

23 January 2019

By Electronic Lodgement

The Manager
Company Announcements Office
ASX Ltd
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Pinnacle Investment Management Group Limited (ASX: PNI) Market Update

Pinnacle Investment Management Group Limited (**Pinnacle**) is pleased to provide the following update.

Highlights

- > **NPAT from continuing operations expected to be \$10.1m for the H1 FY19 half year, compared with \$8.1m for the PCP (an increase of 24.7%) and \$23.1m for the FY18 full year**
- > **Includes net losses on Pinnacle's 'principal investments'¹ of \$0.6m, and Pinnacle's share (only \$0.2m) of performance fees earned by its Affiliates**
- > **Basic EPS from continuing operations expected to be 6.1 cps, up 22.0% from 5.0 cps in the PCP. Diluted EPS from continuing operations expected to be 5.7 cps, up 14.0% from 5.0 cps in the PCP**
- > **FUM \$46.7 billion, up \$8.7 billion or 22.9% from 30 June 2018²**
- > **Net inflows of \$5.0 billion for the half year to 31 December 2018**
- > **\$1.4 billion of the \$5.0 billion net inflows for the half year was retail**
- > **Continued medium term outperformance – 93%³ of 5-Year Affiliate strategies have outperformed at 31 December 2018**

Financial Update

Whilst the Board intends to announce the auditor-reviewed half year results for the 6 months ended 31 December 2018 in late February 2019, Pinnacle's net profit after tax from continuing operations for the half year ended 31 December 2018 is expected to be \$10.1m, compared with \$8.1m in the prior corresponding period (**pcp**) and \$23.1m for the 12 months ended 30 June 2018.

¹investment of surplus capital in Funds or strategies managed by Affiliates – 'marked-to-market' (recognising realised and unrealised gains and losses); net of distributions received (investment earnings) and including the impact of hedging. The 'principal investment' amount at 31 December 2018 was \$38.5m.

²includes \$6.8 billion 'acquired' in July 2018. Percentage increase excluding this 'acquired' FUM was 5.0%.

³100% whilst under Pinnacle ownership

Basic earnings per share from continuing operations are expected to be 6.1 cents per share for the half year ended 31 December 2018, compared with 5.0 cents per share in the pcp and 14.3 cents per share in the 12 months ended 30 June 2018. Diluted earnings per share from continuing operations are expected to be 5.7 cents per share for the half year ended 31 December 2018, compared with 5.0 cents per share in the pcp and 13.2 cents per share in the 12 months ended 30 June 2018.

Pinnacle reminds shareholders that NPAT during the first half of each financial year is typically a smaller proportion of full year NPAT than NPAT during the second half. Substantial potential performance fees crystallise on an annual basis and are therefore potentially received in the second half of each financial year, with no accruals recognised in the first half. Also, substantial distribution fees are 'success' related and calculated on an annual basis and therefore potentially received from Affiliates in the second half of each financial year, with no accruals recognised in the first half. Performance fee revenue earned by Affiliates during the half year to 31 December 2018 was only \$0.6m, compared with \$0.5m in the PCP and \$17.2m in the FY18 full year.

Pinnacle also advises that these estimates are based on information available at present and that the company's half year audit review is yet to be concluded.

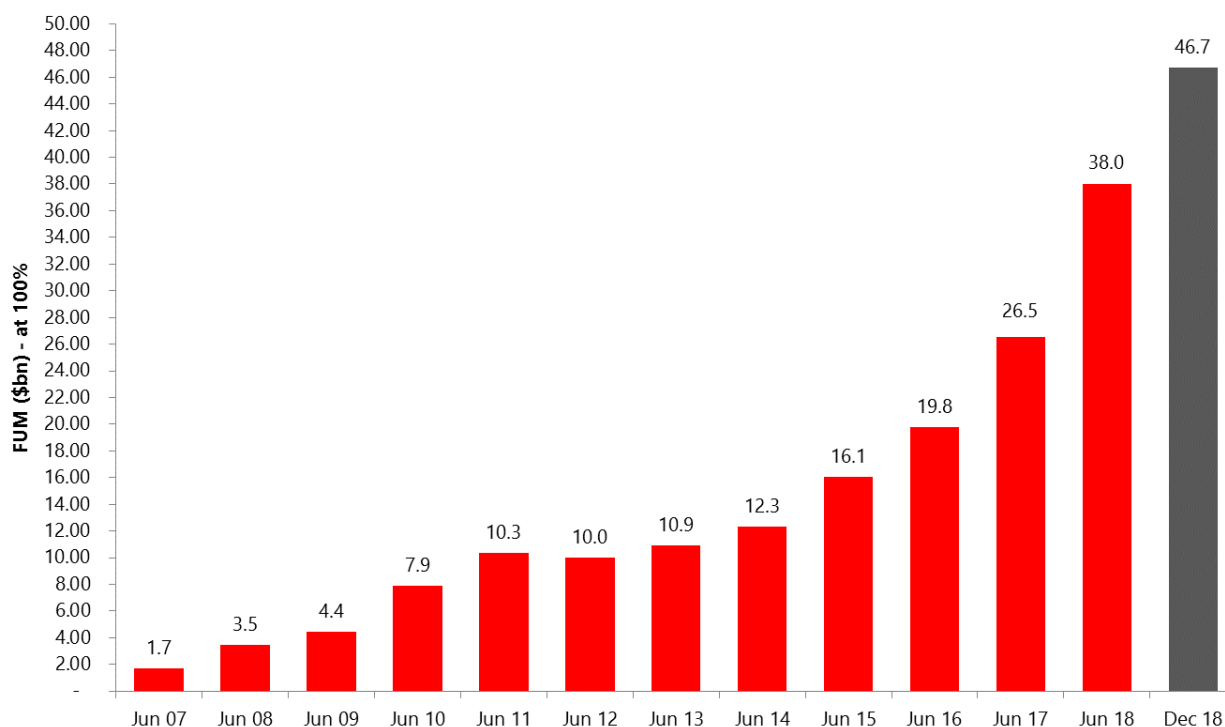
FUM Update

The FUM of Pinnacle's eleven operating Affiliates as at 31 December 2018 was \$46.7 billion, which represents:

- > an increase in FUM of \$8.7 billion or 22.9% during the six-month period from 30 June 2018 to 31 December 2018 (5.0% excluding acquired FUM):
 - \$6.8 billion of FUM was 'acquired' in the July 2018 Metrics Credit and Omega transactions
 - Net fund inflows were \$5.0 billion during the six-month period from 30 June 2018 to 31 December 2018
 - Reductions due to market movements/investment performance during the six-month period from 30 June 2018 to 31 December 2018 were \$3.1 billion. During this period, the S&P/ASX 300 fell 9.0% and the MSCI World Index fell 9.8%.
- > a compound annual growth rate (**CAGR**) of 29.2% p.a. over the last 10 years (27.3% excluding Metrics Credit and Omega) and 35.1% p.a. over the last 3 years (28.6% excluding Metrics Credit and Omega).

Firetrail institutional inflows accounted for the majority of the total Pinnacle Affiliate institutional net inflows during the H1 FY19 half year period. Firetrail institutional inflows are not expected to be substantial during the second half as the capacity allocated by Firetrail to the institutional market in its two initial investment strategies has largely been filled.

Growth in FUM to 31 December 2018



Note: Pinnacle FUM numbers shown here are 100% of FUM managed by Pinnacle Affiliates. FUM at 31 Dec 18 includes Metrics Credit (\$2.8bn) and Omega (\$3.7bn).

Retail FUM Update

Retail FUM stood at \$9.4 billion at 31 December 2018, compared with \$7.9 billion at 30 June 2018. This \$1.5 billion growth was attributable to \$1.4 billion net inflows, \$0.7 billion 'acquired' FUM (MXT), with reductions due to market movements/investment performance of \$0.6 billion.

Of the \$5.0 billion of total net inflows for the half year to 31 December 2018, \$1.4 billion was retail, which includes \$176m of LIC FUM inflows (from the exercise of outstanding options, predominantly APL). This compares with \$1.35 billion of retail net inflows in the PCP, which included \$132 million of LIC FUM inflows (SEC) and \$2.2 billion for the full year to 30 June 2018, which included \$210 million of LIC inflows (SEC and options exercised).

Investment Performance Update – refer to the attached Appendices

Please contact Ian Macoun on +61 2 8970 7700, Adrian Whittingham on +61 2 8970 7701, Andrew Chambers on +61 3 9011 1100 or Calvin Kwok on +61 2 8970 7718 if you require further information.

Yours faithfully

Calvin Kwok

General Counsel and Company Secretary

Appendix 1 – Long-term Investment Performance

93% of Pinnacle Affiliated Investment Manager strategies and products (with a track record exceeding 5 years) have outperformed their benchmarks over the 5 years to 31 December 2018:

	5Y	10Y	Inception	Inception date
Hyperion Asset Management - Gross Performance				
Hyperion Australian Growth Companies Fund	8.14%	12.95%	11.70%	1/10/2002
<i>Outperformance</i>	2.54%	4.04%	3.11%	
Hyperion Small Growth Companies Fund	10.76%	19.07%	16.64%	1/10/2002
<i>Outperformance</i>	5.14%	12.20%	10.03%	
Hyperion Australian Equities Composite	8.05%	12.98%	12.88%	1/11/1996
<i>Outperformance</i>	2.45%	4.07%	4.34%	
Plato Investment Management - Gross Performance				
Plato Australian Shares Core Fund	6.18%	9.95%	5.75%	30/10/2006
<i>Outperformance</i>	0.58%	1.03%	0.95%	
Plato Australian Shares Equity Income Fund - Class A	8.23%		11.04%	9/09/2011
<i>Outperformance</i>	1.03%		2.16%	
Solaris Investment Management - Gross Performance				
Solaris Core Australian Equity Fund	7.66%	10.53%	6.01%	9/01/2008
<i>Outperformance</i>	2.03%	1.53%	2.14%	
Solaris High Alpha Australian Equity Fund	7.52%	10.62%	6.70%	4/02/2008
<i>Outperformance</i>	1.88%	1.62%	2.45%	
Resolution Capital - Gross Performance				
Resolution Capital Core Plus Property Securities Fund	13.93%	12.49%	8.60%	30/09/2008
<i>Outperformance</i>	1.41%	1.84%	2.49%	
Resolution Capital Global Property Securities Fund	9.92%	14.88%	10.76%	30/09/2008
<i>Outperformance</i>	1.85%	2.80%	4.15%	
Palisade Investment Partners - Gross Performance				
Palisade Diversified Infrastructure Fund	13.09%		10.87%	1/08/2008
Palisade Australian Social Infrastructure Fund	14.31%		15.65%	31/05/2011
Omega Global Investors - Gross Performance				
Omega Global Corp Bonds Fund	4.60%		6.19%	11/03/2010
<i>Outperformance</i>	-0.30%		-0.55%	
Omega Australian Bonds Fund	4.76%		4.95%	12/09/2011
<i>Outperformance</i>	0.09%		0.11%	
Omega Global Listed Infrastructure Fund	9.35%		11.05%	3/08/2012
<i>Outperformance</i>	0.65%		0.52%	
Metrics - Gross Performance				
DASLF	4.76%		4.97%	4/06/2013
<i>Spread to RBA Cash Rate</i>	2.88%		3.05%	
<i>Spread to Bank Bills</i>	2.62%		2.78%	

The one strategy that has underperformed its benchmark was not under Pinnacle ownership for most of the five-year period.

Appendix 2 - Pinnacle Affiliates Investment Performance (31 December 2018)

	1Y	3Y	5Y	10Y	Inception	Inception date
Hyperion Asset Management - Gross Performance						
Hyperion Australian Growth Companies Fund	1.12%	4.07%	8.14%	12.95%	11.70%	1/10/2002
Outperformance	4.18%	-2.58%	2.54%	4.04%	3.11%	
Hyperion Small Growth Companies Fund	1.30%	3.39%	10.76%	19.07%	16.64%	1/10/2002
Outperformance	9.97%	-4.06%	5.14%	12.20%	10.03%	
Hyperion Australian Equities Composite	1.39%	4.06%	8.05%	12.98%	12.88%	1/11/1996
Outperformance	4.45%	-2.59%	2.45%	4.07%	4.34%	
Hyperion Global Growth Companies Fund (Class B Units)	20.31%	16.40%			20.21%	22/05/2014
Outperformance	18.32%	8.32%			9.07%	
Plato Investment Management - Gross Performance						
Plato Australian Shares Core Fund	-2.18%	6.46%	6.18%	9.95%	5.75%	30/10/2006
Outperformance	0.88%	-0.19%	0.58%	1.03%	0.95%	
Plato Australian Shares Equity Income Fund - Class A	1.95%	8.40%	8.23%		11.04%	9/09/2011
Outperformance	3.38%	0.17%	1.03%		2.16%	
Plato Global Shares Income Fund	-1.90%	5.25%			4.55%	30/11/2015
Outperformance	-3.42%	-2.24%			-1.93%	
Solaris Investment Management - Gross Performance						
Solaris Core Australian Equity Fund	-1.38%	8.34%	7.66%	10.53%	6.01%	9/01/2008
Outperformance	1.46%	1.66%	2.03%	1.53%	2.14%	
Solaris High Alpha Australian Equity Fund	-2.46%	9.00%	7.52%	10.62%	6.70%	4/02/2008
Outperformance	0.38%	2.31%	1.88%	1.62%	2.45%	
Solaris Total Return Fund (including franking credits)	1.07%	10.18%			9.73%	13/01/2014
Outperformance	2.50%	1.95%			2.24%	
Solaris Australian Equity Long Short Fund	5.24%				14.88%	1/03/2017
Outperformance	8.08%				11.09%	
Solaris Australian Equity Income Fund	0.65%				8.01%	12/12/2016
Outperformance	2.08%				1.37%	
Resolution Capital - Gross Performance						
Resolution Capital Core Plus Property Securities Fund	3.38%	9.47%	13.93%	12.49%	8.60%	30/09/2008
Outperformance	0.11%	1.93%	1.41%	1.84%	2.49%	
Resolution Capital Global Property Securities Fund	-4.09%	5.24%	9.92%	14.88%	10.76%	30/09/2008
Outperformance	-0.14%	1.97%	1.85%	2.80%	4.15%	
Palisade Investment Partners - Gross Performance						
Palisade Diversified Infrastructure Fund	13.50%	14.47%	13.09%		10.87%	1/08/2008
Palisade Australian Social Infrastructure Fund	8.71%	13.17%	14.31%		15.65%	31/05/2011
Antipodes Partners - Gross Performance						
Global Fund	2.69%	11.90%			11.67%	1/07/2015
Outperformance	2.05%	4.12%			4.90%	
Global Long Only	-0.23%	12.53%			11.51%	1/07/2015
Outperformance	-0.87%	4.75%			4.74%	
Asia Fund	-2.51%	11.67%			9.41%	1/07/2015
Outperformance	2.35%	1.91%			3.98%	
Spheria Asset Management - Gross Performance						
Microcap Fund	-12.65%				9.79%	16/05/2016
Outperformance	-3.98%				3.98%	
Smaller Companies Fund	-5.54%				7.91%	11/07/2016
Outperformance	3.12%				3.83%	
Opportunities Fund	-2.85%				8.90%	11/07/2016
Outperformance	5.13%				2.84%	
Two Trees Investment Management - Gross Performance						
Global Macro Fund	-2.50%				-4.95%	1/11/2017
Outperformance	-4.42%				-6.83%	
Firetrail Investments - Gross Performance						
High Conviction Fund					-9.26%	14/03/2018
Outperformance					-7.38%	
Absolute Return Fund					-2.51%	14/03/2018
Outperformance					-3.70%	
Omega Global Investors - Gross Performance						
Omega Global Corp Bonds Fund	0.23%	3.77%	4.60%		6.19%	11/03/2010
Outperformance	1.40%	-0.34%	-0.30%		-0.55%	
Omega Australian Bonds Fund	3.74%	3.73%	4.76%		4.95%	12/09/2011
Outperformance	-0.80%	0.03%	0.09%		0.11%	
Omega Global Listed Infrastructure Fund	-2.65%	7.23%	9.35%		11.05%	3/08/2012
Outperformance	-0.91%	0.18%	0.65%		0.52%	
Metrics - Gross Performance						
DAS LF	4.94%	4.50%	4.76%		4.97%	4/06/2013
Spread to RBA Cash Rate	3.44%	2.91%	2.88%		3.05%	
Spread to Bank Bills	3.00%	2.60%	2.62%		2.78%	
SPDF	8.31%				7.89%	26/11/2015
Spread to RBA Cash Rate	6.81%				6.29%	
Spread to Bank Bills	6.36%				5.97%	
SPDF II	8.67%				8.92%	9/10/2017
Spread to RBA Cash Rate	7.17%				7.41%	
Spread to Bank Bills	6.72%				7.00%	

The investment performance information above is shown for information purposes only. Outperformance is measured based on performance gross of fees vs relevant benchmark.