEN- TIVES <sup>(3)</sup> \$	TOTAL \$
<b>2017</b>							
Kerr Neilson <sup>(4)</sup>	450,000	(18,089)	19,616	-	-	-	451,527
Andrew Clifford	425,000	(13,206)	19,616	-	-	-	431,410
Elizabeth Norman	400,000	9,250	19,616	1,200,000	104,400	-	1,733,266
Andrew Stannard	400,000	11,009	19,616	400,000	17,400	-	848,025
	<b>1,675,000</b>	<b>(11,036)</b>	<b>78,464</b>	<b>1,600,000</b>	<b>121,800</b>		<b>3,464,228</b>
<b>2016</b>							
Kerr Neilson <sup>(4)</sup>	450,000	19,392	19,308	-	-	-	488,700
Andrew Clifford	425,000	19,162	19,308	-	-	-	463,470
Elizabeth Norman	400,000	22,429	19,308	1,100,000	52,200	-	1,593,937
Andrew Stannard <sup>(5)</sup> (from 10 August 2015)	358,976	5,954	19,308	300,000	-	-	684,238
	1,633,976	66,937	77,232	1,400,000	52,200	-	3,230,345

(1) 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 Short-Term Incentive Plan section for further details. The short-term incentive attributable to Elizabeth Norman is comprised of (i) cash incentive of \$1,200,000 and (ii) the accounting valuation of \$104,400 attributable to Elizabeth Norman with respect to the aggregate allocation of 113,279 deferred rights under the Deferred Incentive Plan, made in 2017 (award amount: \$300,000) and 2016 (award amount: \$300,000). The accounting valuation of \$104,400 represents the current year portion of the accounting fair value attributed to Elizabeth Norman, which will be spread over the five year service period. The short-term incentive attributable to Andrew Stannard is comprised of (i) cash incentive of \$400,000 and (ii) the accounting valuation of \$17,400 attributable to Andrew Stannard with respect to the allocation of 21,552 deferred rights under the Deferred Incentive Plan, made in 2017 (award amount: \$100,000). The accounting valuation of \$17,400 represents the current year portion of the accounting fair value attributed to Andrew Stannard, which will be spread over the five year service period.

(3) There were no long-term incentives (options or fund appreciation rights) granted in the current or prior year.

(4) The Managing Director, Kerr Neilson, waived his right to receive variable compensation and this has been ratified by the Nomination & Remuneration Committee.

(5) The remuneration of Andrew Stannard in the prior year covers the period from the date of his appointment on 10 August 2015 to 30 June 2016.

## Components of Remuneration

The table below illustrates the relative proportions of fixed and variable remuneration as a percentage of total remuneration extrapolated from the "Details of remuneration of Executive Directors" table.

	FIXED REMUNERATION AS A PERCENTAGE OF TOTAL REMUNERATION <sup>(1)</sup>	VARIABLE REMUNERATION AS A PERCENTAGE OF TOTAL REMUNERATION <sup>(2)</sup>
<b>2017</b>		
Kerr Neilson	<b>100%</b>	<b>0%</b>
Andrew Clifford	<b>100%</b>	<b>0%</b>
Elizabeth Norman	<b>25%</b>	<b>75%</b>
Andrew Stannard	<b>51%</b>	<b>49%</b>
<b>2016</b>		
Kerr Neilson	100%	0%
Andrew Clifford	100%	0%
Elizabeth Norman	28%	72%
Andrew Stannard	56%	44%

(1) Fixed remuneration refers to salary, superannuation and provisions or payments made for annual and long service leave.

(2) Variable remuneration refers to short and long-term incentive payments. Only short-term incentive payments were made in the current year (being cash incentive payments and accounting valuations attributed to the allocation of deferred rights to Elizabeth Norman and Andrew Stannard).

## 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 received a fixed fee and mandatory superannuation payments. Non-Executive Directors do not receive variable compensation and are not eligible to participate in any equity-based incentive plans. The Executive Directors examine the base pay of the Non-Executive Directors annually and may utilise the services of an external advisor.

The Executive Directors determined 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, was \$2 million per annum (including superannuation).

## Directors' Report – continued

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 requires approval by shareholders at a general meeting of a maximum amount of remuneration to be paid to the Non-Executive Directors.

### *Remuneration Structure*

From 1 April 2015, the Nomination & Remuneration Committee recommended the Non-Executive Director remuneration structure change to a model that aligns with the various roles and responsibilities that the Non-Executive Directors perform in relation to their work-load and attendance at the Board and Board Committees.

This structure is better aligned with other ASX 200 companies, where the specific role is identified and the remuneration component is allocated to that role. This change occurred from 1 April 2015, without an increase in the overall amount paid to the individual Non-Executive Directors. The structure aligns the remuneration paid to each Non-Executive Director to their responsibilities and roles.

Pursuant to the plan of Director renewal that was announced by the PTM Board on 25 August 2016, in accordance with good governance and ASX guidelines, two of the Non-Executive Directors that were first appointed when the Company became a public company, in April 2007, resigned during the year, being Margaret Towers (resigned on 22 September 2016) and Bruce Coleman (resigned on 19 June 2017).

Below is a consequential summary of the personnel changes within each of the Board's sub-committees.

NAME	AUDIT, RISK & COMPLIANCE COMMITTEE	NOMINATION & REMUNERATION COMMITTEE
Margaret Towers	Chair until 22 September 2016.	Member until 22 September 2016.
Bruce Coleman	Interim Chair between 22 September 2016 and 24 February 2017.	Chair for the financial year up until 19 June 2017.
Anne Loveridge	Member since the date of joining the Board on 22 September 2016 until 24 February 2017 and Chair from 24 February 2017.	Member since the date of joining the Board on 22 September 2016.
Stephen Menzies	Member for the full financial year.	Member until 19 June 2017 and Chair from 19 June 2017.



The following table displays the current Non-Executive Directors and their roles at 30 June 2017.

NON-EXECUTIVE DIRECTOR	MICHAEL COLE	ANNE LOVERIDGE	STEPHEN MENZIES
Board	Chair	Member	Member
Audit, Risk & Compliance Committee	Member	Chair	Member
Nomination & Remuneration Committee	Member	Member	Chair

The table below shows how the remuneration is allocated reflecting their roles at 30 June 2017.

NON-EXECUTIVE DIRECTOR	MICHAEL COLE	ANNE LOVERIDGE	STEPHEN MENZIES
Board	\$170,000	\$130,000	\$130,000
Audit, Risk & Compliance Committee	\$15,000	\$30,000	\$15,000
Nomination & Remuneration Committee	\$15,000	\$15,000	\$30,000
<b>Total</b>	<b>\$200,000</b>	<b>\$175,000</b>	<b>\$175,000</b>

## Directors' Report – continued

### Remuneration of Non-Executive Directors

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

	CASH SALARY \$	SUPER- ANNUATION \$	SHORT-TERM INCENTIVES \$	LONG-TERM INCENTIVES \$	TOTAL \$
<b>2017</b>					
Michael Cole	<b>200,000</b>	<b>19,000</b>	–	–	<b>219,000</b>
Stephen Menzies	<b>160,519</b>	<b>15,249</b>	–	–	<b>175,768</b>
Anne Loveridge (from 22 September 2016)	<b>129,308</b>	<b>12,284</b>	–	–	<b>141,592</b>
Margaret Towers (until 22 September 2016)	<b>43,750</b>	<b>4,156</b>	–	–	<b>47,906</b>
Bruce Coleman (until 19 June 2017)	<b>175,597</b>	<b>16,678</b>	–	–	<b>192,275</b>
	<b>709,174</b>	<b>67,367</b>	–	–	<b>776,541</b>
<b>2016</b>					
Michael Cole	200,000	19,000	–	–	219,000
Margaret Towers	175,000	16,625	–	–	191,625
Bruce Coleman	175,000	16,625	–	–	191,625
Stephen Menzies	160,000	15,200	–	–	175,200
	710,000	67,450	–	–	777,450

Stephen Menzies is Platinum Investment Management Limited's (PIMLs) nominee on the Board of the offshore UCITS fund, Platinum World Portfolios Plc (PWP) and payments are made directly by PWP. Amounts paid in the current year were €20,000 (equivalent to A\$28,908) (2016: €10,000 (equivalent to A\$14,605)). Of this amount, €10,000 (equivalent to \$14,699) was paid from 1 July 2016 to 26 January 2017 (the date of deconsolidation of PWP from the Platinum consolidated entity).

### 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, 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 incentive plans, upon termination, where an Executive resigns, short-term incentives are only paid if the Executive is employed at the date of payment. The Board retains discretion to still make short-term incentive payments in certain exceptional circumstances, such as bona-fide retirement.
- All Executive Directors can terminate their appointment by providing three months' notice.
- 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.

#### Link between performance and remuneration paid by the consolidated entity

	2017	2016	2015	2014	2013
Revenue (\$'000)	<b>333,549</b>	344,658	360,422	319,796	232,152
Expenses (\$'000)	<b>62,971</b>	62,464	58,872	58,751	48,983
Operating profit after tax (\$'000)	<b>192,647</b>	199,870	213,499	189,867	129,112
Basic earnings per share (cents per share)	<b>31.74</b>	34.24	36.66	32.79	22.92
Total dividends (cents per share)	<b>30</b>	32	47	34	22
Total aggregate fixed remuneration paid (\$) <sup>(1)</sup>	<b>2,558,913</b>	2,518,991	2,362,901	2,346,251	1,832,625
Total aggregate variable remuneration paid (\$) <sup>(2)</sup>	<b>1,721,800</b>	1,452,200	1,125,000	2,554,650	852,500

(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 total aggregate fixed remuneration figure is higher in the last four financial years (2017-2014) because two new Directors were appointed in May 2013 and therefore the remuneration over the last four years reflects the appointment of two additional Directors.

(2) Total aggregate variable remuneration paid represents short-term incentive awards. The variable remuneration figure was highest in 2014 primarily because a Profit Share Plan (PSP) incentive allocation was made to Andrew Clifford in that year. The increase in total aggregate variable remuneration in 2017 reflects the work done (primarily by Elizabeth Norman and Andrew Stannard) in launching several key initiatives, including the Quoted Managed Funds, which will help the business grow over time.

## Directors' 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	200,000	–	–	200,000
Stephen Menzies	30,000	–	–	30,000
Anne Loveridge	6,000	–	–	6,000
Kerr Neilson	312,074,841	–	–	312,074,841
Andrew Clifford	32,831,449	–	–	32,831,449
Elizabeth Norman	766,748	–	–	766,748
Andrew Stannard	–	–	–	–

There were no additions or disposals made during the year by any of the Directors.

### 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.

### Use of external remuneration consultants

In the prior year, the consolidated entity engaged the services of PricewaterhouseCoopers to provide the Nomination & Remuneration Committee with recommendations associated with the implementation of the Deferred Incentive Plan. In the current year, the Company continued to utilise the services of PricewaterhouseCoopers to assist with implementation of the Plan. The amount paid or payable to PricewaterhouseCoopers for the provision of these services in FY 2017 was \$52,870 [2016: \$46,433].

### Other related party payments involving KMP

In the current year, the consolidated entity paid \$200,000 to OneVue Services Pty Limited for the provision of services associated with the build, customisation and enhancement of the Platinum website. OneVue is a related entity of the Chairman of Platinum Asset Management Limited, Mr Michael Cole.

## Auditor's Independence Declaration



As lead auditor for the audit of Platinum Asset Management Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. 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.

A handwritten signature in black ink that reads 'R. Balding'. The signature is written in a cursive style and is enclosed within a large, hand-drawn oval.

**R Balding**

Partner  
PricewaterhouseCoopers

Sydney, 24 August 2017

**PricewaterhouseCoopers, ABN 52 780 433 757**

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## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2017

	NOTE	CONSOLIDATED	
		2017 \$'000	2016 \$'000
<b>Revenue</b>			
Management fees		<b>296,391</b>	319,633
Performance fees		<b>1,626</b>	2,613
Administration fees		<b>14,451</b>	15,648
		<b>312,468</b>	337,894
<b>Other income</b>			
Interest		<b>4,341</b>	4,068
Gains/(losses) on equity investments in associates	21(b)	<b>9,736</b>	(2,254)
Gains/(losses) on financial assets at fair value through profit or loss		<b>6,779</b>	[661]
Net foreign exchange gains on overseas bank accounts		<b>149</b>	5,142
Net gains on forward currency contracts, dividends and distributions		<b>76</b>	469
Total revenue and other income		<b>333,549</b>	344,658
<b>Expenses</b>			
Staff		<b>34,242</b>	30,443
Custody, administration, trustee and unit registry		<b>11,992</b>	14,219
Business development		<b>4,080</b>	5,784
Research		<b>2,032</b>	2,117
Rent and other occupancy		<b>1,862</b>	1,647
Technology		<b>1,675</b>	1,734
Share-based payments	20	<b>1,449</b>	635
Legal and compliance		<b>1,419</b>	1,383
Other professional		<b>902</b>	963
Depreciation	8	<b>895</b>	965
Mailhouse and periodic reporting		<b>862</b>	727
Insurance		<b>468</b>	500
Share registry		<b>459</b>	593
Audit fee	19	<b>425</b>	463
Other		<b>209</b>	291
Total expenses		<b>62,971</b>	62,464

	NOTE	CONSOLIDATED	
		2017 \$'000	2016 \$'000
<b>Profit before income tax expense</b>		<b>270,578</b>	282,194
Income tax expense	4	<b>77,931</b>	82,324
<b>Profit after income tax expense for the year</b>		<b>192,647</b>	199,870
<b>Other comprehensive income</b>			
Exchange rate translation impact of foreign subsidiaries	13	<b>406</b>	(422)
Other comprehensive income for the year, net of tax		<b>406</b>	(422)
<b>Total comprehensive income for the year</b>		<b>193,053</b>	199,448
<b>Profit after income tax expense for the year is attributable to:</b>			
Owners of Platinum Asset Management Limited		<b>186,026</b>	200,887
Non-controlling interests		<b>6,621</b>	(1,017)
		<b>192,647</b>	199,870
		<b>CENTS</b>	CENTS
Basic earnings per share	29	<b>31.74</b>	34.24
Diluted earnings per share	29	<b>31.74</b>	34.24

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 2017

	NOTE	CONSOLIDATED	
		2017 \$'000	2016 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		<b>154,263</b>	119,079
Equity investments in associates	21(b)	<b>91,692</b>	47,746
Financial assets at fair value through profit or loss	6	<b>107</b>	49,452
Term deposits		<b>74,876</b>	138,518
Trade and other receivables	7	<b>30,199</b>	29,900
Total current assets		<b>351,137</b>	384,695
<b>Non-current assets</b>			
Fixed assets	8	<b>2,829</b>	2,628
Total non-current assets		<b>2,829</b>	2,628
<b>Total assets</b>		<b>353,966</b>	387,323
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	9	<b>6,255</b>	7,841
Financial liabilities at fair value through profit or loss	10	<b>-</b>	182
Income tax payable		<b>7,866</b>	10,766
Employee benefits	11	<b>3,261</b>	3,129
Total current liabilities		<b>17,382</b>	21,918
<b>Non-current liabilities</b>			
Provisions	11	<b>461</b>	199
Net deferred tax liabilities	5	<b>1,049</b>	995
Total non-current liabilities		<b>1,510</b>	1,194
<b>Total liabilities</b>		<b>18,892</b>	23,112
<b>Net assets</b>		<b>335,074</b>	364,211



	NOTE	CONSOLIDATED	
		2017 \$'000	2016 \$'000
<b>Equity</b>			
Issued capital	12	<b>742,933</b>	747,717
Reserves	13	<b>(585,818)</b>	(587,764)
Retained profits	14	<b>177,959</b>	175,522
<b>Total equity attributable to the owners of Platinum Asset Management Limited</b>		<b>335,074</b>	335,475
<b>Total equity attributable to non-controlling interests</b>			
Non-controlling interests	30	-	28,736
<b>Total equity</b>		<b>335,074</b>	364,211

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 2017

CONSOLIDATED	ISSUED CAPITAL \$'000	RESERVES \$'000	RETAINED PROFITS \$'000	NON- CONTROLLING INTERESTS \$'000	TOTAL EQUITY \$'000
<b>Balance at 1 July 2015</b>	<b>751,355</b>	<b>(588,014)</b>	<b>185,839</b>	<b>-</b>	<b>349,180</b>
Profit after income tax expense for the year	-	-	200,887	(1,017)	199,870
<i>Other comprehensive income</i>					
Exchange rate translation impact of foreign subsidiaries (Note 13)	-	(422)	-	-	(422)
Total comprehensive income for the year	-	(422)	200,887	(1,017)	199,448
<i>Transactions with owners in the capacity as owners</i>					
Treasury shares acquired (Note 12)	(3,638)	-	-	-	(3,638)
Share-based payments reserve (Note 13)	-	672	-	-	672
Dividends paid (Note 15)	-	-	(211,204)	-	(211,204)
Transactions with non-controlling interests (Note 30)	-	-	-	29,753	29,753
Balance at 30 June 2016	747,717	(587,764)	175,522	28,736	364,211

CONSOLIDATED	ISSUED CAPITAL \$'000	RESERVES \$'000	RETAINED PROFITS \$'000	NON- CONTROLLING INTERESTS \$'000	TOTAL EQUITY \$'000
<b>Balance at 1 July 2016</b>	<b>747,717</b>	<b>(587,764)</b>	<b>175,522</b>	<b>28,736</b>	<b>364,211</b>
Profit after income tax expense for the year	-	-	186,026	6,621	192,647
<i>Other comprehensive income</i>					
Exchange rate translation impact of foreign subsidiaries (Note 13)	-	(595)	-	-	(595)
Deconsolidation of Platinum World Portfolios Plc (Note 13)	-	1,001	-	-	1,001
Total comprehensive income for the year	-	406	186,026	6,621	193,053
<i>Transactions with owners in the capacity as owners</i>					
Treasury shares acquired (Note 12)	(4,784)	-	-	-	(4,784)
Share-based payments reserve (Note 13)	-	1,540	-	-	1,540
Dividends paid (Note 15)	-	-	(181,687)	-	(181,687)
Decrease in retained earnings on deconsolidation of Platinum World Portfolios Plc (Note 30)	-	-	(1,902)	(5,604)	(7,506)
Decrease in equity on deconsolidation (Note 30)	-	-	-	(29,753)	(29,753)
<b>Balance at 30 June 2017</b>	<b>742,933</b>	<b>(585,818)</b>	<b>177,959</b>	<b>-</b>	<b>335,074</b>

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 2017

	NOTE	CONSOLIDATED	
		2017 \$'000	2016 \$'000
<b>Cash flows from operating activities</b>			
Receipts from operating activities		<b>311,656</b>	345,175
Payments for operating activities		<b>(65,584)</b>	(60,792)
Income taxes paid		<b>(80,686)</b>	(81,922)
<b>Net cash from operating activities</b>	28	<b>165,386</b>	202,461
<b>Cash flows from investing activities</b>			
Interest received		<b>4,666</b>	4,275
Purchase of term deposits		<b>(494,394)</b>	(464,786)
Proceeds on maturity of term deposits		<b>558,036</b>	525,536
Receipts from sale of financial assets		<b>37,488</b>	7,939
Payments for purchases of financial assets and investments in associates		<b>(91,356)</b>	(105,506)
Payments for purchases of fixed assets	8	<b>(1,097)</b>	(465)
Dividends received		<b>481</b>	321
Distributions received		<b>7</b>	11
Less cash released on deconsolidation		<b>(36,152)</b>	-
<b>Net cash (used in) investing activities</b>		<b>(22,321)</b>	(32,675)
<b>Cash flows from financing activities</b>			
Proceeds from investment by non-controlling interests	30	<b>73,758</b>	29,753
Dividends paid		<b>(181,592)</b>	(211,225)
<b>Net cash (used in) financing activities</b>		<b>(107,834)</b>	(181,472)
<b>Net increase in cash and cash equivalents</b>		<b>35,231</b>	(11,686)
Cash and cash equivalents at the beginning of the financial year		<b>119,079</b>	127,679
Effects of exchange rate changes on cash and cash equivalents		<b>(47)</b>	3,086
<b>Cash and cash equivalents at the end of the financial year</b>		<b>154,263</b>	119,079

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

## Notes to the Financial Statements

30 June 2017

### Note 1. Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

#### **Critical accounting estimates**

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates have been made, are disclosed in Note 2.

#### **Parent entity information**

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only and have been prepared on the same basis as the consolidated entity financial statements. Supplementary information about the parent entity is disclosed in Note 25.

#### **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 2017 and the results of all subsidiaries for the financial year. Platinum Asset Management Limited and its subsidiaries together are referred to in these 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 de-consolidated from the date that control ceases.

## Notes to the Financial Statements

30 June 2017

### Note 1. Significant Accounting Policies – continued

#### Principles of consolidation – continued

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity.

On 26 January 2017, as a result of external investment of A\$129 million into Platinum World Portfolios Plc (“PWP”), PIML’s interest reduced to a level that was below 20%. PWP was deconsolidated from the Platinum consolidated entity from this date and equity accounting has been applied. At 30 June 2017, PIML’s interest in PWP was 14.49%.

With respect to the reporting of PWP, the consolidated statement of profit or loss and other comprehensive income discloses PWP’s direct investment income and expenses for the period 1 July 2016 to 26 January 2017 and PIML’s share of PWP’s net assets for the period 26 January 2017 to 30 June 2017.

#### Equity investments in associates

An associate is an entity over which the consolidated entity exercises significant influence but not control over its financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not control or jointly control those policies. Investments in associates are accounted for using the equity method of accounting in the financial statements. When necessary, adjustments are made to the financial statements of associated entities to bring their accounting policies and reporting dates into line with the consolidated entity’s accounting policies. At 30 June 2017, the consolidated entity was assessed as having significant influence over Platinum Asia Investments Limited and Platinum World Portfolios Plc, as a result of its direct investment and investment management activities.

Under the equity method, the investment in an associate is carried in the statement of financial position at cost plus post acquisition changes in the consolidated entity’s share of net assets of the associate. Where an associate was previously a controlled entity of the consolidated entity, the deemed cost for the purpose of applying the equity method is the fair value on the date that the consolidated entity ceased to have a controlling interest. After application of the equity method, the consolidated entity determines whether it is necessary to recognise any impairment loss with respect to the consolidated entity’s net investments in associates.

## Note 1. Significant Accounting Policies – continued

### Equity investments in associates – continued

The consolidated entity's share of an associate's post-acquisition profit or loss is recognised in the consolidated entity's statement of profit or loss and other comprehensive income and adjusted against the carrying amount of the investment. Dividends or distributions received or receivable from an associate are recognised in the consolidated entity's statement of profit or loss and other comprehensive income, with an associated reduction in the carrying value of the investment.

### Operating segments

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. Refer to Note 3 for further information.

### Foreign currency translation

#### *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the consolidated entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars (\$), which is the consolidated entity's functional and presentation currency.

#### *Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates 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 statement of profit or loss and other comprehensive income.

#### *Other offshore companies within the consolidated entity*

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

- assets and liabilities for the consolidated statement of financial position presented are translated at the closing rate at the date of the consolidated statement of financial position;

## Notes to the Financial Statements

30 June 2017

### Note 1. Significant Accounting Policies – continued

#### Foreign currency translation – continued

*Other offshore companies within the consolidated entity – continued*

- income and expenses for the consolidated statement of profit or loss and other comprehensive income are translated at the date of transaction, or in certain instances, for practical purposes, a rate that approximates the rate at transaction date is used (for example, an average rate); and
- any exchange rate differences are recognised in other comprehensive income and accumulated as a separate reserve in equity.

The foreign currency reserve is recognised in the consolidated statement of profit or loss and other comprehensive income when the foreign operation or net investment is disposed of.

#### Financial assets/liabilities at fair value through profit or loss

Under AASB 139: *Financial Instruments: Recognition and Measurement*, investments are classified in the consolidated entity's statement of financial position as "financial assets/liabilities at fair value through profit or loss". Derivatives and forward currency contracts are classified as financial instruments "held for trading" and equity securities are designated at fair value through profit or loss upon initial recognition.

The consolidated entity has applied AASB 13: *Fair Value Measurement*. 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 participants at the measurement date". AASB 13 increases transparency about fair value measurements, including the valuation techniques and inputs used to measure fair value.

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 security last changed hands from seller to buyer.

The consolidated entity has applied last-sale pricing as the fair value measurement basis for equities and derivatives it holds.

AASB 13 also requires reporting entities to disclose its valuation techniques and inputs. This is described below.



## Note 1. Significant Accounting Policies – continued

### Financial assets/liabilities at fair value through profit or loss – continued

#### *Fair value in an active market*

The fair value of financial assets and liabilities traded in active markets use quoted market prices at reporting date without any deduction for estimated future selling costs. Financial assets are valued using “last-sale” pricing. Gains and losses arising from changes in the fair value of the financial assets/liabilities are included in the consolidated statement of profit or loss and other comprehensive income in the period they arise.

#### *Fair value in an inactive market*

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. These include the use of recent arm’s length market transactions, discounted cash flow techniques or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

#### *Recognition/derecognition*

The consolidated entity recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in the fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have ceased or have been transferred and the consolidated entity has transferred substantially all of the risks and rewards of ownership.

In accordance with Australian Accounting Standards, derivative financial instruments are categorised as “financial assets/liabilities held for trading” and are accounted for at fair value with changes to such values recognised through the consolidated statement of profit or loss and other comprehensive income in the period in which they arise. Short futures are valued based on quoted last prices. Gains and losses arising from changes in the fair value of the financial assets/liabilities are included in the consolidated statement of profit or loss and other comprehensive income in the period they arise. An assessment is made at the end of each reporting period as to whether there is objective evidence that an investment is impaired.

## Notes to the Financial Statements

30 June 2017

### Note 1. Significant Accounting Policies – continued

#### Revenue recognition

##### *Management, administration and performance fees*

Management, administration and performance fees are included as part of operating income and are recognised as they are earned. The majority of management fees were derived from the Platinum Trust Funds. The management fee was calculated at 1.40% per annum of each Fund's daily Net Asset Value. The administration fee was calculated at a rate of up to 0.10% per annum of each Fund's daily Net Asset Value. A performance fee was recognised as income at the end of the fee period to which it relates, when the consolidated entity's entitlement to the fee becomes certain.

##### *Interest income*

Interest income is recognised in the consolidated statement of profit or loss and other comprehensive income and is based on the nominated interest rate available on the bank accounts and term deposits held.

##### *Trust distributions*

Trust distributions are recognised when the consolidated entity becomes entitled to the income.

##### *Dividend income*

Dividend income is brought to account on the applicable ex-dividend date.

#### Income 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 assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered.

## Note 1. Significant Accounting Policies – continued

### Income tax – continued

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

#### *Tax Consolidation Legislation*

In accordance with the (Australian) *Income Tax Assessment Act 1997*, Platinum Asset Management Limited is the head entity of the tax consolidated group that includes all of its 100 per cent wholly-owned Australian subsidiaries.

Any current tax liabilities of the consolidated group are accounted for by Platinum Asset Management Limited. Current tax expense and deferred tax assets and liabilities are determined on a consolidated basis and recognised by the consolidated entity.

#### *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.

### Current and non-current classification

Assets and liabilities are presented in the consolidated statement of financial position based on current and non-current classification.

Asset/liabilities are classified as current when: it is expected or there is a legal obligation for the asset/liability to be realised or settled within 12 months after the reporting period. All other assets/liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### Trade and other receivables

All receivables are measured at amortised cost, are not discounted, and are recognised when a right to receive payment is established. Trade receivables are predominantly comprised of management and performance fees earned, but not received, at balance date. Any debts that are known to be uncollectible are written off.

## Notes to the Financial Statements

30 June 2017

### Note 1. Significant Accounting Policies – continued

#### Cash and cash equivalents

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 and cash held in margin accounts. 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.

Margin accounts comprise cash held as collateral for derivative transactions.

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, administration and performance fees receipts. Payments for operating activities include payments to suppliers and employees.

#### Fixed assets

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	2½ 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.

## Note 1. Significant Accounting Policies – continued

### Operating leases

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. Details of the financial commitments relating to the lease are included in Note 22.

### Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and 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 30 days of being invoiced.

### Employee benefits

#### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### *Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds.

### Issued capital

Ordinary shares are classified as equity. When Platinum, via an Employee Share Trust, purchases PTM shares on-market pursuant to the Deferred Incentive Plan (see the “Share-based payments” accounting policy below for further details), the consideration paid is deducted from total shareholders’ equity and the shares treated as treasury shares. Treasury shares are recorded at cost and when any restrictions on the sale of PTM shares are lifted, generally on vesting, the cost is adjusted to the share-based payments reserve.

### Dividends

Dividends are recognised when declared during the financial year.

## Notes to the Financial Statements

30 June 2017

### Note 1. Significant Accounting Policies – continued

#### Earnings per share

##### *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.

#### Disclosure of interests in other entities

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 and includes the means by which an entity has control, and can include the purchase of units or shares in another entity. The consolidated entity will apply the standard to its interest in the Platinum Trust Funds and any of its subsidiaries and associates. Please refer to Note 24 for the relevant disclosures.

#### Goods and Services Tax (“GST”)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case, it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

## Note 1. Significant Accounting Policies – continued

### Share-based payments

On 2 June 2016, Platinum established a Deferred Incentive Plan, in which the Company through an Employee Share Trust, purchased shares in the Company (PTM shares) for future allocation to key employees of Platinum Investment Management Limited (eligible employees). Employees selected to participate in the Deferred Incentive Plan are at the discretion of the Nomination & Remuneration Committee.

On an annual basis, the Nomination & Remuneration Committee will select the eligible employees that will be granted deferred rights to receive shares in the Company. A proportion of each eligible employee's short-term incentive will be deferred and the amount deferred will vary. The shares will be allocated to eligible employee(s), on the condition that the employee remains with Platinum for a period of four years (vesting period), from the grant date of the deferred rights. The deferred rights may be forfeited or re-allocated to another eligible employee, if an eligible employee leaves Platinum, prior to serving their four year service period.

Details relating to share-based payments are set out in Note 20.

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 for provision of share based payments is derived from the fair value of the equity instruments granted. Deferred incentives settled in PTM 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 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 trueed-up at grant date.

The fair value of the rights granted is recognised in the consolidated accounts 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.

## Notes to the Financial Statements

30 June 2017

### Note 1. Significant Accounting Policies – continued

#### Share-based payments – continued

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 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”.

#### 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 these financial statements have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

#### 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 2017, 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 beginning on or after 1 January 2019. The new 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 was assessed as not having a material impact on the consolidated entity, but the consolidated entity anticipates that the adoption of the standard from 1 January 2019 will result in increased disclosure.



## Note 1. Significant Accounting Policies – continued

### Accounting Standards and Interpretations not yet mandatory or early adopted – continued

#### *AASB 15: Revenue from contracts with customers and associated amendments*

AASB 15 will apply for annual reporting periods beginning on or after 1 January 2018. AASB 15 will replace AASB 111 and AASB 118. The main objective of the new standard is to provide 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 will 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. This is consistent with how performance fees are already recognised in the consolidated entity's accounts. The consolidated entity anticipates that this standard will not have a material impact on the consolidated entity, based on work done to date. The impact of this standard will be subject to ongoing assessment.

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 2. Critical Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other factors, including expectations of future events, management believes to be reasonable under the circumstances.

### Estimation of useful lives of assets (Note 8)

The consolidated entity determines 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 useful lives.

## Notes to the Financial Statements

30 June 2017

### Note 2. Critical Accounting Judgements, Estimates and Assumptions – continued

#### Recovery of deferred tax assets (Note 5)

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.

#### Assessment of control and significant influence of Platinum World Portfolios Plc (“PWP”) (Note 21)

During the year, as a result of additional external investment, an assessment was made that Platinum World Portfolios Plc is no longer controlled by the consolidated entity and, was therefore, deconsolidated from the consolidated entity.

At 30 June 2017, Platinum Investment Management Limited (and the consolidated entity) was assessed as having significant influence over Platinum Asia Investments Limited (“PAI”) and Platinum World Portfolios Plc (“PWP”).

#### *Impairment assessment (Note 21)*

We have conducted an impairment assessment of the carrying amount of the investments in associates, including a look – through of each of the underlying assets and liabilities.

### Note 3. 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”) (since the date of deconsolidation); and
- investments and other: through the consolidated entity’s investment in the (a) ASX quoted, Platinum Asia Investments Limited, (b) offshore fund, PWP, and (c) unlisted Platinum Trust Funds. Also included in this category are Australian dollar term deposits and interest-bearing cash accounts, as well as any associated interest derived from these.

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

### Note 3. Operating Segments - continued

2017	FUNDS MANAGEMENT \$'000	INVESTMENTS AND OTHER \$'000	TOTAL \$'000
<b>Revenue</b>			
Management, performance and administration fees	312,468	-	312,468
Interest	343	3,998	4,341
Net foreign exchange gains on overseas bank accounts	-	149	149
Net gains on financial assets and equity in associates	-	16,515	16,515
Net gains on forward currency contracts, dividends and other income	-	76	76
<b>Total revenue and other income</b>	<b>312,811</b>	<b>20,738</b>	<b>333,549</b>
<b>Expenses</b>	<b>(62,641)</b>	<b>(330)</b>	<b>(62,971)</b>
<b>Profit before income tax expense</b>	<b>250,170</b>	<b>20,408</b>	<b>270,578</b>
Income tax expense	(74,170)	(3,761)	(77,931)
<b>Profit after income tax expense</b>	<b>176,000</b>	<b>16,647</b>	<b>192,647</b>
Other comprehensive income	-	406	406
<b>Total comprehensive income</b>	<b>176,000</b>	<b>17,053</b>	<b>193,053</b>
<b>Assets</b>			
Cash and cash equivalents	9,256	145,007	154,263
Financial assets and equity in associates	-	91,799	91,799
Term deposits	-	74,876	74,876
Receivables and other assets	32,769	259	33,028
<b>Total assets</b>	<b>42,025</b>	<b>311,941</b>	<b>353,966</b>
<b>Liabilities</b>			
Payables and provisions	9,977	-	9,977
Tax liabilities	7,368	1,547	8,915
<b>Total liabilities</b>	<b>17,345</b>	<b>1,547</b>	<b>18,892</b>
<b>Net assets</b>	<b>24,680</b>	<b>310,394</b>	<b>355,074</b>

## Notes to the Financial Statements

30 June 2017

### Note 3. Operating Segments – continued

2016	FUNDS MANAGEMENT \$'000	INVESTMENTS AND OTHER \$'000	TOTAL \$'000
<b>Revenue</b>			
Management, performance and administration fees	337,894	–	337,894
Interest	379	3,689	4,068
Net foreign exchange gains on overseas bank accounts	–	5,142	5,142
Net losses on financial assets and equity in associates	–	(2,915)	(2,915)
Net gains on forward currency contracts, dividends and other income	–	469	469
<b>Total revenue and other income</b>	<b>338,273</b>	<b>6,385</b>	<b>344,658</b>
<b>Expenses</b>	<b>(61,698)</b>	<b>(766)</b>	<b>(62,464)</b>
<b>Profit before income tax expense</b>	<b>276,575</b>	<b>5,619</b>	<b>282,194</b>
Income tax expense	(80,671)	(1,653)	(82,324)
<b>Profit after income tax expense</b>	<b>195,904</b>	<b>3,966</b>	<b>199,870</b>
Other comprehensive income/(loss)	–	(422)	(422)
<b>Total comprehensive income</b>	<b>195,904</b>	<b>3,544</b>	<b>199,448</b>
<b>Assets</b>			
Cash and cash equivalents	3,439	115,640	119,079
Financial assets and equity in associate	–	97,198	97,198
Term deposits	–	138,518	138,518
Receivables and other assets	31,503	1,025	32,528
<b>Total assets</b>	<b>34,942</b>	<b>352,381</b>	<b>387,323</b>
<b>Liabilities</b>			
Financial liabilities	–	182	182
Payables and provisions	9,657	1,512	11,169
Tax liabilities	9,614	2,147	11,761
<b>Total liabilities</b>	<b>19,271</b>	<b>3,841</b>	<b>23,112</b>
<b>Net assets</b>	<b>15,671</b>	<b>348,540</b>	<b>364,211</b>

### Note 3. Operating Segments - continued

The consolidated entity derived management and performance fees from Australian investment vehicles and its US-based investment mandates and also derived investment income from its investments in PAI and PWP. The geographic breakdown of revenue and other income is as follows:

	2017 \$'000	2016 \$'000
<b>Geographic region</b>		
Australia	<b>316,366</b>	329,766
Offshore: United States and Ireland	<b>17,183</b>	14,892
	<b>333,549</b>	344,658

### Note 4. Income Tax Expense

The income tax expense attributable to profit comprises:

	2017 \$'000	2016 \$'000
Current tax payable	<b>77,874</b>	83,631
Deferred tax – recognition of temporary differences	<b>54</b>	(1,259)
Deferred tax – credited to share-based payments reserve	<b>91</b>	37
Adjustment recognised for prior periods	<b>(88)</b>	(85)
Income tax expense	<b>77,931</b>	82,324

#### *Numerical reconciliation of income tax expense:*

Profit before income tax expense	<b>270,578</b>	282,194
Tax at the statutory tax rate of 30%	<b>81,173</b>	84,658
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Tax rate differential on offshore business income	<b>(799)</b>	(1,733)
Unrealised (gains) on investments	<b>(451)</b>	(240)
Realised accounting loss on PAI options	<b>240</b>	–
Non-taxable (gain)/loss on Platinum World Portfolios Plc	<b>(2,379)</b>	436
Other non-deductible expenses	<b>6</b>	(483)
Taxable gains/(losses) on Controlled Foreign Corporation	<b>229</b>	(229)
Adjustment recognised for prior periods	<b>(88)</b>	(85)
Income tax expense	<b>77,931</b>	82,324

## Notes to the Financial Statements

30 June 2017

### Note 5. Non-Current Liabilities – Net Deferred Tax Liabilities

	2017 \$'000	2016 \$'000
<i>Deferred tax liabilities comprises temporary differences attributable to:</i>		
Unrealised foreign exchange (losses)/gains on cash	(17)	3,043
Deferred Incentive Plan	1,640	806
Long service and annual leave	(978)	(939)
Unrealised gains/(losses) on investments	1,564	(667)
Capital expenditure not immediately deductible	(814)	(736)
Unrealised losses of Controlled Foreign Corporation	–	(229)
Brokerage fee	(94)	–
Expense accruals	(252)	(283)
<b>Net deferred tax liabilities</b>	<b>1,049</b>	<b>995</b>

The net deferred tax liability figure is comprised of \$2,155,000 (2016: \$2,854,000) of deferred tax assets and \$3,204,000 (2016: \$3,849,000) 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 \$1,230,000 (2016: \$1,222,000).

### Note 6. Current Assets – Financial Assets at Fair Value through Profit or Loss

	2017 \$'000	2016 \$'000
Unlisted unit trust investments	107	102
Options in Platinum Asia Investments Limited <sup>1</sup>	–	800
Equity securities – held directly by PWP <sup>2</sup>	–	48,438
Derivatives – held directly by PWP <sup>2</sup>	–	24
Forward currency contracts – held directly by PWP <sup>2</sup>	–	88
	<b>107</b>	<b>49,452</b>

1 During the prior year, Platinum Investment Management Limited ("PIML") received 50 million options in Platinum Asia Investments Limited (PAI). During the current year, PIML exercised 21,325,000 options and transferred 19,200,000 options to sophisticated third party investors. The remaining 9,475,000 options expired on 15 May 2017, and lapsed without being exercised.

2 On 26 January 2017, Platinum World Portfolios Plc ("PWP") was deconsolidated from the consolidated entity and PIML's investment was treated as an investment in an associate (see Note 21 for further details).

**Note 7. Current Assets – Trade and Other Receivables**

	<b>2017</b> <b>\$'000</b>	2016 \$'000
Trade receivables	<b>28,762</b>	27,858
Interest receivable	<b>268</b>	605
Prepayments	<b>1,158</b>	995
Dividends receivable	-	115
Proceeds from sale of financial assets	-	319
Sundry debtors	<b>11</b>	8
	<b>30,199</b>	29,900

Trade debtors are comprised of management fees, performance fees and administration fees derived from the Platinum Trust Funds and Mandates.

Trade receivables are received between seven to 30 days after becoming receivable.

Interest receivable comprises accrued interest on term deposits and cash accounts. Interest on term deposits is received on maturity. There were no dividends receivable and proceeds from sale of financial assets at 30 June 2017 because on 26 January 2017, PWP was deconsolidated from the consolidated entity.

## Notes to the Financial Statements

30 June 2017

### Note 8. Non-Current Assets – Fixed Assets

	2017 \$'000	2016 \$'000
Computer equipment – at cost	<b>1,314</b>	1,172
Less: Accumulated depreciation	<b>(1,097)</b>	(994)
	<b>217</b>	178
Software and applications – at cost	<b>5,205</b>	4,343
Less: Accumulated depreciation	<b>(3,997)</b>	(3,569)
	<b>1,208</b>	774
Communications equipment – at cost	<b>133</b>	126
Less: Accumulated depreciation	<b>(112)</b>	(98)
	<b>21</b>	28
Office premises fit out – at cost	<b>2,543</b>	2,468
Less: Accumulated depreciation	<b>(1,293)</b>	(990)
	<b>1,250</b>	1,478
Furniture and equipment – at cost	<b>670</b>	660
Less: Accumulated depreciation	<b>(537)</b>	(490)
	<b>133</b>	170
	<b>2,829</b>	2,628



## Note 8. Non-Current Assets – Fixed Assets – continued

### 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 2015	149	1,156	52	1,574	199	3,130
Additions	116	80	4	233	32	465
Disposals	–	–	(2)	–	–	(2)
Depreciation expense	(87)	(462)	(26)	(329)	(61)	(965)
Balance at 30 June 2016	178	774	28	1,478	170	2,628
Additions	142	862	8	75	10	1,097
Disposals	–	–	(1)	–	–	(1)
Depreciation expense	(103)	(428)	(14)	(303)	(47)	(895)
<b>Balance at 30 June 2017</b>	<b>217</b>	<b>1,208</b>	<b>21</b>	<b>1,250</b>	<b>133</b>	<b>2,829</b>

At 30 June 2017, there was software and applications in the course of construction and development of \$530,043 (2016: \$nil), which forms part of the “additions” line relating to “software & applications”.

## Note 9. Current Liabilities – Trade and Other Payables

	2017 \$'000	2016 \$'000
Trade payables	<b>3,219</b>	4,019
Unclaimed dividends payable to shareholders	<b>545</b>	450
Payable on purchase of financial assets	–	985
GST payable	<b>2,491</b>	2,387
	<b>6,255</b>	7,841

There was no payable on purchase of financial assets at 30 June 2017, because on 26 January 2017, PWP was deconsolidated from the consolidated entity.

## Notes to the Financial Statements

30 June 2017

### Note 10. Current Liabilities – Financial Liabilities at Fair Value through Profit or Loss

	2017 \$'000	2016 \$'000
Derivatives – held directly by PWP	–	16
Forward currency contracts – held directly by PWP	–	166
	–	182

There were no open derivatives or forward currency contracts at 30 June 2017, because on 26 January 2017, PWP was deconsolidated from the consolidated entity and treated as an investment in an associate (see Note 21 for further details).

### Note 11. Current and Non-Current Liabilities – Employee Benefits

	2017 \$'000	2016 \$'000
<b>Current liabilities</b>		
Annual leave	<b>1,364</b>	1,280
Long service leave	<b>1,897</b>	1,849
	<b>3,261</b>	3,129
<b>Non-current liabilities</b>		
Payroll tax on Deferred Incentive Plan*	<b>461</b>	199
	<b>461</b>	199

\* The payroll tax provision increased because payroll tax is payable and has been calculated on the second tranche of deferred rights granted during the year.

## Note 12. Equity – Issued Capital

	2017 SHARES	2016 SHARES	2017 \$'000	2016 \$'000
Ordinary shares – fully paid	<b>586,678,900</b>	586,678,900	<b>747,717</b>	751,355
Treasury shares purchased	–	–	<b>(4,784)</b>	(3,638)
<b>Total issued capital</b>	<b>586,678,900</b>	586,678,900	<b>742,933</b>	747,717

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

On 13 September 2016, the Company announced an on-market share buy-back program, in which shares will be bought-back if the PTM shares trade at a discount to its underlying value. No shares have been bought-back.

### Treasury shares

In the current year, there were additional purchases of \$4,783,594 (2016: \$3,638,073) worth of PTM treasury shares under the Deferred Incentive Plan. Please refer to Note 20 for more information. The allocation of treasury shares and closing balance was as follows:

	2017 SHARES	2016 SHARES	2017 \$'000	2016 \$'000
Opening balance	<b>591,578</b>	–	<b>3,638</b>	–
Additional shares held by the Employee Share Trust	<b>1,034,448</b>	591,578	<b>4,784</b>	3,638
Shares allocated to employees	–	–	–	–
Balance at the end of the financial year	<b>1,626,026</b>	591,578	<b>8,422</b>	3,638

\$4,783,594 (2016: \$3,638,073) represents the amount spent on purchasing PTM shares on-market. This amount and the associated brokerage costs have been disclosed in the consolidated statement of cash flows as part of “cash flows from operating activities”, because the expenditure related to employee remuneration.

## Notes to the Financial Statements

30 June 2017

### Note 13. Equity – Reserves

	2017 \$'000	2016 \$'000
Foreign currency translation reserve	114	(292)
Capital reserve	(588,144)	(588,144)
Share-based payments reserve	2,212	672
	<b>(585,818)</b>	(587,764)

#### 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 \$114,000 at 30 June 2017 (30 June 2016: (\$292,000)).

#### 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.

#### Share-based payments reserve

In June 2016, the consolidated entity established and allocated rights to eligible employees under the Deferred Incentive Plan. The amount in the share-based payments reserve is comprised of the amortisation of the rights granted in the current (and prior year) and any associated future tax deduction.

Please refer to Note 20 for further information.

**Note 13. Equity – Reserves – continued****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 2015	–	130	(588,144)	(588,014)
Exchange rate translation impact of foreign subsidiaries	–	(422)	–	(422)
Movement in share-based payments reserve	672	–	–	672
Balance at 30 June 2016	672	(292)	(588,144)	(587,764)
Exchange rate translation impact of foreign subsidiaries	–	(595)	–	(595)
Deconsolidation of controlled entity	–	1,001	–	1,001
Movement in share-based payments reserve	1,540	–	–	1,540
<b>Balance at 30 June 2017</b>	<b>2,212</b>	<b>114</b>	<b>(588,144)</b>	<b>(585,818)</b>

**Note 14. Equity – Retained Profits**

	2017 \$'000	2016 \$'000
Retained profits at the beginning of the financial year	<b>175,522</b>	185,839
Profit after income tax expense attributable to owners of the Company	<b>186,026</b>	200,887
Deconsolidation of Platinum World Portfolios Plc	<b>(1,902)</b>	–
Dividends paid (Note 15)	<b>(181,687)</b>	(211,204)
Retained profits at the end of the financial year	<b>177,959</b>	175,522

## Notes to the Financial Statements

30 June 2017

### Note 15. Equity – Dividends

#### Dividends

Dividends paid during the financial year were as follows:

	2017 \$'000	2016 \$'000
Dividend paid on 22 September 2016 (2016: 22 September 2015) of 16 cents (2016: 20 cents) per ordinary share	<b>93,774</b>	117,336
Dividend paid on 22 March 2017 (2016: 22 March 2016) of 15 cents (2016: 16 cents) per ordinary share	<b>87,913</b>	93,868
	<b>181,687</b>	211,204

#### Dividends not recognised at year-end

Since 30 June 2017, the Directors declared to pay a fully-franked dividend of 15 cents per share, payable out of profits for the 12 months to 30 June 2017. The dividend has not been provided for at 30 June 2017, because the dividend was declared after year-end.

#### Franking credits

	2017 \$'000	2016 \$'000
Franking credits available at reporting date based on a tax rate of 30%	<b>72,333</b>	69,513
Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30%	<b>7,866</b>	10,766
Franking credits available for subsequent financial years based on a tax rate of 30%	<b>80,199</b>	80,279

## Note 16. 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. Direct exposure to financial risk occurs through the impact on profit of movements in funds under management ("FUM") and through its direct investments in the Platinum Trust Funds, Platinum Asia Investments Limited ("PAI") and the offshore fund, Platinum World Portfolios Plc ("PWP").

Indirect exposure occurs because the operating subsidiary, Platinum Investment Management Limited, is the Investment Manager for various investment vehicles (which include investment mandates, various unit trusts: namely the Platinum Trust Funds and Platinum Global Fund, its ASX-listed investment vehicles: Platinum Capital Limited and Platinum Asia Investments Limited and Platinum World Portfolios Plc).

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;
- (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;

## Notes to the Financial Statements

30 June 2017

### Note 16. Financial Risk Management – continued

#### Market risk – continued

- (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, a performance fee would be receivable for the financial year. As at 30 June 2017, performance fees of \$738,524 (2016: \$11,927) 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 in volatility across markets. For example, it is quite feasible for the Chinese market to grow whilst other Asian markets fall.



## Note 16. Financial Risk Management – continued

### Market risk – continued

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 below 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 2017.

### 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 and Platinum Asia Investments Limited.

#### *US Dollar cash*

At 30 June 2017, the consolidated entity held US\$2,978,425 (equivalent to A\$3,873,618) in cash (2016: US\$85,457,572 equivalent to A\$114,692,756). 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\$352,189 lower/A\$430,464 higher (2016: A\$10,426,614 lower/A\$12,743,639 higher). The reduction related to the fact that, in the current year, nearly all of the consolidated entity's US Dollar cash balances were repatriated into Australian Dollars.

#### *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 Mandate and PWP fees, with all other variables held constant, then net profit before tax would have been A\$502,668 lower/A\$614,288 higher (2016: A\$889,794 lower/A\$1,099,768 higher).

## Notes to the Financial Statements

30 June 2017

### Note 16. Financial Risk Management - continued

#### Foreign currency risk - continued

##### *Investment in Platinum World Portfolios ("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 2017, then the consolidated entity's net assets would have been A\$3.4 million lower/A\$4.2 million higher (2016: A\$5.7 million lower/A\$7.0 million 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 2017, was the Japanese Yen. A 10% increase/decrease in the Australian Dollar would have caused net profit before tax to be A\$726,765 lower/A\$939,761 higher, based on PIML's interest in PWP at 30 June 2017 (2016: A\$661,886 lower/A\$808,972 higher).

##### *Investment in Platinum Asia Investments Limited*

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 2017, was the US Dollar, which was the currency with the largest exposure in this entity at 30 June 2017. A 10% increase/decrease in the Australian Dollar would have caused the consolidated entity's net profit before tax to be A\$1,579,510 lower/A\$1,930,512 higher (2016: A\$1,675,000 lower/A\$2,047,000 higher).

**Note 16. Financial Risk Management - continued****Price risk**

The consolidated entity is exposed to indirect price risk through its equity-accounted investments in Platinum Asia Investments Limited and Platinum World Portfolios.

The table below includes the effect on net profit before tax due to a reasonably possible change in market factors, as represented by a +/-10% movement in the key regional indices affecting the securities exchange that each of the consolidated entity's investments in its two equity-accounted vehicles are exposed, with all other variables held constant.

**2017**

IMPACT ON PROFIT OF A +10% MOVEMENT (A\$)	EXPOSURE TO INDIRECT PRICE RISK - PAI INVESTMENT	EXPOSURE TO INDIRECT PRICE RISK - PWP INVESTMENT
<b>Index</b>		
Japanese Nikkei	-	1,029,163
Shanghai Stock Exchange	2,489,443	1,138,806
National Stock Exchange of India	719,943	-
<b>Total</b>	<b>3,209,386</b>	<b>2,167,969</b>

IMPACT ON PROFIT OF A -10% MOVEMENT (A\$)	EXPOSURE TO INDIRECT PRICE RISK - PAI INVESTMENT	EXPOSURE TO INDIRECT PRICE RISK - PWP INVESTMENT
<b>Index</b>		
Japanese Nikkei	-	(1,029,163)
Shanghai Stock Exchange	(2,489,443)	(1,138,806)
National Stock Exchange of India	(719,943)	-
<b>Total</b>	<b>(3,209,386)</b>	<b>(2,167,969)</b>

## Notes to the Financial Statements

30 June 2017

### Note 16. Financial Risk Management - continued

#### Price risk - continued

2016

IMPACT ON PROFIT OF A +10% MOVEMENT (A\$)	EXPOSURE TO DIRECT PRICE RISK - PAI OPTIONS	EXPOSURE TO INDIRECT PRICE RISK - PAI INVESTMENT	EXPOSURE TO INDIRECT PRICE RISK - PWP INVESTMENT
<b>Index</b>			
ASX All Ordinaries Index	800,000	-	-
Japanese Nikkei	-	-	1,049,969
Shanghai Stock Exchange	-	1,247,000	739,875
National Stock Exchange of India	-	949,000	547,530
S and P (US)	-	-	669,498
Total	800,000	2,196,000	3,006,872

IMPACT ON PROFIT OF A -10% MOVEMENT (A\$)	EXPOSURE TO DIRECT PRICE RISK - PAI OPTIONS	EXPOSURE TO INDIRECT PRICE RISK - PAI INVESTMENT	EXPOSURE TO INDIRECT PRICE RISK - PWP INVESTMENT
<b>Index</b>			
ASX All Ordinaries Index	(800,000)	-	-
Japanese Nikkei	-	-	(1,049,969)
Shanghai Stock Exchange	-	(1,247,000)	(739,875)
National Stock Exchange of India	-	(949,000)	(547,530)
S and P (US)	-	-	(669,498)
Total	(800,000)	(2,196,000)	(3,006,872)

During 2017, all PAI options were either exercised, transferred or expired and there is no longer any options held (refer to Note 23 for further information).

#### Interest rate risk

At 30 June 2017, 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 2017 will cause the consolidated entity's net profit before tax to be \$423,807 higher/lower, based on the impact on its interest-bearing cash balances. An interest rate movement at 30 June 2017 will not impact the profit earned from term deposits, as term deposit interest rates are determined on execution.

## Note 16. 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 and the liquid "at call" cash investment of \$37 million held by Platinum Investment Management Limited are held with licensed Australian banks that all have a AA- credit rating. All current account and other cash balances are held with counterparties that have at least an A 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 above 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 via a counterparty can be assessed by reference to external credit ratings. At 30 June 2017 and 30 June 2016, the relevant credit ratings were as follows:

	2017 \$'000	2016 \$'000
<b>Rating</b>		
AA-	<b>225,170</b>	147,407
A	<b>3,770</b>	110,153
A-	<b>-</b>	1,801
BBB+	<b>199</b>	65
	<b>229,139</b>	259,426

## Notes to the Financial Statements

30 June 2017

### Note 16. Financial Risk Management - continued

#### 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.

#### 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.

2017	AT CALL \$'000	WITHIN 30 DAYS \$'000	BETWEEN 1 AND 3 MONTHS \$'000	OVER 3 MONTHS \$'000	TOTAL \$'000
<b>Non-financial liabilities at fair value through profit or loss</b>					
Trade payables	-	3,219	-	-	3,219
GST payable	-	2,491	-	-	2,491
Current tax payable	-	-	7,866	-	7,866
Unclaimed dividends payable	545	-	-	-	545
Employee-related provisions	3,261	-	-	461	3,722
Total non-financial liabilities at fair value through profit or loss	<b>3,806</b>	<b>5,710</b>	<b>7,866</b>	<b>461</b>	<b>17,843</b>

**Note 16. Financial Risk Management – continued****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 2017, because on 26 January 2017, PWP was deconsolidated from the consolidated entity.

2016	AT CALL \$'000	WITHIN 30 DAYS \$'000	BETWEEN 1 AND 3 MONTHS \$'000	OVER 3 MONTHS \$'000	TOTAL \$'000
<b>Non-financial liabilities</b>					
<b>at fair value through profit or loss</b>					
Trade payables	-	4,019	-	-	4,019
GST payable	-	2,387	-	-	2,387
Payable on purchase of financial assets	-	985	-	-	985
Current tax payable	-	-	10,766	-	10,766
Unclaimed dividends payable	450	-	-	-	450
Employee-related provisions	3,129	-	-	199	3,328
Total non-financial liabilities at fair value through profit or loss	3,579	7,391	10,766	199	21,935
<b>Financial liabilities at fair value through profit or loss</b>					
Derivative contractual outflows	-	16	-	-	16
Forward currency contractual outflows	-	-	164	2	166
Total financial liabilities at fair value through profit or loss	-	16	164	2	182

## Notes to the Financial Statements

30 June 2017

### Note 16. Financial Risk Management – continued

#### **Financial liabilities at fair value through profit or loss – continued**

At 30 June 2017, the consolidated entity has sufficient cash reserves of \$227,263,123 (2016: \$256,078,560) and a further \$29,038,690 (2016: \$28,872,577) of receivables to cover these liabilities. The current year cash reserves figure includes \$182,876,472 of term deposits. All of these term deposits have maturities of 6 months or less from the date of acquisition.

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.

#### **Capital risk management**

##### *(i) Capital requirements*

The Company has limited capital requirements. Owing to the volatility caused by the performance share fee and performance fee component of revenue, the Directors smooth dividend payments and have a policy of paying out 80% to 90% of net profit after income tax expense. This is a policy, not a guarantee.

##### *(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 17. 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 2016):

- (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).

The only financial asset or liabilities held at 30 June 2017 that was measured at fair value were unlisted unit trust investments in the Platinum Trust Funds and its categorisation in the fair value hierarchy model is shown below.

<b>2017</b>	<b>LEVEL 1 \$'000</b>	<b>LEVEL 2 \$'000</b>	<b>TOTAL \$'000</b>
<i>Assets</i>			
Unlisted unit trust investments	<b>107</b>	-	<b>107</b>
Total	<b>107</b>	-	<b>107</b>

The consolidated entity has no assets or liabilities that are classified as level 3.

The fair value hierarchy model at 30 June 2016 (the comparative year) included PWP's direct investments because all of these investments were consolidated as part of the consolidated entity in the prior year. The comparative year also included the PAI options.

## Notes to the Financial Statements

30 June 2017

### Note 17. Fair Value Measurement – continued

#### Fair value hierarchy – continued

2016	LEVEL 1 \$'000	LEVEL 2 \$'000	TOTAL \$'000
<b>Assets</b>			
Options in Platinum Asia Investments Limited ("PAI")	800	–	800
Unlisted unit trust investments	102	–	102
Equity securities – held directly by PWP	46,753	1,685	48,438
Derivatives – held directly by PWP	2	22	24
Forward currency contracts – held directly by PWP	–	88	88
<b>Total</b>	<b>47,657</b>	<b>1,795</b>	<b>49,452</b>
<b>Liabilities</b>			
Derivatives – held directly by PWP	–	16	16
Forward currency contracts – held directly by PWP	–	166	166
<b>Total</b>	<b>–</b>	<b>182</b>	<b>182</b>

The consolidated entity's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1 and 2 for any assets or liabilities measured at fair value during the year.

#### Valuation techniques used to classify assets and liabilities as level 1

As at 30 June 2017, the unlisted unit trust investments held by the consolidated entity were valued based on arm's length prices. All investments remain highly liquid and are valued on a daily basis. Accordingly, these investments have been classified as level 1 in the fair-value hierarchy model.

## Note 18. Key Management Personnel Disclosures

	2017 \$'000	2016 \$'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	<b>3,984</b>	3,774
Accounting expense related to the KMP allocation under the Deferred Incentive Plan <sup>^</sup>	<b>121</b>	52
Superannuation	<b>146</b>	145
Increase/(decrease) in the consolidated entity's annual and long service leave provision	<b>(11)</b>	67
	<b>4,240</b>	4,038

<sup>^</sup> Elizabeth Norman and Andrew Stannard were the only members of KMP to receive an allocation of rights under the Deferred Incentive Plan. The accounting expense attributable to Elizabeth Norman and Andrew Stannard based on the allocation of these deferred rights is as follows:

	2017 GRANT	2016 GRANT	TOTAL
Deferred incentive entitlement award amount (\$)	<b>400,000</b>	300,000	700,000
Number of deferred rights allocated to KMP as at 30 June 2017	<b>86,208</b>	48,623	134,831
Total number of deferred rights allocated to all employees at 30 June 2017	<b>1,056,656</b>	575,370	1,626,026
Volume-Weighted Average Price (VWAP) of PTM shares over the seven (7) trading days prior to grant date (\$)	<b>4.64</b>	6.17	n/a
Service period used to determine accounting expense	<b>5 years</b>	5 years	n/a
Accounting expense attributable to KMP (\$)	<b>69,600</b>	52,200	121,800

## Notes to the Financial Statements

30 June 2017

### Note 18. Key Management Personnel Disclosures – continued

The accounting valuation of \$121,800 represents the current year portion of the accounting fair value attributed to Elizabeth Norman and Andrew Stannard's award, which, in accordance with accounting standards, will be spread over the five year service period.

Elizabeth Norman will receive 48,623 PTM shares if she remains at Platinum until 20 June 2020 and a further 64,656 PTM shares (total of 113,279 PTM shares) if she remains at Platinum until 20 June 2021.

Andrew Stannard will receive 21,552 PTM shares if he remains at Platinum until 20 June 2021.

### 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	200,000	–	–	200,000
Stephen Menzies	30,000	–	–	30,000
Anne Loveridge	6,000	–	–	6,000
Kerr Neilson	312,074,841	–	–	312,074,841
Andrew Clifford	32,831,449	–	–	32,831,449
Elizabeth Norman	766,748	–	–	766,748
Andrew Stannard	–	–	–	–

### Note 19. 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:

	2017 \$	2016 \$
<i>Audit services – PricewaterhouseCoopers</i>		
Audit and review of the financial statements and AFSL audit	<b>91,000</b>	97,779
<i>Audit services for managed funds that Platinum Investment Management Limited acts as responsible entity – PricewaterhouseCoopers</i>		
Audit and review of the financial statements and compliance plan audit	<b>258,600</b>	260,704
<i>Audit services for managed funds that Platinum Investment Management Limited acts as responsible entity and audit services for Platinum World Portfolios Plc – overseas PricewaterhouseCoopers firms</i>		
Audit of financial statements	<b>74,995</b>	104,701
<b>Total audit services</b>	<b>424,595</b>	463,184
<i>Taxation services – PricewaterhouseCoopers</i>		
Compliance services	<b>81,481</b>	67,480
<i>Taxation services for managed funds for which Platinum Investment Management Limited acts as responsible entity – PricewaterhouseCoopers</i>		
Taxation services	<b>431,976</b>	418,105
<i>Taxation services – overseas PricewaterhouseCoopers firms</i>		
Foreign tax agent fees	<b>21,528</b>	47,311
<b>Total taxation services</b>	<b>534,985</b>	532,896
<i>Other services – PricewaterhouseCoopers</i>		
Compliance and assurance services	<b>114,000</b>	158,988
Remuneration services (advice on Deferred Incentive Plan)	<b>52,870</b>	46,433
<b>Total other services</b>	<b>166,870</b>	205,421
Total fees paid and payable to the auditor and its related practices	<b>1,126,450</b>	1,201,501

## Notes to the Financial Statements

30 June 2017

### Note 20. Share-Based Payments

#### **Deferred Incentive Plan (*applies to all staff*)**

In June 2016, a "Deferred Incentive Plan" was approved by the Nomination & Remuneration Committee. The main objective of the Plan is to recognise the contributions made by key employees and to retain their skills within the firm. Eligible employees are selected by the Nomination & Remuneration Committee during the annual remuneration cycle and the proportion of each incentive award that is deferred will vary by employee. The number of deferred rights are determined by dividing the discretionary deferred incentive amount allocated to each eligible employee 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 grant date. If an eligible employee remains employed at Platinum after the four year vesting period expires, the employee has a further five years to exercise their deferred right. If an employee resigns from Platinum before they have met the service condition then, in most circumstances, the deferred rights will be forfeited.

Grants generally occur on an annual basis, most likely in June of each year. In order to satisfy the obligation to the Company that arises from the granting of deferred awards, the Company purchases shares on-market and holds these shares within an Employee Share Trust. On vesting, eligible employees will receive one ordinary share in PTM from the Trust in satisfaction of each of their rights. No fee is payable by any eligible employee on either grant or on exercise. There is flexibility for the Board to pay cash to the eligible employee on vesting, but the current plan envisages allocating PTM shares only.

Eligible employees will have no voting or dividend rights until their rights have been exercised and shares have been allocated. However, the deferred rights 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.

## Note 20. Share-Based Payments – continued

### Deferred Incentive Plan – continued

In the current year, the value of additional deferred incentives were \$4,875,000 (2016: \$3,550,000), which was based on the number of deferred rights of 1,050,656 that was allocated in the current year multiplied by the VWAP share price of \$4.64.

On 20 June 2017, PIML transferred \$4,790,769<sup>1</sup> to enable the Platinum Employee Share Trust to purchase PTM shares on-market. The amount transferred was less than the 2017 deferred incentive award grant of \$4,875,000 (2016: \$3,550,000) because 16,208 PTM shares that were purchased in the prior year were cancelled and re-allocated to another employee.

At 30 June 2017, the aggregate value of deferred incentives was \$8,425,000 (2016: \$3,550,000) and the aggregate number of PTM shares purchased was 1,626,026 shares (2016: 575,370 shares). The Trust will hold these additional shares purchased until the vesting date of 20 June 2020 and 20 June 2021 respectively (four years from allocation) and subsequent exercise. Refer to the table on the following page for further information.

Employees will be entitled to Company (PTM) shares only if eligible employee(s) remain employed with Platinum Investment Management Limited for a period of four years from the grant date.

**1** Out of this amount, \$4,783,594 was used to purchase PTM shares on-market and has been disclosed as part of “treasury shares” in Note 12, with the balance relating to associated brokerage costs.

## Notes to the Financial Statements

30 June 2017

### Note 20. Share-Based Payments – continued

#### Deferred Incentive Plan – continued

Model inputs used to determine the accounting expense for the deferred rights is as follows:

	2017 GRANT	2016 GRANT	TOTAL
Value of Deferred Awards converted to deferred rights (\$)	<b>4,875,000</b>	3,550,000	8,425,000
Total number of deferred rights allocated to employees	<b>1,050,656</b>	591,578	1,642,234
Total number of additional deferred rights cancelled	-	(16,208)	(16,208)
Total number of deferred rights allocated to all employees at 30 June 2017	<b>1,050,656</b>	575,370	1,626,026
Volume-Weighted Average Price (VWAP) of PTM shares over the seven (7) trading days prior to grant date (\$)	<b>4.64</b>	6.17	n/a
Estimated number of deferred rights expected to vest based on assessment at balance date (%)	<b>87%</b>	87%	87%
Grant Date	<b>20 June 2017</b>	20 June 2016	n/a
Vesting Date	<b>20 June 2021</b>	20 June 2020	n/a
Service period used to determine accounting expense	<b>5 years</b>	5 years	5 years
Accounting expense (\$)	<b>848,250</b>	600,300	1,448,550



**Note 20. Share-Based Payments - continued****Expenses arising from share-based payment transactions**

	<b>2017</b> <b>\$'000</b>	2016 \$'000
Deferred rights granted on 20 June 2017 under the Deferred Incentive Plan	<b>848</b>	–
Deferred rights granted on 20 June 2016 under the Deferred Incentive Plan	<b>601</b>	635
Total share-based payments expense	<b>1,449</b>	–
Associated payroll tax expense on deferred rights (payable on vesting)	<b>262</b>	199
<b>Total</b>	<b>1,711</b>	834

The associated payroll tax expense on deferred rights is included in staff expenses in the consolidated statement of profit or loss and other comprehensive income and will be paid on vesting. Payroll tax has been reflected as a provision in the consolidated statement of financial position.

At 30 June 2017, the fair value remaining to be amortised over the remainder of the vesting period is \$3,393,030 for the deferred rights granted on 20 June 2017 and \$1,853,117 for the deferred rights granted on 20 June 2016.

In order to retain and motivate employees, additional options or deferred rights may be issued under the OPRP or Deferred Incentive Plan in the future, in compliance with the *Corporations Act 2001*.

## Notes to the Financial Statements

30 June 2017

### Note 21. Equity Investments in Associates

At 30 June 2017, Platinum Investment Management Limited (and the consolidated entity) was assessed as having significant influence over Platinum Asia Investments Limited ("PAI") and Platinum World Portfolios Plc ("PWP"), because of (i) its equity interests of 13.93% and 14.49% respectively (ii) in the case of PWP, Stephen Menzies is a Director on the Boards of both PTM and PWP (iii) the fact that the consolidated entity operates as Investment Manager in accordance with the respective Investment Management Agreements, and in the case of Platinum Asia Investments Limited, provides it with key technical information, such as performance and exposure reports.

Consequently, at 30 June 2017, the consolidated entity's equity investments in PAI and PWP represent interests in associates which are accounted for using the equity method of accounting. Information relating to this is shown below and on the following pages.

#### (a) Interests in associates

NAME OF ENTITY	EQUITY OWNERSHIP INTEREST %	FAIR VALUE \$'000	CARRYING AMOUNT \$'000
<b>30 June 2017</b>			
Platinum Asia Investments Limited (ASX code: PAI)	<b>13.93</b>	<b>50,750</b>	<b>53,612</b>
Platinum World Portfolios Plc ("PWP")	<b>14.49</b>	<b>39,468</b>	<b>38,080</b>
		<b>90,218</b>	<b>91,692</b>
<b>30 June 2016</b>			
Platinum Asia Investments Limited (ASX code: PAI)	17.05	44,250	47,746

The fair value of PAI reflects the 50 million shares held multiplied by the PAI closing share price at 30 June 2017 of \$1.015 (2016: \$0.885).

The fair value of PWP reflects the shares held in the sub-funds multiplied by their respective closing prices at 30 June 2017.

The carrying value reflects the consolidated entity's share of each associate's net assets (see Note 21(b) for further details).

We have conducted an impairment assessment of the carrying amount including a look-through of each of the underlying assets and liabilities of PAI. Based on this analysis, no impairment exists at 30 June 2017.

**Note 21. Equity Investments in Associates – continued****(b) Carrying amount of investment using the equity method**

	2017 \$'000	2016 \$'000
Opening balance	47,746	–
Acquisition of associate (investment pursuant to the PAI IPO)	–	50,000
Initial recognition of PWP as an equity investment on deconsolidation	34,210	–
Share of associates' profit/(loss) (see Note 21(d))	9,736	(1,543)
Share of associates' transaction costs in relation to the PAI IPO, net of tax	–	(711)
Amount recognised in the consolidated statement of profit or loss and other comprehensive income	9,736	(2,254)
Closing balance (see Note 21(c))	91,692	47,746

**(c) 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
<b>30 June 2017</b>				
Total assets	397,317	55,330	265,402	38,457
Total liabilities	12,339	1,718	2,602	377
Net assets	384,978	53,612	262,800	38,080
Total group's share of associates' statement of financial position (share of PAI's net assets of \$53,612,000 and PWP's net assets of \$38,080,000 = \$91,692,000)				
<b>30 June 2016</b>				
Total assets	282,068	48,105		
Total liabilities	(2,105)	(359)		
Net assets	279,963	47,746		

## Notes to the Financial Statements

30 June 2017

### Note 21. Equity Investments in Associates - continued

#### (d) Associate's net income

2017	PLATINUM ASIA INVESTMENTS LIMITED \$'000	GROUP'S SHARE OF ASSOCIATE \$'000	PLATINUM WORLD PORTFOLIOS \$'000	GROUP'S SHARE OF ASSOCIATE \$'000
Total investment income	61,040	<b>8,503</b>	31,158	<b>4,514</b>
Total expenses	[5,508]	<b>(767)</b>	[1,600]	<b>(232)</b>
Profit before tax	55,532	<b>7,736</b>	29,558	<b>4,282</b>
Income tax expense	[16,381]	<b>(2,282)</b>	-	-
Profit after tax	39,151	<b>5,454</b>	29,558	<b>4,282</b>
<b>GROUP'S SHARE OF ASSOCIATES (TOTAL)</b>				<b>\$'000</b>
Total investment income				<b>13,017</b>
Total expenses				<b>(999)</b>
Profit before tax				<b>12,018</b>
Income tax expense				<b>(2,282)</b>
Profit after tax				<b>9,736</b>
2016		PLATINUM ASIA INVESTMENTS LIMITED \$'000		GROUP'S SHARE OF ASSOCIATE \$'000
Total investment loss			[8,466]	[1,444]
Total expenses			[4,326]	[737]
Loss before tax			[12,792]	[2,181]
Income tax benefit			3,743	638
Loss after tax			[9,049]	[1,543]

**Note 22. Commitments**

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
<i>Lease commitments – operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	<b>2,057</b>	1,440
One to five years	<b>8,924</b>	840
Greater than five years	<b>6,404</b>	–
	<b>17,385</b>	2,280

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 comparative numbers were significantly lower because these numbers were based on the old lease, which at the time, was due to expire in January 2018.

The consolidated entity has no commitments for significant capital expenditure.

**Note 23. Related Party Transactions****Subsidiaries**

Interests in subsidiaries are set out in Note 26.

**Key management personnel**

Disclosures relating to key management personnel are set out in Note 18 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 to shareholders are disclosed in the consolidated statement of cash flows.

## Notes to the Financial Statements

30 June 2017

### Note 23. Related Party Transactions - continued

#### Transactions with related parties

Platinum Investment Management Limited provides investment management services to (i) its related party unit trusts – the Platinum Trust Funds and Platinum Global Fund (ii) the offshore fund, Platinum World Portfolios Plc and (iii) its two ASX – listed investment companies (LICs), Platinum Capital Limited and Platinum Asia Investments Limited.

Platinum Investment Management Limited was entitled to receive a monthly management fee from each of these entities, a monthly administration fee from the Platinum Trust Funds and Platinum Global Fund and a performance fee (that is calculated annually) based on the relative investment performance of the Platinum Trust Funds, Platinum Capital Limited and Platinum Asia Investments Limited. The total related party fees recognised in the statement of profit or loss and other comprehensive income for the year ended 30 June 2017 was \$260,263,536 (2016: \$280,579,030). The total related party fees receivable recognised in the statement of financial position at 30 June 2017 was \$22,869,423 (2016: \$21,888,293).

At 30 June 2017, Platinum Investment Management Limited (“PIML”) continued to hold its 50 million shares (2016: 50 million shares) in PAI.

During the year, PIML transferred 19,200,000 of its 50 million options to sophisticated third party investors for nil consideration. In addition, PIML exercised 21,325,000 of its PAI options at the exercise price of \$1 per option and on the same day sold 21,325,000 PAI shares for \$1 per share pursuant to an on-market block trade. PIML retained the remaining 9,475,000 options and these expired on 15 May 2017.

At 30 June 2017, the PAI shares were valued at \$1.015 per share (2016: \$0.885 per share). The total fair value of PIML’s investment was \$50,750,000 (2016: \$44,250,000) for the shares and \$nil for the options (2016: \$800,000).

Platinum Investment Management Limited held investments in the Platinum Trust Funds. At 30 June 2017, the amount of this investment as disclosed in the consolidated statement of financial position was \$107,453 (2016: \$101,711). The income distribution relating to this, as disclosed in the consolidated statement of profit or loss and other comprehensive income was \$10,516 (2016: \$6,819).

**Note 23. Related Party Transactions – continued****Transactions with related parties – continued**

The fair value of Platinum Investment Management Limited's seeding investment of US\$25 million (equivalent to A\$35,231,000) in the offshore fund, Platinum World Portfolios Plc ("PWP") at 30 June 2017 (and 30 June 2016) is shown in the table below.

	INTEREST %	FAIR VALUE OF INTEREST A\$'000
<b>30 June 2017</b>	<b>14.49</b>	<b>39,468</b>
30 June 2016	51.90	32,780

Mr Stephen Menzies is Platinum Investment Management Limited's nominee on the Board of PWP. Platinum Investment Management Limited reimburses Stephen Menzies for any incidental travel and accommodation associated with attendance at Board meetings in Ireland. At 30 June 2017, the amount reimbursed was \$18,488 (2016: \$20,639).

With respect to PWP, PIML has undertaken to limit the annual expenses of each of PWP's sub-funds through the use of a voluntary expense cap, where total expenses of each sub-fund does not exceed a specified limit (for example: for the base fee classes), the limit or cap is 1.65% of the Net Asset Value of each sub-fund). At 30 June 2017, the total amount paid or payable by PIML to PWP in respect of expenses for the period was A\$58,683 (2016: A\$337,413).

During the prior year, the Company established and allocated rights to eligible employees under the Deferred Incentive Plan. A second tranche of rights were allocated to eligible employees in the current year.

On 20 June 2017, PIML transferred \$4,790,769 to enable the Platinum Employee Share Trust to purchase PTM shares on-market. The amount transferred was less than the 2017 deferred incentive award grant of \$4,875,000 (2016: \$3,550,000) because 16,208 PTM shares that were purchased in the prior year were cancelled and re-allocated to another employee.

## Notes to the Financial Statements

30 June 2017

### Note 23. Related Party Transactions - continued

#### Transactions with related parties - continued

After the expiration of four years from grant date, PTM shares will be allocated to key employees of Platinum if they remain employees of Platinum for the vesting period of four years and exercise their entitlement to these shares. If an employee leaves before the expiry of four years, the shares will be forfeited and may be re-allocated to other employees. See Note 20 for further details.

In the current year, the consolidated entity paid \$200,000 to OneVue Services Pty Limited for the provision of services associated with the build, customisation and enhancement of the Platinum website. OneVue is a related entity of the Chairman of Platinum Asset Management Limited, Mr Michael Cole.

#### 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.

### Note 24. Disclosure of Interests in Other Entities

#### (a) 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 2017, 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 for the FY 17 year, receiving management, administration and performance fees for its role as investment manager.

The following table provides information in relation to this investment:

	2017 \$'000	2016 \$'000
Net Asset Value attributable to all investors		
Platinum Trust Funds	<b>16,317,146</b>	16,777,587
Maximum exposure (includes PIMLs interest & fees receivable)		
Platinum Trust Funds	<b>21,754</b>	21,403



**Note 24. Disclosure of Interests in Other Entities – continued****(b) Subsidiary and associate disclosures**

The table below discloses the Net Asset Value relating to the Company's subsidiaries and associates at 30 June:

ENTITY	EXTENT OF PIML'S INTEREST %	NET ASSET VALUE ATTRIBUTABLE TO ALL INVESTORS \$'000	MAXIMUM EXPOSURE (PIML'S INTEREST PLUS AMOUNTS RECEIVABLE) \$'000
<b>Current period – 30 June 2017</b>			
McRae Pty Limited	100.00	13,677	13,677
Platinum Asset Pty Limited	100.00	42,362	42,362
Platinum Investment Management Limited	100.00	190,512	190,512
Platinum Asia Investments Limited	13.93	384,978	53,973
Platinum World Portfolios Plc	14.49	262,800	38,474
Platinum Employee Share Trust (market value of PTM shares purchased on-market at balance date plus excess cash) <sup>^</sup>	100.00	7,531	7,531
PIMA Corp (US)	100.00	185	185
		<b>902,045</b>	<b>346,714</b>
<b>Prior period – 30 June 2016</b>			
McRae Pty Limited	100.00	13,677	13,677
Platinum Asset Pty Limited	100.00	42,362	42,362
Platinum Investment Management Limited	100.00	183,104	183,104
Platinum Asia Investments Limited	17.05	279,963	47,998
Platinum World Portfolios Plc	51.90	63,122	32,787
Platinum Employee Share Trust (market value of PTM shares purchased on-market at balance date plus excess cash) <sup>^</sup>	100.00	3,407	3,407
PIMA Corp (US)	100.00	189	189
		585,824	323,524

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

There are no additional off-statement of financial position arrangements which would expose the consolidated entity to potential loss.

## Notes to the Financial Statements

30 June 2017

### Note 25. Parent Entity Information

Set out below is supplementary information about the parent entity.

#### Statement of profit or loss and other comprehensive income

	PARENT	
	2017 \$'000	2016 \$'000
Profit after income tax	<b>181,770</b>	207,028
<b>Total comprehensive income</b>	<b>181,770</b>	207,028

#### Statement of financial position

	PARENT	
	2017 \$'000	2016 \$'000
Total current assets	<b>127,117</b>	131,101
Total assets	<b>757,605</b>	762,224
Total current liabilities	<b>(8,412)</b>	(11,216)
Total liabilities	<b>(8,412)</b>	(11,216)
<b>Net assets</b>	<b>749,193</b>	751,008
Equity		
Issued capital	<b>742,933</b>	747,717
Capital reserve	<b>4,596</b>	1,710
Retained profits	<b>1,664</b>	1,581
<b>Total equity</b>	<b>749,193</b>	751,008

#### 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.

### Note 26. Interests in Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1:

NAME	PRINCIPAL PLACE OF BUSINESS/COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
		2017 %	2016 %
McRae Pty Limited	Australia	<b>100</b>	100
Platinum Asset Pty Limited	Australia	<b>100</b>	100
Platinum Investment Management Limited	Australia	<b>100</b>	100
Platinum Employee Share Trust	Australia	<b>100</b>	100
Platinum Investment Management Australia (PIMA) Corp.	United States	<b>100</b>	100
Platinum World Portfolios Plc	Ireland	<b>n/a</b>	51.9

### Note 27. Events after the Reporting Period

Apart from the changes to the Platinum Trust Funds/Platinum Global Fund fee options that were effective from 3 July 2017 and the dividend declared in August 2017, no other matter or circumstance has arisen since 30 June 2017 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 2017

### Note 28. Reconciliation of Profit After Income Tax to Net Cash from Operating Activities

	2017 \$'000	2016 \$'000
Profit after income tax expense for the year	<b>192,647</b>	199,870
Adjustments for:		
Prior period tax	<b>(88)</b>	(85)
Depreciation expense	<b>895</b>	965
Net loss on disposal of fixed assets	<b>1</b>	2
Purchase of shares and transaction costs associated with the Deferred Incentive Plan	<b>(4,791)</b>	(3,647)
Share-based payments accounting expense	<b>1,449</b>	635
Foreign exchange differences	<b>(120)</b>	(5,142)
Interest income	<b>(4,341)</b>	(4,068)
(Gain)/loss on investments	<b>(16,591)</b>	2,446
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	<b>(455)</b>	11,245
Decrease/(increase) in deferred tax assets	<b>790</b>	(1,701)
(Increase)/decrease in prepayments	<b>(163)</b>	(4)
(Decrease) in trade creditors and GST	<b>(696)</b>	(679)
(Decrease)/increase in provision for income tax	<b>(2,900)</b>	1,624
(Decrease)/increase in deferred tax liabilities	<b>(645)</b>	442
Increase in employee provisions and payroll tax	<b>394</b>	558
Net cash from operating activities	<b>165,386</b>	202,461

### Note 29. Earnings Per Share

	2017 \$'000	2016 \$'000
Profit after income tax attributable to the owners of Platinum Asset Management Limited	<b>186,026</b>	200,887
	<b>NUMBER</b>	NUMBER
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	<b>586,052,147</b>	586,661,000
	<b>CENTS</b>	CENTS
Basic earnings per share	<b>31.74</b>	34.24
Diluted earnings per share	<b>31.74</b>	34.24

### Note 30. Non-Controlling Interests

External (non-related party) investment in PWP represents a non-controlling interest in the consolidated entity which can be broken down as follows:

	<b>30 JUNE 2017</b> <b>\$'000</b>	30 JUNE 2016 \$'000
Opening balance	<b>28,736</b>	–
Profit/(loss) after income tax attributable to non-controlling interests	<b>6,621</b>	(1,017)
Additional external investment into PWP	<b>73,758</b>	29,753
Deconsolidation of PWP – external equity	<b>(103,511)</b>	–
Deconsolidation of PWP – current year profit (\$6,621,000) and prior year loss (\$1,017,000)	<b>(5,604)</b>	–
	<b>–</b>	28,736

#### External equity – Platinum World Portfolios Plc

External equity represents external investment into the Platinum World Portfolios (“PWP”). During the year, net external investment into the PWP totalled A\$73,758,000 (2016: A\$29,753,000).

In January 2017, an external investor invested US\$97.4 million (A\$129 million) into PWP. This resulted in PIML’s interest decreasing to 16.5% on 26 January 2017. This created the trigger point for the consolidated entity to no longer control PWP. The results of PWP have been deconsolidated from the financial statements and equity accounting has been applied from 26 January 2017 (see Note 21 for further details).

### Note 31. Contingent Assets and Liabilities

The new Quoted Managed Funds (QMFs) are expected to launch in September 2017, which will offer an International Fund (“PIXX”) and an Asia Fund (“PAXX”). PIML expects to seed these Funds to a level of up to \$50 million (\$25 million allocated to each Fund). There are no other contingent assets or liabilities in existence at 30 June 2017 and 30 June 2016.

## Notes to the Financial Statements

30 June 2017

### Note 32. Offsetting Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the consolidated statement of financial position are disclosed in the first three columns of the table.

There were no financial assets or liabilities at fair value as at 30 June 2017, because on 26 January 2017, PWP was deconsolidated from the consolidated entity. The below table shows the comparative period only.

	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT OFFSET IN THE STATEMENT OF FINANCIAL POSITION		
	GROSS AMOUNTS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION (\$'000)	NET AMOUNTS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION (\$'000)	NET AMOUNTS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION (\$'000)	FINANCIAL INSTRUMENTS (\$'000) <sup>(1)</sup>	CASH COLLATERAL (\$'000)	NET AMOUNT (\$'000)
<b>30 June 2016</b>						
<b>Financial assets</b>						
Derivatives	24	-	24	(16)	-	8
Forward currency contracts	88	-	88	(88)	-	-
Total	112	-	112	(104)	-	8
<b>Financial liabilities</b>						
Derivatives	16	-	16	(16)	-	-
Forward currency contracts	166	-	166	(88)	(78)	-
Total	182	-	182	(104)	(78)	-

(1) shows the impact of arrangements between the consolidated entity and the relevant counterparty on financial instruments that provide a right to set-off that becomes enforceable and affects settlement of individual financial assets and liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of business. These arrangements are not set-off in the consolidated Statement of Financial Position, as they were not enforceable.

## Directors' Declaration

30 June 2017

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 in Note 1 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 2017 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



**Kerr Neilson**  
Director

24 August 2017  
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 2017 and of its financial performance for the year then ended; and
- (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 2017
- 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 Consolidated Financial Statements, which include a summary of significant accounting policies; and
- 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](http://www.pwc.com.au)

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**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**

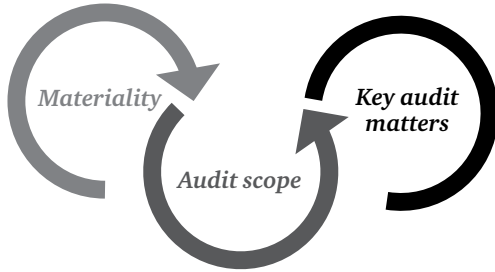
An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually, or in aggregate, they could reasonably be expected to influence the economic decisions 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 provides custodian services for the trusts that the Group manages.

## Independent Auditor’s Report

To the members of Platinum Asset Management Limited



MATERIALITY	AUDIT SCOPE	KEY AUDIT MATTERS
<ul style="list-style-type: none"> <li>- For the purpose of our audit we used overall Group materiality of \$13.5 million, which represents 5% of the Group’s profit before tax.</li> <li>- 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.</li> <li>- We chose Group profit before tax because, in our view, it is the metric against which the performance of the Group is most commonly measured.</li> <li>- We selected 5% based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds.</li> </ul>	<ul style="list-style-type: none"> <li>- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> <li>- We conducted an audit of the most financially significant entities within the Group being Platinum Investment Management Limited (PIML) and Platinum Asset Proprietary Limited (PAPL). This was supplemented with risk focused audit procedures over corporate functions including cash and treasury.</li> <li>- In establishing the overall approach to the Group audit, we considered the type of work that needed to be performed by us, as the Group’s auditor, or by component auditors operating under our instruction.</li> </ul>	<ul style="list-style-type: none"> <li>- Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee:                             <ul style="list-style-type: none"> <li>• Fee Revenue</li> <li>• Offshore banking unit taxation</li> <li>• Accounting for investment vehicles.</li> </ul> </li> <li>- These are further described in the <i>Key audit matters</i> section of our report.</li> </ul>

### 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.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<p><b>Fee Revenue</b></p> <p><i>Refer to note 1 – Significant accounting policies</i></p> <p>Revenue is the Group’s most significant account balance in the consolidated statement of profit or loss and other comprehensive income. The Group recognised revenue of \$312.5 million comprising the following revenue streams:</p> <ul style="list-style-type: none"> <li>– Management fees (\$296.4 million);</li> <li>– Performance fees (\$1.6 million); and</li> <li>– Administration fees (\$14.5 million).</li> </ul> <p>The terms of these fees are set out in the Group’s investment management agreements with mandate clients and trusts.</p>	<p>To assess the design and operating effectiveness of relevant key controls over recognising fee revenue, we performed the following audit procedures amongst others:</p> <ul style="list-style-type: none"> <li>– Inspected a sample of reconciliations performed by the Group throughout the year to determine whether the Group’s records of assets under its management agreed with the administrator’s records</li> <li>– Read the administrator’s auditor’s report as provided to the Group; and</li> <li>– 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.</li> </ul>

## Independent Auditor's Report

To the members of Platinum Asset Management Limited

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<p><b><i>Fee Revenue – continued</i></b></p> <p>We considered the Group's fee revenue a key audit matter due to the:</p> <ul style="list-style-type: none"> <li>- Amount of the <b>management fee</b> and <b>administration fee</b> balances.</li> <li>- Higher level of risk related to performance fees arising from the:           <ul style="list-style-type: none"> <li>• Manual processes involved in calculating, reviewing and recording the fees; and</li> <li>• Complexity of performance fee arrangements which involve the Group assessing the performance of relevant assets against a specified benchmark which is calculated using complex formulae. These benchmarks are agreed between the Group and its clients, and set out in relevant investment management agreements.</li> </ul> </li> </ul>	<p><i>Management and administration fees</i></p> <ul style="list-style-type: none"> <li>- For management and administration fees received from mandate clients, we tested a sample of fee calculations by agreeing funds under management (FUM) and the fee rate back to the Group's system reports and the relevant investment management agreement respectively, and tracing the fees received to bank statements. No material exceptions were noted.</li> <li>- For management and administration fees received from trusts managed by the Group, we tested a sample of fees recorded by the Group against Net Asset Value data obtained from the third party administrator and fee rates obtained from the Product Disclosure Statements and trust constitutions. No material exceptions were noted.</li> </ul> <p><i>Performance fees</i></p> <p>For a sample of performance fees we:</p> <ul style="list-style-type: none"> <li>- Agreed the data used in the fee calculations to the Group's underlying systems, agreeing the basis of the calculations to that set out in the relevant client agreements, agreeing the benchmark performance to an independent third party source, and testing the calculations. No material exceptions were noted</li> <li>- Agreed the performance fees received to the Group's relevant bank statements.</li> </ul>

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<p><b>Offshore banking unit taxation</b>  Refer to note 1 - Significant accounting policies and note 4 - Income Tax expense</p> <p>The Group's current income tax payable is calculated in accordance with Australian Taxation Laws in force at the balance sheet date including those relating to Offshore Banking Units ("OBU").</p> <p>To apply the OBU tax rates to the offshore income tax expense calculation, the Group must assess its OBU eligibility by considering whether its investment activities meet the conditions set out in the OBU taxation laws and determine the portion of general expenses which relate to the OBU.</p> <p>If the Group meets the OBU eligibility requirements, a reduced tax rate of 10% is applied to their offshore taxable income.</p> <p>We considered this a key audit matter given the judgement used by the Group to determine and apply a methodology for allocating general expenses to the OBU.</p>	<p>In assessing current income tax payable, we performed the following audit procedures amongst others:</p> <ul style="list-style-type: none"> <li>- Considered the Group's eligibility to apply the OBU taxation laws by assessing its compliance with key OBU conditions</li> <li>- Assessed the methodology used by the Group to allocate expenses for determining offshore taxable income. We found the methodology consistent with market practice observed by PwC tax specialists</li> <li>- Agreed the key inputs (such as income and expense balances) used in the Group's tax calculations to the Group's accounting records, noting no material exceptions</li> <li>- Reperformed the OBU tax calculation.</li> </ul>

## Independent Auditor's Report

To the members of Platinum Asset Management Limited

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
<p><b>Accounting for investment vehicle</b>  <i>Refer to note 1 - Significant accounting policies</i>            During the year, external investors invested \$129m into Platinum World Portfolios Plc ("PWP") which reduced the Group's interest in PWP from 51.9% as at 30 June 2016 to 14.5% as at 30 June 2017. This change required an assessment of whether the Group continues to control PWP or whether the Group has significant influence over PWP.</p> <p>We considered this a key audit matter given the judgement required in determining the appropriate classification and accounting for the Group's investment in PWP in accordance with Australian Accounting Standards. This included:</p> <ul style="list-style-type: none"> <li>- The level of influence the Group has over PWP</li> <li>- The extent of exposure to returns or rights to variable returns from the Group's involvement with PWP</li> <li>- The ability for the Group to use its influence over PWP to affect the amount of the return</li> </ul>	<p>To assess the classification and accounting treatment of the investment in PWP we performed the following audit procedures amongst others:</p> <ul style="list-style-type: none"> <li>- Obtained PWP's offer documents, constitution and the Investment Management Agreement between PIML and PWP to develop an understanding of the scope of powers and decision making authority held by the Group</li> <li>- Assessed the Group's exposure to PWP's returns by multiplying the expected management and performance fees of PWP by the ownership percentage of the Group.</li> </ul>
<p>At 30 June 2017, the Group concluded that it did not control PWP but rather has significant influence over it.</p>	

**Other information**

The Directors are responsible for the other information. The other information included in the Group's annual report for the year ended 30 June 2017 comprises the Shareholder Information and the Directors' Report (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report. We also expect other information to be made available to us after the date of this auditor's report, including the Chairman's Report and the Managing Director's Letter to Shareholders.

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 identified above 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.

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 as identified above, 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.

## Independent Auditor's Report

To the members of Platinum Asset Management Limited

### 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: [www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf). This description forms part of our auditor's report.

### Report on the Remuneration Report

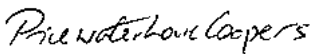
#### Our opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 29 to 42 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Platinum Asset Management Limited for the year ended 30 June 2017 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.



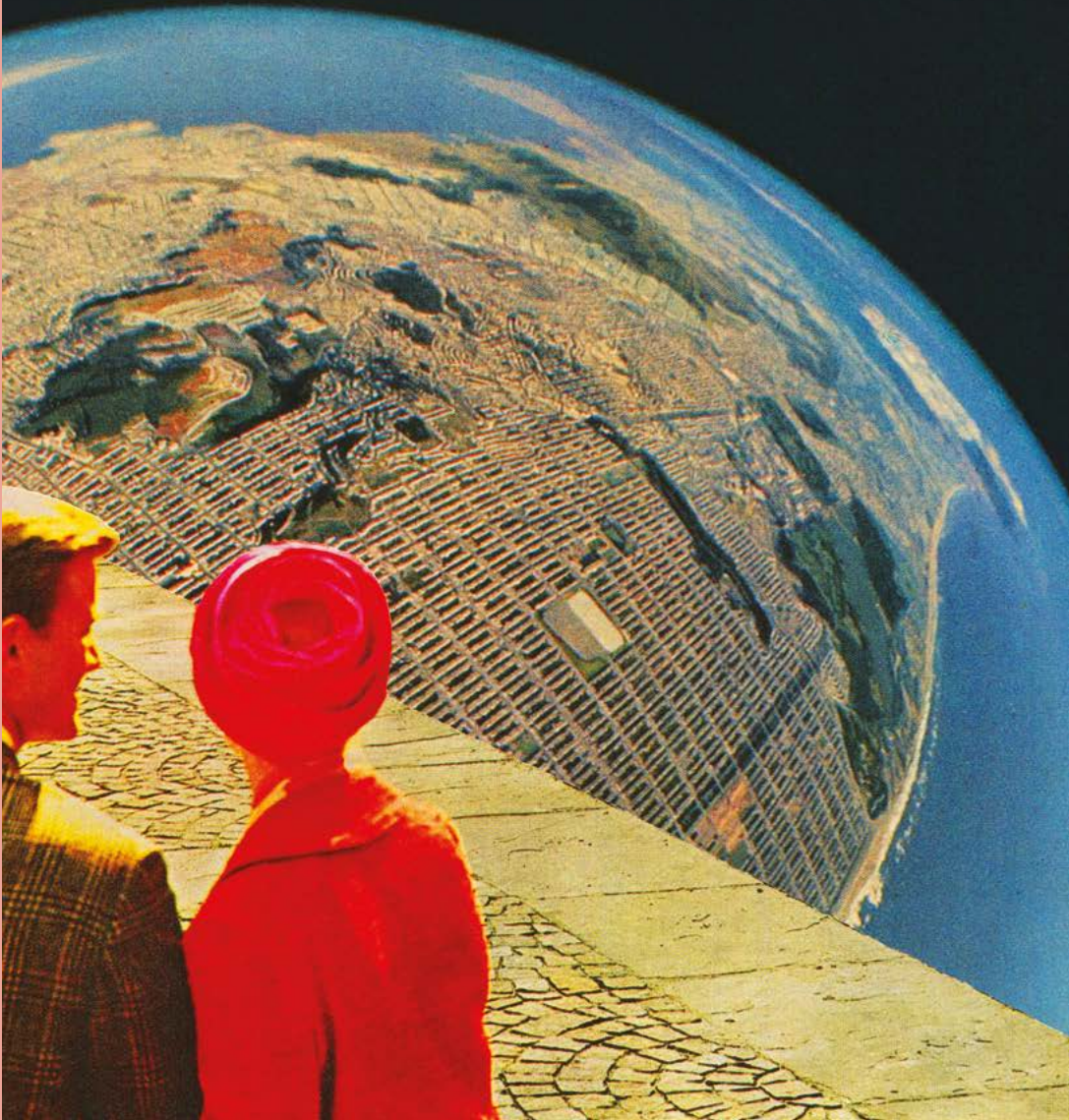
**PricewaterhouseCoopers**

**R Balding**  
Partner

Sydney, 24 August 2017



# Visions of an Autonomous Future



**Designed and produced by**

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**Article by**

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Platinum Asset Management

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# Preface

The history of land transportation – and, indeed, of transportation more generally – was shaped by a small number of gigantic leaps.

Early on, humans learned to harness the powers of animals stronger than ourselves, but the first real leap came with the invention of wheels and the ability to augment biological force with mechanical force. Then came the steam engine, and later the internal combustion engine. This ability to turn thermal and chemical energy into mechanical power meant that movement and transport no longer required our physical input. Transportation did, however, still require human cognitive input. That is now about to change, as we edge ever closer to taking yet another monumental leap with the advent of self-driving or “autonomous” vehicles (AVs).

Needless to say, we, at Platinum, have been following the development of self-driving technology attentively not only for its sheer intellectual delight, but more importantly, for its multifarious implications for the world of business and investing. What makes the dawn of AVs both fascinating and challenging to analyse is that it represents the simultaneous convergence of multiple streams of technological progress and consumer trends. The rise of electric vehicles (EVs), enabled by improving battery technology and falling battery prices, is coinciding with advancements in machine learning and sensing equipment (e.g. LIDAR). Add to the mix the growing popularity of ride-sharing services like Uber, and one can see a powerful storm of disruption gathering.

I am pleased to share with you some of our thinking on this exciting, yet complex, topic in *Visions of an Autonomous Future*. In this research article, Curtis Cifuentes, one of Platinum’s long-time investment analysts for the technology sector, explores the key technological developments that have contributed to the gestation of self-driving cars, the possible direct and indirect impacts AVs may have on a range of industries as well as some of the broader societal implications they may bring about.

The word I wish to emphasise here is “may”. Hard as one might try to envision the future, the truth is that it is difficult, if not impossible, to foresee with any degree of certainty how technology with such wide-ranging, far-reaching impact will reshape industry and society. Most human beings are intuitively path-dependent and many resort to extrapolation when investing in the stock market, which can lead to missed opportunities as well as deadly traps.

**There is currently no shortage of voices predicting the imminent demise of incumbent automakers or prophesising a new era of dominance by Silicon Valley.**

However, as Curtis explains in his article, the shifting landscape of the auto and tech industries makes this a far trickier question.

Even more difficult to gauge are the potential second-order and third-order effects of self-driving technology, such as how it might affect urban planning and real estate. A not-so-distant analogy is the extent to which the ubiquity of cameras on mobile phones has changed human interactions and the number of new products and business models it has given rise to. One might see MMS as a logical extension of SMS, but how many foresaw the popularity of image-sharing platforms like Instagram? And what about Snapchat, on which some teenagers, I’m told, conduct entire conversations by visual means? The ability to point-and-shoot with smartphones also facilitated the spread of QR codes and their attendant identification and payment functions, enriched mapping and GPS technology, and is now helping augmented reality move forward (how far did you go on PokemonGo?). As Carl Sagan said, “It was easy to predict mass car ownership, but hard to predict Walmart”.

We do not have all the answers. But we hope we are asking the right questions and that this article can provide you with a few pointers around the investment theme of autonomous vehicles.

**Kerr Neilson**  
Managing Director  
August 2017

# Visions of an Autonomous Future

by Curtis Cifuentes

Investment Analyst, Platinum Asset Management

The speed and efficiency with which we transport people and goods is a fundamental driver of social and economic progress as well as individual well-being.

Empires were built on the ability to control trade routes; fortunes were made during the railway boom of the 19th century; railway networks have been important nation-building exercises including Japan with its bullet trains and, more recently, by China with its high speed rail boom this century; cities and civilisation today have been unmistakably shaped by the automobile, from the rise (and fall) of Detroit to nationwide highways and even urban sprawl.

So it's of little surprise that the tangible promise of self-driving cars, or autonomous vehicles, has garnered such public attention, from starry-eyed commuters enamoured by the hope of being freed from the drudgery of the daily commute to ambitious Silicon Valley entrepreneurs, motivated by the prospect of fortunes comparable to those of the railway barons of a century ago.

As investors, we see exciting potential for new business models, as well as risks to incumbent ones, in what could be characterised as the information technology revolution disrupting the transportation industry.

This article is loosely structured in four sections, each seeking to answer one of the core questions that form the framework around Platinum's thinking on the changes autonomous vehicles may bring.

## PART 1

# Why is autonomous technology both interesting and important?

We think that autonomous driving technology has the potential to be more than just an expensive up-sell opportunity at car dealers.

It will reduce death and injury, change the insurance industry and eventually, through synergies with ride-sharing services like Uber and Lyft, change the nature of personal transport.

## PART 2

# Why is this happening now?

We will delve into some of the exciting technological innovations that are bringing self-driving cars from the realm of science fiction to reality, or, in other words, what gives us confidence that they aren't just a pipe-dream. Dare we suggest that an autonomous fleet of cars is closer than most think.

## PART 3

# Impacts on industry.

Assuming self-driving cars do become reality, how might the business landscape change? While many believe that incumbents are at risk of being disrupted by new entrants, we think the outcome might be more nuanced and there may be more turns and twists along the way.

If, as consumers, we shift from being buyers and owners of cars to become customers of services provided by the owners of large autonomous fleets, it might be a pyrrhic victory for any surviving incumbent. If the airline industry is any guide, the fleet might be a fraction of its current size, but utilised much more efficiently.

## PART 4

# What might it mean for society and civilisation?

No melodramatic exaggeration is needed to suggest that, if autonomous fleets become widespread, there might be huge changes to the jobs we do and even the very fabric of the cities we live in.

There will be unpredictable second and third order effects that will surprise everyone.





## PART 1

# Why is autonomous technology both interesting and important?

From a high level, any sign of a significant change in the dynamics of transport is worthy of investigation, even if some aspects of autonomous driving are showing signs of hype.

To illustrate one facet of the potential social and economic impact, every year around 30,000 people die in car accidents in the United States alone; globally the estimate is 1.2 million people. When including car-related injuries the number rises to 3.9 million (US only, 2010) and the US Department of Transport estimates the economic impact of these crashes to be US\$242 billion or 1.6% of GDP.<sup>1</sup>

Studies show that humans are responsible, through error, alcohol or inattention, for 94% of accidents – it's rare that a mechanical failure or the weather is a cause of crash. Also, to dispel any misconception about the variability of driver skill, men behind the wheel are 50% more likely to kill themselves than women.<sup>2</sup> (And that's adjusting for distance driven – 2.1 fatalities/100m miles driven vs. 1.4/100m miles. On fatalities alone, it's 2.5:1).

While the reduction in loss of life and property alone makes the development of autonomous vehicles a worthwhile endeavour, there are other benefits, such as higher productivity due to less road congestion and better use of commute time as drivers are freed up from having to concentrate on following that white line.

In the US, the average one-way commute was 26 minutes in 2014. Assuming a workforce of 140 million, that works out to 30 billion hours – or 3.5 million collective years – spent every year commuting. The United States is unique in its car-centric culture too – the 2013 US census found that 86% of people travelled to work in a private car (and 76% drove alone).<sup>3</sup>

One University of Texas study, which put the saving of unproductive commute time at a much more conservative 2.7 billion hours, one-tenth that of the previous estimate, nevertheless estimated the total savings from productivity, fuel savings and collision costs to be US\$1.2 trillion, or 7% of GDP.<sup>4</sup> At the very minimum, as accidents and incidents on the road account for one-quarter of road congestion, according to a Federal Highway Administration study,<sup>5</sup> it's not unreasonable to assume that even if we all chose to sleep in our cars on our way to work, rather than do something more productive, commute times would be shorter.

An important reason for our excitement around autonomy comes from its interplay with the rise in on-demand services like Uber and Lyft. At first glance, replacing a quarter of a billion human-driven cars with self-driven ones may not be quite as disruptive, especially if nothing else changes. It's hard to imagine significant reduction in road congestion, for example, if everyone is still travelling alone in their autonomous car. But if the kind of per-trip or per-kilometre cost savings we envision from an autonomous fleet of electric vehicles comes to pass, for many people car ownership will no longer be a rational choice.

This will take cars off the road, the ones kept on the roads will be better utilised, and everyone will benefit from much lower cost of transport.

To draw an analogy with a change experienced in the telecommunications industry, when voice calls just became another stream of bits on a wide data pipe rather than a dedicated line, it became untenable for carriers to charge dollars per minute for international calls as a FaceTime call could be made to anywhere in the world almost for free.

Autonomy makes getting from A to B safer, faster and a step-change lower in cost, while also making life-changing mobility accessible to the aged or physically or visually impaired.

There are also potential negatives, some of which we shall delve into later in this article, and they range from the obvious impact on employment in jobs that involve driving, such as taxis and truck drivers, through to impacts on the insurance industry, oil demand (we believe electric drive trains are synergistic with advances in autonomous technology) and possibly even for the car industry as a whole if the fleet size shrinks due to a shift away from individual ownership to ride-sharing.

The current wave of progress in autonomous technology is taking us into a period of upheaval and disruption, leading to the emergence of new business models as well as the extinction of old ones, and in the process presenting us with invaluable investment opportunities.

To put the broad market size into perspective, the smartphone market, in which the world's largest and most profitable company operates, is a US\$405 billion revenue market (roughly 1.5 billion phones x US\$270 in average selling price) <sup>6</sup>.

**The car market is an estimated US\$1.2 trillion market (about 100 million light vehicles are sold globally every year), three times the size of the smartphone market.**

When one includes peripheral markets such as component suppliers, or including services revenue such as that from ride-sharing businesses, the revenue pool that is potentially ripe for disruption expands significantly.



## PART 2

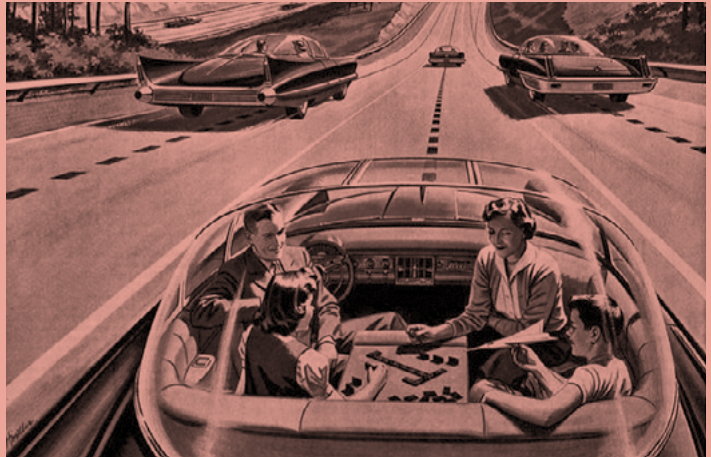
# Why is this happening now?

There have been premature expectations that fully autonomous vehicles would soon be in wide use almost since the start of the car industry, so scepticism is well justified.

Obviously, some of the optimism is wishful thinking – the bone-crushing tedium of long hours stuck in traffic is lost on few and let's not forget that the horse-drawn carriages from which we supposedly upgraded from probably would have gotten you home safely if you fell asleep at the wheel (or, rather, the reins).

Our optimism today stems from two key aspects of technological innovation – one, the electric vehicle (EV), and two, machine learning, or more specifically, advances in deep learning algorithms.

The most incredulous aspect of this image is probably the assumption that a family would play board games together. They might have imagined self-driving cars 60 years ago, but smartphones and Facebook were clearly beyond their imagination.



Advertorial published by Central Power and Light between 1956 and 1957 with caption **ELECTRICITY MAY BE THE DRIVER.** One day your car may speed along an electric super-highway, its speed and steering automatically controlled by electronic devices embedded in the road. Highways will be made safe – by electricity! No traffic jams ... no collisions ... no driver fatigue.<sup>7</sup>

The EV is not a prerequisite to autonomous vehicles, but the inherent simplicity of an EV (fewer moving parts, lower maintenance) is lowering the barrier to entry for new entrants (Tesla and BYD are two well-known examples) and we think that the influx of ambitious new companies with fewer legacy obligations sets the stage for accelerated development and innovation.

#### The horseless carriage

It may seem hard to believe today that when the first cars started appearing on the roads, there was a huge backlash from society, with predictions ranging from obesity epidemics (arguably a fairly accurate one) through to widespread insanity (it was feared that the human brain couldn't handle travelling at speed).

These early automobiles were coined "devil wagons" and it wasn't uncommon for drivers to have rocks or the insult "Get a horse!" hurled at them as they drove past.

In an 1896 submission to the British Association for the Advancement of Science a scientist claimed that cars required more driver focus, "...we should not overlook the fact that the driving of the horseless carriage calls for a larger amount of attention, if not skill, on the part of the driver, than is necessary in regard to horse-drawn conveyances, for he has not the advantage of the intelligence of the horse in shaping his path, and it is consequently incumbent upon him to be ever watchful of the course his vehicle is taking."<sup>8</sup>

It's only taken us 100 years to get back to the level of autonomy that we gave up!

#### Confidence in EVs

Another reason for our excitement around autonomy stems from the concurrent and synergistic shift from combustion engines to electric drive trains. The reason we think cars are about to make this change is simply because the EV is technologically superior and tantalisingly close to being cost competitive.

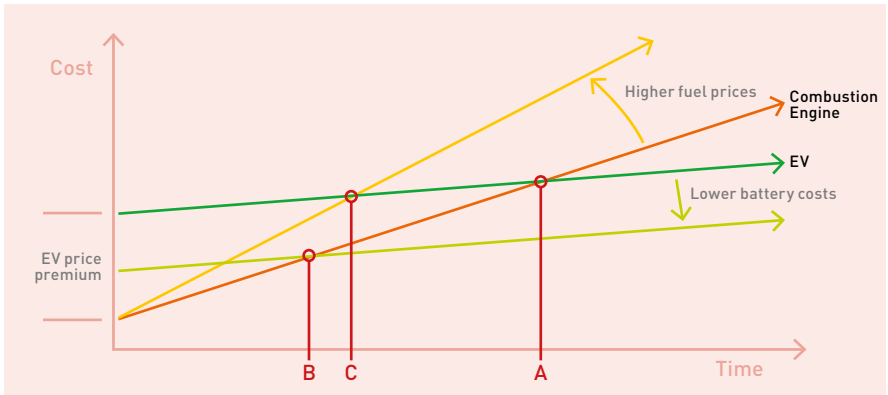
While the cost of batteries is currently a significant hurdle (adding anywhere between US\$8,000 and US\$30,000 to the cost of a vehicle, depending on size), if there is any immutable rule in technology, it is that steady innovation brings down the cost of components over time. Lithium-ion battery packs have seen per kWh cost fall from US\$1,000 to US\$250 between 2010 and 2016.<sup>9</sup> Batteries are on an experience curve not unlike that seen in solar cells, barring any disruption in the supply of raw materials. Apart from the obvious lithium, lithium-ion cells contain significant amounts of cobalt, nickel and aluminium, and electric motors contain a lot of copper.

From a technological perspective, EVs are quieter, cleaner and more efficient, with 95% of the energy in the batteries making it to the wheels, compared to just 20-40% for internal combustion engines.

When looking at the total cost of ownership, that is, including the cost of fuel and maintenance, EVs are arguably already competitive with combustion engine cars today.

It is for this reason that we think it is compelling for fleet operators such as Uber and other ride-sharing services to adopt EVs (and, concurrently, autonomous vehicles).

It might still be hard for most individual purchasers (and the finance companies lending to them) to get over the sticker price, but much less so for more rational commercial operators.



Source: Curtis Cifuentes

The chart above illustrates our conceptual thinking about the structural cost advantages of EVs. The y-axis is the total cost of ownership of the car. Combustion engine cars have a lower sticker price (today) and start at a lower point on the axis, but because of fuel efficiency and maintenance costs, the running costs are higher, hence the steeper slope. Changes in fuel prices change the slope. EVs are more expensive up front but tend to be much cheaper to run.

As steady improvements in production technology lowers the cost of batteries, the time it takes for an EV to 'beat' a traditional car moves from **point A to point B**, for example. Likewise, if oil prices rise, the crossover point moves from **A to C**. Conversely, falling oil prices, as we've seen in recent years, lowers the slope and lengthening the payback for EVs. One could argue that the recent resurgence of truck and SUV popularity in the US and disappointingly low EV share has caused in part by lower oil prices.

That crossover point depends on many factors, including the price of the vehicle, energy prices (both gasoline and electricity), annual driving distances and so on.

But to give a rough example, let's compare the Bolt EV to a Golf. Assuming \$0.10/kWh for electricity (US average retail price) and \$0.60/L gasoline prices (again, US average) the cost per 100km of driving is \$1.6 for the Chevy Bolt and \$3.9 for a Golf. That's 2.4x higher for the Golf.<sup>10</sup> Similarly, in a report published by UBS, they found that annual service and maintenance requirements were also lower, at \$255 for the Bolt and \$610 for the Golf. Illustrating this difference is the maintenance schedule – apart from tyre rotation the Bolt requires no servicing for five years or 240,000 km, compared to an oil change every ten thousand kilometres for the Golf.

Flipping the question from 'why now?' to 'why hasn't it happened sooner?', and one can see more clearly what a monumental challenge autonomous driving is.

Contrast it with the experience of flying, where the first rudimentary autopilots were developed in the 1930s, less than 20 years after the first commercial flights became available, and today advanced autopilot systems have relegated human pilots to mostly monitoring roles. (An industry joke thus describes the cockpit of the future: it will contain one human and a dog – the human to observe the instruments and the dog to bite the human's hand should he try to touch anything.) Similar shifts to autonomy have been observed in mining and agriculture. But why not on our urban roads?

Even though driving today is 98% following the car in front and staying between the lines, it's the other 2% that has hampered autonomous systems, until recently.

Apart from a few motorways where the type of traffic is restricted, most roads are messy, complex environments. Drivers must contend with poor or non-existent marking, pedestrians staring at their phones, cyclists that consider themselves above road rules, other inattentive drivers and the occasional animal (probably that dog on his way home from the airport). While attempts to automate the task of driving were made on many occasions, the traditional rule-based programming model couldn't scale to the almost infinite variations of situations a car might encounter on the streets, such as that Google encountered once with their autonomous trials: a woman on a wheelchair chasing a duck. The first sign that we might be breaking through this impasse has come from advances made in machine learning and in deep learning specifically.

While beyond the scope of this paper (for those interested, we urge you to read Constance Zhang's three-part article *Infusing Machines with Intelligence* on our website), advances in deep learning have resulted in a jump in the accuracy of image recognition algorithms to the point where they now exceed humans' accuracy level.



Accurately understanding the surrounding world is the first step to building truly reliable autonomous driving systems – a self-driving car that only recognises pedestrians on the road 80% of the time is downright terrifying. The advances here are being driven by a diverse range of companies that are not traditional auto makers, such as Baidu and Google, which highlights the reason why Silicon Valley is suddenly interested in this space.

As testament to this interest, it was during the preparation of this paper that Intel announced the acquisition of Israeli autonomous driving company Mobileye for US\$15 billion, which is 30x Mobileye's 2017 revenues and 60x its profits – certainly a generous price, but potentially justified if autonomy is as transformative as we think it might be.<sup>11</sup>

### **Diverging strategies**

Much like the first attempts to ascend Everest tried various routes, there are two different philosophical paths to full autonomy. The first, favoured by incumbent carmakers, is the incremental approach: cars have steadily added safety features through time, such as adaptive cruise control and, more recently, emergency brake assist and lane departure warnings.

The belief is that, by steadily increasing features and reliability, we will eventually achieve full autonomy. It's a lower risk approach that leverages existing supply chains and meshes well with the business models of the carmakers.

The second approach, favoured by newcomers such as Google and Baidu, is the all-or-nothing gambit – to the point where Google's more recent prototypes do away with the steering wheel entirely. Their view is that, if passengers are to truly trust autonomous vehicles, they have to be reliable 100% of the time. The challenge for the path taken by the likes of Google, however, is that it's a binary outcome – succeed and it's a winning lottery ticket; fail and you don't have a business.

### **The paradox of automation**

A one-leap change directly to full autonomy versus the seemingly less risky incremental approach raise some very difficult issues that arise in the transition period where the car is in control most of the time, but humans might be called upon at any moment to take control when the system decides it can no longer accurately assess the situation.

The issue is not new and NASA has been researching the impact of autopilots on pilot skills for more than 50 years.

The ‘paradox of automation’, simply put, is that the better the automation, the more critical the human decisions become in the rare times they have to take over, and yet, as humans rely more and more on automated systems, our manual skills atrophy and we become less and less qualified to take control in those increasingly rare situations when we are required to.

#### **Paradox of automation in practice – Air France Flight 447**

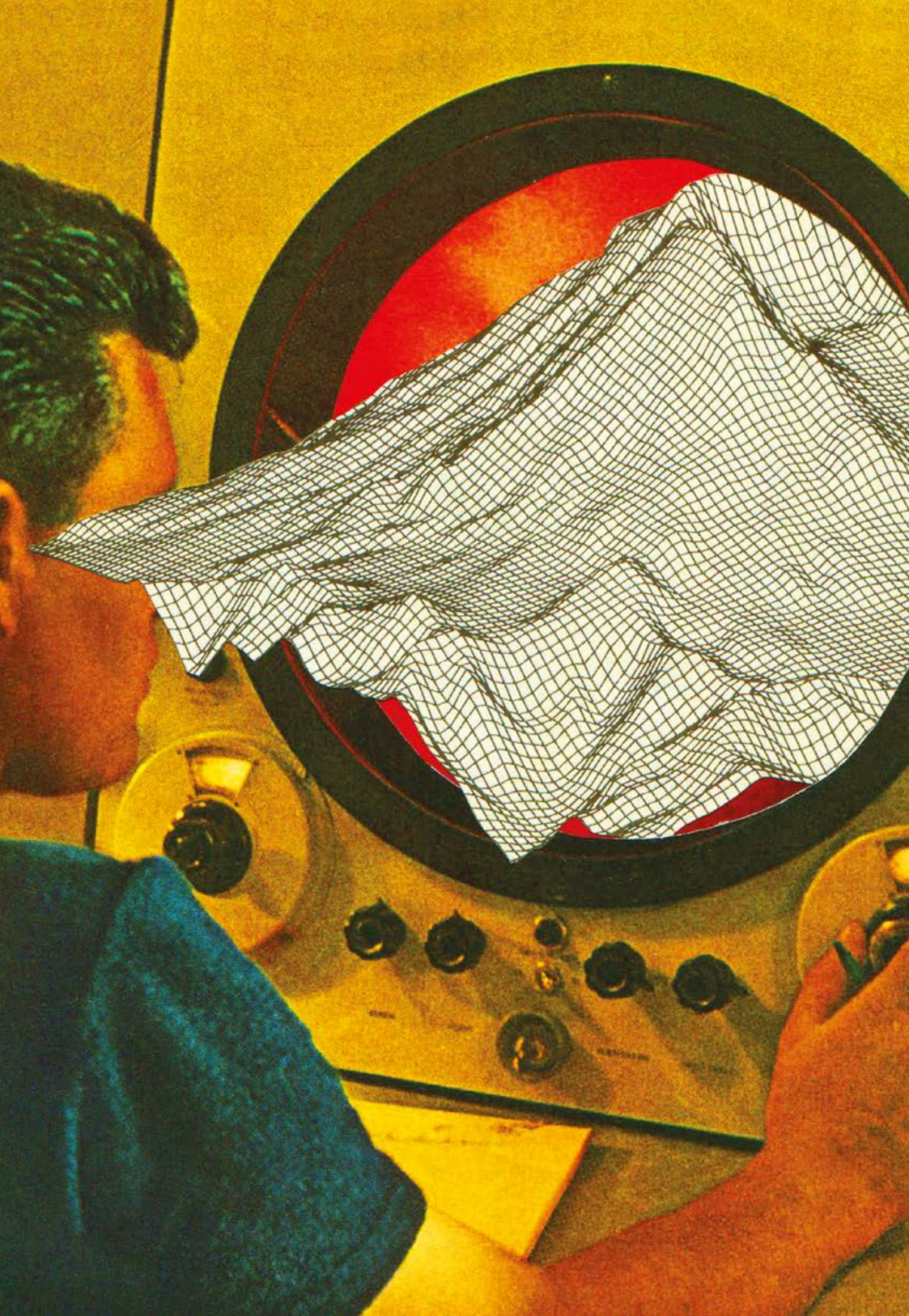
A sobering 2014 article featured in *Vanity Fair*<sup>12</sup> goes into terrifying detail on the chain of human errors that led to the crashing of an Airbus 330 into the Atlantic Ocean and the death of 228 people. While some might argue over the relative importance of the various factors that resulted in the crash, the article makes compelling arguments that reliance on automation contributed to the flight crew’s inability to assess and correct the situation during the approximately three-minute window that they had after the autopilot disengaged, and the otherwise perfectly functioning plane crashed into the sea.

If three experienced pilots couldn’t correctly diagnose what was going on in several minutes, what hope does a driver, who might be dozing or deeply immersed in a movie, have of analysing the situation and taking action within maybe as little as a few seconds?<sup>13</sup> Studies have also shown that in the transition period, where the car is controlling itself but the driver is still required to monitor the situation, boredom and inattentiveness quickly sets in, regardless of the driver’s best intentions.

While the story of Air France Flight 447 is terrifying, automation has unambiguously contributed to the improvement in overall flying safety. The same is likely to hold true for cars, to the point where it’s not unimaginable that in the not too distant future humans are likely to be banned from driving on public roads. For example, while there is some contention around what exactly was being measured, the NHSTA investigation into the death of Tesla driver Joshua Brown in 2016 found that the car’s ‘Autopilot’ feature, which includes forward collision warning and emergency brake assist, reduced crash rates by 40%.

Each of the two approaches has its own appeal, and it may be too early to make a call on which will be successful. The contrast and contest are complicated by factors such as the incumbents investing in both strategies, of which General Motors is a good example. GM continues to expand incrementally the advanced driver-assistance system (ADAS) features in its current models while acquiring autonomous start-up Cruise as well as investing in ride-sharing company Lyft.

Similarly, it would appear that Google’s plans for its subsidiary Waymo have over time evolved from building their own cars to potentially licensing the technology to carmakers – not dissimilar to the strategy of licensing Android to smartphone manufacturers. Having observed what Microsoft did to the PC market and how Google repeated that with the smartphone market, most carmakers are understandably wary about ceding that much control, and, by extension, valuable data, to a third party.



## How do cars change?

Conceptually, the key differences between a 'dumb' car and an autonomous one can be grouped into three aspects: (1) sensing, or the range of sensors and cameras employed to see the world around it; (2) intelligence, or the software and hardware used to comprehend the sensory inputs and make decisions on how to respond; and (3) actuation, the collection of motors and actuators that turn those decisions into movement of the vehicle as well as other sensors that provide a feedback loop so that the car knows what it is doing.

### Sensing

Vision is by far the most important sense when it comes to driving (we don't yet possess the olfactory senses of a dog to navigate with our noses) and therefore it's no surprise that most autonomous systems predominantly rely on cameras.

However, cameras are not completely reliable, especially in adverse weather or under sunlight glare. For this reason, many autonomous cars also include complimentary sensing systems, such as ultrasound, radar, and light detection and ranging (LIDAR).

More sensors, however, add complexity and cost, not just in the additional sensors themselves but also in the additional computing power required to process and make sense of the extra data.

Broadly referred to as 'sensor fusion', it's not a trivial task, and while it seems intuitive that having multiple cameras and sensors should result in safer, more reliable systems, early prototypes have struggled. As a simple example, imagine an urban street with cars parked along one side and a pedestrian walking between the parked cars possibly with the intention of crossing the street. The camera might be seeing a human, the radar might have only seen a car. How does the system decide a course of action if it cannot be certain what it's in fact looking at?

### Mobileye and the success of simplicity

One of the most successful new entrants in the autonomous space is Mobileye, the Israeli company recently acquired by Intel for US\$15 billion.

Many early ADAS attempts used two cameras on the assumption that, like human vision, stereoscopic vision would improve distance perception. But the processing systems struggled with the slightly different images from left and right cameras, resulting in overall lower accuracy with object recognition. So while being better in theory, in practice stereo camera systems were both more expensive and less reliable.

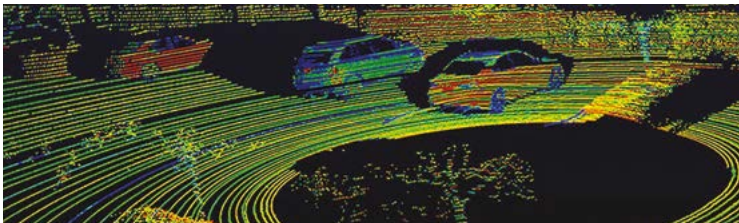
Mobileye was unique in that it delivered accurate recognition from a mono camera which estimated distance by the rate of change in image size from frame to frame. This simple yet reliable solution saw Mobileye win a majority of the early driver assistance contracts and its systems installed on an estimated 15 million cars to date. Mobileye's products today are far from fully autonomous, but the company has a roadmap to autonomy and arguably one of the most extensive – and growing – databases of road imagery and mapping information.

While the first commercially successful system amazingly did it with just a single camera, consensus seems to be coming to the view that full autonomy will require a combination of different sensing technologies to improve overall reliability.

Cameras do poorly in the dark or in foggy conditions (and lenses can get dirty easily); LIDAR doesn't work well in the rain; radar has poor resolution and can only see metal objects well; and ultrasound has poor range. Combined, however, they might be able to cover most road conditions.

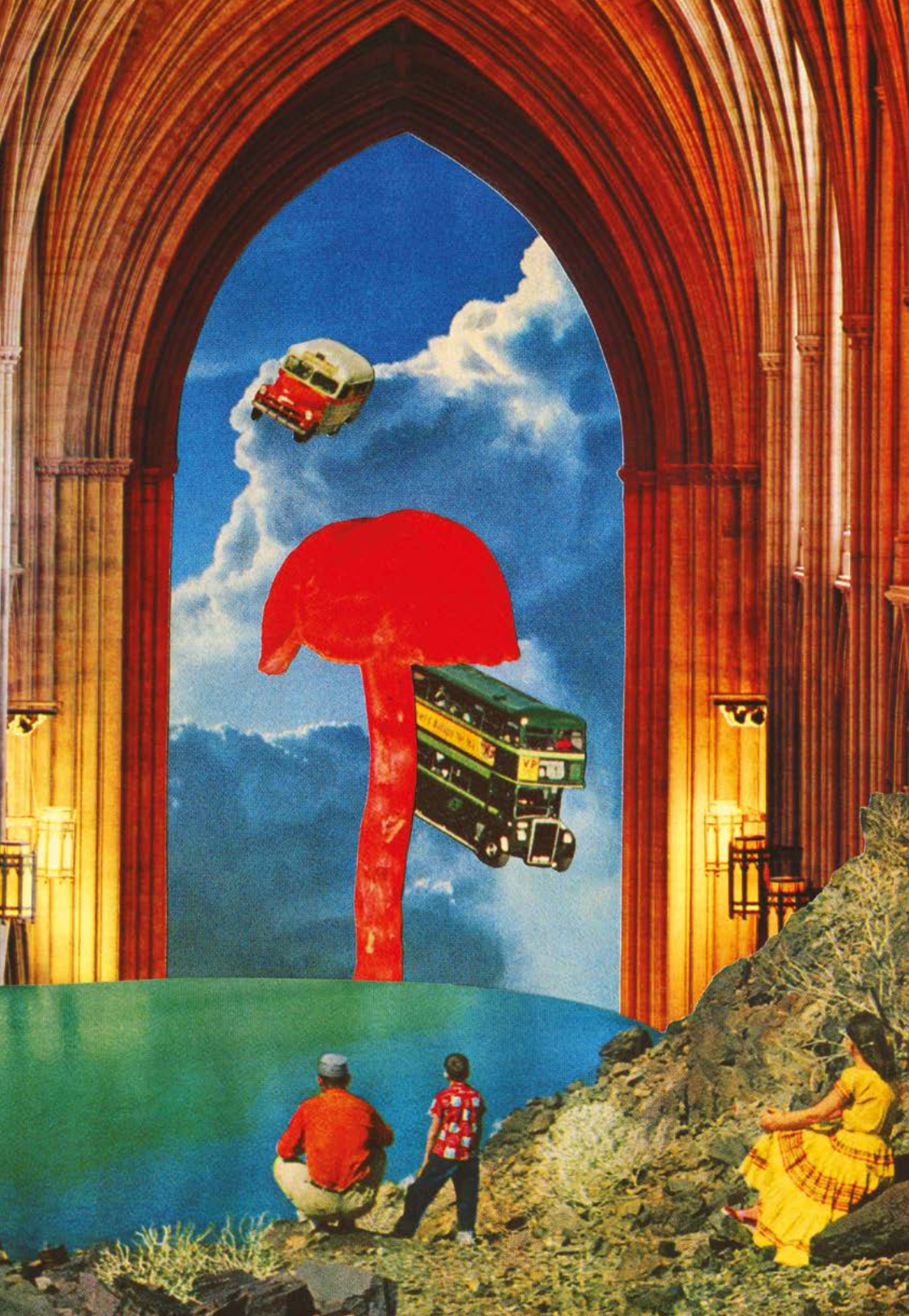
## LIDAR

One of the more contentious sensing technologies, LIDAR, is a distance sensing technology similar to radar, except that, instead of measuring the time it takes radio waves to bounce off an object, it emits and measures the return times and wavelengths of laser light. The high point density of narrow beams of light enables LIDAR to map objects with much finer resolution than radar. Current LIDAR devices look like spinning cans of beans typically mounted on the top of autonomous cars. Leading devices can build a 3D map of millions of points every second with a range exceeding 100 metres.



Source: Velodyne, <https://www.technologyreview.com/s/603885/autonomous-cars-lidar-sensors/>

LIDAR provides unrivalled 3D mapping of the immediate environment around the car, but it comes at a significant cost. Devices sold by market leader Velodyne cost from several thousand dollars up to almost US\$100,000,<sup>14</sup> depending on the specifications. They are also prone to damage, function poorly in bad weather, and are not particularly attractive in the way that they are conspicuously mounted on the top of vehicles.



There is an ongoing debate over whether autonomous cars will require LIDAR – Tesla has claimed in the past that automation will be achievable without LIDAR, whereas Google’s efforts seem to position LIDAR as a pre-requisite.

In fact, there has been intense research by Google as well as others to bring down the cost and the size of these devices, which has led to the development of Google’s own LIDAR. (LIDAR technology is at the centre of the brewing legal battle between Waymo (Google’s subsidiary) and Uber, which stemmed from claims that a former employee stole Waymo’s LIDAR designs, started a new company (Otto) which was then acquired by Uber.) There is also promising development happening in the field of solid-state LIDAR, which will do away with the moving parts prone to damage and be a fraction of the size and cost of current models.

**Intelligence**

Most of the intense development happening today surrounds the fusion and interpretation of the information gathered by the sensors, the subsequent path planning of the vehicle, and whether this requires pre-assembled maps in excruciating detail or whether these maps can be computed on the fly.

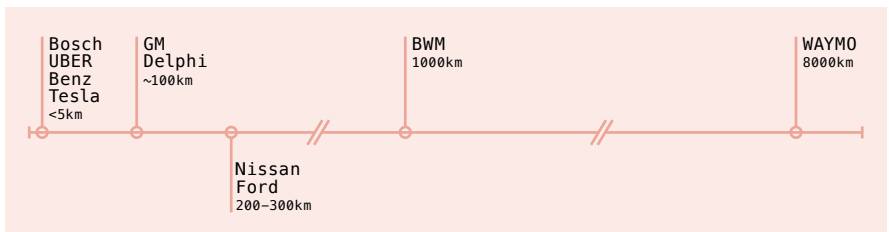
This battle is being played out on the streets of San Francisco and the Bay Area, where autonomous cars from Google, Uber, Baidu, Tesla as well as traditional carmakers such as GM, Ford, BMW and others polish their self-driving systems and build detailed maps of cities.

Under the hood (or more often in the boot) chips from Mobileye, Nvidia and Intel or systems from Tier 1 suppliers such as Bosch or Delphi power the systems that drive these vehicles.

In return for permission to test these vehicles on public roads, participants are required by the state to disclose statistics on performance, such as ‘disengagements’, a euphemism for instances where the human had to intervene, and observers have extrapolated from these data who is leading in the race to full autonomy.

Based on these disclosures, it’s no surprise to see Google (Waymo) out in front. But progress is being made at such a pace that this information could well have become wildly inaccurate by the time this article goes to press:

Average distance travelled by autonomous systems without the need for human intervention.<sup>15</sup>



While one factor in the improving reliability of autonomy has come from the leaps in accuracy of image recognition algorithms, in turn powered by progress made in the field of deep learning, there's also a split in strategy by participants when it comes to how far they're willing to apply deep learning to the driving problem.

At one end, the approach is somewhat more conventional – apply deep learning trained image recognition models to understand the environment but more conventional rules-based programming to drive the car.

But some, such as graphics card maker Nvidia, observing the rate of progress achieved in machine learning, have concluded that an ambitious end-to-end deep learning approach might be more successful.

Oversimplifying somewhat, the idea is that if the neural network is sufficiently complex and adequately trained, humans will not have to think of and account for every possible road situation – rather the black-box like neural network will just 'know' how to react.

We're only just now reaching the stage where deep learning algorithms can recognise images with decent accuracy, and even then they can be easily fooled<sup>16</sup>.



Source: unknown

It seems a huge leap of faith to assume the algorithms will improve to that level. Most AI-driven successes to date concern relatively narrow applications where the inputs are relatively well defined – chess, go, image recognition. Some aspects of driving are like that, but then a lot of it isn't.



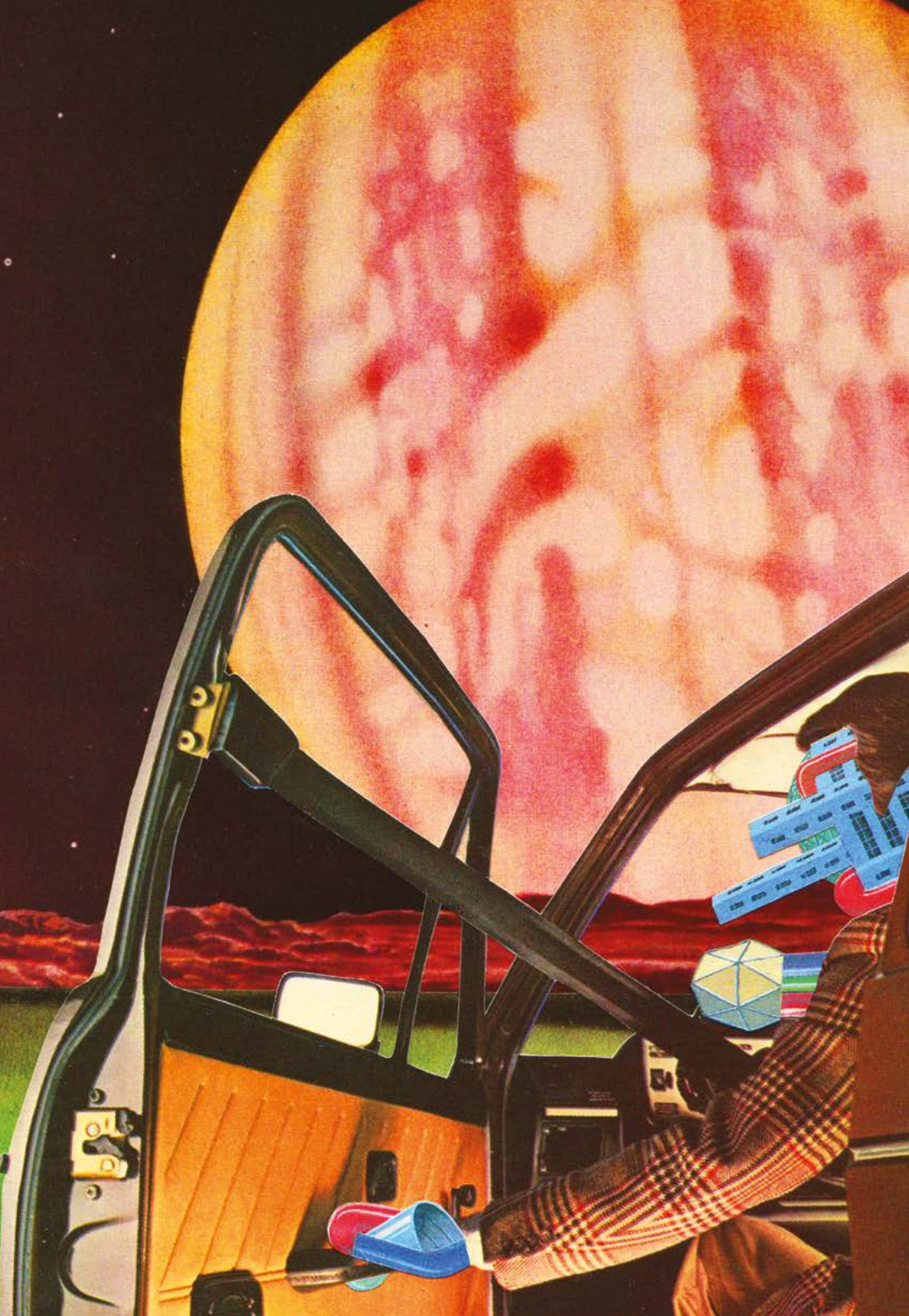
In a tangible example of where we are today, while detection of objects such as cars is very good, current algorithms have a problem detecting people on bicycles. Compared to cars the shape, colours and movement are so varied that the algorithms struggle to categorise them correctly or predict their direction of movement.<sup>17</sup>

In a hint to the massive localisation challenge developers face, the ABC recently reported<sup>18</sup> on how autonomous systems Volvo was testing in Australia were being confused by kangaroos – the systems relied on the ground as a reference point to calculate distance to the object and not expecting things to be airborne.

In any case, a prerequisite to accurate deep learning algorithms is a large cache of well-labelled training data. While not the sole determinant of success, it partly explains why there is such urgency to gather as much data with which to train the neural networks that will drive these cars – though even this is a somewhat contentious statement. As crazy as it sounds, some believe that a lot of the training can be done in computer simulations – essentially training the models in Grand Theft Auto, which is a mildly terrifying thought.

Another open question is what level of mapping data will be required and where that is going to come from. Similar to the data collection aspect, the quality and accuracy of map data may be correlated to how many cars are on the road collecting, uploading and sharing that with the fleet.

Such a situation would tend to favour those with the largest fleet, putting smaller volume carmakers at a disadvantage. It is for this reason we've seen consortiums like HERE formed amongst carmakers – in this case Audi, BMW and Daimler acquired Nokia's old mapping business with the purpose of building an independent mapping database that isn't hampered by a small fleet size. It's also why incumbent carmakers are so wary about ceding control of the data their cars are collecting to third parties, such as Google.



## PART 3

# Impact on Industry.

With enough time and space we could happily go on and on about what we think the business implications are of a shift to autonomy. But with respect to our readers' time we shall keep it to a relatively high level overview.

## Winners – incumbents or newcomers

The importance of software, and especially deep learning software skills, is attracting a range of newcomers to the autonomous driving space, including Google, Baidu and Uber. It's of no surprise that observers are looking at the software engineering skills of traditional carmakers, concluding they pale in comparison to the likes of Google, and deciding that they're at significant risk of disruption.

Comparisons are made to the way Nokia and Blackberry were disrupted by the iPhone and Android, despite significant scale and vertical integration advantages at Nokia and efforts by both to build competing software platforms. The disengagement data mentioned in a previous section only seems to confirm the wide lead challengers seem to have over the incumbents. That this transition is happening at the same time as the transition to electric vehicles only seems to heighten the risks – exemplified by the aura surrounding Tesla, although China is arguably where the most exciting changes are occurring, with huge growth in EV sales, driven mostly by car industry newcomers such as BYD.

The concern for traditional carmakers only rises to alarm when one observes their reluctance to embrace the future or even cheat, such as VW famously did, than actually make low emission cars.

However, it's too soon to write off the traditional carmakers. Looking back through the history of the car industry it becomes apparent that technological advances in the cars have rarely led to sustained market share gains by any carmaker.

Rather, it has typically been innovations on the production side – such as the first production line by Henry Ford, vertical integration in the supply chain at GM, lean production methods at Toyota – that have given newcomers the breathing room to build scale, which remains the largest barrier to entry.

For all the bluster, Tesla can currently only manufacture fifty thousand cars a year today, even though with a market capitalisation of \$42b it's valued roughly the same as Nissan, which made 5.5m cars in 2016, 100x times Tesla today. The incumbents are also aware of the threats and are ramping investments in autonomy, through strategic investments, such as GM into Lyft or through partnerships with technology providers such as Mobileye or Nvidia or direct R&D – almost all the large carmakers have facilities in the Bay Area and are testing vehicles today.

### **Who will buy cars?**

The outcome of 76% of Americans commuting to work alone in their cars, is a large car fleet that is woefully under-utilised – just 4% utilisation, or just one hour a day. The rise of ride-sharing services such as Uber and Lyft, or even mundane taxis for that fact, give us a glimpse of this potential future, and also explains why both Uber and Lyft see autonomy both as an existential threat and an opportunity, and are investing heavily in both autonomy and EVs.

While individual car ownership is unlikely to disappear soon (and as anyone with small children will tell you how impractical ridesharing would be) the trend could make land transport look more like the airline industry. Looking at airline fleet utilisation, again with US data, the entire network utilisation is just over ten hours/day or 42%, with particularly efficient low-cost carriers exceeding twelve hours.<sup>19</sup>

**Echoing this, a University of Texas study<sup>20</sup> found that one autonomous vehicle could replace up to twelve cars.**

At the very least, if autonomy and ride sharing grow it implies greater fleet utilisation and possibly fewer cars on the road.

When the buyer shifts from the individual to the fleet owner, it has significant implications for the design of cars too – away from design cues that echo the personal values of the individual to more utilitarian and cost focused, though more reliable given the kind of distances they'll be expected to drive over their, possibly short, life. Most importantly, the relationship with the end user changes – again to use the airline analogy, a passenger's loyalty is with the airline, not the aircraft maker. This also explains why there's such a land grab on today for ride sharing services. Scale leadership at Uber or Lyft means a better service for customers, better data and eventually buying power with the carmakers.

### **Another Airline analogy – certification**

What if like the airline industry autonomous cars require very stringent certification to get on the road – will that restrict participants to the few who can go through the process leading to the opposite of what EVs might have led to?

But to broadly paint our current view, in the long term we are pessimistic for car volumes but in the transition period we could

actually see car turnover increase, as the “smartphonification” of the car industry encourages people to upgrade faster to get newer safety and autonomous features. In the back of our minds however is the risk of the popping of the US subprime auto lending bubble, which in turn has been partly enabled by technology, namely GPS tracking devices in cars that lenders are now installing to facilitate recovery in the event of default.

### **How do cars change?**

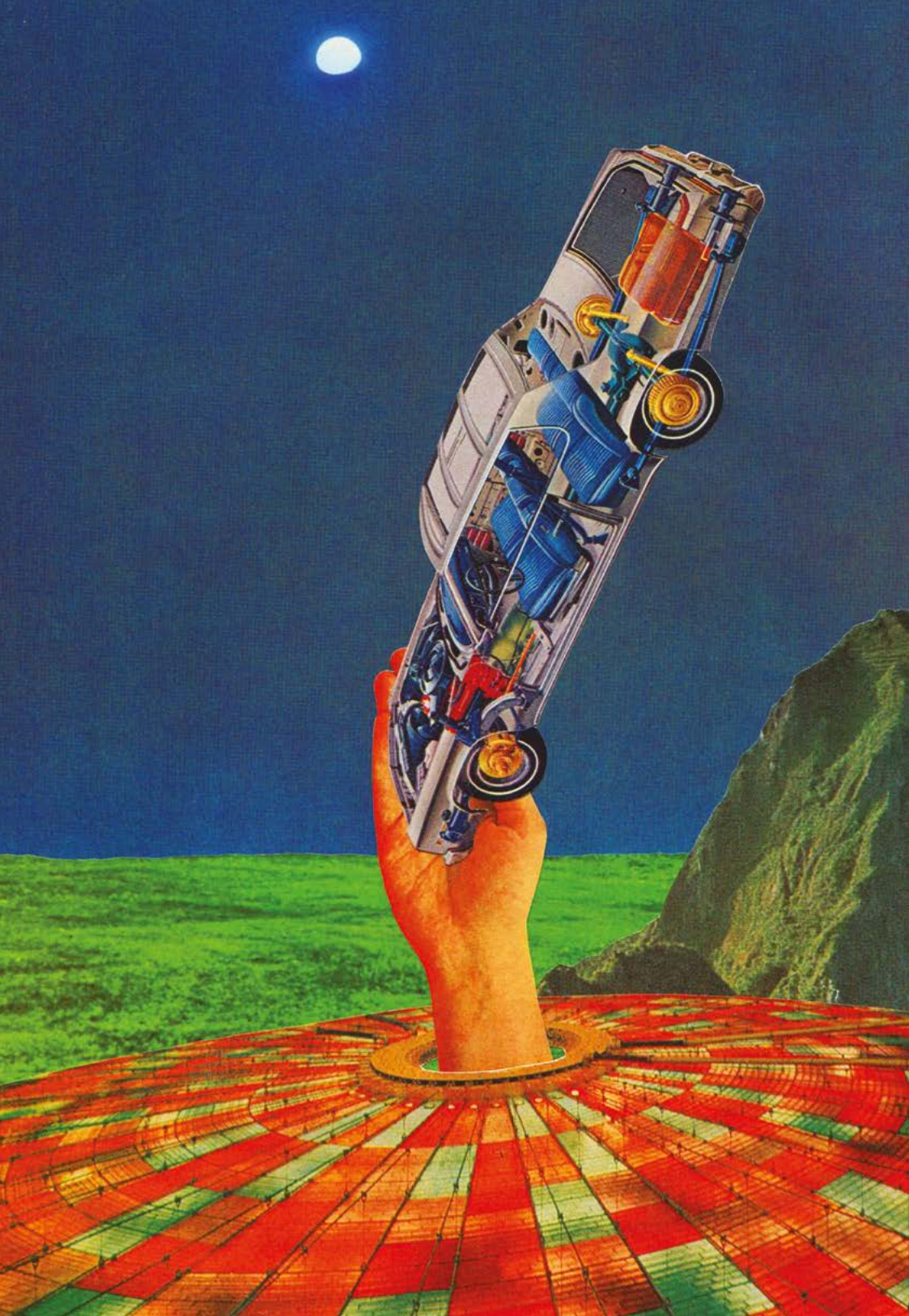
We foresee two profound changes in the how cars are made that will impact various peripheral industries. The inclusion of sensing and intelligence will shift the importance of sensors and software (and the hardware it runs on) from an afterthought to centre stage. It’s no exaggeration to say that the software will be as disruptive as iOS and the App Store was to the phone market; a competitive autonomous platform will become table stakes for the car industry. The second change comes from the shift to electric drive trains, which on one hand presents opportunities for battery makers and power semiconductor chipmakers, while at the same time making obsolete many technologies such as common rail diesel injection, which are important earnings contributors to many of the carmakers’ Tier 1 suppliers such as Continental, Denso and Bosch.

Further upstream we are starting to see the impact of EVs on some of the raw materials, with burgeoning exploration for lithium, cobalt and graphite resources the world over, the extraction of cobalt in particular is a pressure point, where the Democratic Republic of Congo accounts for 60% of global production but has a poor environmental and human rights track record on its extraction.<sup>21</sup>

### **What does it mean for insurance?**

If human error is responsible for more than 90% of accidents and we take humans out of the picture, the number of accidents should fall – Tesla is already bragging about the 40% drop in crash rates from its level 2 ADAS system. In the US around \$200b of car insurance premiums are collected by the industry every year – about one-third of the property and casualty insurance industry.<sup>22</sup>

Looking more broadly at developed markets, Munich Re puts motor insurance at 38%, or \$500b of the broader property and casualty market.<sup>23</sup> For developed markets that accounts for around 1% of GDP. It should be expected that lower claims results in lower premiums and possibly lower margins for insurers. Again, referring to the Munich Re report mentioned above, their modelling indicates these technology features will shave \$20b off insurance premiums in developed markets by 2020 – from \$616b to \$594b, though they don’t see premiums peaking until after 2030. The tentative signs are there – Tesla has been experimenting with bundled insurance and maintenance plans in Asia and there’s a (somewhat dubious) insurance ‘app’ called Root<sup>24</sup> that claims to offer discounts for self-driving features.



## PART 4

# How might it impact on society and civilisation?

While some of the near-term impacts on businesses are not particularly surprising, longer term it will be the second and third-order effects that will be.

Followers of the autonomous space often cite Carl Sagan, who observed, "It was easy to predict mass car ownership, but hard to predict Walmart" – deftly illustrating that it was easy to see how everyone might want to own a car, it wasn't initially obvious that the increased mobility would make big-box decentralised retail a viable business strategy and lead to the creation of one of the world's largest retailers.

And retail is another industry being disrupted by technology. By definition they will be hard to predict but also where the largest opportunities lie. By way of example, take the invention of clear glass...

## **The story of glass, the printing press and scientific discovery**

A fascinating example, if a bit tortured in the context of autonomous cars, of how difficult it can be to predict the long-term impact of chain reactions of small innovations, is the discovery of clear glass and its impact on the world. Human manufacture and use of glass dates back to the Bronze Age but it was in the late thirteenth century when a wave of innovation began in Venice, inadvertently triggered when glass makers were concentrated, largely against their will, on the islands of Murano. Glass was at best translucent, not transparent until one glassmaker, Angelo Barovier, who was determined to perfect it, discovered a method of making crystal clear glass by adding soda ash made from saltwort plants around 1450.

This glass eventually found use in the first eyeglasses, but they were little known outside of churches and monasteries where they were used by aging clerics to read scripture.

It wasn't until Gutenberg's printing press made the bible widely accessible that the broader populace realised the importance of good eyesight and demand boomed for vision correction. In another hub of innovation, experimentation by eyeglass makers in Amsterdam in the late sixteenth century eventually led to the invention of both the microscope and the telescope, setting in motion an explosion of scientific discovery.

Who could have predicted that the invention of clear glass in Venice would ultimately be responsible for understandings as diverse as cell theory and the bacterial cause of disease through to our perception of the universe and optical communication?

### **Real estate and urban renewal**

Almost invisible in its ubiquity, it can still be surprising how much space we dedicate to cars. Again, using US data, but it is estimated that there are around one billion parking spaces – four for every car.<sup>25</sup>

**The aggregate space occupied by these parking spaces totals almost 17,000 square kilometres – the equivalent of paving a quarter of Tasmania in parking lots.**

In urban centres, accommodating cars for parking accounts for 30% of land and floor space occupied. With both congestion and housing affordability issues plaguing many large cities globally, it seems almost perverse that we dedicate almost a third to housing cars, and in many cases either directly fund parking or legislate minimum parking spaces for new developments, effectively forcing non-car owners to subsidise owners through higher housing costs. It will be interesting to see how this space is recycled through time (and how cities will make up for lost parking fines.)

In urban areas, we are starting to get a taste of the impact through car sharing services such as GoGet and how they can relieve demand for parking in cities, even though there is some evidence that some are choosing these cars over public transport and contributing to congestion. We're probably getting a small glimpse of this future through the demise of the urban petrol station.

It will be hard to predict the impact partly because the cities we live in are so diverse – from dense cities with strong public transport networks such as Tokyo through to sprawling car-dependent cities such as Los Angeles. One might imagine a bigger impact on LA than Tokyo, but we are wary of making big predictions. It could go either way – LA streets are freed of their notorious congestion or conversely traffic gets worse because autonomous transport is cheap and plentiful.



### Marchetti Wall

An Italian physicist Cesare Marchetti observed that one hour was roughly the commute limit for most people. Once it starts exceeding that, people tend to change their behaviour to reduce it, either through moving where they live or work or changing their method of commute. This time has supposedly remained constant since Neolithic times but faster modes of transport have consequently had an impact on broader urban structure.

Put another way, it's a simple observation that in order to survive, throughout our history humans have not been able to spend more than an hour of their day travelling and not actually doing what it is they need to survive. But the question then arises, if autonomy frees us up to do other things during our commute, be that working or even sleeping, does that break Marchetti's Wall opening up the possibility of much longer commutes?

Similarly, if autonomy actually increases average travel speed, thanks to fewer accidents and less congestion, does it allow even more distant commutes and more urban sprawl.

### Millennials and cars

An interesting trend that has been occurring independent of the self-driving car phenomenon has been falling interest in car ownership by younger generations. While there may be economic factors at play, on the surface it seems youth don't see the car as the symbol of status, independence and mobility to the same extent their parents did. Illustrating this, the percentage of younger cohorts (16-20) with a drivers licence has fallen around 20 percentage points over a thirty year period.<sup>26</sup>

One could argue the smartphone has disrupted the car as a young person's method of staying in contact with their peer group and the emergence of cheap, available on-demand transport will only accelerate this.

There are tentative signs that this is not a phenomenon confined to the United States. ABS statistics show that between 2001 and 2015, in Victoria the number of people under the age of 25 with a drivers licence fell from 77% to 66%. This is partly due to more onerous learner's licence logging requirements but reflects the falling interest in driving seen in the US.<sup>27</sup>

### Public transport

In some regions, Uber and Lyft are experimenting with pooled ridesharing (simply put, you get a cheaper ride if you agree to share the car with strangers with different destinations, or in the Lyft Shuttle case, the routes and stops are predetermined).

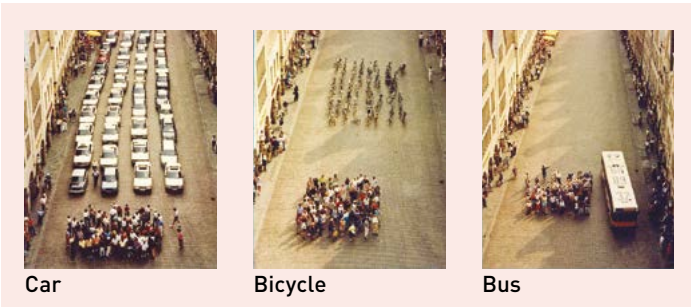
Internet commenters joked that we already had a name for this service – a bus. While it does resemble a bus, it's one that comes within minutes of you calling it and the route is optimised for all the passengers on board. The interplay between private autonomous fleets, public transport and regulations will be interesting to observe, though likely to have very different regional outcomes.

In the United States at least, many public transport operators saw drops in ridership in 2016<sup>28</sup> and some are already pointing the finger at ride-hailing services such as Uber, though it seems too early to be blaming these services solely for the drop in public transport usage. The drop also happened during a period when oil prices have fallen and car sales have hit a record, illustrating the complex interplay of factors that drive usage of different modes of transport.

In March 2017, the NSW Transport Minister Andrew Constance<sup>29</sup> speculated that technology and autonomy would make most public transport obsolete. It's probably a bit premature to make such claims, and given political leanings it could be perceived as a threat to privatise public transport services, but it's not hard to see the potential impact.

And while in an ideal world where there's a smaller, yet more utilised, fleet it should lead to less congestion and faster travel times, it remains an open question whether an autonomous fleet can entirely replace particularly dense forms of public transport such as trains.

One popular illustration of the impact of cars on urban environments was this one from the City of Meunster in Germany:



While partly satirical, a riff on this image has been circulating<sup>30</sup> in recent months trying to drive home the point that autonomy doesn't really change anything:



While there is some truth to this, it conveniently ignores the reduced total number of cars on the road at any point in time due to higher utilisation, the reduced need for parking, the reduced congestion from accidents and traffic waves (those weird traffic jams that happen on motorways for seemingly no reason).

But that idealistic future might be a while away and in the interim it may seem to get worse, especially if cheap autonomous transport starts supplanting public transport at the margin.

In fact, the New York subway system (along with many other metro transit systems in the US) reported a drop in ridership in 2016. While it's probably a number of factors, from the oil price, to falling service quality in some networks due to lower investment, that hasn't stopped some from pointing the finger at ridesharing services like Uber. If an autonomous EV fleet lowers the cost per trip even further, some will reasonably consider switching from public transport.

One interesting observation made by Benedict Evans,<sup>31</sup> a venture capitalist at Andreessen Horowitz was the speculation that autonomous driving could even lead to a resurgence in bicycle usage – if autonomy made the roads safer for people on bikes, might it entice more of us back on the roads? As just one example of second-order effects, could autonomy lead to a renaissance in cycling, further alleviating road congestion while reducing obesity and improving health outcomes for millions in the process?

### Employment impacts

Up until now, we focused mainly on the positive economic impacts, but in the transition to autonomy, there are around 4 million Americans employed in jobs that involve driving – trucks, taxis, chauffeurs and ride-sharing drivers of which 3.5 million do it full time.<sup>32</sup>

They're jobs predominantly done by immigrants and low-skilled workers – groups that have already been excluded from the most of the spoils of America's economic growth. It would be naive to ignore these impacts.

Conversely, truck driving has at least been one of the few jobs that has been largely immune to the globalisation and automation trends that have affected Middle America. Over a 36-year period from 1978 to 2014, truck driver went from being the most common job in just nine states to 29 states.<sup>33</sup>

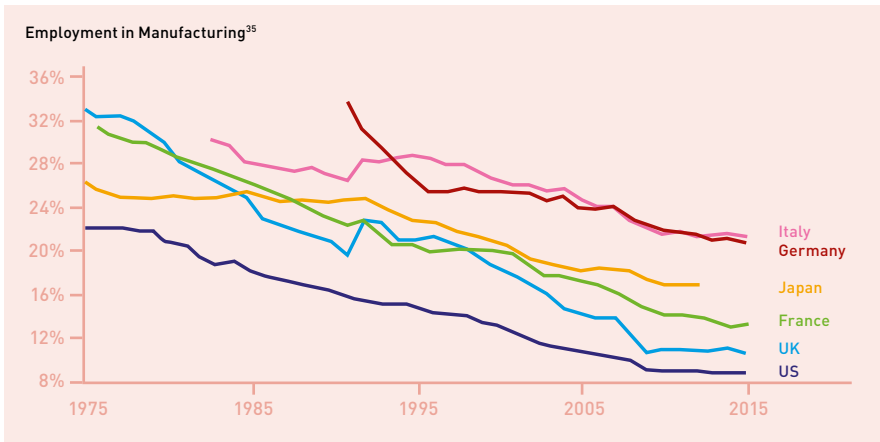
While the way the census groups driving jobs exaggerates the importance somewhat,<sup>34</sup> the trend through time is illustrative. There are a number of jobs that have been ravaged by automation during this period:

**Machine operators** – once the biggest job in eleven states, now none, as the shifting of production overseas and automation took its toll;

**Farming** – the biggest employer in eight states in 1978 but now only two, as farm equipment productivity has resulted in less employment;

**Secretaries** – from 21 states to just five, as the rise of the personal computer eliminated the need for a lot of bodies.

As an aside, the decline in manufacturing hasn't been confined to the United States. Over a forty year period most industrialised economies have seen manufacturing employment decline:



But it highlights how employment is a fluid beast and that through time automation can cause huge disruptions under the surface.

And lest any of us feel too comfortable in our jobs, even fund managers are grappling with the challenges of active management in the age of passive investing, with BlackRock announcing a shift of some of its funds under management to quantitative strategies in March 2017, essentially replacing analysts and fund managers with computer models.<sup>36</sup>

## Oil demand and exploration

Globally about 90 million barrels of oil are consumed every day and around two-thirds of that are used in all modes of transport, including aircraft. Looking solely at personal transport, such as passenger cars and light trucks (which includes SUVs) it accounts for 45% of total oil consumption.

In the short term lower oil prices and policy, such as a relaxation of fuel efficiency targets in the US, which seem likely in a Trump administration, may drive up oil demand, longer term we believe the cost advantages of EVs will make them the technology of choice for autonomous fleets. As a result, we think in the mid to long term that 45% of oil demand is probably going to zero.

While well beyond the scope of this report, the acceptance of climate change and any attempt to keep within the 2C target implies most of our fossil fuel reserves will have to stay in the ground. The reaction of OPEC to non-conventional oil production in the US potentially illustrates this changing mindset – rather than by cutting production and raising prices, OPEC kept production, eventually pushing prices down to \$30 in early 2016. Such behaviour could be explained if one believed in a ‘use it or lose it’ outcome for oil reserves – it makes more sense to sell as much for \$30 before it becomes worthless.

The Saudis have been especially attuned to the risks of technological disruption to their oil industry – Sheik Ahmed Zaki Yamani, the Saudi oil minister in the 1970s is reported<sup>37</sup> to have said, “The Stone Age didn’t end for the lack of stone, and the oil age will end long before the world runs out of oil.”

If current reserves are living on borrowed time, that also has difficult implications for companies that benefit from the search for more and development of those reserves, massive industries in their own right – in 2014 the oil industry spent \$650b on exploration and development.

## Closing Remarks: Dystopic Outcomes and where we will be wrong

The biggest risk as investors is probably around timing. There are many optimistic views on when we might see autonomous cars plying urban streets in big cities around the world, but reasonable expectations seem to be around the 2020-2025 timeframe. Developers could run into intractable reliability issues due to general complexity of most urban streets; system costs could remain stubbornly too high, limiting adoption to a small volume of very high-end cars.

Conversely, autonomy could happen, but the outcome could be dystopian, rather than the optimistic outcomes we've described so far. For example, rather than cars occupied by single drivers driving around looking for a place to park, roads could be eternally congested with empty living rooms on wheels driving around waiting to pick up their owners.

**In an application of Jevons paradox, collapsing transport costs could see demand and traffic explode increasing congestion, vehicles and demand for resources.**

While we are excited in the long-term about the opportunities from autonomous vehicles, we remain cognisant of the risks of shorter-term economic cycles and any macroeconomic disruptions in the interim could have significant impacts on investments in the supply chain, from automakers through to component and software suppliers. 🍷

- <sup>1</sup> <https://crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/812013>
- <sup>2</sup> <http://www.ihs.org/ihs/topics/t/general-statistics/fatalityfacts/gender>
- <sup>3</sup> <https://www.census.gov/hhes/commuting/files/2014/acs-32.pdf>
- <sup>4</sup> [http://www.cae.utexas.edu/prof/kockelman/public\\_html/TRB17EconomicEffectsofAVs.pdf](http://www.cae.utexas.edu/prof/kockelman/public_html/TRB17EconomicEffectsofAVs.pdf)
- <sup>5</sup> [https://ops.fhwa.dot.gov/congestion\\_report/executive\\_summary.htm](https://ops.fhwa.dot.gov/congestion_report/executive_summary.htm)
- <sup>6</sup> IDC, 2016
- <sup>7</sup> Image source: [https://en.wikipedia.org/wiki/History\\_of\\_autonomous\\_cars](https://en.wikipedia.org/wiki/History_of_autonomous_cars)
- <sup>8</sup> <https://twitter.com/PessimistsArc/status/844937745306980353>
- <sup>9</sup> See 6 February 2017 Bloomberg New Energy Finance Report "Bottom Up Cost Scenarios For Lithium-Ion Batteries."
- <sup>10</sup> For an Australian perspective, even with our much higher electricity prices EVs are still attractive, costing \$4.7/100km for an EV and \$7.8/100km for an ICE, assuming \$0.3/kWh and \$1.2/L in energy costs. For a car driven 20,000km a year the annual savings are more than \$600.
- <sup>11</sup> <https://www.theinformation.com/what-intel-sees-in-mobileye-is-its-data>
- <sup>12</sup> <http://www.vanityfair.com/news/business/2014/10/air-france-flight-447-crash>;  
See also <https://www.theguardian.com/technology/2016/oct/11/crash-how-computers-are-setting-us-up-disaster>
- <sup>13</sup> <http://www.southampton.ac.uk/news/2017/01/driverless-cars.page?dom=pseau&src=syn>
- <sup>14</sup> <https://qz.com/924212/what-it-really-costs-to-turn-a-car-into-a-self-driving-vehicle/>
- <sup>15</sup> Source: <https://www.ft.com/content/77680d24-e8d7-11e6-967b-c88452263daf>
- <sup>16</sup> See: <http://www.evolveingai.org/fooling>
- <sup>17</sup> <http://spectrum.ieee.org/transportation/self-driving/selfdriving-cars-have-a-bicycle-problem>
- <sup>18</sup> <http://www.abc.net.au/news/2017-06-24/driverless-cars-in-australia-face-challenge-of-roo-problem/8574816>
- <sup>19</sup> <http://web.mit.edu/airlinedata/www/Aircraft&Related.html>
- <sup>20</sup> [http://www.cae.utexas.edu/prof/kockelman/public\\_html/TRB15SAVinAustin.pdf](http://www.cae.utexas.edu/prof/kockelman/public_html/TRB15SAVinAustin.pdf)
- <sup>21</sup> <https://www.washingtonpost.com/graphics/business/batteries/congo-cobalt-mining-for-lithium-ion-battery/>
- <sup>22</sup> <https://www.wsj.com/articles/driverless-cars-threaten-to-crash-insurers-earnings-1469542958>
- <sup>23</sup> [http://media.swissre.com/documents/HERE\\_Swiss+Re\\_white+paper\\_final.pdf](http://media.swissre.com/documents/HERE_Swiss+Re_white+paper_final.pdf)
- <sup>24</sup> <https://electrek.co/2017/03/14/tesla-autopilot-insurance-root/>
- <sup>25</sup> <http://www.motherjones.com/environment/2016/01/future-parking-self-driving-cars>
- <sup>26</sup> <http://www.umtri.umich.edu/what-were-doing/news/more-americans-all-ages-spurning-drivers-licenses>
- <sup>27</sup> <http://www.smh.com.au/national/population-growth-all-thats-pushing-up-traffic-as-we-pass-point-of-peak-car-20170104-gtlv0k.html>
- <sup>28</sup> <https://www.citylab.com/transportation/2017/02/whats-behind-declining-transit-ridership-nationwide/517701/>
- <sup>29</sup> <http://www.afr.com/technology/tech-will-end-government-supplied-transport-nsw-minister-andrew-constance-20170315-guydph>
- <sup>30</sup> <http://www.treehugger.com/cars/picture-worth-space-required-transport-60-people-car-uber-and-av.html>
- <sup>31</sup> <https://twitter.com/BenedictEvans/status/844607598124908544>
- <sup>32</sup> <https://www.bls.gov/ooh/transportation-and-material-moving/heavy-and-tractor-trailer-truck-drivers.htm>  
<https://www.bls.gov/ooh/transportation-and-material-moving/delivery-truck-drivers-and-driver-sales-workers.htm>  
<https://www.bls.gov/ooh/transportation-and-material-moving/taxi-drivers-and-chauffeurs.htm>
- <sup>33</sup> <http://www.npr.org/sections/money/2015/02/05/382664837/map-the-most-common-job-in-every-state>
- <sup>34</sup> <http://www.marketwatch.com/story/no-truck-driver-isnt-the-most-common-job-in-your-state-2015-02-12>
- <sup>35</sup> Source: <http://bruegel.org/2017/02/europe-in-a-new-world-order/>
- <sup>36</sup> <https://www.nytimes.com/2017/03/28/business/dealbook/blackrock-actively-managed-funds-computer-models.html>
- <sup>37</sup> <http://www.nytimes.com/2005/08/21/magazine/the-breaking-point.html> europe-in-a-new-world-order/

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