Pinnacle

31 October 2019

By electronic lodgement

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

2019 Annual General Meeting – Chairman's Address and Managing Director's Address

Please find attached a copy of the Chairman's address and Managing Director's address which will be delivered at the Company's Annual General Meeting today.

For further information, please contact 1300 651 577.

Yours faithfully,

Calvin Kwok
Company Secretary

2019 Annual General Meeting – Chairman's Address

Refer to slide 3 – Chairman's Address

Chairman's Address

Refer to slide 4 – Chairman's Address

During the 2019 financial year, Pinnacle continued its strong growth, with funds under management, earnings and dividends all growing substantially. Existing Affiliates have grown their funds under management, additional Affiliates and investment strategies have been added, and resourcing levels have been prudently expanded to cater for current and future growth, including in new markets. During this review I will cover three key themes:

- Building a strong, diversified business;
- Medium term track record, including a Review of Progress since becoming a 'pure play' funds management group in 2016; and
- Future Growth – measured and ready for opportunities.

Refer to slide 5 – Building a resilient, diversified business

Pinnacle continues to mature as a business that will continue to prosper in benign financial conditions, and whilst not being immune to challenging conditions, it will be increasingly resilient to them, and thus allow shareholders to benefit across the whole cycle.

We believe this resilience is enhanced when we increase:

1. The diversity of asset classes under management,
2. The diversity of sources of funds under management through industry leading distribution performance, and
3. Percentage of funds under management exposed to performance fees.

Taking these in turn,

Refer to slide 6 – Diversity of Asset Classes under management

We continue to support the growth of our current Affiliates as they broaden their strategy offerings, whilst also seeking to invest in new Affiliates where management teams have a strong track record and growth potential. As examples of the growth of existing Affiliates we note the successful track record that Hyperion has built in global equities, and the progress that Spheria has made in each of Australian small caps and the Australian Opportunities Fund, as well as more recently in global micro caps.

Refer to Slide 7 – Adding Quality Affiliates

We have had a deliberate strategy to diversify into new asset classes with substantial growth potential, as can be seen in this slide. Our five newest Affiliates, Metrics Credit Partners, Omega Global Investors, Firetrail Investments, Longwave Capital Partners and Riparian Capital Partners are testament to this approach.

- Shareholders will recall our purchase in July 2018 of a 35% interest in Metrics Credit Partners, a leading Australian non-bank corporate lender and alternative asset manager specialising in fixed income, private credit, equity and capital markets. We have been a longstanding distribution partner to Metrics Credit and our equity interest now builds on this partnership. Metrics Credit provides diversification into a new 'alternative' asset class that has substantial structural growth potential;

- Also in July of 2018, we acquired a 40% interest in Omega Global Investors. Omega offers smart beta, factor investing and client solutions (including ESG) capabilities. Omega also supports our strategy to participate in the ETF market;

- Firetrail is a high conviction investment manager of Australian equities. The business has experienced large early inflows into their two initial strategies, and those strategies are now closed to further institutional investors;

- Longwave is one of our newest Affiliates, led by David Wanis. As well as adding an additional small cap capability, Longwave will also offer multi-asset strategies in time;

- Riparian is also a newly commenced Affiliate, led by Michael Blakeney, Nick Waters and Patrick Hayden. It specialises in investing in Water, Agricultural and Food investments across the agricultural sector.

Refer to slide 8 – Diversity of Sources of Funds under Management

We currently source funds for our Affiliates from

1. Institutional - domestic
2. Institutional – offshore
3. Retail – Intermediated
4. Retail – Direct

Considering these in turn,

Refer to slide 9 – Australian Institutional Funds Market – Challenges and Mitigants

There has been substantial media comment this year on challenges confronting Australian institutional fund managers, driven by continuing amalgamations of large Australian superannuation funds, the 'insourcing' of funds management functions by some of those funds, some increased adoption of passive index funds, and ongoing pressure for reductions in the fees paid to fund managers.

Indeed, during the 2019 financial year a number of Australian fund managers have ‘closed their doors’, with these trends partly blamed for the failure of some of those firms. It is reasonable for shareholders to ask whether these represent serious problems for Pinnacle and Pinnacle Affiliates.

We believe the answer is that whilst these trends do impact us to some degree, they should be seen in perspective. That is not to say that we are complacent or oblivious to them – on the contrary, our strategies have been designed with these trends in mind. In considering their effects, we would note:

- we have a very diversified client base (78 institutional separate account clients, 95 institutional separate accounts across our Affiliates; the largest client represents less than 1% of Pinnacle revenue);
- whilst Institutional FUM continues to grow in absolute terms, it is now a lower proportion of our total FUM;
- given the strong growth in FUM in our industry (especially large superannuation funds) it is not unreasonable, and very manageable, that institutional basis point fees may trend lower – however, aggregate fees continue to grow with growing FUM;
- our Affiliates restrict capacity wherever appropriate, and consequently are better placed to receive higher fees in capacity-constrained strategies;
- large superannuation funds continue to be willing to pay substantial fees for investment strategies and managers that produce attractive investment performance;
- performance fees can often be a ‘win-win’ and provide attractive economics for our strongly performing managers;
- we are diversifying the markets into which we are offering our investment strategies. Our existing Affiliates still have very substantial available capacity. We will strive to continue to achieve strong net fund inflows in both the retail and the institutional markets in Australia, as well as further developing our early distribution efforts in offshore markets, where there is an attractive environment for expanding institutional sales. To this end, we opened a small office in London last year, which we share with Antipodes, in support of these efforts. We expect to soon add a key distribution representative based in the US.

We have previously stated that net inflows from the institutional market are very lumpy, and this was demonstrated in FY19 where our aggregate Affiliates institutional sales were not as strong as we might have hoped for at the beginning of the year. The reality is that in any given year a subset of our Affiliates accounts for the majority of our overall net inflows – this year it was Firetrail and Antipodes; last year it was Resolution Capital, Solaris and Antipodes.

Refer to slide 10 – An unusual year in the retail market

Notwithstanding the reduction in political uncertainty in Australia following the federal election and the recovery of the global and Australian equities markets, both of which finished the financial year significantly above their level at the beginning of the financial year, retail market conditions remain subdued. At least in part, this is due to the impact of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, together with geo-political concerns led by the US-China trade conflict, Brexit confusion, and, most recently, the developments in Hong Kong. It remains too early to predict what the medium term effects will be, but clearly in the short term both sentiment and aggregate net inflows have reduced in both intermediated and direct retail markets.

We have built and grown an increasingly diversified skill base in retail distribution – in addition to our major 'intermediated retail' sales capability, we have had very substantial success in the listed market, raising in excess of $2.7 billion in Listed Investment Company/Listed Investment Trust funds for our Affiliates Antipodes, Plato, Spheria and Metrics Credit. During the past two years, we have launched an active ETF initiative, and are investing to grow our nascent direct to retail initiative.

Refer to slide 11 – Growth in Retail FUM

Slide 11 shows that Retail FUM as a % of total FUM has increased from 8.3% at 30 June 2013 to 21.4% at 30 June 2019.

Refer to slide 12 – Growth in Performance Fee FUM

And slide 12 shows the increase in the proportion of Funds Under Management with the potential to earn Performance fees from 16.7% at 30 June 2016 to 30% at 30 June 2019. The trends illustrated in both of these slides demonstrate the growing resilience of our business.

We continue to invest significantly in our market-leading distribution capability. We now have a distribution and marketing team totalling 37 people, working across retail, institutional and offshore channels. We were delighted to win Distributor of the Year at the 2019 Zenith Fund Awards, for the fourth consecutive year, which is testament to the quality and success of our salesforce.

Our Affiliates' performance and track records are judged over the medium term by their clients and, in that light, I believe it is therefore helpful for shareholders to examine Pinnacle's Medium Term Track record, including a Review of Progress since becoming a 'pure play' funds management group in 2016.

Refer to slide 13 – Progress since 2016

In an Investor presentation dated 2nd June 2016 (available on our website) it was stated that Pinnacle:

- is a multi-affiliate investment management firm with a mission to establish, grow and support a diverse stable of world-class fund managers;

- had funds under management of $19.25 billion as at 30 April 2016; and
- delivered a net profit after tax in the first Half of FY16 of $4.7 million,

and that its strategy was to:

- continue to provide high quality distribution, responsible entity and infrastructure services;
- support its affiliated fund managers' high standards;
- remain focused on investing, to enable continued strong performance and FUM growth;
- grow retail FUM; and
- continue to assess third party distribution and new boutique opportunities.

The strategic aims described then remain valid and relevant to us today.

As to progress since 2016, at that time we comprised 7 Affiliates, whereas today we have nearly doubled our Affiliates to 13, whilst broadly trebling the aggregate funds under management to $ 56.9 billion, and similarly trebling Pinnacle NPAT to $30.5m. During the period EPS have grown from 5.2c to 18.3c, over 350%

In FY19 shareholders have benefitted from 15.4c of fully franked ordinary dividends per share, which compares to 3.3c of fully franked ordinary dividends per share in FY16, a compound growth rate of 67% p.a. over the period.

Refer to slide 14 – FY19 Financial Highlights

Slide 14 summarises the highlights of the Company's financial performance during the 2019 financial year:

- NPAT from continuing operations attributable to shareholders of $30.5 million, up 32% from $23.1 million in the prior year;
- Earnings per share from continuing operations of 18.3 cents, up 28% from 14.3 cents in the prior year;
- Share of NPAT from Pinnacle Affiliates of $33.1 million, up 33% from $24.9 million;
- Fully franked final dividend of 9.3 cents per share paid on 5 October 2019;
- Cash and Principal Investments of $51.2 million as at 30 June 2019.

Refer to slide 15 – Fully Franked Dividend Yield AND earnings growth

Earlier, whilst reviewing our progress against the goals that we set out in 2016, I pointed out that Pinnacle has paid fully franked dividends totalling 15.4 cents per share in relation to our FY19 financial performance, up 67% pa from 3.3 cents in FY16. The Board has maintained the policy of paying out in excess of 80% of EPS each year as we have ample franking credits available and believe that shareholders generally appreciate receiving significant and growing dividend income, in addition to what we recognise is nevertheless 'the main game' – growth in earnings.

We have been able to maintain this dividend policy whilst growing earnings by well in excess of 20% p.a., and note that at the current market price the 15.4 cents FY19 dividends represent a fully franked yield of in the order of 3.1% pa, equivalent to around 4.4% pa on non-franked income.

It is worth noting in this regard that our franking credit balance of $28.8m, at the 30% company tax rate, would be sufficient to enable potential dividends of a total of $67.2m to be fully franked, in the hypothetical event that we were to have sufficient profit and cash available.

Refer to slide 16 –Future Growth - Measured

As well as supporting the growth of our current Affiliates in both existing and new markets, we continue to seek out world class investment teams, in new asset classes. If, as expected, the new asset classes demonstrate reduced correlation, then this diversification of our platform helps to build stability, as well as ensuring that we meet the evolving needs of our clients.

Refer to slide 17 –Future Growth – Ready for Opportunities

In order to be able to respond to compelling opportunities that may arise and provide seed funding for new strategies managed by our Affiliates, we have built and will maintain a robust balance sheet which will allow us to consider opportunities that would be expected to present themselves in challenging conditions.

- At 30 June 2019, we had $51.2m of cash and principal investments, which
    - includes $23.2m invested in strategies managed by Pinnacle Affiliates;
    - excludes nearly $6m of cash applied for Affiliate equity recycling loans, working capital loans (Two Trees) and Affiliate equity purchased, and
    - excludes the impact of the final dividend of $17m (9.3 cents per share, Investors, but also the impact (in the opposite direction) of final dividends in relation to FY19 paid to Pinnacle by Affiliates.
- It is strategically valuable for Pinnacle to have capital available to seed new Affiliates, facilitate Affiliate equity recycling, and respond to any very high quality 'Horizon 3' opportunities that may arise. With this in mind, we have recently entered into a $30m borrowing facility with the CBA, to be used as additional 'dry powder' in the event that attractive 'Horizon 3' opportunities were to arise; and in the meantime, these funds will be deployed as investments in appropriate liquid funds of Affiliates, including for the seeding of new funds.

2019 Annual General Meeting – Managing Director's Address

Refer to slide 35 – Managing Director's Address

Thank you, Alan.

Good morning shareholders, colleagues and visitors.

Refer to slide 36 – Managing Director's Address (Topics)

In my address today, I would like to briefly cover a number of topics:

- Group financial summary
- Enhancing the platform – strength, stability and reputation
  - We now have a substantially more Diversified platform
  - And this platform provides Enhanced opportunities for further growth of the business
- Pinnacle Affiliates continue to win major industry awards
- Continuing strong investment performance of Affiliates
- FUM and Net FUM inflows
- Pinnacle Foundation
- Recap on Horizon 3 – what could we acquire?

Refer to slide 37 – Group financial summary

Shareholders would be aware of the FY2019 financial results that we reported on 6 August 2019, which showed strong growth in Pinnacle's earnings. Our 2019 NPAT from continuing operations, at $30.5 million, was up 32% from the previous financial year. This slide provides a succinct summary of the composition of that result.

Refer to slide 38 – Significant components of FY 2018 results

This slide summarises the most significant components of our FY2019 results. Our results for the FY2019 financial year were underpinned by revenue growth within 'Pinnacle parent', as well as our Affiliates, which translates into a higher share of profits for Pinnacle. There continues to be significant investment within both Pinnacle and our Affiliates as we enhance and diversify the platform.

Refer to slide 39 – PNI Balance Sheet

And, as already explained by Alan, we have a strong and flexible balance sheet. As at 30 June 2019 the company had $51.2 million of 'liquid' cash and principal investments, of which $23.2 million was invested with Pinnacle Affiliates. Our cash and Principal Investments position was boosted by our capital raising in July 2018, and we have recently entered into a $30m debt facility with the Commonwealth Bank to provide additional ‘dry powder’.

Refer to slide 40 – Enhancing the platform – strength, stability and reputation

This slide elaborates on our efforts to continue enhancing the Pinnacle platform, bringing strength and stability to the company as we continue to enhance our reputation for excellence in the delivery of a substantial range of active investment management services.

- Our platform is stable and increasingly diversified
  - Our Affiliates continue to demonstrate investment excellence;
  - We enjoy widespread industry recognition and support - as evidenced by the size of our net FUM inflows, the industry Awards that we win, and the breadth of the support for our investment strategies in both the institutional and retail markets;
  - We believe we enjoy what we call an ‘Article of faith’ reputation, by which we mean that the people who are important to us – our clients and their advisors – believe, as an article of faith, that if an investment strategy or product is offered by a Pinnacle Affiliate then it will be of high quality and deliver on its promises;
- We continue to undertake further investment in expanding our distribution capability, including (in addition to our traditional markets of Australian institutional and ‘intermediated’ retail) in the newer markets for us, of:
  - Direct to retail, and
  - International;
- As mentioned previously, we have demonstrated a proven ability to build high quality investment managers, and facilitate substantial success, quickly;
- We are expanding our distribution capability, at high quality;
- We know that it is critical to maintain the highest standards of service and support to our Pinnacle Affiliates and we do everything within our power to ensure that and, again as outlined earlier, we have a strong and flexible balance sheet.

Refer to slide 41 – Pinnacle Affiliates continue to win major industry Awards

As indicated in this slide, Pinnacle and Pinnacle Affiliates have continued to receive recognition from independent experts for the quality of our investment offerings. Most recently, just this month at the annual Zenith Fund Awards, Resolution Capital won the Global REIT Fund Manager of the Year Award for the sixth consecutive year, Solaris Investment Management won the Australian Equities –

Alternative Strategies Award for the second consecutive year, Metrics Credit won the Listed Investment Entities Award and Pinnacle itself won the Fund Distributor of the Year Award for the fourth consecutive year, recognising our success in retail distribution. In addition, two Affiliates achieved the distinction of being finalists (Solaris in the Australian Equities – Large Cap category and Antipodes in the International Equities – Alternative Strategies category).

Refer to slide 42 – Continuing Strong Investment Performance of Affiliates

In keeping with industry 'best practice' we continually report on the proportion of our Affiliates' strategies and products that have a track record exceeding 5 years that have exceeded their benchmarks over the past 5 years. This is the classic measure of 'medium term performance' consistency and excellence. It is pleasing to be able to report that 94% of such strategies of Pinnacle Affiliates have exceeded their benchmark.

Refer to slide 43 – 'Affiliates' investment performance to 30 September 2019

The following two slides report the performance of our Affiliates' strategies over 1, 3, 5 and 10 year periods and 'since inception'.

Refer to slide 44 – 'Affiliates' investment performance to 30 September 2019

Although some strategies will inevitably underperform their benchmarks over the short term, our Affiliates' medium to long term records remain strong.

Refer to slide 45 – FY19 funds under management

The aggregate Funds Under Management of our Affiliates have grown to $56.9 billion by 30 September 2019. This was an increase of $18.9 billion, or 49.7% (including $6.8 billion 'acquired' in July 2018) on the FUM 15 months earlier, at the beginning of the 2019 financial year. Our Net Funds Inflows were $6.5 billion during the 2019 financial year, of which $2.9 billion was retail.

Refer to slide 46 – FY19 revenues

This slide shows graphically the growth in our Affiliates revenues over the past 10 years or so.

Refer to slide 47 – Pinnacle Charitable Foundation

Pinnacle is passionate about enabling better lives through investment excellence. This belief is strongly demonstrated through Pinnacle's commitment – together with the Affiliates – to the Pinnacle Charitable Foundation to drive positive, long term social change.

The Foundation's vision is for a compassionate, creative and clever Australia – including a vibrant not for-profit sector. The Foundation's support is frequently provided at an early stage, offering seed funding to young, passionate charities as they seek to make a tangible impact within their communities.

Financially backed by Pinnacle and with access to extensive pro bono services across investment management, portfolio reporting, finance and IT, the Foundation operates with low overheads and high impact. Its investment strategy aims to provide reasonable capital protection whilst driving growth over the longer term. Investments are held in a range of suitable products offered across Affiliates – which rebate associated management fees.

For the 2019 financial year, Pinnacle made cash contributions of $311,000 (FY18: $225,000) to the Foundation, with the Pinnacle Affiliates contributing a further $110,000 to Foundation projects in collaboration (FY18: $66,000).

During the 2019 financial year, combined donations totaling over $410,000 were directed towards supporting five key priorities:

- mental health awareness, and prevention / early intervention strategies to reduce mental illness;
- children facing acute or systemic disadvantage;
- legal assistance for victims of domestic violence and sexual abuse;
- development of corporate procurement initiatives for Indigenous communities; and
- medical research seeking treatments / cures for children's genetic diseases and for Alzheimer's disease.

The Foundation was the largest recipient of a matched employee payroll giving program offered by Pinnacle and several Affiliates. Donations to more than 40 charities in FY19 totalled just under $60,000.

Refer to slide 48 – Recap on Horizon 3 Criteria – What could we acquire?

I would like to finish my presentation with this final slide, which addresses what we call 'Horizon 3' expansion opportunities, being where we invest capital to make an acquisition of equity in an existing business. These differ from 'Horizon 2' investments which are expensed through our profit and loss accounts.

As Alan has mentioned, in July 2018 we undertook substantial Horizon 3 investments when we entered into agreements to acquire a 35% interest in Metrics Credit Partners, and a 40% interest in Omega Global Investors.

This slide reminds shareholders of the 'high hurdle' criteria that we have set for ourselves before we make 'Horizon 3' acquisitions.

We will continue to explore opportunities such as

- existing profitable investment management firms that we could help grow; and

- distribution or retail businesses that may be synergistic with our existing businesses and ambitions.

in addition to Horizon 2 opportunities which include building new investment management capabilities ‘from scratch’ and in this regard Alan has already mentioned our three most recent such Affiliates, Firetrail, Longwave and Riparian.