

# **Pinnacle Investment Management Group Limited**

ABN 22 100 325 184

## **Interim Financial Report for the half year 31 December 2018**

# **Pinnacle Investment Management Group Limited**

ABN 22 100 325 184

## **Interim Financial Report - 31 December 2018**

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## **Directors' report**

Your Directors present our report on the consolidated group consisting of Pinnacle Investment Management Group Limited (the Company) and the entities it controlled (together, the Group) at the end of, or during, the half year ended 31 December 2018.

### **Directors**

The following persons were Directors of Pinnacle Investment Management Group Limited during the whole of the half year and up to the date of this report:

Mr A Watson  
Mr I Macoun  
Ms D Beale AM  
Mr G Bradley  
Mr A Chambers  
Mr A Whittingham  
Mr S M Wilson AM (resigned 18 October 2018)  
Ms L Berends (appointed 27 August 2018)

### **Review of operations**

Consistent with the Group's plans to grow the business over the medium-term, the half year was characterized by adding resources to cater for growth. As we have consistently stated, we will continue to invest in activities which we believe will bring substantial benefits over the medium term, whilst recognising that such investment may restrain our profits to some degree in the short term.

On 24 July 2018, the Group announced that it had entered into an agreement to invest \$46 million to acquire a 35% equity interest in Metrics Credit Partners Pty Limited, and announced that it had agreed to purchase a 40% equity stake in Omega Global Investors for \$2 million upfront and up to a \$2 million earn-out subject to profitability milestones. The acquisitions were funded by an institutional placement of \$60 million at \$5.50 per share and a Share Purchase Plan at \$5.50 per share, capped at \$10 million.

Profit attributable to shareholders for the half year was \$10.1 million (6.1 cents per share basic, 5.7 cents per share diluted), compared with \$8.1 million (5.4 cents per share basic, 5.0 cents per share diluted) for the prior corresponding period. The Group's continuing operations produced profit attributable to shareholders of \$10.1 million (6.1 cents per share basic, 5.7 cents per share diluted), compared to \$8.1 million for the prior corresponding period (5.4 cents per share basic, 5.0 cents per share diluted).

While income tax was paid at the Affiliate level, there was no income tax expense at the Group level for both the half year and the prior corresponding period, hence profit before tax and profit after tax are the same. The Group's deferred tax assets were de-recognised at 30 June 2015.

A fully franked interim dividend of 6.1 cents has been declared and will be payable on 22 March 2019 to shareholders registered on the record date of 8 March 2019.

Funds under management (FUM) increased by 22.9% during the half year from \$38.0 billion at 30 June 2018 to \$46.7 billion at 31 December 2018.

During the half year dividends totaling \$12.5 million have been paid to shareholders by the Company.

The Group continued to have no corporate borrowings at 31 December 2018.

**Matters subsequent to the end of the reporting period**

In the interval between the end of the half year and the date of this Directors' report there has not arisen any item, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the Company, to significantly affect the:

- Group's operations in future financial years; or
- Results of those operations in future financial years; or
- Group's state of affairs in future financial years.

**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 5.

**Rounding of amounts**

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors.



Mr A Watson  
Chairman  
Sydney  
22 February 2019



## *Auditor's Independence Declaration*

As lead auditor for the review of Pinnacle Investment Management Group Limited for the half-year ended 31 December 2018, 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 Pinnacle Investment Management Group Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Ben Woodbridge'.

Ben Woodbridge  
Partner  
PricewaterhouseCoopers

Brisbane  
22 February 2019

# Pinnacle Investment Management Group Limited

ABN 22 100 325 184

## Interim Financial Report - 31 December 2018

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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 June 2018 and any public announcements made by Pinnacle Investment Management Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This interim financial report covers the consolidated entity consisting of Pinnacle Investment Management Group Limited and its subsidiaries.

The financial report is presented in Australian currency.

Pinnacle Investment Management Group Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

Level 19, 307 Queen Street  
Brisbane QLD 4000

Its principal place of business is:

Level 35, 60 Margaret Street  
Sydney NSW 2000

The financial statements were authorised for issue by the Directors on 22 February 2019. The Directors have the power to amend and re-issue the financial statements.

**Pinnacle Investment Management Group Limited**  
**Condensed Consolidated Statement of Profit or Loss**  
**For the half year ended 31 December 2018**

		<b>Half Year</b>	
	Notes	<b>31 Dec 2018</b>	31 Dec 2017
		<b>\$'000</b>	<b>\$'000</b>
<b>Revenue from continuing operations</b>	3	<b>8,582</b>	7,250
Fair value gains/(losses) on financial assets at fair value through profit or loss		<b>(1,103)</b>	(1,231)
Employee benefits expense		<b>(5,793)</b>	(3,958)
Incentives expense		<b>(2,689)</b>	(2,364)
Professional services expense		<b>(974)</b>	(165)
Property expense	4	<b>(711)</b>	(233)
Travel and entertainment expense		<b>(453)</b>	(380)
Technology and communications expense		<b>(369)</b>	(163)
Other expenses from operating activities	4	<b>(684)</b>	(515)
Share of net profit of jointly controlled entities accounted for using the equity method		<b>14,302</b>	9,862
<b>Profit before income tax from continuing operations</b>		<b>10,108</b>	8,103
Income tax expense	5	-	-
<b>Profit from continuing operations</b>		<b>10,108</b>	8,103
<b>Profit for the half year</b>		<b>10,108</b>	8,103
Profit for the half year is attributable to:			
<b>Owners of Pinnacle Investment Management Group Limited</b>		<b>10,108</b>	8,103
Non-controlling interests		-	-
		<b>10,108</b>	8,103
		<b>Cents</b>	Cents
<b>Earnings per share:</b>			
<b>From continuing operations attributable to owners of Pinnacle Investment Management Group Limited</b>			
Basic earnings per share	9	<b>6.1</b>	5.4
Diluted earnings per share	9	<b>5.7</b>	5.0
<b>Total profit attributable to owners of Pinnacle Investment Management Group Limited</b>			
Basic earnings per share	9	<b>6.1</b>	5.4
Diluted earnings per share	9	<b>5.7</b>	5.0

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

**Pinnacle Investment Management Group Limited**  
**Condensed Consolidated Statement of Comprehensive Income**  
**For the half year ended 31 December 2018**  
**(continued)**

	<b>Half Year</b>	
Notes	<b>31 Dec 2018</b>	31 Dec 2017
	<b>\$'000</b>	\$'000
<b>Profit for the half year</b>	<b>10,108</b>	8,103
<b>Other comprehensive income:</b>		
<b>Total comprehensive income for the half year</b>	<b>10,108</b>	8,103
Total comprehensive income for the half year is attributable to:		
<b>Owners of Pinnacle Investment Management Group Limited</b>	<b>10,108</b>	8,103
	<b>10,108</b>	<b>8,103</b>
Total comprehensive income for the half year attributable to owners of Pinnacle Investment Management Group Limited arises from:		
<b>Continuing operations</b>	<b>10,108</b>	8,103
	<b>10,108</b>	8,103

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.



**Pinnacle Investment Management Group Limited**  
**Condensed Consolidated Statement of Financial Position**  
**As at 31 December 2018**

	Notes	<b>31 Dec 2018</b>	30 Jun 2018
		<b>\$'000</b>	\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	<b>9,018</b>	9,332
Trade and other receivables		<b>11,965</b>	10,563
Financial assets at fair value through profit or loss	14	<b>38,654</b>	22,156
Other current assets		<b>2,402</b>	2011
<b>Total current assets</b>		<b>62,039</b>	44,062
<b>Non-current assets</b>			
Investments accounted for using the equity method		<b>105,915</b>	55,601
Property, plant and equipment		<b>149</b>	125
Intangible assets		<b>5</b>	7
Available-for-sale financial assets		-	114
Other non-current assets	13(b)	<b>3,813</b>	4,990
<b>Total non-current assets</b>		<b>109,882</b>	60,837
<b>Total assets</b>		<b>171,921</b>	104,899
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		<b>5,578</b>	5,892
Provisions		<b>946</b>	805
<b>Total current liabilities</b>		<b>6,524</b>	6,697
<b>Non-current liabilities</b>			
Provisions		<b>135</b>	105
<b>Total non-current liabilities</b>		<b>135</b>	105
<b>Total liabilities</b>		<b>6,659</b>	6,802
<b>Net assets</b>		<b>165,262</b>	98,097
<b>EQUITY</b>			
Contributed equity	7	<b>225,065</b>	154,762
Reserves	8(a)	<b>(46,950)</b>	(46,137)
Accumulated losses	8(b)	<b>(12,853)</b>	(10,528)
<b>Total equity</b>		<b>165,262</b>	98,097

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

**Pinnacle Investment Management Group Limited**  
**Condensed Consolidated Statement of Changes in Equity**  
**For the half year ended 31 December 2018**

		<b>Attributable to owners of Pinnacle Investment Management Group Limited</b>			<b>Non-con- trolling interests</b>	<b>Total</b>
	<b>Notes</b>	<b>Contributed equity \$'000</b>	<b>Reserves \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Total \$'000</b>	<b>Total equity \$'000</b>
Opening balance at 1 July 2017		148,834	(54,383)	(18,791)	75,660	75,660
<b>Profit and total comprehensive income for the half year</b>		-	-	<b>8,103</b>	<b>8,103</b>	-
<b>Transactions with owners in their capacity as owners:</b>						
Dividends paid to shareholders	10	806	-	(7,712)	(6,906)	(6,906)
Employee loan arrangements	7	170	-	-	170	170
Share-based payments	8(a)	-	245	-	245	245
		976	245	(7,712)	(6,491)	(6,491)
<b>Closing balance at 31 December 2017</b>		<b>149,810</b>	<b>(54,138)</b>	<b>(18,400)</b>	<b>77,272</b>	<b>77,272</b>
Opening balance at 1 July 2018		154,762	(46,137)	(10,528)	98,097	98,097
Changes in accounting policy (see note 1(b))		-	(114)	114	-	-
Opening balance at 1 July 2018		154,762	(46,251)	(10,414)	98,097	98,097
<b>Profit and total comprehensive income for the half year</b>		-	-	<b>10,108</b>	<b>10,108</b>	-
<b>Transactions with owners in their capacity as owners:</b>						
Dividends paid to shareholders	10	1,195	-	(12,547)	(11,352)	(11,352)
Shares issued, net of costs	7	67,540	-	-	67,540	67,540
Employee loan arrangements	7	1,568	(1,182)	-	386	386
Share-based payments	8(a)	-	457	-	457	457
Performance Rights		-	26	-	26	26
		70,303	(699)	(12,547)	57,057	57,057
<b>Closing balance at 31 December 2018</b>		<b>225,065</b>	<b>(46,950)</b>	<b>(12,853)</b>	<b>165,262</b>	<b>165,262</b>

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**Pinnacle Investment Management Group Limited**  
**Condensed Consolidated Statement of Cash Flows**  
**For the half year ended 31 December 2018**

		<b>Half Year</b>	
	Notes	<b>31 Dec 2018</b>	31 Dec 2017
		<b>\$'000</b>	\$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		<b>7,497</b>	5,788
Payments to suppliers and employees		<b>(12,446)</b>	(9,107)
Dividends and distributions received		<b>12,751</b>	10,104
Interest received		<b>142</b>	72
Finance and borrowings costs paid		<b>(51)</b>	(53)
Proceeds from sale of financial assets at fair value through profit or loss		<b>5,682</b>	11,155
Payments to purchase financial assets at fair value through profit or loss		<b>(23,000)</b>	(5,884)
<b>Net cash inflow from operating activities</b>		<b>(9,425)</b>	12,075
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		<b>(54)</b>	(23)
Loan repayments from related parties		<b>2,099</b>	370
Loan advances to related parties		<b>(1,500)</b>	(5,226)
Loan repayments from shareholders		<b>386</b>	170
Proceeds from investments accounted for using the equity method		<b>2,992</b>	-
Payments for investments accounted for using the equity method		<b>(51,000)</b>	(4,515)
<b>Net cash outflow from investing activities</b>		<b>(47,077)</b>	(9,224)
<b>Cash flows from financing activities</b>			
Ordinary dividends paid to shareholders	10	<b>(11,352)</b>	(6,906)
Proceeds from issue of shares	7	<b>67,540</b>	-
<b>Net cash outflow from financing activities</b>		<b>56,188</b>	(6,906)
<b>Net decrease in cash and cash equivalents</b>		<b>(314)</b>	(4,055)
Cash and cash equivalents at the beginning of the year		<b>9,332</b>	10,945
<b>Cash and cash equivalents at end of half year</b>	6	<b>9,018</b>	6,890

The consolidated statement of cash flows includes cash flows from continuing and discontinued operations.

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## **1 Basis of preparation of half year report**

This condensed consolidated interim financial report for the half year reporting period ended 31 December 2018 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated 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 June 2018 and any public announcements made by Pinnacle Investment Management Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

### **(a) Significant Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, as disclosed in the 30 June 2018 annual report except for the adoption of new and amended standards as set out below.

### **(b) New and amended standards adopted by the Group**

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

- *AASB 9 Financial Instruments, and*
- *AASB 15 Revenue from Contracts with Customers*

The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have any impact on the Group's accounting policies.

### **(b)(i) AASB 9 Financial Instruments – Impact of adoption**

The Group has adopted AASB 9 financial Instruments from 1 July 2018.

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules for financial assets and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.

There is no impact on the Group's accounting for financial liabilities as the Group does not have any financial liabilities.

Similarly, the new hedging rules have also had no impact as the Group does not undertake hedge accounting.

The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses, however there is no impact to impairment provisions to date.

The total impact on the Group's retained earnings as at 1 July 2018 is as follows:

	Notes	<b>31 Dec 2018</b>
		<b>\$'000</b>
<b>Closing accumulated losses 30 June 2018</b>		<b>(10,528)</b>
Reclassify investments from available-for-sale to FVPL		114
<b>Opening accumulated losses 1 July 2018</b>		<b>(10,414)</b>

Under the new requirements the four current categories of financial assets have been replaced with three measurement categories, namely fair value through profit and loss, fair value through other comprehensive income, and amortised cost.

On 1 July 2018 (the date of initial application of AASB 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate AASB 9 categories. The result of this reclassification was to reclassify the available-for-sale financial asset (30 June 2018: \$114,000) to financial assets at FVPL. There was no impact to the classification of loans to other related parties.

## 1 Basis of preparation of half year report (cont.)

### **(b)(ii) AASB 15 Revenue from Contracts with customers – Impact of adoption**

The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 July 2018.

AASB 15, Revenue from Contracts with Customers, which replaced AASB 18, Revenue and AASB 11, Construction Contracts. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The standard establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. The five-step model requires the Group to (i) identify the contract with the customer, (ii) identify each of the performance obligations included in the contract, (iii) determine the amount of consideration in the contract, (iv) allocate the consideration to each of the identified performance obligations and (v) recognise revenue as each performance obligation is satisfied.

There are no significant impacts from the adoption of AASB 15 in relation to the timing of when the Group recognises revenues.

Revenue for providing services is recognized in the accounting period when the services are rendered. Fees are not recognized where there is a risk of significant revenue reversal.

### **(c) Adjustment of prior period balances**

Prior period balances have been adjusted where changes in the business have resulted in additional or altered disclosures in the current period.

### **(d) Impact of standards issued but not yet applied by the entity**

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The standard is mandatory for financial years commencing on or after 1 January 2019 and will apply to the Group for the first time in the 2020 financial year and it has the capacity to affect the accounting for the Group's property leases by bringing them on balance sheet. The Group is still working to assess the impact, although it is not expected to be significant (compared to the Group's overall balance sheet value). The Group does not intend to adopt the standard before its effective date.

## 2 Segment information

The Group operates one business segment being the funds management operations of Pinnacle. The business is principally conducted in one geographic location, being Australia.

### 3 Revenue from operations

The Group derives its revenue from contracts with customers from the transfer of services over time. A disaggregation of the Group's revenue is shown below.

	<b>Half Year</b>	
	<b>31 Dec 2018</b>	31 Dec 2017
	<b>\$'000</b>	\$'000
<b><i>Revenue from contracts with customers</i></b>		
<i>Services revenue – over time</i>		
Service charges	<b>7,926</b>	6,428
	<b>7,926</b>	6,428
<b><i>Other revenue</i></b>		
Interest received or due	<b>142</b>	22
Directors fees	<b>22</b>	85
Dividends and distributions	<b>488</b>	681
Other revenue	<b>4</b>	34
	<b>656</b>	822
	<b>8,582</b>	7,250

## 4 Expenses

	Half Year	
	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
<b>Profit before income tax includes the following specific expenses:</b>		
<i>Finance cost expense – included in other expenses from operating activities</i>		
Interest and finance charges - corporate	51	53
	<b>51</b>	<b>53</b>
<i>Rental expense relating to operating leases – included in property costs</i>		
Minimum lease payments	502	175
	<b>502</b>	<b>175</b>

## 5 Income tax expense

### Numerical reconciliation of income tax expense to prima facie tax payable

	Half Year	
	31 Dec 2018	31 Dec 2017
	\$'000	\$'000
Profit from continuing operations before income tax expense	10,108	8,103
Profit before income tax	<b>10,108</b>	<b>8,103</b>
Tax at the Australian tax rate of 30.0% (2017 - 30.0%)	3,032	2,431
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Share of profits of jointly controlled entities	(4,291)	(2,959)
Non-deductible expenditure	161	101
Sundry items	(10)	-
	<b>(1,108)</b>	<b>(427)</b>
Offset against deferred tax assets *	1,108	427
Total income tax expense	-	-

\* Deferred tax assets have not been recognized in full on the basis that there remains uncertainty regarding the timing and quantum of the generation of taxable profits.

## 6 Current assets - Cash and cash equivalents

	31 Dec 2018	30 Jun 2018
	\$'000	\$'000
Available cash at bank and on hand	8,651	8,965
Fixed-term deposits	367	367
	<b>9,018</b>	<b>9,332</b>

## 7 Contributed equity

### (a) Share capital

	31 Dec 2018 No. of shares	30 Jun 2018 No of. shares	31 Dec 2018 Paid \$'000	30 Jun 2018 Paid \$'000
Ordinary shares:				
Fully paid contributed equity - Company	168,409,449	153,905,571	225,428	154,762
<b>Total contributed equity</b>	<b>168,409,449</b>	<b>153,905,571</b>	<b>225,428</b>	<b>154,762</b>

### (b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	\$'000
<b>1 July 2018</b>	<b>Opening balance</b>	<b>153,905,571</b>		<b>154,762</b>
	Treasury stock held at the beginning of period	10,018,936		5,848
6 Oct 2018	Shares issued under DRP	156,736	\$7.63	1,195
	Share purchase plan, net of issue costs	1,811,402	\$5.50	9,860
	Share placement, net of issue costs	10,909,091	\$5.50	57,680
	Treasury stock issued	4,000,000		26,880
	Treasury stock held at the end of period	(12,392,287)		(31,160)
<b>31 Dec 2018</b>	<b>Closing Balance</b>	<b>168,409,449</b>		<b>225,065</b>

### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

### (d) Treasury stock

Treasury stock are shares in Pinnacle Investment Management Group Limited that are subject to share mortgage under employee loans used for the purposes of acquiring interests in the Company (refer note 13). The value ascribed to treasury stock is the balance of the loans secured by share mortgage at period end.

Treasury stock movement for the period includes the issue of 4 million loan shares to employees, including Executive Directors, issued under the Pinnacle Omnibus Plan approved by the board on 22 August 2018. Shares issued to Executive Directors were approved by shareholders at the AGM on 18 October 2018.



## 8 Reserves and accumulated losses

### (a) Reserves

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Share-based payments reserve	3,129	3,854
Options reserve	9,498	9,498
Performance rights reserve	26	-
Available-for-sale financial assets reserve	-	114
Transactions with non-controlling interests reserve	(59,603)	(59,603)
	<u>(46,950)</u>	<u>(46,137)</u>

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised;
- the grant date fair value of shares issued to employees;
- the issue of shares held by employee share plans to employees; and
- the grant date fair value of the Pinnacle Long-term Employee Incentive Plan and Pinnacle Omnibus Incentive Plan approved by the board on 22 August 2018.

The available-for-sale financial assets reserve is used to recognise changes in the fair value of available-for-sale financial assets. This has been reclassified at 1 July 2018 to retained earnings following the adoption of AASB 9 (see notes 1(b), 14(a)).

The transactions with non-controlling interests reserve is used to recognise the excess of the consideration paid to acquire non-controlling interests above the carrying value of the non-controlling interest at time of acquisition.

### (b) Accumulated losses

Movements in accumulated losses were as follows:

	\$'000
<b>Balance at 1 July 2018</b>	<b>(10,414)</b>
Profit attributable to owners of Pinnacle Investment Management Group Limited	10,108
Dividends paid to shareholders (refer note 10)	(12,547)
<b>Balance at 31 December 2018</b>	<b><u>(12,853)</u></b>

## 9 Earnings per share

	Half Year	
	31 Dec 2018 Cents	31 Dec 2017 Cents
<b>(a) Basic earnings per share</b>		
Attributable to the ordinary equity holders of the company:		
<b>From continuing operations</b>	<b>6.1</b>	5.4
<b>From total operations</b>	<b>6.1</b>	5.4

<b>(b) Diluted earnings per share</b>		
Attributable to the ordinary equity holders of the company:		
<b>From continuing operations</b>	<b>5.7</b>	5.0
<b>From total operations</b>	<b>5.7</b>	5.0

	Half Year	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
<b>(c) Basic earnings per share</b>		
<i>Basic and diluted earnings per share</i>		
Profit/(loss) attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share:		
From continuing operations	<b>10,108</b>	8,103
Profit used in calculating basic and diluted earnings per share	<b>10,108</b>	8,103

	Half Year	
	31 Dec 2018 Number	31 Dec 2017 Number
<b>(d) Weighted average number of shares used as the denominator</b>		
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	<b>164,605,749</b>	149,938,243
Adjustments for calculation of diluted earnings per share:		
Weighted average options and treasury stock	<b>13,129,761</b>	13,752,888
<i>Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	<b>177,735,510</b>	163,691,131

### (e) Information concerning the classification of securities

Options granted to employees under employee share schemes are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share.

## 10 Dividends

	Half Year	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
<b>(a) Ordinary shares</b>		
Final dividend for the year ended 30 June 2018 of 7.0 cents per fully paid ordinary share paid on 5 October 2018 (2017 – 4.8 cents paid on 6 October 2017)		
Fully franked based on tax paid @ 30.0%	<b>12,547</b>	7,712
Total dividends paid	<b>12,547</b>	7,712

The Company activated its dividend reinvestment plan ("DRP") on 29 August 2017. The final dividend for the year ended 30 June 2018 totaling \$12,547,150 was paid \$11,351,672 in cash, and \$1,195,478 via the DRP.

## 10 Dividends (cont.)

### (b) Dividends not recognised at the end of the half year

Since period end the Directors have recommended the payment of an interim dividend of 6.1 cents per fully paid ordinary share (2017 – 4.6 cents), fully franked based on tax paid at 30%. The aggregate amount of the dividend expected to be paid on 22 March 2019 (2017 – 23 March 2018), but not recognised as a liability at half year end, is:

11,029	7,403
<b>11,029</b>	<b>7,403</b>

## 11 Borrowings and Financing Facilities

The Group has a bank facility subject to annual review which is secured by a general security deed over the assets of a subsidiary of the Group, Ariano Pty Ltd, and guarantees provided by the Company and other Group entities (excluding entities within the Pinnacle Investment Management Limited and Next Financial Limited groups). The facility's next anniversary date is 30 June 2019. Details of the facility are as follows:

	<b>Limit of facility</b>	
	<b>31 Dec 2018</b>	<b>30 Jun 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank guarantee (amount used at balance date: \$5,050,000)	<b>5,500</b>	5,500
Corporate credit card (amount used at balance date: \$115,000)	<b>360</b>	360
	<b>5,860</b>	5,860

The bank facility is supported by a negative pledge that states that (subject to certain exceptions) the Group will not provide any security over its assets and that the Group's consolidated tangible net assets must not be less than 60% of its total tangible assets. Ongoing compliance with covenants is reviewed on a regular basis and compliance has been maintained during the period.

## 12 Contingencies

### Guarantees

The Group has provided guarantees in respect of Australian Financial Services License Net Tangible Asset obligations (via bank guarantee) in respect of:

- (i) Pinnacle Funds Services Limited - \$5,000,000 (30 June 2018: \$5,000,000).
- (ii) Pinnacle RE Services Limited - \$50,000 (30 June 2018 - \$50,000)

The unused bank guarantee facility at balance date was \$450,000 (30 June 2018: \$450,000). The Group has also provided guarantees in relation to its corporate credit card facility (facility limit of \$360,000 of which \$245,000 was unused at balance date).

These guarantees may give rise to liabilities in the Group if the related entities do not meet their obligations that are subject to the guarantees.

No material losses are anticipated in respect of any of the above contingent liabilities.

### Disposal of Securities Business

The Group has contingent liabilities and assets in respect of its historical ownership of the Wilsons advisory business prior to its disposal on 1 July 2015 (refer note 14).

### Acquisition of non-controlling interests of Pinnacle Investment Management Limited

The Group has contingent liabilities in respect of warranties provided to the vendors of the non-controlling interests of Pinnacle Investment Management Limited, acquired on 25 August 2016 (refer note 13).

## 13 Related party transactions

### (a) Movement in loans to Key Management Personnel

#### (i) Loans provided 25 August 2016

Further details of these loans are provided in the Company's 2018 annual report at pages 36 and 38.

During the half year interest of \$6,617 accrued on each of these four loans to key management personnel. The balance of each loan at 31 December 2018 including capitalised interest was \$530,158.

#### (ii) Loans re-issued 25 August 2016

Further details of these loans are provided in the Company's 2018 annual report.

The value of re-issued loans for each of the key management personnel at period end and repayments made during the half year were as follows:

Key Management Personnel	Loan balance – 1 July 2018 \$	Repayments made \$	Loan balance - 31 Dec 2018 \$
Ian Macoun	469,520	(40,327)	429,193
Alex Ihlenfeldt	681,631	(22,832)	658,799
Adrian Whittingham	703,774	(40,327)	663,447
Andrew Chambers	703,774	(40,327)	663,447

#### (iii) Loan Shares issued under the Pinnacle Omnibus Plan

During the half year to 31 December 2018, 1.7 million loan shares were issued to Key Management Personnel under the Pinnacle Omnibus Plan, approved by the board on 22 August 2018. The shares are subject to service and performance conditions and will vest after five years, if the conditions are met. The loans are interest free (until vesting date) and limited in recourse to the shares. They are repayable 10 years from grant date, on termination of employment or when the underlying equity is sold, whichever occurs earlier.

The value of the loans issued for each of the key management personnel at period end and repayments made during the half year were as follows:

Key Management Personnel	Loan balance \$	Repayments made \$	Loan balance - 31 Dec 2018 \$
Ian Macoun	1,697,460	-	1,697,460
Alex Ihlenfeldt	2,187,510	(15,899)*	2,171,611
Adrian Whittingham	1,697,460	-	1,697,460
Andrew Chambers	4,526,560	-	4,526,560

\*Shares were issued to Mr Ihlenfeldt prior to the dividend paid on 5 October 2018. Shares were issued to the other KMP subsequent to the AGM on 15 October 2018.

### (b) Loans to other Related Parties

On 27th October 2017, a subsidiary of the Company provided loan funding totalling \$5.226m to a number of Executives of Palisade Investment Partners Limited ("Palisade"), an Affiliate of the Company, to facilitate their purchase of shares in Palisade from an exiting shareholder. The loans have terms of between five and seven years, are interest-bearing and secured by shares in Palisade. The loans are recorded within other non-current assets in the consolidated statement of financial position.

During the half year, interest of \$0.1m accrued on these loans and repayments of \$1.3m were made. The balance of the loans at 31 December 2018 including capitalized interest was \$3.813m.

On 27th October 2017, the Company also purchased additional shares in Palisade from an exiting shareholder. The payment for additional capital is recorded within investments accounted for using the equity method in the consolidated statement of financial position.

## 14 Fair value measurement of financial instruments

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report.

### (a) Fair value hierarchy

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2018 and 30 June 2018 on a recurring basis:

<b>31 December 2018</b>	<b>Level 1 \$'000</b>	<b>Level 2 \$'000</b>	<b>Level 3 \$'000</b>	<b>Total \$'000</b>
<b>Assets</b>				
<i>Financial assets at fair value through profit or loss:</i>				
Australian listed equity securities	15,088	-	-	15,088
Unlisted unit trusts	22,028	-	-	22,028
Derivative financial instruments - futures	946	-	-	946
Other unlisted equity securities	-	-	478	478
	<b>38,062</b>	<b>-</b>	<b>478</b>	<b>38,540</b>
<i>Other financial assets at fair value through profit or loss:</i>				
Contingent consideration from disposal of discontinued operation	-	-	114	114
	<b>-</b>	<b>-</b>	<b>114</b>	<b>114</b>
<b>Total assets</b>	<b>38,062</b>	<b>-</b>	<b>592</b>	<b>38,654</b>

No liabilities were held at fair value at 31 December 2018.

<b>30 June 2018</b>	<b>Level 1 \$'000</b>	<b>Level 2 \$'000</b>	<b>Level 3 \$'000</b>	<b>Total \$'000</b>
<b>Assets</b>				
<i>Financial assets at fair value through profit or loss:</i>				
Australian listed equity securities	10,783	-	-	10,783
Australian listed debt securities	-	-	-	-
Unlisted unit trusts	10,270	-	-	10,270
Derivative financial instruments - futures	739	-	-	739
Other unlisted equity securities	-	-	364	364
	<b>21,792</b>	<b>-</b>	<b>364</b>	<b>22,156</b>
<i>Available-for-sale financial assets:</i>				
Contingent consideration from disposal of discontinued operation	-	-	114	114
	<b>-</b>	<b>-</b>	<b>114</b>	<b>114</b>
<b>Total assets</b>	<b>21,792</b>	<b>-</b>	<b>478</b>	<b>22,270</b>

No liabilities were held at fair value at 30 June 2018.

The Group did not measure any financial assets or liabilities at fair value on a non-recurring basis as at 31 December 2018.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

## 14 Fair value measurement of financial instruments (cont.)

### (b) Valuation techniques used to determine fair values

The fair value of Australian listed securities and unlisted unit trusts is based on quoted market prices at the end of the reporting period. The quoted price used for Australian listed securities is the current bid price. The quoted market price used for unlisted unit trusts is the current exit unit price. These instruments are included in level 1.

The fair value of unlisted equity securities and contingent consideration from disposal of discontinued operation is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

The carrying amounts of cash and cash equivalents, trade receivables and payables, loans to entities under joint control, loans to shareholders and other current liabilities are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### (c) Fair value measurements using significant unobservable inputs (level 3)

Level 3 items include unlisted equity securities held by the Group, and contingent consideration from disposal of discontinued operation. The following table presents the changes in level 3 instruments for the half year ended 31 December 2018:

	Contingent Consideration \$'000	Unlisted equity securities \$'000
<b>Opening balance 1 July 2018</b>	<b>114</b>	<b>364</b>
Unrealised gains / (losses) recognised in fair value gains / (losses) on financial assets at fair value through profit and loss	-	114
Fair value adjustments recognised in other comprehensive income	-	-
<b>Closing balance 31 December 2018</b>	<b>114</b>	<b>478</b>

#### (i) Valuation process

Unlisted equity securities valued under level 3 are investments in unlisted companies. Where possible, the investments are valued based on the most recent transaction involving the securities of the investee company. Where there is no recent information or the information is otherwise unavailable, the value is derived from calculations based on the value per security of the underlying net tangible assets of the investee company.

Contingent consideration valued under level 3 relates to the disposal of discontinued operations. The fair value of contingent consideration from disposal of the Securities business is determined based on forecasts of profits, taxable income and deferred tax asset utilisation using the latest financial information available for the business at balance date.

#### (ii) Transfer between levels

There were no transfers between levels during the half year.

## **15 Investments accounted for using the equity method**

On 2 August 2018 the Company completed the acquisition of a 35% interest in Metrics Credit Partners Pty Limited (MCP) for \$46m through its wholly owned subsidiary Pinnacle Investment Management Limited (PIML). Following this investment MCP has approximately \$40m of excess cash to deploy in support of its medium-term growth initiatives.

On 23 July 2018 the Company also completed the acquisition of a 40% interest in Omega Global Investors for \$2 million upfront and up to a \$2 million earn-out subject to profitability milestones.

The acquisitions were funded through an institutional placement completed on 25 July 2018 which raised \$60 million at a price of \$5.50 per share, representing a 1.3% discount to the 5 day VWAP, as well as the Share Purchase Plan (SPP) which raised \$10m (see note 7).

## **16 Events occurring after the reporting period**

No matter or circumstance has occurred subsequent to year-end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

**Pinnacle Investment Management Group Limited**  
**Directors' Declaration**  
**For the half year ended 31 December 2018**

In the opinion of the Directors of Pinnacle Investment Management Group Limited (the Company):

- (a) the Interim financial report and notes set out on pages 6 to 23 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half year ended on that date, and
- (b) there are reasonable grounds to believe that the Company 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.



Mr A Watson  
Chairman  
Sydney  
22 February 2019





## **Independent auditor's review report to the members of Pinnacle investment Management Group Limited**

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

We have reviewed the accompanying half-year financial report of Pinnacle investment Management Group Limited (the Company), which comprises the Condensed consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, Condensed consolidated statement of profit or loss, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Pinnacle investment Management 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 December 2018 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 Pinnacle investment Management 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*.

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### *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 Pinnacle investment Management Group Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 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*.

A stylized, handwritten signature of the PricewaterhouseCoopers firm.

PricewaterhouseCoopers

A handwritten signature of Ben Woodbridge.

Ben Woodbridge  
Partner

Brisbane  
22 February 2019