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PENDAL GROUP

ASX Announcement

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Pendal Group reports continued growth in earnings with a 17 per cent uplift in Cash NPAT for the year ended 30 September 2018

Global asset manager Pendal Group Limited (ASX: PDL), formerly BT Investment Management Limited, today announced continued growth in full year earnings to 30 September 2018 with Statutory net profit after tax increasing by 30 per cent to $191.0 million compared to the previous corresponding period (pcp). Cash net profit after tax (Cash NPAT) was 17 per cent higher to $201.6 million, while Cash earnings per share (Cash EPS) increased 15 per cent to 63.7 cents per share (cps) over the same period.

The result saw base management fee revenue increase 12 per cent on pcp to $501.1 million led by a 10 per cent increase in average funds under management (FUM) and a higher base management fee margin of 51 basis points (bps), up one basis point when compared to pcp. Performance fees for the period were $54.5 million, representing an increase of 44 per cent on pcp.

The full year dividend of 52.0 cps, represents a 16 per cent increase on the 2017 financial year dividend and marks the sixth consecutive year of growth in the full year dividend.

	FY18	FY17	CHANGE
Full year to 30 September:			
• Cash NPAT[i]	$201.6m	$173.1m	+17%
• Statutory NPAT	$191.0m	$147.5m	+30%
• Fee Revenue	$558.5m	$491.0m	+14%
• Base Management Fees	$501.1m	$447.2m	+12%
• Base Management Fee Margin	51 bps	50 bps	+1 bp
• Performance Fees	$54.5m	$37.9m	+44%
• Operating Expenses	$316.9m	$281.9m	+12%
• Operating Profit Margin	43%	43%	-
• Cash EPS	63.7 cps	55.3 cps	+15%
• Dividend[ii]	52.0 cps	45.0 cps	+16%
• Average FUM	$99.5b	$90.4b	+10%
As at 30 September:			
• Closing FUM	$101.6b	$95.8b	+6%

Note: footnotes are detailed on page 4

Mr Emilio Gonzalez, Pendal Group's CEO, said, "This result is testament to the strength of our business and its diversification, which balances exposure to any one market, asset class or geographic region. Of note is the record year of flows for Pendal Australia, which achieved $4.1 billion in net flows outside the Westpac portfolio. There were also strong flows into the US pooled funds, with $1.7 billion in net flows continuing good momentum over the last few years in this region.

"A pleasing aspect to the result was our continued growth in base management fees which increased by 12% and in particular our growth in base management fee margins which rose one basis point to 51 bps.

"Notably, we launched three new investment strategies to tap into the demand for income-generating strategies catering to the swelling ranks of income-focused retirees across the developed world: the Global Income Builder, the Dynamic Income Fund, and the Multi-Asset Target Return strategy.

"During this financial year, we also achieved three significant corporate milestones. December 2017 marked 10 years since our listing on the ASX; we changed our name to Pendal Group in May 2018 and in the second half of the financial year, we achieved $100 billion in FUM for the first time."

Financial results

Cash NPAT for the financial year was $201.6 million, an increase of 17 per cent on pcp. The increase was the result of continued growth in base management fee revenue, increase in average FUM and a higher base management fee margin over the course of the year.

Base management fee revenue increased by 12 per cent to $501.1 million, led by a 10 per cent increase in average FUM and an uptick in the management fee margin.

The increase in average FUM over the period was assisted by higher markets with the average level of the MSCI All Countries World Index in local currency terms up 13 per cent, and the average level of the S&P/ASX 300 Index up six per cent on pcp.

Performance fees for the year were $54.5 million, representing a 44 per cent increase on pcp and resulting in total fee revenue increasing by 14 per cent to $558.5 million.

Cash operating expenses of $316.9 million were 12 per cent higher, reflecting higher occupancy costs as the business expands, the Pendal brand and identity launch, and increased regulatory costs associated with the European Union's MiFID II implementation. The operating profit margin for the year was 43 per cent and in line with pcp.

Funds under management

Closing FUM was $101.6 billion as at 30 September 2018, representing a 6 per cent increase on $95.8 billion as at 30 September 2017. The FUM uplift over the period resulted from a $5.8 billion increase from positive markets and investment performance, and $3.7 billion from favourable foreign exchange movements as the Australian dollar weakened over the period. Partially offsetting these increases were net outflows of $3.7 billion.

There were two key events leading to net outflows during the year; firstly $4.6 billion was redeemed as a result of changes to the BT Financial Group MySuper portfolio, and secondly there was $2.7 billion in outflows from a UK equities strategy following the retirement of a fund manager in late 2017. However there were strong net inflows in the Australian institutional (+$3.2 billion) and wholesale (+$0.9 billion) channels which were record years, as well as positive momentum in the US pooled funds which took in $1.7 billion through the year.

Investment performance

Over the one to three-year time period, investment performance has been challenging due to market volatility and divergent investment outlooks as investors reassess the markets. In the long term, the fund performance track record remains strong with 93 per cent of FUM exceeding respective benchmarks over five years. JOHCM performance fees for the 2018 calendar year are tracking significantly lower due to weaker short term performance.

A number of funds outperformed their respective benchmarks by a considerable margin during the 12-month period to 30 September 2018 and have delivered strong three-year track records. These include the JOHCM International Select Fund (+7.6 per cent), JOHCM Global Smaller Companies Fund (+7.4 per cent), JOHCM US Small Mid Cap Equity Fund (+5.2 per cent), Pendal Monthly Income Plus Fund (+4.1 per cent), Pendal Focus Australian Share Fund (+3.4 per cent), and the JOHCM International Small Cap Equity Fund (+3.1 per cent).

It was a much more difficult period for Asian equity funds as the JOHCM Asia ex Japan Fund and the JOHCM Asia ex Japan Small & Mid Cap Fund significantly underperformed their benchmarks.

Capital management

The Board declared a final dividend of 30.0 cents per share bringing the total dividend for the year to 52.0 cents per share, up 16 per cent on pcp. The final dividend will be 15 per cent franked and paid on 20 December 2018 to ordinary shareholders at record date 7 December 2018.

The Dividend Reinvestment Plan has been deactivated for the FY18 final dividend.

Outlook and strategy

In commenting on Pendal Group's outlook and strategy, Mr Gonzalez said, "We finished the 2018 financial year with our FUM at historic highs and equity markets above their average FY18 levels, however there is increasing market volatility and investor caution.

"We remain confident that our high conviction, investment-performance-led approach will continue to resonate with our clients in the years ahead. As interest rates rise and the global cost of capital resets, we believe the role of active managers as discriminating stewards of capital, will become more, not less, important.

"We continue to build out our global business by looking for new investment talent that can add to our existing capabilities, invest seed capital in strategies that cater to the changing global demographic, and expand and build on our distribution channels to drive sales. We believe our diversified business, balance sheet strength, investment-led approach and clear strategy for growth stands us in good stead for the future."

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Appendix

Reconciliation of Statutory and Cash NPAT

$ MILLION	FY18	FY17
Statutory NPAT	**191.0**	**147.5**
Add back:		
Amortisation of employee equity grants	43.3	53.7
Amortisation of employee deferred share of performance fees	10.3	-
Amortisation and impairment of intangibles[iii]	7.7	7.8
Deduct:		
Cash cost of ongoing equity grants	(37.6)	(38.8)
Cash cost of employee deferred share of performance fees	(17.1)	-
Add back:		
Tax effect	4.0	2.9
Cash NPAT	**201.6**	**173.1**

Notes:

i. Cash NPAT comprises statutory NPAT adjusted for certain non-cash items. These non-cash items include the amortisation of employee equity grants and the expense recognised for employees deferred share of performance fees, less the after-tax cash costs of ongoing equity grants and the employee deferred share of performance fees in respect of the current year. Also adjusted is the non-cash after-tax amortisation and impairment of intangibles. The Pendal Group believes that these non-cash items do not form part of the underlying earnings of the group and Cash NPAT is a more suitable measure of profitability.

ii. The final FY18 dividend of 30.0 cps is to be 15 per cent franked and 85 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. Amortisation and impairment of intangibles relates to JOHCM fund and investment management contracts.