14 November 2022

By Electronic Lodgement

Market Announcements Office
ASX Ltd
20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam,

2022 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 16

What I would like to do today is:

Firstly to review the key themes and outcomes for our company for the 2022 financial year;
- To briefly review the financial highlights for the 2022 financial year;
- Then to provide an update on developments during the first quarter of the new (2023) financial year;
- To elaborate on the success we have had during the past several years in executing on our strategy of increasing the diversity and robustness of the business, whilst growing rapidly;
- To explain how this has created an excellent platform from which we can continue to grow, both in Australia and internationally, in a variety of ways (with three mutually reinforcing horizons of growth), whilst being robust to the kinds of external adversity experienced in both the 2020 and 2022 financial years; and
- To share some detail on the strong progress we have made in the vitally important area of corporate sustainability and the great work of the Pinnacle Charitable Foundation.

Refer to slide 17
As shareholders are aware, the 2022 financial year was a difficult year for our company as market and funds management industry conditions deteriorated, commencing around the beginning of the second half of the financial year. The buoyant conditions in the world's share markets that prevailed through FY21 and the first part of the 2022 financial year gave way to weak conditions which prevailed through the second half of FY22 and the first quarter of FY23. The result was that our profitability for the 2022 financial year increased only modestly over the record level of FY21, and was below what would have been predicted at the beginning of that 2022 financial year. Happily, markets have strengthened again during the period of approximately 6 weeks since the end of September – but that is a relatively short period of time and there is a long way to go before the current year ends so predicting the outcomes for this FY is extremely difficult.

The slide now showing on the screen has been extracted from our Annual Results presentation of 2 August 2022 and sets out how we summarised the key themes and outcomes for our company for the 2022 financial year.

We continued our unblemished record of increasing our profit every year, notwithstanding that our FY21 profit was double that of the previous year.

We benefited during FY22 – and this will increasingly be the case going forward - from having further diversified our business, including increasing the proportion of FUM not exposed to equity markets.
And Pinnacle and the Affiliates all undertook substantial further investment that will add to capacity and add to the growth in our FUM and profits in future years.

I will provide further detail on our profit, FUM and fund flows shortly.

The fact that we were able to hold to the FY21 NPAT and eps (and in fact provide some modest increase over the record levels of FY21) was a useful demonstration of the continuing benefits from the increasing diversity in our business of:
- Asset class and investment strategies of Affiliates
- Client type and domicile, and
- Performance fee exposure.

Although we are planning to continue this diversification process for many more years, the outcomes we have delivered during the recent period of difficult conditions give us confidence in the robustness of the business and our ability to be resilient in the face of any further external adversity that may lie ahead.

Refer to slide 18
Slide 18 elaborates these Themes.

It starts off with the simple facts of the % increases during FY22 - 14% increase in NPAT, 8% increase in eps and 22% increase in dividends - on the record results that we achieved in FY21.

As I mentioned earlier, the reality is that our FY22 profits were only modestly ahead of the previous year, and far below what we were all anticipating at the start of the financial year.

We work hard to be a high growth company and we don't like to disappoint our shareholders by delivering anything less than high growth. Clearly, though, there is a significant degree of cyclicality to our earnings pattern and the trajectory will not be a smooth, upward straight line. What we have managed to date is very high growth during favourable market conditions, then holding on to that success with just modest growth during market downturns, resulting in still high average growth rates. We have the very recent example of only single digit growth in FY20 – the initial seriously COVID disrupted year – followed by a doubling of profits in FY21. The average growth in eps is now 32% pa over the last 3 years even though this includes two 'down' periods in the space of these 3 years. We have always said that we cannot predict future market conditions and that we would not be immune from any market downturns, but we have worked hard to make the company increasingly resilient.

Market downturns are of course part and parcel of our industry. I am old enough to have experienced many during my career - as have my colleagues. We can't predict precisely when we will come out of them but we do know that recovery does inevitably come and our job right now is to achieve the best outcomes possible in the current circumstances, but at the same time – importantly - to keep our company strong, and our high quality capabilities intact and match fit – so we can continue rapid growth and take full advantage when conditions again become more favourable.

To Point 2 on this slide – our aggregate base fees have continued to increase, notwithstanding the much lower headline net inflows this year, following the record net inflows last year. This is because the net institutional flow numbers mask a picture of quite large outflows during the 22 FY - largely from old, domestic institutional mandates, which are at generally modest fee rates – and large inflows into higher fee asset classes and strategies from both local and international investors, the net effect of which has been to increase average base fee rates and the aggregate base fees through the year. The large net inflows into retail in the first half also helped increase total revenue. The result is that the Affiliates' 'run rate' of aggregate revenues at 30 June 2022 was significantly higher than the aggregate revenues through the 2022 Financial Year.

We note that industry-wide pressures have had an impact on net inflows. Retail inflows fell to low levels in the second half of the year - $700m net inflows compared with $2.9 billion in the first half. This was quite similar to what happened from March 2020 – equity markets dropped substantially, and aggregate industry flows dried up. But that was followed by record inflows in FY21 and H1 FY22, as soon as market conditions improved again.

We note also that the FUM with performance fee potential has continued to increase, both in absolute dollars and as a % of the total FUM.

In Point 3 we call out the fact that the diversity of our asset classes has continued to increase, with an increasing proportion of our FUM not being exposed to equity markets; and also that the breadth of our performance fee FUM has further increased. We now have 22 strategies with the potential to deliver material performance fees, up from 18 a year earlier, and this year it was helpful that ten Affiliates delivered performance fees, so we received material performance fees even though none of our 'large performance fee FUM' strategies, except of course for Palisade, fired this year. We look forward to those strategies firing in years ahead.

In Point 4, we are emphasising how much Horizon 2 investment we have made throughout the Group during the year, noting that this very substantial investment - which has been made within just about all of the Affiliates as well as within Pinnacle itself - will drive growth over the medium term, but this investment has very significantly moderated our FY22 profits. For the first time, we have sought to quantify this impact, estimating that our NPAT in FY22 was reduced by in the order of $12 million as a result of these investments. We believe this approach within the Pinnacle Group, of deliberately incurring large P&L expense on initiatives such as major new investment strategies, which will not produce revenue for several years, is of such magnitude as to cause many analysts and shareholders to underestimate Pinnacle's true profitability. Though they reduce current years' profits these investments tend to generate extremely large returns over the medium term.

We make the point in 5 that our balance sheet has been highly valuable. We use it as an enabler of growth, employing it as an accelerator for new Affiliates and new strategies within existing Affiliates. We have given a number of examples there. Access to capital also enables us to facilitate succession within Affiliates, such as with the recycling of equity. We make the point also that Pinnacle is the natural acquirer of additional equity of Affiliates. As Affiliates grow in value very substantially, long-serving Affiliate executives can achieve some liquidity from their equity at the appropriate time, and a lesser % equity is needed in order to achieve the same incentivisation impact as was achieved in earlier years.

And we noted that we had $120m of 'dry powder' available for the acquisition of equity in 'Horizon 3' initiatives. We have borrowed $120m for this purpose.

Refer to slide 19
Turning to slide 19, the FY22 financial highlights…..

- We reported NPAT of $76.4million for the year - up 14% on the record FY21 NPAT of $67million. Our diluted eps was 39.5c per share, up 8% on the FY21 record, and we declared a fully franked final dividend of 17.5c per share, the same as the interim dividend, taking total dividends for the year to 35c per share, up 22% on the FY21 dividends.
- The aggregate revenue of the Affiliates at 100% was $505m, up 22% on FY21. $448 million of this revenue was base fee revenue, and that was up 36% on FY21.

Now, just before we get into FUM and fund flow numbers, I need to remind shareholders again of the distorting effect of a $3.9 billion very low fee inflow into Plato in April 2021 and then, co-incidentally, an even lower fee outflow of $3.9 billion from Omega in August 2021. These effectively offset each other and we have urged shareholders to exclude them both when reviewing FUM and flow numbers for FY21 and FY22. Hence, we said please think of our total net inflows in FY21 as $12.8 billion, not the headline $16.7 billion, and for FY22 we think of our total net inflows as $4.5 billion, not the headline $600 million.

So, in terms of FUM, our Aggregate Affiliate FUM at 30 June 2022 was $83.7 billion. This was down $5.7 billion or 6.4% on $89.4 billion at 30 June 2021, or down $1.8 billion, 2%, adjusting for the Plato/Omega distortion.

Aggregate Retail FUM was $21.1 billion at 30 June 2022, up $800 million or 4% on a year earlier. The ASX 300 index was down 10.4% over the year and the MSCI World index down 17.1%.

Total net inflows for the year were $3.6 billion, in a tale of two very different half year periods, compared with $4.4 billion in FY21. Slides 46 to 52 of the Presentation provide a Retail Market Update.

Total net institutional inflows, including international, were $900 million (adjusting for the Plato/Omega distortion), compared with $8.4 billion in FY21. Slides 44 and 45 of the Presentation provide an Institutional and International Market Update.

It is important to note, in summary, that in contrast to the underwhelming headline flow and FUM change numbers, aggregate base fee revenue of the Affiliates, at 100%, was up 36% in FY22 on FY21 and the run-rate aggregate base fee revenue number at 30 June 2022 was substantially higher than the aggregate revenue through the FY22 year.

Cash and Principal Investments totalled $178.2m at 30 June and our debt facility is fully drawn at $120m.

It is also pleasing to note that 83% of Affiliate strategies that have a track record of 5 years or more have outperformed their benchmarks over the classic 5 year measurement time frame. We have had what we know to be style-related and cyclical or transitory short term underperformance in a couple of Affiliates during the year, but the crucially important longer term records remain intact and strong.

Refer to slide 20
Slide 20 shows our record of earnings growth over the 6 years that we have been ‘listed Pinnacle’.

Refer to slide 21
Slide 21 provides some additional commentary on this subject.

Refer to slide 22
Slide 22 shows our 16 year FUM and net flow history. FUM has grown at a cagr of 23.7% pa, our institutional pipeline remains strong, and our client base is increasingly diversified, including overseas, as we grow and evolve, recognising changing market circumstances.

Refer to slide 23
Slide 23 shows some detail on our performance fee record and opportunity. As mentioned, we are growing the size and diversity of our performance fee potential and look forward to ‘larger performance fee FUM’ strategies delivering in future years.

Refer to slide 24
Turning now to the September quarter, the first quarter of this new financial year.

The Aggregate of the Affiliates' Funds Under Management stood at $80.5 billion at 30 September 2022. This was down $3.2 billion or 4% from $83.7 billion at 30 June 2022. The $3.2 billion reduction comprised $1.2 billion of net outflows and $2 billion resulting from the drop in listed markets.

Total Retail Funds Under Management at 30 September 2022 stood at $20.4 billion, which was down $700 million or 3.3% from $21.1 billion at 30 June 2022, despite the fact that net inflows of $200 million were achieved.

Overall, equities markets had a material impact on fund levels from the beginning to the end of that 3-month period. The S&P/ASX 300 index was down 1.3% over the three months ending 30 September 2022 and the MSCI World index was down 7.3%.

Refer to slide 25
Whilst headline flows were negative for the quarter, there were modest positive net inflows from both retail and offshore channels, with negligible impact on overall management fee revenues in aggregate.

Refer to slide 26
Slide 26 provides the specifics of the 5 year performance track records of the 26 Affiliate Funds or strategies.

Refer to slides 27 and 28
Slides 27 and 28 provide further performance detail.

Refer to slide 29
Slide 29 updates on our more recent major industry awards.

Refer to slide 31
In Slide 31 we remind shareholders that we think in terms of 3 Horizons of Growth.
Horizon 1 is the main game – it is continuing to pursue net inflows into existing strategies of existing Affiliates. We remain very confident of our ability to continue to do that (and particularly to continue to grow Affiliate revenue). We conservatively estimate the capacity of the Affiliates' existing strategies at $300 billion – so there is plenty of Horizon 1 runway left, with the attendant strong gains in operating leverage that will be accompanied by such growth.

Horizon 2 is the subject of an enormous amount of activity both within Pinnacle itself and within all of the Affiliates. We have stated that we estimate this is costing in the order of $12 million p.a. to Pinnacle's 'bottom line' NPAT. This is a slow, patient process where we invest now for medium term gain but we have been doing this for a long time, and have a strong record of very high returns on our past Horizon 2 investments, not even including unrealised capital gains on the value of the businesses and strategies we have built. We are confident that will continue to be the case in the future.

Refer to slides 33, 34, 35 and 36
We have mentioned specific Horizon 2 initiatives in slides 33, 34 and 35, and the overseas Horizon 2 initiatives in slide 36.

In relation to Horizon 3 – which of course is where we use capital to buy into existing businesses – we were pleased to have completed our acquisition of 25% of Private Equity and Venture Capital manager Five V during the year.

Refer to slide 37
In terms of potential new opportunities, slide 37 explains in summary that we have done a lot of work on a large range of opportunities but in the final analysis we haven't so far progressed with any. We make no apologies for remaining disciplined and patient.

Refer to slide 38
Slide 38 commences the Section of the Presentation on Corporate Responsibility. We are proud of the progress we have made on so many fronts in this important area. Because of time limitations I will leave it to shareholders to ask questions or read slides 38-43 of the Presentation and the Corporate Sustainability Report on our Web Site.

Refer to slide 39
Slide 39 summarises our Corporate Responsibility initiatives during the year, covering the ESG Working Group, our Women in Finance scholarships, our Climate Strategy, our ESG Charter, our Community Partnerships, and our Human Rights initiatives.

Refer to slide 42
Slide 42 explains that total donations by the Pinnacle Charitable Foundation in FY22 exceeded $900,000, with a further $285,000 donated by Affiliates.

Refer to slide 45
Slide 45 provides an update on the institutional and international markets and flows.

Refer to slides 47 to 52
Slides 47 – 52 provide an update on the retail market and retail flows.

Refer to slide 53
In conclusion, I would like to remind shareholders of the basis on which we remain so confident of our company's ability to grow and prosper, which is the strong funds management platform that we have built, and our highly regarded, distinctive business model.

Shareholders can be assured that nothing has fundamentally changed in your companies' ambitions, strategies, and growth plans. We have simply had to show some patience in the face of short term turbulence - and it is not the first time we have had to do that during our 16 year history.

That concludes the commentary I wanted to provide on the slides and on the performance of the business during the last financial year and the September quarter – Q1 of the current (2023) financial year
Thank you everyone for listening.

Before I close, there is one further very important matter on which I would like to comment. Alan mentioned earlier that this is to be Adrian Whittingham's last AGM. Adrian has decided to retire from the Board today and as an executive of the company from 31 December. When we announced this to the Stock Exchange a month or so ago, I said Adrian's contribution to building Pinnacle into the strong, diversified business it is today is a credit to his tireless commitment to the company, its Affiliates, fund investors and his fellow shareholders and partners......that at a personal level, I am enormously grateful for his friendship, partnership and support over more than 15 years...and that I will miss him greatly as a colleague. All of that is a massive understatement. This company has benefited greatly from the tremendous job that Adrian has done over the past 15 years. It is not just his tremendous talent as an executive that has been so valuable but also his exceptional personality and warm, inclusive personal style that have contributed to both his success as a key Pinnacle executive and also his popularity both within the company and with the enormous number of people, important to the company but external to it, with whom Adrian interacted on a daily basis for so many years. I wish I could have talked him into staying longer, but after 15 years it would be extremely ungracious of me to expect him to forego other pursuits, that he will no doubt undertake, over the years ahead. Adrian, we wish you all the best with those, and thank you most sincerely for all you have done for us over the past 15 years.