



29 October 2020

By Electronic Lodgement

Market Announcements Office
ASX Ltd
20 Bridge Street
SYDNEY NSW 2000

2020 Annual General Meeting – Managing Director’s Address

Please find attached a copy of the Managing Director’s address which will be delivered at the Pinnacle Investment Management Group Limited Annual General Meeting this morning.

Authorised by:

Calvin Kwok

Company Secretary

Refer to slide 20

What I would like to do today is:

- Firstly to review the key themes and outcomes for our company for the 2020 financial year;
- Then to provide an update on how we have fared during the first quarter of the new financial year;
- To briefly review the financial highlights for the 2020 financial year;
- To elaborate on the progress we have made during the past few years in increasing the diversity and robustness of the business, and why this is so important; and
- To explain why we remain confident that we are poised to resume growth, to react to any further external adversity that may arise and to take advantage of opportunities that may materialise.

Refer to slide 21

As Alan has mentioned, the 2020 financial year was a very challenging one. The second half of the financial year was a shocking period for the entire world. Our company was impacted by the drop in equities markets valuations, particularly in March, and the reduction in net FUM inflows, all of which reduced our revenues relative to what we would otherwise have achieved. These negative impacts were however less than experienced by many ...both in Australia and around the world. Our people rose to the occasion and performed superbly, working hard to ensure a 'business as usual' environment, supporting our clients and their advisors throughout this period when their needs were greatly heightened. Our people demonstrated resourcefulness and adaptability in a very different working environment. The result was that our revenues, FUM and profitability for the 2020 financial year in fact increased relative to the preceding financial year.

The slide now showing on your screens has been extracted from our Annual Results presentation of 4 August and sets out how we summarised the key themes and outcomes for our company for the 2020 financial year. I believe it is fair to say that shareholders and analysts broadly agreed with this assessment.

We think it was a solid outcome in the prevailing circumstances, although below the expectations that we held at the start of the year. I will provide further detail on that shortly.

We believe the result provided early evidence of the benefits of increasing diversity of:

- Asset class and investment strategies of Affiliates
- Client type and domicile, and
- Performance fee potential.

Although we are only part way through this diversification process, the inflows from both retail and offshore investors, the growth of our Funds Under Management in a range of asset classes, greatly expanded beyond Australian equities, and the receipt by our Affiliates of \$26.7m of performance fees (our share of which was

\$6.6m) in the 2020 financial year were all very helpful in a year when markets experienced major volatility and our clients were challenged in a variety of ways.

And we expressed the view that we were entering the 2021 financial year poised to resume growth, to react to possible further external adversity and to take advantage of opportunities that may materialise in this type of environment. As elaborated in the next slide, happily we have indeed experienced a resumption of growth so far in this new (2021) financial year...

Refer to slide 22

The Aggregate of our Affiliates' Funds Under Management stood at \$61.7 billion at 30 September 2020. This was up \$3.0 billion or 5% from \$58.7 billion at 30 June 2020.

Total Retail Funds Under Management at 30 September 2020 stood at \$13.8 billion, which was up \$0.7 billion or 5% from \$13.1 billion at 30 June 2020.

Total net inflows were \$2.3 billion for the three months, of which \$618 million was retail.

All of this is very pleasing and we are delighted that our funds inflows, in both the retail and institutional markets, have returned to more normal levels during this new financial year to date.

The retail net inflows of \$618 million for the three months, an average of a little greater than \$200 million per month, compares with just \$19 million of net inflows for the second half of the 2020 financial year and \$900 million for the entire 2020 financial year.

Institutional net inflows of \$1.7 billion for the three months of the September 2020 quarter compares with \$900 million for the second half of the 2020 financial year and \$2.1 billion for the full 2020 financial year.

We were pleased to find substantial evidence that what occurred during the second half of last financial year represented a deferral of demand from clients rather than the permanent loss of demand from them for increased access to our services. We had felt this was likely to be the case, but it was very pleasing to have this confirmed and substantial inflows realised during the early part of the new financial year. In addition to the arrival of some deferred FUM, we have enjoyed significant new client demand.

Overall, equities markets did not impact fund levels very much from the beginning to the end of that 3 month period. The S&P/ASX 300 index was in fact down 1.0% over the three months ending 30 September 2020 and the MSCI World index was up 7.7%. Market movements and investment performance accounted for just \$700m of the increase in Funds Under Management or 1.2% of the amount under management at the beginning of the quarter.

Refer to slide 23

Shareholders will recall that over the course of the 2020 financial year total FUM rose 8% from \$54.3 billion to \$58.7 billion, although this was down \$2.9 billion or 5% from \$61.6 billion at 31 December 2019, the half

year mark of the financial year and prior to the sharp drop in equities markets in late February and in March 2020, driven by the COVID-19 crisis.

Overall, the Australian equities market was down 10.8% over the financial year, having dropped 11.9% in the second half of the financial year, and world markets overall were essentially flat over the course of the financial year, having dropped 7.1% in the second half.

Refer to slide 24

This slide summarises the highlights of the 2020 financial year:

- Net profit after tax was \$32.2 million, up 5.6% from \$30.5 million in FY19
- Diluted earnings per share was 17.9 cents, up 4.7% from 17.1 cents in the FY19
- Our Share of NPAT from Pinnacle Affiliates was \$38.0 million, up 14.8% from \$33.1 million in FY19
 - including share of performance fees after tax earned by Pinnacle Affiliates of \$6.6 million in FY20 (\$3.2 million in FY19)
- We had a healthy balance sheet, with Cash and principal investments of \$50.1 million at 30 June 2020
- Our \$30m CBA loan facility was fully drawn in December 2019 and used to fund the acquisition of a 25% interest in Coolabah
- And, we paid a Fully franked final dividend of 8.5 cents per share on 11 September 2020

Refer to slide 25

Shareholders will be aware that we have for some time now been describing how Pinnacle has continued to evolve as a business that will prosper irrespective of market conditions and that although it will not be immune from challenging conditions it will be increasingly resilient in the face of such conditions, so that shareholders may benefit throughout the whole business cycle.

As I indicated earlier, we believe the 2020 financial year result provided evidence of the benefits of this increasing diversity.

This resilience has been enhanced by progressive diversification of:

1. Asset classes;
2. Client type;
3. Client domicile, and
4. The percentage of funds exposed to performance fees.

Refer to slide 26

This next slide 26 shows the current extent of our Affiliate Platform, comprising 16 Affiliates across a substantial range of asset classes and styles.

Refer to slide 27

This slide 27 shows how our diversification by Affiliate has increased from 30 June 2016 when we had 6 Affiliates and Hyperion was the largest, with FUM of \$5.6 billion, representing 28.5% of the total FUM of \$19.8 billion, to 30 June 2020 when Resolution Capital had become the largest of sixteen Affiliates, with FUM of \$9 billion, representing 15.3% of the total of \$58.7 billion under management.

Refer to slide 28

This slide shows the greatly increased diversity by Asset Class over that period.

Australian equities has become a smaller proportion of our Funds (now representing approximately 46% of the total compared with 67% in 2016), with exposure to global equities, global REITs, private capital, fixed interest and credit and liquid alternatives having been added and grown substantially as a proportion of the total.

And of course both the Australian equities and the global equities exposures are further diversified by style and market capitalisation segment.

Refer to slide 29

Increased diversification by client type has also continued apace, with retail and offshore having both grown significantly. Growth in the intermediated retail client base has been occurring for some years but the pace of growth in FUM from offshore clients is now starting to accelerate.

Refer to slide 30

The growth in the importance of retail can be readily seen from this slide, with revenue from retail clients having grown from 27% in 2016 to 43% at 30 June 2020. We also have more than 180 individual institutional clients now, compared with about 60 at 30 June 2016.

Refer to slide 31

This slide shows how retail FUM has increased 14.6 times, to represent 23% of total FUM, compared with the 5.4 fold increase in total FUM over the four year period.

Refer to slide 32

This slide illustrates the significant growth in both the absolute and percentage of our FUM that is potentially eligible to earn performance fees.

Performance fees add diversity to revenue sources, being uncorrelated with market movements and each Affiliate's performance being uncorrelated with the others' and with other revenue. Other than in Palisade (and now Metrics and Coolabah), performance fees will be additional to budgeted or forecast revenues.

As mentioned earlier, our share of Affiliates' performance fees after tax increased from \$3.2m in the 2019 financial year to \$6.6m in the 2020 financial year.

Refer to slide 33

Slide 33 illustrates the growth of our FUM – institutional and retail – over the past 13 years

Refer to slide 34

Slide 34 shows the FUM growth history by Affiliate up to 30 June 2020.

Refer to slide 35

Slide 35 shows the performance of our Affiliates' strategies with a track record of 5 years or more. 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 90% of such strategies of Pinnacle Affiliates have exceeded their benchmark, to 30 September.

Refer to slide 36 and 37

Slides 36 and 37 show our Affiliates' investment performance as at 30 September 2020, over 1, 3, 5 and 10 year periods and 'since inception'. Although some strategies will inevitably underperform their benchmarks over the short term, our Affiliates' medium to long term records remain strong, in what have been challenging recent conditions.

Refer to slide 38

As shown in Slide 38, Pinnacle and Pinnacle Affiliates have continued to receive recognition from independent experts for the quality of our investment offerings. A number of our Affiliates – and Pinnacle itself – are nominated again for the Zenith Fund Awards, the results of which will be announced tomorrow evening. It is a significant achievement just to be nominated and we congratulate all finalists on their nomination and wish them the very best of luck for tomorrow!

Refer to slide 39 and 40

Pinnacle is passionate about enabling better lives through investment excellence.

The Pinnacle Charitable Foundation has continued its commitments to existing partners together with Affiliates - with joint donations of \$450K delivered during FY20.

This reflects a strong recognition of the need to provide stability and security to our partners, given the hugely increased demands on the not for profit sector in recent months. This has occurred at the same time as the ability of many organisations to generate funds and engage volunteers has been severely impacted.

Our major focus remains on mental wellbeing, and early prevention strategies to reduce mental illness and suicide - especially in young people – and on strategies aimed at both preventing domestic and family abuse, and aiding the long term recovery of sufferers.