Australian Shareholders' Association

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Company	Pendal Group Limited
Code	PDL
Meeting	AGM
Date	10am, 13 December 2019
Venue	Fullerton Hotel, 1 Martin Place, Sydney, NSW, 2000
Monitor	Sue Erbag, (assisted by) Orlene McKinlay

Number attendees at meeting	100 shareholders plus 50 visitors
Number of holdings represented by ASA	184
Value of proxies	$5,001,497
Number of shares represented by ASA	560,706
Market capitalisation	$2.85bn
Were proxies voted?	Yes, on a poll
Pre AGM Meeting?	Yes, with Chair James Evans, and NED Andrew Fay

Deja vu

Whilst Pendal Group have made some positive changes to their remuneration structure and have now appointed a CEO for their UK/Europe operations under the JOCHM brand, we remain concerned over the same issues as last year.

These issues include management of the UK business, a short-term focused remuneration policy and to compound matters further, a fall in funds under management (FUM), a fall in fees revenue and thus a decline in profits.

Last year's concerns over the exit of two executives, leaving Pendal's UK division without a CEO, in addition to the departure of a long serving senior executive fund manager in the UK/Europe division, may now be haunting Pendal's 2019 financial year (FY19) results, with FUM for the UK and Europe falling by $3.1bn this year. Thankfully for shareholders, this was offset by an increase in FUM in Australia and the US of $2.7bn. The greatest contributor to the decline in revenue and profits was a fall in performance fees of 89% to $5.84m ($54.4m 2018). This fall was driven by the UK and Europe operations, largely due to changes in investors risk appetites, triggered by Brexit and a worsening European economy, as investors moved out of equities and into lower risk assets such as bonds and cash. A major profit driver, average funds under management (FUM), remained flat at $98.8bn, whilst closing FUM fell marginally to $100.4bn (2018 $101.6bn). The closing Pendal share price was down on the previous year at $8.92.

The appointment of Ms Altinger as CEO for UK/Europe may well prove to be a success but as noted in our voting intentions, we view the new CEO for Pendal's UK/European operations as stepping up from a far smaller organisation she does not appear to be an automatic choice. The selection follows 9 months of searching by the Group CEO who was seconded to the UK for that purpose. ASA concerns were expressed at the pre-AGM meeting. Her skills and efforts will be crucial to managing through the general political and economic uncertainties in UK and Europe, along with the more specific inheritance of an outflow of FUM, which may or may not continue.

The US doesn't seem to be experiencing the problems seen in the UK, they have promoted division heads internally for important areas of their operations and are continuing to grow their FUM and profits.

To our questions on Enterprise Risk Management neither the Chair nor the CEO mentioned any future investment in this space since engaging a new Chief Risk Officer (CRO) in March 2019. A separate conversation after the AGM with the CRO shed some light on his 2020 focus to initially ensure individual risk ownership by each Executive to also include emerging risks and subsequently moving on from manual processes. Further investment will be required to manage, monitor and keep in front of a rapidly changing global regulatory environment. If this program is completed, then Pendal's 2020 reporting should provide refreshing transparency on the risks and consequences faced by an asset manager.

Going forward Pendal has indicated a lot more detail on all its Material and Emerging Risks.

Regards the re-election of Kathryn Mathews, we abstained from voting for this resolution. On the face of it, Ms Mathews seems overstretched with the number of NED positions she holds, however the nature of some of these organisations e.g. Trusts makes it difficult for us to understand her commitments.

We reiterated our concerns over the remuneration package being too short-term focussed, with a potential maximum short-term incentive (STI) of 60% of the total remuneration compared to 22% for long-term incentive (LTI) (and potential STI of 44% of total remuneration at target and LTI of 31%). We also pointed out that the incentive hurdles were too low and didn't fully reflect or align with shareholders' interests. We consequently voted against the remuneration report, with the aggregate against vote for the remuneration report saw its second rise in two years from 2.45% in 2018, to 2.88% this year.

The ASA also voted open proxies against the CEO grant of share rights; the against vote was 2.78% versus 3.88% in 2018.