Australian Shareholders' Association

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Continuing Fund Outflows Drag on Platinum

Company/ASX Code	Platinum Asset Management Ltd / PTM
AGM date	Wednesday, 17 November 2021
Time and location	10am Virtual (https://web.lumiagm.com/361727191)
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Ian Anderson
Pre AGM Meeting?	Yes with Chair Guy Strapp, Director of Investor Services and Communications, Elizabeth Norman, Company Secretary, Joanne Jefferies and Tim Hargreaves, Head of Finance.

The individual (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

Item A	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

Financial performance

Despite net outflows of $2.3B (FY20: $3B), funds under management (FUM) at year end rose 10% to $23.5B driven largely by investment gains in a global stock market which rose 28% over the year. Whilst the International Brands and International Healthcare funds significantly outperformed their indices the larger International and Asia funds were below index, dragging down the overall results. Profit before tax increased 6.1% to $234.2M on a 5.9% increase in revenue to $316.4M where significant gains from Platinum's seed investments were partially offset by a 3.8% decline in investment management fees, largely as a result of a 1.6% reduction in average funds under management over the year.

Total expenses rose $4.3M to $82.2M largely as a result of a $6.8M increase in employee variable compensation, partially offset by a decrease of $2.5M in other expenses. Dividends for the year totalled a fully franked 24 cents, the same as for last year, and overall simple total shareholder return (TSR) was 38% reflecting the relatively low Covid affected share price at 30 June 2020. Whilst the share price was a relatively healthy $4.91 at year end it has since settled back to around $3.10, well below the previous year's close of $3.73, driven by perceptions of further fund outflows and an overhang from the offloading of a large shareholding by a substantial shareholder.

Governance and culture

The company shareholding continued to be dominated by directors and staff including a nearly forty three percent substantial holding equally divided between non-executive director Kerr Neilson and his former wife, although since year end the latter has ceased to be a substantial holder. A further 5.6% is held by managing director Andrew Clifford and his wife. The board includes three executive directors in a board of nine, five of whom are considered independent.

A high staff and director shareholding provides good alignment with shareholder interests and all directors except Andrew Stannard hold shares in the company, although several non-executive directors have yet to reach a holding equivalent to one year's fees. Andrew Stannard has unexercised rights to 21,522 and contingent rights to 148,813 shares which will vest provided he remains with the company.

Key events

Restrictions imposed due to Covid-19 have caused relatively minimal disruption to operations with the majority of staff able to work remotely. However the company sees benefits in investment teams working face-to-face and expects an eventual return to more normal arrangements over time.

Key Board or senior management changes

As foreshadowed, Guy Strapp was appointed chairman on Mr Cole's retirement following the last AGM. Apart from that there were no changes to the board or KMP.

ASA focus issues

Apart from remuneration issues commented on below, Platinum generally complies with ASA focus issues and with three female directors in a board of nine, complies with ASA's guideline of minimum 30% female representation.

Summary of Financial Performance

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
NPAT ($m)	163.26	155.61	158.34	191.6	192.6
FUM ($m)	23,522	21,385	24,765	25,698	22,713
Share price ($)	4.91	3.73	4.85	5.76	4.63
Dividend (cents)	24	24	27	32	30
TSR (%)[1]	38	-18	-11	30.8	-14.41
EPS (cents)	28.2	26.76	27.03	32.4	31.7
CEO total remuneration, actual ($m)[2]	0.472	0.471	0.471	0.470	0.452

1. Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking by the share price at the start of the year.
2. For FY20, the CEO's total actual remuneration was **5.1 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics)..

Resolution 1	Re-Election of Andrew Stannard as a Director
ASA Vote	For

Summary of ASA Position

Andrew Stannard has been a non-independent executive director and chief financial officer of Platinum since 2015. He has 30 years' experience in finance and expertise in audit, financial control, operations, funds management, financial services regulation and corporate governance. He was previously CFO of the Asia-Pacific region for AllianceBernstein

Mr Stannard appears well qualified to contribute to the Platinum board and ASA will vote undirected proxies in his favour.

Resolution 2	Election of Brigitte Smith as a Director
ASA Vote	For

Brigitte Smith first joined the board in March 2018 and is currently a member of the Nomination and Remuneration committee and the Audit and Risk committee. Ms Smith was co-founder and managing director of GBS Venture Partners for twenty years and has worked with Australian and US fast growth companies as an investor and board member with experience in business strategy, human resources and operations. She previously worked at Bain & Company as a strategic management consultant.

ASA has previously supported Ms Smith's election and will vote undirected proxies in her favour.

Resolution 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

The relatively complex arrangement of multiple incentive schemes was retained for FY21 but following the end of the year Platinum has added a new incentive plan to the suite designed to incentivise, reward and retain not only executive KMP but the majority of the investment team and other employees in the company. In addition to the existing short term CEO (CEOP), Investment Team (ITP), Profit Share (PSP) and General Employee (GEP) plans, the company has implemented the Platinum Partners Long Term Incentive Plan (PPLTIP) as well as seeking shareholder approval for an existing Equity Incentive Plan (EIP – see Resolution 4)) which acts as an umbrella for holding deferred rights issued under the Deferred Remuneration Plan (DRP) and the PPLTIP. There are also two inactive Long Term Incentive (LTI) plans.

The ITP and PSP apply to all and selected members of the investment team respectively and the GEP applies to non-investment team staff. The PPLTIP is only open to selected staff members based on their assessed future contribution to the business. The CEO participates in the ITP and

PSP as a member of the investment team and in the CEOP and, from the beginning of FY23 is proposed to participate in the PPLTIP, the terms of which are discussed below and under Resolution 5. Other executive KMP participate in the GEP but not the ITP or PSP. Variable awards are paid largely in cash but a proportion can be made in the form of deferred equity which vests over a period of four years via the DRP/EIP and which appears to essentially be a retention scheme.

The ITP and PSP operate on a pool structure determined by investment and company performance and are allocated on the basis of individual assessments of performance against unstated quantitative and qualitative measures. Whilst the pools for these awards are capped (two times aggregate salaries of the investment team for the ITP and 5% of adjusted net profit for the PSP) individual awards under the ITP appear to have a somewhat flexible cap of 120% of base salary whilst PSP awards are uncapped. GEP awards are assessed against unstated but pre-determined operational performance indicators for each employee with no stated caps. The company currently intends to purchase shares on market in order to satisfy obligations under the DRP but there is flexibility to award cash or some other instrument.

Awards under the PPLTIP are awarded via the EIP in the form of deferred rights valued by the VWAP in the seven days prior to the award date which will vest subject to a single hurdle of achieving 7.5% absolute TSR compound annual growth rate (CAGR) in four tranches over one, two, three and four year periods following the date of the award. For FY22, Mr Clifford is proposed to be awarded 1.6M rights (see Resolution 5)

The CEOP consists of STI only (capped at $1M) awarded against quantitative and qualitative indicators and provided to Mr Clifford in the form of an equivalent award of deferred equity rights issued pursuant to the DRP. The CEO's overall remuneration plan for FY22 is summarised in the table below.

CEO REM Framework for FY22[1]	Target[2] $M	Max. Opportunity $M
Fixed Remuneration	0.475	0.475
STI – Equity (CEOP)	1.00	1.00
ITP (as CIO) – Cash & Equity	Uncapped	Uncapped
PSP (as CIO)– Cash & Equity	Uncapped	Uncapped
PPLTI P (as CEO/CIO)- Equity	6.976[3]	13.952[4]
Total	Variable	Variable

1. The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.
2. Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.
3. Up to 1.6M rights are proposed to be issued to Mr Clifford in FY22 which will be valued at the trading VWAP seven days prior to grant date. The dollar value stated above is from the illustration example stated in the Notice of Meeting based on the VWAP at 19 July 2021 of $4.36.
4. Subject to the vesting conditions stated above, each of the deferred rights is capable of vesting as two shares.

Whilst being assessed as partially achieving some of his KPIs under the CEO plan, Mr Clifford elected not to receive any variable incentive awards for FY21. No awards were made under the PSP and awards under the ITP, with some exceptions, were generally modest as were salary increases. Of the other executive KMP, only Elizabeth Norman & Andrew Stannard received total incentives under the GEP of $1.5M and $0.675M respectively, a combined total of $0.75M of which was deferred into the DRP for a period of four years.

A total of 8.2M rights were issued to selected investment team members (excluding Mr Clifford) under the PPLTIP which will vest under the conditions discussed above. In the extreme, as a result of vesting conditions including a two times multiplier for some outperformance, this represents potential access over a four year period to 16.4M Platinum shares, which even at currently depressed share values amounts to approx. $50M.

The company has provided a reasonably clear statement of their, albeit relatively complex, REM structure although they still retain a high degree of discretion over the performance indicators under which the awards are distributed. Whilst it is recognised that Platinum has specific requirements regarding staff expertise and retention and it can be argued that high levels of staff shareholding align executives with shareholder interests, it is felt that greater transparency could be provided for the allocation of what can be significant variable awards. As discussed under Resolutions 4 and 5, ASA also has concerns about the issuing of shares under the EIP and the hurdles and short term nature of at least part of the proposed PPLTIP.

ASA has voted against the REM report in the past but over the last few years has marginally supported it on the basis of the restraint demonstrated in assessing KMP awards. Similar restraint has been shown this year and whilst we have concerns regarding the new PPLTIP (see Resolution 5), this plan does not apply in the year of review, FY21. We will therefore vote undirected proxies in favour of the REM report this year but are unlikely to do so again if the same vesting conditions apply next year for the PPLTIP.

Resolution 4	**Approval of the Company's Equity Incentive Plan**
ASA Vote	**Undecided**

The company is seeking approval of their existing Equity Incentive Plan (EIP) which will act as an umbrella for holding deferred rights issued under the Deferred Remuneration Plan (DRP) and the PPLTIP for the purposes of Exception 13(b) of ASX Listing Rule 7.2. Exception 13(b) provides that an issue of securities under an employee incentive scheme does not count towards the company's rolling 15% annual limit on the issue of new securities prescribed in ASX Listing Rule 7.1, provided that, during the three years prior to the issue date, the issue of those securities has been approved by shareholders.

The issue of securities under the existing DRP was not approved by shareholders and so contributed to the 15% limit but there was a stated intention that any shares required on vesting of the deferred rights would be purchased on market thus avoiding dilution of the capital of other shareholders. However, with the introduction of the PPLTIP the number of securities which could be issued via the EIP becomes more significant as potentially up to 30M deferred rights could be issued over a period of three years. Given that subject to vesting conditions, many of these rights will carry the right to up to two Platinum shares and there is no statement that shares required on vesting of the rights will be purchased on market, in the extreme, approval of this plan could result in the issue of up to 60M Platinum shares, a dilution of around 10% of the company's capital over three years.

As it stands, ASA is not in favour of this resolution but will await a response from the company's chairman at the AGM before deciding how to vote.

Resolution 5	**Approval for the Grant of Equity to the Managing Director and Chief Executive Officer**
ASA Vote	**Against**

As indicated under Resolution 3 above, the company has already introduced the PPLTIP for investment team staff. This resolution is for the issue to MD and CEO, Andrew Clifford under the PPLTIP of up to 1.6M deferred rights which, subject to the vesting conditions described below, may be converted to shares in the company at a rate of up to two shares per deferred right. The Notice of Meeting (NOM) gives an illustrative value of these rights as $6.976M although, if all vested at the 2X multiplier, this value could be closer to $14M.

Vesting is on a sliding scale where if TSR is below 7.5%, each right has nil entitlement, if TSR is between 7.5% and 10%, the entitlement is between 0.75 and 1 share per right pro rata on a straight line basis, if between 10% and 15%, entitlement is between 1 and 2 shares per right with no increase in entitlement above 15% TSR.

Whilst 7.5% CAGR may be a reasonable long term target for TSR, dividends usually account for about 5% of this growth and will be compounded over the four year period. In addition, at least the first two tranches vesting over periods of one and two years must be considered as additional STI rather than LTI. In this connection it is noted that had this plan been implemented for FY21 where the TSR was in the order of 38%, at least 0.4M of the above rights would have vested as equivalent to two platinum shares and the awardee would have already achieved awards which, even at currently depressed share values, could total some $2.5M during a period of relatively average company performance . Given that four months later the share price is currently approaching some 35% below the June 30 close used to calculate the above one year TSR hurdle, this provides an example of how TSR awards can be unduly generous over the short term.

In ASA's opinion, TSR is intended as a long term target and is not an appropriate hurdle for STI as it can be substantially affected by short term swings in market conditions, as demonstrated above. In this case, the effect of any short term swings is greatly magnified by the two times multiplier for out-performance which could lead to very high awards in early years which would not be justified if performance is poor in later years.

For these reasons ASA will vote undirected proxies against this resolution.

Resolution 6	Approval of Potential Termination Benefits
ASA Vote	**Undecided**

The company is seeking approval for any termination benefits that may be provided to any future participant in the PPLTIP in connection with a person ceasing to hold managerial or executive office in the company for the purposes of Part 2D.2 of the Corporations Act, listing Rule 10.19 under which a company may only give such a person a benefit if the giving is approved by shareholders. Approval is also being sought for the purposes of ASX Listing Rule 10.19 which provides that a company must ensure that no officer of the company will, or may be, entitled to termination benefits if the value of the termination benefits that may or will become payable to all officers together exceed 5% of the equity interests of the company.

In conjunction with the PPLTIP, the company has introduced differing treatment of vested and unvested deferred rights for an employee ceasing employment under which the exercise conditions attached to those rights may be accelerated depending on whether the employee is considered a “good leaver”, “adverse leaver” or “other leaver”. As it is not possible to determine the value of these proposed termination benefits in advance and whether or not the value will exceed the 5% threshold, the company is seeking shareholder approval to give flexibility for all future awards.

As set out under Resolution 4 above, we are not in favour of the award of such large amounts of equity via the issue of shares as proposed and we consider such awards should be subject to separate shareholder approval in each case at the time of award. Accordingly we will await the outcome of responses at the AGM before deciding how to vote on this matter.

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