

# Pendal Group Limited and its Controlled Entities

ABN 28 126 385 822

## INTERIM PROFIT ANNOUNCEMENT

## Appendix 4D

FOR THE HALF YEAR ENDED 31 MARCH 2019

The Directors of Pental Group Limited (the Company) announce the results of the consolidated entity (Pental Group) for the half year ended 31 March 2019 (prior half year: half year ended 31 March 2018), which have been subject to review by our auditors, PricewaterhouseCoopers.

### Results for the half year ended 31 March 2019

	% Change	31 Mar 2019
Total revenue and other income	(19.8%)	242,444,388
Net profit after income tax <sup>1</sup>	(36.8%)	69,578,000
Profit for the period attributable to members	(36.8%)	69,578,000
Interim 2019 Dividend – cents per security (10% franked <sup>2</sup> )		20.0

Explanation of results:

1. Net profit after tax (Statutory NPAT) includes accounting adjustments required under International Financial Reporting Standards (IFRS) for amortisation of employees' equity grants, amortisation of employee deferred share of performance fees and related incentives, amortisation and impairment of intangible assets, and unrealised gains / (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 Cash NPAT is a more suitable measure of profitability. The adjustments made to Statutory NPAT to arrive at Cash NPAT to eliminate the impact of these IFRS adjustments are categorised as follows:
  - amortisation of equity grants less the after-tax cash costs of equity grants in respect of the current period;
  - amortisation of employee deferred share of performance fees and related incentives less the after-tax cash cost of current period employee deferred share of performance fees and related incentives;
  - after-tax amortisation and impairment of intangible assets; and
  - unrealised gains / (losses) from financial assets held at FVTPL.

Cash NPAT for the half year ended 31 March 2019 was \$84,520,575 (2018: \$114,530,354) which is a decrease of 26.2% on the prior half year.

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

### Interim dividend dates

Record date for determining entitlements to interim dividend	24 May 2019
Payment date for interim dividend	26 June 2019

### Dividend Reinvestment Plan

The Board has determined that the Dividend Reinvestment Plan (DRP) will remain inactive for the 2019 interim dividend.

### Details of entities over which control has been gained or lost during the period

On 28 February 2019, Pental Group Limited took full ownership of Regnan-Governance Research and Engagement Pty Limited (Regnan), an environmental, social and corporate governance (ESG) research, engagement and advisory specialist in which it previously had a 50% ownership interest. The transaction is not material to Pental Group's financial results.

### Other information

	31 Mar 2019	31 Mar 2018
Net tangible asset backing (cents per ordinary security)	114.2	104.1
Basic EPS (cents) for the half year ended <sup>3</sup>	24.4	39.5
Final 2018 dividend paid during the period	\$90,649,166	

3. The 31 March 2018 Basic EPS has been adjusted following the adoption of AASB 9 *Financial Instruments* from 1 October 2018.

The final 2018 dividend was paid on 20 December 2018.

Please refer to the attached 31 March 2019 Interim Financial Report and Market Presentation for commentary and further information with respect to the results.

Further information regarding the Pental Group and its business activities can be obtained by visiting the website at [www.pentalgroup.com](http://www.pentalgroup.com).

# Pendal Group Limited

## Interim Financial Report

FOR THE HALF YEAR ENDED 31 MARCH 2019

### Contents

Directors' Report	4
Auditor's independence declaration	7
Interim financial report	
Consolidated statement of comprehensive income	8
Consolidated statement of financial position	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Notes to the consolidated financial statements	12
Directors' declaration	25
Independent auditor's review report to the members	26

The interim financial report was authorised for issue by the Company's Directors on 2 May 2019 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 2018 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 2019

The Directors present their report on the Pendal Group consisting of Pendal Group Limited (the Company) and the entities it controlled at the end of, or during, the half year ended 31 March 2019.

### Directors

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

James Evans	(Chairman)
Emilio Gonzalez	(Managing Director)
Sally Collier	
Andrew Fay	
Christopher Jones	(Appointed 8 November 2018)
Kathryn Matthews	
Deborah Page AM	

### Principal activities

The principal activity of the 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 2019.

### Review of operations

The Pendal Group continued to operate under two operating segments comprising the investment management business in Australia (Pendal Australia) and outside of Australia (Pendal International). The first half of the 2019 financial year has been characterised by significantly lower performance fees for Pendal Group, a volatile market environment particularly in the December quarter, and subdued investor confidence which has negatively impacted industry flows. Despite this backdrop, Pendal Group's FUM held up well and closed at \$100.9 billion with a shift in investor preferences during the period away from equities and into cash and fixed income strategies.

Performance fees are highly variable and have had a material negative impact on the financial results this period. Highlighting the resilience of the underlying business in a difficult market environment, Operating Profit pre Performance Fees was \$105,209,966 (2018: \$112,289,679) which was 6% lower than the first half last year.

The statutory net profit after tax (Statutory NPAT)<sup>1</sup> of the Pendal Group for the half year ended 31 March 2019 was \$69,578,000 (2018: \$110,117,499) a decrease of 37% on the comparative period. The Pendal Group's Cash net profit after tax (Cash NPAT) for the half year was \$84,520,575 (2018: \$114,530,354), a decrease of 26%. The lower profit result was driven by:

- Significantly lower performance fee revenue, down 90.8% or \$43.2 million to \$4.4 million;
- Lower average funds under management (FUM), down 1.2% to \$97.4 billion;
- Lower base management fee revenue, down 4.0% to \$238.7 million due to a decline in average FUM and a contraction in base management fee margin from 51 basis points to 49 basis points; which was offset by
- Lower operating expenses largely due to decreased fee revenue.

FUM as at 31 March 2019 was \$100.9 billion, a decrease of 0.7% from \$101.6 billion at 30 September 2018. The \$0.7 billion decrease in FUM for the half year ended 31 March 2019 was a result of negative market and investment performance of \$1.4 billion, partially offset by favourable currency movements of \$0.7 billion, while net flows were flat for the period.

During the half year, the average levels of the S&P/ASX 300 Price Index and the MSCI All Countries World Index in local currency terms were both lower by 1.2% and 2.7% respectively when compared to the same period last year. The average level of the Australian Dollar was 3.4% lower relative to the British Pound, and 8.0% lower than the US Dollar over the same period.

The flat net flows for the half year comprised of net inflows into Pendal Australia strategies (+\$1.6 billion), while J O Hambro Capital Management (JOHCM) saw net outflows of \$1.6 billion over the period. Pendal Australia inflows came via the institutional (+\$2.0 billion) and wholesale (+\$0.1 billion) channels, offset by net outflows out of the Westpac Group FUM (-\$0.5bn). The JOHCM outflows emanated via the OEIC funds (-\$1.7 billion), which were partially offset by inflows into US pooled funds (+\$0.1bn), while institutional flows into segregated mandates were flat.

Total fee revenue of \$243.1 million was 18.0% lower than the prior half year, due to significantly lower performance fees (-\$43.2m) and lower base management fee revenue (-\$9.9m). Performance fees for the period relate to JOHCM funds capable of earning a performance fee which have a 31 December performance period.

<sup>1</sup> Statutory NPAT includes accounting adjustments required under International Financial Reporting Standards for amortisation of employee equity grants, amortisation of employee deferred share of performance fees and related incentives, amortisation and impairment of intangible assets, and unrealised gains / (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 for the period and therefore the Directors believe that Cash NPAT is a more suitable measure of profitability. Cash NPAT comprises Statutory NPAT before amortisation of employee equity grants and employee deferred share of performance fees and related incentives, and before unrealised movements in financial assets held at FVTPL less the after-tax cash cost of ongoing equity grants and employee deferred share of performance fees and related incentives in respect of the current period, together with the after-tax amortisation and impairment of intangible assets.

# Pendal Group Limited

## Directors' Report

FOR THE HALF YEAR ENDED 31 MARCH 2019

Total expenses were \$152.7 million and 3.1% lower than the prior half year, largely due to lower variable costs (-\$10.0 million) which have fallen in line with a decline in fee revenue. Other operating expenses were \$5.0 million higher due to increased costs in relation to regulatory compliance, occupancy expenses and investment in the business.

On 28 February 2019, Pendal Group Limited took full ownership of Regnan-Governance Research and Engagement Pty Limited (Regnan), an environmental, social and corporate governance (ESG) research, engagement and advisory specialist in which it previously had a 50% ownership interest. The transaction is not material to Pendal Group's financial results. Full ownership of Regnan will enhance Pendal Group's ability to be a leading steward of client capital across all our investment capabilities, which complements the Pendal Group's goal of delivering sustainable, risk-adjusted out-performance for our clients. From this date, Regnan became a wholly owned subsidiary of the Pendal Group and its results were consolidated from that date.

Reconciliation of Statutory NPAT to Cash NPAT	Half year ended 31 Mar 2019 \$'000	Half year ended 31 Mar 2018 \$'000
Statutory NPAT	69,578	110,117
Add back:		
Amortisation of employee equity grants	25,786	21,646
Amortisation of employee deferred share of performance fees and related incentives	4,499	7,462
Amortisation and impairment of intangibles <sup>2</sup>	3,626	3,215
Unrealised loss on financial assets held at FVTPL <sup>3</sup>	4,853	5,537
Deduct:		
Cash cost of ongoing equity grants in respect of the current period	(17,157)	(19,390)
Cash cost of employee deferred share of performance fees and related incentives in respect of the current period	(4,120)	(17,070)
Add back/(deduct): tax effect	(2,544)	3,013
<b>Cash NPAT</b>	<b>84,521</b>	<b>114,530</b>

### Fund Linked Equity (FLE)

To attract new teams and reward for value creation in newly established strategies, JOHCM operates an FLE Scheme that rewards fund managers with Pendal Group equity (PDL) as a result of growing recurring investment management fees. During the half year, no PDL shares were issued under the FLE Scheme.

Investment strategies that remain in the FLE Scheme represent FUM of \$5.8 billion as at 31 March 2019. Based on the FUM at 31 March 2019, the value of PDL equity that would be granted to remaining participants in the FLE Scheme is approximately \$65.3 million. The value of PDL equity to be granted under the FLE Scheme will vary from year to year based on market movements, FUM growth, management fee margins, foreign currency, and new teams participating in the FLE Scheme.

If shares are issued to meet the delivery of the \$65.3 million in PDL equity, this would equate to 6.1 million of newly issued shares based on a theoretical PDL share price of \$8.81<sup>4</sup> as at 31 March 2019 in accordance with the FLE Scheme rules. The 6.1 million newly issued shares would increase the fully diluted share count by 1.9%.

There are FLE rights subject to conversion as at 30 June 2019. New PDL equity will be issued to satisfy the conversion, and as at 31 March 2019, this represents approximately 4.2 million issued shares. The exact number of shares to be issued are not yet known and will be subject to a number of variables at the effective date including market movements, fund flows, currency movements and the PDL share price.

Assuming other remaining FLE rights are converted into PDL restricted shares on their final conversion dates, the estimated number of PDL shares to be issued over the coming years using 31 March 2019 FUM levels, allocation price, fee margins and tax rates can be seen in Table 1:

Table 1. Timing of shares required to meet future FLE Conversions

Financial years	2H19	2020	2021	2022-2025
Estimated number of shares to be issued (millions)	4.2	–	0.5	1.4

<sup>2</sup> Amortisation and impairment of intangibles relates to fund and investment management contracts.

<sup>3</sup> Unrealised gain / (loss) on seed investments relates to units held in pooled funds managed by Pendal Group.

<sup>4</sup> The PDL share price in the FLE Scheme Rules is the 30 day volume weighted average price (VWAP) on conversion date.

# Pendal Group Limited

## Directors' Report

FOR THE HALF YEAR ENDED 31 MARCH 2019

As a consequence of issuing of newly issued PDL equity under the FLE scheme, the shareholders' portion of revenue increases such that Cash EPS should be broadly neutral, provided FUM is maintained post issuance.

It is expected that as new investment teams and strategies are added into the Pendal Group and improve our growth prospects, the program will expand. For every \$1 billion in FUM raised in investment strategies operating within the FLE Scheme, this would equate to approximately 1.5 million newly issued shares based on the 31 March 2019 PDL share price, effective tax rates, and average management fee margins.

### Dividends

The Directors have resolved to pay a partly franked interim dividend of 20.0 cents (10 % franked<sup>5</sup>) per share (2018: 22.0 cents per share – 15% franked) on ordinary shares. The amount of dividend which has not been recognised as a liability at 31 March 2019 is \$59.9 million (2018: \$69.7 million).

### Events subsequent to reporting date

During April 2019, the Westpac Group redeemed \$1.5 billion from its legacy book as part of its consolidation of superannuation offerings. The effective management fee margin on the withdrawal is approximately 31 basis points and predominantly from multi-asset FUM.

During April 2019, new arrangements were entered into for use of the J O Hambro Trademark for a term of 7 years to 26 October 2025 with an annual fee payable of £150,000 (\$279,000) for the first 4 years, and an annual fee payable of £250,000 (\$465,000) for the remaining 3 years.

No other matter or circumstance which is not otherwise reflected in this Financial Report has arisen subsequent to the end of the interim period, which has significantly affected or may significantly affect the operations of the Pendal Group, the results of those operations or the state of affairs of the Pendal Group in subsequent financial periods.

### 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  
2 May 2019



Emilio Gonzalez  
Managing Director and Group Chief Executive Officer  
2 May 2019

<sup>5</sup> 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 2019, 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 'AW', with a long horizontal flourish extending to the right.

Andrew Wilson  
Partner  
PricewaterhouseCoopers

Sydney  
2 May 2019

# Pendal Group Limited

## Consolidated Statement of Comprehensive Income

FOR THE HALF YEAR ENDED 31 MARCH 2019

	Notes	31 Mar 2019 \$'000	31 Mar 2018 \$'000
Revenue from continuing operations			
Investment management fees		238,705	248,608
Performance fees		4,368	47,616
Transaction fees		–	218
<b>Total revenue from continuing operations</b>	<b>3</b>	<b>243,073</b>	<b>296,442</b>
Other income	3	(629)	5,953
<b>Expenses</b>			
<b>Employee expenses</b>			
Salaries and related expenses		78,224	85,242
Amortisation of employee equity grants		25,786	21,646
Amortisation of employee deferred share of performance fees and related incentives		4,499	7,462
Information and technology		11,594	10,329
Fund administration		7,152	8,694
Business development and promotion		6,308	6,000
General office and administration		5,236	2,408
Depreciation, amortisation and impairment		4,797	4,121
Occupancy		4,184	3,149
Professional services		3,920	4,702
Distribution		854	1,128
Investment management		103	2,741
Finance costs		58	57
<b>Total expenses</b>		<b>152,715</b>	<b>157,679</b>
<b>Profit before income tax</b>		<b>89,729</b>	<b>144,716</b>
Income tax expense	4	20,151	34,599
<b>Profit attributable to owners of Pendal Group Limited</b>		<b>69,578</b>	<b>110,117</b>
<b>Other comprehensive income for the financial period</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations	11	9,248	32,218
Loss on derivative hedging instruments	11	(2,652)	(3,633)
Income tax relating to components of other comprehensive income	4, 11	–	–
<b>Other comprehensive income, net of tax</b>		<b>6,596</b>	<b>28,585</b>
<b>Total comprehensive income for the financial period attributable to owners of Pendal Group Limited</b>		<b>76,174</b>	<b>138,703</b>
<b>Earnings per share for profit attributable to ordinary equity holders of Pendal Group Limited</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	12	24.4	39.5

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

# Pendal Group Limited

## Consolidated Statement of Financial Position

FOR THE HALF YEAR ENDED 31 MARCH 2019

	Notes	31 Mar 2019 \$'000	30 Sep 2018 \$'000
<b>Current assets</b>			
Cash and cash equivalents	6	75,044	168,134
Trade and other receivables		69,822	69,902
Derivatives	7	598	314
Prepayments		5,711	5,281
<b>Total current assets</b>		<b>151,175</b>	<b>243,631</b>
<b>Non-current assets</b>			
Property, plant and equipment		9,045	5,392
Deferred tax assets		38,069	42,465
Financial assets held at fair value through profit or loss (FVTPL)	7	253,536	255,687
Intangible assets	8	547,130	545,013
<b>Total non-current assets</b>		<b>847,780</b>	<b>848,557</b>
<b>Total assets</b>		<b>998,955</b>	<b>1,092,188</b>
<b>Current liabilities</b>			
Trade and other payables		38,196	44,889
Employee benefits		52,836	100,745
Lease incentive		969	1,343
Current tax liabilities		6,625	19,669
<b>Total current liabilities</b>		<b>98,626</b>	<b>166,646</b>
<b>Non-current liabilities</b>			
Employee benefits		5,333	6,961
Lease incentive		3,804	4,369
Deferred tax liabilities		19,382	20,654
<b>Total non-current liabilities</b>		<b>28,519</b>	<b>31,984</b>
<b>Total liabilities</b>		<b>127,145</b>	<b>198,630</b>
<b>Net assets</b>		<b>871,810</b>	<b>893,558</b>
<b>Equity</b>			
Contributed equity	9	418,384	427,137
Reserves	11	245,456	237,380
Retained earnings		207,970	229,041
<b>Total equity</b>		<b>871,810</b>	<b>893,558</b>

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 2019

	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 October 2018		427,137	237,380	229,041	893,558
Profit for the financial period		–	–	69,578	69,578
Other comprehensive income for the financial period		–	6,596	–	6,596
Total comprehensive income for the financial period		–	6,596	69,578	76,174
Transactions with owners in their capacity as owners:					
Treasury shares acquired		(34,789)	–	–	(34,789)
Treasury shares released	9, 11	26,036	(26,036)	–	–
Share-based payments		–	27,516	–	27,516
Dividend reinvestment plan		–	–	–	–
Dividends paid	5	–	–	(90,649)	(90,649)
Balance at 31 March 2019		418,384	245,456	207,970	871,810
Balance at 1 October 2017		426,577	198,228	170,927	795,732
Profit for the financial period		–	–	110,117	110,117
Other comprehensive income for the financial period		–	28,585	–	28,585
Total comprehensive income for the financial period		–	28,585	110,117	138,702
Transactions with owners in their capacity as owners:					
Treasury shares acquired		(32,297)	–	–	(32,297)
Treasury shares released	9, 11	24,693	(24,693)	–	–
Share-based payments		–	21,034	–	21,034
Dividend reinvestment plan		2,465	–	–	2,465
Dividends paid	5	–	–	(78,191)	(78,191)
Balance at 31 March 2018		421,438	223,154	202,853	847,445

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 2019

	Notes	31 Mar 2019 \$'000	31 Mar 2018 \$'000
<b>Cash flows from operating activities</b>			
Fees and other income received		249,483	297,213
Interest received		295	171
Distributions from unit trusts		3,938	3,760
Expenses paid		(186,099)	(181,075)
Income tax paid		(28,342)	(25,481)
<b>Net cash inflows from operating activities</b>		<b>39,275</b>	<b>94,588</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(4,498)	(816)
Payments for derivative hedging instruments		(2,950)	(2,937)
Payments for IT development		(818)	(500)
Payment for financial assets held FVTPL		(2,707)	(76,141)
Proceeds from sales of financial assets held at FVTPL		3,555	22,753
<b>Net cash outflows from investing activities</b>		<b>(7,418)</b>	<b>(57,641)</b>
<b>Cash flows from financing activities</b>			
Payments for purchase of treasury shares		(34,789)	(32,297)
Interest and other financing costs		(58)	(57)
Dividends		(90,649)	(75,726)
<b>Net cash outflows from financing activities</b>		<b>(125,496)</b>	<b>(108,080)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(93,639)</b>	<b>(71,132)</b>
Cash and cash equivalents at the beginning of the financial period		168,134	194,199
Effects of exchange rate changes on cash and cash equivalents		549	3,432
<b>Cash and cash equivalents at the end of the financial period</b>	<b>6</b>	<b>75,044</b>	<b>126,499</b>

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 2019

### 1. Basis of preparation of the report for the half year ended 31 March 2019

This interim financial report is for Pendal Group Limited (the Company) and its controlled entities (the Pendal Group) for the half year ended 31 March 2019. 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 2018 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

Comparative information has been revised where appropriate to enhance comparability and for the adoption of AASB 9 Financial Instruments, which is detailed below.

#### New accounting standards and interpretations

The 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 impact of mandatory new and amended standards adopted by the Pendal Group for the half year ended 31 March 2019 is set out below:

##### *AASB 9 Financial Instruments*

The Pendal Group adopted AASB 9 *Financial Instruments* from 1 October 2018. The standard addresses the classification, measurement and de-recognition of financial assets and financial liabilities. It also introduced revised rules around hedge accounting and impairment. For the Pendal Group, this has resulted in certain financial instruments classified as available-for-sale financial assets held at fair value through other comprehensive income to be reclassified as financial assets held at fair value through profit or loss.

The following tables show the adjustments recognised for each individual line item as a result of the new classification and measurement of financial assets. The new impairment rules did not result in any adjustments to the Pendal Group's financial statements. Line items that were not affected by the changes have not been included.

<b>Statement of Financial Position (extract)</b>	30 September 2018 As originally presented \$'000	AASB 9 \$'000	30 September 2018 Restated \$'000
Available-for-sale financial assets	255,687	(255,687)	–
Financial assets held at FVTPL	–	255,687	255,687
Reserves	271,541	(34,161)	237,380
Retained Earnings	194,880	34,161	229,041
<b>Statement of Comprehensive Income (extract)</b>	31 March 2018 As originally presented \$'000	AASB 9 \$'000	31 March 2018 Restated \$'000
Other Income	11,490	(5,537)	5,953
<b>Profit before income tax expense</b>	<b>150,253</b>	<b>(5,537)</b>	<b>144,716</b>
Income tax expense	35,492	(893)	34,599
<b>Profit attributable to owners of Pendal Group Limited</b>	<b>114,761</b>	<b>(4,643)</b>	<b>110,117</b>
<b>Other comprehensive income</b>			
Net unrealised gain on available-for-sale-assets	2,506	(2,506)	–
Net realised gain on available-for-sale assets reclassified to profit or loss	(8,042)	8,042	–
Income tax relating to those items	893	(893)	–
<b>Other comprehensive income, net of tax</b>	<b>23,942</b>	<b>4,643</b>	<b>28,585</b>
<b>Earnings per share</b>			
Basic earnings per share	41.2	(1.7)	39.5

# Pendal Group Limited

## Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2019

### Derivatives and hedging activities

The eligibility of the group's existing hedge relationships are not impacted by the adoption of AASB 9. The group's risk management strategies and hedge documentation are aligned with the requirements of AASB 9 and these relationships are therefore treated as continuing hedges.

### *AASB 15 Revenue from Contracts with Customers*

The Pendal Group has adopted *AASB 15 Revenue from Contracts with Customers* from 1 October 2018. The standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. Management fee revenue is accrued when earned and there is no change to the recognition under the adoption of the new standard. Performance fees are subject to market volatility and uncertainty and are only recognised when performance conditions have been satisfied at the end of the performance period. There is no change to the recognition under the adoption of the new standard.

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

A new accounting standard has been published that is not mandatory for the 31 March 2019 reporting period. It is available for early adoption but has not been applied in preparing this Financial Report. The Pendal Group's assessment of the impact of the new standard is set out below:

### *AASB 16 Leases (effective for the Pendal Group from 1 October 2019)*

AASB 16 provides a new lessee accounting model which requires lessees to recognise right-of-use assets and liabilities to pay rentals for all leases with a term of more than 12 months, unless the underlying asset is of low value. The new standard is expected to impact leases which are currently classified by the Pendal Group as operating leases which are primarily leases for office space.

An assessment has been made on existing leases across the group and the adoption of this standard is expected to result in the recognition of existing leased assets and leased liabilities of approximately \$38.6m and \$39.5m respectively from 1 October 2019. The adoption of the new standard is not expected to have a material impact on the financial statements, however will result in additional disclosure.

The Pendal Group will continue to assess new leases and their impact on the financial statements as they are entered into.

The Pendal Group has decided not to adopt the standard before its mandatory effective date.

## 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. CODM consists of the Group Chief Executive Officer and other members of the Global Executive Committee. As a result, the Pendal Group has determined it has two operating segments, being the Pendal Group's investment management business in Australia (Pendal Australia) and the Pendal Group's investment management business outside of Australia (Pendal International). Pendal International comprises the J O Hambro Capital Management group of companies.

The CODM assesses the performance of the operating segments based on a combined measure of Cash Net Profit After Tax (Cash NPAT) and Operating Profit Before Tax which excludes non-operating items such as gains and losses on financial assets held at FVTPL, interest income and expense, foreign exchange gains and losses and tax.

Cash NPAT excludes the amortisation of equity-settled share-based payments and amortisation of employee deferred share of performance fees and related incentives, and includes the after-tax cash costs of equity grants and the employee deferred share of performance fees and related incentives in respect of the current period. Cash NPAT also excludes the unrealised gain / (loss) on financial assets held at FVTPL, and after-tax amortisation and impairment of intangibles relating to fund and investment management contracts.

# Pendal Group Limited

## Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2019

Segment information provided to the chief operating decision-maker:

	Pendal Australia		Pendal International		Pendal Group	
	31 Mar 2019 \$'000	31 Mar 2018 \$'000	31 Mar 2019 \$'000	31 Mar 2018 \$'000	31 Mar 2019 \$'000	31 Mar 2018 \$'000
Revenue	71,155	72,980	171,918	223,462	243,073	296,442
Inter-segment revenue	3,260	3,211	2,137	1,855	5,397	5,066
<b>Total segment revenue</b>	<b>74,415</b>	<b>76,191</b>	<b>174,055</b>	<b>225,317</b>	<b>248,470</b>	<b>301,508</b>
Other operating expenses	(53,675)	(56,929)	(86,348)	(104,830)	(140,023)	(161,759)
Inter-segment expense	(2,137)	(1,855)	(3,260)	(3,211)	(5,397)	(5,066)
<b>Total segment expenses</b>	<b>(55,812)</b>	<b>(58,784)</b>	<b>(89,608)</b>	<b>(108,041)</b>	<b>(145,420)</b>	<b>(166,825)</b>
<b>Operating profit before income tax</b>	<b>18,603</b>	<b>17,407</b>	<b>84,447</b>	<b>117,276</b>	<b>103,050</b>	<b>134,683</b>
Non-operating items	2,611	991	1,554	10,441	4,165	11,432
Income tax expense	(6,279)	(5,629)	(16,415)	(25,956)	(22,694)	(31,585)
<b>Cash NPAT</b>	<b>14,935</b>	<b>12,769</b>	<b>69,586</b>	<b>101,761</b>	<b>84,521</b>	<b>114,530</b>
<b>Deduct:</b>						
Amortisation of employee equity grants	(9,210)	(9,478)	(16,576)	(12,168)	(25,786)	(21,646)
Amortisation of employee deferred share of performance fees and related incentives	–	–	(4,499)	(7,462)	(4,499)	(7,462)
Amortisation and impairment of intangibles	–	–	(3,626)	(3,215)	(3,626)	(3,215)
Unrealised gain/(loss) on financial assets held at FVTPL	47	2,001	(4,900)	(7,538)	(4,853)	(5,537)
<b>Add back:</b>						
Cash cost of ongoing equity grants	8,100	7,296	9,057	12,094	17,157	19,390
Cash cost of employee deferred share of performance fees and related incentives	–	–	4,120	17,070	4,120	17,070
<b>Add/(deduct): tax effect</b>	<b>199</b>	<b>(33)</b>	<b>2,345</b>	<b>(2,979)</b>	<b>2,544</b>	<b>(3,013)</b>
<b>Statutory NPAT</b>	<b>14,071</b>	<b>12,555</b>	<b>55,507</b>	<b>97,562</b>	<b>69,578</b>	<b>110,117</b>
<b>Segment assets</b>	<b>430,598</b>	<b>383,701</b>	<b>568,357</b>	<b>607,824</b>	<b>998,955</b>	<b>991,525</b>
<b>Segment liabilities</b>	<b>(21,908)</b>	<b>(25,883)</b>	<b>(105,237)</b>	<b>(118,197)</b>	<b>(127,145)</b>	<b>(144,080)</b>
<b>Net assets</b>	<b>408,690</b>	<b>357,818</b>	<b>463,120</b>	<b>489,627</b>	<b>871,810</b>	<b>847,445</b>

# Pendal Group Limited

## Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2019

### 3. Revenue and other income

	31 Mar 2019 \$'000	31 Mar 2018 \$'000
Management, fund and trustee fees	237,470	247,631
Performance fees	4,368	47,616
Transaction fees	–	218
Other revenue	1,235	977
<b>Total revenue from continuing operations</b>	<b>243,073</b>	<b>296,442</b>
Realised gain on financial assets held at FVTPL	552	8,042
Unrealised loss on financial assets held at FVTPL	(4,853)	(5,537)
Distributions from unit trusts	3,842	3,668
Interest income	295	171
Net foreign exchange loss	(465)	(391)
<b>Total other income</b>	<b>(629)</b>	<b>5,953</b>
<b>Total revenue and other income</b>	<b>242,444</b>	<b>302,395</b>

### 4. Taxation

#### Income tax expense

	31 Mar 2019 \$'000	31 Mar 2018 \$'000
Current tax	15,630	20,959
Deferred tax	5,140	13,656
Adjustments for current tax of prior periods	(619)	(16)
<b>Total income tax expense</b>	<b>20,151</b>	<b>34,599</b>
<i>Deferred income tax expense/(benefit) included in income tax expense comprises:</i>		
Decrease in deferred tax assets	6,688	15,160
Decrease in deferred tax liabilities	(1,548)	(1,504)

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 30.0% (2018: 30.0%) on Australian taxable income, 19.0% (2018: 19.0%) on UK taxable income, 21.0% (2018: 24.5%) on US taxable income and 17.0% (2018: 17.0%) on Singapore taxable income.

### 5. Dividends

	31 Mar 2019 \$'000	31 Mar 2018 \$'000
Equity dividends on ordinary shares		
Dividends declared and paid during the Half Year	90,649	78,191
Dividends proposed to be paid subsequent to the end of the Half Year and not recognised as a liability	59,883	69,679

# Pendal Group Limited

## Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2019

### 6. Cash and cash equivalents

	31 Mar 2019 \$'000	30 Sep 2018 \$'000
Cash at bank and in hand	47,907	92,199
Restricted cash in escrow	1,490	4,396
Deposits at call	28,264	71,539
Applications and redemptions account	(2,617)	–
<b>Total cash and cash equivalents</b>	<b>75,044</b>	<b>168,134</b>

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions.

Restricted cash in escrow relates to deferred employee remuneration that is held by the Pendal Group in trust until certain service conditions have been satisfied by the employee. A corresponding employee benefit liability is recognised on the Consolidated Statement of Financial Position.

Deposits at call are invested in cash management trusts managed within the Pendal Group.

The applications and redemptions account is operated by J O Hambro Capital Management Limited as the Authorised Corporate Director (ACD) of the J O Hambro Capital Management UK Umbrella Fund.

### 7. Fair value estimation

Management determines the classification of the Pendal Group's investments at initial recognition depending on the purpose for which the investments and other financial assets were acquired. The Pendal Group's financial instruments are made up of:

- Financial assets held at fair value through profit or loss which are made up of investments in units in pooled funds managed by Pendal Group and investments in non-consolidated entities;
- Derivatives are made up of foreign exchange forward contracts that are designated as hedging instruments and are initially recognised and measured at fair value, with changes in fair value on the effective portion of the hedge being recognised in the foreign currency translation reserve and any hedge ineffectiveness being recognised directly in profit or loss; and
- Borrowings are recognised in the Consolidated Statement of Financial Position when the Pendal Group becomes party to the contractual provision of an instrument which is initially recognised at fair value plus transaction costs. Borrowings are recognised when an obligation arises and derecognised when it is discharged, cancelled or expires.

#### (i) Fair value hierarchy

The Pendal Group classifies fair value measurements 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 and there were no transfers between Levels 2 and 3 during the financial period.

# Pendal Group Limited

## Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2019

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>31 March 2019</b>				
<b>Financial assets</b>				
Financial assets held at FVTPL:				
Units held in pooled funds <sup>1</sup>	–	238,903	–	238,903
Escrow units held in pooled funds <sup>2</sup>	–	14,419	–	14,419
Shares in Regnan-Governance Research and Engagement Pty Limited (Regnan) <sup>3</sup>	–	–	–	–
Shares in James Hambro & Partners LLP <sup>4</sup>	–	–	214	214
Derivatives	–	598	–	598
<b>Total financial assets</b>	<b>–</b>	<b>253,920</b>	<b>214</b>	<b>254,134</b>
<b>30 September 2018</b>				
<b>Financial assets</b>				
Financial assets held at FVTPL:				
Units held in pooled funds <sup>1</sup>	–	237,530	–	237,530
Escrow units held in pooled funds <sup>2</sup>	–	17,847	–	17,847
Shares in Regnan-Governance Research and Engagement Pty Limited (Regnan) <sup>3</sup>	–	–	100	100
Shares in James Hambro & Partners LLP <sup>4</sup>	–	–	210	210
Derivatives	–	314	–	314
<b>Total financial assets</b>	<b>–</b>	<b>255,691</b>	<b>310</b>	<b>256,001</b>

1 These securities represent shares held in unlisted pooled funds managed by the Pendal Group and are measured at fair value. The fair value is measured with reference to the underlying net asset values of the pooled funds.

2 Escrow units held in pooled funds relate to employees' deferred share of performance fee entitlements which are held by the Pendal Group in trust until certain service conditions have been satisfied by the employee. A corresponding employee benefit liability over the period in which the employee satisfies these service conditions is recognised on the Consolidated Statement of Financial Position.

3 On 28 February 2019, Pendal Group Limited took full ownership of the Shares in Regnan, which now forms part of the results of the consolidated Group.

4 James Hambro & Partners LLP is an independent private asset management partnership business.

### (ii) Valuation techniques used to derive Level 2 and Level 3 fair values

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments that are not in an active market are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and do not rely on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3, as is the case for unlisted equity securities.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Pendal Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

# Pendal Group Limited

## Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2019

Specific valuation techniques used to value financial instruments include:

### Pooled funds

J O Hambro Capital Management (JOHCM) has two open-ended investment companies (OEICs), domiciled in the United Kingdom and Ireland, an open-ended registered investment company responsible for the JOHCM mutual fund range and Delaware Statutory Trusts, 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 has a single price directly linked to the fair value of its underlying investments.

Pendal Australia have 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.

### Shares

The shares in James Hambro & Partners LLP are considered Level 3 as the inputs to the asset valuation are not based on observable market prices and are measured at fair value. The Pendal Group performs the valuations for Level 3 fair values for financial reporting purposes. The valuations are carried out half-yearly in line with the Pendal Group's reporting dates.

During the period, the Pendal Group took full ownership of Regnan, which now forms part of the results of the consolidated Group.

### 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) Unobservable inputs

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

31 March 2019	Shares in Regnan \$'000	Shares in James Hambro & Partners LLP \$'000	Total fair value Level 3 \$'000	Carrying amount \$'000
Balance at the beginning of the financial period	100	210	310	310
Consolidated into the Pendal Group	(100)	–	(100)	–
Effects of foreign exchange movements	–	4	4	4
Balance at the end of the financial period	–	214	214	214

### (iv) Fair value of other instruments

The 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 2019

### 8. Intangible assets

	Goodwill \$'000	Fund and investment management contracts \$'000	Other intangibles \$'000	Total \$'000
<b>31 March 2019</b>				
Net book value as at 1 October 2018	476,929	66,290	1,794	545,013
Additions	–	–	571	571
Foreign exchange gain	4,359	1,139	–	5,498
Amortisation expense	–	(2,826)	(326)	(3,152)
Impairment loss <sup>1</sup>	–	(800)	–	(800)
<b>Net book value as at 31 March 2019</b>	<b>481,288</b>	<b>63,803</b>	<b>2,039</b>	<b>547,130</b>
<i>Represented by:</i>				
Cost	481,288	137,403	5,284	623,975
Accumulated amortisation and impairment	–	(73,600)	(3,245)	(76,845)
<b>30 September 2018</b>				
Net book value as at 1 April 2018	481,288	72,077	2,085	555,450
Additions	–	–	345	345
Foreign exchange loss	(4,359)	(1,301)	–	(5,660)
Amortisation expense	–	(2,888)	(391)	(3,279)
Impairment loss <sup>1</sup>	–	(1,598)	(245)	(1,843)
<b>Net book value as at 30 September 2018</b>	<b>476,929</b>	<b>66,290</b>	<b>1,794</b>	<b>545,013</b>
<i>Represented by:</i>				
Cost	476,929	134,988	4,710	616,628
Accumulated amortisation and impairment	–	(68,698)	(2,916)	(71,615)

<sup>1</sup> 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.

#### 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. They were acquired via the business combination with JOHCM and are made up as follows:

	31 Mar 2019 \$'000	30 Sep 2018 \$'000
Fund management contracts – OEICs	57,987	60,056
Investment management contracts – Segregated mandates	5,816	6,234
<b>Total fund and investment contracts</b>	<b>63,803</b>	<b>66,290</b>

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 12% (2018:12%), based on the cost of capital of JOHCM.

# Pendal Group Limited

## Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2019

### Goodwill:

Goodwill has been derived from the following business combinations:

	31 Mar 2019 \$'000	30 Sep 2018 \$'000
Purchase of the investment management business from the Westpac Group effective 19 October 2007	233,300	233,300
Acquisition of JOHCM effective 1 October 2011	247,988	243,629
<b>Total</b>	<b>481,288</b>	<b>476,929</b>

Goodwill is allocated to cash-generating units (CGUs) according to operating segments. Goodwill attributable to the purchase of the Australian business from the Westpac Group is \$233.3 million and goodwill attributable from the acquisition of JOHCM is \$248.0 million.

The recoverable amount of each CGU is determined using a 'Fair value less cost to sell' methodology that utilises cash flow projections (post tax) based on management's best estimates over a 5 year period and then applying a terminal value in perpetuity of 3%. The discount rate used to discount the cash flow projections is 11% (2018: 11%) for the Australian business and 12% (2018: 12%) for the JOHCM business based on the cost of capital (post tax) for each of these CGU's.

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 2019.

There has been no impairment of goodwill during the period ended 31 March 2019. The amount of goodwill relating to the JOHCM acquisition has been translated from the British pound to Australian dollar using the spot rate at 31 March 2019.

## 9. Contributed equity

	31 Mar 2019 \$'000	30 Sep 2018 \$'000
Ordinary shares 318,006,576 (2018: 318,006,576) each fully paid	617,668	617,668
Treasury shares 33,705,395 (2018: 36,406,060)	(199,284)	(190,531)
<b>Total contributed equity 284,301,181 (2018: 281,600,516)</b>	<b>418,384</b>	<b>427,137</b>

### (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 2019 Shares '000	31 Mar 2019 \$'000	30 Sep 2018 Shares '000	30 Sep 2018 \$'000
Balance at the beginning of the financial period	318,007	617,668	316,725	613,078
FLE share issuance <sup>1</sup>	–	–	809	–
Dividend reinvestment plan	–	–	473	4,590
<b>Balance at the end of the period</b>	<b>318,007</b>	<b>617,668</b>	<b>318,007</b>	<b>617,668</b>

1. 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 2019

### (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 the Pendal Group under its employee share plans. These represent shares either held by the employee benefit trusts for future allocation or shares held by employees within Pendal Group share plans, subject to restrictions. These are recorded at cost and when restrictions on employee shares are lifted, the cost of such shares is appropriately adjusted to the share-based payment reserve. Details of the balance of treasury shares at the end of the financial period were as follows:

	31 Mar 2019 Shares '000	31 Mar 2019 \$'000	30 Sep 2018 Shares '000	30 Sep 2018 \$'000
Balance at the beginning of the period	(36,406)	(190,531)	(36,190)	(191,640)
Treasury shares acquired	(4,216)	(34,789)	–	–
FLE share issuance <sup>2</sup>	–	–	(809)	–
Treasury shares released	6,917	26,036	593	1,109
Balance at the end of the period	(33,705)	(199,284)	(36,406)	(190,531)

<sup>2</sup> The shares were issued to fund managers who operate under the FLE program.

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

	31 Mar 2019 Shares '000	31 Mar 2019 \$'000	30 Sep 2018 Shares '000	30 Sep 2018 \$'000
Unallocated shares held by trustees	18,440	130,940	18,277	130,425
Shares allocated to employees	15,266	68,343	18,129	60,106
Balance at the end of the period	33,705	199,283	36,406	190,531

## 10. Capital management

The 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.

The Company's current dividend policy is to pay out 80% - 90% of Cash NPAT each year. Capital retained in the business to grow the Pendal Group is largely used to provide seed capital for new funds and investment strategies. The seed capital portfolio has grown significantly over the last two years as investments were made in new strategies and further capital support was provided to scale up funds as they achieve an established investment performance track record. The Pendal Group's corporate seed portfolio totals \$238.9m as at 31 March 2019. The current level of seed capital within the Pendal Group sits within the Board risk appetite.

Cash profits generated from off-shore business units, beyond working capital and regulatory requirements, are repatriated back to the Company through dividends whereby 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.

The Board regularly reviews Pendal 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 also be used at times to provide capital to the Group. 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 to or redeem seed investments; or
- issue new shares.

# Pendal Group Limited

## Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2019

The Pendal Group operates legal entities in a number of countries that are subject to various regulatory and capital requirements. These include:

- In Australia, Pendal Fund Services Limited acts as a responsible entity of the Australian registered and unregistered trusts, Pendal Institutional Limited provides investment management services to institutional clients and Australian registered and unregistered trusts, and Regnan provides environmental, social and corporate governance research and advisory services to institutional clients. All three regulated companies are required to maintain minimum capital requirements as part of the Australian Securities and Investments Commission's Australian financial services licencing conditions. The level of regulatory capital required as at 31 March 2019 is \$6.1 million.
- In the UK, J O Hambro Capital Management Limited (JOHCM) provides investment management services to JOHCM's UK and Irish Open Ended Investment Companies (OEIC's), US Mutual Funds, institutional clients and other JOHCM entities. JOHCM has established an Internal Capital Adequacy Assessment Process (ICAAP) that is used to determine the amount of regulatory capital required to meet its licencing requirements with the Financial Conduct Authority (FCA). The level of regulatory capital required as at 31 March 2019 in accordance with the ICAAP is \$70.3 million (£38.1 million). During 2016, JOHCM was awarded an investment firm waiver by the FCA. The waiver expires on 30 September 2021 with the impact eliminating the need to hold additional capital as a result of intangibles generated via the Company's acquisition of JOHCM in 2011.
- During the period, a new licence was obtained from the Central Bank of Ireland for JOHCM Funds (Ireland) Limited as an Undertakings for Collective Investment in Transferable Securities (UCITS) management company in preparation for the UK exiting the European Union. The level of regulatory capital required as at 31 March 2019 is \$4.3 million (€2.7 million).
- In Singapore, JOHCM (Singapore) Pte Limited provides investment management services to other JOHCM entities and a JOHCM Cayman fund. It is required to maintain minimum capital requirements as part of its licencing requirements with the Monetary Authority of Singapore. The level of regulatory capital required as at 31 March 2019 is \$2.2 million (S\$2.3 million).
- In the USA, JOHCM (USA) Inc. provides investment management services to a number of JOHCM's Delaware Statutory Trusts and other JOHCM entities. It is registered as an investment adviser with the Securities and Exchange Commission. It does not have any minimum capital requirements as part of its licence.

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

In April 2019 regulatory approval was obtained from the FCA, authorising JOHCM Funds (UK) Limited as a UCITS management company. The level of regulatory capital required for the entity is approximately \$2.6 million (£1.4 million).

## 11. Reserves

### Share-based payment reserve

The share-based payment reserve relates to the amortised portion of the fair value of equity instruments granted to employees for no consideration, recognised as an expense. Deferred tax in relation to amounts not recognised in the Statement of Comprehensive Income is also recognised in the share-based payment reserve. The balance of the share-based payment reserve is reduced by the payment of certain dividends not paid from retained earnings, where the requirements of the *Corporations Act* are met.

### Foreign currency translation reserve

Exchange differences arising on the translation of foreign controlled entities in addition to gains and losses on derivatives that are designated and qualify as net investment hedges are recognised in other comprehensive income and accumulated in the foreign currency translation reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is partially disposed of or sold.

### Cash flow hedge reserve

The cash flow hedge reserve is used to record gains or losses on hedging instruments that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affect profit or loss.

### Common control reserve

The common control reserve relates to the Company's purchase of the investment management business from a number of wholly owned subsidiaries of Westpac Banking Corporation effective 19 October 2007. Any difference between the cost of acquisition (fair value of consideration paid), and the amounts at which the assets and liabilities are recorded, has been recognised directly in equity as part of a business combination under the common control reserve.

# Pendal Group Limited

## Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2019

	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 2018	218,336	44,506	10	(25,472)	237,380
Share-based payment expense	25,786	–	–	–	25,786
Deferred tax	1,730	–	–	–	1,730
Treasury shares released	(26,036)	–	–	–	(26,036)
Currency translation difference	–	9,248	–	–	9,248
Net investment hedge	–	(2,666)	14	–	(2,652)
<b>Balance at 31 March 2019</b>	<b>219,816</b>	<b>51,088</b>	<b>24</b>	<b>(25,472)</b>	<b>245,456</b>
Balance at 1 April 2018	197,916	50,710	–	(25,472)	223,154
Share-based payment expense	21,657	–	–	–	21,657
Deferred tax	(129)	–	–	–	(129)
Treasury shares released	(1,108)	–	–	–	(1,108)
Currency translation difference	–	(7,533)	–	–	(7,533)
Net investment hedge	–	1,329	10	–	1,339
<b>Balance at 30 Sep 2018</b>	<b>218,336</b>	<b>44,506</b>	<b>10</b>	<b>(25,472)</b>	<b>237,380</b>

## 12. Earnings per Share

### Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding during the financial period, that is, ordinary shares less treasury shares.

	31 Mar 2019	31 Mar 2018
Profit attributable to ordinary equity holders of the Company (\$'000)	69,578	110,117
Weighted average number of ordinary shares on issue ('000)	318,007	316,203
Weighted average number of treasury shares ('000)	(33,357)	(37,489)
Weighted average number of ordinary shares ('000)	284,650	278,714
<b>Basic earnings per share (cents per share)</b>	<b>24.4</b>	<b>39.5</b>

Options totalling 13,905,096 and performance share rights totalling 1,743,676 issued to staff of the Pendal Group as at 31 March 2019 do not have a dilutive impact on the calculation of earnings per share (EPS) for the half year. This is because ordinary shares have been and are anticipated to be acquired on-market over time to settle the exercise of the options and the conversion of the performance share rights.

# Pendal Group Limited

## Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 MARCH 2019

### 13. Contingent assets and liabilities

#### Performance fees

The Pendal Group manages the investments of certain funds and clients for which it may be entitled to receive fees contingent upon performance of the portfolio managed, on an annual basis or longer. Performance fees which are contingent upon performance to be determined at future dates have not been recognised as income or as a receivable at 31 March 2019 as they are not able to be estimated or measured reliably and may change significantly. All fees are exposed to significant risk associated with the funds' performance, including market risks (such as price risk, interest rate risk and foreign exchange risk) and liquidity risk.

#### Capital guarantee

The Company has guaranteed the obligations of Pendal Institutional Limited to its institutional clients. The effect of the guarantee which is capped at \$5 million will provide recourse to capital exceeding the minimum regulatory capital required to be maintained by Pendal Institutional Limited.

#### Regulatory authority

J O Hambro Capital Management Limited is the subject of an investigation by its UK regulator relating to the eligibility of certain services approximating £5.0m (\$9.2m) paid for out of dealing commissions between 2006 and 2016. It is possible that, as part of the investigation, the eligibility of other services may also be assessed. This is a continuation of the dialogue arising out of a thematic industry review referenced in the Company's prior period financial reports. The UK regulator has stated that, although an investigation has been commenced, this does not mean that any determination has been made that rule breaches and/or other contraventions have occurred. The likely outcome or consequence of this matter (including any sanctions or penalties) is unable to be reliably estimated at this time.

### 14. Subsequent events

During April 2019, the Westpac Group redeemed \$1.5 billion from its legacy book as part of its consolidation of superannuation offerings. The effective management fee margin on the withdrawal is approximately 31 basis points and predominantly from multi-asset FUM.

During April 2019, new arrangements were entered into for use of the J O Hambro Trademark for a term of 7 years to 26 October 2025 with an annual fee payable of £150,000 (\$279,000) for the first 4 years, and an annual fee payable of £250,000 (\$465,000) for the remaining 3 years.

No other matter or circumstance which is not otherwise reflected in this Financial Report has arisen subsequent to the end of the interim period, which has significantly affected or may significantly affect the operations of the Pendal Group, the results of those operations or the state of affairs of the Pendal Group in subsequent financial periods.

# Pendal Group Limited Directors' Declaration

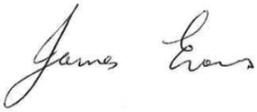
FOR THE HALF YEAR ENDED 31 MARCH 2019

In the Directors' opinion:

- a) the financial statements and notes set out on pages 8 to 24 are in accordance with the *Corporations Act*, 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 2019 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



Emilio Gonzalez  
Managing Director and Group Chief Executive Officer  
Sydney, 2 May 2019



## **Independent auditor's review report to the members of Pental Group Limited**

### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Pental Group Limited (the Company), which comprises the consolidated statement of financial position as at 31 March 2019, 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, selected other explanatory notes and the directors' declaration for Pental Group Limited. The Group comprises the Company and the entities it controlled during that half-year.

### ***Directors' responsibility 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 is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 2019 and 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*. As the auditor of Pental Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

### ***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

### ***Conclusion***

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

---

**PricewaterhouseCoopers, ABN 52 780 433 757**

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001

T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124

T: +61 2 9659 2476, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.



1. giving a true and fair view of the Group's financial position as at 31 March 2019 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*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Andrew Wilson', with a large, stylized flourish extending to the right.

Andrew Wilson  
Partner

Sydney  
2 May 2019