



Group Chief Executive Officer's Report

2020 has been an extraordinary year and a reminder of the importance of having a robust business to be able to manage through the most unpredictable of circumstances. The tumultuous and volatile market conditions as a result of the onset of COVID-19 tested many companies. Throughout, Pental has remained strong thanks to our financial strength and a business model that provides resilience in the face of macroeconomic uncertainty and market volatility. This allowed us to continue to invest in key strategic initiatives despite the difficult times.

Whilst trading conditions during the year were challenging and Cash NPAT was lower by 10 per cent we remained focused on delivering long-term results for our clients which, over the full cycle, will deliver financial outcomes for our shareholders.

Our key measure of profitability Cash NPAT was \$146.8 million, a decline of 10 per cent on FY19. Performance fees were higher at \$13.4 million compared to \$5.9 million the prior year.

Total FUM at the close of the year was \$92.4 billion, down from \$100.4 billion the previous year. This eight per cent decline in FUM was mainly driven by net outflows of \$6.5 billion. Our key driver of revenue is average FUM. It was \$94.8 billion, down four per cent on the prior year.

The benefits of our diversification strategy meant we saw inflows into our International Select strategy of \$1.0 billion and our Global Opportunities strategy of \$0.7 billion. However, the onset of the pandemic, a lacklustre growth outlook for Europe and investment underperformance resulted in net outflows for our European strategies of \$3.3 billion.

In the Australian market, conditions remain challenged, impacted by the aftermath of the Hayne Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the major banks exiting their wealth businesses, low levels of confidence, consolidation and increased regulation. Nonetheless, we saw a change in trend in flows from negative to positive as the year progressed on the back of strong investment performance in our Australian equity and fixed income strategies during COVID-19, the inclusion of strategies in client model portfolios, a successful brand campaign that significantly raised the brand awareness of Pental as well as increased interest in the Australian range of sustainability funds. These achievements have been recognised with Pental Australia being named Fund Manager of the Year by respected research house, Zenith.

There were also several significant wins in the institutional market, particularly in Australian equities and the International Select strategy which have performed well over the COVID-19 period.

Overall, our investment performance across the Group improved, with 72 per cent of FUM outperforming over a one-year period. Long-term performance also remains solid with 71 per cent of FUM outperforming over a three-year period and 70 per cent of FUM outperforming over a five-year period.

The past 12 months also showcased the dedication and resilience of our people. I am proud of the way the team has seamlessly navigated their way to a remote working environment while remaining focused on delivering for our clients in heightened market conditions.

At the onset of COVID-19, we established a response team led by our Group Chief Risk Officer based in London. Separately, crisis management teams met regularly around the globe in Sydney, London and the US to co-ordinate our response, provide regular communication to staff, and ensure consistent communications with clients who were keen to understand and hear directly from our portfolio managers. Our level of communication and engagement increased considerably as clients looked to us to provide insight and guidance on how to navigate through very uncertain times.

During the year we witnessed significant market volatility, including one of the quickest market recoveries in history, yet the economic fundamentals had Treasurers using the words "economic contraction" and "deep recession".

In volatile market conditions certain strategies will perform better than others and our own experience has showed this, hence our strategy of offering a range of diversified strategies across style and approach. Our investment teams operate autonomously within agreed parameters based on a stated investment philosophy and process for each investment strategy. This is applied consistently and our clients invest with us on that basis. It also means that our portfolio of investment strategies will perform differently under varying market conditions giving clients investment options to choose from to suit their needs.

Not surprisingly, this year we saw significant divergence in investment performance across our funds with our best strategy outperforming its benchmark by 24.1 per cent and another strategy underperforming by 13.5 per cent. This should not come as a surprise, as some of the strategies that are currently underperforming have been some of our best performers in the past. The strategies that have not performed well are those with a value bias and an investment philosophy well embedded in the investment process where investors expect a particular style and approach irrespective of the market conditions.

People and talent

At Pandal Group we focus on our people, culture and trust. This provides the foundation to attracting and retaining the right talent to deliver exceptional investment returns for our clients.

Top investment talent is attracted to our principles of providing investment autonomy, independence of thought, a transparent remuneration structure, ability to manage capacity and equity in the business. We promote a multi-boutique investment-led culture. Attracting and retaining the best talent within an investment-led culture is at the core of our proposition.

We are increasingly seeing new opportunities to onboard new talent and launch new strategies. Our most recent appointment was a team to manage a Global Equities Impact Solutions strategy. This expands our suite of ESG products, where we are seeing increased demand in line with our diversification strategy. This is an investment in the future and demonstrates the strength of our business model and ability to attract the best talent in the marketplace.

This follows on from key appointments made to the Global Executive team including a Group Chief Risk Officer and regional CEOs to lead our JOHCM businesses in the US and UK, Europe and Asia. These appointments will sharpen our focus and better position the firm to seek out opportunities for growth. In a period such as the last 12 months where we have seen significant disruption due to the global pandemic, the expanded leadership team and the on the ground presence and insights have been invaluable in ensuring our business continued to perform.

This year we have further evolved our remuneration programs to ensure we remain globally competitive, particularly once a team has established themselves in the marketplace. The ongoing assessment and review of our remuneration schemes is what differentiates Pandal as an employer. Different programs serve different purposes but overall,

they fall into three categories. Attracting talent and growing FUM in the early phase; retaining talent and continuing to grow FUM once established; and succession planning.

Locking in our key talent by providing the right environment and remuneration schemes that rewards over a full career reduces business risk and enables us to continue to deliver strong financial outcomes for our clients and shareholders. We have 85 investment professionals with an average of 20 years' industry experience providing a depth of experience and knowledge that our clients value. Having cultivated much of this experience within the business and being in a position to nurture and mentor a new generation of investors, it is important that we retain the talent we have invested in over many years.

During the year we also invested in people with technology skills in Sydney, London and New York. To succeed in the future, our business needs to adjust to an operating model that is more technologically enabled in operations, client service and managing investment data sets. We will invest in the right talent that will support and guide us on that journey. COVID-19 has shown the important role that technology plays in our society and has accelerated the digitisation of customer interactions, which will become an increasing feature of our business.

Diversifying the business

Core to our strategy is to build a diversified business where we offer different styles of investment strategies for different clients across geographies. This produces a more balanced portfolio but also achieves higher profitability. By expanding our reach and appeal we can explore new avenues for sales and, in turn, increase our potential to increase profits.

The US and Europe represent significant growth opportunities and, despite our success in growing in those markets, there is enormous potential for Pandal Group as we have a small market presence. In Australia, where we are the largest active manager of Australian equities, it is a more mature market.

The US is the world's largest market and in the past five years US client domiciled assets have grown from \$12.3 billion to \$26.2 billion. This market remains largely untapped and, with the expansion of our product range and the increasing number of strategies in the region reaching their three-year track record, we will be investing in our distribution capability to better access a deeper and broader client base.

Similarly, in Europe, we see the opportunity to expand our presence. While the UK formally left the EU on the 31 January 2020, it immediately entered an 11-month transition period to negotiate the terms of the future UK-EU relationship. In the coming year, we will establish a physical presence in Europe. The European market presents a significant growth opportunity for the Group, particularly in ESG strategies where we have expanded our product offering, further enhancing our opportunity to diversify.

The enhanced distribution capability will leverage the reach and efficiencies brought about by our investment in technology and the development of our global operating platform. COVID-19 has accelerated industry trends that were previously evident but none more than the need to invest in technology that connects businesses with their clients. Where previously much of the technology enabled business initiatives were seen as an enhancement, it is now a need in order to compete, particularly as clients have become much more accepting of technology as a way of doing business.



Our confidence to succeed comes from the quality of our people, our robust business model and financial strength.

Positioning Pental for the markets of tomorrow

The global pandemic is a pivotal moment in history, and our business model is once again proving to be resilient. In an environment of change, opportunities will arise to accelerate and place the business in an even stronger position. COVID-19 has had the effect of accelerating business trends that were already in motion, including a number that will have a profound impact on how we work and do business.

Zoom and Microsoft Teams became the globally accepted form of virtual communications in a matter of days and emphasised the importance of technology in how we do business. The pandemic has also raised the focus on social responsibility for consumers and corporates. This combined with the devastating bushfires in Australia and California and events surrounding the destruction of historical indigenous sites in Western Australia, has increased the focus on ESG considerations when investing.

We see this as an opportunity to position the business for the markets of tomorrow by accelerating our own investment in technology and product development to capture these trends. It is an opportunity to take advantage of our global scale, as well as drive efficiencies in the business for our people and clients and accelerate our ESG growth strategy.

Our investment in technology and the improvement of systems started in 2019 as part of the plan to move off the Westpac supported systems, where we identified a broader opportunity to re-configure our operating platform to better gain scale.

We made significant progress in FY20 with the launch of a global platform for substantial shareholder reporting and the roll-out of a global HR system. Additionally, this year we developed a global data management strategy. This exciting multi-year project will drive scale efficiencies, portfolio management data collection, and provide a better client experience. It will also facilitate a path to enhance our digital capability that will dramatically improve our reach and support our global distribution network. This will provide more effective information on where the opportunities lie and deliver more tailored and targeted marketing campaigns.

Building a more effective global operational platform not only better connects us with our clients in a more meaningful and dynamic way but also provides the opportunity to lower costs.

Pental has a strong heritage in ESG having managed ESG strategies since 1984. We have been at the forefront of development in ESG in Australia including being a founding member of the Investor Group on Climate Change. Pental Australia currently manages \$3.1 billion in ESG-specific strategies, including institutional mandates for some of Australia's largest pension funds. In 2001, we established the BT Governance Advisory Service¹ which was the precursor to establishing Regnan, a specialist ESG firm to provide Governance Research and Engagement services in partnership with our clients in 2007.

Regnan is now a wholly owned business within the Pental Group and has developed specialist ESG investment management capability with the launch of a range of Impact products, leveraging off Pental Group's global platform. The market opportunity is significant. In the US alone, there are US\$12.0² trillion of professionally managed sustainable assets and US\$14.0² trillion in Europe. With Regnan, we have the opportunity to differentiate our investment offering built on the foundation of strong ESG credentials.

In February 2020 we launched the first specialist strategy under the Regnan brand, the Regnan Credit Impact Trust. This is an actively managed portfolio investing in fixed income securities where the proceeds are used to create specific and measurable positive environment and social impacts. As mentioned earlier in my report, we also announced the appointment of a proven investment team based in London to manage the Regnan Global Equities Impact Solutions strategy. This strategy is being launched in the UK, Europe and Australia in the fourth quarter of the calendar year 2020, and has already received strong interest from clients.

History shows that Pental has successfully navigated through crises before and come out stronger on the other side. In mid-2011, when the sovereign debt crisis was at its peak, we purchased J O Hambro Capital Management. The purchase transformed our business, providing much needed diversification and growth.

Our confidence to succeed comes from the quality of our people, our robust business model and financial strength. Our very experienced investment managers have been tested through market cycles and understand the importance of not chasing returns in the short term at the expense of long-term value outcomes. Investor patience is required. The rewards will come.

In the near term, COVID-19 and other economic and geo-political issues will continue to create headwinds. Equally we see opportunities to invest in the business for future growth and potentially accelerate our strategic plans and diversification objectives through M&A. These investments do come at a cost but we do so with the confidence that it will deliver higher revenue and profitable outcomes in the future for shareholders.

It truly has been a most extraordinary year. These unprecedented times have seen our teams around the world not only move to home offices and virtual meetings but work incredibly hard to harness opportunities. I sincerely thank them for their hard work and dedication and our clients for their ongoing support.

Emilio Gonzalez CFA
Group Chief Executive Officer

¹ When Pental Group was part of the BT Financial Group

² Global Sustainable Investment Alliance - 2018 Global Sustainable Investment Review