



## Outflows hammers share price

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| <b>Company/ASX Code</b>      | Platinum Asset Management/PTM   |
| <b>AGM date</b>              | Wednesday, 20 November 2019   |
| <b>Time and location</b>     | 10am Intercontinental Hotel, 117 Macquarie Street, Sydney   |
| <b>Registry</b>              | Computershare   |
| <b>Webcast</b>               | Yes, the AGM will be recorded and available on website  |
| <b>Poll or show of hands</b> | Poll on all items   |
| <b>Monitor</b>               | Mary Curran, assisted by Carol Limmer   |
| <b>Pre AGM Meeting?</b>      | Yes, with Chair, Michael Cole, CFO, Andrew Stannard and Head of Investor Relations, Elizabeth Norman. |

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| <b>Item 1</b>   | <b>Consideration of accounts and reports</b> |
| <b>ASA Vote</b> | No vote required                             |

## Summary of ASA Position

It's not been a happy year at the well-regarded fund manager with funds under management continuing to decline, plus the relative underperformance of the majority of its funds with only one over performing the benchmarks. Net outflows accounted for of \$246 million and funds under management fell 4% to \$24.8 billion in Financial Year 2019 (FY19) from \$25.7 billion in FY18. Total Shareholder Return for the year was -11%. At time of writing the share price was \$4.47 (annual high \$5.63, low \$3.66). The share price was higher 10 years ago, about \$5 in December 2009. There has been a 15% decrease in total revenue from \$353.3m in FY18 to \$299.3m in FY19, EPS is not growing, and there has been a \$22m drop in performance fees and \$21m decline in seed investments.

The company states that given their style of asset management, i.e. 'value investors', they are not alone in these performance metrics.

During the year, the founder Kerr Neilson and his former wife, Judith Neilson sold 60 million shares (approx. \$300 million value for their philanthropic pursuits) via a placement at \$5 per share (roughly a 5% discount at the time, March 2019). They retain 43% stake in the company. The company states they do not know the underlying shareholders who purchased the shares or whether they sold them afterwards as none were significant shareholders, so no disclosure was required. They are not 'in the money' currently.

The company has renewed its ability to buy back (10%) on market but stated this would be precipitated by a "market event" rather than the current low share price.

Overall, they continue to maintain contact with advisers via the annual national capital city and regional adviser roadshow in Australia and New Zealand as well as having smaller advisory group meetings. They believe there is still very much a market for Platinum-style management of funds, although many advisers will leave the industry as a result of the Hayne commission and new regulations.

With regard to the payout ratios (for dividends) over the last 10 years, PTM average pay-out has been about 96%, and PTM doesn't expect to be doing much different in the future than it has in the past.

Staff expenses, which generally account for 50% of fixed costs, are down 35%. The company maintains that this is largely due to investment underperformance, with variable compensation reducing as a consequence (see pie charts p. 28 of the Annual Report). Staff are in a market niche that is highly competitive. Note average staff tenure is 14-15 years for portfolio managers but retention remains a critical indicator.

With regard to 'skin in the game' (also see pie chart p 28) 50% of the shares are owned by employees. Andrew Stannard does not currently hold shares, but his retention shares will vest in 1 ½ years provided he remains employed by PTM. All non-executive directors hold shares.

We again questioned the larger board (now nine) including the number of executive (non-independent) directors. The chair stated as this was his final year, it was important to gradually appoint new independent board members and he also stated he felt that having executives on the board was important due to Mr. Neilson playing a lesser management role.

### **Summary**

| (As at FYE)                          | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| NPAT (\$m)                           | 158.34      | 191.6       | 192.6       | 199.9       | 213.5       |
| Share price (\$)                     | 4.85        | 5.76        | 4.63        | 5.72        | 7.48        |
| Dividend (cents)                     | 27          | 32          | 30          | 32          | 47          |
| TSR (%)                              | -11%        | 30.8        | -14.41      | -18.7       | 26.9        |
| EPS (cents)                          | 27.03       | 32.4        | 31.7        | 34.2        | 36.7        |
| CEO total remuneration, actual (\$m) | 0.471*      | 0.470**     | 0.452**     | 0.489**     | 0.481**     |

\*Mr Andrew Clifford

\*\*Mr Kerr Neilson

For 2019, the CEO's total actual remuneration was **5.3 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

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| <b>Item 2a</b>  | <b>Re-election of Ms Anne Loveridge as director</b> |
| <b>ASA Vote</b> | <b>For</b>  |

### Summary of ASA Position

Ms Anne Loveridge was appointed to the board in September 2016 and was supported by ASA at that time. She was a partner and deputy Chair of PwC and is currently a non-executive director of National Australia Bank and NIB Holdings. Holds 22,000 shares. As per ASA's skin-in-the-game guidelines for non-executive directors, Ms Loveridge has reached year three of her first term and should have holdings in the company equivalent to one years' fees. We encourage Ms Loveridge to commit to increasing her holdings in the company.

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| <b>Item 2b</b>  | <b>Re-election of Mr Kerr Neilson as director</b> |
| <b>ASA Vote</b> | <b>For</b>  |

### Summary of ASA Position

Mr Neilson co-founded Platinum in 1994 and was Managing Director until June 2018. He also held the position of Platinum's Chief Investment Officer from 1994 until 2013. In his current capacity as a full-time executive director he works on the generation of investment ideas and company research and provides additional support to Platinum's client diversification initiative in Europe and the US. Holds 252,074,841 shares and maintains voting rights over Mrs. Neilson's shares. (disposed of 60 million shares during the year).

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| <b>Item 2c</b>  | <b>Re-election of Ms Elizabeth Norman as director</b> |
| <b>ASA Vote</b> | <b>For</b>  |

### Summary of ASA Position

Ms Norman joined Platinum in 1994 and was appointed a director of Investor Services and Communications in 2013. Her role reflects the widening of Platinum's client base and she has 28 years of experience working in the financial services industry. Holds 766,748 shares.

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| <b>Item 3</b>   | <b>Adoption of Remuneration Report</b> |
| <b>ASA Vote</b> | <b>For</b>                             |

### Summary of ASA Position

In 2017, ASA voted against the remuneration report. ASA voted for the Remuneration Report in 2018 after changes were made. The company went to great pains to introduce a more graphic style remuneration report with two pages of pie charts and two tables of remuneration – one the

accounting standard and one the actual, which is repeated in the 2019 Annual Report, see pages 28-29 and 35-36.

Simply put the company appears to have 'soft targets' and discretion for the awarding of a bonus, so it is difficult to always ascertain parameters. Additionally, short term incentives (known as General Employee Plan), are all in cash.

Of note is the 'Deferred Bonus Plan' which is basically the granting of shares over a four-year period. Selected employees will have a proportion of their bonus deferred. These shares will be acquired by an Employee Share Trust on market and therefore will not dilute existing shareholders. The value of shares will be calculated using face value, rather than fair value, which is positive.

This year Andrew Clifford elected not to receive any variable awards and his multiple versus the average weekly earnings is low. Overall, Mr Clifford is eligible to earn a maximum of \$1m as a discretionary award in his capacity as managing director, another discretionary award as part of the investment team capped at \$1.5m and the company's profit share plan which is also subject to a \$1.5m cap. Together, this constitutes a fairly high salary though it is understood that company KMP are subjected to some hurdles before they can earn it.

In general, variable awards were significantly down from the previous years. Bonuses (STI cash) were paid to Elizabeth Norman (\$900,000) and Andrew Stannard (\$425,000). We questioned these bonuses and the Chair responded that they prefer to keep the fixed annual remuneration low (in comparison to competitors) and pay a higher variable award. Under the Deferred Bonus Plan awards of \$350,000 (Elizabeth Norman) and \$150,000 (Andrew Stannard) were made. These shares vest over four years and is more a staff retention plan than a direct alignment with shareholder experience. No payments made under the Profit Share Plan for the Long-Term Incentive Plan.

The founder, Mr. Neilson (holding 21.48%) and Mrs Neilson (holding 21.58 %) believe this aligns with shareholder interests by itself.

Whilst borderline, in looking at all aspects of their remuneration, we overall support it.

| CEO Remuneration*  | Target \$m | % of Total | Max. Opportunity \$m | % of Total |
|--------------------|------------|------------|----------------------|------------|
| Fixed Remuneration | 0.471      | 100        | 0.471                | 32         |
| STI - Cash         | Nil        | 0          | 1.0                  | 68         |
| STI - Equity       | Nil        | 0          | -                    | -          |
| LTI                | Nil        | 0          | -                    | -          |
| Total              | 0.471      | 100        | 1.471                | 100        |

\*In addition, Mr Andrew Clifford was entitled to receive discretionary awards in respect of his CIO role. In particular he was entitled to receive awards under the Investment Team Plan (subject to a \$1.5mn cap) and the Profit Share Plan (subject to a cap of \$1.5mn). Mr Clifford did not receive an award under either plan in 2019.

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

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