

# Chairman's Letter



2020 was a year of many parts. Brexit. Geo-political tensions and global trade impacts arising from the US/China trade disputes. And there was the COVID-19 global pandemic. All these events impacted markets to varying degrees and affected client sentiment and confidence. Of course, the most severe was the 'Black Swan' event of COVID-19. No one could have predicted the depth and extent of the pandemic and its impact on every facet of our lives.

## Overview of the 2020 Financial Year

In response, we are managing an environment hitherto unknown. Until a vaccine is found, the COVID-19 pandemic will continue to disrupt our lives; to impact our communities and nations, and affect our economies – domestic and global. We are mindful of the effects and the disruption the pandemic is having on our people, our clients, markets and society in general.

The health and welfare of our people is paramount, as is business continuity and supporting our clients. We are a talent business and without our people, our business does not exist. This pandemic has shown our ability to adjust and adapt in this new environment, without disruption to our business, and I would like to acknowledge and thank our employees for their effort and commitment. COVID-19 might be with us for some time, but we cannot let it dominate us.

While we are seeing continued market volatility, overall, in the last quarter, markets have rallied from March lows. However, we are not complacent. Markets are fickle, and we operate in a globally contested marketplace.

Our investment management teams are actively engaging with our clients, so they are in no doubt that we are being proactive in the management of the funds entrusted to us. Clients are seeing the value of active managers, who as experienced and skilled investors, can adjust their portfolios both to manage the prevailing circumstances and position for emerging opportunities. In 'emotional' times such as these, our 'true to label' portfolio managers think and act with discipline.

Last year I commented that our strength is our people and our unrelenting conviction in the positions we take to build wealth for our clients and shareholders. Being willing and able to respond to market changes and deploy creative strategies that tackle problems is what Pandal does best. Where others see a problem, we see both a challenge and an opportunity.

Without envisioning the COVID-19 'Black Swan' event, this attitude and approach has never been more important. We have taken current circumstances in our stride, confident that our long-term strategy will deliver positive outcomes for all stakeholders, over time and through the cycles.



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## Financial results

In the year just gone, our key measure of financial performance, Cash Net Profit After Tax (Cash NPAT), was \$146.8 million, down by 10 per cent. This represents a reduction of 11 per cent in cash earnings per share (Cash EPS) from 51.3 to 45.5 cents. This is to be expected. Performance of the business is largely determined by revenue from base management fees, meaning we are linked to markets and the value of our funds under management (FUM).

In the period from January to the end of March FUM fell by 15 per cent to \$86.0 billion. In the final quarter, FUM recovered to \$92.4 billion for a net fall of \$8.0 billion over the year. Importantly, investment performance has improved in a range of our key funds, resulting in positive inflows in the fourth quarter of the 2020 Financial Year and higher performance fees for Pendal Australia.

The Board recognises how important dividends are to our shareholders. Some companies are presently delaying or not declaring dividends but Pendal's strong balance sheet and diversified business model enables it to continue to support returns to shareholders, and with no change to the Group's dividend payout ratio.

A final dividend of 22.0 cents per share was declared, compared to the 25.0 cents in the prior year. The final dividend will be 10 per cent franked and paid on 17 December 2020 to ordinary shareholders at a record date of 4 December 2020.

The full year dividend was 37.0 cents per share, compared to 45.0 cents in the previous year, and reflects a payout ratio of 81 per cent, which is within the 80 to 90 per cent of Cash NPAT range of the dividend policy. The Dividend Reinvestment Plan has been activated for the 2020 final dividend and will support the Group's increased pace of investment over the coming years.

Looking at performance over the long term, Total Shareholder Return since listing is 128 per cent, which is well above the 53 per cent return of the Standard and Poor's ASX200 Accumulation Index over the same period.

## Risk management

Risk management has been front and centre for your Board. We have conducted double the number of Board meetings this year and have engaged closely with our regional business leaders and our fund managers.

The Board regularly reviews and approves the design of the risk management framework, and sets the risk appetite. This year, we assessed and reset the risk management framework to prioritise the response to the COVID-19 pandemic.

Specific areas included staff wellbeing, culture, effective remote working, continued excellent client service, enhanced liquidity risk management, day-to-day management of portfolios, enhanced communication, and maintaining operational resilience.

We are mindful of protecting the culture that has been at the core of Pendal's success. Our culture encourages individuals to act with integrity and honesty, and to value the interests of our clients as the first priority. Our products are clear in their investment goals and transparent in their fees, and our boutique business model provides our fund managers with investment independence and agility. While we are seasoned to market cycles, we cannot control the markets, only our own actions.

## Diversified business model supports resilience

Pendal is a diversified business. We have a stable revenue base from annuity style cashflows and also have the ability to earn performance fees. This diversification extends to the range and type of funds we manage.

Within the Pendal universe, clients have a broad choice of investment strategies, including defensive, growth, value, fixed income, and multi-asset. By offering a broad range of investments we ensure that, given investment trends vary at any particular time, Pendal always has a fund that meets clients' needs.

We have a stable and diversified client base, which includes some of the world's largest and strongest financial institutions, including pension funds, insurers, and wealth managers. As an active fund manager, we are fully cognisant of demonstrating the added value we deliver for our clients.

## Positioned for growth

Pendal has a strong balance sheet, with no debt. We continue to be profitable with a healthy cashflow and good margins.

Our cost base contains a material component which is variable, and linked to revenue. When revenue declines, there is a natural offset with lower costs, particularly lower employee variable remuneration.

All of our strategic considerations and investments, particularly global diversification, look to support material FUM and revenue growth.

As a global fund manager, we have developed an operating model around key regions and regional CEOs for the US, UK, Europe and Asia, and Australia. This model is evolving with the changed dynamics of the business and markets. This global regional model will be fundamental to managing the company's future growth opportunities.

With a talented Global Executive Team in place, and long-tenured fund managers with outstanding track records, we have the right leadership on the ground, which ensures that we are able to respond quickly and effectively to changed circumstances and take advantage of market opportunities.

## ESG and stewardship

Pendal has a long track record in sustainable investment. Our acquisition of Regnan last year was an important strategic move to ensure Pendal is well placed to capitalise on our history and reputation, as the worldwide demand for impact and other sustainable investment products gathers pace.

We are seeing a fast-paced change worldwide in investor requirements for environmental, social and governance (ESG) credentials. Pendal sees ESG as a significant growth opportunity and we are further investing in our capabilities in this market segment accordingly.

## Outlook

The world may have recovered from the initial shock of the COVID-19 pandemic, but it is far from being resolved. We are all looking forward to the development of a vaccine. However, the ramifications of restrictions on the movement of people and the consequences of extraordinary fiscal measures are yet to fully play out. Nevertheless, human nature has an infinite capacity to surprise, and is attuned to thrive not despite, but because of, exceptional circumstances.

We are entering a new era. Companies around the world are reconfiguring their operations and how they engage with their stakeholders. There has been exponential growth in the use and development of communications technology. With this changed communications model, Pendal has reassessed how we engage with our clients and our global workforce. This has, and will continue to, require us to develop and invest in our digital capabilities. We believe it will bring about innovation and efficiencies in the way we conduct our business. We see opportunities to broaden our distribution capabilities, enhance our client engagement and service and extend our reach through digital marketing. We will not revert to old ways for the sake of it; at Pendal we always look to the future.

The 2020 Financial Year marked the final sell-down by Westpac of its residual 9.5 per cent stake in Pendal. We acknowledge the support of Westpac as a long-term shareholder and as a client. Importantly, we continue to have a strong client relationship with Westpac and currently manage \$16 billion in FUM on their behalf. This constitutes 17 per cent of our total FUM compared to 64 per cent in 2007.

Finally, I would like to thank the management team and all of our employees for their personal contribution during what has been a particularly difficult year, and for stepping up for our clients, while dealing with the personal and physical challenges arising during the pandemic.

I would like also to acknowledge and thank my Board colleagues for the significant extra time they have contributed to Pendal this year and for their ongoing resolve, commitment, and support for the long-term success of the business.



**James Evans,**  
Chairman