

Pendal Group Limited
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PENDAL
GROUP

11 May 2020

Company Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

Pendal Group Limited Interim Profit Announcement for the six months ended 31 March 2020

The following documents are attached for lodgement:

Interim Financial Report and Appendix 4D

ASX Announcement

Analyst Presentation

Chairman's Letter

Yours sincerely



Authorising Officer

Joanne Hawkins
Group Company Secretary
Pendal Group Limited
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ASX Announcement

Financial results for the half year ended 31 March 2020

Sydney, Australia, 11 May 2020 - Pendal Group (“Pendal” or “the Group”) (ASX: PDL), an independent active global investment manager, today announced its results for the six months to 31 March 2020.

Results overview

Statutory net profit after tax (Statutory NPAT) was \$54.8 million, down 21 per cent (previous corresponding period (pcp): \$69.6 million) significantly impacted by mark-to-market losses on seed investments as a result of lower markets in the March quarter.

- Cash NPATⁱ was \$86.6 million, an increase of 2 per cent (pcp: \$84.5 million)
- Operating revenue flat at \$243.3 million (pcp: \$243.0 million)
- Operating expenses were \$143.1 million, up 2 per cent (pcp: \$140.0 million)
- Operating profit margin was 41 per cent (pcp: 42 per cent)
- Average funds under management (FUM) was \$98.9 billion, up 2 per cent (pcp: \$97.4 billion)
- Closing FUM as at 31 March was \$86.0 billion, down 14 per cent for the half-year
- Cash earnings per share (Cash EPS) increased by 1 per cent to 26.8 cents per share (cps) from 26.6 cps in pcp
- Interim dividend of 15.0 cps, down 25 per cent, compared to 20.0 cps in pcp

Group CEO commentary

The Group’s Chief Executive Officer and Managing Director Mr Emilio Gonzalez said, “The half year result is reflective of the resilience of Pendal’s business model, which is driven by diversification across markets, strategies, geography and currencies.

“Pendal’s performance was solid with a two per cent increase in Cash NPAT and continued growth in annuity style base management fees. Fee margins remained steady, and there was a significant favourable currency contribution, however, performance fees were lower compared to the pcp.

“FUM was impacted by the unprecedented COVID-19 pandemic which has affected client sentiment, economies, flows and markets in the March quarter, and saw the most severe market falls since the December 2008 quarter.

“Pendal has an investment-led boutique culture with long-tenured and experienced portfolio managers who are well-qualified to manage through this cycle and to support our clients during these uncertain times. We have a diverse client base, which includes some of the world’s largest and strongest financial institutions.

“Pendal has a strong balance sheet, with no debt and positive cash flows. This financial strength, combined with the Group’s operational resilience and robust business model stands us in good stead to weather the COVID-19 pandemic, and positions us well to take advantage of the inherent opportunities that will come with the recovery.”

Dividend

An interim dividend of 15.0 cps was declared, compared to the 20.0 cps in pcp. The interim dividend will be 10 per cent frankedⁱⁱ and paid on 1 July 2020 to ordinary shareholders at record date 22 May 2020.

Recognising how important dividends are to our shareholders, particularly in these challenging times, the Board's consideration of the interim dividend took that into account. The declared dividend is lower than would be the case in more normal circumstances.

Pendal has stress-tested its business against a range of financial scenarios, and while the Board is confident in the company's ability to weather the impacts of the pandemic, it believes it is prudent and sensible to reduce the interim dividend.

COVID-19 update

Mr Gonzalez commented, "A priority for Pendal during this crisis is the health, welfare and safety of our people. We are abiding by each global jurisdictions' rulings concerning social distancing and supporting our people in working remotely, and we have the technology to do so seamlessly.

"Our people continue to be committed to effectively investing and managing our clients' money and delivering the same high level of service they have historically enjoyed.

"I would like to commend our people who have stepped up admirably during these difficult times and who continue to put the interests of our clients front and centre.

"Expense management will continue to be prudent across the Group. Our business model supports a cost base where a material component is variable and is linked to revenue. As such, in periods where revenue declines, there is a natural offset with lower costs, particularly lower employee variable remuneration.

"Our experience during the COVID-19 crisis so far has seen outflows from our cash and fixed interest mandates, primarily from our institutional clients where there has been some re-weighting of portfolios. Flows in our wholesale channel have held steady. Our investment strategies with defensive characteristics have performed well for our clients."

1H20 highlights

- Revenue supported by higher average markets in the period despite extreme market falls in March
- Favourable currency contribution of \$3.7 billion to Closing FUM for the period
- Revenue growth in core institutional and wholesale channels
- Continued to execute on ESG/RI strategy and announced appointment of Global Equity Impact team and launched first specialist Impact product - Regnan Credit Impact Strategy
- Improved investment performance with 70 per cent of FUM outperforming over a one-year period
- UK regulator for JOHCM has closed their investigationⁱⁱⁱ with no further action to be taken

Funds under management (FUM)

Average FUM increased two per cent to \$98.9 billion compared to pcp, driven by higher average markets which included extreme market falls experienced from late-February 2020.

Closing FUM of \$86.0 billion was adversely impacted by the unprecedented global response resulting from the COVID-19 pandemic, which significantly affected client sentiment and markets. Pendal's 14 per cent decline in FUM over the half, was considerably better than market falls of key equity indices such as the ASX All Ordinaries Index and the FTSE 100 which declined 25 per cent

reflecting the importance and benefits of Pental's strategy of diversification across products and markets.

Mr Gonzalez noted, "During the period, we experienced outflows in the OEICs, particularly in our European strategies which continue to remain out of favour, while there were further Westpac redemptions due to the consolidation of its superannuation platform. On a pleasing note we saw positive flows into our UK strategies following progress made on Brexit."

Investment performance

The strong track record of our funds delivering investment out-performance continues:

- 70 per cent of FUM has outperformed relevant fund benchmarks over a one-year period
- 71 per cent of FUM has outperformed relevant fund benchmarks over a three-year period
- 65 per cent of FUM has outperformed relevant fund benchmarks over a five-year period

Standout performances over the one-year period include, Pental's leading Global/International strategies, constituting \$29 billion of FUM, where 87 per cent of strategies outperformed relevant benchmarks. Impressively, 98 per cent of the flagship Australian Equities strategies, constituting \$12.8 billion of FUM, outperformed relevant benchmarks.

Additionally, a number of funds delivered more than three per cent outperformance relative to their benchmarks over the one-year period including the JOHCM UK Opportunities Fund, Asia ex-Japan Fund, Asia ex-Japan Small & Mid Cap Fund, and Emerging Markets Small Cap Fund.

There has been strong relative performance in defensive strategies since the onset of the COVID-19 pandemic. Over 96 per cent of Cash and Fixed Income strategies, constituting \$19.8 billion of FUM, have outperformed their respective benchmarks over the last 12 months.

Pental Australia's performance fees which have a 30 June 2020 performance period, and will not be determined until that time, are tracking at \$12.0 million as at 30 April 2020.

Pental remains focused on expanding its investment and distribution capabilities, maintaining a disciplined approach to managing capacity and providing ongoing support to investment talent through an investment-led culture and business model.

Expanding ESG / RI capabilities

Pental has a vision to become one of the world's foremost responsible investment (RI) managers. To that end, during the period, Pental appointed a Global Equity Impact team and expanded its in-house ESG research, advisory and engagement firm, Regnan, into investment management. Noteworthy, was the launch of the first specialist Impact product under the Regnan brand - Regnan Credit Impact Strategy.

Pental will continue to expand its ESG / RI products with the launch of its Regnan Global Equity Impact Strategy in the second half of 2020. The new strategy will be marketed to diverse clients across all regions, leveraging the Group's global distribution network.

Pental's strategy in relation to ESG/RI is to develop the Regnan brand into a global stewardship and investment management business, invest in new investment teams of ESG/RI specialists and create differentiated specialist products.

Looking to the future

Looking to the future, Mr Gonzalez said, "The economic consequences in the medium term have yet to work their way through, but in the immediate term the impact on global equities markets has been large and 2H20 starting FUM is materially lower than 1H20 average FUM.

"While actively dealing with the challenges, we are also looking at how best to shape our portfolios and take advantage of opportunities this environment presents.

"Investment in our people, products, distribution and technology continues, to support our strategy

of growth through diversification.

“We are committed to our long-term growth initiatives and remain focused on evolving our product capabilities in ESG / RI while continuing to invest in our operating platform to improve flexibility and leverage global scale.

In conclusion, Mr Gonzalez said, “Pental’s talented people, strong financial position, robust business model proven over multiple cycles, diversification and dedication to our clients means we are well positioned to manage through the impacts of the COVID-19 pandemic and to take advantage of the opportunities that will emerge during the recovery.”

ENDS

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Appendix

Reconciliation of Statutory and Cash NPAT

\$ MILLION	1H20	1H19
Statutory NPAT	54.8	69.6
Add back:		
Amortisation of employee equity grants	19.3	25.8
Amortisation of employee deferred share of performance fees and related incentives	2.4	4.5
Amortisation and impairment of intangibles ^{iv}	2.9	3.6
Net loss on seed investments	24.8	4.9
Deduct:		
Cash cost of ongoing equity grants	(19.2)	(17.2)
Cash cost of employee deferred share of performance fees and related incentives	-	(4.1)
Add back / (deduct):		
Tax effect	1.6	(2.6)
Cash NPAT	86.6	84.5

Notes:

- i. Cash NPAT comprises Statutory NPAT adjusted for certain non-cash items and realised and unrealised gains and losses from financial assets held at fair value through profit or loss. Non-cash items include the amortisation of employee equity grants and the expense recognised for employees' deferred share of performance fees and related incentives, less the after-tax cash costs of ongoing equity grants and the employee deferred share of performance fees and related incentives in respect of the current year. Also adjusted is the non-cash after-tax amortisation and impairment of intangibles. The Pandal Group believes that these items do not form part of the underlying earnings of the Group and that Cash NPAT is a more suitable measure of profitability.
- ii. The interim dividend of 15.0 cps is to be 10 per cent franked and 90 per cent unfranked. The whole of the unfranked amount of the dividend will be Conduit Foreign Income, as defined in the Income Tax Assessment Act 1997.
- iii. JOHCM has been the subject of an investigation by its UK regulator relating to the eligibility of certain services paid for out of dealing commissions between 2006 and 2016.
- iv. Amortisation and impairment of intangibles relates to JOHCM fund and investment management contracts.