

ASX Announcement

10 May 2018

Pendal Group's Cash NPAT up 30% to a record \$114.5 million for the half year ended 31 March 2018

The global asset manager Pendal Group Limited (ASX: PDL), formerly BT Investment Management Limited, today announced record results for the six months to 31 March 2018 with Statutory net profit after tax increasing by 45 per cent, to \$114.8 million compared to the previous corresponding period (pcp). Cash net profit after tax (Cash NPAT) was 30 per cent higher to \$114.5 million, while Cash earnings per share (Cash EPS) increased 28% over the same period.

The result was underpinned by continued strong growth in base management fee revenue, up 18 per cent on pcp to \$247.9 million. This was led by a 14 per cent increase in average funds under management (FUM) of \$98.6 billion and a higher base management fee margin of 51 basis points (bps), up 2 bps when compared to pcp. Performance fees for the period were \$47.6 million, representing an increase of 70 per cent on pcp.

An interim dividend of 22.0 cents per share was declared, representing a 16 per cent increase on the 19.0 cents per share interim dividend last year, and marking the 6th consecutive year of growth in the interim dividend.

	1H18	1H17	Change
Half year to 31 March:			
• Cash NPAT ⁱ	\$114.5m	\$88.4m	+30%
• Statutory NPAT	\$114.8m	\$79.0m	+45%
• Fee Revenue	\$296.5m	\$243.4m	+22%
• Base Management Fees	\$247.9m	\$210.8m	+18%
• Base Management Fee Margin	51 bps	49 bps	+2 bps
• Performance Fees	\$47.6m	\$28.0m	+70%
• Operating Expenses	\$161.8m	\$134.5m	+20%
• Operating Margin	45%	45%	-
• Cash EPS	36.2 cps	28.4 cps	+28%
• Interim Dividend ⁱⁱ	22.0 cps	19.0 cps	+16%
• Average FUM	\$98.6b	\$86.3b	+14%
As at 31 March:			
• Closing FUM	\$99.0b	\$91.2b	+9%

Note: footnotes are detailed on page 4

Mr Emilio Gonzalez, the Group's CEO, said, "This record result, with a 30 per cent increase in Cash NPAT represents six years of uninterrupted growth in FUM, base management fees and dividends. This growth has been supported by our strategy of diversifying across markets, expanding our product range and recruiting investment talent.

"Particularly pleasing were the positive net inflows via the Australian wholesale channel which attracted \$500 million across equities, fixed income and multi-asset funds, and the US pooled funds which also garnered \$800 million in net flows continuing the momentum from prior periods.

"To support the growing demand for solution based products, we expanded our investment offering with the launch of the Global Income Builder product in the US and the Multi-Asset Target Return strategy in the Australian market."

Financial results

Cash NPAT for the first half of the financial year was \$114.5 million, an increase of 30 per cent on pcp. The increase was the result of higher average FUM, higher markets on average and increased performance fees versus the same period last year.

Base management fee revenue increased by 18 per cent, to \$247.9 million, led by a 14 per cent increase in average FUM, and an increase of 2 bps in the base management fee margin, to 51 bps.

The increase in average FUM over the period was assisted by higher markets with the average level of the MSCI All Countries World Index in local currency terms up 16 per cent, and the average level of the S&P/ASX 300 Index seven per cent higher compared to pcp.

Performance fees for the half were \$47.6 million, representing a 70 per cent increase on pcp and resulting in total fee revenue increasing by 22 per cent to \$296.5 million.

Cash operating expenses were 20 per cent higher to \$161.8 million driven by increased variable staff costs on higher fee revenue. Fixed costs were 15 per cent higher than pcp primarily resulting from increased headcount and higher regulatory costs. The operating profit margin for the half was 45 per cent and in line with pcp.

Funds under management

Closing FUM was \$99.0 billion as at 31 March 2018, representing a three per cent increase on \$95.8 billion as at 30 September 2017. The \$3.2 billion FUM uplift over the period resulted from an increase of \$2.2 billion from positive markets and investment performance and \$3.1 billion from favourable foreign exchange movements, as the Australian dollar weakened. There were net outflows of \$2.1 billion.

The net outflows were driven by redemptions associated with Westpac's MySuper portfolio reconfiguration (-\$2.1 billion), a significant mandate loss in the JOHCM UK Opportunities strategy (-\$1.2 billion) and outflows in the OEICⁱⁱⁱ funds (-\$1.0 billion). Notable inflows in the half included ongoing inflows into the US pooled funds (+\$0.8 billion) and the Australian wholesale channel (+\$0.5 billion), and newly won mandates into Australian Equities (+\$0.5 billion) and the European Concentrated Value strategy (+\$0.3 billion).

BT Financial Group has advised that it intends to redeem an additional \$2.0 billion in relation to its reconfiguration of its MySuper portfolio. This is expected to occur in the second half of the 2018 financial year.

Investment performance

The long-term fund performance track record across the Group remains strong with 96 per cent of FUM exceeding respective benchmarks over 5 years, for the period ending 31 March 2018.

Over the one year, the more defensive equity strategies such as the JOHCM UK Opportunities Fund and the JOHCM Global Opportunities Fund underperformed their benchmarks together with the JOHCM Asia ex-Japan Fund.

A number of funds outperformed their respective benchmarks by a considerable margin during the 12 month period to 31 March 2018. These included the JOHCM Emerging Markets Small Cap

Fund (+14.9%); Pandal Mid Cap Fund (+9.0%); Pandal Focus Australian Share Fund (+8.6%); JOHCM UK Equity Income Fund (+7.2%); JOHCM Global Select Fund (+6.9%); and the Pandal MicroCap Opportunities Fund (+6.2%)^{iv}.

Capital management

The Board has declared an interim dividend of 22.0 cents per share for the half year, up 16 per cent on pcp. The interim dividend will be 15 per cent franked and paid on 2 July 2018 to ordinary shareholders at record date, 25 May 2018.

The Dividend Reinvestment Plan (DRP) remains active for the interim dividend at a zero discount to the allocation price as determined by the DRP rules.

Strategy

In commenting on Pandal Group's strategy, Mr Gonzalez said, "We continue building out our global investment management business. This is underpinned by our ongoing focus on attracting and retaining the best investment talent, expanding our investment offering through new capabilities and extension strategies, and a disciplined approach to managing capacity to preserve investment performance.

"We now have a new name and brand: Pandal Group. We have taken a long-term view of our future and determined that it was time to build our own brand which serves our reputation and builds our brand into an asset. We chose a name which reflects our heritage, while we look to the future: one which aligns with our culture of performance and investment independence."

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Appendix

Reconciliation of Statutory and Cash NPAT

\$ MILLION	1H 2018	1H 2017
Statutory NPAT	114.8	79.0
Add back:		
Amortisation of employee equity grants	21.6	19.9
Amortisation of employee deferred share of performance fees	7.5	-
Amortisation and impairment of intangibles ^v	3.2	2.8
Deduct:		
Cash cost of ongoing equity grants	(19.4)	(15.2)
Cash cost of employee deferred share of performance fees	(17.1)	-
Add back: tax effect	3.9	1.9
Cash NPAT	114.5	88.4

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, less the after-tax cash costs of ongoing equity grants and the employee deferred share of performance fees in respect of the current year. Also adjusted is the non-cash after-tax amortisation and impairment of intangibles. The Pandal 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 1H18 interim dividend of 22.0 cps is to be 15 per cent franked and 85 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. An open-ended investment company (OEIC) is a collective investment vehicle that is sold in the UK and Europe.
- iv. Pandal branded funds were previously known under the BT brand name.
- v. Amortisation and impairment of intangibles relates to JOHCM fund and investment management contracts.