

Pendal Group Limited
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Sydney NSW 2000
Australia
ABN 28 126 385 822

PENDAL
GROUP

10 May 2021

Company Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

**Pendal Group Limited (PDL) Interim Profit Announcement for
the six months ended 31 March 2021**

The following documents are attached for lodgement:

- ☒ **Interim Financial Report and Appendix 4D**
- ☐ ASX Announcement
- ☐ Analyst Presentation
- ☐ Shareholder Update

Yours sincerely



Authorising Officer

Joanne Hawkins
Group Company Secretary
Pendal Group Limited
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Pendal Group Limited and its Controlled Entities

ABN 28 126 385 822

INTERIM PROFIT ANNOUNCEMENT

Appendix 4D

FOR THE HALF YEAR ENDED 31 MARCH 2021

The Directors of Pendal Group Limited (the Company) announce the results of the consolidated entity (Pendal Group) for the half year ended 31 March 2021 (previous corresponding period, the half year ended 31 March 2020), which have been subject to review by our auditors, PricewaterhouseCoopers.

Results for announcement to the market

	% Change	31 Mar 2021 (\$'000)
Total revenue and other income	Up 32.5%	294,452
Net profit after income tax ¹	Up 64.0%	89,925
Profit for the period attributable to members	Up 64.0%	89,925

Explanation of results:

¹ Net profit after tax (Statutory NPAT) includes accounting adjustments required under International Financial Reporting Standards (IFRS) for amortisation and impairment of intangible assets, and gains and losses from financial assets held at fair value through profit or loss (FVTPL). These items are not considered by the Directors to be part of the underlying earnings of the Group and therefore the Directors believe that Underlying profit after tax (UPAT) is a more suitable measure of profitability.
UPAT for the half year ended 31 March 2021 was \$82.6 million (2020: \$76.6 million) which is an increase of 7.9% on the previous corresponding period.

Dividend information

	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Final 2020 dividend paid on 17 December 2020	22.0	2.2	30%
Interim 2021 dividend determined ²	17.0	1.7	30%
- Ex-dividend date			13 May 2021
- Record date			14 May 2021
- Payment date			1 July 2021

² The whole of the unfranked amount of the dividend will be Conduit Foreign Income, as defined in the *Income Tax Assessment Act 1997*.

Dividend Reinvestment Plan

The Board has determined that the Dividend Reinvestment Plan (DRP) will be deactivated for the 2021 interim dividend.

Net tangible assets

	31 Mar 2021	31 Mar 2020
Net tangible assets per ordinary security	\$1.32	\$1.13

This information should be read in conjunction with the 2020 Annual Report.

Please refer to the attached 31 March 2021 Interim Financial Report and Market Presentation for commentary and further information with respect to the results.

Further information regarding the Pendal Group and its business activities can be obtained by visiting the website at www.pendalgroup.com.

Pendal Group Limited

Interim Financial Report

FOR THE HALF YEAR ENDED 31 MARCH 2021

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The interim financial report was authorised for issue by the Company's Directors on 10 May 2021 who have the power to amend and reissue the interim financial report.

This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 September 2020 and any public announcements made by Pendal Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Pendal Group Limited

Directors' Report

FOR THE HALF YEAR ENDED 31 MARCH 2021

The Directors present their report together with the financial statements of Pendal Group Limited (the Company) and its consolidated subsidiaries (together referred to as Pendal Group or the Group) for the half year ended 31 March 2021.

Directors

The following persons were Directors of the Company during the half year and up to the date of this report:

James Evans	(Chairman)
Nicholas Good	(Managing Director – appointed on 1 April 2021)
Emilio Gonzalez	(Managing Director – resigned on 1 April 2021)
Sally Collier	
Andrew Fay	
Christopher Jones	
Kathryn Matthews	
Deborah Page AM	

Principal activities

The principal activity of Pendal Group during the half year was the provision of investment management services. There has been no significant change in the nature of this activity during the half year ended 31 March 2021.

Review of operations

Business Update

The net profit after tax (Statutory NPAT) of the Group for the half year ended 31 March 2021 was \$89.9 million (2020: \$54.8 million), an increase of 64.0% on the comparative period. Underlying profit after tax (UPAT)¹ for the half year was \$82.6 million (2020: \$76.6 million), an increase of 7.9%.

In the six months to 31 March 2021, Pendal Group's FUM increased by 10% to \$101.7 billion (30 September 2020: \$92.4 billion) as global equity markets continued to rise following the COVID-impacted lows in 2020. Improved investment outperformance and the higher markets contributed to an uplift in FUM of \$11.8 billion, which was partly offset by unfavourable currency movements of \$1.8 billion as the Australian dollar rose against the US Dollar (+6.9%) and was flat against the British Pound. There were net outflows of \$0.7 billion in the half year with significant outflows from UK equity strategies (-\$1.3 billion) in the December quarter while global equities were well supported (+\$0.8 billion) across the range of strategies. Positive momentum continued for the Group's higher margin US and Australian wholesale channels, with net inflows of \$0.4 billion and \$0.3 billion respectively during the period.

Reconciliation of Statutory NPAT to UPAT	Half year ended 31 Mar 2021 \$'000	Half year ended 31 Mar 2020 \$'000
Statutory NPAT	89,925	54,831
Add back/(deduct):		
Amortisation and impairment of intangibles ²	5,341	2,923
Net (gains)/ losses on financial assets held at FVTPL ³	(15,173)	24,735
Tax effect	2,549	(5,912)
UPAT	82,642	76,577

Total revenue for the half year increased to \$277.0 million (2020: \$243.3 million) as a result of higher performance fees which increased to \$41.1 million (2020: \$0.6 million) during the period. The performance fees represented outperformance across six investment strategies over the year ended 31 December 2020, with notable contributions from the Global and International Select strategies. Base management fees were 2.5% lower than those in the half year to 31 March 2020, on lower average FUM of \$97.1 billion (2020: \$98.9 billion). Average base management fee margins were maintained at 49 basis points, consistent with the prior corresponding period.

¹ Net profit after tax (Statutory NPAT) includes accounting adjustments required under International Financial Reporting Standards (IFRS) for amortisation and impairment of intangible assets and gains and losses from financial assets held at fair value through profit or loss (FVTPL). These items are not considered by the Directors to be part of the underlying earnings of the Group and therefore the Directors believe that UPAT is a more suitable measure of profitability.

² Amortisation and impairment of intangibles relates to fund and investment management contracts.

³ Net gains or losses on financial assets held at FVTPL primarily relate to seed investments in pooled funds managed by Pendal Group.

Pendal Group Limited

Directors' Report

FOR THE HALF YEAR ENDED 31 MARCH 2021

Total expenses for the half year were \$180.4 million (2020: \$149.3 million), a 20.8% increase primarily resulting from an increase in employee expenses. In 2020 the Group announced a number of strategic initiatives to drive future growth including investing in further ESG investment capabilities, investing in distribution and digital marketing, and enhancing the global operating platform to drive scale benefits. These initiatives progressed through the period which contributed to the increased expenses. Additionally there were higher variable staff expenses as a result of the significant uplift in performance fees.

Non-operating revenue increased during the period, with net gains on the Group's seed investments of \$15.2 million (2020: \$24.7 million loss). The seed investment portfolio continues to support new and existing investment strategies for future business growth, and had a total market value of \$252.4 million at 31 March 2021 (2020: \$199.7 million). In March 2021, the Group disposed of its investment in James Hambro & Partners LLP, an independent private asset management business in which a minority interest was retained when JOHCM was acquired in 2011, resulting in a realised gain of £1.8 million (\$3.3 million).

The Group's financial position remains strong, with net tangible assets of \$391.5 million (30 September 2020: \$363.7 million), largely comprised of cash and seed investments. During the period, the Company issued 400,178 ordinary shares to satisfy an exercise of equity rights by fund managers under the Fund Linked Equity (FLE) scheme, and issued 767,957 ordinary shares under the dividend reinvestment plan.

CEO succession

On 1 April 2021, Mr Emilio Gonzalez, was succeeded by Mr Nicholas Good, as Group Chief Executive Officer. The Board thanks Emilio for his contribution, constancy, and commitment for over a decade and recognises his significant achievements, particularly the successful acquisition of JOHCM in 2011 that transformed the Group into a global funds management business.

Nick is a leader in the global funds management industry with a track record of building and growing businesses. Nick is based in the USA, a market which holds significant future potential for the Group. With the support of the talented Global Executive Team, including the regional CEOs, Pendal Group is well positioned and equipped to take advantage of future growth opportunities.

Strategic initiatives

As previously outlined, the Group has embarked on a multi-year strategy focused on attracting and retaining talent, investing in distribution in key growth markets, investment in technology, development of extension strategies and new products, and building Regnan into a world class ESG/RI capability.

The Group's strategic development of Regnan into a leading global responsible investment management business progressed during the period with the launch of the Regnan Global Equity Impact Solutions strategy in the UK, European and Australian markets. The strategy received strong initial support, attracting \$0.2 billion in client funds by the end of the half year reporting period.

Regnan was further enhanced with the appointment of an additional UK-based investment team, who will establish a global equities sustainable water and waste strategy with strong ESG credentials. The team commenced in April 2021, with the investment strategy to be initiated for the UK and European markets in the second half of calendar year 2021.

Pendal Group continues to invest in its global distribution capability, particularly in Europe and the United States. During the half year, the Group appointed a Head of Sales and Distribution to consolidate its market position in the UK and build on its presence in Europe and Asia. The Group is also enhancing its licensing to further expand and develop its European distribution footprint.

COVID-19

The impacts of the Coronavirus (COVID-19) pandemic have continued during the period, as nations respond to manage ongoing outbreaks through community lockdowns, social distancing and other public health measures, while progressing vaccination programs and winding back fiscal stimulus measures. While the Group's Australian operations have largely returned to pre-COVID working arrangements, the UK and US offices have continued to work remotely to various degrees under ongoing intermittent local lockdown requirements. Pendal Group has continued its focus on the health and safety of the Group's employees and maintaining our ability to service our clients and continue to manage their portfolios. The Group's response to these challenges has been enhanced by the leadership of the regional Chief Executive Officers on the ground in each area and ongoing support and development of remote working capabilities, connectivity and well-being through a variety of technological, financial and social support measures.

The Group has not participated in any government programs or support beyond those which are generally available or automatically applied, such as the Singapore Job Support Scheme (\$26,487 received by the Group during the half year (FY20: \$67,781)), and is not significantly affected by the progressive withdrawal of such programs. The Group's robust business model, operational responsiveness and focus on delivering strong investment performance for our clients, maintains the Group's strong financial position and profitability amidst the continuing COVID-19 crisis.

Pendal Group Limited

Directors' Report

FOR THE HALF YEAR ENDED 31 MARCH 2021

Dividends

The Directors have resolved to pay a partly franked interim dividend of 17.0 cents (10% franked⁴) per share (2020: 15.0 cents per share – 10% franked) on ordinary shares. The amount of dividend, which has not been recognised as a liability at 31 March 2021, is \$55.1 million (2020: \$46.8 million).

Events subsequent to reporting date

Subsequent to reporting date, and consistent with the Group's strategy to build our business presence in the USA, Pendal Group entered into an agreement to acquire 100% of the equity interests in Thompson Siegel and Walmsley LLC (TSW), a value-oriented investment management firm based in Virginia, USA, for US\$320 million (\$413 million). The Group intends to complete a fully underwritten institutional placement of the Company's shares of \$190 million and enter into bank debt facilities totalling up to US\$155 million (\$200 million) to provide funds to complete the acquisition. Additionally, shares totalling US\$15 million (\$19 million) will be issued to continuing TSW employees as part of their consideration, and the Company has an intention to undertake a share purchase plan for retail shareholders. A new US corporation, Pendal USA Inc., was incorporated on 3 May 2021 as a wholly-owned subsidiary of Pendal Group Limited, for the purposes of entering into the acquisition and the bank debt facility agreements. The transaction is expected to complete in the September 2021 quarter and is subject to requisite closing conditions.

Despite global equity markets having substantially recovered from the lows of March 2020, at the date of signing this Report, the ongoing broader social and economic impacts of COVID-19, related government health and fiscal responses and future effects on the operations of Pendal Group, remains uncertain.

No other matter or circumstance has arisen since 31 March 2021 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Rounding of amounts

Amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise stated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

This Report is made in accordance with a resolution of Directors.



James Evans
Chairman
10 May 2021



Nicholas Good
Managing Director and Group Chief Executive Officer
10 May 2021

⁴ The whole of the unfranked amount of the dividend will be Conduit Foreign Income, as defined in the *Income Tax Assessment Act 1997*.



Auditor's Independence Declaration

As lead auditor for the review of Pental Group Limited for the half-year ended 31 March 2021, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Pental Group Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Andrew Wilson', with a large, stylized initial 'A' and 'W'.

Andrew Wilson
Partner
PricewaterhouseCoopers

Sydney
10 May 2021

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Pendal Group Limited

Consolidated Statement of Comprehensive Income

FOR THE HALF YEAR ENDED 31 MARCH 2021

	Notes	31 Mar 2021 \$'000	31 Mar 2020 \$'000
Revenue			
Investment management fees		235,881	242,695
Performance fees		41,112	622
Total revenue	3	276,993	243,317
Other income	3	17,459	(21,007)
Expenses			
Employee expenses			
Salaries and related expenses		96,605	73,326
Amortisation of employee equity grants		23,599	19,292
Amortisation of employee deferred remuneration		8,632	2,421
Information, technology and data		11,550	13,504
Depreciation, amortisation and impairment		10,156	7,742
Fund administration		9,328	10,183
Professional services		6,694	4,372
Business development and promotion		5,255	6,944
General office and administration		4,446	6,629
Occupancy		1,995	2,064
Investment management		1,457	2,009
Finance costs		667	776
Total expenses		180,384	149,262
Profit before income tax		114,068	73,048
Income tax expense	4	24,143	18,217
Profit after tax attributable to shareholders		89,925	54,831
Earnings per share for profit attributable to shareholders		Cents	Cents
Basic earnings per share		30.4	18.9
Diluted earnings per share		29.8	18.4
Profit after tax for the period		\$'000	\$'000
		89,925	54,831
Other comprehensive income for the financial period			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations	11	144	41,202
Loss on derivative hedging instruments	11	(698)	(1,646)
Other comprehensive income, net of tax		(554)	39,556
Total comprehensive income for the financial period attributable to shareholders		89,371	94,387

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying Notes.

Pendal Group Limited

Consolidated Statement of Financial Position

AS AT 31 MARCH 2021

	Notes	31 Mar 2021 \$'000	30 Sep 2020 \$'000
Current assets			
Cash and cash equivalents	6	126,054	207,485
Trade and other receivables		77,313	66,969
Current tax assets		16,247	6,923
Derivatives	7	–	78
Prepayments		9,633	7,102
Total current assets		229,247	288,557
Non-current assets			
Property, plant and equipment		8,102	8,665
Right-of-use-assets		33,498	36,927
Deferred tax assets		21,863	28,931
Financial assets held at fair value through profit or loss (FVTPL)	7	273,094	211,171
Intangible assets	8	526,525	532,103
Total non-current assets		863,082	817,797
Total assets		1,092,329	1,106,354
Current liabilities			
Trade and other payables		47,165	41,660
Employee benefits		56,735	96,019
Derivatives	7	221	–
Lease liabilities		8,362	7,356
Current tax liabilities		17,702	20,235
Total current liabilities		130,185	165,270
Non-current liabilities			
Employee benefits		5,513	1,974
Lease liabilities		29,462	33,204
Deferred tax liabilities		9,128	10,148
Total non-current liabilities		44,103	45,326
Total liabilities		174,288	210,596
Net assets		918,041	895,758
Equity			
Contributed equity	10	474,410	471,249
Reserves	11	203,069	205,340
Retained earnings		240,562	219,169
Total equity		918,041	895,758

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying Notes.

Pendal Group Limited

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 31 MARCH 2021

	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 October 2020		471,249	205,340	219,169	895,758
Profit for the financial period		–	–	89,925	89,925
Other comprehensive income for the financial period		–	(554)	–	(554)
Total comprehensive income for the financial period		–	(554)	89,925	89,371
Transactions with owners in their capacity as owners:					
Treasury shares acquired	10	(29,468)	–	–	(29,468)
Treasury shares released	10,11	27,273	(27,273)	–	–
Share-based payments		–	25,556	–	25,556
Dividend reinvestment plan	10	5,356	–	–	5,356
Dividends paid	5	–	–	(68,532)	(68,532)
Balance at 31 March 2021		474,410	203,069	240,562	918,041
Balance at 1 October 2019		419,431	258,319	232,954	910,704
Correction of immaterial prior period error		–	–	(667)	(667)
Change in accounting policy		–	–	(151)	(151)
Restated balance at 1 October 2019		419,431	258,319	232,136	909,886
Profit for the financial period		–	–	54,831	54,831
Other comprehensive income for the financial period		–	39,556	–	39,556
Total comprehensive income for the financial period		–	39,556	54,831	94,387
Transactions with owners in their capacity as owners:					
Treasury shares acquired	10	(37,532)	–	–	(37,532)
Treasury shares released	10,11	88,982	(88,982)	–	–
Share-based payments		–	16,579	–	16,579
Dividends paid	5	–	–	(82,572)	(82,572)
Balance at 31 March 2020		470,881	225,472	204,395	900,748

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying Notes.

Pendal Group Limited

Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 31 MARCH 2021

	Notes	31 Mar 2021 \$'000	31 Mar 2020 \$'000
Cash flows from operating activities			
Fees and other income received		275,865	253,285
Interest received		1	158
Distributions from unit trusts		232	641
Expenses paid		(187,975)	(182,134)
Fund application settlement amounts paid		(961)	(28,437)
Income tax paid		(27,996)	(25,543)
Net cash inflows from operating activities		59,166	17,970
Cash flows from investing activities			
Proceeds from sales of financial assets held at FVTPL		16,897	126,863
Payment for financial assets held at FVTPL		(59,616)	(73,141)
Payments for derivative hedging instruments		(361)	(2,570)
Payments for property, plant and equipment		(473)	(1,839)
Payments for IT development		(136)	(527)
Net cash inflows/(outflows) from investing activities		(43,689)	48,786
Cash flows from financing activities			
Payment of dividends		(63,176)	(82,572)
Payments for purchase of treasury shares		(29,467)	(37,532)
Payments for leases and related finance costs		(3,380)	(5,262)
Fund application settlement amounts received		961	28,437
Interest and other financing costs		(25)	(31)
Net cash outflows from financing activities		(95,087)	(96,960)
Net decrease in cash and cash equivalents		(79,610)	(30,204)
Cash and cash equivalents at the beginning of the financial period		207,485	150,071
Effects of exchange rate changes on cash and cash equivalents		(1,821)	4,068
Cash and cash equivalents at the end of the financial period	6	126,054	123,935

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying Notes.

Pendal Group Limited

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2021

1. Basis of preparation of the report for the half year ended 31 March 2021

This interim financial report is for Pendal Group Limited (the Company) and its controlled entities (together, Pendal Group or the Group) for the half year ended 31 March 2021. It has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 September 2020 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Comparative revisions

Where necessary, comparative figures have been restated to enhance comparability or to conform to the presentation adopted in the current period.

New accounting standards and interpretations

Pendal Group has adopted all of the mandatory new and amended standards and interpretations issued by the AASB that are relevant to its operations and effective for the current reporting period. The mandatory new and amended standards adopted by the Pendal Group for the half year ended 31 March 2021 have not had a significant impact on the current period or any prior period and are not likely to have a significant impact in future periods.

New and amended accounting standard not yet adopted by the Pendal Group

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2021 reporting periods and have not been early adopted by the Pendal Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Coronavirus (COVID-19)

COVID-19, which is an illness caused by a new form of coronavirus, was characterised as a pandemic by the World Health Organisation in March 2020. The COVID-19 pandemic and measures implemented in response to the health emergency continue to have a significant impact on the economic environment in the financial markets in which Pendal Group operates, including Australia, the UK, Europe, Singapore and the United States. The Group has considered the impact of COVID-19 and related response measures in preparing its financial statements and in the exercise of critical accounting assumptions and estimates, including impacts occurring during the reporting period and the uncertainty of future effects of the pandemic.

2. Segment information

Description of segments

Operating segments have been reported in a manner consistent with internal management reporting provided to the chief operating decision-maker (CODM) for assessing performance and in determining the allocation of resources. The CODM consists of the Group Chief Executive Officer and other members of the Global Executive Committee.

Pendal Group's business revenues are predominantly derived from a single activity, being the provision of investment management services globally. The CODM assesses the performance of the business across geographic locations. Pendal Group has determined that it has three operating segments:

- Pendal Australia, the Group's investment management business operating in Australia;
- Pendal EUKA, the Group's investment management business operating in Europe, UK and Asia; and
- Pendal US, the Group's investment management business operating in the United States of America.

For the previous corresponding period (the half year ended 31 March 2020), Pendal EUKA and Pendal US were considered a single segment, reported to the CODM as Pendal International. Prior period comparatives have been restated to reflect the business performance of the three operating segments.

Pendal Group Limited

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2021

a) Segment information provided to the CODM:

The CODM assesses the performance of each operating segment based on operating profit before tax, which excludes the amortisation and impairment of intangibles and non-operating items such as gains and losses on seed investments, interest income and expense, foreign exchange gains and losses and tax.

	Pendal Australia		Pendal EUKA		Pendal US		Total Group	
	31 Mar 2021 \$'000	31 Mar 2020 \$'000	31 Mar 2021 \$'000	31 Mar 2020 \$'000	31 Mar 2021 \$'000	31 Mar 2020 \$'000	31 Mar 2021 \$'000	31 Mar 2020 \$'000
Revenue	68,901	73,712	95,798	85,158	112,294	84,447	276,993	243,317
Inter-segment revenue	(2,173)	(2,319)	69,003	53,674	(66,830)	(51,355)	–	–
Total segment revenue	66,728	71,393	164,801	138,832	45,464	33,092	276,993	243,317
Operating expenses	(62,364)	(58,950)	(95,461)	(73,767)	(16,551)	(12,846)	(174,376)	(145,563)
Inter-segment expense	2,692	3,127	(87)	(1,873)	(2,605)	(1,254)	–	–
Total segment expenses	(59,672)	(55,823)	(95,548)	(75,640)	(19,156)	(14,100)	(174,376)	(145,563)
Operating profit before income tax	7,056	15,570	69,253	63,192	26,308	18,992	102,617	97,754

The CODM assesses the performance of the total consolidated Pendal Group using a measure of Underlying profit after tax (UPAT), which is the Group's operating profit before tax adjusted to include non-operating items such as interest income and expense, foreign exchange gains and losses and tax.

Total assets and liabilities are reviewed at a consolidated Pendal Group level, and segment assets and liabilities are not regularly reviewed by the CODM.

b) Reconciliation of total operating profit before income tax to Statutory profit before tax:

	31 Mar 2021 \$'000	31 Mar 2020 \$'000
Operating profit before income tax¹	102,617	97,754
Amortisation and impairment of intangibles ²	(5,341)	(2,923)
Net gains/(losses) on financial assets held at FVTPL ³	15,173	(24,735)
Non-operating items	1,619	2,952
Statutory profit before income tax	114,068	73,048

¹ Operating profit before income tax reported to the CODM includes the amortisation of employee equity grants and deferred compensation, in line with Statutory profit before income tax. For the half year ended 31 March 2020, operating profit before income tax reported to the CODM included the cash cost of ongoing equity grants and employee deferred share of performance fees and related incentives, and excluded amortisation of these items. Prior period comparative figures have been adjusted to conform to changes in presentation in the current period.

² Amortisation and impairment of intangibles relates to fund and investment management contracts.

³ Net gains or losses on financial assets held at FVTPL primarily relate to seed investments in pooled funds managed by Pendal Group.

Pendal Group Limited

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2021

3. Revenue and other income

	31 Mar 2021 \$'000	31 Mar 2020 \$'000
Management, fund and trustee fees	234,754	240,753
Performance fees	41,112	622
Other revenue	1,127	1,942
Total revenue	276,993	243,317
Net gains/(losses) on financial assets held at FVTPL	15,173	(24,735)
Distributions from unit trusts	2,724	4,036
Interest income	1	158
Net foreign exchange loss	(439)	(466)
Total other income	17,459	(21,007)
Total revenue and other income	294,452	222,310

4. Taxation

Income tax expense

	31 Mar 2021 \$'000	31 Mar 2020 \$'000
Current tax	16,329	7,902
Deferred tax	7,814	10,629
Adjustments for current tax of prior periods	–	(314)
Total income tax expense	24,143	18,217
<i>Deferred income tax expense/(benefit) included in income tax expense comprises:</i>		
Decrease in deferred tax assets	8,829	23,845
Decrease in deferred tax liabilities	(1,015)	(13,216)

Income tax expense for the period is the tax payable on the current period's taxable income based on the applicable tax rate for each jurisdiction, adjusted for temporary differences and tax relating to prior periods. The main corporate tax rates applicable for the current period are 30% (2020: 30%) on Australian taxable income, 19% (2020: 19%) on UK taxable income, 21% (2020: 21%) on US taxable income and 17% (2020: 17%) on Singapore taxable income.

On 3 March 2021, the UK Government announced that the rate of corporate tax on taxable income earned in the UK would be increased to 25%, effective from 1 April 2023. The change in tax rate had not been substantively enacted at 31 March 2021, and the effect of the change has not been recognised in the measurement of current or deferred tax balances of the Group in these interim financial statements. Once enacted, the future increase in the UK corporate tax rate is estimated to result in an increase in the Group's deferred tax assets at reporting date of approximately \$3.1 million and an increase in deferred tax liabilities of approximately \$2.3 million.

5. Dividends

	31 Mar 2021 \$'000	31 Mar 2020 \$'000
Equity dividends on ordinary shares		
Dividends declared and paid during the half year	68,532	82,572
Dividends proposed to be paid subsequent to the end of the half year and not recognised as a liability	55,075	46,779

Pendal Group Limited

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2021

6. Cash and cash equivalents

	31 Mar 2021 \$'000	30 Sep 2020 \$'000
Cash at bank and in hand	101,394	109,041
Cash management trust units at call	24,660	98,444
Total cash and cash equivalents	126,054	207,485

7. Fair value measurement of financial instruments

(i) Fair value hierarchy

Pendal Group classifies its financial instruments using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Changes in Level 2 and 3 fair values are analysed at each reporting date. There were no transfers between Levels 2 and 3 during the financial period.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 March 2021				
Financial assets				
Financial assets held at FVTPL:				
Units held in pooled funds	–	252,430	–	252,430
Escrow units held in pooled funds ⁴	–	20,664	–	20,664
Total financial assets	–	273,094	–	273,094
Financial liabilities				
Derivatives	–	221	–	221
Total financial liabilities	–	221	–	221

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 September 2020				
Financial assets				
Financial assets held at FVTPL:				
Units held in pooled funds	–	200,438	–	200,438
Escrow units held in pooled funds ⁴	–	8,196	–	8,196
Interest in James Hambro & Partners LLP (JH&P) ⁵	–	–	2,537	2,537
Derivatives	–	78	–	78
Total financial assets	–	208,712	2,537	211,249

⁴ Escrow units held in pooled funds relate to deferred employee remuneration that is held by the Group in trust until certain service conditions have been satisfied by the employee. A corresponding employee benefit liability is recognised in the Consolidated Statement of Financial Position.

⁵ James Hambro & Partners LLP (JH&P) is an independent private asset management partnership business.

Pendal Group Limited

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2021

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

Pooled funds

During the period, JOHCM managed two OEICs domiciled in the United Kingdom, two UCITS funds domiciled in Ireland and an open-ended registered investment company responsible for the JOHCM mutual fund range and a Delaware Statutory Trust, both domiciled in the United States of America. Each investment vehicle is an umbrella scheme with various sub-funds, each with their own investment strategy. Each sub fund had a single price directly linked to the fair value of its underlying investments.

Pendal Australia manages unit trusts, domiciled in Australia where units are redeemable at any time for cash based on redemption price, which is equal to a proportionate share of the unit trust's net asset value.

Partnership interests

The interest in JH&P was included in Level 3 of the fair value hierarchy in the prior period, as the inputs to the asset valuation were not based on observable market prices, and were measured at an estimated price that would be received to sell the asset. During the period, the Group disposed of its investment in JH&P of \$3.8 million, which included realised gains of \$3.3 million over the period of the investment, comprising \$1.3 million of realised gains recognised for the half year ended 31 March 2021, and \$2.0 million of gains which had been recognised in prior periods.

Derivatives

The fair value of derivative foreign exchange forward contracts that are designated as hedging instruments was determined using forward exchange rates as at balance date.

(iii) Fair value measurements using significant unobservable inputs

The following table represents the movement in Level 3 financial instruments:

31 March 2021	Interest in James Hambro & Partners LLP \$'000	Total fair value Level 3 \$'000	Carrying amount \$'000
Balance at the beginning of the financial period	2,537	2,537	2,537
Gains recognised in other income	1,316	1,316	1,316
Effects of foreign exchange movements	(11)	(11)	(11)
Disposals	(3,842)	(3,842)	(3,842)
Balance at the end of the financial period	–	–	–

(iv) Fair value of other instruments

Pendal Group also has a number of financial instruments which are not measured at fair value in the balance sheet. Due to the short-term nature of the current receivables, and current payables, the carrying amount is assumed to approximate their fair value.

Pendal Group Limited

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2021

8. Intangible assets

	Goodwill \$'000	Fund and investment management contracts \$'000	Other intangibles \$'000	Total \$'000
31 March 2021				
Net book value as at 1 October 2020	476,093	53,443	2,567	532,103
Additions	–	–	184	184
Foreign exchange loss	–	(26)	–	(26)
Amortisation expense	–	(2,691)	(395)	(3,086)
Impairment loss ⁶	–	(2,650)	–	(2,650)
Net book value as at 31 March 2021	476,093	48,076	2,356	526,525
<i>Represented by:</i>				
Cost	476,093	134,525	6,978	617,596
Accumulated amortisation and impairment	–	(86,449)	(4,622)	(91,071)
30 September 2020				
Net book value as at 1 April 2020	501,895	62,614	2,367	566,876
Additions	–	–	565	565
Foreign exchange loss	(25,802)	(5,953)	–	(31,755)
Amortisation expense	–	(2,823)	(365)	(3,188)
Impairment loss ⁶	–	(395)	–	(395)
Net book value as at 30 September 2020	476,093	53,443	2,567	532,103
<i>Represented by:</i>				
Cost	476,093	134,525	6,794	617,412
Accumulated amortisation and impairment	–	(81,082)	(4,227)	(85,309)

Fund and investment management contracts

Fund management contracts relate to contractual relationships to manage open-ended funds (OEICs). Investment management contracts comprise contractual relationships with individual clients. The contracts were acquired by Pendal Group when it purchased J O Hambro Capital Management Limited (JOHCM) and are recognised as follows:

	31 Mar 2021 \$'000	30 Sep 2020 \$'000
Fund management contracts – OEICs	45,028	49,959
Investment management contracts – Segregated mandates	3,048	3,484
Total fund and investment contracts	48,076	53,443

The recoverable amount of each fund and management contract has been measured using the present value of future cash flows expected to be derived for each asset. The discount rate used to discount the cash flow projections is 11.8% (2020: 11.8%), based on the cost of capital.

⁶ Impairment losses are due to the re-measurement of fund and investment management contracts to the lower of their carrying value or their recoverable amount and are included in the depreciation, amortisation and impairment expense in the Statement of Comprehensive Income. Reversal of impairment losses are made in certain circumstances if there has been a change in forecasts and market conditions used in determining the recoverable and carrying amounts.

Pendal Group Limited

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2021

Goodwill

Goodwill has been derived from the following business combinations:

	31 Mar 2021 \$'000	30 Sep 2020 \$'000
Purchase of the Pendal (formerly BTIM) investment management business effective 19 October 2007	233,300	233,300
Acquisition of JOHCM effective 1 October 2011	242,793	242,793
Total	476,093	476,093

For the purpose of impairment testing, assets are grouped at the lowest level for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units or CGUs). To determine if goodwill is impaired, the carrying value of the identified CGU to which the goodwill is allocated is compared to its recoverable amount.

Goodwill is allocated to CGUs according to operating segments (refer to Note 2). Goodwill is attributable to Pendal Australia (\$233.3 million), Pendal EUKA (\$156.6 million) and Pendal US (\$86.2 million) respectively.

The recoverable amount of each CGU is determined using a 'Fair value less cost of disposal' methodology that utilises cash flow projections (post-tax) based on management's best estimates over a 5 year period and then applies a terminal value in perpetuity of 2.5%. The discount rate used to discount the cash flow projections is 11.8% (2020: 11.8%) based on the cost of capital (post-tax) for each of the CGUs. In forecasting cash flows over the period, management has considered the ongoing uncertain impacts of COVID-19 on equity markets in the short to medium term.

Management is of the view that reasonably possible changes in the key assumptions, such as an increase to the discount rate of 2% or a reduction in cash flow of 10%, would not cause the recoverable amount for each CGU to fall short of the carrying amounts as at 31 March 2021. The current headroom for Pendal Australia is \$84.3 million (2020: \$67.6 million). For the estimated recoverable amount of the goodwill attributable to Pendal Australia to be equal to its carrying amount, the post-tax discount rate would have to increase to 14.4%, or the projected cash flows would need to reduce by 24.9%.

There has been no impairment of goodwill during the period ended 31 March 2021. The amount of goodwill relating to the JOHCM acquisition has been translated from British pounds to Australian dollars using the spot exchange rate at 31 March 2021.

Pendal Group Limited

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2021

9. Capital management

Pendal Group's objectives when managing capital are to maintain a strong capital base in excess of regulatory requirements throughout all business cycles that supports the execution of its strategic goals, in order to optimise returns to its shareholders, while ensuring compliance with the Pendal Group's Risk Appetite Statement.

Group Capital

The Group generates capital through free cash flow from ongoing operations and predominantly consists of cash to fund working capital and regulatory capital requirements, as well as provide capital for strategic initiatives to facilitate future growth. This includes the provision of seed capital for new funds and investment strategies. The Group's corporate seed portfolio totalled \$252.4 million as at 31 March 2021, which sits within the Board's risk appetite.

Surplus capital is returned to shareholders in the form of dividends, with the Company's current dividend policy set to pay out 80% to 95% of UPAT each year.

The Board regularly reviews the Group's free cash flow generation, cash and cash equivalents, borrowings, seed investments, tax and other financial factors in order to maintain an optimal capital structure. Debt may be used to provide capital to the Group, and an uncommitted multi-currency debt facility of \$25 million is available for this purpose and is not utilised at balance date. In order to maintain an optimal capital structure, the Board may:

- adjust the amount of dividends paid to shareholders;
- utilise the dividend reinvestment plan;
- return capital to shareholders;
- increase or decrease borrowings;
- contribute or redeem seed investments; or
- issue new shares.

Capital risk management

Cash profits generated from offshore business units, beyond working capital, regulatory requirements and debt repayments, are repatriated back to the Company through inter-company dividends, for which a hedging program is in place to mitigate foreign exchange risk. In accordance with the Company's capital management plan, and to the extent possible, retention of franking credits is minimised.

Regulatory capital requirements

The Group operates legal entities in jurisdictions that are subject to various regulatory and capital requirements, including Australia, the United Kingdom, Ireland, Singapore and the USA. During the period, the Group established two new umbrella funds, being the UK-domiciled Regnan UK Umbrella Fund, of which JOHCM Funds (UK) Limited is the Authorised Corporate Director, and the Ireland-domiciled Regnan Umbrella Fund ICAV, of which JOHCM Funds (Ireland) Limited is the manager.

All entities complied with regulatory capital requirements at all times throughout the reporting period.

Pendal Group Limited

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2021

10. Contributed equity

	31 Mar 2021 \$'000	30 Sep 2020 \$'000
Ordinary shares 323,970,526 (2020: 322,802,391) each fully paid	623,024	617,668
Treasury shares 26,294,440 (2020: 26,768,913)	(148,614)	(146,419)
Total contributed equity 297,676,086 (2020: 296,033,478)	474,410	471,249

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends as declared and in the event of a winding up of the Company, to participate in the proceeds in proportion to the number of and amounts paid on the shares held. Ordinary shares entitle the holder to one vote per share, either in person or by proxy, at a meeting of the Company's shareholders. All ordinary shares issued have no par value.

Movements in ordinary shares during the period:

	31 Mar 2021 Shares '000	30 Mar 2021 \$'000	30 Sep 2020 Shares '000	30 Sep 2020 \$'000
Balance at the beginning of the financial period	322,802	617,668	322,802	617,668
FLE share issuance ⁷	400	–	–	–
Dividend reinvestment plan	768	5,356	–	–
Balance at the end of the period	323,970	623,024	322,802	617,668

(b) Treasury shares

Treasury shares are those shares issued through the Fund Linked Equity (FLE) scheme together with those shares purchased as necessary, in order to meet the obligations of Pendal Group under its employee share plans. These represent either shares held by the employee benefit trusts for future allocation or shares held by employees within Pendal Group share plans, subject to sale restrictions. Movements in treasury shares during the financial period were as follows:

	31 Mar 2021 Shares '000	31 Mar 2021 \$'000	30 Sep 2020 Shares '000	30 Sep 2020 \$'000
Balance at the beginning of the period	(26,768)	(146,419)	(28,292)	(146,787)
Treasury shares acquired	(4,571)	(29,468)	–	–
FLE share issuance ⁷	(400)	–	–	–
Treasury shares released	5,445	27,273	1,524	368
Balance at the end of the period	(26,294)	(148,614)	(26,768)	(146,419)

Details of treasury shares at the end of the period were as follows:

	31 Mar 2021 Shares '000	31 Mar 2021 \$'000	30 Sep 2020 Shares '000	30 Sep 2020 \$'000
Unallocated shares held by trustees	11,670	81,118	10,930	78,218
Shares allocated to employees	14,624	67,496	15,838	68,201
Balance at the end of the period	26,294	148,614	26,768	146,419

⁷ The shares were issued to fund managers who operate under the FLE program.

Pendal Group Limited

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2021

11. Reserves

	Share-based payment reserve \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Common control reserve \$'000	Total reserves \$'000
Balance at 1 October 2020	182,626	48,214	(28)	(25,472)	205,340
Share-based payment expense	23,599	–	–	–	23,599
Deferred tax	1,957	–	–	–	1,957
Treasury shares released	(27,273)	–	–	–	(27,273)
Currency translation difference	–	144	–	–	144
Net investment hedge	–	(660)	(38)	–	(698)
Balance at 31 March 2021	180,909	47,698	(66)	(25,472)	203,069
Balance at 1 April 2020	164,354	86,508	82	(25,472)	225,472
Share-based payment expense	15,900	–	–	–	15,900
Deferred tax	2,740	–	–	–	2,740
Treasury shares released	(368)	–	–	–	(368)
Currency translation difference	–	(43,197)	–	–	(43,197)
Net investment hedge	–	4,903	(110)	–	4,793
Balance at 30 Sep 2020	182,626	48,214	(28)	(25,472)	205,340

12. Contingent liabilities

Capital guarantee

The Company has guaranteed the obligations of its subsidiary, Pendal Institutional Limited, to its institutional clients. The effect of the guarantee, which is capped at \$5.0 million, is to provide recourse to capital exceeding the minimum regulatory capital required to be maintained by Pendal Institutional Limited.

Other contingent liabilities

Pendal Group Limited and its wholly-owned subsidiary, Pendal USA Inc., have incurred certain obligations and liabilities under, and contingent upon the completion of, an agreement entered into on 10 May 2021 to acquire the whole of the issued capital of Thompson Siegel and Walmsley LLC (TSW). Pendal USA Inc. has also entered into arrangements for the provision of bank debt facilities to fund a portion of the purchase consideration for the acquisition, under which the Company acts as guarantor.

13. Subsequent events

Subsequent to reporting date, Pendal Group entered into an agreement to acquire 100% of the equity interests in Thompson Siegel and Walmsley LLC (TSW), a value-oriented investment management firm based in Virginia, USA, for US\$320 million (\$413 million). The Group intends to complete a fully underwritten institutional placement of the Company's shares of \$190 million and enter into bank debt facilities totalling up to US\$155 million (\$200 million) to provide funds to complete the acquisition. Additionally, shares totalling US\$15 million (\$19 million) will be issued to continuing TSW employees as part of their consideration and the Company has an intention to undertake a share purchase plan for retail shareholders. A new US corporation, Pendal USA Inc., was incorporated on 3 May 2021 as a wholly-owned subsidiary of Pendal Group Limited, for the purposes of entering into the acquisition and the bank debt facility agreements. The transaction is expected to complete in the September 2021 quarter and is subject to requisite closing conditions.

Despite global equity markets having substantially recovered from the lows of March 2020, at the date of signing this Report, the ongoing broader social and economic impacts of COVID-19, related government health and fiscal responses and future effects on the operations of Pendal Group, remains uncertain.

No other matter or circumstance has arisen since 31 March 2021 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Pendal Group Limited

Directors' Declaration

FOR THE HALF YEAR ENDED 31 MARCH 2021

In the Directors' opinion:

a) the financial statements and notes set out on pages 8 to 21 are in accordance with the *Corporations Act 2001*, including:

- i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- ii) giving a true and fair view of the Pendal Group's financial position as at 31 March 2021 and of its performance for the half year ended on that date; and

b) there are reasonable grounds to believe that Pendal Group Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

For and on behalf of the Board.



James Evans
Chairman



Nicholas Good
Managing Director and Group Chief Executive Officer

10 May 2021



Independent auditor's review report to the members of Pendal Group Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Pendal Group Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 March 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Pendal Group Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 March 2021 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 March 2021 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, flowing script.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to be 'Andrew Wilson', written in a stylized, cursive script.

Andrew Wilson
Partner

Sydney
10 May 2021