Pendal Group Limited
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Australia

ABN 28 126 385 822

24 March 2020

Company Announcements Office
ASX Limited
20 Bridge Street
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Pendal Group Limited Provides Business Update at J.P. Morgan Conference

In accordance with the ASX Listing Rules, please find **attached** a business update which will be presented by Pendal Global Chief Executive Officer, Emilio Gonzalez at the J.P. Morgan Virtual Conference today.

Yours sincerely

Joanne Hawkins, Authorising Officer
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PENDAL GROUP

ASX Announcement

24 March 2020

Good afternoon and welcome everyone on the line. My name is Emilio Gonzalez and I am the Group Chief Executive Officer of Pendal Group Limited.

I would like to take the opportunity to thank J.P. Morgan for putting this together. When asked about the call we were more than happy to participate as it is in times like these that communication and ongoing engagement with clients, shareholders and staff is critically important.

I also want to say upfront that on behalf of everyone at Pendal Group our hearts and thoughts goes out to everyone who has been directly impacted by the Coronavirus and especially those families who have had to endure the loss of loved ones. This is a deadly enemy, it is invisible which makes it all that more difficult and all the more reason to follow the advice and precautions to try and stop it in its tracks.

There is no shortage of data and daily tracking of the numbers and this is being closely monitored worldwide with various predictions of when the rate of growth will flatten so I won't dwell on that. What we also know is that China, South Korea and Singapore are ahead of the curve and are currently unwinding personal restrictions with people mobility back on the increase and businesses re-opening. It is a reminder that there is light at the end of the tunnel. However, the situation in Europe, Australia and the US is quite different and we are yet to see the improvements that lock-down measures may have on halting the spread of the virus. Unfortunately things are likely to get worse before they get better and I caveat that by saying that the situation is changing very rapidly. The speed of the Coronavirus pandemic has forced governments to respond aggressively in order to protect their citizens and communities, resulting in businesses closing down, a material reduction in production and economic activity and as a result the response from markets has been swift and large.

We are very fortunate to be in the industry we are in and our own business is in a very strong position. Whilst some industries are closing, and losing customers literally overnight and with it cashflow, we have a stable customer base which includes some of the world's largest and strongest financial institutions including pension funds, insurers and wealth managers.

Our markets are open and we continue to manage clients' funds.

Our balance sheet is very strong with no debt.

We are profitable and continue to be profitable with healthy cashflow and good margins. This positions us very well to weather the storm.

We have navigated through several crises before and have come out stronger on the other side. In mid-2011 during the GFC, we were brave enough to embark on an acquisition when the sovereign debt crisis was at its peak. We purchased the J O Hambro Capital Management business which provided us with much needed diversification and growth and subsequently transformed our business. I am not saying we will do the same again as the need is not as strong but the message is that in the position of strength that we find ourselves we need to stay focussed on how to emerge at the other end in a stronger position. What we also know is that things will improve and markets will recover, we may not know when but the question we are asking is "What are we doing now to position ourselves to be in the best possible position for that recovery?" We will manage our expenses prudently and also be prepared to seek out opportunities if and when they arise.

What impact has recent market volatility had on fund flows?

It has been very interesting to watch how clients have responded to the recent volatility and subsequent equity market declines. Our experience so far is that we have not seen any evidence of change in investor behaviour during March that differs from the trend leading into the crisis both in Australia and overseas. I'm not in a position to call out specific numbers as we have our March quarterly FUM release coming out next month, but if you look at what the flows have been during March they are not reflective of investors panicking. Things are moving very fast and may well change going forward but to date we haven't seen any change in trends around redemptions in Australia or offshore.

There are some high level observations that I can share. Some clients are re-balancing given the disparity of performance between fixed income assets and equities and there has been some evidence in the institutional accounts of clients adjusting their portfolios from equities to fixed income. This is not universal but we had one client in Australia do that. It's possible that others may consider this once markets find a firmer footing.

In terms of individual strategies, we have seen support for some of the defensive strategies that are performing well in this climate in particular our Global Opportunities strategy.

Flows in our emerging market portfolios have held up well.

Our European strategies remain in outflows but consistent with the trend coming into the new year.

In the US, again unless there is a change in coming weeks we have not seen any notable shift in the fund flow profile.

The same goes for the Australian business, and apart from one client re-balancing their portfolio and a few cash movements we have not seen any major redemptions from either our wholesale or institutional clients.

Our focus has clearly been on managing our clients' funds but we have also increased our communications activity globally to provide clear and thoughtful insights. We find that even though there is a lot of information in the marketplace about what is going on clients are still very keen to understand and hear directly from the PM's about how we are navigating through these times. Our communication and messaging has notched up significantly with both direct contact and through regular strategy updates and out of cycle newsletters. In a period where our sales force are not "on the road" and there are less face to face meetings we are making sure we are using that capacity and technology to stay close to our clients and support them during these difficult times.

We do see this as a key and pivotal moment for emphasising the importance of active management. Clients are very keen to understand what is going on and is an opportunity for active managers to be on the front foot, actively adjusting portfolios to reflect the pace at which the world has changed and stewardship forming an important part of that.

The other focus is keeping a close eye on liquidity. All of our equity assets are listed and we have no direct asset investments. Whilst we have not seen a change in trend in redemptions we are conscious that liquidity in these periods is important. This is a focus for regulators, particularly in the UK and it is something we are monitoring daily.

We will provide more detailed information in our March quarterly FUM update which will be released in the second week of April.

Can you provide some insights into fund performance over the past few months?

An overall summary would be that funds have performed in line with how you would expect them to and by and large we have been on the right side of the markets. Key drivers of performance from a style perspective during the crises has been around value and defensives and key industry weights around energy, financials, healthcare, utilities and cash. Defensive exposures have been favourable whilst value has lagged and has not performed as well in this period. For the industry weights, those strategies underweight financials and energy or overweight utilities, healthcare and cash have done well.

Of particular note has been those strategies which have been positioned defensively, most notably strategies such as UK Opportunities, Global Opportunities and International Opportunities, these had high levels of cash going into February and relative performance has been solid. The Australian fixed interest funds were also defensively positioned prior to the aggressive market response to the Coronavirus and have performed very well in these conditions with some strong alpha outcomes. Of note is a long volatility strategy for the institutional market particularly developed for these type of environments and while it had been struggling up until December 2019, this calendar year it has generated solid positive double digit absolute returns.

Other strategies that have held up well, primarily as a result of the key factors I outlined earlier around style and industry positioning, have been the JOHCM Global Select and International Select strategies, International Select being our “flagship” fund in the US.

The European strategies are mixed. The European Select Value strategy which has underperformed for some time is in positive alpha territory in March whereas Continental Europe is around benchmark. The UK Equity Income strategy however has given up some of its more recent positive performance due to its value bias and some exposure to oil. Of our two emerging market strategies one is slightly ahead of benchmark and the other behind.

The Australian equity funds are performing particularly well during this period.

In respect of investment performance fees they are calculated off relative performance subject to a high watermark but not subject to a positive absolute return. It means that we can still generate performance fees despite absolute negative returns. The JOHCM performance fees are based on calendar year and so it is way too early to draw any judgement on where we would be on investment performance fees at year end particular with the current volatility and for some of the strategies they remain some distance from their high watermark. We will have to wait and see how the next 9 months play out.

How is the business approaching cost management? Are there any specific areas that you are pulling back on?

Our expense management has been and will continue to be prudent across the Group.

Costs can largely be placed into three buckets: our fixed costs for running our business operations which include staff salaries, variable costs which are linked to revenue or profit and include staff bonuses, and lastly project related spend that are investments made across the Group predominantly to enhance the operating platform.

Firstly if we focus on the fixed operating costs, there will be a natural pull back in certain expenses including our travel spend, sales conferences and partnerships, and general administrative costs as activity is scaled back in light of the Coronavirus pandemic. At the same time there will be additional costs incurred in IT to support staff working remotely.

Our business model supports a cost base where a material component is variable and is linked to revenue and profit. As such, in periods where revenue declines there is a natural offset with lower costs, particularly lower staff variable remuneration.

Lastly there are a number of projects that are part of the investment spend of the Group to enhance the broader operating platform. As flagged at the full-year results in November this includes the transitioning of a number of back-office systems for our Australian business away from Westpac. For the current year this includes the HR and unit registry systems as well as substantial shareholding. These are all continuing with the support of Westpac.

Additionally we continue to look at the Australian and JOHCM operating platforms, and where it makes sense to consolidate and rationalise service providers to better leverage our global scale, we will do so. One area that we will continue to invest is in our technology and data platform and this is being done with a global lens. This ongoing investment in our operating platform will increase productivity and enable us to build economies of scale, better leverage our global distribution capabilities while streamlining operations and increase our ability to better utilise data.

Other more business as usual platform enhancements are subject to deferral consideration given the current operating environment.

With more than 50% of our fixed cost base in foreign denominated currency, costs remain subject to movements in the Australian dollar. In March the Australian dollar has fallen significantly and is 11.7% lower versus the US Dollar, 9.6% against the Euro, 10.8% against the Yen, and a more modest 2.3% against the Pound which has also weakened against major currencies. This decline in the Australian dollar does have an adverse impact on the Pendal Group cost base, however will have a positive impact on the FUM and associated fee revenue. Overall the lower Australian dollar has a positive contribution to the bottom line which cushions the impact of the market decline.

How have your day-to-day operations changed over the past few weeks?

Like the majority of businesses our staff are mostly working from home. JOHCM staff have been working from home since Monday, 16 March and in Australia, the large majority have been working at home since mid-last week but with the expectation that all staff will be working remotely. We have also been in close dialogue with our key service providers who are now on working from home mode, and services have continued uninterrupted.

Whilst not anticipating this specific scenario, we were well prepared coming into this with comprehensive Business Continuity Plans (BCPs) in place for all of our offices, and that has allowed us to continue to service our clients and maintain business operations. Prior to moving staff to work from home we re-tested our BCP's in early March across all jurisdictions with positive outcomes. It was a worthwhile exercise as it prepared us for the real thing and although there were some learnings there was nothing significant.

To date working from home has gone smoothly but clearly it is a different mode of work and communication. We are continually looking at things that we may be able to do to ensure that engagement and connectivity remains strong. Fortunately, part of our investment in the business has been to invest in technology for efficiencies. As part of that process we have rolled out applications globally that allow teams to share files, hold team video and audio calls, have team chat rooms, run projects remotely and use remote whiteboards. These solutions have been rolled out and are being utilised.

In terms of managing the crisis we established a formal CV-19 response team led by our Global Risk Officer based in London. Separately, the JOHCM and Pendal Australia business have Crisis Management Teams (CMT) who have been meeting daily and sometimes more often to keep on top of external developments, take action and communicate to all staff as well as ensuring regular communication with clients. We are getting questions from clients around preparedness and are conducting their own due diligence via questionnaires and so these responses are centralised within the businesses ensuring we respond in a quick and consistent fashion. We have also put in place a COVID-19 Communications team that logs and ensures that information is shared and runs 24/7.

Importantly, our portfolio managers have been able to continue to manage clients' funds and position portfolios as appropriate. This has gone very smoothly and we have no issues.

In line with Government advice, any staff that has symptoms or have been in contact with someone who is infected must self-isolate for 14 days and get tested. To date we are not aware of any employee being infected.

We are confident that we have taken the necessary steps to protect the health and safety of our employees, look after our clients and continue to operate our business. Our staff have been extremely co-operative and understanding and have adjusted very well. Everyone recognises these are extraordinary times and have been quick to adapt, accept the change and work as a team.

For further information on this announcement, please contact:

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