Pendal Group Limited
Level 14, The Chifley Tower
2 Chifley Square
Sydney NSW 2000
Australia
ABN 28 126 385 822

PENDAL GROUP

ASX Announcement

2 May 2019

Financial results for the half year ended 31 March 2019

Global asset manager Pendal Group Limited ("Pendal" or the "Group") (ASX: PDL) today announced its results for the six months to 31 March 2019 with Cash net profit after tax (Cash NPAT) of $84.5 million, down 26 per cent compared to the previous corresponding period (pcp); Statutory net profit after tax (NPAT) of $69.6 million, down 37 per cent, and Cash earnings per share (Cash EPS) of 26.6 cents, 27 per cent lower than pcp.

The result was primarily impacted by significantly lower performance fees, down 91 per cent to $4.4 million compared to $47.6 million in the pcp. During the period, global markets were volatile and declined sharply in the December quarter before rebounding in the March quarter. This volatility, combined with Brexit uncertainty resulted in cautious investor sentiment, particularly on Europe and subdued industry flows in the region. Funds under management (FUM) closed at $100.9 billion, down $0.7 billion for the half led by lower market levels and partially offset by the lower Australian Dollar and strong inflows into cash and fixed income strategies.

An interim dividend for the 2019 financial year of 20.0 cents per share was declared.

	1H19	1H18	CHANGE
Half year to 31 March:			
• Cash NPAT[i]	$84.5m	$114.5m	-26%
• Statutory NPAT	$69.6m	$110.1m	-37%
• Operating profit pre performance fees	$105.2m	$112.3m	-6%
• Fee revenue	$243.0m	$296.5m	-18%
• Base management fees	$237.6m	$247.9m	-4%
• Performance fees	$4.4m	$47.6m	-91%
• Operating expenses	$140.0m	$161.8m	-13%
• Operating profit margin	42%	45%	-7%
• Cash EPS	26.6 cps	36.2 cps	-27%
• Interim dividend[ii]	20.0 cps	22.0 cps	-9 %
• Average FUM	$97.4b	$98.6b	-1%
As at 31 March:			
• Closing FUM	$100.9b	$99.0b	+2%

Note: footnotes are detailed on page 4

Mr Emilio Gonzalez, Pendal Group's Chief Executive Officer, said: "Although the start of our financial year coincided with one of the most difficult periods for markets since the global financial crisis, our business attracted strong institutional flows into our Australian equities, cash and fixed interest strategies. This helped maintain our FUM during this period where we saw outflows in our European and Asian equities.

"During the period, we expanded our US distribution footprint by establishing a presence on the West Coast, and launched the Concentrated Global Share strategy through a UCITS vehicle in Europe.

"In March we moved to full ownership of Regnan, a leading ESG stewardship research advisor based in Australia. Regnan's recognised expertise along with Pendal's heritage in the ESG space, positions us well to expand in this growing segment of the market as leading stewards of capital and offers the opportunity to leverage this capability globally."

Financial results

Cash NPAT for the first half of the 2019 financial year was $84.5 million, down 26 per cent versus pcp as a result of a significant decrease in performance fees and lower base management fee revenue.

Base management fee revenue during the period was down four per cent to $237.6 million, as a result of a one per cent decline in average FUM and a contraction in base management fee margin, which was down 2 bps to 49 bps. The margin reduction resulted from a change in asset mix as investors moved out of equities and into more defensive and lower-margin cash and fixed income products. Performance fees were $4.4 million for the half, 91 per cent lower than pcp.

Average FUM was down one per cent to $97.4 billion, with the average levels of the MSCI AC World Index in local currency terms and the S&P/ASX 300 Index declining 2.7 per cent and 1.2 per cent respectively compared to pcp.

Cash operating expenses of $140.0 million were down 13 per cent, largely led by lower variable staff costs given lower fee revenue. The operating profit margin for the half was 42 per cent which compares to 45 per cent versus pcp.

The first half result was supported by stronger foreign currencies which saw the average levels of the US Dollar (+ nine per cent), Japanese Yen (+ eight per cent), British Pound (+ four per cent), and the Euro (+ three per cent) all higher when compared to average levels in the first half of the 2018 financial year.

Funds under management

Pendal Group FUM saw strong net inflows in the Australian business during the half, while ongoing Brexit uncertainty impacted flows in the UK/European OEICs.

Closing FUM as at 31 March 2019 was $100.9 billion, representing a one per cent decrease on $101.6 billion as at 30 September 2018, which was affected by significant negative market movements in the December quarter.

The period saw net outflows of $1.7 billion in the OEICs, predominantly led by net outflows in European equities of $1.2 billion. Economic momentum in Europe has been slow and coupled with Brexit uncertainty has led to reduced appetite for risk from investors. Strong net flows were recorded into cash (+$0.9 billion), fixed income (+$0.8 billion) and Australian equities (+$0.2 billion), while Asian equities experienced net outflows of $0.5 billion.

As announced on 12 April 2019, the Westpac Group advised its intention to redeem an additional $1.5 billion of FUM from the Westpac legacy book as part of its consolidation of superannuation offerings. The redemption has subsequently taken place.

Investment performance

The period under review saw significant market volatility particularly in the December quarter, where US rate policy, tightening financial conditions and a deepening concern regarding economic growth placed significant pressure on equity markets. However, we have seen a market recovery during the March quarter as expectations grew that the US Fed would not be raising rates, and some progress was made on the trade front between the US and China.

Over the medium to long term our investment performance remains solid with 69 per cent of FUM outperforming over 3 years and 89 per cent of FUM outperforming over 5 years. Investment strategies performing well over the past year with excess returns above benchmark includes the JOHCM Global Opportunities Fund (+6.8%), JOHCM Global Emerging Markets Opportunities Fund (+6.3%), JOHCM US Small Mid-Cap Equity Fund (+5.3%), JOHCM UK Opportunities Fund (+4.7%), JOHCM International Select Fund (+4.4%), Pendal Micro-Cap Opportunities Fund (+3.7%), Pendal Monthly Income Plus Fund (+3.4%), JOHCM Global Smaller Companies Fund (+3.4%), and the Pendal Property Securities Fund (+2.9%). A number of our investment strategies investing in UK, Europe, Japan, and Asia ex-Japan have underperformed where macro-economic factors, along with Brexit concerns, have driven market sentiment.

Capital management

Pendal Group's balance sheet remains strong with no debt and good cash flows in the business.

The Board has declared an interim dividend of 20.0 cents per share for the 2019 financial year, which will be 10 per cent franked and paid on 26 June 2019 to ordinary shareholders at record date, 24 May 2019. The dividend represents a 1H19 payout ratio of 75 per cent. The Board has a policy of paying out 80-90 per cent of its full year Cash NPAT.

The Dividend Reinvestment Plan remains deactivated for the FY19 interim dividend.

Strategy and outlook

In commenting on Pendal Group's outlook and strategy, Mr Gonzalez said,

"The first half of 2019 was a challenging period for markets and investors. The market returns in the December quarter were the worst on record since the September 2011 quarter, and despite a rebound in market returns in the March quarter, the volatility over the half has led to a significant increase in risk aversion from clients. Any resolution to the US/China trade talks and clarity over Brexit should see investor confidence improve.

"Despite the more difficult trading conditions, our strong balance sheet with no debt and good cash flow means the company is in a firm position to take advantage of opportunities to expand our capabilities and global presence, in line with our focused strategy around growth and diversification. We remain focused on expanding our investment and distribution capabilities, maintaining a disciplined approach to managing capacity and providing ongoing support to our investment talent through our investment-led culture and business model."

For further information on this announcement, please contact:

Emilio Gonzalez

Group CEO
Pendal Group
Telephone: +61 2 9220 2144

Louise Watson / Marju Tonisson

Media / Investors
Symbol Strategic Communications
Telephone: +61 2 8011 0591 / 0596

Appendix

Reconciliation of Statutory and Cash NPAT

$ MILLION	1H19	1H18
Statutory NPAT	69.6	110.1
Add back:		
Amortisation of employee equity grants	25.8	21.7
Amortisation of employee deferred share of performance fees and related incentives	4.5	7.5
Amortisation and impairment of intangibles[iii]	3.6	3.2
Unrealised loss on seed investments[iv]	4.9	5.5
Deduct:		
Cash cost of ongoing equity grants	(17.2)	(19.4)
Cash cost of employee deferred share of performance fees and related incentives	(4.1)	(17.1)
Add back:		
Tax effect	(2.6)	3.0
Cash NPAT	**84.5**	114.5

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 the unrealised gains / (losses) from financial assets held at fair value through profit or loss. The Pendal Group believes that these non-cash items do not form part of the underlying earnings of the group and Cash NPAT is a more suitable measure of profitability.

ii. The interim FY19 dividend of 20.0 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.

iv. 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.