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PENDAL GROUP

ASX Announcement

Pendal Group Full Year 2019 Financial Result

Sydney, Australia, 6 November 2019 - Pendal Group Limited (ASX: PDL), an independent active global investment manager, today announced its financial results for the year ended 30 September 2019.

Statutory net profit after tax was $154.5 million for the 12 months to 30 September 2019, which compared to $202.0 million for the previous year. Cash net profit after tax (Cash NPAT) and cash earnings per share (Cash EPS) decreased by 19 per cent over the same period, to $163.5 million and 51.3 cents per share (cps), respectively.

The result was characterised by significantly lower performance fees, which were down 89 per cent from $54.5 million in the previous corresponding period (pcp) to $5.9 million. Base management fees declined a modest four per cent as funds under management (FUM) remained broadly steady and fee margins contracted two basis points to 49 basis points (bps) due to a change in asset mix. Operating profit pre-performance fees of $198.5 million was eight per cent lower compared to pcp.

A final dividend of 25.0 cps has been declared, bringing total full year dividends to 45.0 cps.

	FY19	FY18	Change
Full year to 30 September:			
• Cash NPAT[i]	$163.5m	$201.6m	(19%)
• Statutory NPAT[ii]	$154.5m	$202.0m	(24%)
• Operating profit pre-performance fees	$198.5m	$216.9m	(8%)
• Fee revenue	$491.2m	$558.5m	(12%)
• Base management fees	$482.6m	$501.1m	(4%)
• Base management fee margin	49 bps	51 bps	(2 bps)
• Performance fees	$5.9m	$54.5m	(89%)
• Operating expenses	$290.2m	$316.9m	(8%)
• Operating profit margin	41%	43%	(5%)
• Cash EPS	51.3 cps	63.7 cps	(19%)
• Dividend[iii]	45.0 cps	52.0 cps	(13%)
• Average FUM	$98.8b	$99.5b	(1%)
As at 30 September:			
• Closing FUM	$100.4b	$101.6b	(1%)

Note: footnotes are detailed on page 4

Mr Emilio Gonzalez, Pendal Group's Chief Executive Officer, said "In a year of global flux, investors have become increasingly cautious and more risk averse with significant shifts out of equities and into bonds and alternatives chasing yield. From our fund flow perspective, we saw outflows in our European and UK strategies with sentiment impacted by ongoing uncertainty around Brexit. Clarity over Brexit should see investor confidence improve.

"Pleasingly, our range of funds in the US continue to be well supported, and across the Group we are getting good traction on our income-generating strategies. In Australia, there were good institutional flows of $2.0 billion, predominantly into cash and fixed interest, and US flows into the JOHCM multi-asset strategy were very encouraging. This re-emphasises the importance of our diversified operating model whereby we seek to diversify our business across investment strategies, geographies and distribution channels.

"Over the year, a number of funds have underperformed their benchmarks, particularly in those strategies with a bias to value and small caps. However, we continue to have high conviction and a strong belief in producing above benchmark results for our clients over the long term."

Financial results

Cash NPAT for the financial year was $163.5 million, a decrease of 19 per cent on pcp. This was primarily a result of significantly lower performance fees, which were down by 89 per cent from $54.5 million in the prior year to $5.9 million.

When excluding performance fees, which can be volatile in nature, operating profit pre-performance fees of $198.5 million was down by eight per cent compared to pcp. Base management fee revenue decreased four per cent, to $482.6 million, with average funds under management relatively flat at $98.8 billion. The base management fee margin contracted two bps to 49 bps primarily due to a change in asset mix as investors switched out of equities in favour of lower margin asset classes, such as cash and fixed income.

Cash operating expenses of $290.2 million were eight per cent lower compared to pcp, largely resulting from a decline in variable employee expenses due to a decrease in fee revenue, and consistent with Pendal Group's operating model.

Fixed costs increased by five per cent for the year, as the company continued its strategy of investing for future growth and diversification.

The result was supported by a weaker Australian dollar, which fell between two and eight percent on average across major currencies compared to the levels for the 2018 Financial Year.

Funds under management

Closing FUM was $100.4 billion as at 30 September 2019. FUM during the year was supported by higher markets and investment performance (+$2.0 billion), favourable foreign currency movements on foreign denominated FUM (+$1.5 billion), which was offset by net outflows of $4.7 billion.

There were two significant drivers of the net outflows. Firstly, $3.3 billion was redeemed from the Westpac portfolio due to the ongoing run-off of the legacy book as well as further transitioning of corporate superannuation portfolios. Secondly, there were notable outflows from European equities of $2.7 billion as investors reduced equity exposure to the region over Brexit concerns and a subdued growth outlook.

Pleasingly, there were positive net flows into a number of the OEIC funds during the period with the UK Dynamic, Global Opportunities, Emerging Markets Opportunities and the Global Income Builder funds taking in a total of $1.3 billion.

Other areas that performed strongly included the institutional channel in Australia with net inflows of $2.0 billion from cash and fixed income strategies, and net inflows of $0.7 billion were received into the US pooled funds.

Investment performance

For those investment strategies with a five-year track record, 79 per cent of FUM has outperformed its benchmark to 30 September 2019, while 52 per cent of FUM with a three-year track record has outperformed its benchmark.

The 2019 financial year was a particularly difficult year for active management. Official interest rates were in decline and global bond yields fell sharply leading to a surge in the outstanding amount of negative yielding debt. In turn, this turbo-charged asset markets in a way that distorted them, with growth outperforming value, large cap outperforming small caps, and a substantial outperformance of bond proxies creating a narrow market. This confluence of factors negatively affected a number of Pendal Group funds, which underperformed during the year.

Despite a challenging year, Pendal Group remains confident in its disciplined investment approach across diverse strategies, which have delivered strong investment results over many economic cycles.

Capital management

The Board declared a final dividend of 25.0 cents per share bringing total dividends for the year to 45.0 cents per share, down 13 per cent on pcp. The final dividend will be 10 per cent franked and paid on 19 December 2019 to ordinary shareholders at record date 6 December 2019.

Following a recent review, the JOHCM US Small Midcap and JOHCM Global Smaller Companies strategies are being closed in the first quarter of the 2020 financial year. Seed investments with a market value of $108.9 million are invested in these strategies, and once closed are expected to generate a realised gain of approximately $38.0 million in the 2020 financial year.

In light of this, the Board has reviewed its definition of Cash NPAT and from the 2020 financial year, the Cash NPAT classification will exclude realised movements in financial assets. This would for example, exclude realised gains on seed investments, which are used to support future growth of Pendal Group and considered capital in nature.

Strategy and outlook

In commenting on Pendal Group's outlook and strategy, Mr Gonzalez said, "Despite a more difficult year influenced by global trade tensions and continued uncertainty around Brexit, our financial strength and strong cash flow, positions us well to invest for growth and take advantage of opportunities.

"Important to our future growth strategy was the appointment of regional CEOs with significant industry experience for the JOHCM business. The attention and focus that dedicated CEOs bring to each region will better enable us to anticipate and react to changes in the market and capture growth opportunities.

"This year we moved to full ownership of Regnan, a leading ESG research, engagement and advisory business. Pendal Group has a strong heritage in this area spanning more than two decades and this initiative provides further expertise in a growing segment of the market. This positions us well to offer a holistic service to clients who see stewardship as an important part of active management.

"We look to the future with confidence based on a strategy focused on attracting, retaining and developing superior investment talent, and expanding our distribution and investment capabilities to meet our clients' needs."

For further information on this announcement, please contact:

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Appendix

Reconciliation of Statutory and Cash NPAT

$ MILLION	FY19	FY18
Statutory NPAT	154.5	202.0
Add back:		
Amortisation of employee equity grants	44.9	43.3
Amortisation of employee deferred share of performance fees and related incentives	6.7	10.3
Amortisation and impairment of intangibles[iv]	6.8	7.7
Unrealised gains on financial assets held at fair value through profit or loss	(15.4)	(14.5)
Deduct:		
Cash cost of ongoing equity grants	(32.7)	(37.6)
Cash cost of employee deferred share of performance fees and related incentives	(4.1)	(17.1)
Add back:		
Tax effect	2.8	7.5
Cash NPAT	163.5	201.6

Notes:

i. Statutory net profit after tax (Statutory NPAT) includes accounting adjustments required under International Financial Reporting Standards (IFRS) for amortisation of employees' equity grants, amortisation of employee deferred share of performance fees and related incentives, amortisation and impairment of intangible assets, and unrealised gains / (losses) from financial assets held at fair value through profit or loss. These items are not considered to be part of the underlying earnings of the Group and therefore the Pendal Group believes that Cash NPAT is a more suitable measure of profitability.

ii. AASB 9 *Financial Instruments* has been adopted for the first time in the 2019 financial year, which has resulted in the unrealised gains and losses on Pendal Group's seed investments being brought to account in the statutory Statement of Comprehensive Income. The 2018 financial year comparatives have been amended accordingly.

iii. The final FY19 dividend of 25.0 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.

iv. Amortisation and impairment of intangibles relates to JOHCM fund and investment management contracts.