

Pinnacle Investment Management Group Limited

ABN 22 100 325 184

**Interim Report
for the half year 31 December 2020**

Pinnacle Investment Management Group Limited

ABN 22 100 325 184

Interim Report - 31 December 2020

Contents

	Page
Directors' report	3
Interim financial report	6
Directors' declaration	24
Independent auditor's review report to the members of Pinnacle Investment Management Group Limited	25

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 2020.

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
Ms L Berends

Review of operations

During the half year, there has been continuing growth in the Group's revenues and capabilities.

Profit attributable to shareholders for the half year was \$30.3 million (17.5 cents per share basic, 16.7 cents per share diluted), compared with \$13.8 million (8.1 cents per share basic, 7.7 cents per share diluted) for the prior corresponding period. During the half year, Pinnacle Affiliates generated significant performance fees, of which Pinnacle's share was \$11.0 million, compared with \$0.1 million in the prior corresponding period. The number and diversity of strategies with significant performance fee potential continues to increase, improving the annual reliability of overall performance fee revenue.

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. A fully franked interim dividend of 11.7 cents has been declared (up from 6.9 cents in the prior corresponding period) and will be payable on 19 March 2021 to shareholders registered on the record date of 5 March 2021. This represents a payout ratio of 70% of the diluted earnings per share from continuing operations for the half year. Excluding Pinnacle's share of Affiliate performance fees, the payout ratio is 110% of diluted EPS.

In addition, during the half year, dividends totaling \$15.8 million have been paid to shareholders by the Company, being the FY20 final dividend of 8.5c per share.

Aggregate Affiliates' funds under management (at 100%), increased by 20% during the half year from \$58.7 billion at 30 June 2020 to \$70.5 billion at 31 December 2020. Total net inflows for the half year were \$5.5 billion, with additional growth due to market movements and investment performance.

Throughout the half year, and consistent with prior periods, the Group has continued to invest in medium-term 'Horizon 2' initiatives, including offshore distribution, and in servicing new, not-yet-profitable Affiliates, laying the foundation for future revenue growth.

We recognize that there remains a great deal of uncertainty around global economic conditions due to, inter alia, the continuing COVID-19 crisis, post-Brexit uncertainty in the EU and continuing tensions between the US and China, any of which could have a significant impact on wider market conditions. We are nevertheless confident that our business is well-placed and there is cause for optimism for what lies ahead.

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
3 February 2021



Auditor's Independence Declaration

As lead auditor for the review of Pinnacle Investment Management Group Limited for the half-year ended 31 December 2020, 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', written over a light blue horizontal line.

Ben Woodbridge
Partner
PricewaterhouseCoopers

Brisbane
3 February 2021

Pinnacle Investment Management Group Limited

ABN 22 100 325 184

Interim Financial Report - 31 December 2020

Contents

	Page
Interim financial report	
Consolidated Statement of Profit or Loss	7
Consolidated Statement of Comprehensive Income	8
Consolidated Statement of Financial Position	9
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Cash Flows	11
Notes to the Consolidated Financial Statements	12
Directors' declaration	24
Independent auditor's review report to the members	25

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 2020 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 interim 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 3 February 2021. The Directors have the power to amend and re-issue the interim financial report.

Pinnacle Investment Management Group Limited
Consolidated Statement of Profit or Loss
For the half year ended 31 December 2020

		Half Year	
	Notes	31 Dec 2020	31 Dec 2019
		\$'000	\$'000
Revenue from continuing operations	3	14,384	11,419
Fair value gains/(losses) on financial assets at fair value through profit or loss		(571)	(255)
Employee benefits expense		(6,786)	(6,945)
Short-term incentives expense		(3,949)	(2,938)
Long-term incentives expense		(1,075)	(1,013)
Professional services expense		(553)	(1,127)
Property expense	4	(375)	(570)
Travel and entertainment expense		(117)	(446)
Technology and communications expense		(534)	(420)
Other expenses from operating activities	4	(1,897)	(1,569)
Share of net profit of jointly controlled entities accounted for using the equity method		31,816	17,689
Profit before income tax from continuing operations		30,343	13,825
Income tax expense	5	-	-
Profit from continuing operations		30,343	13,825
Profit for the half year		30,343	13,825
Profit for the half year is attributable to:			
Owners of Pinnacle Investment Management Group Limited		30,343	13,825
Non-controlling interests		-	-
		30,343	13,825
		Cents	Cents
Earnings per share:			
From continuing operations attributable to owners of Pinnacle Investment Management Group Limited			
Basic earnings per share	10	17.5	8.1
Diluted earnings per share	10	16.7	7.7
Total profit attributable to owners of Pinnacle Investment Management Group Limited			
Basic earnings per share	10	17.5	8.1
Diluted earnings per share	10	16.7	7.7

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

Pinnacle Investment Management Group Limited
Consolidated Statement of Comprehensive Income
For the half year ended 31 December 2020
(continued)

	Notes	Half Year	
		31 Dec 2020 \$'000	31 Dec 2019 \$'000
Profit for the half year		30,343	13,825
Other comprehensive income:			
Total comprehensive income for the half year		30,343	13,825
Total comprehensive income for the half year is attributable to:			
Owners of Pinnacle Investment Management Group Limited		30,343	13,825
		30,343	13,825
Total comprehensive income for the half year attributable to owners of Pinnacle Investment Management Group Limited arises from:			
Continuing operations		30,343	13,825
		30,343	13,825

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

Pinnacle Investment Management Group Limited
Consolidated Statement of Financial Position
As at 31 December 2020

	Notes	31 Dec 2020 \$'000	30 Jun 2020 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	6	10,800	16,066
Trade and other receivables		15,876	16,387
Financial assets at fair value through profit or loss	15	40,585	33,986
Intangible assets	7	858	858
Assets held at amortised cost		325	123
Total current assets		68,444	67,420
Non-current assets			
Investments accounted for using the equity method		174,838	161,867
Property, plant and equipment		128	162
Intangible assets	7	596	1,026
Right-of-use assets		3,579	3,823
Assets held at amortised cost	14(b)	5,128	4,335
Total non-current assets		184,269	171,213
Total assets		252,713	238,633
LIABILITIES			
Current liabilities			
Trade and other payables		6,709	9,827
Borrowings	12	30,021	21
Lease liabilities		1,366	1,566
Provisions	16	6,507	6,357
Total current liabilities		44,603	17,771
Non-current liabilities			
Borrowings	12	-	30,000
Lease liabilities		2,171	2,241
Provisions	16	102	74
Total non-current liabilities		2,273	32,315
Total liabilities		46,876	50,086
Net assets		205,837	188,547
EQUITY			
Contributed equity	8	239,264	237,663
Reserves	9(a)	(46,906)	(48,060)
Retained Earnings	9(b)	13,479	(1,056)
Total equity		205,837	188,547

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

Pinnacle Investment Management Group Limited
Consolidated Statement of Changes in Equity
For the half year ended 31 December 2020

	Notes	Attributable to owners of Pinnacle Investment Management Group Limited				Total equity \$'000
		Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000	
Opening balance at 1 July 2019		231,255	(50,694)	(3,508)	177,053	177,053
Profit and total comprehensive income for the half year		-	-	13,825	13,825	13,825
Transactions with owners in their capacity as owners:						
Dividends paid to shareholders	11	851	-	(16,995)	(16,144)	(16,144)
Employee loan arrangements	8	480	177	-	657	657
Share-based payments	9(a)	-	1,013	-	1,013	1,013
Performance Rights		121	(35)	-	86	86
		<u>1,452</u>	<u>1,155</u>	<u>(16,995)</u>	<u>(14,388)</u>	<u>(14,388)</u>
Closing balance at 31 December 2019		232,707	(49,539)	(6,678)	176,490	176,490
Opening balance at 1 July 2020		237,663	(48,060)	(1,056)	188,547	188,547
Profit and total comprehensive income for the half year		-	-	30,343	30,343	30,343
Transactions with owners in their capacity as owners:						
Dividends paid to shareholders	11	575	-	(15,808)	(15,233)	(15,233)
Employee loan arrangements	8	929	103	-	1,032	1,032
Share-based payments	9(a)	-	1,075	-	1,075	1,075
Performance Rights		97	(24)	-	73	73
		<u>1,601</u>	<u>1,154</u>	<u>(15,808)</u>	<u>(13,053)</u>	<u>(13,053)</u>
Closing balance at 31 December 2020		239,264	(46,906)	13,479	205,837	205,837

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

Pinnacle Investment Management Group Limited
Consolidated Statement of Cash Flows
For the half year ended 31 December 2020

		Half Year	
	Notes	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Cash flows from operating activities			
Receipts from customers		14,786	13,812
Payments to suppliers and employees		(15,347)	(15,616)
Dividends and distributions received from financial assets at fair value		242	267
Dividends and distributions received from jointly controlled entities		20,795	16,509
Interest received		68	37
Finance and borrowings costs paid		(301)	(56)
Proceeds from sale of financial assets at fair value through profit or loss		10,153	5,604
Payments to purchase financial assets at fair value through profit or loss		(16,208)	(17,833)
Net cash inflow/(outflow) from operating activities		14,188	2,724
Cash flows from investing activities			
Payments for property, plant and equipment		-	(8)
Payments for intangibles		-	(2,389)
Loan repayments from related parties		197	347
Loan advances to related parties		(1,531)	(630)
Loan repayments from shareholders		1,031	657
Proceeds from investments accounted for using the equity method		-	261
Payments for investments accounted for using the equity method		(3,062)	(32,816)
Net cash outflow from investing activities		(3,365)	(34,578)
Cash flows from financing activities			
Ordinary dividends paid to shareholders	11	(15,233)	(16,144)
Lease payments		(856)	(838)
Proceeds from borrowings	12	-	30,000
Proceeds from issue of shares	8	-	-
Net cash inflow from financing activities		(16,089)	13,018
Net decrease in cash and cash equivalents		(5,266)	(18,836)
Cash and cash equivalents at the beginning of the half year		16,066	26,720
Cash and cash equivalents at end of half year	6	10,800	7,884

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

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

1 Basis of preparation of half year report

This consolidated interim financial report for the half year reporting period ended 31 December 2020 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2020 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 2020 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. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

(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

There are no standards that are not yet effective that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 Segment information

The Group operates one business segment, being its funds management operations. 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.

	Half Year	
	31 Dec 2020 \$'000	31 Dec 2019 \$'000
Revenue from contracts with customers		
<i>Services revenue – over time</i>		
Service charges	12,950	10,574
	12,950	10,574
Other revenue		
Interest received or due	50	115
Directors fees	22	22
Dividends and distributions	1,356	639
Other revenue	6	69
	1,434	845
	14,384	11,419

4 Expenses

	Half Year	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Finance cost expense – included in other expenses from operating activities</i>		
Interest and finance charges - corporate	335	139
	<u>335</u>	<u>139</u>
<i>Right-of-use asset amortization – included in property expenses</i>		
Right-of-use asset amortization – leased properties	795	861
	<u>795</u>	<u>861</u>
<i>Customer contracts amortization – included in other expenses from operating activities</i>		
Customer contracts amortization (refer note 7)	429	267
	<u>429</u>	<u>267</u>

5 Income tax expense

Numerical reconciliation of income tax expense to prima facie tax payable

	Half Year 31 Dec 2020 \$'000	31 Dec 2019 \$'000
Profit from continuing operations before income tax expense	30,343	13,825
Profit before income tax	30,343	13,825
Tax at the Australian tax rate of 30.0% (31 December 2019 - 30.0%)	9,103	4,147
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Share of profits of jointly controlled entities	(9,545)	(5,307)
Non-deductible expenditure	334	687
Other items	716	(1)
	608	(474)
Offset against deferred tax assets *	(608)	474
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 2020 \$'000	30 Jun 2020 \$'000
Available cash at bank and on hand	10,800	15,796
Fixed-term deposits	-	270
	10,800	16,066

7 Intangible Assets

Plato Income Maximiser Limited (ASX: PL8) undertook an entitlement and shortfall offer in August 2019. As part of the arrangements pursuant to which it was appointed as distributor to the offer, and will be paid distribution fees, the Group agreed to pay the costs associated with the offer. Plato Investment Management Limited, the Investment Manager of PL8 and an Affiliate of the Group, and the Group have entered into a distribution agreement for a period of three years (customer contract). The offer costs, which are associated with the acquisition of the customer contract, have been capitalized as an intangible asset and are being amortised over the distribution agreement period of three years.

	Software \$'000	Customer Contracts \$'000	Total \$'000
30 June 2020			
Cost	15	2,574	2,589
Accumulated amortization	(14)	(691)	(705)
Net book value	1	1,883	1,884
Half year ended 31 December 2020			
Opening net book amount	1	1,883	1,884
Additions	-	-	-
Accumulated amortization	(1)	(429)	(430)
Closing net book amounts	-	1,454	1,454

7 Intangible Assets (cont.)

	Software \$'000	Customer Contracts \$'000	Total \$'000
31 December 2020			
Cost	15	2,574	2,589
Accumulated amortization	(15)	(1,120)	(1,135)
Net book value	-	1,454	1,454

8 Contributed equity

(a) Share capital

	31 Dec 2020 No. of shares	31 Dec 2019 No. of. shares	31 Dec 2020 Paid \$'000	31 Dec 2019 Paid \$'000
Ordinary shares:				
Fully paid contributed equity - Company	174,884,025	169,991,505	239,264	232,707
Total contributed equity	174,884,025	169,991,505	239,264	232,707

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	\$'000
1 July 2020	Opening balance	173,132,050		237,663
	Shares issued under DRP	108,420	\$5.30	575
	Performance rights vested	18,838		97
	Treasury stock vested	1,624,717		929
31 Dec 2020	Closing Balance	174,884,025		239,264
1 July 2019	Opening balance	169,676,000		231,255
	Shares issued under DRP	193,162	\$4.40	851
	Performance rights vested	21,445		121
	Treasury stock vested	100,898		480
31 Dec 2019	Closing Balance	169,991,505		232,707

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the 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.

8 Contributed equity (cont.)

(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 14). 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 is detailed in the table below:

Date	Details	Number of treasury shares	\$'000
1 July 2020	Opening balance	12,841,389	31,118
	Loan share repayments		(545)
	Issue of loan shares under Pinnacle Omnibus Plan	1,500,000	8,422
	Treasury stock vested during the year	(1,624,717)	(384)
31 Dec 2020	Closing Balance	12,716,672	38,611
1 July 2019	Opening balance	13,192,287	34,966
	Loan share repayments		(492)
	Forfeited	(150,000)	(1,079)
	Treasury stock vested during the year	(100,898)	(95)
31 Dec 2019	Closing Balance	12,941,389	33,300

9 Reserves and accumulated losses

(a) Reserves

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Share-based payments reserve	7,929	6,750
Options reserve	4,749	4,749
Performance rights reserve	19	44
Transactions with non-controlling interests reserve	(59,603)	(59,603)
	(46,906)	(48,060)

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.

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.

The options reserve is used to recognise the value of zero-priced options issued by Pinnacle associated with investments in entities under joint control.

9 Reserves and accumulated losses (cont.)

(b) Retained earnings

Movements in accumulated losses were as follows:

	\$'000
Balance at 1 July 2020	(1,056)
Profit attributable to owners of Pinnacle Investment Management Group Limited	30,343
Dividends paid to shareholders (refer note 11)	(15,808)
Balance at 31 December 2020	<u>13,479</u>

10 Earnings per share

	Half Year 31 Dec 2020 Cents	31 Dec 2019 Cents
(a) Basic earnings per share		
Attributable to the ordinary equity holders of the Company:		
From continuing operations	<u>17.5</u>	8.1
From total operations	<u>17.5</u>	<u>8.1</u>

(b) Diluted earnings per share

Attributable to the ordinary equity holders of the Company:

From continuing operations	<u>16.7</u>	7.7
From total operations	<u>16.7</u>	<u>7.7</u>

	Half Year 31 Dec 2020 \$'000	31 Dec 2019 \$'000
(c) Basic earnings per share		
<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	<u>30,343</u>	13,825
Profit used in calculating basic and diluted earnings per share	<u>30,343</u>	<u>13,825</u>

	Half Year 31 Dec 2020 Number	31 Dec 2019 Number
(d) Weighted average number of shares used as the denominator		
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	<u>173,221,240</u>	169,839,712
Adjustments for calculation of diluted earnings per share:		
Weighted average options and treasury stock	<u>8,729,128</u>	10,180,990
<i>Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	<u>181,950,368</u>	<u>180,020,702</u>

(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.

11 Dividends

	Half Year	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2020 of 8.5 cents per fully paid ordinary share paid on 11 September 2020 (2019 – 9.3 cents paid on 4 October 2019)		
Fully franked based on tax paid @ 30.0%	15,808	16,995
Total dividends paid	15,808	16,995

The Company activated its dividend reinvestment plan (DRP) on 29 August 2017. The final dividend for the year ended 30 June 2020, totaling \$15,807,747, was paid \$15,232,589 in cash, and \$575,158 via the DRP.

(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 11.7 cents per fully paid ordinary share (2019 – 6.9 cents), fully franked based on tax paid at 30%. The aggregate amount of the dividend expected to be paid on 19 March 2021 (2020 – 20 March 2020), but not recognised as a liability at half year end, is:

22,040	12,622
22,040	12,622

12 Borrowings and Financing Facilities

In December 2019, the Group entered into an amended facility deed, which is secured by a general security deed over the assets of the Group and guarantees provided by the Company and other Group entities. The availability period for the Corporate Card Facility and Bank Guarantee is until 12 December 2020 and for the Loan Facility is until 12 December 2021. Further details regarding the Corporate Card Facility and Bank Guarantee are provided in Note 13.

As at 31 December 2020, the contractual maturities of the Group's non-derivative financial liabilities were as follows:

31 December 2020	0 - 1 year \$'000	1 - 2 years \$'000	2 - 5 years \$'000	Total contractual cashflows \$'000	Carrying Amount \$'000
<i>Contractual maturity of financial liabilities</i>					
Trade payables	6,709	-	-	6,709	6,709
Borrowings	30,021	-	-	30,021	30,021
Lease Liabilities	1,366	1,384	884	3,634	3,537
Total non-derivatives	38,096	1,384	884	40,364	40,267
 30 June 2020	 0 - 1 year \$'000	 1 - 2 years \$'000	 2 - 5 years \$'000	 Total contractual cashflows \$'000	 Carrying Amount \$'000
<i>Contractual maturity of financial liabilities</i>					
Trade payables	9,827	-	-	-	9,827
Borrowings	21	30,000	-	-	30,021
Lease Liabilities	1,566	1,029	1,310	-	3,807
Total assets	11,414	31,029	1,310	-	43,655

12 Borrowings and Financing Facilities (cont.)

The amended facility agreement includes the following covenants:

- The interest cover ratio must be at least 4.0 times
- The net leverage cover ratio is no more than 2.0 times
- The minimum tangible net wealth in respect of any financial year must be at least the greater of:
 - \$55,000,000; and
 - an amount equal to 75% of the tangible net wealth in respect of the previous financial year.

The Group has provided the bank with a security interest over its property excluding its holdings in Affiliates. Compliance with covenants is reviewed on a regular basis and compliance has been maintained during the period. As at 31 December 2020, the interest cover ratio was 80x, the net leverage cover ratio was 0.6 and the tangible net wealth was \$204m.

The Loan Facility was fully drawn as at 31 December 2020. The loan is a variable rate, Australian-dollar denominated loan which is carried at amortised cost. The facility term is two years from drawdown.

13 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 2019: \$5,000,000).
- (ii) Pinnacle RE Services Limited - \$50,000 (30 June 2019 - \$50,000)

The Group has also provided guarantees in respect of its leased premises:

- (i) Pinnacle Services Administration Pty Ltd - \$786,000 (30 June 2020 - \$786,000)

The guarantee for the leases noted above is held between Pinnacle Investment Management Group Limited (\$426,000) and Pinnacle Investment Management Limited (\$360,000)

The unused bank guarantee facility at balance date was \$24,000 (30 June 2020: \$24,000). The Group has also provided guarantees in relation to its corporate credit card facilities (facility limits totaling \$400,000, of which \$378,000 was unused at balance date).

These guarantees may give rise to liabilities for 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.

14 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 Group's 2020 annual report at pages 63 and 65.

During the half year, interest of \$6,955 accrued on each of these four loans to key management personnel. The balance of each loan at 31 December 2020 including capitalised interest was \$557,282.

(ii) Loans re-issued 25 August 2016

Further details of these loans are provided in the Group's 2020 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 2020 \$	Repayments made \$	Loan balance - 31 Dec 2020 \$
Ian Macoun	300,723	(48,968)	251,755
Alex Ihlenfeldt*	586,106	(27,697)	558,409
Adrian Whittingham	534,977	(534,977)	-
Andrew Chambers	534,977	(48,968)	486,009

(iii) Loan Shares issued under the Pinnacle Omnibus Plan

Further details of these loans are provided in the Group's 2020 annual report.

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 – 1 July 2020 \$	Issued \$	Repayments made \$	Loan balance - 31 Dec 2020 \$
Ian Macoun	1,646,810	-	(19,306)	1,627,504
Alex Ihlenfeldt*	2,120,961	-	(19,306)	2,101,655
Adrian Whittingham**	1,646,810	-	(19,306)	1,627,504
Andrew Chambers	4,391,494	-	(51,483)	4,340,011
Daniel Longan*	1,060,480	1,048,080	(9,653)	2,098,907
Calvin Kwok*	1,767,467	1,048,080	(16,088)	2,799,459

*Daniel Longan and Calvin Kwok became a KMP from 6 July 2020, Alex Ihlenfeldt ceased to be a KMP from 1 September 2020.

**Adrian Whittingham forfeited his shares issued under the Pinnacle Omnibus Plan on 8th January 2021. These shares have been cancelled by Pinnacle and the loan balance extinguished at this date.

(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 Group, 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 non-current assets held at amortized cost in the consolidated statement of financial position.

During the half year, interest of \$0.03m accrued on these loans and repayments of \$0.8m were made. The balance of the loans at 31 December 2020 including capitalized interest was \$1.64m.

15 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 2020 and 30 June 2019 on a recurring basis:

31 December 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
<i>Financial assets at fair value through profit or loss:</i>				
Australian listed equity securities	6,694	-	-	6,694
Unlisted unit trusts	-	32,872	-	32,872
Derivative financial instruments - futures	540	-	-	540
Other unlisted equity securities	-	-	479	479
	7,234	32,872	479	40,585
Total assets	7,234	32,872	479	40,585

No liabilities were held at fair value at 31 December 2020.

30 June 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
<i>Financial assets at fair value through profit or loss:</i>				
Australian listed equity securities	8,920	4,021	-	12,941
Unlisted unit trusts	-	19,491	-	19,491
Derivative financial instruments - futures	1,075	-	-	1,075
Other unlisted equity securities	-	-	479	479
	9,995	23,512	479	33,986
Total assets	9,995	23,512	479	33,986

No liabilities were held at fair value at 30 June 2020.

15 Fair value measurement of financial instruments (cont.)

The Group did not measure any financial assets or liabilities at fair value on a non-recurring basis as at 31 December 2020.

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.

(b) Valuation techniques used to determine fair values

The fair value of Australian listed securities and exchange traded futures is based on quoted market prices at the end of the reporting period. The quoted price used for Australian listed securities and exchange traded options held by the Group is the current bid price. These instruments are included in level 1.

The quoted market price used for unlisted unit trusts is the current exit unit price. These instruments are included in level 2.

The fair value of unlisted equity securities 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 and trade receivables and payables are assumed to approximate their fair values due to their short-term nature. Loans to entities under joint control and loans to shareholders are carried at amortised cost. 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. The following table presents the changes in level 3 instruments for the half year ended 31 December 2020:

	Unlisted equity securities \$'000
Opening balance 1 July 2020	479
Unrealised gains / (losses) recognised in fair value gains / (losses) on financial assets at fair value through profit and loss	-
Fair value adjustments recognised in other comprehensive income	-
Closing balance 31 December 2020	479

(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.

(ii) Transfer between levels

There were no transfers between levels during the half year.

16 Provisions

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Current		
Employee benefits – annual leave and long service leave	1,507	1,357
Contingent consideration – investment in affiliates	5,000	5,000
	<u>6,507</u>	<u>6,357</u>
Non-Current		
Employee benefits –long service leave	102	74
	<u>102</u>	<u>74</u>

	Contingent Consideration \$'000	Employee Benefits \$'000	Total \$'000
Current			
Balance at 1 July 2020	5,000	1,357	6,357
Amounts provided for during the year	-	150	150
Balance at 31 December 2020	<u>5,000</u>	<u>1,507</u>	<u>6,507</u>
Non-Current			
Balance at 1 July 2020	-	74	74
Amounts provided for during the year	-	28	28
Balance at 31 December 2020	<u>-</u>	<u>102</u>	<u>102</u>

Further details of contingent consideration – investment in affiliates are provided in Group's 2020 annual report at note 23.

17 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.

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 22 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 2020 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
3 February 2021



Independent auditor's review report to the members of Pinnacle Investment Management Group Limited

Report on the interim financial report

Conclusion

We have reviewed the interim financial report of Pinnacle Investment Management Group Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying interim financial report of Pinnacle Investment Management Group Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2020 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the interim financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of management for the interim financial report

Management is responsible for the preparation of the interim 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 management determines is necessary to enable the preparation of the interim financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility for the review of the interim financial report

Our responsibility is to express a conclusion on the interim financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the interim 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 2020 and of 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*.

PricewaterhouseCoopers, ABN 52 780 433 757

480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001

T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au



A review of an interim 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.

A large, stylized, handwritten signature of 'PricewaterhouseCoopers' in black ink.

PricewaterhouseCoopers

A handwritten signature of 'Ben Woodbridge' in black ink.

Ben Woodbridge
Partner

Brisbane
3 February 2021