

Pendal Group Limited

2018 AGM - Chairman's address

Date: 14 December 2018

Chairman's address

Good morning ladies and gentlemen, and welcome to our first Annual General Meeting as "Pendal", and our 11th AGM as a Company. I am James Evans, the Chairman of Pendal Group.

FY18 year in review

The 2018 financial year saw continued growth in earnings as a result of a successful, diversified, global funds management strategy.

I noted last year that in the 10 years since our listing, there had been no shortage of turmoil and uncertainty. This has continued unabated throughout the year. There is an unprecedented trade war between the USA and China, and here we have geopolitical tensions intensifying in the Asia-Pacific region. On the economic front, we have a booming US economy. In Australia, we have had 27 years of uninterrupted growth – a record and a feat unmatched by any other advanced economy. While elsewhere around the world, we see slowing economies and extenuating circumstances in the UK and Europe, with the uncertainty generated by the hard march towards Brexit.

We are keenly aware of these geopolitical circumstances and macro-economic conditions, as we operate in an industry in which profitability has a strong correlation to markets and market cycles.

Our core business is active investment in equities on behalf of our clients, and while we know equities are a high-performing asset class over the long-term, markets will rise and fall, and our short-term earnings will inevitably be affected by the external environment.

Let us not forget: there has never been a time when there has not been some sort of economic or political crisis backgrounding the investment environment. And yet, in the long term, a sound investment strategy overcomes the inevitable downturns these situations generate. We are aware of this in the short term, but our strategies are always directed to the long term.

In the 2018 financial year, we delivered a quality result, reflecting the strength of our business model and our strategy of diversification.

Our key measure of financial performance, Cash Net Profit After Tax, increased 17 per cent to \$201.6 million. Our Cash Earnings Per Share increased 15 per cent to 63.7 cents per share.

The Board is pleased to declare a final dividend of 30 cents per share for the period, bringing total dividends for the year to 52 cents. This is an increase of 16 per cent on the previous year. That brings the Total Shareholder Return since listing to 226 per cent - and this is well above the benchmark of the 52 per cent return delivered by the Standard and Poor's ASX 200 Accumulation Index over the same period.

2018 was also a year of milestones for the company. December 2017 marked 10 years since our listing on the ASX; in May we successfully launched our new brand name – Pendal Group.

In the second half of the financial year, we achieved \$100 billion in FUM for the first time. And once again to reflect, when we listed 11 years ago, FUM at the time was \$41.9 billion and Cash Net Profit After Tax was \$36.2 million.

This achievement is testament to our strategic approach to build resilience through the continued diversification of the business, which helps reduce our reliance on any one client, investment, sector, or currency. The Board's long-term view, and cognisance of the threats and opportunities that are inherent in our operating environment, are embedded in the business model.

We are in a strong capital position with no debt, which will assist us to take advantage of opportunities when they arise, as well as weather market cycles. Based on this strong capital position, the Board suspended the Dividend Reinvestment Plan from the 2018 Financial Year final dividend. The reinvestment plan has supported the company's need for capital over the last six years in repaying all debt that was taken on at the time of acquiring the J O Hambro business.

This acquisition in 2011 was instrumental in increasing the size of the seed investment pool. However, at this time there is no further need for additional capital to be raised via the reinvestment plan.

Investing in people

As you are all very well aware, asset management is a talent business. Only through a business model that attracts and retains the best talent, can we continue to deliver for our clients long-term investment outperformance, which is reflected in value for shareholders.

We offer investment independence with the scale and support of a truly global business – which is increasingly attractive to talent at a time of rising regulatory burden and regulatory costs.

The company's transparent remuneration structure, as well as the opportunity for all staff to own equity, appropriately rewards our people – and is reflected in our culture of collaboration and mutual respect.

Linking back to the strategy, we continue to build out our global business by looking for new investment talent that can add to our existing capabilities and further diversify our investment offering.

We take corporate governance very seriously. There are two aspects to corporate governance in our business: in relation to Pandal Group and its conduct, and in relation to the investments we make on behalf of our clients.

First, our conduct and the actions we take as a corporate citizen are key issues within our business operations. As an investment manager, earning and maintaining the long-term trust of our clients is critical to our success. Our culture encourages individual employees to act with integrity and honesty, and alert us to instances where this is not the case.

In investing on behalf of our clients, we recognise that material issues have the potential to impact the value of those investments. We do not involve ourselves in the day-to-day management of the companies in which we invest, however, we recognise that we can influence company policy by virtue of the shareholdings that we manage on behalf of and for the benefit of our clients.

Board composition

In making appointments to the Board, we seek out the appropriate range and mix of skills and experience necessary to guide Pandal Group's strategy.

I am very pleased to introduce our two new directors to you: Sally Collier, who was appointed in July, and Christopher Jones, who was appointed in November. We are a business operating in a

variety of markets and jurisdictions – and both Sally and Chris bring significant industry knowledge and deep international experience to the Board.

We are always looking to strengthen and enhance the processes and performance of the Board – and this year we engaged an independent expert to undertake a detailed review of our Board function to assess areas in which the Board could strengthen and enhance its performance. This process involved observing meetings and interviewing Executive and Board members to form detailed insights and recommended enhancements, which we are now implementing.

In March we announced that Meredith Brooks would be retiring as a Director after a significant contribution to the company over the last five years. I would like to take this opportunity to thank Meredith on behalf of the company and we wish her well in the future.

Pendal – our heritage and opportunity

At the extraordinary general meeting in April, the company's new brand name and identity – Pendal Group – was approved by our shareholders. The time was right to take on a name that recognised the company's standalone success, its independent reputation as a diversified global asset manager, and its distinctive culture.

The new name reflects the company's heritage. When the BT investment management business had to establish a nominee company to hold the assets of its first client in 1971, it created 'Pendal Nominees'. The success of BT was signified through the growing presence of 'Pendal Nominees' on Australian and overseas company share registers. The Pendal name brings the history of success back to the forefront of our story. It encapsulates our journey from the beginning through to the modern day – spanning our history since Bankers Trust.

It is a name, which preserves the strengths, values and culture of our BT history, while giving us an independent identity that reflects the successful, international investment management company we have become.

This successful transition has been welcomed by the market and we have received positive feedback from existing and new clients, and the investor community.

Closing remarks and outlook

On behalf of the Board, I would like to thank every Pendal Group's employee for their hard work and personal contribution this year. This is a business of talented people whose job it is to deliver long-term investment outperformance for our clients. Our people's commitment to this simple – but not easy – objective, delivers the long-term success of the business and continues to build value for clients and shareholders.

I would like to extend my personal thanks to our Group CEO Emilio Gonzalez and the Executive team, and to my Board colleagues, for their dedication and commitment.

In closing, I would like to again note that we believe our business model has the requisite resilience and agility to manage through market cycles. We live in uncertain times and operate in markets we cannot control. It has ever been thus. But irrespective of these issues, you can be assured that Pendal will deliver long-term value for our clients and for our shareholders.

I would like to thank you all for attending today and for your ongoing support.

Pendal Group Limited

2018 AGM - CEO's Address

Date: 14 December 2018

CEO's Address

Thank you, Jim, and good morning everyone.

The financial year 2018 was our sixth consecutive year of growth in profitability and, as the Chairman noted, this took us to the noteworthy achievement of exceeding \$100 billion in funds under management. Despite market volatility, geopolitical uncertainty and ongoing regulatory change, we have continued to grow the business and are firmly establishing ourselves as a globally diversified investment manager.

This, I attribute to the consistent execution of our strategy: built on attracting and retaining investment talent, expanding our distribution capabilities and focussing on diversifying our revenue streams.

2018 Summary

This year the business posted:

- A 17 per cent increase in Cash Net Profit After Tax,
- A 15 per cent increase in Cash Earnings Per Share to 63.7 cents.
- Growth in Funds Under Management to a record \$101.6 billion in FUM,
- Continued growth in base management fee revenue, which was up by 12 per cent, and
- A full year dividend of 52 cents per share distributed to shareholders, which represents a 16 per cent increase on the previous year.

During the course of the year markets were helpful and this supported higher average funds under management over the period. The average level of the MSCI All Countries World Index in local currency terms was up 13 per cent, and the average level of the S&P ASX 300 Index was up 6 per cent.

Flows

This helped grow our FUM by \$5.8 billion.

We did record net outflows of \$3.7 billion during the period, but this was largely driven by redemptions associated with the Westpac owned BT Financial Group MySuper portfolio reconfiguration. Outside of Westpac, Pendal Australia achieved record net flows of \$4.1 billion.

Our offshore subsidiary, J O Hambro Capital Management saw outflows of \$2.3 billion, mainly due to the retirement of a long-standing fund manager in late 2017. Our European and Asian strategies also saw net outflows.

In contrast, we had strong client support for Australian equities generating net positive flows of \$2.8 billion from the wholesale channel and institutional investors combined, and our European Concentrated Values and UK Dynamic strategies together raised \$1.5 billion.

US market

Tapping the US market is a growth story for our business and one of our key strategic objectives – our range of US pooled funds continued the momentum from prior periods, with the JOHCM International Select Fund attracting \$1.5 billion, as well as positively contributing to our fee margin increase.

We now manage US\$15.6 billion on behalf of US clients, this is up from US\$6.8 billion three years ago.

What is particularly pleasing about our flows, is that we are attracting new money across a range of strategies in different regions. This emphasises the importance of the diversification strategy that provides for a smoother revenue stream, allowing us to continue to grow our base management fee revenue, despite strategies coming in and out of favour.

Investment performance

The single most key determinant of our success is investment performance. Investment performance is what we sell to our clients. It is central to what we do, and the expertise of the people we have is core to delivering on that value proposition.

As at the end of the 2018 financial year, 69 per cent of funds under management have outperformed their respective benchmarks over three years, and 93 per cent of funds have outperformed over five years.

Specific to the 2018 financial year, notable performers exceeding market benchmarks were the JOHCM International Select Fund, JOHCM Global Smaller Companies Fund, and JOHCM US Small Mid Cap Equity Fund and the Focus Australian Share Fund. In contrast, we have seen weakness in some of the more defensive strategies such as JOHCM Asia ex Japan Fund, and JOHCM Japan Fund.

Capacity

Our investment success leads to growth in our funds under management but that can also be a burden, as a growing asset base can make it harder to continue to outperform. In order to ensure our funds do not swell to a point where our ability to deliver outperformance is compromised, we adopt a disciplined approach to capacity management and soft close our investment strategies at levels we believe are appropriate in order to remain nimble enough to move in and out of positions.

Our success has meant that we have progressively soft closed five funds as at the end of the year, a strategy we believe will continue to serve our clients and our business well over the long term, and help protect revenue margins.

Given our business model and emphasis on diversification, it is important therefore that we maintain a program of continuing to expand our investment capacity. We do this either through

development of internal talent and extension strategies off existing investment teams, or by attracting new talent to the business.

This year we launched three new investment strategies. The JOHCM Global Income Builder Fund was launched in the US last November and represents our first multi-asset proposition outside Australia. This taps into the demand for income-generating strategies catering to the swelling ranks of income-focussed retirees across the developed world.

We also created the Pandal Dynamic Income Fund and initiated the Pandal Multi-Asset Total Return Fund in the Australian market. All of these three new strategies have a lower risk profile – targeting smoother returns and lending itself to the retirement market where we see growth.

Supporting new offerings and teams requires investment of seed capital. This year we saw a meaningful increase to our seed portfolio, which increased by \$108 million to close at \$238 million. The increase was largely led by additional investments made into the new strategies I just mentioned, being the Global Income Builder and the Multi Asset Total Return Fund, as well as the Emerging Market Small Caps strategy.

The portfolio also benefited from higher markets and favourable currency movements. We have, as you know, seen markets decline since our September 30 balance date, which has a direct impact on our seed portfolio.

Our balance sheet is strong with no debt, positioning us well to invest in further growth opportunities. And the ability to utilise our balance sheet, and support our growth through seed investment, gives confidence to clients willing to co-invest in the funds, as well as attracting new investment talent.

Talent & succession planning

As active managers, we rely on investment talent to identify opportunities and allocate capital to generate outperformance – so attracting and retaining superior investment talent is core to what we do.

But no matter how well we attract and retain talent, people inevitably retire or move on, and this can impact flows. As a business reliant on human talent, we will never be fully immune to this risk – it is an inevitable element of our business.

This year we saw the effects and risk of losing a long-standing portfolio manager when one of our key UK fund managers announced his retirement; and whilst we had portfolio co-managers to take over the reins on that particular strategy, we saw net outflows of \$2.7 billion. A number of reasons underpinned the outflow, but it is a reminder of the importance of our people and the importance of having in place strong succession planning, an understanding of the drivers that promote engagement, getting the right remuneration structures in place and continuing to offer professional development. This inherent risk also re-enforces the importance of having a diversified business.

Regulatory

There is no doubt that it is a tough environment for the industry at the moment. Not only are markets becoming more challenging, but we also face rising regulatory standards.

In Australia, the Royal Commission has created a level of mistrust in the financial services industry, and we are likely to see an era of increased prudential supervision. The trend towards increased regulation is a global phenomenon that shows no sign of abating. As a result, compliance costs are driven higher, and we must therefore focus on ensuring disciplined cost management to offset these costs in other areas of the business.

The 'silver lining' here is that the growing regulatory burden increases barriers to entry and makes it very expensive for teams to 'go out on their own' – reinforcing Pandal's business proposition.

There has also been no shortage of geopolitical uncertainty during the period, with more likely on the horizon. In particular, the complexities around Brexit and the new structures and arrangements that are needed to be put in place to continue to offer products across Europe. We are in the process of the application to establish a regulated entity in Ireland, where our UCITS range of funds are predominantly domiciled. The application is progressing well and we anticipate that the new Irish entity will be authorised and operational well in advance of the date of a hard Brexit, if that is what occurs.

The growth of passive investment strategies continues to apply fee pressure across the industry. This puts the onus of responsibility on active managers, like us, to better articulate our value proposition. We strongly believe in the opportunity to identify mispriced stocks in the marketplace – and this opportunity increases, as more capital allocation is automated, and investment decisions are made based on a company's size instead of its fundamentals.

The name change

This year, we successfully launched Pandal as our new brand name and identity. This reflects our position of an independent investment manager. We have invested in a new name and identity which support our culture, serve our reputation, and – importantly – build our brand into a valuable asset over which we have full ownership and control.

We have had an overwhelmingly positive response from the market – with many industry participants recognising the name 'Pandal' and its connection to the origins of the firm. The name was derived from the name given to BT's original nominee company, established to hold assets on behalf of its first prospective client: Dal(gety) Pen(sions).

At this time, the change applies to the listed parent company, Pandal Group, and the Australian business. The J O Hambro name continues to trade in markets outside of Australia.

Strategy

This brings me to our strategy. Those of you who have followed the company would recognise that our strategy has been consistent. That is, attracting and retaining investment talent and utilising our distribution channels to market our expertise to clients across different geographies.

We are focussed on continuing to build out our business on a global scale and building the structure and leadership to support the growth and performance of the business.

In the space of just five years we have seen our funds under management grow from \$58.3 billion to \$101.6 billion, cash net profit after tax grow from \$61.9 million to \$201.6 million and cash earnings from 21.3 cents per share to 63.7 cents per share. Despite a de-rating of the industry globally, our focus remains on continuing to grow the business, accepting that market cycles are an inevitable part of our business.

We are well positioned globally, distributing in markets that make up 90 per cent of the world's assets under management. Slightly more than half of the world's assets under management is in the US. For this reason, the US remains a key market for us, where we have been expanding our distribution, launching new strategies and adding resources to support our marketing and sales efforts. We are in the process of expanding our sales force to include on the ground presence on the US West Coast, which in the past we have serviced from the US East Coast.

In each region we operate, we identify which products and which clients we are most likely to achieve success with, and focus our energy and attention in those areas.

We remain disciplined in our capacity management to preserve investment performance and assist with maintaining our margins.

We continue to have ongoing discussions in attracting talent that can bring complementary investment strategies to our current offerings.

We recognise that in a world, where the population is ageing, there is a growing need for income solutions. We have expanded our multi-asset offerings to capture this growth, and will look further to build out our income products.

We will be adding further resources in our ESG and responsible investment capabilities. We currently manage \$2.1 billion in sustainable and ethical strategies, and see further growth opportunities in what is a fast-growing segment.

Our strategy also includes exploring ways we can better utilise technology to gain efficiencies in our operations and provide better client service.

Closing remarks

We remind ourselves that our business is not without its risks, given our reliance on markets and people. We are leveraged to market movements in both directions and face ongoing regulatory pressures on fee margins. But we also see opportunity. We have a strong balance sheet, excellent investment capability, a clear strategy for growth and dedicated staff.

Our strategy has seen us deliver six years of uninterrupted growth, and – while we are cognisant of the many challenges that lie ahead – we are also confident that our high conviction, investment-performance-led approach will continue to resonate with our clients.

2018 has been another successful year, and I would like to thank all our people across the Pandal Group – in Australia, UK, Europe, Asia and the US – for their dedication and support.

And finally, a sincere thanks to you, our shareholders, for your ongoing support. I look forward to speaking with as many of you as possible after this meeting.

I will now hand back to Jim Evans.