Platinum
CAPITAL LIMITED

Annual Report 2021

Platinum Capital Limited

ABN 51 063 975 431

Directors

Margaret Towers
Richard Morath
Jim Clegg

Company Secretary

Joanne Jefferies

Investment Manager

Platinum Investment Management Limited
(trading as Platinum Asset Management®)

Platinum Investment Management Limited neither guarantees the repayment of capital nor the investment performance of Platinum Capital Limited (the "Company")

Shareholder Liaison

Elizabeth Norman

Registered Office

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Share Registrar

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Sydney NSW 2000

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Auditor and Taxation Advisor

PricewaterhouseCoopers

Securities Exchange Listing

Platinum Capital Limited shares are listed on the Australian Securities Exchange (ASX code: **PMC**)

Website

www.platinumcapital.com.au

Corporate Governance Statement

https://www.platinum.com.au/PlatinumSite/media/Find-a-form/pmc_corp_gov.pdf

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CHAIRPERSON'S REPORT 2021

Summary

Platinum Capital Limited's ("**PMC**" or the "**Company**") overall investment return was 23.9% for the year ended 30 June 2021. The return from the Company's investment portfolio resulted in a net profit after tax of $68.3 million for the 2021 financial year.

The Company's investment return delivered by the investment manager, Platinum Investment Management Limited ("**Platinum**"), for the 12-month period to 30 June 2021 was one of the strongest financial year results in the Company's history. This was achieved during a difficult year as the markets reacted to the global pandemic and was achieved with an average cash holding of over 20%, providing downside protection for the portfolio.

The Company declared a fully franked 2021 final dividend of 4 cents per share. This brings the full-year fully franked dividend to 7 cents per share (2020: 6 cents per share) representing a grossed-up dividend yield of 6.6% based on the closing share price of $1.52.

Investment Performance

As mentioned, for the 12-month period to 30 June 2021, the Company delivered a return of 23.9% measured by its pre-tax net tangible assets ("pre-tax NTA") i.e. the combined capital and income return of the Company's investments after the deduction of fees and expenses, adjusted for corporate taxes paid and any capital flows, and assuming the reinvestment of all dividends. This can be compared to the return for the MSCI All Country World Net Index in A$ terms ("MSCI index"), which delivered 27.7% for the same period.

An impressive 31.7% return was delivered by the Company's long positions. The short positions, which were entered into as downside protection, reduced this return by 5.9%.[1]

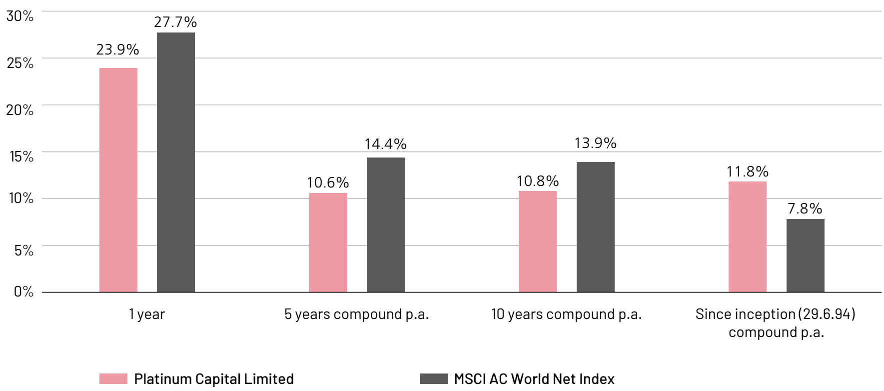
The Company's investment return for the 2021 financial year reflected particularly strong performance in the months of November 2020 (10.2%) and February 2021 (6.6%). In November, the performance can be attributed to successful COVID-19 vaccine trials, which benefited the markets as well as our portfolio. In February, the market finally rewarded cyclicals after a long trend of favouring growth and defensive stocks. The Company's investment performance in both of those two months exceeded the MSCI index (3.2% and 5.2% respectively), which demonstrates the value of the investment manager's index-agnostic investment approach. The Company's positions in semiconductors (Samsung Electronics, Micron Technology) and resources (Glencore, First Quantum Minerals, Freeport McMoRan) were key contributors to its investment performance.

1 Contribution numbers are based on the total return of individual positions (in AUD) and are gross as they do not take into account the Company's fees and costs (other than brokerage).

The investment manager has recently noted that: *"After very strong performance across a wide range of holdings, we have been actively selling down positions, notably our commodity-related stocks (particularly copper), as well as our semiconductor and travel-recovery plays."*

A summary of the compound returns as compared to the MSCI index over the 1-year, 5-year and 10-year periods and since inception, is shown in the graph below. The Company's since inception (29 June 1994) to 30 June 2021 compound return, measured by the Company's pre-tax NTA, was 11.8% per annum, compared with the MSCI index compound return of 7.8% per annum over the same period.

PMC's Pre-Tax Net Tangible Asset (NTA) Return (%) versus MSCI AC World Net Index in $A terms to 30 June 2021 (%)



Source: Platinum Investment Management Limited (PMC returns) and FactSet Research Systems (MSCI index returns). Returns have not been calculated using the Company's share price. **Past performance is not a reliable indicator of future performance.**

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CHAIRPERSON'S REPORT 2021

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The Company's shares continue to trade at a discount to pre-tax NTA. However, the discount narrowed during the financial year, resulting in a total shareholder return of 26.9% for the year ended 30 June 2021, exceeding the pre-tax NTA return for the same period.

	1 YEAR	5 YEAR COMPOUND P.A.	10 YEAR COMPOUND P.A.	SINCE INCEPTION COMPOUND P.A.
Pre-tax NTA return	23.9%	10.6%	10.8%	11.8%
Total shareholder return	26.9%	4.1%	7.5%	7.7%

Source: Platinum Investment Management Limited. Both returns assume the reinvestment of all dividends.

The Company considers that a fairer comparison of total shareholder returns (TSR) to pre-tax NTA returns should also include franking credits, which are a material component of the returns received by shareholders. Adding the franking credits attached, at the Company's tax rate of 30%, to the 6 cents in dividends paid during the year, would increase the 2021 TSR to 29.2%.

Statutory accounts

For the financial year ended 30 June 2021, the Company made a statutory pre-tax net profit of $97.3 million and a post-tax net profit of $68.3 million.

The Board maintains that a more appropriate measure of the Company's performance is the percentage change in its pre-tax NTA (i.e. after the deduction of fees and expenses, adjusted for corporate taxes paid and any capital flows, and assuming the reinvestment of all dividends).

To keep shareholders fully informed, PMC releases weekly and monthly calculations of its NTA backing per share to the ASX. Platinum publishes monthly investment performance updates and also sends out quarterly investment reports to shareholders.

Dividends

The Company declared a fully franked 2021 final dividend of 4 cents per share, bringing the total dividends declared for the 2021 financial year to 7 cents per share (2020: 6 cents per share). The dividend yield for the year was 4.6% based on the 30 June 2021 closing share price.

The Board aims to deliver a consistent stream of fully franked dividends to shareholders over time through its policy of dividend smoothing, subject to future earnings, cash flows, franking credits and accounting profits. The ability to pay future fully franked dividends will continue to depend on the Company's ability to generate realised profits and pay tax.

To the extent that any profits are not distributed as dividends, the Board may set aside some or all of the Company's undistributed profits to a separate dividend profit reserve, to facilitate the payment of future fully franked dividends, subject to the balance of the franking account. The ability to manage the level of fully franked dividend payments over time is a key strength of the listed investment company structure.

The Company's Dividend Reinvestment Plan ("DRP") provides shareholders with the option to receive some or all of their future dividends as ordinary shares in the Company instead of cash. Under the DRP, the DRP issue price for the new PMC shares allotted will be the volume-weighted average price of the Company's shares traded on the ASX over the five business days subsequent to the date on which the Company shares cease to trade cum-dividend. No DRP discount will apply to this dividend.

Capital Management

The Company did not engage in any capital raising activities during the financial year.

On 8 April 2021, the Company extended the on-market share buy-back for up to 10 per cent of PMC's issued share capital for another 12 months. No shares have been bought back as at 30 June 2021.

Like other listed investment companies, the Company's shares may trade on the ASX at a premium or discount to the pre-tax NTA, with the share price largely determined by the activity of buyers and sellers on the ASX. The Board continues to actively monitor the share price discount and will consider appropriate ways to manage this should the discount become extreme, having regard to the interests of shareholders generally.

Other Corporate Governance Matters

This is the first financial year that PMC is required to disclose against the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations – 4th Edition. As a result, during the financial year the Board reviewed and uplifted its corporate governance policies and procedures to address any gaps arising as a result of the revised requirements. Pleasingly, this review identified that PMC was already meeting a number of the uplifted requirements. For example, PMC introduced its Whistleblower Protection Policy in December 2019 and its first risk appetite statement in October 2019. However, one of the key changes arising from the review was the introduction of a new anti-bribery and corruption policy, to address new recommendation 3.4.

Furthermore, with the introduction of the new Modern Slavery Act 2018 (Cth), PMC opted to be covered under Platinum Asset Management Limited's ("PTM") first modern slavery statement as a voluntary reporting entity. This involved a preliminary assessment of any key modern slavery risks in PMC's corporate supply chain and investment portfolio. This statement was filed with the Australian Border Force in March earlier this year and is available on PTM's website.

Lastly, the Board continued to monitor the performance of Platinum and its adherence to the investment management and administration agreements with the full and transparent co-operation of Platinum's management team.

Accordingly, I am confident in the integrity and reporting of the Company's financial results to shareholders.

CHAIRPERSON'S REPORT 2021

CONTINUED

Outlook for 2021-2022

As highlighted recently by Platinum, the investment manager, "*The global economy has, as we expected, continued its strong rebound, even in the US where government spending has started to fall. The hand over to higher employment and wages plus households drawing down on their excess savings accumulated over the last 12 months has commenced. Europe's recovery continues to gather pace and China is travelling well. All this has occurred well ahead of a full reopening of economies, as vaccination programs continue to progress. All is not perfect though, with the COVID Delta variant causing further waves of infection and lockdowns in populations that have not had access to effective vaccination programs. China's attempts to slow credit growth in its economy is another potential risk to the recovery. Overall though, the global economy is expected to continue to improve and provide an environment that is conducive to strong profit growth.*"

Annual General Meeting

My fellow Directors and Platinum are pleased to invite you to the Company's Annual General Meeting ("AGM") on 28 October 2021.

The Company's AGM will be held live through an online platform where you can attend and participate in the AGM. The AGM Notice, including details on how to join the meeting, will be dispatched to shareholders in the coming weeks.

Finally

On behalf of the Board, I wish to express our appreciation of the excellent work done by Andrew Clifford, Clay Smolinski and Nikola Dvornak and I thank the broader team at Platinum.

On behalf of the Board, I thank shareholders for their continued support.

Margaret Towers
Chairperson
19 August 2021

FINANCIAL INFORMATION SUMMARY

30 JUNE 2021

23.9%	4cps	4.6%
12-month performance[i] (based on pre-tax NTA)	Final fully franked dividend	Dividend yield[ii]

Inception date	29 June 1994
Market capitalisation	444.1mn
Share price	$1.52
Shares on issue	292,186,708
Net Tangible Assets (pre-tax) per share	$1.6773
Net Tangible Assets (post-tax) per share	$1.5962
Net assets	$466.4m
Dividend profit reserve[iii]	39.5cps
Fully franked dividend capacity[iv]	3.2cps

PMC's pre-tax NTA return % versus MSCI AC World Net Index:

	PMC	MSCI
1 year	23.9%	27.7%
5 years	10.6%	14.4%
10 years	10.8%	13.9%
Since inception	11.8%	7.8%

5-year compound per annum pre-tax NTA returns since inception[i]

	PMC	MSCI
Total number of 5-year periods to 30 June 2021[v]	265	265
Periods where return was positive (% of total)	97%	67%
Periods where return was negative (% of total)	3%	33%
Largest 5-year gain (% compound per annum)	27%	23%
Largest 5-year loss (% compound per annum)	(2)%	(8)%
Periods > +8% compound per annum (% of total)	72%	48%
Periods where PMC return was > MSCI (% of total)	64%	N/A

i The pre-tax NTA return is calculated after the deduction of fees and expenses, adjusted for corporate taxes paid, and any capital flows and assumes the reinvestment of dividends.

ii Dividend yield is based on the 2021 interim dividend of 3 cents per share plus the 2021 final dividend of 4 cents per share and the share price as at 30 June 2021.

iii Dividend profit reserve is after providing for the 2021 final dividend of 4 cents per share.

iv This is the maximum fully franked dividend that can be paid based on the franking credit balance as at 30 June 2021 after adjusting for the 2021 tax payable and the 2021 final dividend of 4 cents per share.

v Commencing each month since inception to 30 June 2021.

Source: Platinum Investment Management Limited (PMC returns) and FactSet (MSCI returns). Returns have not been calculated using the Company's share price. **Past performance is not a reliable indicator of future performance.**

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Financial Statements 2021

Platinum Capital Limited

General Information

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 19 August 2021. The Directors have the power to amend and reissue the financial statements.

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 13 August 2021.

Distribution of Ordinary Shares

Analysis of number of ordinary shareholders by size of holding:

	NUMBER OF HOLDERS OF ORDINARY SHARES
1 to 1,000	1,108
1,001 to 5,000	2,068
5,001 to 10,000	2,058
10,001 to 100,000	5,476
100,001 and over	349
Total	11,059
Holding less than a marketable parcel (of $500)	671

Twenty largest shareholders

The names of the twenty largest shareholders of the Company are listed below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Sysha Pty Limited	13,960,000	4.78
HSBC Custody Nominees (Australia) Limited	10,953,232	3.75
Nulis Nominees (Australia) Limited	4,051,725	1.39
Lekk Pty Limited	4,000,000	1.37
BNP Paribas Nominees Pty Limited	2,946,459	1.01
BNP Paribas Nominees Pty Limited	2,225,838	0.76
Mr William Kerr Neilson	1,977,646	0.68
Jorlyn Pty Limited	1,900,000	0.65
Moya Pty Limited	1,694,406	0.58
Navigator Australia Limited	1,115,036	0.38
Citicorp Nominees Pty Limited	915,168	0.31
Netwealth Investments Limited	848,252	0.29
Mr Raymond Ireson	835,916	0.29
Mr John Steven Page & Mrs Gillian Kay Page	818,599	0.28
Howmains Pty Limited	786,972	0.27
Netwealth Investments Limited	733,596	0.25
Perpetual Corporate Trust Limited	673,135	0.23
Allen Optical (QLD) Pty Limited	640,865	0.22
HSBC Nominees (Australia) Limited	628,176	0.21
Custodial Services Limited	594,990	0.20
	52,300,011	17.90

There are no substantial holders in the Company.

SHAREHOLDER INFORMATION
CONTINUED

Voting Rights

Ordinary shares

Every member is entitled to one vote and upon a poll, each share shall have one vote.

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	26 August 2021
Record date (books close) for dividend	27 August 2021
Dividend payment date	16 September 2021

These dates are indicative and subject to change.

Notice of Annual General Meeting (AGM)

The Annual General Meeting of Platinum Capital Limited will be held on Thursday, 28 October 2021. Details of how to join the meeting will be included in the AGM notice.

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.

INVESTMENT STRUCTURE, OBJECTIVES AND METHODOLOGY

Investment Structure

Platinum Capital Limited (the "Company") is a listed investment company, or "LIC", whose shares are listed on the Australian Securities Exchange ("ASX") and traded in the same way as other listed shares. Being a LIC, the Company:

- is closed-ended which means that the underlying portfolio can be managed without concern for fluctuating cash flows;
- is taxed at source and can therefore distribute available profits to shareholders in the form of dividends, usually fully-franked (depending on the availability of franking credits); and
- has established a dividend profit reserve which creates the opportunity for the smoothing of dividends from year to year, at the discretion of the Board.

Shares in the Company can trade at a premium or discount to their net tangible asset backing per share ("NTA"), which is calculated and announced to the ASX weekly and monthly.

The Company delegates its investment management and administration functions to Platinum Investment Management Limited (trading as Platinum Asset Management) (the "Investment Manager"), which employs a team of experienced investment professionals and administration personnel to perform those services. The Company and the Investment Manager are separate legal entities.

Investment Objective

The investment objective of the Company is to provide capital growth over the long-term through investing in companies worldwide which the Investment Manager perceives to be undervalued by the market.

Investment Methodology

The Investment Manager's index-agnostic approach has been well tested over many years. The investment methodology seeks to identify and take advantage of opportunities created by anomalies between a company's share price and its intrinsic value. Transitory events can have a disproportionate effect on the share prices of companies, either positive or negative, and hence there is a tendency for share prices to deviate significantly at times from their inherent value.

For a more detailed discussion of the Investment Manager's methodology and processes, we encourage you to visit the Investment Manager's website.

INVESTMENT STRUCTURE, OBJECTIVES AND METHODOLOGY

CONTINUED

Managing Currency Exposures

International equity investments create an exposure to foreign currency fluctuations. Consequently, part of the Company's investment strategy is to assess the potential returns and risks created by currency exposures and to seek to maximise the return as reported in Australian dollars. To this end the Investment Manager uses foreign currency forward contracts, currency swaps, non-deliverable forwards and currency options, as well as spot foreign exchange transactions to actively manage currency exposures.

Strategies Aimed at Containing Losses and Delivering Solid Absolute Returns

While the Company's primary objective is to generate capital growth over the long-term, the Investment Manager also seeks to mitigate the risk of significant capital losses by employing a range of strategies which include adjusting cash levels, deploying funds from overvalued to undervalued stocks and short selling (usually through equity derivatives).

The Investment Manager has historically endeavoured to maintain an effective cash level of between 15% and 30% of the portfolio value. In the event of a significant downturn, cash not only acts as a valuable cushion but also provides additional "fire power" to take advantage of opportunities as they arise.

Timing the implementation of these strategies however is challenging and, though the rewards can be gratifying, patience is often required. The nature of markets means it can take time for inappropriately valued geographical regions, industry sectors or individual stocks to become more widely recognised and for prices to revert closer to their inherent values.

DIRECTORS' REPORT

In respect of the year ended 30 June 2021, the Directors of Platinum Capital Limited (the "Company") submit the following report prepared in accordance with a resolution of the Directors.

Directors

The following persons were Directors of the Company during the financial year and up to the date of this report:

Margaret Towers – Chairperson and Independent Non-Executive Director
Richard Morath – Independent Non-Executive Director
Jim Clegg – Independent Non-Executive Director

Principal Activities

The Company is a listed investment company established to provide capital growth over the long-term by investing in companies worldwide which the Investment Manager perceives to be undervalued by the market.

Operating and Financial Review

For the 12 months to 30 June 2021, the net profit before income tax was $97,281,000 (2020: loss of $15,268,000) and net profit after income tax was $68,272,000 (2020: loss of $10,125,000).

For the 12 months to 30 June 2021, the Company delivered a return of 23.9%[1] (measured by its pre-tax NTA) versus a return of 27.7% for the Morgan Stanley Capital International ("MSCI") All Country World Net Index in A$ terms[2].

The Directors consider that the pre-tax net tangible asset backing per share, after the deduction of fees and expenses, adjusted for corporate taxes paid and any capital flows, and assuming the reinvestment of dividends ("pre-tax NTA"), is a better measure of performance of the Company than the reported profits or losses. This is because the pre-tax NTA per share is the most accurate way to assess the investment performance of the Company's investment portfolio. For the 12 months to 30 June 2021, the Company's pre-tax NTA per share increased from $1.408 to $1.677. This is after the payment of 6 cents per share in dividends and the equivalent of 1 cent per share in taxes paid during the financial year.

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1 Source: Platinum Investment Management Limited (the Company's returns) and FactSet Research Systems (MSCI returns). Returns have not been calculated using the Company's share price. **Past performance is not a reliable indicator of future performance.**

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DIRECTORS' REPORT

CONTINUED

In terms of outlook, the Investment Manager has recently noted that: *"Typically, good returns from the stock market are expected in the early stages of an economic recovery and we haven't been disappointed, with the global stock market up 28% over the last 12 months.[3] Our portfolios always reflect our market view and the opportunities that we can find in individual stocks, and on that front, we remain of the opinion that good returns are still on offer. As we said last quarter, while many of our holdings have appreciated strongly, they were from deeply depressed levels, and while they may not be as attractive investments as they were, we believe they are still reasonably valued given our expectations for strong earnings prospects over the next two to three years."*

COVID-19 has not had a direct impact on the ability of the Company or the Investment Manager to perform business activities. The Company has not received any COVID-19 related financial assistance or support.

The Company continues to have a strong balance sheet with few liabilities.

Capital Management

The Directors continue to monitor the Company's discount to pre-tax and post-tax NTA. Pleasingly the discount has narrowed since 30 June 2020. At this stage the Directors do not see the need to commence an on-market share buy-back.

Another objective of the Company's capital management policy is to smooth dividends over time and maintain sufficient franking credits to enable payment of fully-franked dividends in the future. The Company does not believe that it is in the Company's or Shareholders interests to pay unfranked dividends, resulting in a tax liability in the shareholders hands and reduced investment capacity for the Company to generate future returns.

Dividends

For the 12 months to 30 June 2021, the Company's earnings per share were 23.43 cents per share (2020: negative 3.50 cents per share). During the year, the Company paid $17,458,000 in dividends (2020: $20,231,000). In accordance with its policy of dividend smoothing, the Board has declared a final 2021 fully-franked dividend of 4 cents per share ($11,687,000), with a record date of 27 August 2021, payable to shareholders on 16 September 2021, out of the dividend profit reserve. The total dividend paid for 2021 was 7 cents per share (2020: 6 cents per share).

After the payment of the 2021 final dividend, the dividend profit reserve will be approximately 39.5 cents per share and the Company will retain approximately 3.2 cents per share in franked dividend capacity.

The dividend reinvestment plan ("DRP") is in operation. No DRP discount will apply to the dividend.

3 MSCI AC World Net Index ($A).

Matters Subsequent to the End of the Financial Year

Apart from the dividend declared, no matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Likely Developments and Expected Results of Operations

The Company will continue to pursue its investment objective, which is to provide capital growth over the long-term through investing in companies worldwide which the Investment Manager perceives to be undervalued by the market. The methods of operating the Company are not expected to change in the foreseeable future.

Environmental, Social & Governance ("ESG") Reporting

Shareholders are encouraged to read the Investment Manager's Corporate Responsibility and Sustainability Report which is available at www.platinum.com.au/About-Platinum/ptm-shareholders.

It is noted that the Company is not subject to any significant environmental regulation under Commonwealth, State or Territory laws.

Managing Tax Risk

The Board is committed to acting with integrity and transparency in all tax matters. The Company aims to meet all of its obligations under the law and pay the correct amount of tax to the relevant authorities. The Company has established a Tax Risk Management and Governance Policy, which ensures an adequate framework is in place to allow for the effective management of tax risks in an appropriate and consistent manner. The policy describes the Company's approach to managing tax risk including key responsibilities, key controls and reporting mechanisms.

Information on Directors

Margaret Towers CA, GAICD
Chairperson, Independent Non-Executive Director and member of the Audit, Risk and Compliance Committee since 31 March 2018.

Ms Towers has over 35 years of experience operating at board and senior management levels, within the wealth management and investment banking sectors of the Australian financial services industry. Ms Towers is a non-executive director and chairperson of Platinum Asia Investments Limited. Ms Towers has also previously been a non-executive director of IMB Limited, and chairperson and member of IMB's Risk Committee, Audit Committee and Financial Planning Committee. Ms Towers was also previously a non-executive director of Platinum Asset Management Limited (ASX code: PTM), chairperson of PTM's Audit, Risk and Compliance Committee and a member of PTM's Nomination and Remuneration Committee.

DIRECTORS' REPORT
CONTINUED

Richard Morath BA, FIAA
Independent, Non-Executive Director since 27 March 2009 and Chairman of the Audit, Risk and Compliance Committee.

Mr Morath has over 40 years of experience in life insurance, funds management, banking and financial planning. Mr Morath is a director of JANA Investment Advisors Limited, BNZ Life, BNZ Insurance and National Wealth Management Holdings New Zealand.

Jim Clegg BRURSC (HONS), DIPAGEC
Independent, Non-Executive Director since 5 June 2015.

Mr Clegg has over 35 years of experience in the financial services industry. Mr Clegg was the founding managing director of Pembroke Financial Planners and was formerly a director of Godfrey Pembroke, Berkley Group and Centric Wealth and a trustee of The Walter and Eliza Hall Trust.

Information on Company Secretary

Joanne Jefferies BCOM, LLB
Company Secretary since 17 October 2016.

Ms Jefferies is an English law qualified solicitor with more than 25 years of legal experience in asset management and banking, in England and across Asia Pacific.

Ms Jefferies joined Platinum from BNP Paribas Securities Services, where she was Head of Legal, Asia Pacific and Company Secretary of all Australian subsidiaries. Prior to this Ms Jefferies held senior legal positions with Russell Investments, Morley Funds Management (Aviva Investors) and Lord Abbett. She also served as the General Counsel for the UK's funds management industry association, the Investment Association.

Meetings of Directors

The number of meetings of the Company's Board of Directors (the "Board") and Audit, Risk and Compliance Committee held during the year ended 30 June 2021, and the number of meetings attended by each Director/Committee member were:

	BOARD (HELD 7) ATTENDED	AUDIT, RISK AND COMPLIANCE COMMITTEE (HELD 6) ATTENDED
Margaret Towers	7	6
Richard Morath	7	6
Jim Clegg	7	6

The Audit, Risk and Compliance Committee meet at least one week prior to the formal adoption of the annual and interim financial statements, in order to carry out a detailed review of the financial statements.

Directors' remuneration is detailed further in the Remuneration Report.

Indemnity and Insurance of Directors or 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 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.

Non-Audit Services

Details of the amounts paid or payable to the auditor for audit and other (non-audit) services provided to the Company during the financial year by the auditor are outlined in Note 17 to the financial statements.

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 17 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 this Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

DIRECTORS' REPORT
CONTINUED

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 25.

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

Margaret Towers
Chairperson

Richard Morath
Director

19 August 2021
Sydney

Remuneration Report (audited)

Executive Summary

- The Company had three key management personnel ("KMP") during the financial year, being the Directors of the Company.
- The aggregate annual remuneration paid by the Company to the Chairperson during the financial year was $65,700 (including superannuation).
- The remuneration paid by the Company to each of the other Non-Executive Directors was $60,225 (including superannuation).
- There has only been one increase in base pay for the Company Chairperson and other Non-Executive Directors in the last 16 years.
- The Company does not pay bonuses to any of its Directors.

Introduction

The Directors of Platinum Capital Limited present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the year ended 30 June 2021.

The information provided in this Remuneration Report forms part of the Directors' Report and has been audited by the Company's auditor, PricewaterhouseCoopers, as required by section 308 of the *Corporations Act 2001*.

Key Management Personnel

For the purposes of this report, the KMP of the Company in office during the financial year were:

NAME	POSITION
Margaret Towers	Chairperson and Independent Non-Executive Director
Richard Morath	Independent Non-Executive Director
Jim Clegg	Independent Non-Executive Director

Shareholders' Approval of the 2020 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.

The Company received 90.55% of "yes" votes on its remuneration report for the 2020 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

DIRECTORS' REPORT
CONTINUED

Principles, Policy and Components of Non-Executive Directors' Remuneration

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.

The aggregate amount of remuneration that can be paid to the Non-Executive Directors, which was approved by shareholders at the 2005 Annual General Meeting, was $350,000 per annum (including superannuation). Despite the ability to pay remuneration up to this level, only $186,150 in aggregate was paid to the Directors in 2021 (2020: $186,150).

Remuneration paid to the 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 commensurate with the responsibilities borne by the Non-Executive Directors. Non-Executive Directors received a fixed fee and mandatory superannuation. There has only been one increase in base pay for the Company Chairperson and other Non-Executive Directors in the last 16 years. Directors do not receive performance-based or earnings-based remuneration and are not eligible to participate in any equity-based incentive plans.

Remuneration for the Non-Executive Directors is reviewed annually by the Board and is set at market rates commensurate with the responsibilities borne by the Non-Executive Directors. Independent professional advice may be sought. No other retirement benefits (other than mandatory superannuation) are provided to the Directors. Any Director may retire or resign from the Board, or be removed by a resolution of shareholders.

Remuneration for Directors

The table below presents amounts received by the Directors.

NAME	CASH SALARY $	SUPER-ANNUATION $	SHORT-TERM INCENTIVES $	LONG-TERM INCENTIVES $	TOTAL $
Margaret Towers					
FY 2021	60,000	5,700	–	–	65,700
FY 2020	60,000	5,700	–	–	65,700
Richard Morath					
FY 2021	55,000	5,225	–	–	60,225
FY 2020	55,000	5,225	–	–	60,225
Jim Clegg					
FY 2021	55,000	5,225	–	–	60,225
FY 2020	55,000	5,225	–	–	60,225
Total remuneration					
FY 2021	170,000	16,150	–	–	186,150
FY 2020	170,000	16,150	–	–	186,150

Employment Arrangements of KMP

The key aspects of the KMP contracts are as follows:

- Remuneration and other terms of employment for Directors are formalised in letters of appointment that all Directors have signed.
- All contracts with Directors 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 the Directors 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 only entitled to receive their statutory entitlements.
- Directors may resign by written notice to the Chairperson and where circumstances permit, it is desirable that reasonable notice of an intention to resign is given to assist the Board in succession planning.

DIRECTORS' REPORT
CONTINUED

Link between the Remuneration of the Directors and Company Performance

	2021	2020	2019	2018	2017
Total net investment income/(loss) ($'000)	**103,952**	(8,787)	6,538	78,807	77,086
Expenses ($'000)	**(6,671)**	(6,481)	(6,558)	(7,170)	(6,023)
Net profit/(loss) after tax ($'000)	**68,272**	(10,125)	(373)	50,353	49,927
Earnings per share (cents per share)	**23.43**	(3.50)	(0.13)	17.66	20.03
Dividends (cents per share)	**7.0**	6.0	10.0[1]	10.0	10.0
Net Tangible Asset backing (pre-tax) (30 June) ($ per share)	**1.677**	1.408	1.57	1.75	1.63
Closing share price (30 June) ($)	**1.52**	1.25	1.57	2.09	1.685
Total remuneration (salary and superannuation) paid ($)	**186,150**	186,150	186,150	186,150	186,150

The remuneration of the Directors is not linked to the performance of the Company.

1 Includes the payment of a 3 cents per share special dividend paid in March 2019.

Interests of Directors in Shares

The relevant interest in ordinary shares of the Company that each Director held at balance date was:

	OPENING BALANCE	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Margaret Towers	50,000	–	–	50,000
Richard Morath	42,372	–	–	42,372
Jim Clegg	59,972	–	–	59,972

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Platinum Capital Limited for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

CJ Cummins
Partner
PricewaterhouseCoopers

19 August 2021
Sydney

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2021

	NOTE	**2021 $'000**	2020 $'000
Investment income			
Dividends		**6,372**	7,539
Interest income		**29**	252
Net gains/(losses) on equities, convertible notes, foreign currency forward contracts and other derivatives		**100,347**	(19,233)
Net foreign exchange gains/(losses) on overseas bank accounts		**(2,796)**	2,655
Total investment income/(loss)		**103,952**	(8,787)
Expenses			
Management fees	18	**(5,019)**	(4,900)
Custody		**(236)**	(243)
Share registry		**(127)**	(138)
Continuous reporting disclosure		**(123)**	(150)
Directors' fees	18	**(186)**	(186)
Auditor's remuneration and other services	17	**(100)**	(98)
Interest expense		**(91)**	(153)
Brokerage costs		**(217)**	(207)
Transaction costs		**(127)**	(73)
Insurance		**(327)**	(208)
Other expenses		**(118)**	(125)
Total expenses		**(6,671)**	(6,481)
Profit/(loss) before income tax expense		**97,281**	(15,268)
Income tax (expense)/benefit	3(a)	**(29,009)**	5,143
Profit/(loss) after income tax expense for the year attributable to the owners of Platinum Capital Limited		**68,272**	(10,125)
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income/(loss) for the year attributable to the owners of Platinum Capital Limited		**68,272**	(10,125)
Basic earnings per share (cents per share)	10	**23.43**	(3.50)
Diluted earnings per share (cents per share)	10	**23.43**	(3.50)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	NOTE	**2021 $'000**	2020 $'000
Assets			
Cash at bank	11(a)	**8**	49
Cash on deposit held within the portfolio	11(a)	**72,001**	52,505
Receivables	5	**1,307**	2,249
Financial assets at fair value through profit or loss	4, 13	**419,125**	357,867
Income tax receivable	3(b)	**–**	2,880
Deferred tax asset	3(c)	**–**	1,454
Total assets		**492,441**	417,004
Liabilities			
Payables	6	**1,104**	629
Financial liabilities at fair value through profit or loss	4, 13	**1,276**	3,046
Income tax payable	3(b)	**4,767**	–
Deferred tax liability	3(c)	**18,861**	–
Total liabilities		**26,008**	3,675
Net assets		**466,433**	413,329
Equity			
Issued capital	7	390,128	387,838
Accumulated losses		(50,807)	(50,807)
Dividend profit reserve	8	**127,112**	76,298
Total equity		**466,433**	413,329

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2021

	ISSUED CAPITAL $'000	ACCUMULATED LOSSES $'000	DIVIDEND PROFIT RESERVE $'000	TOTAL EQUITY $'000
Balance at 1 July 2019	385,202	(19,137)	74,984	441,049
Profit after income tax expense for the half to 31 December 2019	–	21,545	–	21,545
Loss after income tax expense for the half to 30 June 2020	–	(31,670)	–	(31,670)
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	(10,125)	–	(10,125)
Transactions with owners in their capacity as owners:				
Transfer of profit after income tax for the half to 31 December 2019, to the dividend profit reserve (Note 8)	–	(21,545)	21,545	–
Issue of shares in relation to the dividend reinvestment plan and reinvestment of unclaimed dividends (Note 7)	2,636	–	–	2,636
Dividends paid (Note 9)	–	–	(20,231)	(20,231)
Balance at 30 June 2020	**387,838**	**(50,807)**	**76,298**	**413,329**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

	ISSUED CAPITAL $'000	ACCUMULATED LOSSES $'000	DIVIDEND PROFIT RESERVE $'000	TOTAL EQUITY $'000
Balance at 1 July 2020	387,838	(50,807)	76,298	413,329
Profit after income tax expense for the half to 31 December 2020	–	36,488	–	36,488
Profit after income tax expense for the half to 30 June 2021	–	31,784	–	31,784
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive loss for the year	–	68,272	–	68,272
Transactions with owners in their capacity as owners:				
Transfer of profit after income tax for the half to 31 December 2020, to the dividend profit reserve (Note 8)	–	(36,488)	36,488	–
Transfer of profit after income tax for the half to 30 June 2021, to the dividend profit reserve (Note 8)	–	(31,784)	31,784	–
Issue of shares in relation to the dividend reinvestment plan and reinvestment of unclaimed dividends (Note 7)	2,290	–	–	2,290
Dividends paid (Note 9)	–	–	(17,458)	(17,458)
Balance at 30 June 2021	**390,128**	**(50,807)**	**127,112**	**466,433**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2021

	NOTE	2021 $'000	2020 $'000
Cash flows from operating activities			
Payments for purchase of financial assets		**(290,239)**	(287,173)
Proceeds from sale of financial assets		**328,850**	300,779
Dividends received		**5,772**	7,017
Interest received		**33**	289
Interest paid		**(91)**	(153)
Management fees paid		**(4,944)**	(4,943)
Other expenses paid		**(1,685)**	(1,549)
Income tax refund received		**2,940**	–
Income tax paid		**(3,217)**	(11,457)
Net cash from operating activities	11(b)	**37,419**	2,810
Cash flows from financing activities			
Dividends paid – net of dividend re-investment plan	7, 9	**(15,228)**	(17,682)
Proceeds from issue of shares in relation to unclaimed dividends	7	**60**	87
Net cash used in financing activities		**(15,168)**	(17,595)
Net increase/(decrease) in cash and cash equivalents		**22,251**	(14,785)
Cash and cash equivalents at the beginning of the year		**52,554**	65,056
Effects of exchange rate changes on cash and cash equivalents		**(2,796)**	2,283
Cash and cash equivalents at the end of the year	11(a)	**72,009**	52,554

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below or in the relevant note to which the policy relates. 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 a historical cost basis, except for certain financial assets and liabilities measured at fair value.

The statement of financial position is presented on a liquidity basis. Specifically, assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current assets and liabilities. The majority of receivables and payables are expected to be recovered or settled within 12 months, whereas tax and investment balances may be recovered after 12 months.

New and amended accounting standards and interpretations

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2020 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

New standards, amendments and interpretations effective after 1 July 2021 and have not been early adopted

A number of new standards, amendments and interpretations are effective for annual reporting periods beginning on or after 1 July 2021, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statement of the Company.

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 various factors, including expectations of future events, which management believes to be reasonable under the circumstances. Areas of judgement include:

- Fair value measurement (refer to Note 15);
- Deferred tax (refer to Note 3(c)); and
- Financial assets/liabilities at fair value through profit or loss (refer to Note 4).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 1. Summary of significant accounting policies – continued

Functional currency

Items included in the Company's financial statements are measured using the Australian Dollar, which is the currency of the primary economic environment in which it operates (the "functional currency") and reflects the currency of the country in which the Company is incorporated, and the currency in which capital is raised and dividends are paid. However, most of the Company's assets and revenues are not denominated in Australian Dollars. The Australian dollar is also the Company's 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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit or loss and other comprehensive income.

Investment income

Interest income

Interest income from financial assets at amortised cost is recognised on a time proportionate basis using the effective interest method and includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate.

Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from convertible notes. Interest from financial assets at fair value through profit or loss is included in net gains/(losses) in equities, convertible notes, foreign currency forward contracts and other derivatives at fair value through profit or loss.

Dividend income

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

Directors' entitlements

Liabilities for Directors' entitlements to fees are accrued at nominal amounts calculated on the basis of current fee rates. Contributions to Directors' superannuation plans are charged as an expense as they are paid or become payable.

Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of 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.

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. Summary of significant accounting policies – continued

Due from/due to brokers for unsettled trades

Amounts due from/due to brokers represent receivables for proceeds from the sale of financial assets (as disclosed in Note 6) and payables on purchase of financial assets/ liabilities (as disclosed in Note 7) that have been traded, but not yet settled at reporting date. Proceeds from sale of financial assets are usually received between two and five days after trade date. Payables on purchase of financial assets/liabilities are usually paid between two and five days after trade date.

Expenses

All expenses, including management fees and performance fees (if any), are recognised in the statement of profit or loss and other comprehensive income on an accrual basis.

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 this Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 2. Operating segments

An operating segment is a distinguishable component of the Company that is engaged in business activity from which the Company earns revenues and incurs expenses, whose operating results are regularly reviewed by the Company's Investment Manager in order to make decisions about the allocation of resources to the segment and assess its performance, and for which discrete financial information is available.

The Company is organised into one main operating segment with only one key function, being the investment of the Company's funds worldwide. It operates predominantly in Australia and in the securities industry. It earns revenue from dividend income and other returns from the investment portfolio. The Company continues to have foreign exposures as it invests in companies which operate internationally. The Fund invests in different types of securities, as detailed in Note 13.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 3. Income tax

(a) Income tax (expense)/benefit

The income tax expense or benefit for the period is the tax payable or receivable on that period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable. Withholding tax expense on foreign dividends has been included as part of income tax expense.

The income tax (expense)/benefit attributable to the profit/(loss) comprises:

	2021 $'000	2020 $'000
Current income tax provision	**(7,984)**	(6,415)
Movement in deferred tax	**(20,315)**	11,903
Withholding tax on foreign dividends	**(770)**	(345)
Over provision of prior period tax	**60**	–
Income tax (expense)/benefit	**(29,009)**	5,143

The income tax (expense)/benefit attributable to the financial year differs from the prima facie amount payable on the profit/(loss). The difference is reconciled as follows:

	2021 $'000	2020 $'000
Profit/(loss) before income tax expense	**97,281**	(15,268)
Prima facie income tax at tax rate of 30%	**(29,184)**	4,580
Foreign tax credits	**115**	563
Over provision of prior period tax	**60**	–
Income tax (expense)/benefit	**(29,009)**	5,143

(b) Income tax receivable/(payable)

The income tax receivable/payable as disclosed in the statement of financial position is comprised of:

	2021 $'000	2020 $'000
Current income tax provision	**(7,984)**	(6,415)
Income tax instalments paid	**3,217**	9,295
Income tax receivable/(payable)	**(4,767)**	2,880

Note 3. Income tax – continued

(c) Deferred tax asset/(liability)

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.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same tax authority.

The deferred tax asset/(liability) figure in the statement of financial position is comprised of:

	2021 $'000	2020 $'000
Dividends accrued	**(186)**	(249)
Interest accrued	**(77)**	–
Unrealised (gains)/losses on investments	**(18,642)**	1,571
Expense accruals	**44**	60
Capital raising and legal costs	**–**	72
Deferred tax asset/(liability)	**(18,861)**	1,454

The realised tax balance will depend on the actual gains or losses generated as and when the investments are sold.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 4. Financial assets and liabilities at fair value through profit or loss

	2021 $'000	2020 $'000
Financial assets		
Equity securities	**411,686**	357,684
Convertible notes	**7,152**	–
Derivatives	**287**	29
Foreign currency forward contracts	**–**	154
	419,125	357,867
Financial liabilities		
Derivatives	**1,276**	1,981
Foreign currency forward contracts	**–**	1,065
	1,276	3,046

Recognition

The Company recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement and recognises changes in the fair value of financial assets or financial liabilities from this date. Investments are derecognised when the contractual right to receive cash flows from the investments have expired or have been transferred, and the Company has transferred substantially all of the risks and rewards of ownership.

Measurement

The contractual cash flows of equity securities, derivatives and foreign currency forward contracts held by the Company are not comprised of principal and interest. Consequently, these financial assets and financial liabilities are measured at fair value through profit or loss. For convertible notes, the collection of contractual cash flows is only incidental to achieving the Company's business model's objective. Consequently, the convertible notes are measured at fair value through profit and loss.

At initial recognition, the Company measures financial assets and financial liabilities at fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of profit and loss and other comprehensive income.

Subsequent to initial recognition, gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the statement of profit and loss and comprehensive income within "net gains/(losses) in equities, convertible notes, foreign currency forward contracts and other derivatives at fair value through profit or loss" in the period in which they arise.

Note 4. Financial assets and liabilities at fair value through profit or loss – continued

Fair value

AASB 13: *Fair Value Measurement* 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". The standard prescribes that the most representative price within the bid-ask spread should be used for valuation purposes. With respect to the Company, the exit 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 Company has applied last-sale pricing as the fair value measurement basis for equities and derivatives it holds.

The fair value of financial assets and liabilities traded in active markets uses quoted market prices at reporting date without any deduction for estimated future selling costs.

The fair value of financial assets and liabilities that are not traded in an active market is 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. Options are valued with reference to the quoted price of the underlying index or share. If there is no liquid market available, options are valued based on option prices provided by an arm's length broker. These valuations are based on option pricing models.

Participatory notes are sometimes used as a convenient means of investing in local securities by a foreign investor. Participatory notes are generally traded over-the-counter, as they are issued by a counterparty to provide the investor with exposure to an individual equity, basket of equities or an index, in markets where liquidity, custody or other issues make ownership of the local securities sub-optimal. The valuation of participatory notes depends on the level of trading. If the participatory notes are actively traded, then the market price is used. If the participatory notes are not actively traded, counterparties provide a daily valuation that is based on the intrinsic value of the individual security.

Note 5. Receivables

Receivables include proceeds from the sale of financial assets, dividends, GST, Indian Capital Gains Tax and interest receivables where settlement has not occurred at the end of the reporting period. Receivables are generally received within 30 days of being recognised as a receivable.

	2021 $'000	2020 $'000
Proceeds from sale of financial assets	**–**	807
Dividends receivable	**1,066**	1,237
Other receivables	**241**	205
	1,307	2,249

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 6. Payables

These amounts represent liabilities for services provided to the Company prior to the end of the financial year and which are unpaid. Due to their 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 recognition.

	2021 $'000	2020 $'000
Payables on purchase of financial assets	**485**	–
Other payables	**619**	629
	1,104	629

Note 7. Issued capital

	2021 SHARES	**2020 SHARES**	2021 $'000	2020 $'000
Ordinary shares – fully paid	**292,186,708**	**290,485,178**	390,128	387,838

DETAILS	DATE	SHARES	$'000
Balance	30 June 19	288,569,783	385,202
Dividend reinvestment plan	13 September 19	985,222	1,431
Reinvestment of unclaimed dividends	27 September 19	34,291	51
Dividend reinvestment plan	19 March 20	867,524	1,118
Reinvestment of unclaimed dividends	30 March 20	28,358	36
Balance	30 June 20	290,485,178	387,838
Dividend reinvestment plan	13 September 20	909,846	1,134
Reinvestment of unclaimed dividends	27 September 20	27,723	35
Dividend reinvestment plan	18 March 21	747,412	1,096
Reinvestment of unclaimed dividends	1 April 21	16,549	25
Closing Balance	30 June 21	292,186,708	390,128

Ordinary shares

Ordinary shares are classified as equity. 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. Every member is entitled to one vote and upon a poll, each share shall have one vote. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Note 7. Issued capital – continued

Rights issue or share buy-back

There is no rights issue currently in place. On 8 April 2020, the Company announced a 12 month on-market share buy-back program, in which shares will be bought-back, should the Board consider that such is in the interest of shareholders as a whole. The buy-back program was extended for another 12 months on 8 April 2021. No shares have been bought-back as at 30 June 2021.

Note 8. Dividend profit reserve

The Company has created a dividend profit reserve. The Board considers transfers of profits to the dividend profit reserve on a semi-annual basis. Dividends are paid from this reserve and undistributed profits are available to be used for dividends in future periods to enable smoothing of dividends for its shareholders. The reserve is included when determining the overall equity of the Company for accounting purposes.

The profit after income tax expense for the half-years ended 31 December and 30 June were transferred to the dividend profit reserve. A summary of the movements in this account is shown below.

	2021 $'000	2020 $'000
Opening balance 1 July 2020 (1 July 2019)	**76,298**	74,984
Transfer of profit after income tax expense	**68,272**	21,545
Dividends paid	**(17,458)**	(20,231)
Closing balance	**127,112**	76,298

Note 9. Dividends

A provision is recognised if the Directors declare or determine to pay a dividend on or before balance date that has not been paid at balance date. Dividends paid during the financial year were as follows:

	2021 $'000	2020 $'000
Final dividend paid for the 2020 financial year (3 cents per share)	**8,715**	–
Interim dividend paid for the 2021 financial year (3 cents per share)	**8,743**	–
Final dividend paid for the 2019 financial year (4 cents per share)	**–**	11,543
Interim dividend paid for the 2020 financial year (3 cents per share)	**–**	8,688
	17,458	20,231

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 9. Dividends – continued

Dividends not recognised at year-end

In addition to the above dividends paid during the period, on 19 August 2021, the Directors declared the payment of a 2021 fully-franked final dividend of 4 cents per share. The aggregate amount of this dividend expected to be paid on 16 September 2021, but not recognised as a liability at year-end, is $11,687,000. The dividend will be paid out of the dividend profit reserve.

Franking credits

	2021 $'000	2020 $'000
Franking credits available at the balance date based on a tax rate of 30%	**4,280**	11,447
Franking credits/(debits) that will arise from the tax (receivable)/payable at balance date based on a tax rate of 30%	**4,767**	(2,880)
Franking credits available for future franked dividends based on a tax rate of 30%	**9,047**	8,567
Franking debits that will arise from the payment of dividends declared subsequent to the balance date based on a tax rate of 30%	**(5,009)**	(3,735)
Net franking credits available based on a tax rate of 30%	**4,038**	4,832

The available franking credits balance after providing for the 2021 final dividend would enable the payment of a fully-franked dividend of up to 3.2 cents per share fully-franked.

Note 10. Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit attributable to the owners of Platinum Capital Limited, by the weighted average number of ordinary shares outstanding during the financial year.

	2021 $'000	2020 $'000
Profit/(loss) after income tax attributable to the owners of Platinum Capital Limited	**68,272**	(10,125)
	NUMBER	NUMBER
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**291,425,835**	289,633,037
	CENTS	CENTS
Basic earnings per share	**23.43**	(3.50)
Diluted earnings per share	**23.43**	(3.50)

Note 11. Notes to the statement of cash flows

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, cash held as collateral in margin accounts by derivatives clearing houses and counterparties, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

Payments and receipts relating to the purchase and sale of investment securities are classified as "cash flows from operating activities" as realised and unrealised gains (and losses) on financial assets and liabilities represent the Company's main operating activity.

(a) Components of cash and cash equivalents

	2021 $'000	2020 $'000
Cash at bank	**8**	49
Cash on deposit held within the portfolio*	**72,001**	52,505
	72,009	52,554

* Cash on deposit includes $14,785,000 (2020: $8,878,000) to cover margin transferred on derivative contracts. These amounts are transferred to the relevant clearing houses and counterparties as collateral. If losses are realised, the cash collateral is set off against those losses. If profits are realised on the close out of derivative contracts, the cash collateral is returned to the Company.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

Note 11. Notes to the statement of cash flows – continued

(b) Reconciliation of profit/(loss) after income tax to net cash from operating activities

	2021 $'000	2020 $'000
Profit/(loss) after income tax expense for the year	**68,272**	(10,125)
Adjustments for non-operating and non-cash items:		
Foreign exchange (gains)/losses	**2,796**	(2,283)
Change in operating assets and liabilities:		
Movement in investment securities and foreign currency forward contracts	**(63,028)**	32,794
Movement in deferred tax asset	**1,454**	(1,256)
Movement in deferred tax liability	**18,861**	(10,647)
Movement in receivables	**942**	435
Movement in payables	**475**	(1,067)
Movement in tax receivable/payable	**7,647**	(5,041)
Net cash from operating activities	**37,419**	2,810

Note 12. Statement of post-tax Net Tangible Asset backing (NTA)

Reconciling Net Tangible Asset backing (post-tax) in the statement of financial position to that reported to the ASX:

	2021 $'000	2020 $'000
Post-tax Net Tangible Asset backing per statement of financial position	**466,433**	413,329
Adjustment to tax estimates and accruals	**(56)**	64
Post-tax Net Tangible Asset backing as reported to the ASX	**466,377**	413,393

Note 13. Investments

All investments below are ordinary shares, unless stated otherwise. ADR refers to an American Depositary Receipt.

SECURITY	INVESTMENT TYPE	COUNTRY	$ VALUES
Samsung Electronics Co Ltd	Common & Pref. Stock	Korea	15,539
ZTO Express Inc	ADR	China	15,475
Glencore PLC	Common Stock	Australia	13,784
Minebea Mitsumi Inc	Common Stock	Japan	13,060
Micron Technology Inc	Common Stock	United States of America	12,703
AIA Group Ltd	Common Stock	Hong Kong	11,989
Microchip Technology Inc	Common Stock	United States of America	11,682
UPM-Kymmene Oyj	Common Stock	Finland	11,343
Weichai Power Co Ltd	Participatory Note	China	11,132
Ping An Insurance	Participatory Note	China	10,959
China Overseas land & Investment Ltd	Common Stock	China	10,508
LG Chem Ltd	Common Stock	Korea	9,574
Takeda Pharmaceutical Co Ltd	Common Stock	Japan	9,071
Louisiana Pacific Corp	Common Stock	United States of America	8,702
Bayerische Motoren Werke AG	Common Stock	Germany	8,354
Trip.com Group Ltd	ADR	China	8,288
Barrick Gold	Common Stock	Canada	8,242
Ally Financial Inc	Common Stock	United States of America	8,000
Lixil Corporation	Common Stock	Japan	7,513
Iris Energy Pty Ltd	Convertible Note	Australia	7,152
MTU Aero Engines AG	Common Stock	Germany	6,991
Toyota Motor Corp	Common Stock	Japan	6,796
Raiffeisen Bank International	Common Stock	Austria	6,578
Intesa Sanpaolo SpA	Common Stock	Italy	6,502
Sanofi SA	Common Stock	France	6,499
InterGlobe Aviation Ltd	Common Stock	India	5,943
Beazley PLC	Common Stock	United Kingdom	5,864
Sumco Corp	Common Stock	Japan	5,829
Itochu Corporation	Common Stock	Japan	5,739
General Electric Co	Common Stock	United States of America	5,255

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FOR THE YEAR ENDED 30 JUNE 2021

Note 13. Investments – continued

SECURITY	INVESTMENT TYPE	COUNTRY	$ VALUES
Showa Denko	Common Stock	Japan	5,209
The Mosaic Co	Common Stock	United States of America	4,724
Allfunds Group PLC	Common Stock	United Kingdom	4,499
Wabtec Corp	Common Stock	United States of America	4,418
Subaru Corp	Common Stock	Japan	4,354
Banco Santander SA	Common Stock	Spain	4,342
Intercontinental Exchange Inc	Common Stock	United States of America	4,091
Gilead Sciences Inc	Common Stock	United States of America	4,035
American Eagle Outfitters	Common Stock	United States of America	3,954
Suzano SA	Common Stock	Brazil	3,749
China Vanke	Participatory Note	China	3,669
Lam Research Corp	Common Stock	United States of America	3,610
Ashok Leyland Ltd	Common Stock	India	3,437
St James's Place PLC	Common Stock	United Kingdom	3,423
Bank of Ireland	Common Stock	Ireland	3,329
Valeo SA	Common Stock	France	3,212
Skyworks Solutions Inc	Common Stock	United States of America	3,201
First Quantum Minerals Ltd	Common Stock	Zambia	3,090
Ciena Corp	Common Stock	United States of America	3,020
Booking Holdings Inc	Common Stock	United States of America	2,973
Safran SA	Common Stock	France	2,937
Bayer AG	Common Stock	Germany	2,926
Alphabet Inc	Common Stock	United States of America	2,680
China Merchants Bank Ltd	Common Stock	China	2,631
LyondellBasell Industries	Common Stock	United States of America	2,344
Pandora A/S	Common Stock	Denmark	2,227
Aeroports de Paris	Common Stock	France	2,190
Airbus SE	Common Stock	France	2,120
Ulta Beauty Inc	Common Stock	United States of America	2,071
Freeport-McMoran Inc	Common Stock	United States of America	2,066
Kalera AS	Common Stock	Norway	1,936
Equifax Inc	Common Stock	United States of America	1,908
Saras SpA	Common Stock	Italy	1,860
FedEx Corp	Common Stock	United States of America	1,792
Econet Wireless	Common Stock	Zimbabwe	1,782
Facebook Inc	Common Stock	United States of America	1,759

Note 13. Investments – continued

SECURITY	INVESTMENT TYPE	COUNTRY	$ VALUES
Axis Bank Ltd	Common Stock	India	1,740
Amadeus IT Group S.A	Common Stock	Spain	1,615
Evolution Mining Ltd	Common Stock	Australia	1,519
Li Ning Co Ltd	Common Stock	China	1,457
Leader Harmonious Drive Systems Co Ltd	Participatory Note	China	1,451
Thyssenkrupp AG	Common Stock	Germany	1,434
Midea Group Co Ltd	Participatory Note	China	1,377
Just Eat Takeaway.com NV	Common Stock	Germany	1,372
PICC Property & Casualty Co Ltd	Participatory Note	China	1,338
Medallia Inc	Common Stock	United States of America	1,243
SilverCrest Metals Inc	Common Stock	Canada	1,185
Alibaba Group Holding Ltd	Participatory Note	China	1,179
Esperion Therapeutics Inc	Common Stock	United States of America	1,090
Open House Co Ltd	Common Stock	Japan	1,040
Sun Corp	Common Stock	Japan	1,002
Va-Q-tec AG	Common Stock	Germany	822
Informa PLC	Common Stock	United Kingdom	805
Quanterix Corp	Common Stock	United States of America	803
Warrior Met Coal Inc	Common Stock	United States of America	784
Nintendo Co Ltd	Common Stock	Japan	776
Telix Pharmaceuticals Limited	Common Stock	Australia	767
China Resources Land Ltd	Common Stock	China	691
Galapagos NV	Common Stock	Belgium	605
Nanostring Technologies Inc	Common Stock	United States of America	599
Foxtons Group PLC	Common Stock	United Kingdom	549
OTP Bank Nyrt	Common Stock	Hungary	523
Recursion Pharmaceuticals Inc	Common Stock	United States of America	504
Merck KGaA	Common Stock	Germany	487
Erste Group Bank AG	Common Stock	Austria	449
Aritzia Inc	Common Stock	Canada	433
JW Cayman Therapeutics Co Ltd	Common Stock	China	427
Prosus NV	Participatory Note	China	300
Cleveland-Cliffs Inc	Common Stock	United States of America	295

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 13. Investments – continued

SECURITY	INVESTMENT TYPE	COUNTRY	$ VALUES
Centogene NV	Common Stock	Germany	264
Exagen Inc	Common Stock	United States of America	254
Weichai Power Co Ltd	Common Stock	China	237
Pacific Biosciences of California Inc	Common Stock	United States of America	233
Nippon Paint Holdings Co Ltd	Short Equity Swap	Japan	220
SMCP SA	Common Stock	France	166
Prometheus Biosciences Inc	Common Stock	United States of America	142
United States Steel Corp	Common Stock	United States of America	96
Hutchmed China Ltd	Common Stock	Hong Kong	87
Cogent Biosciences Inc	Common Stock	United States of America	60
Weichai Power Co Ltd	Long Equity Swap	China	39
Kikkoman Corp C	Short Equity Swap	Japan	19
Old Mutual Ltd	Common Stock	Zimbabwe	4
Fast Retailing Co Ltd	Short Equity Swap	Japan	3
Great Basin Gold Ltd	Common Stock	South Africa	–
Peru Holding De Turismo	Common Stock	Peru	–
Church & Dwight Co Inc	Short Equity Swap	United States of America	–
MongoDB Inc	Short Equity Swap	United States of America	(4)
Wayfair Inc	Short Equity Swap	United States of America	(22)
The Clorox Co	Short Equity Swap	United States of America	(25)
Nasdaq E-mini Future	Short Equity Swap	United States of America	(28)
Sonos Inc	Short Equity Swap	United States of America	(29)
DraftKings Inc	Short Equity Swap	United States of America	(41)
Beyond Meat Inc	Short Equity Swap	United States of America	(50)
Under Armour Inc	Short Equity Swap	United States of America	(67)
Ryanair Holdings	Short Equity Swap	Ireland	(77)
Adyen NV	Short Equity Swap	Netherlands	(148)
ARK Innovation ETF Basket	Short Equity Swap	United States of America	(227)
MS Unprofitable Tech	Short Equity Swap	United States of America	(266)
Tesla Motors Inc	Short Equity Swap	United States of America	(286)
Total			**417,849**

Financial assets at fair value through profit and loss	419,125
Financial liabilities at fair value through profit and loss	(1,276)
Total	**417,849**

Note 14. Financial risk management

Financial risk management objectives, policies and processes

In pursuing its investment objectives, the Company is exposed to a variety of financial risks: market risk (including interest rate risk, foreign exchange risk and price risk), credit risk and liquidity risk. The management of these risks is carried out by the Investment Manager under the investment management agreement and policies approved by the Directors. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Company uses different methods to measure different types of risk to which it is exposed. These methods are explained below.

The Company uses financial derivative instruments (both Over-the-Counter (OTC) derivatives and exchange traded derivatives) for risk management purposes and to take opportunities to increase returns, including, for example:

- to gain access to markets not readily available to foreign investors;
- to create a short position in a security;
- to build a position in a security as a short-term strategy to be reversed when physical securities are purchased; and
- to aid in the management of the Company's cash flows (e.g. some stock markets require pre-funding of stock purchases that may be avoided through the use of derivatives).

The underlying value of the Company's derivatives positions may not exceed 100% of the Company's net asset value ("NAV"). The underlying value of the Company's long stocks and derivative positions may not exceed 150% of the Company's NAV. Where options are employed, the underlying value will be the delta-adjusted exposure. The Company will typically have 50% or more net equity exposure. The Company's exposures against these limits are regularly monitored by the Investment Manager. In addition, quarterly exposure reports are provided to the Audit, Risk and Compliance Committee. As ordinary shares of the Company are fully paid, a shareholder's exposure to any losses would not exceed the value of their shareholding.

Market risk

Price risk

The Company is exposed to equity securities, convertible notes and derivatives price risk. Price risk arises from investments held by the Company for which prices in the future are uncertain. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates which are considered a component of price risk.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

Note 14. Financial risk management

Market risk – continued

Price risk – continued

Market prices fluctuate due to a range of factors specific to the individual investments, or factors affecting the market in general. The Investment Manager's stock selection process is core to the management of price risk. The Investment Manager adopts a "bottom up" stock selection approach and is an "active manager". The Investment Manager seeks a broad range of investments whose businesses and growth prospects, it believes, are being undervalued by the market. Accordingly, the investment holdings in the Company may vary considerably from the make-up of the MSCI All Country World Net index on the basis that the Investment Manager remains index agnostic. The Company may hold long and short positions.

As an additional risk management tool, the Company may enter into short equity swaps and futures to protect against market movements. This may include short positions against market indices and company-specific stocks.

The table below summarises the Company's net exposure to price risk (effective exposure is used for derivatives).

	2021 $'000	2020 $'000
Equities		
Asia	**119,428**	109,839
North America	**110,951**	102,342
Europe	**96,223**	80,305
Japan	**60,389**	56,140
Other regions	**24,695**	9,058
Total Equities	**411,686**	357,684
Convertible notes	**7,152**	–
Derivatives	**(21,206)**	(33,630)
Net exposure	**397,632**	377,258

Foreign Exchange risk

Foreign exchange risk is the risk the fair values of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company invests internationally and is exposed to foreign exchange risk arising from buying, selling and holding investments denominated in foreign currencies. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to the changes in exchange. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk not foreign exchange risk. However, management monitors the exposure on all foreign currency denominated assets and liabilities. The Investment Manager selects stocks based on value regardless of geographic location. The Company undertakes a significant number of the transactions denominated in foreign currencies and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Note 14. Financial risk management – continued

Market risk – continued

Foreign Exchange risk *– continued*

Active currency management is an integral part of the management of market risk. The Investment Manager may position the Company's portfolio in what it believes will be stronger performing or undervalued currencies. The Investment Manager may use foreign currency forward contracts, currency swaps, non-deliverable forwards and currency options, as well as spot foreign exchange transactions to position the portfolio in the desired currencies. A currency exposure may be hedged into a different currency from that which the physical exposure is maintained (for example, US Dollar hedges may be used to hedge the currency risk of holding investments in the Japanese Yen).

The table below and on the next page summarises the Company's exposure to foreign exchange risk.

30 JUNE 2021	AUSTRALIAN DOLLAR $'000	EURO $'000	JAPANESE YEN $'000	CHINESE YUAN $'000	UNITED STATES DOLLAR $'000	OTHER CURRENCIES $'000
Financial asset						
Cash at bank	8	–	–	–	–	–
Cash on deposit within the portfolio	153	6,041	6,196	2,916	39,811	16,884
Equity securities	9,174	76,398	60,389	83,195	101,091	81,439
Convertible notes	7,152	–	–	–	–	–
Derivative financial instruments	–	–	242	39	6	–
Trade and other receivables	241	481	29	553	3	–
Total financial assets	16,728	82,920	66,856	86,703	140,911	98,323
Financial liabilities						
Trade and other payables	619	485	–	–	–	
Derivative financial instruments	–	225	–	–	1,051	–
Total financial liabilities	619	710	–	–	1,051	–
Net exposure	16,109	82,210	66,856	86,703	139,860	98,323

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 14. Financial risk management – continued

Market risk – continued

Foreign Exchange risk – continued

30 JUNE 2020	AUSTRALIAN DOLLAR $'000	EURO $'000	JAPANESE YEN $'000	CHINESE YUAN $'000	UNITED STATES DOLLAR $'000	OTHER CURRENCIES $'000
Financial asset						
Cash at bank	49	–	–	–	–	–
Cash on deposit within the portfolio	1,565	2,461	2,185	8,298	27,112	10,884
Equity securities	1,485	55,242	56,140	71,221	96,831	76,765
Convertible notes	–	–	–	–	–	–
Derivative financial instruments	40,640	45,207	22,831	–	–	–
Trade and other receivables	639	36	77	–	843	654
Total financial assets	44,378	102,946	81,233	79,519	124,786	88,303
Financial liabilities						
Trade and other payables	629	–	–	–	–	–
Derivative financial instruments	–	413	–	13	111,115	–
Total financial liabilities	629	413	–	13	111,115	–
Net exposure	43,749	102,533	81,233	79,506	13,671	88,303

Summarised Sensitivity Analysis

The table below summarises the sensitivities of the Company's profit to price risk and foreign exchange risk. Price risk exposure arises from the Company's investment portfolio, which comprises investments in securities and derivatives. The below analysis is based on net effective exposure positions. Foreign exchange risk exposure arises from volatility in both the Australian dollar and other currencies. The effect on profit due to a possible change in market prices, as represented by a +/-10% movement in these markets with all other variables held constant, is illustrated in the table below.

A sensitivity of 10% has been selected as this is considered reasonably possible given current exchange rates and the volatility observed both on a historic basis and after factoring in possible future movements.

	PRICE RISK		FOREIGN EXCHANGE RISK	
	-10% $'000	**+10% $'000**	**-10% $'000**	**+10% $'000**
As at 30 June 2021	(39,550)	39,550	53,467	(43,745)
As at 30 June 2020	(34,598)	34,598	45,654	(37,354)

Note 14. Financial risk management – continued

Interest rate risk

Interest rate risk is the possibility the fair value of future cash flows of a financial investment will fluctuate due to changes in market interest rates.

The majority of the Company's financial assets and liabilities are non-interest bearing as the Company has a policy of not borrowing; other than for the short-term settlement of trades. Accordingly, the Company is not exposed to significant interest rate risk.

Credit risk

Credit risk relates to the risk of a counterparty defaulting on a financial obligation resulting in a loss to the Company (typically through derivatives transactions, currency forward contracts and cash holdings).

The exposure to credit risk for cash and cash equivalents, futures, equity swaps and foreign currency forward contracts is any unrealised profit and cash collateral transferred on the positions (the money the Company would lose if the counterparty defaulted) at reporting date. The table below shows the Company's counterparty credit risk exposure by credit rating.

RATINGS	**2021 $'000**	2020 $'000
A+	**22,416**	–
A	**61,617**	–
A–	**–**	5,707
AA–	**–**	42,434
BBB+	**–**	16,416
Unrated	**7,152**	–
Total	**91,185**	64,557

Independent rating agencies consider a credit rating of BBB or higher to be investment grade.

The Investment Manager regularly monitors the Company's credit risk exposure to counterparties and seeks to manage this risk by diversifying the Company's exposure to a number of different counterparties. Over-the-counter derivatives transactions are entered into by the Investment Manager on behalf of the Company under standard ISDA (International Swaps and Derivatives Association) master agreements and English law governed Credit Support Annexes, which employ two-way margining of unrealised profits and losses. The Investment Manager also limits the duration of derivatives contracts to short-term. Transactions in listed securities and investments are entered into with the Investment Manager's approved brokers and are typically cleared through a central clearing counterparty. Settlement is typically on a delivery versus payment basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 14. Financial risk management – continued

Liquidity risk

Liquidity risk is the risk the Company will encounter difficulty in meeting obligations associated with financial liabilities. This includes the risk that the Company will:

(i) not have sufficient funds to settle a transaction on the due date; and

(ii) be forced to sell financial assets at a value which is less than what they are worth.

Remaining contractual maturities

The table below details the Company's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid.

30 JUNE 2021	WITHIN 3 MONTHS $'000	BETWEEN 3 AND 12 MONTHS $'000	TOTAL $'000
Payables	1,104	–	1,104
Derivative contractual outflows	1,276	–	1,276
Foreign currency forward contractual outflows	–	–	–
Total	2,380	–	2,380

30 JUNE 2020	WITHIN 3 MONTHS $'000	BETWEEN 3 AND 12 MONTHS $'000	TOTAL $'000
Payables	479	150	629
Derivative contractual outflows	1,981	–	1,981
Foreign currency forward contractual outflows	1,065	–	1,065
Total	3,525	150	3,675

At 30 June 2021, there are no other contractual amounts payable after 12 months. The Company has sufficient funds to meet these liabilities as most of the Company's assets can be realised in one year or less.

The risk management guidelines adopted are designed to minimise liquidity risk by:

(i) ensuring that there is no significant exposure to illiquid or thinly traded financial instruments; and

(ii) applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

The Investment Manager prepares daily cash forecasts on behalf of the Company and maintains sufficient cash to meet normal operating requirements. The Company has a policy of not borrowing money, other than on a short-term basis for settlement purposes.

Note 14. Financial risk management – continued

Capital risk management

The Company considers its capital to comprise ordinary share capital, reserves and accumulated retained earnings.

The Company's investment objective is to provide capital growth over the long-term through investing in companies worldwide which the Investment Manager perceives to be undervalued by the market.

The Board regularly and actively reviews the most efficient manner by which the Company manages its capital, in response to changing market conditions and risks, with the sole aim of enhancing shareholder value, through:

- the management of the level of dividends to shareholders;
- the issue of shares by methods such as rights offers, share purchase plans and/or placements; and/or
- use of share buy-backs.

The Company is an ASX-listed investment company and is subject to the ASX Listing Rules. For example, the Company must report its Net Tangible Asset backing per share (NTA) to the ASX on a monthly basis. The Company complies with all externally-imposed capital requirements.

Note 15. Fair value measurement

AASB 13: *Fair Value Measurement* requires the Company to classify those assets and liabilities measured at fair value through profit or loss using the following fair value hierarchy model:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

The Company measures and recognises the following financial assets and liabilities at fair value, pursuant to AASB 13, on a recurring basis:

(i) Equity securities, convertible notes, long equity swaps and long futures

(ii) Short equity swaps and short futures; and

(iii) Foreign currency forward contracts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 15. Fair value measurement – continued

The following table details the Company's assets and liabilities, measured as disclosed at fair value, using a three-level hierarchy model.

30 JUNE 2021	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Assets				
Equity securities	382,389	27,511	1,786	411,686
Convertible notes	–	–	7,152	7,152
Derivatives	–	287	–	287
Foreign currency forward contracts	–	–	–	–
Total assets	382,389	27,798	8,938	419,125
Liabilities				
Derivatives	28	1,248	–	1,276
Foreign currency forward contracts	–	–	–	–
Total liabilities	28	1,248	–	1,276

30 JUNE 2020	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Assets				
Equity securities	306,473	50,085	1,126	357,684
Convertible notes	–	–	–	–
Derivatives	–	29	–	29
Foreign currency forward contracts	–	154	–	154
Total assets	306,473	50,268	1,126	357,867
Liabilities				
Derivatives	225	1,756	–	1,981
Foreign currency forward contracts	–	1,065	–	1,065
Total liabilities	225	2,821	–	3,046

Note 15. Fair value measurement – continued

Assets and liabilities classified as Level 1

Assets and liabilities classified as Level 1 At 30 June 2021, 91% (2020: 86%) of the equity securities held by the Company were valued using unadjusted quoted prices in active markets and were classified as Level 1 in the fair-value hierarchy model.

Assets and liabilities classified as Level 2

There were certain financial instruments that were classified as Level 2, because a degree of adjustment has been made to the quoted price i.e., whilst all significant inputs required for fair value measurement are observable and quoted in an active market, there was a degree of estimation involved in deriving the fair value. Participatory notes were classified as Level 2 because they were generally traded over-the-counter and were often priced in a different currency to the underlying security. Foreign currency forward contracts are classified as Level 2 even though forward points are quoted in an active and liquid market. The forwards themselves are based on interest rate differentials.

Assets and liabilities classified as Level 3 Assets

As at 30 June 2021, the Company held:

- An investment in Iris Energy Pty Ltd convertible notes of A$7,152,000 which is described further below; and
- A$1,786,000 in Zimbabwean securities (based on the adjusted value applied by the Investment Manager), which constituted approximately 0.43% (2020: 0.32%) of the Company's total fair value of investments at 30 June 2021.

During the year, the Company acquired an interest in convertible notes issued by Iris Energy Pty Ltd ("Iris") that is classified as a level 3 asset at 30 June 2021. Iris is a private company incorporated in Australia. The Company purchased convertible notes from Iris at a face value of $6,896,000 on 1 April 2021. The best estimate of fair value at 30 June 2021 was determined to be $7,152,000 using the market approach and approximated by cost plus accrued interest. The Iris convertible notes represent 1.5% of the Company's net assets at 30 June 2021 (2020: 0%). The key unobservable inputs used to determine fair value at the reporting date were original acquisition cost and expected cash inflows. The Company's maximum exposure to loss is the fair value of the investment at 30 June 2021.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 15. Fair value measurement – continued

Below is a table showing the Level 3 fair value movement during the year.

	2021 $'000	2020 $'000
Opening balance	**1,134**	2,667
Transfers to Level 3	**–**	–
Purchases during the year	**6,896**	1,295
Sales during the year	**(349)**	(964)
Gains/(losses) during the year[1]	**1,257**	(1,864)
Closing balance	**8,938**	1,134

1 Includes unrealised gains/(losses) recognised in profit or loss attributable to balances held at the end of the reporting period.

Valuation process

The valuation of each investment that the Company holds is the primary responsibility of the Investment Manager. The Investment Manager's Securities Pricing Committee has authority to review valuation methodologies to be applied to determine the fair values of portfolio securities and other assets held by the Company for which no quoted market price is readily available, and to make recommendations to the Board.

The Securities Pricing Committee also assesses whether an adjustment is required to the quoted market price of any security, if it is considered that the quoted market price is not reasonable (for example securities with a so-called "stale" price). A register is maintained documenting the valuation used and the basis for the valuation of any security or investment that may be manually adjusted or manually priced. The Securities Pricing Committee meets on a quarterly basis, and also on an ad hoc basis as is required. There were no transfers to or from level 3 during the current or prior year.

Note 16. Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is a legally enforceable right to offset recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Offsetting and master netting agreements

The Company enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements. In general, under these agreements the amounts owed by each counterparty on a single day in respect of the same transaction type outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other, if:

I. there is a legally enforceable right to set-off the financial asset and financial liability; and

II. the Company intends to settle the financial asset and financial liability on a net basis, or realise the financial asset and settle the financial liability simultaneously.

Note 16. Offsetting of financial assets and financial liabilities – continued

The gross and net positions of financial asset and liabilities that have been offset in the Statement of Financial Position are disclosed in the first three columns of the table that follows:

	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT SET-OFF IN THE STATEMENT OF FINANCIAL POSITION		
	GROSS AMOUNTS $'000	GROSS AMOUNTS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION $'000	NET AMOUNTS IN THE STATEMENT OF FINANCIAL POSITION $'000	FINANCIAL INSTRUMENT[1] $'000	CASH COLLATERAL $'000	NET AMOUNT $'000
Financial assets						
2021						
Derivatives	**287**	**–**	**287**	**–**	**–**	**287**
Foreign currency forward contracts	**–**	**–**	**–**	**–**	**–**	**–**
2020						
Derivatives	29	–	29	–	–	29
Foreign currency forward contracts	154	–	154	(154)	–	–
Financial liabilities						
2021						
Derivatives	**1,276**	**–**	**1,276**	**–**	**–**	**1,276**
Foreign currency forward contracts	**–**	**–**	**–**	**–**	**–**	**–**
2020						
Derivatives	1,981	–	1,981	–	–	1,981
Foreign currency forward contracts	1,065	–	1,065	(154)	(479)	432

1 Shows the impact of arrangements between the Company and the relevant counterparty on financial instruments that provide a right to setoff 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 Statement of Financial Position, as they are not currently enforceable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 17. Remuneration of auditors

During the financial year, the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Company:

	2021 **$**	2020 $
Audit services – *PricewaterhouseCoopers*		
Audit and review of the financial statements	**81,713**	80,070
Other services – *PricewaterhouseCoopers*		
Tax compliance services	**18,310**	18,035
	100,023	98,105

Note 18. Related parties

The Investment Manager, Platinum Investment Management Limited, receives a monthly management fee for investment management services provided in accordance with the Investment Management Agreement. This agreement provides for a management fee payable monthly and calculated at 1.1% (2020: 1.1%) per annum of the adjusted portfolio value (which includes cash and deposits).

The investment management agreement also provides for a performance fee of 15% (calculated as at 30 June), of the amount by which the portfolio's annual performance exceeds the return achieved by the MSCI All Country World Net Index in $A. Where the portfolio's annual return is less than the index, the amount of the underperformance is aggregated, carried forward and deducted from the annual performance in the subsequent year before calculating any performance fee for that year. The aggregate underperformance from prior periods is carried forward until a performance fee becomes payable.

Note 18. Related parties – continued

Investment Manager

For the 12 months to 30 June 2021, the performance of the portfolio was 23.6%[1] and the performance of the MSCI All Country World Net Index in $A was 27.7% for the same period. This represents an underperformance of 4.1% against the index. Taking into account the aggregate underperformance of 29.2% from the prior periods, no performance fee has been accrued. A total aggregate underperformance, for the purposes of calculating the performance fee, of 33.3% will need to be made up before a performance fee will be payable. The management fees paid and payable are shown in the table below.

	2021 $	2020 $
Management fees expense	**5,019,130**	4,900,159
Management fees paid	**4,944,002**	4,943,037
Management fees payable	**449,986**	374,858

In the event of termination of the investment management agreement by the Company for convenience, the Investment Manager will be eligible to receive a termination fee equivalent to the management fee of 1.1% of the portfolio value (adjusted for any taxes paid/refunded, dividends paid and capital flows) and the performance fee (calculated as set forth above) if any, for the period from the first business day of the month in which termination is effective to the date which is the first anniversary of that date.

Each party is required to provide three months' notice to terminate the Agreement. However, the Company may terminate the Agreement for cause at any time by written notice to the Investment Manager in certain instances.

Administration services

The Investment Manager provides various administrative services to the Company under an administration services agreement. These include accountancy, corporate secretarial, performance analytics, taxation, compliance and risk monitoring services. The services also include liaising with the external share registry to ensure that accurate share records are maintained and services are provided to shareholders in a timely and efficient manner.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

1 This figure represents the 12 month return of the "Portfolio Value" (as defined in of the Investment Management Agreement), which is defined as the aggregate value of each asset or investment of the Company's portfolio. This differs from the Company's 12 month pre-tax NTA return of 23.9% referred to in the Directors' Report, which also includes non-portfolio and non-investment related assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 18. Related parties – continued

Key Management Personnel disclosures

The Non-Executive Directors are the Company's key management personnel. Total remuneration paid to the Non-Executive Directors was $186,150 (2020: $186,150), with $170,000 (2020: $170,000) paid as cash salary and $16,150 (2020: $16,150) paid as superannuation. Refer to the Remuneration Report for further details.

The relevant interest in ordinary shares of the Company that each Director held at balance date was:

	OPENING BALANCE	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Margaret Towers	50,000	–	–	50,000
Richard Morath	42,372	–	–	42,372
Jim Clegg	59,972	–	–	59,972

Note 19. Contingent assets, liabilities and commitments to capital expenditure

No contingent assets and liabilities or commitments existed at 30 June 2021 or 30 June 2020.

Note 20. Events after the reporting period

Apart from the dividend declared as disclosed in Note 9, no other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

DIRECTORS' DECLARATION

30 JUNE 2021

In the Directors' opinion:

(a) the financial statements and notes set out on pages 26 to 60 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Company's financial position as at 30 June 2021 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Margaret Towers
Chairperson

Richard Morath
Director

19 August 2021
Sydney

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Platinum Capital Limited (the Company) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 30 June 2021 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2021
- the statement of profit or loss and other comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- 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
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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 Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (*including Independence Standards*) (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.

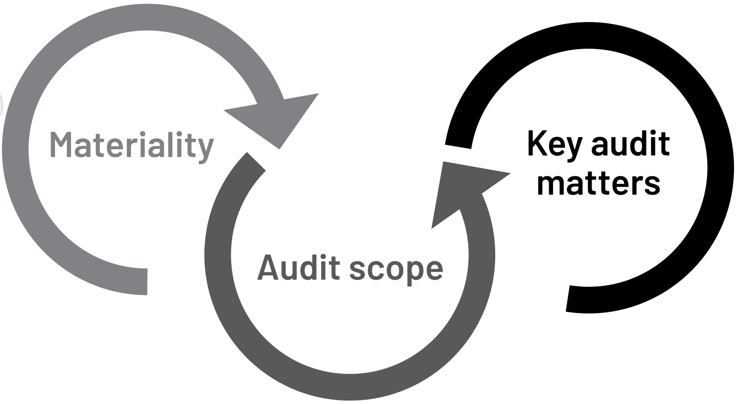
Our audit approach

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 Company, its accounting processes and controls and the industry in which it operates.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM CAPITAL LIMITED



MATERIALITY	AUDIT SCOPE	KEY AUDIT MATTERS
– For the purpose of our audit we used overall materiality of $4.664 million, which represents approximately 1% of the Company's net assets. – 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.	– Our audit focused on areas where the Company made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. – Our audit approach reflects the nature of the investments held by the Company and the consideration of the work undertaken by third party service organisations. The administration, share registry and custody functions of the Company are conducted by third party service organisations.	– Amongst other relevant topics, we communicated the following key audit matter to the Audit, Risk and Compliance Committee: • Investment valuation and existence – This is further described in the *Key audit matters* section of our report.

MATERIALITY	AUDIT SCOPE	KEY AUDIT MATTERS
– We chose net assets because, in our view: • it is the metric against which the performance of the Company is most commonly measured, and • a generally accepted benchmark for listed investment companies. – We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	– The Company's third party service organisations engaged an external auditor to provide assurance reports over the design and operating effectiveness of the third party service organisations' key internal controls.	

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

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
Investment valuation and existence *Refer to note 1 (summary of significant accounting policies) and Note 4 (financial assets and liabilities at fair value through profit or loss) and Note 15 (fair value measurement).* At 30 June 2021, investments in financial assets at fair value through profit or loss of $419.125 million and financial liabilities at fair value through profit or loss of $1.276 million were comprised primarily of investments in equity securities, convertible notes and derivative financial instruments. The existence and valuation of financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss was a key audit matter because financial assets and financial liabilities represent the principal element of the statement of financial position in the financial statements, accounting for approximately 89.58% of net assets. A discrepancy in the valuation or existence of investments could cause net assets to be materially misstated which could also impact the Company's performance as the valuation of financial assets and financial liabilities is the main driver of movements in the profit of the Company.	Our audit procedures over investment valuation included the following, amongst others: – We developed an understanding of the Company's pricing policy and read the Securities Pricing Committee minutes. – For a sample of investments in level 1 equity securities and level 2 derivative financial instruments held by the Company, we obtained price data from third party price vendors and compared it to the prices used by the Company. – For level 2 participatory notes held by the Company, we obtained price data from third party price vendors for the underlying equity security of the participatory note in local currency. We translated the price into Australian dollars and compared it to the participatory note price used to value investments held by the Company. – For investments in level 3 convertible notes, we obtained an understanding of the directors' approach to derive fair value and assessed the appropriateness of the methodology, assumptions and data, and the reasonableness of the value adopted.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
	Our audit procedures over investment existence included, amongst others: – We obtained the most recent System and Organization Controls ("SOC 1") Report issued by the custodian, setting out the controls in place at that service organisation, which included an independent audit opinion over the design and operating effectiveness of those controls. – We assessed the service organisations' auditors' objectivity, experience, competency and the results of their procedures. – We assessed the most recent SOC 1 report issued by the custodian by developing an understanding of the control objectives and associated control activities, evaluated the tests undertaken by the auditor and the results of these tests and the auditor's conclusions on the design and operational effectiveness of the controls to the extent relevant to our audit of the Company. This report and audit opinion are comparable to the Australian equivalent, Australian Standards on Assurance Engagement 3402 issued by the Auditing and Assurance Standards Board. – For investments held in custody, we obtained an investment holdings confirmation from the custodian as at 30 June 2021 and compared confirmed holdings to the accounting records of the Company.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
	– For investments not held in custody, we obtained confirmations from relevant counterparties and compared confirmed holdings to the accounting records of the Company. We assessed the adequacy of the disclosures in the financial report in light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the company directory, shareholder information and directors' report. We expect the remaining other information to be made available to us after the date of this auditor's report.

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 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, 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 Company 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 Company or to cease operations, or have no realistic alternative but to do so.

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: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.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 21 to 24 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of Platinum Capital Limited for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

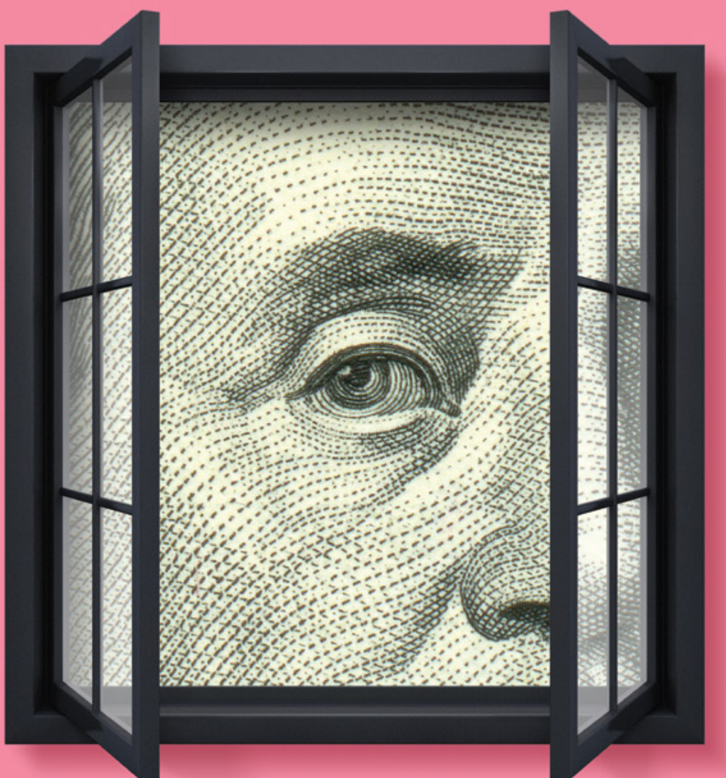
The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

CJ Cummins
Partner

19 August 2021
Sydney

The history of money and its role in the modern world



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Article
The history of money
and its role in the modern world
By Julian McCormack
Investment Specialist,
Platinum Asset Management

Artwork by
Edmon de Haro
www.marlenaagency.com

"Money is the most universal and most efficient system of mutual trust ever devised."

Yuval Hariri

Preface

The last 18 months have certainly been a testing time. The global pandemic has forced us to adjust our lives in ways we never imagined or thought possible. We have endured lockdowns as well as restrictions on family visits, social gatherings, exercise and holidays, not to mention the devastating health impact and tragic loss of life.

We have for the most part adapted, shifting our work (where possible) and shopping online, 'Zooming' our friends and family, and keeping the dream alive of our next vacation. When able to venture out, we have kept our obligatory 1.5 metres distance and shunned cold hard 'dirty' cash in favour of 'tap and go'.

Yet, money in many respects has become more important than ever.

At an individual level, the 'value' of money has undoubtedly increased, as many employees were stood down and struggled to pay their mortgage, rent, utilities and groceries. At a broader public level, the value of money has, however, been somewhat distorted after governments around the world collectively spent an unfathomable amount to protect their populations and rescue their economies. With debts racking up into the trillions of dollars, funded largely by central banks, and no hope of paying it off anytime soon, the mind boggles. It is difficult to put a value on protecting humanity.

We are now seeing the impact of all this 'money printing' in rising inflation, with a strong rebound in economic activity fuelling a surge in commodity, house and share prices. With the service sector effectively 'closed for business' at various stages during the pandemic, as we were unable to travel and dine out, there has been strong demand for manufactured goods, as we improved our homes, beefed up our technology and curiously, purchased more cars.

The strong demand, coupled with a temporary shut-down in manufacturing in 2020, has caused prices for some consumer goods to soar to decade highs. Used car and truck prices, for example, rose 45% in the US in the 12 months to June 2021, reflecting increased demand and supply constraints, such as the global semiconductor shortage.[1]

As vaccination rates increase and more economies reopen, we expect this recovery to gain momentum, particularly as employment grows, confidence returns and consumers draw down on their accumulated savings. Those who were able, chose to hold onto the generous government payments last year, sending savings rates to record high levels of over 30% in the US and 20% in Australia in 2020.[2]

1 Source: Federal Reserve Bank of St Louis.
2 Source: Federal Reserve Bank of St Louis; Reserve Bank of Australia.

These savings are now making their way back into the economy as consumers unleash pent-up demand. As this 'velocity of money' increases (i.e. how often money is spent in the economy), inflation usually follows.

Higher inflation should theoretically translate to higher bond yields. However, at the time of writing, after a brief spike to 1.7% p.a. in March 2021, yields on US 10-year Treasuries continue to hover below 1.3% p.a. - as the market seems to accept the premise that the rise in inflation will be 'transitory'.[3] There is always a danger in consensus thinking. We aren't in the business of forecasting economic variables, however, we believe there is a risk that price rises will be more long-lasting than what is currently priced in by the markets, which may see central banks increase official interest rates much earlier than expected.

Such extraordinary levels of money creation and signs of significant inflation (after a long absence) begs the question of the role and value of money in society. We place enormous trust in the value of money when we transact.

In our feature article, Investment Specialist Julian McCormack delves into the origins of money over many centuries - from 'barter' and debt, to metal-backed currencies, fiat currencies and the rise of the US dollar.

> **It's a fascinating look at history and makes one realise just how the form and function of money has shifted over time – often driven by political and economic motivations of governments. Central banks have also played a role, notably their various interest rate policies and bond-buying activities.**

Reflecting on the past provides a valuable perspective on current events. With inflation creeping up and extraordinarily large budget deficits that need to be funded at some point, we suspect that change is afoot.

A low interest rate environment has been the primary driver of asset markets in recent years, a change in that scenario could have significant implications for equities, particularly high growth stocks, which have been a major beneficiary of this trend.

Andrew Clifford,
Chief Executive Officer & Co-Chief Investment Officer,
Platinum Asset Management
August 2021

3 Source: FactSet Research Systems.


5
500
INDIA

In recent years, we have stretched the limits of any traditional understanding of money via radical policies, such as negative interest rates, quantitative easing and yield curve control. As the global financial crisis (GFC) saw the re-writing of the monetary policy rule book, so the COVID-19 crisis saw the abandonment of any pretence of 'fiscal rectitude' in every major economy.

The history of money and its role in the modern world

By Julian McCormack

In the rebound from the COVID-induced disruption, inflation and nominal growth have risen sharply and debate has raged about the transience of the inflationary surge.

As we explored in last year's annual report, the defining characteristic of populists is that they spend money.[1] Now, in order to grapple with the question of incipient inflation, we must grapple with defining money itself.

Money is a social institution whose rules are more like religious edicts than physical laws. There is nothing definite about money, save our understanding that it has value and our trust in that value's persistence. Money is in essence a story – and that story is changing.

In this article, we will briefly examine the history of money and demonstrate that its form and purpose have shifted over time. Our contention is that another shift is underway in the function and nature of money at present – with central banks now effectively providing infinite funding, which is being married to fiscal spending after 40 years of austerity – a shift we examine briefly toward the article's close.

THE BARTER MYTH

A typical history of money usually starts with a story of a world of barter transactions transformed into a world of money-based transactions.[2] This is almost certainly wrong. Credit is, by an enormous margin, more common than barter in every recorded traditional society.

> **It is vanishingly rare that any sociologist or anthropologist has recorded an instance of barter as a form of exchange – we repeat – *this has almost never been recorded.***

Vastly more common is the building of 'debt' and its expunging via social obligation. "I'll scratch your back if you scratch mine." Or "I'll give you these eggs, if at some time in the future you help me erect a barn".[3]

This may be confused for barter – but note the creation of obligations that persist through time, not the discrete, instantaneous exchanges of value described in economics text books as barter.

MONEY AS CONGEALED TRUST

All societies are based on trust to some degree. Historically, we developed money not to replace barter, but to replace trust. Once dealing with large-scale societies and members of different social groupings, a unit of exchange becomes necessary. Historically, this did not tend to emerge until large numbers of people moved through areas in which they were strangers – particularly as soldiers.

Having been rewarded with plunder, how might a soldier transport the value of their loot home? Coins help, particularly when the coins themselves are made from precious metals – especially metal recently liberated from its former owners.

> **Throughout the history of Europe and Asia, in periods of relative peace, credit-based systems of commerce predominate; in periods of war and generalised violence, coin-based systems predominate.[4]**

Precious metal coins evolved as money in order to substitute for prior exchanges of value based on trust and reciprocity.

"Money is the most universal and most efficient system of mutual trust ever devised… Money isn't a material reality – it is a psychological construct… But why does it succeed? People are willing to do such things when they trust the figments of their collective imagination. Trust is the raw material from which all types of money are minted."[5]

MONEY WAS RARELY A STATE-BACKED MONOPOLY UNTIL RECENTLY

For most of its history, money has comprised varied mediums of exchange with different issuers whose coins and notes were in mixed circulation across multiple jurisdictions. In antiquity, the value of coinage was based on the content of the metal it was composed of, meaning that a Persian coin, such as a Daric, was readily usable in ancient Greece, as the purity of the metal content was generally accepted.[6]

Ancient merchants issued certificates of deposit, which could be transferred to third parties in different states. These were specific and contractual, rather than general bearer receipts representing specific, repeated, face-values in coin or equivalent value.[7]

The first genuine 'paper money' was developed by the Chinese, and again, it was not originally a state monopoly system.[8] In 9th century China, 'exchange notes' were developed – these were negotiable certificates dubbed 'flying money'. These precursors of banknotes were widespread in China by the early 11th century.[9]

Later, in Europe, banknotes – literal IOUs claimable against an individual bank or depositor at a bank – were in common circulation alongside centrally issued notes and coins for centuries. In more modern times, the acceptance of Spanish silver coins was so widespread in the United States in its early years, that its more important forms were recognised as legal tender.

> **The dollar sign '$' derives from the superimposition of a 'P' and an 'S', which was a symbol for peso. Spanish coins remained in circulation until the middle of the 19th century in the US.[10] There was no monopoly on the issue of currency within nation states until relatively recently.[11]**

CENTRAL BANKS EMERGED SPECIFICALLY TO FINANCE GOVERNMENTS, ESPECIALLY THEIR WARS

The foundation of the central bank *par excellence*, the Bank of England, occurred in 1694, when the Bank was established to assist William III in funding his ongoing war with France. The Bank was private, with King William III and Queen Mary among its original stockholders, and was granted a royal charter enabling it to issue bank notes and act as a banker to the government.

This was necessary largely because of the strength of Parliament, which had responsibility for issuing supply bills since the 15th century and whose power had been increased by the Glorious Revolution of 1688-89, which installed William III and Queen Mary.

The foundation of one of the world's early[12] and preeminent central banks was necessary as a result of Parliament's intentional underfunding of a war.[13] The Bank of England was private and existed alongside other banks, each issuing their own currency in the form of bank notes.

THE GOLD STANDARD WAS AN ACCIDENT

It was only by mistake that multi-metallism and bimetallism slipped into gold-only backing for currency. Prior to the late 17th century, the Royal Mint was managed by the Company of Moneyers, whose members were notorious for "self-dealing, corruption and drunkenness".[14]

> **To deal with the situation, the British government took the extraordinary step of appointing Sir Isaac Newton to the post of Warden of the Mint in 1696, which he gladly accepted for its handsome salary.**

Despite his genius, Newton was in some financial hardship at the time.[15] Newton's initial responsibilities revolved around assaying and the prevention of counterfeiting, which was rife at the time. Eventually, he grappled with the problem of an outflow of silver and sought to set the price of gold and silver relative to each other in Britain.

In doing so, however, he set the price of silver relative to gold too cheaply versus other European powers, causing silver to flow offshore and over time, locking Britain into a de facto monometallic gold standard.

This occurred by draining the Bank of England's reserves of silver and leaving gold alone to dominate the reserves held in British banks.[16]

A similar dynamic occurred in the US. The country's first Treasury Secretary Alexander Hamilton, drawing inspiration from Newton's 1717 report on setting the ratio of gold and silver, set this ratio for the metals in the US at 15:1.

However, the market value of the metals relative to each other changed – discoveries of huge, silver-rich mines in Nevada helped to drive down the price of silver relative to gold, such that the ratio of the prices in the open market drifted out to 16:1 by the 1810s.

> **This effectively created an arbitrage opportunity – a holder of silver could sell silver for gold, take that gold to the Mint to exchange it back into silver, sell that silver for gold on the open market and make a profit.**

This resulted in gold being driven out of circulation – an example of *Gresham's Law* in operation – leaving gold as the dominant reserve metal.[17]

Simply put – the gold standard arose by mistake.

The gold standard never implied that currency was actually 'backed by gold' in any literal sense – no country ever had a currency fully backed by gold in the modern era, with the proliferation of trade acceptances, bank notes and other instruments ensuring that currency in circulation was always multiples of gold backing and that the rate of backing was not constant. As an example, in Britain, in 1913, currency in circulation was backed approximately one-part-in-seven by gold.[18]

> **Gresham's Law: 'Good money' leaves circulation, leaving 'bad money' traded. Where people mistrust the value of a currency, they seek to hoard more trustworthy alternatives – leaving the 'bad money' in circulation; and where an arbitrage exists, the 'cheap' money will remain in circulation, with the 'dear' money forced out of circulation.[19]**

THE HEADY BENEFITS OF GOLD

Adherence to at least a partial backing of currency by gold, assisted states in gaining access to London capital markets in the 18th and 19th centuries. Partial gold backing gave creditors some confidence of repayment, thus allowing credit to flow, paradoxically diminishing the backing of gold to currency!

How the gold was acquired was irrelevant: for example, Japan's industrialisation was catalysed by the seizure of gold from China following the 1894-95 Sino-Japanese War via massive reparations, which facilitated Japanese borrowing in London.[20]

For merchants and investors, trade credit and foreign direct investment were catalysed by use of the gold standard due to the tradability of merchants' acceptances and bank bills globally.

For merchants, there were huge financing advantages in being able to borrow against future cargoes or revenue streams. On the other hand, creditors were able to on-sell credit risk in the form of discounted merchants' acceptances.

Throughout the 19th and early 20th centuries this was easiest in London by a wide margin, given the immense depth of the market for acceptances there relative to any other financial centre.[21]

GOLD'S COLOSSAL COSTS

The gold standard had two colossal costs. It was deeply, cruelly regressive; and it was ferociously unstable.

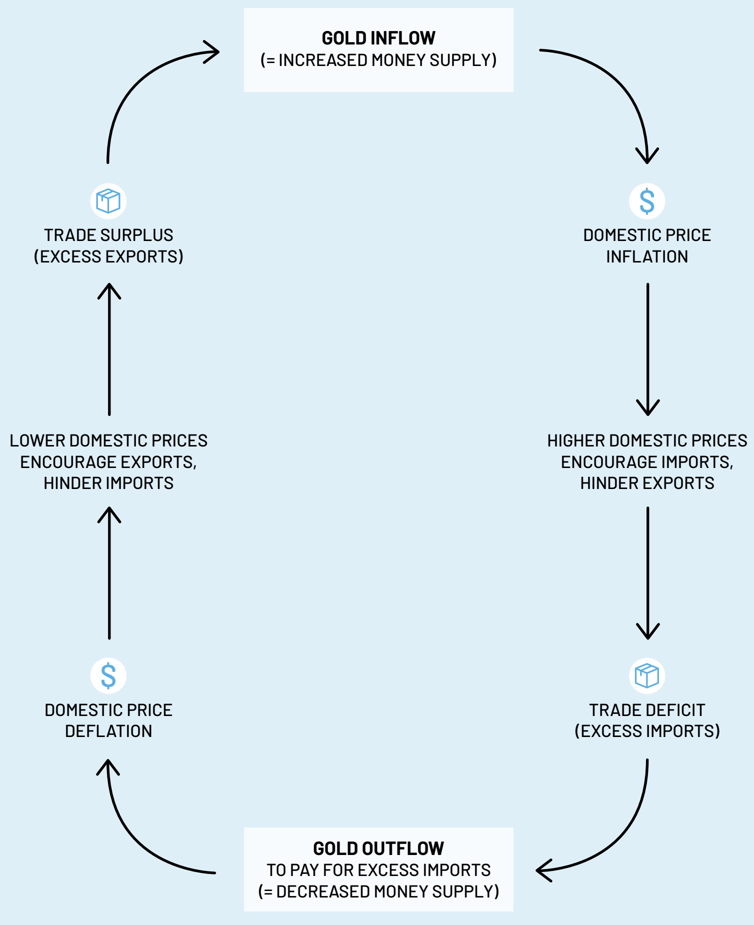
The functioning of the classical gold standard allowed for gold to function as a money supply equilibration tool, which tended toward a shrinking money supply and deflation in order to stem gold outflows caused by any rise in domestic prices, as shown in the diagram on the right.[22]

> **The effect of this cycle, with specie (gold) flowing out of economies in the presence of trade deficits, was to induce periodic bouts of deflation and deep recessions. One effect of these recessions, in the absence of social safety nets of the modern state, was to steeply reduce life expectancy during and in their aftermath. The gold standard was brutal in its impacts on everyday people.[23]**

The 19th century was racked by financial crises and a run on banks roughly once every 10 years somewhere in major financial centres globally.[24]

The reason is simple, and inherent to the gold standard itself. The banking system created money in the form of banknotes and merchants' acceptances. These were all exchangeable for gold, albeit usually at a discount. However, the system itself was always multiple times geared in terms of currency in circulation versus available gold supply.

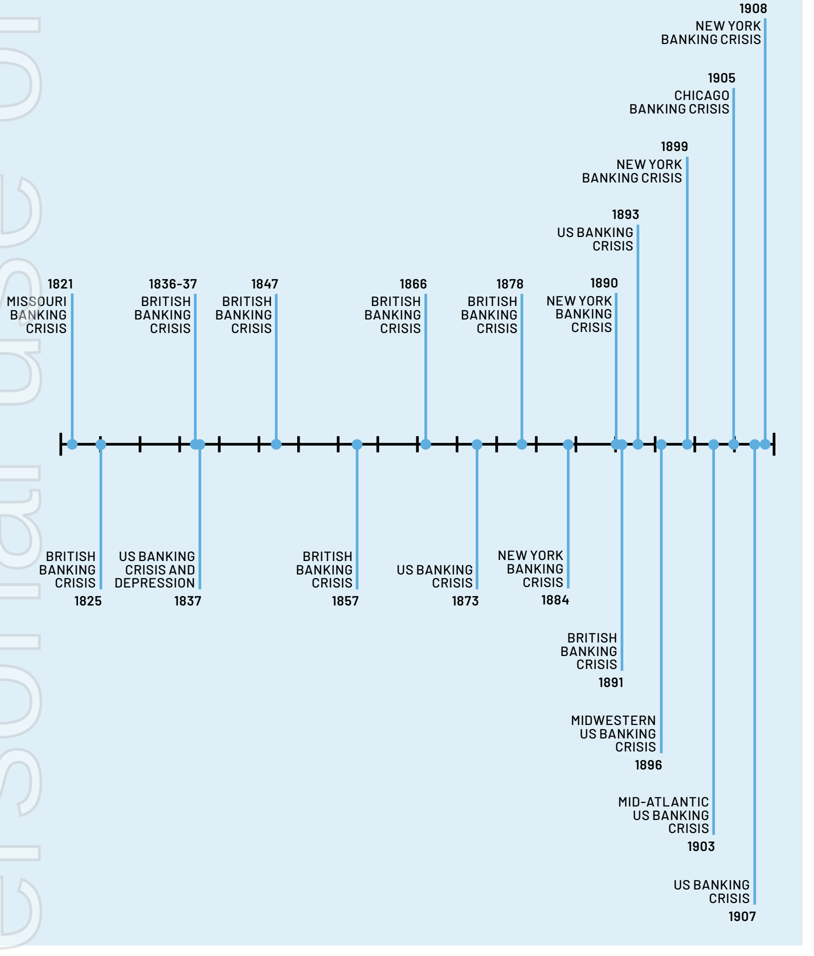
GOLD FUNCTIONED AS A MONEY SUPPLY EQUILIBRATION TOOL



At the first hint of instability or insolvency on the part of one or more banks, all participants had both the incentive to exchange currency for gold, and the legal right to do so.

The arbitrary assignment of a metal as the determinant of value for currency, and as a limit to its supply, did nothing to avert instability – indeed, it encouraged it.

US AND BRITISH BANKING CRISES UNDER THE GOLD STANDARD



Source: https://www.federalreservehistory.org/essays/banking-panics-of-the-gilded-age
https://www.researchgate.net/publication/299890635_British_Financial_Crises_in_the_Nineteenth_and_Twentieth_Centuries
https://www.stlouisfed.org/a-foregone-conclusion/chapter-one

THE BRETTON WOODS SYSTEM – EXORBITANT PRIVILEGE, NAKED POWER

In the final stages of World War II, with Allied victory relatively certain, one of the world's most influential living economists faced off against a US Treasury functionary to decide the fate of the non-communist world's monetary system.

John Maynard Keynes had been a leading economist for 30 years and *the* most exalted economist globally for over a decade. He set forth his ideas for a global balance of payments adjustment system using a new, international unit of exchange known as the Bancor, to be administered by an International Clearing Union. The system was elegant, flexible, fair and sought to avoid risks caused by extreme imbalances, both for deficit and surplus nations.

Squaring off against Keynes was a largely unknown economist, Harry Dexter White. He was no slouch himself, a PhD with degrees from Stanford and Harvard. He also happened to represent the nation that accounted for one-half of global industrial production at the time.[25] Readers can likely guess what happened.

> **Despite a clearly articulated explanation of a functional international balance of payments system delivered by such an esteemed economist, raw power won the day.**

In July 1944, at a holiday resort named Bretton Woods in New Hampshire, all key Allied powers agreed to install the US dollar as the dominant unit of exchange in all international transactions, and avoid any penalty or self-balancing mechanism for inveterate surplus-generating nations.

Why? Because the Americans were the preeminent creditor nation globally, and in White's words, they did not want to be repaid in "funny money".[26]

POST BRETTON WOODS – FROM CREDITOR TO DEBTOR AND ONTO FUNNY MONEY

The flaw in the Bretton Woods System, similar to those of the classical gold standard, is that it rested on the commitment of one country to provide two reserve assets: dollars, the supply of which is unlimited; and gold, the supply of which *is* limited. The problem was articulated as early as 1947 by Belgian born economist Robert Triffin – indeed the paradox became known as the 'Triffin Dilemma'.

> **This stated that should the US not provide enough dollars to fund a growing global economy, growth would be stifled and the system would grind into a deflationary rut; however, should the US provide ample dollar funding to promote global growth, then the backing of the dollar by gold would be thrown into question. The dollar would then become susceptible to the international equivalent of a bank run.**

American liabilities to foreigners first exceeded US gold reserves as early as 1960. Rapidly growing and efficient Germany and Japan found themselves posting large trade and current account surpluses and thus accumulating dollars throughout the 1950s and 1960s. Would these dollar reserves hold their value, when clearly gold backing for such large reserves was insufficient?

Speculation mounted against the dollar throughout the 1960s and institutional responses included the foundation of a Gold Pool to share the cost of meeting gold redemptions, the issuance of Special Drawing Rights by the International Monetary Fund (IMF) in an attempt to provide an alternative reserve asset (Bancor anyone?) and the use of exchange rate bands around the dollar known as the 'snake'. It was all too little too late.

In August 1971, after Britain requested a large redemption of dollars for gold in order to meet redemptions against the imperilled pound, US President Richard Nixon did the inevitable and suspended the convertibility of gold for dollars. It was never to be reinstated.[27]

Funny money indeed.

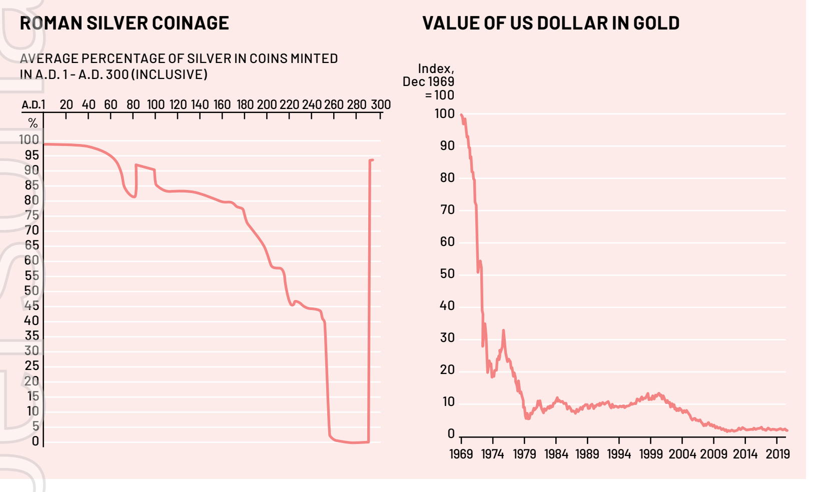
POST 1971: ADRIFT IN A FIAT OCEAN

Since 1971, global trade, investment and general economic activity have come to rest on floating currencies, unbacked by gold or any other 'hard asset' (i.e. fiat currencies). The US dollar has retained dominance of global transactions – it is used in approximately 85% of all foreign exchange transactions, with US exports only representing 13% of the global total and US foreign direct investment just 20%.[28]

> **The purchasing power of all currencies has utterly collapsed versus any form of hard asset – gold, commodities, real property and so forth.**

When charted beside the currency debasements of the late Roman Empire – the collapse in the buying power of the dollar since 1971 measured in gold looks similarly cataclysmic. In gold terms, the dollar has lost roughly 98% of its value in 50 years (see below).

However, the commercial world keeps turning. Economic agents continue to accept and use state-issued, unbacked fiat currency, the dominance of which is unchallenged, with alternatives, such as gold or crypto currencies, peripheral at best.[29]



Source: https://warwick.ac.uk/fac/arts/classics/staff/butcher/debasement_and_decline.pdf; Bloomberg.

A WORLD IN A DAZE: THE POST-GFC PERIOD TO 2020

The post-GFC period to 2020 was replete with breathless reporting about "unprecedented monetary policies" and some amount of fear about "Keynesian" excesses and "big government".[30] The trouble with that narrative was that it was untrue.

There was little unprecedented about the monetary response of policy officials globally – interest rate setting/manipulation, zero rates and bond buying were all features of the Depression-era monetary responses to the 1929 Wall Street Crash in many countries, notably in the US and Japan – albeit slower in most major economies and with highly unhelpful tariffs imposed globally.[31]

> **Far from there being a wave of huge Keynesian policy responses, there was little fiscal support for major economies after 2010. Every major economy shrank their respective budget deficits from 2010 onward.**

In Europe, Germany seized the opportunity of the crisis to discipline the spendthrift peripheral nations of the European Union (EU). In the US, the 2010 Tea Party revolution saw fiscal hawks become pivotal in the House, advocating for spending cuts and lower deficits. China's initial stimulus came in the form of bank-directed credit growth, which resulted in the deep financing reforms and industrial slowdown of 2013-16.

This contrasts with massive fiscal support unleashed in major economies in the 1930s by 'populists' in most major economies of the day.[32] Populists re-emerged toward the end of the 2010s and fiscal restraint began to erode, most notably in the form of the Trump tax cuts, which entrenched ~5% of gross domestic product (GDP) budget deficits as a permanent feature of US fiscal policy.[33]

There was also friction within Europe about the strictures of the EU's fiscal compact, which seeks to limit budget deficits to 3% of GDP and government debt to 60% of GDP.[34]

> **We have written for several years about the emergence of populism and its largely overlooked core definition: populists spend money! Extraordinary shifts in public opinion about trade policy, socialism and nationalism have followed.[35]**

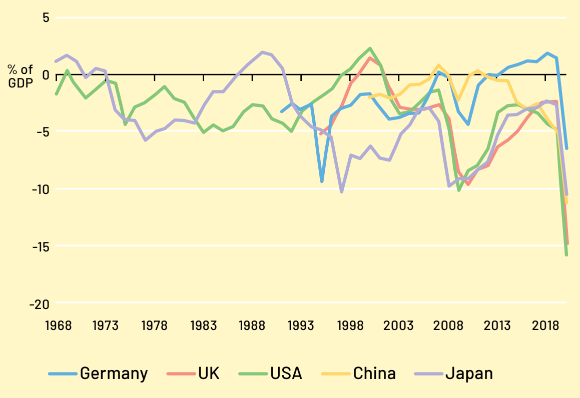
However, the *coup de grâce* of 40 years of austerity in fiscal policy may have come with the policy responses to the 2020 COVID-19 pandemic.

2020: THE *COUP DE GRÂCE* FOR AUSTERITY?

After 40 years of falling interest rates and declining/low inflation in the developed world, investors have been trained to believe that inflation is impossible. Central banks globally begged elected officials to spend money for a decade – and in general, they refused to do so in most large economies.[36] That was until 2020.

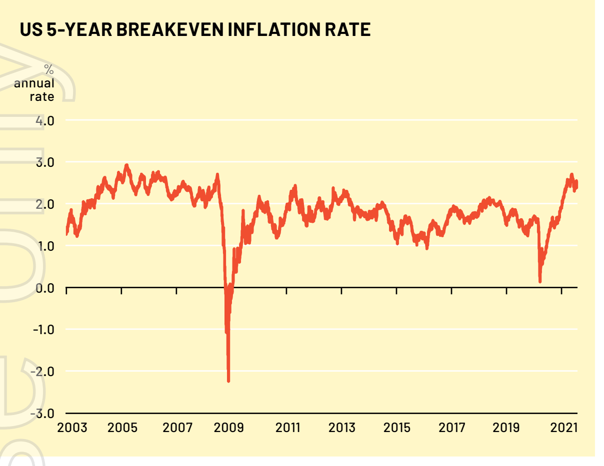
Just as the GFC saw the abandonment of monetary rectitude among central bankers, so the reaction to COVID-19 may have seen the abandonment of any pretence of fiscal discipline among elected officials in the developed world.

CENTRAL GOVERNMENT BUDGET BALANCES



Source: Bloomberg; OECD; Fitch. Annual data to 2020.

Correspondingly, inflation and inflation expectations rose dramatically.



Source: Federal Reserve Bank of St. Louis. Data as at 18 August 2021.

At present, debate rages about the permanence or transience of 2021's inflation surge. The breakeven rates for the US, currently project an inflation rate of 2.5% in five years' time, close to 20-year highs.

> **And we believe that inflation may well prove more durable than many foresee. However, more important is the insight that there is nothing remotely resembling a physical law that defines inflation.**

ON INFLATION

It is reasonably clear that no central bank, nor economic observer, has a robust, predictive model of inflation. One member of the Federal Reserve board is reported to have described inflation modelling in the early 2010s as "crap in, crap out".[37] US Federal Reserve (Fed) Chairs have shifted between a core and headline consumer price index (CPI) as their preferred measure of inflation.[38] Additionally, robust measures of inflation are rejected if they give problematic modelling results.[39] This is hardly a scientific approach.

It also seems reasonably clear that inflation is a multi-variate phenomenon, with causation stemming from diverse factors, such as wealth and income distribution, savings rates, money supply, and interest rates as well as institutional factors, such as the power of organised labour.

What seems absolutely clear is that Milton Friedman's aphorism that "inflation is always and everywhere a monetary phenomenon" is at best an oversimplification. See below for Paul Volcker's view:

> **"...when we talk about credibility, I think far, far, too much emphasis is put on these monetary targets."[40]**

Perhaps most powerfully – inflation may be what we expect it to be. This is the "rational expectations" school of inflation causation: no policy tool can be employed to fight (or encourage) inflation, unless it is expected to work by enough economic agents within a system.[41] It is worth remembering that in the late 1970s, it was accepted by virtually all serious economists that inflation was a persistent feature of the system.[42] This was on the cusp of the "Volcker Shock" and the taming of inflation for a generation.

Contrast this to the situation which presents itself now: there is close to universal consensus that inflation is transitory. Bond markets globally at the time of writing are strengthening, with yields falling and curves flattening, despite buoyant commodity prices, inflation expectations, business survey results and consumer expectations.

Moreover, just as Volcker was explicit about the need to tame inflation, today's central bankers appear resolute in their desire for increased inflation and perfectly comfortable with rates of inflation above target for periods of time.[43]

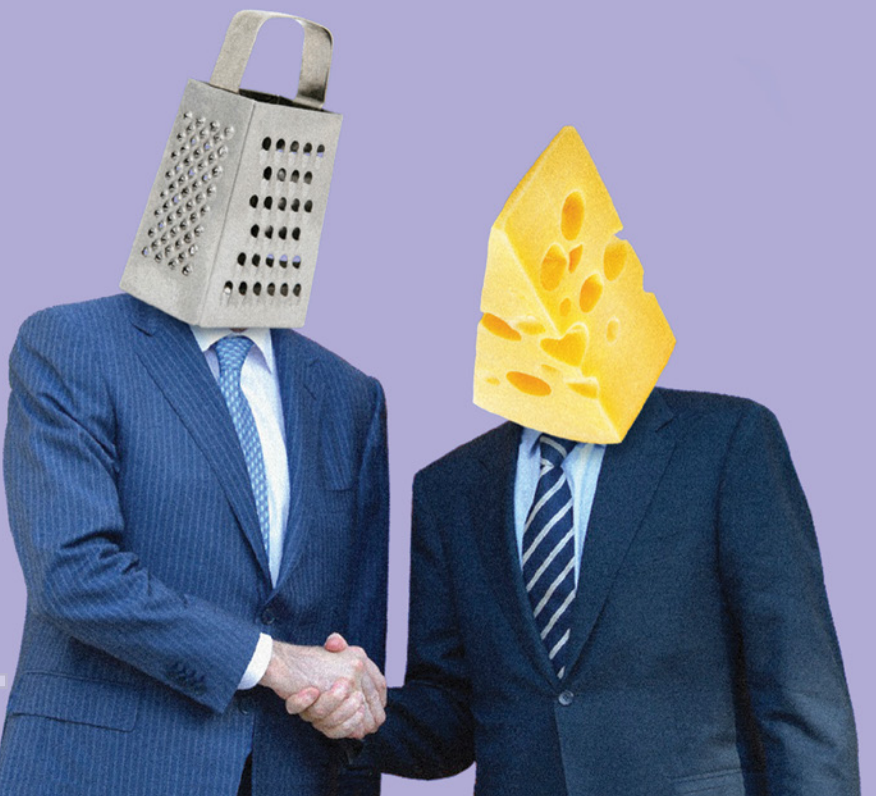
MODERN MONETARY THEORY

For well over a decade, a series of ideas have percolated around the fringes of mainstream economics, which appear to describe the functioning of monetary systems in the post-1971 fiat world well, those of Modern Monetary Theory (MMT). MMT provides a description of pure fiat monetary systems, which is sensible and robust, and corresponds well to massive debt accumulations seen by governments with deep capital markets and widely accepted currencies.

To summarise:

- There is little 'debt like' about government debt in its own currency – it can be extinguished instantly and is functionally an offset account to reserves in the banking system;
- Taxes are not solely collected in order to spend the money, as money can be created instantly via issuance of government bonds (remembering that these are just offset accounts to bank reserves) as well as in the banking system, where the vast majority of money creation occurs;
- Fiat currency maintains a value in part because citizens must pay tax in that currency;
- Taxes also have impacts on aggregate demand and by extension inflation and wealth distribution, and can be used to condition behaviour (e.g. 'sin' taxes);
- There is no inter-generational burden of government debt in a government's own currency – remember, it can be extinguished instantly;
- The consequence of excessive government bond issuance or direct money creation is currency weakness and inflation – NOT insolvency or penury.[44]

> **This framework provides a reasonable basis for understanding how Japan has accumulated colossal government debt, with no inflation, no currency collapse and reasonable economic outcomes.**



Real per capita GDP in Japan has grown comparably or even *faster* than that of the US since the peak of 'Japan mania' in 1989[45] and the country's ratio of employed persons to total population is *higher* than that of the US.[46] This has also been achieved with far lower income and wealth inequality than in the US.[47]

This would seem to be inconsistent with classical economics' notions of 'crowding out' or the existence of an inverse relationship between interest rates and inflation.

These are simply unobservable. An MMT explanation of the role of money and debt in fiat economies appears to offer a reasonable approximation of reality.

CONCLUSION

We would counsel against passive acceptance of consensus when thinking about a phenomenon as incredibly complex as inflation, especially in the face of monetary policy tools that allow for effectively limitless money creation, in combination with ambitious fiscal targets globally.

However, more profoundly, we would highlight the central point of this article – money is a fluid, social institution, and the governing structures around it – centrals banks, treasuries, monetary policy settings and tools – are all subject to profound change.

> **There is every chance that we are living through a period of such change, that decades of no change have shifted to weeks of decadal change.**

Fed buying of corporate bonds, unprecedented peace-time budget deficits, profound questioning of globalisation, massive transfer payments, unprecedented savings rates, and huge asset price surges, indicate there is ample evidence to suggest this.

POST SCRIPT: MONEY IS POLITICAL

In the last two centuries, Britain and the US, both creditor nations, embraced and expanded forms of a gold standard, but when their trade and current account positions slipped into deficit, they pushed for revaluations, and finally abandoned their respective versions of a gold standard altogether.

Britain lacked the economic and military power to retain reserve currency status without gold backing. The US remained the dominant military and industrial power globally after 1971 and its power increased in subsequent decades given the decline and fall of the Soviet Union and related communist states. And of course, the dollar retained reserve currency status.

The loudest voices clamouring for 'hard money' systems tend to be creditors, or those ideologically aligned with them. There is a distinct moral overtone to gold standard/ hard money arguments.

Take for example Jim Rickard's view:

> **"A gold standard is the ideal monetary system for those who create wealth through ingenuity, entrepreneurship, and hard work. Gold standards are disfavored by those who do not create wealth but instead seek to extract wealth from others through inflation, inside information, and market manipulation."[48]**

How, precisely, the use of gold in monetary policy would avoid market manipulation and the use of inside information escapes your humble author. Any passing knowledge of the 1920s will suffice to dispel such a notion.[49]

There is also a tendency to millennialism and dark prophecy, such as Ronald Reagan's statement before the 1982 election that:

"No nation in history has ever survived fiat money, money that did not have precious metal backing."[50]

The glaring logical fallacies here are that vanishingly few nations in history have survived having any form of currency, or anything for that matter – all nations fall eventually – and that all nations in existence today *have* unbacked currencies.

The delicious irony is that economic policies under US President Reagan saw fiscal deficits, which increased the level of national debt from 22% to 38% of GDP.[51]

So much for prophecy.

> **The Cantillon Effect: Money may *not* be neutral. If money enters circulation at a specific point, say the banking system, then inflationary effects may have an outwardly radiating effect, allowing early holders of the 'new' money to benefit in terms of spending power.[52]**

To demonstrate – imagine that it is 1610, and a huge shipment of gold arrives in Spain from the New World, and that the influx of gold goes on to trigger inflation. Now, imagine that prior to docking, one of the sailors takes a tender and races to shore to spend his share of the gold. He gets the advantage of spending the gold, before the inflationary impact of the rest of the bullion on the economy is felt, thus enjoying a possibly significant benefit in terms of buying power versus other people in Spain affected later by the increase in money supply.

Now, imagine that a hedge fund manager is a close counterparty with a money centre bank, and that the Federal Reserve injects huge levels of funding into the banking system to shore it up in a period of volatility. The hedge fund manager may benefit from that liquidity before virtually anyone else in the economy given the rapidity with which they can draw on credit via their banking relationships, access to capital, and ability to deploy that capital rapidly.

1 Julian McCormack, "*The Dam has Broken*", Platinum Asset Management 2020 Annual Report, pp v-xxv, https://www.platinum.com.au/PlatinumSite/media/Financial-Statements/ptm_0620.pdf

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4 Ibid, pp212-214

5 Yuval Hariri, "*Sapiens: A Brief History of Humankind*", Vintage Books, 2011, p131

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16 Mark Metzler, "*Lever of Empire: The International Gold Standard and the Crisis of Liberalism in Prewar Japan*", University of California Press, 2006, p18

17 https://oll.libertyfund.org/titles/laughlin-the-history-of-bimetallism-in-the-united-states-1898/simple#lf0073_label_056; Milton Friedman, "*Bimetallism Revisited*", Journal of Economic Perspectives, Volume 4, Number 4, Fall 1990

18 Liaquat Ahamed, "*Lords of Finance: 1929, The Great Depression and the Bankers Who Broke the World*", Random House, 2009, p168

19 See for example: https://www.economist.com/buttonwoods-notebook/2010/03/25/currency-controls-and-greshams-law

20 Metzler, pp29-33

21 Eichengreen, pp15-18

22 From Metzler, p19

23 See for example: "*Long-Term Trends in Life Expectancy and the Consequences of Major Historical Disasters*", https://www.demogr.mpg.de/books/drm/009/part1.pdf, p6

24 Edward Chancellor, "*Devil Take the Hindmost: A History of Financial Speculation*", Plume, 2000, p121; https://www.federalreservehistory.org/essays/banking-panics-of-the-gilded-age

25 Eichengreen, p39

26 See Eichengreen pp44-46; Takekazu Iwamoto, "*The Keynes Plan for an International Clearing Union reconsidered*", Kyoto University Economic Review, Vol. 65, No. 2, October 1995, pp 27-42; https://www.economist.com/the-economist-explains/2014/06/30/what-was-decided-at-the-bretton-woods-summit

27 Eichengreen, pp49-57; William L Silber, "*Volcker: The Triumph of Persistence*", Bloomsbury, 2012, pp48-105

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31 Ray Dalio, "Principles for Navigating Big Debt Crises", Greenleaf, 2018; see also Chancellor, chapter 7; Richard J Smethurst, "*Takahashi Korekiyo, Japan's Keynes: From Foot Soldier to Finance Minister*", Harvard, 2007

32 Note – the term populist is widely misused, versus its initial meaning – i.e. a member or supporter of the Populist Party in the US, which arose in the 1890s and favoured policies like the use of silver to increase the money supply and alleviate debt for farmers and workers – see Thomas Frank, "*The People, No! A Brief History of Anti-Populism*", Metropolitan Books, 2020

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