

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

PENDAL
GROUP

11 May 2020

Company Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

Pendal Group Limited Interim Profit Announcement for the six months ended 31 March 2020

The following documents are attached for lodgement:

Interim Financial Report and
Appendix 4D

ASX Announcement

Analyst Presentation

Chairman's Letter ●

Yours sincerely



Authorising Officer

Joanne Hawkins
Group Company Secretary
Pendal Group Limited
Tel: +61 2 9220 2000

Letter to Shareholders

11 May 2020

Dear Shareholder,

Given the COVID-19 global pandemic, I thought it appropriate as Chairman of your company that I communicate directly with you about how the Board, management team and fund managers are addressing the current situation to preserve business continuity and plan for the recovery.

The economic consequences in the medium term have yet to work their way through, but in the immediate term the impact on global equities markets has been large and therefore, I thought it was important to give you a business update and context in relation to our 2020 half year results.

It is noteworthy that Pendal has a strong balance sheet, with no debt. We continue to be profitable with healthy cashflow and good margins. This positions us very well to weather the current situation.

Overview of 2020 half year results

Statutory net profit after tax was \$54.8 million, compared to \$69.6 million for the previous corresponding period. Cash net profit after tax increased by two per cent to \$86.6 million, and cash earnings per share increased by one per cent to 26.8 cents per share.

Pendal's half year result was impacted by the unprecedented Coronavirus pandemic which has affected client sentiment, economies, flows and markets in March 2020, and saw the most severe market falls since December 2008. Notwithstanding, Pendal's performance was solid with a two per cent increase in Cash NPAT and continued growth in annuity style base management fees.

Fee margins remained steady, however, performance fees were substantially lower compared to the previous corresponding period.

Dividends

The Board recognises how important dividends are to our shareholders and our considerations of the interim dividend took that into account. The declared interim dividend of 15 cents per share is lower than would be the case in more normal circumstances, due to COVID-19 and the uncertainty of potential future impacts on fund flows, markets, client sentiment and economies.

Pendal has stress-tested its business against a range of financial scenarios, and while the Board is confident in the company's ability to weather the impacts of the pandemic, it believes it is prudent and sensible to reduce the interim dividend.

Business highlights

The Group's average funds under management (FUM) increased two per cent to \$98.9 billion for the first half of 2020, as on average, the markets were higher in the first half of 2020 compared to last year.

There was a favourable currency contribution for the half year of \$3.7 billion to closing FUM as at 31 March 2020. There were extreme market falls due to COVID-19, with key global indices down 21-25 per cent in the March quarter. In comparison, Pendal's closing FUM, of \$86.0 billion, declined only 15 per cent.

Our investment performance across the Group also improved, with 70 per cent of FUM outperforming over a one-year period.

We continued to execute our ESG/RI strategy. During the period we expanded the remit of Regnan, our in-house ESG research, advisory and engagement firm, into asset management, launching the Regnan Credit Impact Fund, in February 2020. As well, we appointed our first Global Equity Impact team, based in London.

COVID-19 update: Business continuity and risk management

A priority for Pandal during this crisis is the health, welfare and safety of our people. We are abiding by each global jurisdictions' rulings concerning social distancing and supporting our people, with the vast majority working remotely, as we have the technology to do so seamlessly.

Naturally, our people continue to be committed to effectively investing and managing our clients' money and delivering the same high level of service they have historically enjoyed. Our investment management teams are actively engaging with our clients, so they are in no doubt that we are being proactive in the management of the funds entrusted to us. Our people have stepped up to the challenge of the new environment and I applaud them for it.

We have a stable and diversified client base, which includes some of the world's largest and strongest financial institutions; including pension funds, insurers, and wealth managers.

The current situation will certainly generate some opportunities. We are a long-term investor with a global outlook. We would rather be taking positions in quality stocks at lower prices than higher prices. Our investment teams have decades of experience. Now is the time to draw upon that experience.

Protecting and serving our clients' interests

As an investment management business, our purpose is to invest and manage clients' money and protect and serve their interests. Our obligation is to remain 'true to label' in relation to our investment strategies and to properly and advantageously manage those funds.

As a global asset manager, we are attuned to cycles, but we cannot control the markets, only our own actions. Our boutique business model provides our fund managers with investment independence and agility to move quickly in investment markets.

We know investors do not like uncertainty. Once there is uncertainty and ambiguity in equity markets, investors' decisions change and often change rapidly, as some investors seek to re-weight their portfolios. That is their prerogative. We cannot control an investor's decision to change investment strategy by seeking a different asset mix. Nor would we.

We always have close relationships with our clients and during the COVID-19 crisis we have increased our client engagement, in order to provide support and clear and thoughtful insights. We find that even though there is a lot of information in the marketplace, clients remain keen to hear directly from the portfolio managers about how we are navigating through these times.

Managing costs

Our expense management will continue to be prudent across the Group. Our business model supports a cost base where a material component is variable and is linked to revenue. As such, in periods where revenue declines, there is a natural offset with lower costs, particularly lower employee variable remuneration.

The benefits of diversification

The diversification of the Pandal business delivers resilience during market cycles and enables us to improve our management through these cycles; the initial impacts of the COVID-19 pandemic cycle being a case in point.

For example, Pandal's FUM for the period ended 31 March 2020, closed at \$86.0 billion, 15 per cent lower than at 31 December 2019. The fall in the value of FUM is considerably better than market falls of key global equity indices, which were between 25 per cent and 21 per cent over the period. This outcome demonstrates how Pandal's strategy of diversification across investment strategies, geographies, asset classes, currencies, and client base help mitigate negative impacts of equity market declines.

Our resilience is also supported by the range and type of funds we manage. We offer clients a broad choice of investment strategies; including defensive, growth, value, fixed income and multi-asset.

This provides existing and new clients options for investment at different points in the cycle. Importantly, our clients expect that our investment strategies always remain 'true to label' and in these uncertain times, this is more important now than ever before. Pandal is an active fund manager and therefore always looks to opportunities in market cycles, but also looks to the long term.

Thank you for taking the time to read this letter. I wanted to engage with you personally in these difficult times. The Pandal business is strong and resilient and we are accustomed to dealing with uncertainty. The current pandemic is certainly an unprecedented event and one that will continue to present challenges in the weeks and months ahead as we continue to invest in the future.

I thank you for your ongoing support.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'James Evans', with a long horizontal flourish extending to the right.

James Evans
Chairman