

Pendal Group Limited
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4 November 2020

Company Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

Pendal Group Limited Full Year Profit Announcement for the 12 months ended 30 September 2020

The following documents are attached for lodgement:

1. Appendix 4E
2. ASX Announcement
3. Annual Report
4. Analyst Presentation
5. Shareholder Update
6. Appendix 4G
7. Corporate Governance Statement
8. Corporate Sustainability Report

Yours sincerely

A handwritten signature in black ink, appearing to read "Joanne Hawkins", written in a cursive style.

Authorising Officer

Joanne Hawkins
Group Company Secretary
Pendal Group Limited
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ASX Announcement

Pendal Group Full Year 2020 Financial Result

Sydney, Australia, 4 November 2020 - Pendal Group ("Pendal" or "the Group") (ASX: PDL), an independent active global investment manager, today announced its results for the twelve months to 30 September 2020.

Statutory net profit after tax (Statutory NPAT) was \$116.4 million, down 25 per cent on the previous corresponding period, significantly impacted by mark-to-market movements in seed investments. Cash net profit after tax (Cash NPATⁱ) was \$146.8 million, a decrease of 10 per cent compared to the previous corresponding period (pcp), with the effects of the COVID-19 pandemic, ongoing trade wars and geo-political risk impacting markets, client confidence and flows.

Results overview

- Average funds under management (FUM) was \$94.8 billion, down 4 per cent (pcp: \$98.8 billion)
- Operating revenue was \$474.8 million, a decrease of 3 per cent (pcp: \$491.2 million)
- Performance fees were \$13.4 million, up from \$5.9 million on pcp
- Operating expenses were \$298.5 million, up 3 per cent (pcp: \$290.2 million)
- Cash earnings per share (Cash EPS) decreased by 11 per cent to 45.5 cents per share (cps) from 51.3 cps in pcp
- Final dividend of 22.0 cps bringing the full year dividend to 37.0 cps, down 18 per cent, compared to 45.0 cps in pcp
- Closing FUM as at 30 September 2020 was \$92.4 billion, down 8 per cent for the year (pcp: \$100.4 billion)

Group CEO commentary

The Group's Chief Executive Officer, Mr Emilio Gonzalez said, "It has been a tumultuous year by any measure, and events have challenged individuals, businesses, markets, economies and society generally. Of course, the COVID-19 global pandemic has had the most profound impact along with the escalation of the US/China trade war and continued uncertainty surrounding Brexit.

"Our diversification and robust business model, supported by our financial strength, has proven resilient in this most challenging of years.

"Our people have stepped up admirably to manage through the year's events, maintain business continuity and support our clients. Their efforts, aided by the investments we have made in technology, have ensured that we seamlessly adapted to a new way of working, while continuing to actively manage the funds our clients entrust us with.

"During the year, we saw strong investment performance in key funds, an uplift in performance fees and an improvement in net flows in the second half of FY20.

Dividend

The Board recognises how important dividends are to our shareholders, particularly in these challenging times. A final dividend of 22.0 cps was declared, compared to the 25.0 cps in pcp. The final dividend will be 10 per cent frankedⁱⁱ and paid on 17 December 2020 to ordinary shareholders at a record date of 4 December 2020.

The full year dividend was 37.0 cps, 18 per cent lower than the 45.0 cps full year dividend in pcp. The payout ratio for the year was 81 per cent, within the dividend policy range of 80 to 90 per cent of Cash NPAT.

COVID-19 update

Mr Gonzalez commented, “We are committed to creating a secure, flexible workplace as we manage through the pandemic and into the new environment. The focus remains on ensuring staff safety, health and wellbeing, as well as managing the business and investment portfolios, servicing our clients and maintaining operational resilience.

“We had already recognised the importance of adjusting our operating model to one that is more technologically enabled in operations, client service and managing data across the business. COVID-19 further underscores these trends and our need to increase the pace of investment in areas such as data and technology, distribution and client service, digital marketing and the global operating platform.”

Operational highlights

- Pandal Australia was awarded Zenith Fund Manager of the Year 2020
- Revenue growth in institutional channel
- Positive net inflows of \$1.2 billion in Q4 FY20 on the back of strong investment performance
- JOHCM Global Income Builder mutual fund reaching its three-year track record in the US
- On-boarded the Regnan Global Equities Impact team with fund launches in the UK, Europe and Australia in the December quarter
- Progressed the transition away from Westpac back-office services
- Developed global data strategy and commenced implementation
- Enhanced the Pandal Ethical Share strategy to better meet investor needs

Financial results

Cash NPAT for the financial year was \$146.8 million, a decrease of 10 per cent on pcp, primarily a result of lower fee revenue.

Base management fees declined five per cent to \$458.1 million, which was largely attributable to lower average FUM, which was four per cent lower than pcp. The base management fee margin remained relatively stable, down one basis point to 48 bps as a result of a slight change in asset mix over the year.

Performance fees for the year totalled \$13.4 million, \$7.5 million higher than pcp, led by strong outperformance in Australian equities.

Operating expenses of \$298.5 million were three per cent higher compared to pcp. The increase in expenses reflects investments made in strengthening the global executive team and technology to improve our data management and operating platform.

Funds under management (FUM)

Closing FUM was \$92.4 billion as at 30 September 2020, eight per cent lower than pcp (\$100.4 billion). The decline in FUM was primarily the result of net outflows of \$6.5 billion and unfavourable foreign currency movements of \$2.3 billion as the US dollar (-5.1%) and British pound (-0.9%) weakened against the Australian dollar. Market movements and investment performance combined added \$0.8 billion to FUM. Whilst market movements had an adverse impact on FUM this was more than offset by strong investment performance.

Outflows were primarily the result of \$3.3 billion in net redemptions from European strategies as investors continued to reduce their exposure to the region over Brexit concerns and investment underperformance. Additionally, Westpac outflows totalled \$2.6 billion due to the ongoing run-off of the legacy book as well as further transitioning of corporate superannuation portfolios during the year.

Positive net flows were achieved in a number of strategies including International Select (+\$1.0 billion), Global Opportunities (+\$0.7 billion), UK Dynamic (+\$0.5 billion) and UK Opportunities (+\$0.4 billion).

Investment performance

Strong performers over the one-year period included JOHCM Global/International Select strategies, UK Opportunities, UK Growth and Asia ex-Japan constituting \$29.1 billion of FUM. Impressively, 95 per cent of the flagship Pendal Australian Equities strategies, constituting \$15.1 billion of FUM, outperformed relevant benchmarks.

There has been strong relative performance in defensive asset classes since the onset of the COVID-19 pandemic, with 89 per cent of Fixed Income strategies, constituting \$8.1 billion of FUM, outperforming their respective benchmarks over the one-year period.

Overall, investment performance improved this year with 72 per cent of FUM outperforming benchmarks over the one-year period to 30 September 2020.

The status of JOHCM performance fees for the year ended 31 December 2020 are £24.1 million (A\$43.6 million) as at 30 September 2020. These performance fees are not determined until 31 December 2020 and therefore could vary significantly up until that time.

Developing the ESG/RI strategic opportunity

In addition to providing traditional investment strategies, we have a vision to grow our responsible investment business, primarily under the Regnan brand, and to become a global leader in this space.

Pendal has been managing ESG strategies since 1984 and has a strong heritage in providing responsible investment products. As at 30 September 2020, Pendal has approximately \$3 billion in FUM in dedicated responsible investment strategies across multiple asset classes.

During the year our new teams and fund launches were concentrated in Impact and ESG strategies, with the Regnan Global Equity Impact Team, the Regnan Credit Impact Trust, and the enhancement of the Pendal Ethical Share strategy.

New underlying profit measure from FY21

From FY2021, Pendal Group will be using "Underlying Profit After Tax (UPAT)" to report the underlying earnings of the business. Under UPAT there will be no adjustment for certain employee expenses which have historically been adjusted under Cash NPAT. This will simplify reporting and is aligned to market practice.

From the 2021 Financial Year, the dividend policy will be to payout 80-95 per cent of UPAT each year.

Refer to Appendix for the reconciliation of Statutory NPAT to UPAT.

Looking to the future

Looking to the future, Mr Gonzalez commented, “The global economic and health crisis has accelerated a number of secular trends in the global asset management industry and highlighted the importance of ESG factors affecting the sustainability of businesses; a need to broaden distribution channels and to reduce costs in the operating model.

“Pendal has already made progress in all of these areas and recognises the need to increase the pace of investment in order to position the company to take advantage of the opportunities inherent in these trends and deliver long-term sustainable FUM growth.

“The areas where we see the most potential are product development, particularly Impact and ESG, improved data and technology capabilities and increasing our global distribution footprint.

“Executing on this strategy will require a multi-year investment and our fixed costs for the 2021 financial year are expected to increase by 8-10 per cent, approximately \$12-16 million. We believe this strategy will deliver a more cost effective model and increase FUM by around 50% by FY25.”

ENDS

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Appendix: Reconciliation of Statutory and Cash NPAT

\$ MILLION	FY20	FY19
Statutory NPAT	116.4	154.5
Add back:		
Amortisation of employee equity grants	35.2	44.9
Amortisation of employee deferred share of performance fees and related incentives	3.3	6.7
Amortisation and impairment of intangibles	6.1	6.7
Net (gains)/losses on financial assets	14.3	(15.4)
Deduct:		
Cash cost of ongoing equity grants	(30.1)	(32.7)
Cash cost of employee deferred share of performance fees and related incentives	-	(4.1)
Add back:		
Tax effect	1.6	2.9
Cash NPAT	146.8	163.5

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 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 and realised and unrealised gains and losses from financial assets held at fair value through profit or loss. The Pandal Group believes that these non-cash items do not form part of the underlying earnings of the group.
- ii. The final FY20 dividend of 22.0 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. Amortisation and impairment of intangibles relates to JOHCM fund and investment management contracts.

Appendix: Reconciliation of Statutory NPAT to UPAT

\$ MILLION	FY20
Statutory NPAT	116.4
Add back:	
Amortisation and impairment of intangibles	6.1
Net (gains)/losses on financial assets	14.3
Adjust for tax effect	(4.2)
Underlying Profit After Tax (UPAT)	132.6