

**Pengana Capital Group Limited**  
**Appendix 4E**  
**Preliminary final report**



**1. Company details**

Name of entity:	Pengana Capital Group Limited
ABN:	43 059 300 426
Reporting period:	For the year ended 30 June 2020
Previous period:	For the year ended 30 June 2019

**2. Results for announcement to the market**

The group has adopted Accounting Standard AASB 16 'Leases' for the year ended 30 June 2020. The Accounting Standard was adopted from 1 July 2019 using the transitional rules that allow for comparatives not to be restated. Refer to note 38 of the financial statements for the impact of adoption on transition date 1 July 2019.

The adoption of this Accounting Standard and Interpretation did not have any significant impact on the financial performance or position of the group and therefore there was no impact on opening accumulated losses.

			\$'000
Revenues from ordinary activities	up	5.1% to	46,543
Profit from ordinary activities after tax attributable to the owners of Pengana Capital Group Limited	up	142.8% to	6,118
Profit for the year attributable to the owners of Pengana Capital Group Limited	up	142.8% to	6,118

*Dividends*

	Amount per security Cents	Franked amount per security Cents
On 25 February 2020, an interim dividend was declared for the year ended 30 June 2020 and paid on 19 March 2020 to shareholders registered on 5 March 2020.	4.0	2.0
On 28 August 2020, a final dividend was declared for the year ended 30 June 2020 to be paid on 24 September 2020 to shareholders registered on 10 September 2020.	4.0	4.0

*Comments*

Please refer to the Chief Executive Officer's Report within the accompanying Annual Report for further information on the current year results and future outlook.

**3. Net tangible assets**

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	27.24	24.49

The net tangible assets per ordinary security for the reporting period is calculated based on 83,507,479 (2019: 84,727,668) ordinary shares on issue including 4,909,228 (2019: 4,909,228) preference shares (excluding 24,428,066 (2019: 23,458,720) treasury shares). Net tangible assets exclude intangible assets, right-of-use assets, deferred tax liabilities and lease liabilities.

The net tangible assets per ordinary security are negatively impacted by the accounting treatment of the company's loan share plan whereby shares issued under the plan (treasury shares) are not recognised in equity and the associated loans are not recorded as an asset until the associated loans are repaid. Repayment is due on or before June 2027. The underlying net tangible assets per ordinary security recognising the treasury shares in equity and associated loans as assets is 50.83 cents (2019: 46.31 cents).

#### 4. Control gained over entities

On 1 January 2020, the group acquired 66.67% of the shares in Lizard Investors LLC. Refer to note 29 of the financial statements for further details.

#### 5. Dividend reinvestment plans

The company has a dividend reinvestment plan ('DRP'). The DRP will not be operative for the dividend declared on 28 August 2020.

#### 6. Details of associates and joint venture entities

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
Pengana International Equities Fund	0.96%	1.07%	98	50
Global Credit Investments Pty Ltd	-	34.65%	259	(258)
Others	-	-	(5)	(31)
<i>Group's aggregate share of associates and joint venture entities' profit/(loss) (where material)</i>				
Profit/(loss) from ordinary activities before income tax			352	(239)

#### 7. Audit qualification or review

*Details of audit/review dispute or qualification (if any):*

The financial statements have been audited and an unqualified opinion has been issued.

#### 8. Attachments

*Details of attachments (if any):*

The Annual Report of Pengana Capital Group Limited for the year ended 30 June 2020 is attached.

**Pengana Capital Group Limited**  
**Appendix 4E**  
**Preliminary final report**



**9. Signed**

As authorised by the Board of Directors

Signed  \_\_\_\_\_

Russel Pillemer  
Chief Executive Officer  
Sydney

Date: 28 August 2020



# PENGANA CAPITAL GROUP LIMITED

## ANNUAL REPORT

ACN 43 059 300 426

30 JUNE  
2020

### PENGANA CAPITAL HEAD OFFICE

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**PENGANA.COM**

**PENGANA  
CAPITAL GROUP  
LIMITED**





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# PENGANA CAPITAL GROUP LIMITED

**Pengana Capital Group Limited**  
**Corporate directory**  
**30 June 2020**

Directors	Warwick Negus - Non-Executive Chairman Russel Pillemer - Managing Director and Chief Executive Officer Jeremy Dunkel - Non-Executive Director Kevin Eley - Non-Executive Director David Groves - Non-Executive Director
Company secretary	Paula Ferrao
Registered office	Level 12, 167 Macquarie Street Sydney NSW 2000 Tel: +61 2 8524 9900
Share register	Computershare Investor Services Pty Limited Level 4, 60 Carrington Street Sydney NSW 2000 Tel: 1300 787 272
Auditor	Grant Thornton Audit Pty Ltd Level 17, 383 Kent Street Sydney NSW 2000
Stock exchange listing	Pengana Capital Group Limited shares are listed on the Australian Securities Exchange (ASX code: PCG)
Website	<a href="http://www.pengana.com">www.pengana.com</a>
Corporate Governance Statement	<p>The directors and management are committed to conducting the business of Pengana Capital Group Limited in an ethical manner and in accordance with the highest standards of corporate governance. Pengana Capital Group Limited has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Third Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations.</p> <p>The group's Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed and ASX Appendix 4G are released to the ASX on the same day the Annual Report is released. The Corporate Governance Statement and Corporate Governance Compliance Manual can be found on the company's website at <a href="http://www.pengana.com">www.pengana.com</a></p>





## LETTER FROM THE CHAIRMAN

Dear fellow shareholders,

I am pleased to present the 30 June 2020 Annual Report for Pengana Capital Group Limited (ASX: PCG, "Pengana"). My introductory comments will no doubt mirror those of countless others' reports and letters you will read this financial year end, but it is impossible to discuss the year without mentioning the incomparable circumstances we find ourselves in. This pandemic has created one of the most serious challenges of a generation, affecting a multitude of facets - our health, our lifestyle, our relationships and our financial security.

For Pengana, the most immediate concerns at the outset of the pandemic were two-fold: protecting the health of our employees and protecting the wealth of our investors.

Having significantly restructured both our sources of revenues and our cost base last year, we entered this financial year in a position of relative strength, and delivered a 22% increase in Operating Profit before Income Tax, Depreciation and Amortisation ("Operating EBITDA"). PCG was not a beneficiary of any Federal Government financial assistance. In the year, we continued to shift Funds under Management ("FUM") to higher margin products; we earned increased performance fees primarily from our strategies that aim to minimise the risk of losing capital and we started to see the full impact of the cost restructure undertaken in the prior year. We delivered growth in revenue and Operating EBITDA while continuing to invest in people, products and processes.

Pleasingly, a growing portion of the growth in FUM over the year came from our responsible investment strategies. We have seen our responsible investment portfolios outperform traditional portfolios in this period, and the current crisis has only accelerated the trend towards allocation of capital to more sustainable companies, goods and services. Our range of responsible investment products is well positioned to take advantage of this trend and form a key focus for our future growth.

We are keenly aware of the importance of dividends to our shareholders, so it was pleasing that the \$12.5 million Underlying Profit after Tax earned in the current financial year (up 14.3% from the prior comparable period) supported the fully franked 4 cent per share final dividend the PCG Board declared today. The final dividend is payable 24 September 2020 to shareholders on the register as at 10 September 2020. This brings the total dividends declared for the 2020 financial year to 8 cents per share, up from the 4 cents per share declared for the 2019 financial year.

In June 2019, the Company announced its intention to implement an on-market buy back of no more than 10% of the Company's shares over the following twelve months. The Company invested \$1.9 million to acquire 1,082,839 shares. This represents 1% of our issued capital.



Ahead of any government directive, Pengana made the decision in early March to urge as many of our employees as possible to work from home. Implementing work from home arrangements, while ensuring we continued to operate seamlessly with no detrimental impact on the delivery of our services to our investors, was only possible because of the extraordinary operational and risk management infrastructure that we already had in place. It is also a testament to the excellence of our management team, who showed exceptional leadership in very challenging circumstances.

Every single employee plays an important part in Pengana's ability to deliver on its core purpose: to create and manage wealth for our investors. We believe we are "smarter together", and aim to ensure that our purpose and values are not just internally aligned, but also aligned with that of our investors by encouraging staff and directors to also become Pengana owners.

During the year we extended our Employee Loan Share Plan to an additional 15 staff members, allocating 831,996 PCG shares vesting through to 2024. In addition, we implemented a Non-Executive Director (NED) Equity plan, whereby NEDs can salary sacrifice their Directors' fees into PCG shares. The Plan was implemented in April 2020 and 114,616 shares were purchased on market on behalf of the NEDs.

At the upcoming AGM, we will be seeking your approval to grant the NEDs new PCG shares in place of their Directors' fees. The NED Equity Plan will operate on a fee sacrifice basis, it does not involve additional cost to Pengana and enhances the alignment between the NEDs and our Shareholders.

In the months and years ahead of us, we will continue to invest in our people, our products and our processes, as these form the basis of future growth and stability for Pengana. We believe that our success in the 2020 financial year was driven by the restructures undertaken in the prior financial years, our exceptional investment and management teams and our robust and scalable infrastructure. We commit to taking a long-term strategic view to ensure continued growth in the value we deliver to our shareholders.

I hope you can join us at this year's Annual General Meeting, which will, for the first time, be held virtually, on 21 October 2020 at 9:30 am Sydney time. Thank you for your continued support.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Warwick Negus'. The signature is fluid and cursive, with a long, sweeping underline.

**Warwick Negus**

Chairman  
Pengana Capital Group



# CEO'S REPORT 2020

The 2020 financial year was a successful period for Pengana Capital Group Limited ("PCG" or "the Company" or "Pengana"). In the midst of unprecedented turmoil in global markets, the foundations we laid over the last few years (and discussed in my FY2019 CEO Report) have started to bear fruit, resulting in higher profitability and increased growth prospects.

## Key Developments over the year included:

- Strong 12 month performance across funds positioned for growth
- Expansion of distribution and marketing team and capabilities
- PE1 rights issue raising \$94m
- Acquisition of controlling stake in Lizard International LLC
- Launch of Lizard International long-only strategy- now managing ~\$170m
- New JV relationship to manage the Pengana Alpha Israel Fund
- Launch of the Pengana Property Securities Fund

## Exceptional 12 month performance across funds positioned for growth

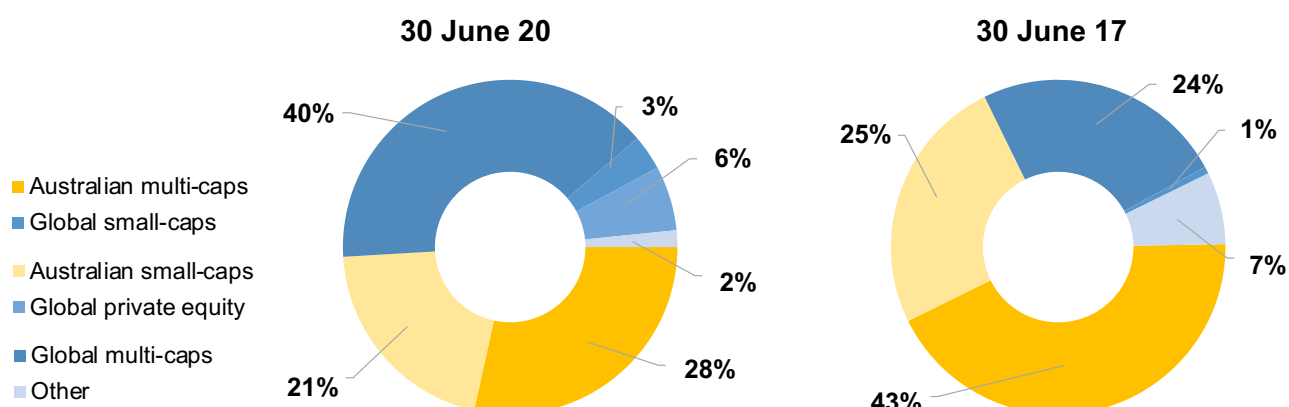
Our premise that the value added benefit of active managers would become apparent in more volatile markets could not have been more stark than in the first weeks of March when the Dow posted its worst day since 2008 and the NYSE halted trading for the first time since 1997, after an extraordinary sell off. In the erratic weeks and months that followed, our fund managers stuck to their investment thesis and delivered returns substantially in excess of the markets. Pleasingly, this was particularly evident amongst our funds that we aim to grow strongly over the coming years as shown below<sup>i</sup>:

	Fund %	Benchmark %	Outperformance %
Pengana International Fund <sup>ii</sup>	16.2	3.0	13.2
Pengana International Ethical Fund <sup>iii</sup>	11.9	3.0	8.9
Pengana Global Small Companies Fund <sup>iv</sup>	3.7	(3.7)	7.4
Pengana WHEB Sustainable Impact Fund <sup>v</sup>	7.6	3.0	4.6

## FUNDS UNDER MANAGEMENT

FUM reduced slightly from \$3.3 billion at the start of the financial year to \$3.1 billion at 30 June 2020. Net inflows of \$50 million were offset by negative investment performance of \$14 million and distributions paid of \$178 million. The strong absolute (and relative) performance of our international products in particular insulated us from the worst of the market downturn; and our net inflows, including from some strategic acquisitions, shifted our FUM towards higher margin products.

Since 30 June, our FUM has grown further to \$3.2 billion, despite paying \$74 million in distributions in July 2020. This is as a result of the successful rights issue for PE1, which raised an additional \$94 million and inflows of \$66 million into our Lizard Investors LLC division. In addition, we added \$55 million in performance.



## FINANCIAL RESULTS

Pengana generated an underlying net profit before tax of \$12.5 million which represents 8.38 cents per share after normalised tax.

Pengana Capital Group Underlying profit before tax <sup>vi</sup>	June 2020 (\$'000)	June 2019 (\$'000)
Management fee revenue	38,091	37,619
Performance fee revenue	6,080	4,909
Net fund direct expenses	(3,062)	(3,241)
Operating expenses	(18,174)	(17,283)
Team profit share	(13,210)	(13,891)
Non-controlling interests	168	(10)
<b>Operating EBITDA<sup>vii</sup></b>	<b>9,893</b>	<b>8,103</b>
Interest and investment income distributions	799	641
Interest on loan funded share plan	2,034	2,233
Financing costs	(245)	(53)
<b>Underlying profit before tax attributable to Pengana Shareholders</b>	<b>12,481</b>	<b>10,924</b>
<b>Basic EPS on underlying profit after normalised tax at 27.5% <sup>viii</sup></b>	<b>8.38c</b>	<b>7.65c</b>

Gross management fee revenue of \$38.1 million was marginally higher than the \$37.6 million posted in the prior comparable period (the year ended 30 June 2019). Average FUM was higher in the previous financial year; however, the shift in FUM over the course of the 2020 financial year to products that derive higher net fees to Pengana drove a 1.3% increase in gross management fee. We expect this trend to continue through 2021 and beyond.

We earned \$6 million in gross performance fees, 23% above the \$4.9 million derived in the prior comparable period. Although still well below our long-term performance fee averages, we see these fees as proof that good active managers are essential in preserving capital in times of market sell offs and that diversification in performance fee structures across vehicles is highly valuable. Performance fees income fluctuates, especially over relatively short periods of time. However, over the long term, we expect a reversion to the mean.

Last year we restructured our product offering, and this year we have seen the full impact of that rationalisation with a 6% reduction in Net Fund Direct Expenses. Operating expenses at \$18.2 million were 5% above the \$17.3 million posted in the prior comparable period, driven predominantly by increased investment in our sales and distribution capabilities. In the last quarter of 2020 we made some significant reductions in operating expenses, the extent of which should be evident in 2021.

Despite an increase in gross management and performance fees, profit share payments to our various fund management teams at \$13.2 million were down almost 5% year-on-year due to a greater proportion of the FUM held in products with higher net fees due to PCG.

The combination of the restructure of our cost base with increased funds under management from products with a higher fee margins to PCG meant that our Operating EBITDA at \$9.9 million was 22% higher than the prior financial year.

In the last two years, our focus has been to not only increase fee revenue through increased FUM and leveraging current scalable infrastructure, but to ensure that our efforts are focused on products that have strong growth prospects and that deliver higher fee margins.

## BALANCE SHEET

At 30 June 2020, our Underlying Net Tangible Assets<sup>ix</sup> were \$54.9 million, or 51 cents per share. During the year we paid \$3.3 million or 4 cents per share in dividends, reduced our borrowings by 25% and bought back \$1,894,315 in PCG shares under the buyback announced in June 2019 and at 30 June 2020 had \$31 million in cash and investments.

During 2020 the Company made two strategic acquisitions. In November 2019 PCG announced it had acquired a majority stake in Chicago-based Lizard Investors LLC ("Lizard"), a management firm based in Chicago with an excellent long-term track record in managing global small cap strategies. More recently, we also entered into a joint venture with Israel-based Alpha LTI ("Alpha"), a leader in investing in Israeli listed companies. I will expand on the significance of these two additions to our suite of products later in this report.

The management of our balance sheet is critically important to our business and the returns we deliver shareholders in the long term, as it allows us to take advantage of strategic opportunities as they arise.

## FOUNDATION FOR FUTURE GROWTH

In recent years, PCG has been focused on identifying future growth opportunities. This has meant that we have had to invest heavily in building the foundations for growth, to the detriment of past profitability. In recent years we have significantly restructured the business, both from a cost base and from a product offering perspective and we believe we have built a highly diversified funds management business that is now poised to deliver significant upside over the medium to long term.

We have built a highly scalable infrastructure and, backed by a strong brand, distribution and marketing capabilities, we have amassed a significant loyal client base at the higher end of the retail market. Our suite of products is highly diversified across geographies and markets

segments and as evidenced by our recent expansion into private equity, our scalable infrastructure gives us the opportunity to expand into further asset classes when the right opportunity presents itself.

The current product mix has attractive fee margins, including diversification in terms of performance fee potential, and over 20% of the current FUM is in closed-ended listed vehicles. In particular, a number of our strategies currently present significant growth opportunities:

	<b>Indicative Additional Capacity</b>	<b>Indicative Gross Fee Margin (from Base + Performance Fees)</b>	<b>Indicative Net Fee Margin Adding to PCG EBITA</b>
International Equities Fund	>5bn	1.0%	45%
International Equities Ethical Fund	>3bn	1.0%	45%
Pengana Private Equity Trust (ASX: PE1)	>3bn	2.0%	100%
Pengana Global Small Companies Fund	>700m	0.8%	50%
Pengana Wheb Sustainable Impact Fund	>500m	0.6%	50%
Pengana Alpha Israel Fund	>700m	1.0%	50%
Lizard International Small Cap Funds	>2bn	1.0%	37%

### International Equities

The Pengana International Fund ("PIF") recently celebrated its fifth anniversary with exceptional top quartile returns since inception. The unique investment process delivered true diversified returns from a highly differentiated portfolio with very limited exposure to large cap US growth stocks. The last financial year presented the full gamut of market challenges, from the US tech stock driven market exuberance to the massive sell offs experienced as the initial Covid-19 shockwaves first hit financial markets. The fund outperformed through all these cycles, validating the team's stringent investment process.

The fund is an attractive addition to an investor's portfolio that blends well with other international funds as well as providing core international equity exposure with consistent returns whilst preserving capital in market downturns. With a capacity of several billion dollars and the ability to deliver total fee margins of circa 1% (with approximately 45% of this falling to our bottom line), this strategy is a key growth opportunity for PCG.

### International Ethical Equities

The international equities team also manages PIF's responsible investment fund counterpart, the Pengana International Fund - Ethical ("PIFE"), which has recently passed its third year under PCG's management. Similarly to PIF, PIFE has delivered exceptional returns since the team took over the strategy, with top quartile returns relative to peers in the International Ethical Equities Sector. The last few years has seen an almost exponential increase in demand for responsible investment strategies worldwide, and Australian responsible investment funds are increasingly held in high regard globally.



PIFE has demonstrable capability to deliver an ethically screened, ESG aware portfolio without compromising financial returns and with a capacity of several billion dollars, it has the ability to be a key driver of PCG's FUM growth in the medium term. The team also run a mirror of the PIFE strategy in a listed vehicle, Pengana International Equities Limited (ASX: PIA).

### **Pengana Private Equity Trust (ASX: PE1)**

PE1 remains the only access point for retail investors to access global private equity through an ASX listed vehicle. The attractiveness of the product was evident in that PE1 consistently traded at a premium to its NAV through-out the financial year, including through the recent rights issue offer period. The rights issue attracted significant interest, raising an additional \$94 million in the midst of the Covid-19 crisis.

Investor's allocation to private equity as a percentage of their total investable portfolio continues to grow, and PE1 is uniquely placed to be the product of choice for the Australian retail market. The strategy has the capacity to deliver total fee margins in excess of 2%, all of which fall directly to PCG's EBITDA and with very large capacity; it is a key area of focus for our future growth.

### **Global Small Companies**

In 2015 we entered into a joint venture to launch the Pengana Global Small Companies Fund with Chicago-based Lizard Investors LLC, a highly regarded specialist global small-cap manager. The fund has attracted good research house ratings and has delivered solid performance since inception. With a lack of credible competitors in Australia, growing demand for the sector and a capacity in excess of \$700 million, the fund presents a further growth opportunity for PCG.

### **WHEB Sustainable Impact**

We entered into a joint venture with London-based WHEB Asset Management LLP in 2017 to launch the Pengana WHEB Sustainable Impact Fund. WHEB is a global leader in sustainable investing with a focus on the opportunities created by the transition to more sustainable, resource efficient and energy efficient economies. The fund has attracted very strong research house ratings and very strong and growing investor demand. Impact investing is experiencing phenomenal growth, and Pengana's WHEB Sustainable Impact Fund is well placed to capture a significant portion of the interest in the Australian market.

### **Israel Alpha Fund**

Our latest joint venture is with Israel-based Alpha LTI ("Alpha"). In early calendar 2020, Pengana entered into a joint venture with Alpha, becoming the trustee for Alpha's existing Australian wholesale unit trust, now renamed the Pengana Alpha Israel Fund. Alpha is a leader in investing in listed Israeli companies, one of the world most attractive investment markets, which has been driven by high-tech start-ups to rival Silicon Valley, and industrial companies utilising cutting edge technology. Alpha has delivered excellent long term returns, and while Israeli companies remain underrepresented in investor's portfolios, the sector is attracting strong interest as Israel's reputation as the 'Start Up' nation continues to grow. The Alpha strategy has in excess of \$700 million capacity and should deliver circa 2% in total fee margins, of which 50% will fall to PCG's bottom line.

### **Lizard International Small Cap Strategies and US Expansion Platform**

In early calendar 2020 we also acquired a significant stake in Chicago-based Lizard Investors LLC ("Lizard"), the sub-advisers of the Pengana Global Small Companies Fund. The acquisition extended what has been a successful partnership to date, presenting an opportunity for Pengana to take an ownership stake in a synergistic premium funds management business which has growth opportunities and a sophisticated investor base.

Like Australia, the US only has a limited number of global small cap managers with good long-term track records and in that space Lizard is a stand out. Post our acquisition, we launched the Lizard Small Cap long-only strategies which attracted strong and immediate interest from institutional investors. As it is usual with institutional funds, fee margins depend upon type of strategy (i.e. lower for long-only and higher for hedge funds) as well as size of mandates.

Lizard has the potential to transform into a platform for the management of a suite of strategies to be distributed to the US institutional market and it is our intention to initially launch two strategies into the US market, both of which are currently marketed by Pengana in Australia.

## OUTLOOK

PCG is very well positioned to successfully navigate through the investment challenges the next few years will undoubtedly present. We are fortunate to have our strategies managed by superb investment teams that have the skills and adaptability to manage portfolios through challenging times. We have a strong and scalable platform that enables us to be nimble and take advantage of strategic opportunities when and if they arise. In addition, we have a brand and culture that underpins our ability to deliver growth and long-term shareholder value.

As always, I thank you for your continued investment and confidence in Pengana, and look forward to meeting you at our first virtual Annual General Meeting.



**Russel Pillemer**

Chief Executive Office  
Pengana Capital Group

<sup>i</sup> Performance one year to 31 July 2020. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. Past performance is not a reliable indicator of future performance, the value of investments can go up and down

<sup>ii</sup> Benchmark: MSCI All Country World Total Return Index in AUD

<sup>iii</sup> Benchmark: MSCI All Country World Total Return Index in AUD

<sup>iv</sup> Benchmark: MSCI All Country World Index SMID Cap unhedged in Australian dollars

<sup>v</sup> Benchmark: MSCI World Total Return Index (net, AUD unhedged)

<sup>vi</sup> Source: Pengana Management Accounts

<sup>vii</sup> As per Pengana Capital Group Limited 30 June 2020 Annual Report

<sup>viii</sup> Calculated on 107,927,281 weighted average number of shares (i.e. including treasury shares) (2019: 103,534,926 shares)

<sup>ix</sup> Net Assets as per the 2020 Financial Statements of \$85 million, adding off balance sheet employee loans of \$32 million and deferred taxes of \$5 million, and subtracting intangibles of \$67 million, calculated on 107,927,281 weighted average number of shares (i.e. including treasury shares).

## Pengana Capital Group Limited

### Directors' report

### 30 June 2020

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of Pengana Capital Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

#### Directors

The following persons were directors of Pengana Capital Group Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Warwick Negus - Non-Executive Chairman  
 Russel Pillemer - Managing Director and Chief Executive Officer  
 Jeremy Dunkel - Non-Executive Independent Director  
 Kevin Eley - Non-Executive Independent Director  
 David Groves - Non-Executive Independent Director

#### Principal activities

The principal activity of the group is funds management with the objective of increasing investor wealth by developing, offering and managing investment funds in Australia and globally as opportunities arise.

#### Dividends

Dividends paid during the financial year were as follows:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
On 28 August 2018, a fully franked final dividend of 6.5 cents per ordinary share was declared for the year ended 30 June 2018 and paid on 28 September 2018 to the shareholders registered on 14 September 2018	-	5,188
On 25 February 2020, a 50% franked interim dividend of 4.0 cents per ordinary share was declared for the year ended 30 June 2020 and paid on 19 March 2020 to the shareholders registered on 5 March 2020 (2019: Unfranked interim dividend of 4.0 cents per ordinary share)	3,346	3,193
	<u>3,346</u>	<u>8,381</u>

On 28 August 2020, the directors declared a final dividend for the year ended 30 June 2020 of 4 cents per ordinary share. The dividends are 100% franked to be paid on 24 September 2020 to eligible shareholders on the register on 10 September 2020.

#### Review of operations

The profit for the group after providing for income tax and non-controlling interest amounted to \$6,118,000 (30 June 2019: loss of \$14,295,000).

Please refer to the Chief Executive Officer's Report for further information on the current year results and future outlook.

#### Significant changes in the state of affairs

On 1 January 2020, the group acquired 66.67% of the units in Lizard Investors LLC ('Lizard') for the consideration of \$2,699,000. Refer to note 29 of the financial statements for further details.

There were no other significant changes in the state of affairs of the group during the financial year.

#### Matters subsequent to the end of the financial year

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it did not have any significant impact for the group up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

## Pengana Capital Group Limited

### Directors' report

### 30 June 2020

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

#### Likely developments and expected results of operations

Refer to the Chief Executive Officer's Report for information on likely developments and further outlook.

#### Environmental regulation

The group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

#### Information on directors

Name:	Warwick Negus
Title:	Non-Executive Chairman
Experience and expertise:	Warwick has more than 30 years' experience in the finance industry across Asia, Europe and Australia. His previous executive roles include the Chief Executive Officer ('CEO') of Colonial First State Global Asset Management, co-founder and CEO of 452 Capital, and a Managing Director of Goldman Sachs in Australia, London and Singapore. He was also a Vice President of Bankers Trust Australia.
Other current directorships:	Bank of Queensland Limited (ASX: BOQ); Virgin Australia Holdings Limited (ASX: VAH) and Washington H Soul Pattinson and Company Limited (ASX: SOL)
Former directorships (last 3 years):	URB Investments Limited (ASX:URB)
Special responsibilities:	Member of the Audit and Risk Committee
Interests in shares:	3,440,000 ordinary shares
Name:	Russel Pillemer
Title:	Managing Director and Chief Executive Officer
Experience and expertise:	Russel co-founded Pengana in 2003 together with the Hon. Malcolm Turnbull. He has been Pengana's CEO since inception. Prior to founding Pengana, Russel worked in the Investment Banking Division of Goldman Sachs in New York where he specialised in providing advice to funds management businesses. Before moving to New York, he was responsible for leading Goldman Sachs' Australian Financial Institutions Group. He was previously Chairman of Centric Wealth Group and a Principal of Turnbull Pillemer Capital.
Other current directorships:	Pengana International Equities Limited (ASX: PIA)
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	10,350,081 ordinary shares and 15,872,528 ordinary shares (treasury shares held under the loan share plan)
Name:	Jeremy Dunkel
Title:	Non-Executive Independent Director
Experience and expertise:	Jeremy is a director of Taurus Capital, a family office investment consultancy specialising in philanthropy. His accounting and finance experience includes working for Chemical Bank, Chase Manhattan and Price Waterhouse. He is a director of Education Heritage Foundation and the Moriah College Foundation, as well as being the Chair of Y2i.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Nomination and Remuneration Committee and member of the Audit and Risk Committee
Interests in shares:	1,803,150 ordinary shares

## Pengana Capital Group Limited

### Directors' report

#### 30 June 2020

Name: Kevin Eley  
 Title: Non-Executive Independent Director  
 Experience and expertise: Kevin has over 30 years' experience in management and investment in a broad range of industries including manufacturing, mining, retail, finance and investment. He has worked for a major international accounting firm, two investment banks and was CEO of HGL Limited.  
 Other current directorships: Milton Corporation Limited (ASX: MLT); EQT Holdings Ltd (ASX: EQT) and HGL Limited (ASX: HNG)  
 Former directorships (last 3 years): None  
 Special responsibilities: Member of the Nomination and Remuneration Committee  
 Interests in shares: 250,000 ordinary shares

Name: David Groves  
 Title: Non-Executive Independent Director  
 Experience and expertise: David has over 25 years' experience as a company director. He is Chairman of Tasman Sea Salt Pty Ltd and is a non-executive director of Pengana International Equities Limited, Redcape Hotel Group Management Ltd as responsible entity of the Redcape Hotel Group and of Pipers Brook Vineyard Pty Ltd. He is a former director of EQT Holdings Ltd, Tassal Group Ltd and GrainCorp Ltd and a former executive with Macquarie Bank Limited and its antecedent, Hill Samuel Australia. David is a member of the Council of Wollongong University. He is a member of the Institute of Chartered Accountants Australia and New Zealand and a fellow of the Australian Institute of Company Directors.  
 Other current directorships: Pengana International Equities Limited (ASX: PIA) and Redcape Hotel Group (ASX: RDC)  
 Former directorships (last 3 years): Pyrolyx AG (ASX: PLX) - resigned on 7 June 2019  
 Special responsibilities: Chairman of the Audit and Risk Committee and member of the Nomination and Remuneration Committee  
 Interests in shares: 531,669 ordinary shares

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

#### Company secretary

Ms Paula Ferrao has held the role of Company Secretary since 4 January 2017. Paula is an executive of the group and was previously interim CEO of Hunter Hall International Limited, having previously held the position of Chief Financial Officer since 2010. Paula has 20 years' experience in the funds management industry with strong expertise in financial reporting and tax for corporate entities, listed investment companies, managed investment schemes and public offer superannuation funds and in all aspects of funds operations.

#### Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Warwick Negus	10	10	-	-	4	4
Russel Pillemer	10	10	-	-	-	-
Jeremy Dunkel	10	10	1	1	4	4
Kevin Eley	10	10	1	1	-	-
David Groves	10	10	1	1	4	4

**Pengana Capital Group Limited**  
**Directors' report**  
**30 June 2020**

	Board	sub-committee
	Attended	Held
Warwick Negus	1	1
Russel Pillemer	1	1
Jeremy Dunkel	1	1
Kevin Eley	1	1
David Groves	1	1

Held: represents the number of meetings held during the time the director held office and was a member of the relevant committee.

**Remuneration report (audited)**

The remuneration report details the key management personnel ('KMP') remuneration arrangements for the group in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

**Principles used to determine the nature and amount of remuneration**

The objective of the group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Nomination and Remuneration Committee ('NRC') is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

**Non-executive directors' remuneration**

Non-executive directors each have a letter of appointment with the company. Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the NRC. The NRC may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

During the year, the company implemented a Non-executive director equity plan ('NED Plan'). The NED Plan will operate on a fee sacrifice basis and therefore will not involve additional cost to the group. The Non-executive directors will be given the opportunity to sacrifice up to 100% of fees (excluding compulsory company superannuation contribution) in return for rights to acquire shares of equivalent value. The NED Plan will be effective for fees earned from 1 March 2020 and the first period of fees sacrificed will be until 30 June 2020. The fees sacrificed during the period were used to purchase on-market fully paid ordinary shares in the company, which determine the number of rights for this period. For subsequent financial years, shareholder approval for these grants of rights will be sought at the Annual General Meeting ('AGM') held in the financial year of the offer and grants will be made immediately following the AGM. It is anticipated, on exercise of the rights, they will be settled by the issue of new shares. The NED Plan was disclosed to the ASX on 6 April 2020.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 28 November 2017, where the shareholders approved a maximum annual aggregate remuneration of \$750,000.



## Pengana Capital Group Limited

### Directors' report

### 30 June 2020

#### *Executive remuneration*

The group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has the following components:

- fixed remuneration, including superannuation and long service leave;
- share-based payments; and
- discretionary cash bonus.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, will be reviewed annually by the NRC based on individual and business unit performance, the overall performance of the group and comparable market remuneration.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits where it does not create any additional costs to the group and provides additional value to the executive.

Short Term Incentives ('STI') are payable to KMP and other executives at the discretion of the Board and are not directly linked to the group profitability, however the profitability of the group is taken into consideration when determining bonuses. No STI was paid to KMP and other executives for the year ended 30 June 2020.

#### *Long term incentives ('LTI')*

The long-term incentives ('LTI') include long service leave and share-based payments.

The group operates a Loan Share Plan ('LSP') which is outlined below in the section 'Share-based compensation'.

A condition of the Hunter Hall merger in the year ended 30 June 2017 was a voluntary escrow of equity owned by KMP and other executives. The escrow periods range from one to six years.

#### *Use of remuneration consultants*

During the financial year ended 30 June 2020, the group, through the Nomination and Remuneration Committee, engaged Godfrey Remuneration Group Pty Ltd, remuneration consultants, to set up the NED Plan as detailed in the 'non-executive directors' remuneration' section above. This resulted in the implementation of NED Plan which became effective in the current financial year. Godfrey Remuneration Group Pty Ltd was paid a fees of \$24,000 for these services.

An agreed set of protocols were put in place to ensure that the remuneration recommendations would be free from undue influence from key management personnel. These protocols include requiring that the consultant not communicate with affected key management personnel without a member of the Nomination and Remuneration Committee being present, and that the consultant not provide any information relating to the outcome of the engagement with the affected key management personnel. The Board is also required to make inquiries of the consultant's processes at the conclusion of the engagement to ensure that they are satisfied that any recommendations made have been free from undue influence. The Board is satisfied that these protocols were followed and as such there was no undue influence.

#### *Voting and comments made at the company's 2019 Annual General Meeting ('AGM')*

At the 2019 AGM, shareholders voted to approve the adoption of the remuneration report for the year ended 30 June 2019. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

#### **Details of remuneration**

##### *Amounts of remuneration*

Details of the remuneration of KMP of the group are set out in this section.

The KMP of the group consisted of the directors of Pengana Capital Group Limited and the following person:

- Katrina Glendinning - Chief Financial Officer

**Pengana Capital Group Limited**  
**Directors' report**  
**30 June 2020**

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees \$	Cash bonus \$	Non-monetary \$	Super-annuation \$	Long service leave \$	Equity-settled \$	
<b>2020</b>							
<i>Non-Executive Directors:</i>							
Warwick Negus	85,236	-	42,618	12,146	-	-	140,000
Jeremy Dunkel	54,795	-	27,397	7,808	-	-	90,000
Kevin Eley	48,706	-	24,353	6,941	-	-	80,000
David Groves	60,883	-	30,442	8,676	-	-	100,001
<i>Executive Directors:</i>							
Russel Pillemer	564,354	-	40,176	21,003	12,141	-	637,674
<i>Other KMP:</i>							
Katrina Glendinning	360,851	-	-	21,002	6,792	28,246	416,891
	<u>1,174,825</u>	<u>-</u>	<u>164,986</u>	<u>77,576</u>	<u>18,933</u>	<u>28,246</u>	<u>1,464,566</u>

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees \$	Cash bonus \$	Non-monetary \$	Super-annuation \$	Long service leave \$	Equity-settled \$	
<b>2019</b>							
<i>Non-Executive Directors:</i>							
Warwick Negus	127,854	-	-	12,146	-	-	140,000
Jeremy Dunkel	82,192	-	-	7,808	-	-	90,000
Kevin Eley	73,060	-	-	6,940	-	-	80,000
David Groves	91,325	-	-	8,675	-	-	100,000
<i>Executive Directors:</i>							
Russel Pillemer	522,936	-	72,017	20,531	11,783	-	627,267
<i>Other KMP:</i>							
Katrina Glendinning	354,468	-	-	20,531	6,970	22,891	404,860
	<u>1,251,835</u>	<u>-</u>	<u>72,017</u>	<u>76,631</u>	<u>18,753</u>	<u>22,891</u>	<u>1,442,127</u>

Non-executive directors' remuneration is 100% fixed.

The share-based payments relate to the LSP.

Name	Fixed remuneration		LTI	
	2020	2019	2020	2019
<i>Executive Directors:</i>				
Russel Pillemer	100%	100%	-	-
<i>Other KMP:</i>				
Katrina Glendinning	93%	94%	7%	6%

## Pengana Capital Group Limited

### Directors' report

### 30 June 2020

#### Service agreements

Remuneration and other terms of employment for group executives are formalised in employment agreements. Details of the employment agreements with KMP are as follows:

Name:	Russel Pillemer
Title:	Managing Director and Chief Executive Officer
Term of agreement:	Ongoing - no fixed minimum term
Details:	A total fixed salary of \$625,533 per annum, which includes statutory superannuation contributions and any salary sacrifice arrangements. Russel participates in the loan share plan. Either party may terminate the employment agreement by providing six months' notice.
Name:	Katrina Glendinning
Title:	Chief Financial Officer
Term of agreement:	Ongoing - no fixed minimum term
Details:	Salary: A total fixed salary of \$381,854 per annum, which includes statutory superannuation contributions and any salary sacrifice arrangements. Katrina participates in the loan share plan. Either party may terminate the employment agreement by providing six months' notice.

KMP have no entitlement to termination payments in the event of removal for misconduct.

#### Share-based compensation

##### Issue of shares under the Loan Share Plan ('LSP')

The group operates a LSP whereby limited recourse loans were provided to employees and fund managers to acquire shares in the company. As the share acquisitions were funded by limited recourse loans, for accounting purposes the arrangement is treated as equity-settled share-based payments. The shares issued under the LSP (referred to as 'treasury shares') are fair valued on the date they are granted and amortised as an expense in profit or loss over the vesting period. The impact of this accounting treatment is a reduction in net assets equivalent to the value of loans outstanding under the LSP. As at 30 June 2020 loans outstanding under the LSP and not recorded as a receivable on statement of financial position totalled \$31,948,963 (2019: \$29,395,315). Treasury shares have a service vesting period of 5 years, except those granted to Russel Pillemer all of which vested on the date they were granted.

As at 30 June 2020 outstanding loans to Russel Pillemer and Katrina Glendinning respectively are \$19,060,240 (2019: \$18,533,517) and \$553,295 (2019: \$529,215).

The terms and conditions of each grant of shares under the LSP affecting remuneration of directors and other KMP in this financial year or future reporting years are as follows:

Grant date	Expiry date	Name	Number of loan shares	Exercise price	Fair value per loan shares at grant date
03/03/2017	01/03/2024	Katrina Glendinning	422,899	\$1.49	\$0.271

There were no other options over ordinary shares granted to or vested in directors and other KMP as part of compensation during the year ended 30 June 2020 and 30 June 2019.

**Pengana Capital Group Limited**  
**Directors' report**  
**30 June 2020**

**Additional disclosures relating to KMP**

*Shareholding*

The number of shares in the company, excluding shares under the LSP, held during the financial year by each director and other members of KMP of the group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration*	Additions	Disposal/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Warwick Negus	3,440,000	-	-	-	3,440,000
Jeremy Dunkel	1,803,150	-	-	-	1,803,150
Kevin Eley	250,000	-	-	-	250,000
David Groves	531,669	-	-	-	531,669
Russel Pillemer	10,350,081	-	-	-	10,350,081
Katrina Glendinning	2,159,530	-	-	-	2,159,530
	<u>18,534,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,534,430</u>

\* During the year, rights were granted to directors under the NED Plan in return for sacrificing fees. These rights were not exercisable until 21 August 2020 at which time 114,616 shares were allocated to and are held in trust on behalf of relevant directors.

*Shares under the loan share plan*

The number of shares under the LSP in the company held during the financial year by each director and other members of KMP of the group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Shares under the loan share plan</i>					
Russel Pillemer	15,872,528	-	-	-	15,872,528
Katrina Glendinning	422,899	-	-	-	422,899
	<u>16,295,427</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,295,427</u>

***This concludes the remuneration report, which has been audited.***

**Shares under the loan share plan and shares under options**

Shares under the LSP in Pengana Capital Group Limited and reported as treasury shares at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number of loan shares
01/03/2017	28/02/2024	\$1.49	5,149,796
01/03/2017	28/02/2024	\$1.20	10,722,732
03/03/2017	01/03/2024	\$1.49	6,790,895
03/10/2018	01/10/2025	\$4.33	604,998
20/12/2019	18/12/2026	\$1.50	926,000
05/06/2020	04/06/2027	\$0.86	233,645
			<u>24,428,066</u>

The value of loans issued under the LSP total \$30,952,000 (2019: \$29,220,000) and the related treasury shares are reported as a reduction in issued capital, due to the operability of the LSP being accounted for as a share-based payments arrangement, similar in nature to the issue of options.

There were no unissued ordinary shares of Pengana Capital Group Limited under option outstanding at the date of this report.

**Pengana Capital Group Limited**  
**Directors' report**  
**30 June 2020**

**Shares issued on the exercise of options**

There were no ordinary shares of Pengana Capital Group Limited issued on the exercise of options during the year ended 30 June 2020 and up to the date of this report.

**Indemnity and insurance of officers**

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where the indemnity is not permitted by law.

During the financial year the group paid premiums in respect of contracts to insure the directors and executives of the company and group. The contract of insurance prohibits disclosure of the nature of the risks insured and the amount of the premium.

**Indemnity and insurance of auditor**

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

**Proceedings on behalf of the company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

**Non-audit services**

There were no non-audit services provided during the financial year by the auditor.

**Officers of the company who are former partners of Grant Thornton Audit Pty Ltd**

There are no officers of the company who are former partners of Grant Thornton Audit Pty Ltd.

**Rounding of amounts**

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

**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 immediately after this directors' report.

**Auditor**

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



**Russel Pillemer**

Chief Executive Office  
Pengana Capital Group



**Warwick Negus**

Chairman  
Pengana Capital Group

28 August 2020  
Sydney

## Auditor's Independence Declaration

### To the Directors of Pengana Capital Group Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Pengana Capital Group Limited for the year ended 30 June 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 audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



Grant Thornton Audit Pty Ltd  
Chartered Accountants



M A Adam-Smith  
Partner – Audit & Assurance

Sydney, 28 August 2020



**Pengana Capital Group Limited**  
**Statement of profit or loss**  
**For the year ended 30 June 2020**

	Note	Consolidated 2020 \$'000	2019 \$'000
<b>Revenue</b>			
Management fees		37,473	37,735
Performance fees		6,192	4,952
Other fees		1,419	859
Total revenue	2	45,084	43,546
Share of profits/(losses) of associates accounted for using the equity method		352	(239)
Interest revenue calculated using the effective interest method		141	147
Other income and gains	3	966	837
Total revenue and income		46,543	44,291
<b>Expenses</b>			
Human resources		(13,668)	(14,048)
Fund manager profit share		(13,209)	(13,891)
Fund operating		(3,660)	(4,001)
Impairment of other receivables		-	(299)
Occupancy expenses		(478)	(980)
Cost of establishing Pengana Private Equity Trust	4	-	(6,299)
Non-cash issue of alignment shares to Pengana Private Equity Trust	4	-	(10,260)
Technology and communications		(1,299)	(781)
Marketing and investment research		(1,020)	(1,430)
Insurance		(742)	(548)
Professional, registry and listing related		(1,132)	(678)
Acquisition and restructuring costs		-	(168)
Depreciation and amortisation	4	(3,508)	(2,652)
Other operating		(577)	(275)
Finance costs	4	(286)	(53)
Product development		(623)	-
Total expenses		(40,202)	(56,363)
<b>Profit/(loss) before income tax expense</b>		6,341	(12,072)
Income tax expense	5	(391)	(2,213)
<b>Profit/(loss) after income tax expense for the year</b>		<u>5,950</u>	<u>(14,285)</u>
Profit/(loss) for the year is attributable to:			
Non-controlling interest		(168)	10
Owners of Pengana Capital Group Limited		6,118	(14,295)
		<u>5,950</u>	<u>(14,285)</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	35	7.28	(17.75)
Diluted earnings per share	35	7.07	(17.75)

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

**Pengana Capital Group Limited**  
**Statement of other comprehensive income**  
**For the year ended 30 June 2020**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Profit/(loss) after income tax expense for the year</b>	5,950	(14,285)
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Loss on the revaluation of equity instruments at fair value through other comprehensive income, net of tax	87	(570)
Reclassify gain or loss on disposal of equity instruments net of tax to retained earnings	47	-
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign currency translation	20	-
Other comprehensive income for the year, net of tax	154	(570)
<b>Total comprehensive income for the year</b>	<b>6,104</b>	<b>(14,855)</b>
Total comprehensive income for the year is attributable to:		
Non-controlling interest	(168)	10
Owners of Pengana Capital Group Limited	6,272	(14,865)
	<b>6,104</b>	<b>(14,855)</b>

*The above statement of other comprehensive income should be read in conjunction with the accompanying notes*

**Pengana Capital Group Limited**  
**Statement of financial position**  
**As at 30 June 2020**

	Note	Consolidated 2020 \$'000	2019 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	15,309	14,446
Trade and other receivables	7	532	442
Contract assets - accrued management and performance fees	8	3,839	4,747
Income tax refund due	5	570	-
Prepayments		693	723
Security deposits		601	349
Total current assets		<u>21,544</u>	<u>20,707</u>
<b>Non-current assets</b>			
Trade and other receivables	7	863	873
Investments accounted using the equity method	9	6,914	4,275
Equity investment in financial assets at fair value through other comprehensive income	10	9,126	8,988
Property, plant and equipment	11	275	263
Intangibles	12	66,674	65,455
Right-of-use assets	13	526	-
Prepayments		120	153
Security deposits		73	476
Total non-current assets		<u>84,571</u>	<u>80,483</u>
<b>Total assets</b>		<u>106,115</u>	<u>101,190</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	11,251	7,657
Employee benefits	15	958	992
Bank loan	16	1,250	1,250
Lease liabilities	17	316	-
Income tax liability	5	-	1,182
Total current liabilities		<u>13,775</u>	<u>11,081</u>
<b>Non-current liabilities</b>			
Employee benefits	15	145	93
Other		66	57
Bank loan	16	2,500	3,750
Lease liabilities	17	227	-
Deferred tax	5	4,916	5,766
Total non-current liabilities		<u>7,854</u>	<u>9,666</u>
<b>Total liabilities</b>		<u>21,629</u>	<u>20,747</u>
<b>Net assets</b>		<u>84,486</u>	<u>80,443</u>
<b>Equity</b>			
Contributed equity	18	99,430	101,477
Reserves	19	32,839	29,263
Accumulated losses		(47,615)	(50,340)
Equity attributable to the owners of Pengana Capital Group Limited		<u>84,654</u>	<u>80,400</u>
Non-controlling interest		(168)	43
<b>Total equity</b>		<u>84,486</u>	<u>80,443</u>

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

**Pengana Capital Group Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2020**

<b>Consolidated</b>	<b>Contributed equity \$'000</b>	<b>Reserves \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2018	87,914	29,445	(27,664)	33	89,728
Profit/(loss) after income tax expense for the year	-	-	(14,295)	10	(14,285)
Other comprehensive income for the year, net of tax	-	(570)	-	-	(570)
Total comprehensive income for the year	-	(570)	(14,295)	10	(14,855)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 18)	13,563	-	-	-	13,563
Share-based payments	-	446	-	-	446
Dividends on treasury shares	-	(58)	-	-	(58)
Dividends paid (note 20)	-	-	(8,381)	-	(8,381)
Balance at 30 June 2019	<u>101,477</u>	<u>29,263</u>	<u>(50,340)</u>	<u>43</u>	<u>80,443</u>
<b>Consolidated</b>	<b>Contributed equity \$'000</b>	<b>Reserves \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2019	101,477	29,263	(50,340)	43	80,443
Profit/(loss) after income tax expense for the year	-	-	6,118	(168)	5,950
Other comprehensive income for the year, net of tax	-	154	-	-	154
Total comprehensive income for the year	-	154	6,118	(168)	6,104
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 18)	1,331	-	-	-	1,331
Share buy-back (note 18)	(1,900)	-	-	-	(1,900)
Reclassify gain or loss on disposal of equity instruments net of tax to retained earnings	-	-	(47)	-	(47)
Treasury shares (note 18)	(1,478)	-	-	-	(1,478)
Share-based payments	-	769	-	-	769
Reserves arising on business combinations	-	2,712	-	-	2,712
Derecognition of non-controlling interest	-	-	-	(43)	(43)
Dividends on treasury shares	-	(59)	-	-	(59)
Dividends paid (note 20)	-	-	(3,346)	-	(3,346)
Balance at 30 June 2020	<u>99,430</u>	<u>32,839</u>	<u>(47,615)</u>	<u>(168)</u>	<u>84,486</u>

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

**Pengana Capital Group Limited**  
**Statement of cash flows**  
**For the year ended 30 June 2020**

	Note	Consolidated 2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		49,442	47,901
Payments to suppliers, customers and employees (inclusive of GST)		(40,285)	(49,711)
Dividends received		458	478
Interest received		141	104
Rental and other income		509	283
Finance costs		(286)	-
Income taxes paid		(3,264)	(272)
Net cash from/(used in) operating activities	33	6,715	(1,217)
<b>Cash flows from investing activities</b>			
Payment for purchase of subsidiary, net of cash acquired		1,936	65
Payments for property, plant and equipment		(102)	(98)
Payments for purchase of management rights		(700)	-
Payments for purchase of investments associates		(351)	-
Proceeds from disposal of investments in associates		3,438	2,967
Payments for security deposits		(37)	-
Proceeds from security deposits		-	40
Net cash from investing activities		4,184	2,974
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	5,000
Repayment of borrowings		(1,250)	-
Repayment of lease liabilities		(712)	-
Payments to non-controlling interests		(2,359)	-
Payment for purchase of treasury shares		(147)	-
Payments for share buy-backs		(1,900)	-
Dividends paid to company shareholders, net of treasury shares reinvested		(3,346)	(8,381)
Net cash used in financing activities		(9,714)	(3,381)
Net increase/(decrease) in cash and cash equivalents		1,185	(1,624)
Cash and cash equivalents at the beginning of the financial year		14,446	16,070
Effects of exchange rate changes on cash and cash equivalents		(322)	-
Cash and cash equivalents at the end of the financial year	6	15,309	14,446

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

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
**30 June 2020**

**Note 1. Operating segments**

*Identification of reportable operating segments*

The main business activities of the group are the provision of funds management services. The Board of Directors and the Chief Executive Officer are identified as the Chief Operating Decision Makers ('CODM'), and they consider the performance of the main business activities on an aggregated basis to determine the allocation of resources.

Other activities undertaken by the group, including investing activities, are incidental to the main business activities.

Based on the internal reports that are used by the CODM the group has one operating segment being development, offering of and management of investment funds. There is no aggregation of operating segments.

The operating segment information is the same information as provided throughout the financial statements and are therefore not duplicated.

The information reported to the CODM is on a regular basis.

*Major customers*

There are no customers that account for more than 10% of the group's revenue.

**Note 2. Revenue**

*Disaggregation of revenue*

The disaggregation of revenue from contracts with customers is as follows:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Timing of revenue recognition</i>		
Services transferred over time - management and other fee revenue	38,892	38,594
Services transferred over time – performance fees	6,192	4,952
	<u>45,084</u>	<u>43,546</u>

Disaggregation of revenue based on major service line is shown on the face of the statement of profit or loss.

**Note 3. Other income and gains**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Dividends and distributions	458	479
Rental income	294	283
Other income	214	75
	<u>966</u>	<u>837</u>



**Pengana Capital Group Limited**  
**Notes to the financial statements**  
**30 June 2020**

**Note 4. Expenses**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	37	37
Fixtures and fittings	11	13
Plant and equipment	79	79
Right-of-use assets	830	-
Total depreciation	957	129
<i>Amortisation</i>		
Acquired relationships	2,408	2,405
Other intangible assets	143	118
Total amortisation	2,551	2,523
Total depreciation and amortisation	3,508	2,652
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	245	53
Interest and finance charges paid/payable on lease liabilities	41	-
Finance costs expensed	286	53
<i>Net foreign exchange loss</i>		
Net foreign exchange loss	(36)	48
<i>Leases</i>		
Minimum lease payments	-	949
Amortisation of deferred lease incentives	-	(27)
	-	922
Defined contribution superannuation expense	703	740
<i>Share-based payments expense - included in human resources expenses</i>		
Share-based payments expense	769	446
<i>Cost incurred for Pengana Private Equity Trust</i>		
Cost of establishing Pengana Private Equity Trust	-	6,299
Non-cash issue of alignment shares to Pengana Private Equity Trust	-	10,260
Total Cost incurred for Pengana Private Equity Trust	-	16,559

*Expenses incurred in relation to Pengana Private Equity Trust*

Pengana Private Equity Trust ('PPET') (ASX:PE1) was admitted to the Official List of the Australian Securities Exchange ('ASX') on the 24 April 2019 and provides an opportunity for investors to invest in a highly diversified portfolio of global private equity investments through an ASX listed vehicle.

To reward initial investors PPET was issued 4,909,228 convertible preference shares (Alignment shares) in Pengana Capital Group Ltd, valued at \$10,260,000, for a nominal cost being an aggregate price of \$1.00. Non-cash issue of alignment shares have been treated similar to share-based payments and the fair value of the shares have been expensed to the statement of profit or loss during the year ended 30 June 2019.

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
**30 June 2020**

**Note 5. Income tax**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax expense</i>		
Current tax	1,279	2,003
Deferred tax - origination and reversal of temporary differences	(888)	210
Aggregate income tax expense	<u>391</u>	<u>2,213</u>
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	<u>(888)</u>	<u>210</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit/(loss) before income tax expense	<u>6,341</u>	<u>(12,072)</u>
Tax at the statutory tax rate of 27.5% (2019: 30%)	1,744	(3,622)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	(103)	(153)
Permanent differences	-	57
Share-based payment expense	195	134
Non-deductible expenses	185	-
Assessable income not in profit or loss	650	670
Non-cash issue of alignment shares to Pengana Private Equity Trust	-	3,078
Cost of establishing Pengana Private Equity Trust	-	1,893
	<u>2,671</u>	<u>2,057</u>
Adjustment to deferred tax balances as a result of change in statutory tax rate	(422)	-
Prior period adjustments	(170)	(518)
Recognise tax deduction for PE1 development costs	(1,732)	-
Derecognise tax asset related to capital losses	<u>44</u>	<u>674</u>
Income tax expense	<u>391</u>	<u>2,213</u>
	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Amounts charged/(credited) directly to equity</i>		
Deferred tax assets	<u>38</u>	<u>(171)</u>
<i>Tax losses not recognised</i>		
Capital tax losses for which no deferred tax asset has been recognised	<u>2,611</u>	<u>2,247</u>
Potential tax benefit at statutory tax rates	<u>718</u>	<u>674</u>

At 30 June 2019 a potential income tax benefit of \$1,890,000, being the tax effect of Pengana Private Equity Trust development costs of \$6,299,000 was not recognised pending the outcome of a private ruling application lodged with the Australian Taxation Office ("ATO"). Subsequently the ATO has issued a favorable ruling with respect to the tax deductibility of \$3,938,000 in brokerage costs and the directors are of the opinion the group has a reasonably arguable position with respect to the tax deductibility of the remaining \$2,361,000 costs incurred. Accordingly, following adjustments for the change in tax rate from 30% to 27.5%, a tax benefit of \$732,000 has been included in income tax expense for the year ended 30 June 2020.

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Deferred tax liability</i>		
Deferred tax asset/(liability) comprises temporary differences attributable to:		
Amounts recognised:		
Property, plant and equipment	53	65
Provisions	473	603
Unrealised losses/(gains)	92	119
Identifiable intangibles	(5,538)	(6,553)
Right-of-use assets and lease liabilities	4	-
	<u>          </u>	<u>          </u>
Deferred tax liability	<u>(4,916)</u>	<u>(5,766)</u>
Movements:		
Opening balance	(5,766)	(6,077)
Credited/(charged) to profit or loss	888	(210)
Credited/(charged) to equity	(38)	171
Additions through business combinations (note 29)	-	(135)
Tax effects on intangibles	-	485
	<u>          </u>	<u>          </u>
Closing balance	<u>(4,916)</u>	<u>(5,766)</u>
	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax refund due</i>		
Income tax refund due	<u>570</u>	<u>-</u>
	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Provision for income tax</i>		
Provision for income tax	<u>-</u>	<u>1,182</u>

	Consolidated	
	2020	2019
	\$'000	\$'000
<i>Current assets</i>		
Cash on hand and at bank	9,252	14,433
Cash on deposit	6,057	13
	<u>15,309</u>	<u>14,446</u>

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
**30 June 2020**

**Note 7. Trade and other receivables**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current assets</i>		
Trade receivables	311	441
Other receivables	221	1
	<u>532</u>	<u>442</u>
<i>Non-current assets</i>		
Other loans	863	873
	<u>1,395</u>	<u>1,315</u>

*Allowance for expected credit losses*

The group has recognised a loss of \$nil (2019: \$nil) in profit or loss in respect of the expected credit losses for the year ended 30 June 2020.

The Coronavirus (COVID 19) pandemic has had no impact on the ability of the group to recover debts.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	<b>Expected credit loss rate</b>		<b>Carrying amount</b>		<b>Allowance for expected credit losses</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Consolidated</b>	<b>%</b>	<b>%</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Not overdue	-	-	311	441	-	-

**Note 8. Contract assets - accrued management and performance fees**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current assets</i>		
Contract assets	3,839	4,747

Contract assets have decreased by \$908,000 compared to the previous financial year due to lower revenues in June 2020 compared to June 2019.

*Allowance for expected credit losses:*

The group has recognised a loss of \$nil (2019: \$nil) in profit or loss in respect of the recoverability of contract assets for the year ended 30 June 2020.

**Note 9. Investments accounted using the equity method**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Non-current assets</i>		
Investments in associates	6,914	4,275

Refer to note 31 for further information on interests in associates.

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
**30 June 2020**

**Note 10. Equity investment in financial assets at fair value through other comprehensive income**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Non-current assets</i>		
Investments in listed equity securities	7,393	7,255
Investment in unlisted unit trust	1,733	1,733
	<u>9,126</u>	<u>8,988</u>

Refer to note 22 for further information on fair value measurement.

**Note 11. Property, plant and equipment**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Non-current assets</i>		
Leasehold improvements - at cost	200	162
Less: Accumulated depreciation	(119)	(83)
	<u>81</u>	<u>79</u>
 Furniture and fittings - at cost	 141	 256
Less: Accumulated depreciation	(119)	(228)
	<u>22</u>	<u>28</u>
 Plant and equipment - at cost	 990	 954
Less: Accumulated depreciation	(818)	(798)
	<u>172</u>	<u>156</u>
	<u>275</u>	<u>263</u>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated</b>	<b>Leasehold improvements \$'000</b>	<b>Furniture and fittings \$'000</b>	<b>Plant and equipment \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2018	116	52	147	315
Additions	-	3	93	96
Disposals	-	(14)	(5)	(19)
Depreciation expense	(37)	(13)	(79)	(129)
Balance at 30 June 2019	79	28	156	263
Additions	39	5	57	101
Additions through business combinations (note 29)	-	-	38	38
Depreciation expense	(37)	(11)	(79)	(127)
Balance at 30 June 2020	<u>81</u>	<u>22</u>	<u>172</u>	<u>275</u>

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
**30 June 2020**

**Note 12. Intangibles**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Non-current assets</i>		
Goodwill - at cost	46,537	43,612
Acquired relationships - at cost	27,220	26,520
Less: Accumulated amortisation	(7,419)	(5,011)
	19,801	21,509
Other intangible assets - at cost	597	452
Less: Accumulated amortisation	(261)	(118)
	336	334
	<b>66,674</b>	<b>65,455</b>

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated</b>	<b>Goodwill</b>	<b>Acquired</b>	<b>Other</b>	<b>Total</b>
	<b>\$'000</b>	<b>relationships</b>	<b>intangible</b>	<b>\$'000</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>assets</b>	<b>\$'000</b>
Balance at 1 July 2018	40,627	23,914	-	64,541
Additions through business combinations (note 29)	2,985	-	452	3,437
Amortisation expense	-	(2,405)	(118)	(2,523)
Balance at 30 June 2019	43,612	21,509	334	65,455
Additions	-	700	145	845
Additions through business combinations (note 29)	2,693	-	-	2,693
Additions arising from identifiable intangibles	232	-	-	232
Amortisation expense	-	(2,408)	(143)	(2,551)
Balance at 30 June 2020	<b>46,537</b>	<b>19,801</b>	<b>336</b>	<b>66,674</b>

The group identifies a single cash-generating unit ('CGU') and, therefore, the recoverable amount has been determined at the group level.

The recoverable amount of the group's goodwill has been determined by value-in-use calculations. The calculations use cash flow projections based on the business plan approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below.

The following key assumptions were used in the discounted cash flow model:

- Pre-tax discount rate of 16.8% (2019:13.2%);
- Projected growth rate of 2.0% (2019:2.5%) beyond five year period for the CGU; and
- Increase in operating costs and overheads based on current expenditure levels adjusted for inflationary increases.

For the financial year ended 30 June 2020, the recoverable amount of net assets for the group is greater than the carrying value of the assets and therefore, the goodwill is not considered to be impaired.

*Sensitivity analysis:*

Management estimates that any reasonable changes in the key assumptions would not have a significant impact on the value-in-use of goodwill that would require the assets to be impaired.

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
**30 June 2020**

**Note 12. Intangibles (continued)**

The remaining amortisation period for the acquired relationships is between 2 and 20 years.

**Note 13. Right-of-use assets**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Non-current assets</i>		
Right-of-use assets	1,356	-
Less: Accumulated depreciation	(830)	-
	<u>526</u>	<u>-</u>

The group leases office premises and office equipment (e.g. photocopier) under agreements expiring between one to four years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated and a new lease entered into.

The group leases office equipment under agreements of less than one year. These leases are either short-term or low-value, so have been expensed as incurred and not capitalised as right-of-use assets.

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated</b>	<b>Office premises</b>	<b>Others</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance at 1 July 2018	-	-	-
Balance at 30 June 2019	-	-	-
Adoption of AASB 16 on 1 July 2019 (refer note 38)	1,063	72	1,135
Additions	200	21	221
Disposals	-	(69)	(69)
Depreciation expense	(751)	(10)	(761)
Balance at 30 June 2020	<u>512</u>	<u>14</u>	<u>526</u>

**Note 14. Trade and other payables**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current liabilities</i>		
Trade payables	79	56
Accrued expenses	2,168	2,531
Fund manager profit share	2,922	4,645
Payable to non-controlling interests	5,634	-
Other payables	448	425
	<u>11,251</u>	<u>7,657</u>

Refer to note 21 for further information on financial instruments.



**Pengana Capital Group Limited**  
**Notes to the financial statements**  
**30 June 2020**

**Note 15. Employee benefits**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current liabilities</i>		
Annual leave	396	485
Long service leave	562	507
	<u>958</u>	<u>992</u>
<i>Non-current liabilities</i>		
Long service leave	145	93
	<u>1,103</u>	<u>1,085</u>

**Note 16. Bank loan**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current liabilities</i>		
Bank loan	1,250	1,250
<i>Non-current liabilities</i>		
Bank loan	2,500	3,750
	<u>3,750</u>	<u>5,000</u>

Refer to note 21 for further information on financial instruments.

*Total secured liabilities*

The total secured liabilities are as follows:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank loan	<u>3,750</u>	<u>5,000</u>

During the year ended 30 June 2019 the company borrowed \$5,000,000 from Investec Australia Finance Pty Limited for costs associated with developing Pengana Private Equity Trust. The loan is secured by a general security charge over the assets of the group, together with specific security over the bank account in which the fees from Pengana Private Equity Trust are deposited. The loan term is 4 years and the loan is subject to variable interest rates, which are based on the bank bill swap rate ('BBSY'), plus a margin of 4.25%.

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
**30 June 2020**

**Note 17. Lease liabilities**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Current liabilities</i>		
Lease liability	316	-
<i>Non-current liabilities</i>		
Lease liability	227	-
	<u>543</u>	<u>-</u>

Refer to note 21 for further information on financial instruments.

**Note 18. Contributed equity**

	<b>2020</b>	<b>2019</b>	<b>Consolidated</b>	<b>2019</b>
	<b>Shares</b>	<b>Shares</b>	<b>2020</b>	<b>2019</b>
			<b>\$'000</b>	<b>\$'000</b>
Ordinary shares - fully paid	103,026,317	103,277,160	119,869	120,437
Convertible preference shares - fully paid	4,909,228	4,909,228	10,260	10,260
Less: Treasury shares	(24,428,066)	(23,458,720)	(30,699)	(29,220)
	<u>83,507,479</u>	<u>84,727,668</u>	<u>99,430</u>	<u>101,477</u>

*Movements in ordinary share capital*

<b>Details</b>	<b>Date</b>	<b>Shares</b>	<b>\$'000</b>
Balance	1 July 2018	101,689,016	115,134
Issue of shares on acquisition of PT Private Capital Pty Ltd	21 August 2018	983,146	3,303
Issue of shares under the Pengana Capital Group Loan Share Plan	3 October 2018	604,998	2,000
Balance	30 June 2019	103,277,160	120,437
Share buy-back	August 2019	(22,656)	(39)
Share buy-back	September 2019	(131,323)	(218)
Share buy-back	October 2019	(369,263)	(677)
Share buy-back	November 2019	(463,552)	(827)
Issue of shares under the Pengana Capital Group Loan Share Plan	December 2019	831,996	1,332
Share buy-back	February 2020	(96,045)	(139)
Balance	30 June 2020	<u>103,026,317</u>	<u>119,869</u>

*Movements in convertible preference share capital*

<b>Details</b>	<b>Date</b>	<b>Shares</b>	<b>\$'000</b>
Balance	1 July 2018	-	-
Alignment shares issued to Pengana Private Equity Trust	29 April 2019	4,909,228	10,260
Balance	30 June 2019	4,909,228	10,260
Balance	30 June 2020	<u>4,909,228</u>	<u>10,260</u>

**Pengana Capital Group Limited**  
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**Note 18. Contributed equity (continued)**

*Movements in treasury shares*

Details	Date	Shares	\$'000
Balance	1 July 2018	(22,853,722)	(27,220)
Issue of shares under the Pengana Capital Group Loan Share Plan	3 October 2018	(604,998)	(2,000)
Balance	30 June 2019	(23,458,720)	(29,220)
Issue of shares under the Pengana Capital Group Loan Share Plan	December 2019	(831,996)	(1,332)
Existing shares acquired under the Pengana Capital Group Loan Share Plan	June 2020	(137,350)	(147)
Balance	30 June 2020	<u>(24,428,066)</u>	<u>(30,699)</u>

*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. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

*Convertible preference shares (Alignment shares)*

Alignment shares were issued on 29 April 2019 to Pengana Private Equity Trust ('PPET') (ASX: PE1) 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, with priority over ordinary shareholders. The alignment shares are not redeemable, quoted or tradeable on the ASX and convert into ordinary shares on a one for one basis on being distributed by PPET to its unitholders. The Responsible Entity of PPET intends to distribute the Alignment Shares to the unitholders, subject to a determination by the responsible entity, approximately 2 years after the issue of the shares.

Alignment shares do not have any voting rights with the exception of a vote at a general meeting that affects the rights attached to alignment shares and capital restructure. Alignment shares are not redeemable as cash.

*Treasury shares*

The company has an equity scheme pursuant to which certain employees and fund managers may access a loan share plan ('LSP'). The acquisition of shares under this LSP is fully funded by the company through the granting of a limited recourse loan. The LSP shares are subject to escrow and transfer is restricted until the vesting conditions are satisfied and the loan is repaid. Vested and unvested shares are recorded as treasury shares representing a deduction against issued capital. These have been accounted for as a share-based payment. Refer to note 34 for further details. When the loans are settled the treasury shares are reclassified as ordinary shares and the equity will increase by the amount of the loan repaid.

*Share buy-back*

During the year, the company bought back 1,082,839 shares at a cost of \$1,899,000. The buy-back program expired on 27 June 2020.

*Capital risk management*

The group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

**Pengana Capital Group Limited**  
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**Note 18. Contributed equity (continued)**

Two wholly owned subsidiaries of the group, Pengana Capital Limited ('PCL') and Pengana Investment Management Ltd ('PIML'), hold an Australian Financial Services License and are subject to regulatory financial requirements that include maintaining a minimum level of net tangible assets. As at 30 June 2020 PCL and PIML were required to maintain \$5,000,000 and \$1,200,000 (2019: \$5,000,000 and \$3,200,000) respectively in liquid assets, of which 50% (2019: 50%) is held in cash or cash equivalents.

The directors believe the group has adequate capital at 30 June 2020 to maintain the groups existing business activities and facilitate growth.

The capital risk management policy remains unchanged from the 2019 Annual Report.

**Note 19. Reserves**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Profits reserve	23,867	23,867
Foreign currency reserve	20	-
Share-based payments reserve	6,505	5,795
Financial assets at fair value through other comprehensive income reserve	(265)	(399)
Acquisition reserve	2,712	-
	<u>32,839</u>	<u>29,263</u>

*Foreign currency reserve*

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

*Profits reserve*

The reserve records the 2013 Pengana Holdings profit, which has not been offset against accumulated losses from prior years.

*Share-based payments reserve*

The reserve is used to recognise the value of equity benefits provided to employees and fund managers as part of their remuneration, and other parties as part of their compensation for services.

*Acquisition reserve*

The reserve is used to recognise contributions arising from business combinations.

*Financial assets at fair value through other comprehensive income ('OCI') reserve*

The reserve is used to recognise increments and decrements in the fair value of financial assets at fair value through other comprehensive income.

**Pengana Capital Group Limited**  
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**Note 19. Reserves (continued)**

*Movements in reserves*

Movements in each class of reserve during the current and previous financial year are set out below:

<b>Consolidated</b>	<b>Profits reserve \$'000</b>	<b>Foreign currency reserve \$'000</b>	<b>Share- based payments reserve \$'000</b>	<b>Available- for-sale reserve \$'000</b>	<b>Financial assets at fair value through OCI reserve \$'000</b>	<b>Acquisition reserve \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 2018	23,867	-	5,407	171	-	-	29,445
Revaluation - gross	-	-	-	-	(813)	-	(813)
Deferred tax	-	-	-	-	243	-	243
Transfer from available-for-sale reserve to fair value through OCI reserve	-	-	-	(171)	171	-	-
Share-based payments	-	-	446	-	-	-	446
Dividends on treasury shares	-	-	(58)	-	-	-	(58)
Balance at 30 June 2019	23,867	-	5,795	-	(399)	-	29,263
Revaluation - gross	-	-	-	-	87	-	87
Foreign currency translation	-	20	-	-	-	-	20
Share-based payments	-	-	769	-	-	-	769
Dividends on treasury shares	-	-	(59)	-	-	-	(59)
Reclassification to retained earnings on disposal of investments	-	-	-	-	47	-	47
Reserve arising on acquisition of Lizard Investors LLC	-	-	-	-	-	2,712	2,712
Balance at 30 June 2020	<u>23,867</u>	<u>20</u>	<u>6,505</u>	<u>-</u>	<u>(265)</u>	<u>2,712</u>	<u>32,839</u>

**Note 20. Dividends**

*Dividends*

Dividends paid during the financial year were as follows:

	<b>Consolidated</b>	
	<b>2020 \$'000</b>	<b>2019 \$'000</b>
On 28 August 2018, a fully franked final dividend of 6.5 cents per ordinary share was declared for the year ended 30 June 2018 and paid on 28 September 2018 to the shareholders registered on 14 September 2018	-	5,188
On 25 February 2020, a 50% franked interim dividend of 4.0 cents per ordinary share was declared for the year ended 30 June 2020 and paid on 19 March 2020 to the shareholders registered on 5 March 2020 (2019: Unfranked interim dividend of 4.0 cents per ordinary share)	<u>3,346</u>	<u>3,193</u>
	<u>3,346</u>	<u>8,381</u>

On 28 August 2020, the directors declared a final dividend for the year ended 30 June 2020 of 4 cents per ordinary share. The dividends are 100% franked to be paid on 24 September 2020 to eligible shareholders on the register on 10 September 2020.

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**Note 20. Dividends (continued)**

*Franking credits*

	Consolidated	
	2020	2019
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 27.5% (2019: 30%)	3,387	2,468

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

**Note 21. Financial instruments**

**Financial risk management objectives**

The group's activities expose it to a variety of financial risks: market risk (including foreign currency, interest rate and price risk), credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group uses different methods to measure different types of risk to which it is exposed, including sensitivity analysis.

In particular, the group manages the investments of certain funds and clients where it is entitled to receive management fees and fees contingent upon performance of the portfolio managed, on an annual basis or longer. All fees are exposed to significant risk associated with the funds' performance, including market risks (interest rate risk and indirectly market risk and foreign exchange risk) and liquidity risk as detailed below.

Risk management is carried out by the Board of Directors and discussed at board meetings. Management identifies and evaluates financial risks.

**Market risk**

*Foreign currency risk*

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The group is not exposed to any significant foreign currency risk, except for translation of financial assets and liabilities of foreign subsidiaries into presentation currency.

*Price risk*

The group is not exposed to any significant price risk.

*Interest rate risk*

The group's main interest rate risk arises from its borrowings and cash at bank. Borrowings and cash at bank issued at variable rates expose the group to interest rate risk. Borrowings issued at fixed rates expose the group to fair value risk.

As at the reporting date, the group had the following variable rate bank accounts and borrowings:

Consolidated	2020		2019	
	Weighted average interest rate	Balance \$'000	Weighted average interest rate	Balance \$'000
Cash at bank	0.41%	9,252	0.54%	14,433
Cash on deposit	0.65%	6,057	2.00%	13
Bank loan	4.69%	(3,750)	5.50%	(5,000)
Net exposure to cash flow interest rate risk		11,559		9,446

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**Note 21. Financial instruments (continued)**

The table below summarises the impact of a 50 basis point movement in interest:

Consolidated - 2020	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Effect on profit/loss before tax \$'000	Effect on equity \$'000		Effect on profit/loss before tax \$'000	Effect on equity \$'000
Net exposure to cash flow interest rate risk	50	<u>58</u>	<u>40</u>	(50)	<u>(58)</u>	<u>(40)</u>

Consolidated - 2019	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Effect on profit/loss before tax \$'000	Effect on equity \$'000		Effect on profit/loss before tax \$'000	Effect on equity \$'000
Net exposure to cash flow interest rate risk	50	<u>47</u>	<u>33</u>	(50)	<u>(47)</u>	<u>(33)</u>

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any expected credit loss allowance of those assets, as disclosed in the statement of financial position and notes to the financial statements. The group does not hold any collateral.

The group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables and contract assets through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the group based on recent sales experience, historical collection rates and forward-looking information that is available.

The group has a credit risk exposure with the cash at bank, redemptions receivable, loans to shareholders and fund managers and funds under management. The funds under management as at 30 June 2020 owed the group 100% (2019: 100%) of trade receivables and contract assets. The balance was within its terms of trade and no expected credit loss allowance was made as at the reporting date. These receivables represent management fees that are accrued daily and paid monthly by the Funds.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Other loans receivables amount to \$863,000 as at 30 June 2020 (2019: \$873,000). The loans were made to shareholders and used to fund the purchase of shares in Pengana Capital Group Limited. The loans are interest free and secured against the purchased shares in Pengana Capital Group Limited. The timing of these amounts due under these agreements are at the discretion of the group.

**Liquidity risk**

Managing liquidity risk requires the group to maintain sufficient liquid assets (mainly cash and cash equivalents and listed investments) to be able to pay debts as and when they become due and payable.

The group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.



**Pengana Capital Group Limited**  
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**Note 21. Financial instruments (continued)**

*Remaining contractual maturities*

The following tables detail the group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Consolidated - 2020</b>					
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	79	-	-	-	79
Other payables	448	-	-	-	448
Fund manager profit share	2,922	-	-	-	2,922
Payable to LLC members	5,634	-	-	-	5,634
<i>Interest-bearing - variable</i>					
Bank loans	1,406	1,348	1,284	-	4,038
<i>Interest-bearing - fixed rate</i>					
Lease liability	485	126	43	-	654
Total non-derivatives	10,974	1,474	1,327	-	13,775
<b>Consolidated - 2019</b>					
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	56	-	-	-	56
Other payables	425	-	-	-	425
Fund manager profit share	4,645	-	-	-	4,645
Security deposits held	-	5	-	-	5
<i>Interest-bearing - variable</i>					
Bank loans	1,491	1,422	2,637	-	5,550
Total non-derivatives	6,617	1,427	2,637	-	10,681

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

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**Note 22. Fair value measurement**

*Fair value hierarchy*

The following tables detail the group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Observable market data used in valuation techniques to determine the fair value. Level 2 instruments are not traded in an active market

Level 3: Unobservable inputs for the asset or liability

<b>Consolidated - 2020</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Investment in financial assets at fair value through other comprehensive income	7,393	1,733	-	9,126
Total assets	7,393	1,733	-	9,126
<b>Consolidated - 2019</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Investment in financial assets at fair value through other comprehensive income	7,255	1,733	-	8,988
Total assets	7,255	1,733	-	8,988

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

**Note 23. Key management personnel disclosures**

*Compensation*

The aggregate compensation made to directors and other members of key management personnel of the group is set out below:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	1,339,811	1,323,852
Post-employment benefits	77,576	76,631
Long-term benefits	18,933	18,753
Share-based payments	28,246	22,891
	<u>1,464,566</u>	<u>1,442,127</u>

**Pengana Capital Group Limited**  
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**Note 24. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - Grant Thornton Audit Pty Ltd</i>		
Audit or review of the financial statements	186,000	182,300

**Note 25. Contingent liabilities**

The group had no contingent liabilities at 30 June 2020 and 30 June 2019.

**Note 26. Commitments**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	729
One to five years	-	467
	-	1,196

At 30 June 2020, operating lease commitments are disclosed as \$nil due to the adoption of AASB 16 'leases'. Refer note 38 for further details.

**Note 27. Related party transactions**

*Parent entity*

Pengana Capital Group Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 30.

*Associates*

Interests in associates are set out in note 31.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the directors' report.

*Transactions with related parties - managed investment schemes:*

The following transactions occurred with related parties:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Sale of goods and services:		
Management fees	37,444,250	37,891,554
Performance fees	6,100,642	4,956,821

**Pengana Capital Group Limited**  
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**Note 27. Related party transactions (continued)**

*Receivable from and payable to related parties*

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Current receivables:		
Trade receivables and contract assets from other related parties	4,149,304	5,004,169

*Loans to/from related parties*

There were no loans to or from related parties at the current and previous reporting date.

*Terms and conditions*

All transactions were made on normal commercial terms and conditions and at market rates.

**Note 28. Parent entity information**

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

	<b>Parent</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) after income tax	5,248	(5,303)
Total comprehensive income	5,248	(5,303)

*Statement of financial position*

	<b>Parent</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Total current assets	23,813	18,023
Total assets	231,972	233,120
Total current liabilities	1,250	1,246
Total liabilities	3,750	6,780
Equity		
Contributed equity	223,612	225,660
Share-based payments reserve	6,505	5,853
Financial assets at fair value through other comprehensive income reserve	-	(47)
Accumulated losses	(1,895)	(5,126)
Total equity	228,222	226,340

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2020 and 30 June 2019.

*Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

## Pengana Capital Group Limited

### Notes to the financial statements

#### 30 June 2020

#### Note 28. Parent entity information (continued)

##### *Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

##### *Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the group, as disclosed in note 38, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

#### Note 29. Business combinations

##### *Lizard Investors LLC*

On 1 January 2020, the group acquired a 66.67% stake in Lizard Investors LLC ('Lizard'), for the total consideration of \$2,699,000. Lizard is a Chicago-based asset management firm that specialises in global to mid-cap equities, which was founded in 2008 by Leah Zell, one of the foremost global small cap fund managers in the United States of America and a pioneer in global small cap investing. The acquisition builds on an existing joint venture entered in 2015 between the group and Lizard whereby Lizard provides sub-advisory services to the Pengana Global Small Companies Fund.

The goodwill of \$2,693,000 represents profitability of the acquired business and the synergistic opportunities that will arise from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purpose. The acquired business contributed revenues of \$1,940,000 and loss after tax of \$474,000 to the group for the period from 1 January 2020 to 30 June 2020.

Net assets and liabilities acquired are shown at 66.67% of the fair value at acquisition. Deferred consideration payable amounting to US\$1,000,000 is discounted using a rate of 6% per annum.

The purchase price allocation of the acquisition is final at 30 June 2020.

**Pengana Capital Group Limited**  
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**Note 29. Business combinations (continued)**

Details of the acquisition are as follows:

	<b>Fair value \$'000</b>
Cash and cash equivalents	1,291
Trade receivables	361
Other receivables	151
Investments in associates	3,666
Plant and equipment	25
Trade payables	(159)
Other payables to members of LLC	(5,329)
	<hr/>
Net assets acquired	6
Goodwill	2,693
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>2,699</u>
Representing:	
Cash paid or payable	1,428
Deferred consideration	1,271
	<hr/>
	<u>2,699</u>
Cash used to acquire business, net of cash acquired:	
Cash paid or payable to vendor	1,428
Less: cash and cash equivalents acquired	(1,291)
	<hr/>
Net cash used	<u>137</u>

*PT Private Capital Pty Ltd (comparative period)*

On 21 August 2018, the group acquired 100% of the shares in PT Private Capital Pty Ltd for the total consideration of \$3,303,000. The goodwill of \$2,985,000 represents profitability of the acquired business and the synergistic opportunities that will arise from the acquisition. The purchase price allocation of the acquisition is final at 30 June 2019.

Details of the acquisition are as follows:

	<b>Fair value \$'000</b>
Cash and cash equivalents	65
Contract assets	22
Other intangible assets	452
Other payables	(85)
Deferred tax liability	(136)
	<hr/>
Net assets acquired	318
Goodwill	2,985
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>3,303</u>
Representing:	
Pengana Capital Group Limited shares issued to vendor	<u>3,303</u>
Acquisition costs expensed to profit or loss	<u>12</u>

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
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**Note 30. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries with non-controlling interests in accordance with the accounting policy described in note 38:

Name	Principal place of business/Country of incorporation*	Parent Ownership interest 2020 %	Parent Ownership interest 2019 %	Non-controlling interest Ownership interest 2020 %	Non-controlling interest Ownership interest 2019 %
Pengana Holdings Pty Ltd	Australia	100.00%	100.00%	-	-
Pengana Capital Ltd	Australia	100.00%	100.00%	-	-
Pengana European Asset Management Pty Limited	Australia	50.00%	50.00%	50.00%	50.00%
Pengana Affinity Funds Pty Ltd**	Australia	-	70.00%	30.00%	30.00%
Pengana Singapore Pte. Ltd**	Singapore	-	100.00%	-	-
Pengana Investment Management Ltd	Australia	100.00%	100.00%	-	-
PT Private Capital Pty Ltd	Australia	100.00%	100.00%	-	-
Lizard Investors LLC	United States of America	66.67%	-	33.33%	-

\* Principal activities of the subsidiaries listed above are provision of Investment Management Services.

\*\* Entity deregistered during the current financial year.

Summarised financial information for subsidiaries that have non-controlling interests, has not been provided as they are not material to the group.

**Note 31. Interests in associates**

The following interests in associates are accounted for using the equity method of accounting:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 %
Pengana International Fund	Australia	0.96%	1.07%
Global Credit Investments Pty Ltd	Australia	-	34.65%
High Conviction Property Securities Fund	Australia	9.67%	-
Pengana Private Equity Trust	Australia	0.07%	-
Lizard International Master Fund LP	Cayman Islands	2.15%	-



**Pengana Capital Group Limited**  
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**Note 31. Interests in associates (continued)**

Summarised financial information relating to associates that are material to the group are set out below:

*Summarised financial information*

	<b>Pengana International Fund</b>		<b>Global credit Investments</b>		<b>Lizard International Master Fund LP</b>
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<i>Summarised statement of financial position</i>					
Assets	100,347	94,606	-	1,218	367,407
Total assets	100,347	94,606	-	1,218	367,407
Liabilities	1,045	697	-	281	106,569
Total liabilities	1,045	697	-	281	106,569
Net assets	<u>99,302</u>	<u>93,909</u>	<u>-</u>	<u>937</u>	<u>260,838</u>
<i>Summarised statement of profit or loss and other comprehensive income</i>					
Revenue	16,543	9,120	2,193	1,324	(8,128)
Expenses	(1,091)	(1,196)	(1,711)	(2,224)	(3,514)
Profit/(loss) before income tax	15,452	7,924	482	(900)	(11,642)
Income tax benefit	-	-	-	155	-
Profit/(loss) after income tax	15,452	7,924	482	(745)	(11,642)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	<u>15,452</u>	<u>7,924</u>	<u>482</u>	<u>(745)</u>	<u>(11,642)</u>
<i>Reconciliation of the group's carrying amount</i>					
Opening carrying amount	1,096	1,046	3,178	3,436	-
Share of profit/(loss) after income tax	98	50	259	(258)	-
Distributions declared	(234)	-	-	-	-
Additions through business combinations (note 29)	-	-	-	-	5,498
Disposal	-	-	(3,437)	-	-
Exchange differences	-	-	-	-	112
Closing carrying amount	<u>960</u>	<u>1,096</u>	<u>-</u>	<u>3,178</u>	<u>5,610</u>

The carrying amount of investments in associates approximate their fair value.

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**Note 32. Unconsolidated structured entities**

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity and the relevant activities are directed by means of contractual arrangements.

The group has significant influence over the funds it manages due to its power to participate in the financial and operating policy decisions of the investee through its investment management agreement.

The group considers all funds to be structured entities. The group invests in its own managed funds to seed the funds to develop a performance track record prior to external investment being received or provides early stage capital.

The funds' objectives are defined in the offer document and constitution of the respective fund. The funds invest in a number of different financial instruments including equities and debt instruments. The funds' finance their operations by issuing redeemable units which are puttable at the holder's option and entitle the holder to a proportional stake in the respective fund's net assets.

The group holds redeemable units in some of its own managed funds.

Unless specified otherwise, the group's maximum exposure to loss is the total of its on-balance sheet positions as at reporting date. There are no additional off balance sheet arrangements which would expose the group to potential loss.

**Note 33. Cash flow information**

*Reconciliation of profit/(loss) after income tax to net cash from/(used in) operating activities*

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) after income tax expense for the year	5,950	(14,285)
Adjustments for:		
Depreciation and amortisation	3,508	2,652
Share of loss/(profit) - associates	(352)	297
Share-based payments	710	446
Cost of alignment shares issued to Pengana Private Equity Trust	-	10,260
Other non-cash items	(208)	169
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(90)	4,765
Decrease/(increase) in contract assets - accrued management and performance fees	908	(4,747)
Decrease/(increase) in income tax refund due	(570)	759
Decrease/(increase) in prepayments	63	(286)
Increase/(decrease) in trade and other payables	3,594	(2,182)
Increase/(decrease) in provision for income tax	(1,182)	1,182
Decrease in deferred tax liabilities	-	(311)
Increase in employee benefits	18	64
Decrease in liability to LLC unitholders	(5,634)	-
Net cash from/(used in) operating activities	<u>6,715</u>	<u>(1,217)</u>

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
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**Note 33. Cash flow information (continued)**

*Non-cash investing and financing activities*

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Shares issued in relation to business combinations	-	3,303
Shares issued under loan share plan	1,479	2,000
Loans granted under loan share plan	(1,479)	(2,000)
Alignment shares issued to Pengana Private Equity Trust	-	10,260
Sale of investments in available-for-sale financial assets	-	5,500
Purchase of investments in available-for-sale financial assets	-	(5,500)
Dividends withheld from company shareholders with outstanding loans under loan share plan	(977)	(127)
Dividends applied on outstanding loans under loan share plan	977	127
Dividends withheld from company shareholders with outstanding other loans	(42)	-
Dividends applied on outstanding other loans	42	-
	<u>-</u>	<u>13,563</u>

*Changes in liabilities arising from financing activities*

<b>Consolidated</b>	<b>Bank loan</b>	<b>Lease liabilities</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at 1 July 2018	-	-
Net cash from financing activities	5,000	-
Balance at 30 June 2019	5,000	-
Net cash used in financing activities	(1,250)	(712)
Adoption of AASB 16 on 1 July 2019	-	1,135
Changes through business combinations (note 29)	-	99
Other changes	-	21
Balance at 30 June 2020	<u>3,750</u>	<u>543</u>

**Note 34. Share-based payments**

*Loan Funded Share Plan ('LSP')*

The group operates a LSP, whereby limited recourse loans totalling \$30,772,000 (2019: \$29,220,000) were provided to employees and fund managers to acquire shares in the company. Under the plan the CEO has 15,872,528 (2019: 15,872,528) shares, employees and fund managers have 8,555,538 (2019: 7,586,192) shares.

The loans are interest bearing and have a maximum term of up to seven years. Recourse on the loans (including associated interest) is limited to the associated shares and any dividend amounts applied to the loan balance. The shares granted under the LSP are subject to a vesting condition, that the employees and fund managers must remain continuously employed for five years from the grant date, except for shares associated with the LSP granted to the CEO which are not subject to a vesting condition and vested on the date the shares were granted.

As the share purchases are funded by limited recourse loans they are treated for accounting purposes as grants of share options and accounted for as equity-settled share-based payments. The shares issued under the LSP are fair valued on the date they are granted and amortised as an expense in profit or loss over the vesting period.

As the loans and associated shares issued are not recorded on the statement of financial position on grant date, there are no transactions in the statement of financial position relating to the issue of shares under the LSP, however a share-based payment expense of \$769,000 has been recognised in profit or loss for the year ended 30 June 2020 (2019: \$446,000).

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**Note 34. Share-based payments (continued)**

Interest accruing on the loans and dividends applied to the loans are not recorded in the financial statements but do impact the outstanding loan balance. As at 30 June 2020 total outstanding loans related to treasury shares were \$31,948,963 (2019: \$29,395,000).

Set out below are summaries of shares granted under the LSP:

2020							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/03/2017	28/02/2024	\$1.49	5,149,796	-	-	-	5,149,796
01/03/2017	28/02/2024	\$1.20	10,722,732	-	-	-	10,722,732
03/03/2017	01/03/2024	\$1.49	6,981,194	-	-	(190,299)	6,790,895
03/10/2018	01/10/2025	\$4.33	604,998	-	-	-	604,998
20/12/2019	18/12/2026	\$1.50	-	926,000	-	-	926,000
05/06/2020	04/06/2027	\$0.86	-	233,645	-	-	233,645
			<u>23,458,720</u>	<u>1,159,645</u>	<u>-</u>	<u>(190,299)</u>	<u>24,428,066</u>
Weighted average exercise price			\$1.43	\$1.37	\$0.00	\$1.49	\$1.43
2019							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
01/03/2017	28/02/2024	\$1.49	5,149,796	-	-	-	5,149,796
01/03/2017	28/02/2024	\$1.20	10,722,732	-	-	-	10,722,732
03/03/2017	01/03/2024	\$1.49	6,981,194	-	-	-	6,981,194
03/10/2018	01/10/2025	\$4.33	-	604,998	-	-	604,998
			<u>22,853,722</u>	<u>604,998</u>	<u>-</u>	<u>-</u>	<u>23,458,720</u>
Weighted average exercise price			\$1.35	\$4.33	\$0.00	\$0.00	\$1.43

Set out below are the shares granted under the LSP exercisable at the end of the financial year:

Grant date	Expiry date	2020 Number	2019 Number
01/03/2017	28/02/2024	5,149,796	5,149,796
01/03/2017	28/02/2024	10,722,732	10,722,732
		<u>15,872,528</u>	<u>15,872,528</u>

The weighted average share price during the financial year was \$1.52 (2019: \$2.62) per ordinary share.

The weighted average remaining contractual life of shares granted under the LSP outstanding at the end of the financial year was 3.84 years (2019: 4.72 years).

For the shares granted under the LSP during the current financial year, the Black-Scholes valuation model inputs used to determine the fair value at the grant date, are estimated as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Estimated volatility*	Dividend yield	Risk-free interest rate	Fair value at grant date
20/12/2019	30/06/2020	\$1.60	\$1.50	39.04%	5.00%	0.97%	\$0.372
05/06/2020	04/06/2027	\$1.07	\$0.86	41.86%	7.48%	0.44%	\$0.217

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**Note 34. Share-based payments (continued)**

\* The expected price volatility is based on a period of observed historic volatility of a range of peer group companies.

**Note 35. Earnings per share**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) after income tax	5,950	(14,285)
Non-controlling interest	168	(10)
Profit/(loss) after income tax attributable to the owners of Pengana Capital Group Limited	<u>6,118</u>	<u>(14,295)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	84,019,221	80,528,415
Adjustments for calculation of diluted earnings per share:		
Dilutive impact of treasury shares accounted for as options	<u>2,470,131</u>	<u>-</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>86,489,352</u>	<u>80,528,415</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	7.28	(17.75)
Diluted earnings per share	7.07	(17.75)

The weighted average number of ordinary shares to calculate basic earnings per share excludes 24,428,066 (30 June 2019: 23,458,720) treasury shares.

**Note 36. Events after the reporting period**

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it did not have any significant impact for the group up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Apart from the dividend declared as disclosed in note 20, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

**Note 37. General information**

Pengana Capital Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 12  
 167 Macquarie Street  
 Sydney NSW 2000

A description of the nature of the group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 August 2020. The directors have the power to amend and reissue the financial financial statements.

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
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**Note 38. Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**New or amended Accounting Standards and Interpretations adopted**

The group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations adopted during the year are most relevant to the group:

**AASB Interpretation 23 Uncertainty over Income Tax Treatments ('Interpretation 23')**

The group has adopted Interpretation 23 from 1 July 2019. The interpretation clarifies how to apply the recognition and measurement requirements of AASB 112 'Income Taxes' in circumstances where uncertain tax treatments exists. The interpretation requires: the group to determine whether each uncertain tax treatment should be treated separately or together, based on which approach better predicts the resolution of the uncertainty; the group to consider whether it is probable that a taxation authority will accept an uncertain tax treatment; and if the group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates, measuring the tax uncertainty based on either the most likely amount or the expected value. In making the assessment it is assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. Interpretation 23 was adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact of adoption on opening retained profits as at 1 July 2019.

**AASB 16 Leases**

The group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

**Impact of adoption**

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening accumulated losses as at 1 July 2019 was as follows:

	1 July 2019 \$'000
Operating lease commitments as at 1 July 2019 (AASB 117)	1,196
Operating lease commitments discounted based on the weighted average incremental borrowing rate of 5.25% (AASB 16)	(61)
Right-of-use assets (AASB 16)	1,135
Lease liabilities - current (AASB 16)	(691)
Lease liabilities - non-current (AASB 16)	(444)
Impact on opening accumulated losses as at 1 July 2019	-

# **Pengana Capital Group Limited**

## **Notes to the financial statements**

### **30 June 2020**

#### **Note 38. Significant accounting policies (continued)**

When adopting AASB 16 from 1 July 2019, the group has applied the following practical expedients:

- applying a single discount rate to the portfolio of leases with reasonably similar characteristics;
- accounting for leases with a remaining lease term of 12 months as at 1 July 2019 as short-term leases;
- excluding any initial direct costs from the measurement of right-of-use assets;
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease; and
- not apply AASB 16 to contracts that were not previously identified as containing a lease.

#### **Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivative financial instruments.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 39.

#### **Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the group only. Supplementary information about the parent entity is disclosed in note 28.

#### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pengana Capital Group Limited ('company' or 'parent entity') as at 30 June 2020 and the results of all subsidiaries for the year then ended. Pengana Capital Group Limited and its subsidiaries together are referred to in these financial statements as the 'group'.

Subsidiaries are all those entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss, statement of financial position and statement of changes in equity of the group. Losses incurred by the group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.



**Pengana Capital Group Limited**  
**Notes to the financial statements**  
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**Note 38. Significant accounting policies (continued)**

**Operating segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM are responsible for the allocation of resources to operating segments and assessing their performance.

**Foreign currency translation**

The financial statements are presented in Australian dollars, which is Pengana Capital Group Limited's functional and presentation currency.

*Foreign currency transactions*

Foreign currency transactions are translated into the entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

*Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

**Revenue recognition**

The group recognises revenue as follows:

*Revenue from contracts with customers*

Revenues are derived from the provision of investment management services to customers and are measured based on the amounts to which the group expects to be entitled based on the services delivered. This revenue is variable in nature and is measured by reference to management fees and performance fees. Revenue is recognised over-time, by reference to the ongoing delivery of investment management services. The delivery of investment management services is best represented by the passage of time as an ongoing service.

*Management fees*

Management fees are based on a percentage of the portfolio value of the fund and are calculated in accordance with the Investment Management Agreement or Constitution.

*Performance fees*

Performance fees may be earned from funds. The group's entitlement to a performance fee for any given performance period is dependent on outperforming certain benchmarks.

Revenue from performance fees is not recognised while constrained - an estimate of the variable consideration is recorded as revenue when it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved (that is, the constraint is removed).

Performance fee arrangements give risk to element of variable consideration for the investment management services. Revenue from performance fees is not recognised while constrained, an estimate of the variable consideration is recorded when it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The performance fee revenue is recognised to the extent the revenue is no longer constrained.

*Dividends and distributions*

Dividends and distributions are recognised when received or when the right to receive payment is established.

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
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**Note 38. Significant accounting policies (continued)**

*Interest*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Other revenue*

Other fee revenue is recognised over time.

**Fund manager profit share expense**

Fund manager profit share expense represents a 'shadow equity' program for fund managers under which the fund managers receive an agreed percentage of the profits of their respective fund and/or strategy ensuring alignment of interests between shareholders, fund managers and fund investors.

**Income tax**

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

*Tax consolidated group*

Pengana Capital Group Limited (the 'head entity') and its wholly-owned Australian subsidiaries formed an income tax consolidated group under the tax consolidation regime.

The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

**Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

## Pengana Capital Group Limited

### Notes to the financial statements

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#### Note 38. Significant accounting policies (continued)

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

#### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. These receivables represent management fees that are accrued daily and paid monthly by the funds. They are usually recoverable within 20 business days.

The group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

#### Contract assets

Contract assets are recognised when the group has transferred goods or services to the customer but where the group is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

#### Associates

Associates are entities over which the group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The group discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

#### Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
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**Note 38. Significant accounting policies (continued)**

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

*Financial assets at amortised cost*

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

*Financial assets at fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income (FVTOCI) are equity investments including equity investments which the group intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition. On disposal of these equity investments, any related balance within the FVTOCI reserve is reclassified to retained earnings.

*Impairment of financial assets*

The group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

**Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Leasehold improvements	5 years
Furniture and fittings	5-10 years
Plant and equipment	2-4 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

## Pengana Capital Group Limited

### Notes to the financial statements

#### 30 June 2020

#### Note 38. Significant accounting policies (continued)

##### Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

##### Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

##### Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

##### Acquired relationships

Relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of between 7 and 13 years.

##### Other intangible assets

Significant costs associated with other intangible assets are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of between 3 and 4 years.

##### Impairment of non-financial assets

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

##### Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

# **Pengana Capital Group Limited** **Notes to the financial statements** **30 June 2020**

## **Note 38. Significant accounting policies (continued)**

### **Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

### **Lease liabilities**

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

### **Finance costs**

Finance costs are expensed in the period in which they are incurred based on the effective interest method.

### **Employee benefits**

#### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### *Other long-term employee benefits*

The liability for annual leave, long service leave and other long term employee benefits not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high-quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### *Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

#### *Share-based payments*

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. The group operates a loan share plan that is accounted for as equity-settled share-based payments similar to options.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option/share under the loan share plan, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option/share under the loan share plan, together with non-vesting conditions that do not determine whether the group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.



## Pengana Capital Group Limited

### Notes to the financial statements

#### 30 June 2020

#### Note 38. Significant accounting policies (continued)

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

#### Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

#### Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### Dividends

Dividends are recognised when declared during the financial year.

#### Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.



# **Pengana Capital Group Limited**

## **Notes to the financial statements**

### **30 June 2020**

#### **Note 38. Significant accounting policies (continued)**

On the acquisition of a business, the group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

#### **Earnings per share**

##### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of Pengana Capital Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

##### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

#### **Goods and Services Tax ('GST') and other similar taxes**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

All other receivables and payables are stated exclusive of GST recoverable or payable.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
**30 June 2020**

**Note 38. Significant accounting policies (continued)**

**Rounding of amounts**

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

**New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the group for the annual reporting period ended 30 June 2020. The group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the group, are set out below.

**Conceptual Framework for Financial Reporting (Conceptual Framework)**

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the group has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the group may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the group's financial statements.

**Note 39. Critical accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

**Coronavirus ('COVID-19') pandemic**

Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the group unfavourably as at the reporting date or subsequently as a result of the COVID-19 pandemic.

**Share-based payment transactions**

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

**Fair value measurement hierarchy**

The group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

**Pengana Capital Group Limited**  
**Notes to the financial statements**  
**30 June 2020**

**Note 39. Critical accounting judgements, estimates and assumptions (continued)**

*Goodwill*

The group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 38. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

*Business combinations*

As discussed in note 38, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

*Unconsolidated structured entities*

The group has significant influence over the funds it manages due to its role as responsible entity and investment manager together with direct holdings in the funds. The funds referred to in note 32 are not consolidated by the group, and instead, equity accounted as interests in associates, as the group does not have control or joint control. These investments are managed in accordance with financial risk management practices as set out in note 21.

**Pengana Capital Group Limited**  
**Directors' declaration**  
**30 June 2020**

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 38 to the financial statements;
- the attached financial statements and notes give a true and fair view of the group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



**Russel Pillemer**

Chief Executive Office  
Pengana Capital Group



**Warwick Negus**

Chairman  
Pengana Capital Group

28 August 2020  
Sydney

# Independent Auditor's Report

## To the Members of Pengana Capital Group Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Pengana Capital Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<b>Impairment of goodwill &amp; other intangibles – refer to Note 12. Non-current assets - intangibles</b>	
<p>The reverse acquisition of Hunter Hall on 1 June 2017 gave rise to goodwill of \$40,627k and acquired relationships of \$26,320k. The acquisition of PT Private Capital Pty Ltd on 21 August 2018 gave rise to goodwill of \$2,985k and other intangible assets of \$452k. The acquisition of Lizard Investors LLC on 1 January 2020 gave rise to goodwill of \$2,693k.</p> <p>All assets must be assessed at each reporting date for any indication of impairment. Goodwill must be tested annually for impairment regardless of whether any indication of impairment exists.</p> <p>Pengana Capital Group Limited has utilised the value in use method to calculate the recoverable amount of intangible assets.</p> <p>Due to the significant estimation involved in calculating the recoverable amount, we have determined this to be a key audit matter.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>Assessing the competence and objectivity of management's independent expert;</li> <li>Assessing the reasonableness of management's independent expert's conclusions and management's bias in the assessment of potential impairment indicators for finite life intangible assets and also in performing the impairment testing for goodwill;</li> <li>Reviewing the goodwill impairment model for compliance with AASB 136 <i>Impairment of assets</i>;</li> <li>Assessing the determination of the Cash Generating Unit (CGU) based on our understanding of how management monitors the entity's operations and makes decisions about groups of assets that generate independent cash flows;</li> <li>Verifying the mathematical accuracy of the underlying model calculations and assessing the appropriateness of the methodologies;</li> <li>Evaluating the cash flow projections and the process by which they were developed;</li> <li>Performing sensitivity analysis in relation to cash flow projections, discount and growth rate assumptions on CGUs with a higher risk of impairment; and</li> <li>Assessing the adequacy of financial report disclosures on the application of judgement in estimating future cash flows and the key methods and assumptions used in the impairment assessment.</li> </ul>

## Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [https://www.auasb.gov.au/auditors\\_responsibilities/ar1\\_2020.pdf](https://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf). This description forms part of our auditor's report.

### Report on the remuneration report

#### Opinion on the remuneration report

We have audited the Remuneration Report included in pages 14 to 18 of the Directors' report for the year 30 June 2020.

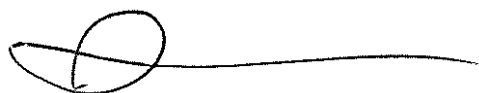
In our opinion, the Remuneration Report of Pengana Capital Group Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Grant Thornton Audit Pty Ltd  
Chartered Accountants



M A Adam Smith  
Partner – Audit & Assurance

Sydney, 28 August 2020

## Pengana Capital Group Limited

### Shareholder information

#### 30 June 2020

The shareholder information set out below was applicable as at 5 August 2020.

#### Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	466
1,001 to 5,000	519
5,001 to 10,000	232
10,001 to 100,000	239
100,001 and over	58
	<u>1,514</u>
Holding less than a marketable parcel	<u>264</u>

#### Equity security holders

##### Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares Number held	% of total shares issued
WHSP Pengana Pty Ltd	27,176,596	26.38
RC Pillemer Pty Ltd (RC Pillemer Family A/C)	24,795,404	24.07
WHSP Hunter Hall Pty Ltd	6,641,522	6.45
Washington H Soul Pattinson and Company Limited	5,434,653	5.28
Farnworth House Pty Ltd	2,728,256	2.65
DJG Services Pty Limited (DKI Account)	2,079,994	2.02
Roxtrus Pty Limited (Roxanne Dunkel No. 2 A/C)	1,803,150	1.75
Radd Holdings Pty Limited (Myers Family A/C)	1,591,904	1.55
Damian Crowley Julie Crowley (Damian C Crowley Family Fund)	1,526,780	1.48
HSBC Custody Nominees (Australia) Limited - A/C 2	1,321,761	1.28
Russel Craig Pillemer	1,262,205	1.23
DBR Corporation Pty Ltd	1,255,260	1.22
Tark Family Holdings Pty Ltd (Tark Family A/C)	1,100,162	1.07
LMCTA Pty Ltd (LMCTA Family A/C)	983,146	0.95
Ed Prendergast	973,701	0.95
Steve Black (Black Family A/C)	672,335	0.65
Meg O'hanlon (O'hanlon Family A/C)	672,335	0.65
Pretage Pty Ltd	630,051	0.61
WHSP Hunter Hall Pty Ltd	575,133	0.56
Mr Steve Black + Mrs Sarah Black (Black Super Fund A/C)	540,000	0.52
	<u>83,764,348</u>	<u>81.32</u>



## Pengana Capital Group Limited

### Shareholder information

#### 30 June 2020

#### Unquoted equity securities

There are 4,909,228 fully paid preference shares on issue held by Pengana Investment Management Limited as trustee for the Pengana Private Equity Trust registered in the name of BNP Paribas Securities Services.

#### Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares Number held	% of total shares issued
Washington H Soul Pattinson and Company, WHSP Hunter Hall Pty Ltd and WHSP Pengana Pty Ltd	39,827,904	38.66
Russel Craig Pillemer *	34,892,763	33.87

\* The substantial notice lodged for Russel Pillemer discloses that he has a relevant interest in 34,892,763 ordinary shares in the company. These relevant interests are as follows:

- 1,262,205 shares held by Russel Pillemer
- 24,795,404 shares held by RC Pillemer Pty Ltd (which Russel Pillemer controls)
- 165,000 shares held by MRJ Capital Pty Limited (which Russel Pillemer controls)

34,892,763 shares held by Pengana staff or their related parties (including the 26,222,609 shares referred to above held by Russel Pillemer, RC Pillemer Pty Ltd and MRJ Capital Pty Limited). As Russel Pillemer has voting power in the company above 20% pursuant to section 608(3)(a) of the Corporations Act 2001 he is deemed to have a relevant interest in these shares as the company has the power to prevent the disposal of each of these shares pursuant to a voluntary escrow agreement between the company and the relevant holder.

#### Voting rights

The voting rights attached to ordinary shares are set out below:

#### Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

#### Securities subject to voluntary escrow

Class	Expiry date	Number of shares
Ordinary shares	Until 15 February 2023 (portions to be released annually)	1
Ordinary shares	1 June 2022	6,981,194
Ordinary shares	Until 3 October 2023	604,998
		<u>7,586,193</u>





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