



## Opportunistic growth

<b>Company/ASX Code</b>	Pendal Group Ltd
<b>AGM date</b>	10am AEDT, Friday 11 December 2020
<b>Time and location</b>	Virtual meeting via agmlive.link ( <a href="https://agmlive.link/PDL20">https://agmlive.link/PDL20</a> )
<b>Registry</b>	Link Market Service
<b>Webcast/teleconference</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Sue Erbag and Orlene McKinley
<b>Pre AGM Meeting?</b>	Yes with Chair James Evans & Andrew Fay (NED)

None of the individuals involved in the preparation of this voting intention had shareholdings in this company.

<b>Item 1</b>	<b>Consideration of financial statements and reports</b>
<b>ASA Vote</b>	No vote required

### Summary of ASA Position

Pendal has a mix of in house and outsourced fund managers and portfolios, and is therefore half way between an investment fund and fund of funds.

The first half of 2020 saw markets falling globally due to the COVID-19 pandemic, as such it is no surprise that Pendal group, despite its diverse portfolio of funds saw its already challenged income stream deteriorate further with net profit after tax (NPAT) falling 24.6% from the previous year to \$116.4m, whilst the Cash NPAT ie underlying NPAT (UPAT) also fell 10.2% to \$146.8m. The company has been using Cash NPAT (UPAT) which excludes amortisation of employee equity grants for its executive remuneration rewards calculations. However they have announced that as of 2021 they will be using a UPAT number which includes Amortisation of employee equity grants (which are ongoing annual items) in the executive rewards calculations. The ASA is pleased at this development.

The decline in base management fee revenue slowed 1.5% to \$474.8m (2019 \$482m) during the year and thanks to increases in fee revenue from the Pendal Microcap Opportunities fund performance fees more than doubled to 129% (\$5.84m 2019). Average funds under management (FUM), a major profit driver remained fairly flat at \$98.8bn, whilst closing FUM fell marginally to \$100.4bn (2018 \$101.6bn). The mix of

Group FUM fell further to \$92.4m (fy2019 100.4m) with FUM in UK and Europe falling by \$3.3bn, and fund outflows from Westpac due to the run off of their legacy book. These were partially offset by an increase in FUM in the International Select funds of \$1bn. The Groups strategy for increasing growth is focused on growing FUM in the US, which has grown steadily over the last few years. The UK/EU operation has positioned itself for post Brexit by restructuring funds in Dublin for its European clients.

Dividends fell over the year from 0.45c to 0.37c.

### Governance

One practice that provides an assessment on Board effectiveness is the inclusion of an annual 360 degree review conducted by an independent party to provide an arms-length review. Pandal has not conducted one for 3 years. There are new NEDs and since Mr James Evans has been its Chair for 7 years there is always the perception that the new NEDs defer to him. The review will mitigate this perception.

It is pleasing to note that due to COVID-19 constraints and the different time zones of Directors' domicile, there has been an increase in the number of Board meetings from 8 to 15.

### Risks

Pandal stated that a number of their competitors are also their shareholders, so they do not articulate their emerging risks. Whilst we appreciate this prerogative it would be welcome to have some indication as to how they manage the current emerging social issues such as BLM and Sponsorships.

At the 2019 AGM the CEO stated "The future is worth investing in", however there is no mention of any progress on Pandal's investment to an automated Enterprise Risk Management system. A Global organisation regardless of how successful it is, must invest in its Governance, Risk and Compliance to ensure the numerous international regulatory rules and standards are adhered to.

### Senior Management Changes

Since the restructuring of the company in 2017, there have been some changes to senior management, with two internal executives appointed as CEO of Australia and CEO of JOHCM Group (the UK/Europe operation), both leaving in 2018. Pandal Group was thus left without a CEO of its JOHCM (the UK/Europe operations and for most of 2018). In 2019 Pandal Group hired Alexandra Altinger to head its JOHCM Europe/UK operations, we had pointed out that Ms Altinger lacked the level of experience we would expect to see for her new role. This year Pandal appointed Nick Good as CEO for their US JOHCM division. Nick has extensive experience in senior Investment management related roles at State Street for 6 years and BlackRock for 8 years.

### Directors' Report

Pandal Group report contains a 5 year table listing relevant performance related metrics. Generally the report is very comprehensive

Regarding the Remuneration Report, whilst some of Pandal's KMP incentive plans fall short of ASAs recommendations, Pandal should be commended for including a table showing actual take

home pay in addition to the statutory remuneration table. Overall the remuneration report is very detailed and comprehensive.

‘Skin in the game’: The company policy on non-executive director (NED) shareholding matches the ASA guideline. For 2020, most of the NEDs have close to or exceed their salary value as measured by the equity they hold in Pental.

#### Summary

	fy2020	2019	2018	2017	2016
Cash NPAT (UPAT)	146.8	163.5	201.6	173.1	156
Statutory NPAT	116.4	154.5	202	147.5	142
Share Price	5.46	8.79	7.35	11.05	8.89
Dividends	37	45	52	45	42
TSR	-33%	17%	-32%	24%	-7%
EPS	45.3	51.3	63.7	55.3	50.8
# of deferred shares vested to CEO	78016	90423	170568	321093	502009
CEO total remuneration Actual	1.67	2.52	3.23	5.17	6.22

#### UPAT is Pental's Cash NPAT

Share price is based on price at the financial year end 1 September 2020.

Deferred shares and performance share rights vesting on 1 October each year.

For 2020, the CEO's total actual remuneration was 18.7 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

<b>Item 2</b>	<b>Re-election of directors: James Evans and Deborah Page</b>
<b>ASA Vote</b>	<b>For</b>

#### Summary of ASA Position

Both Mr Evans and Ms Page have held their respective NED positions at Pental for less than 9 years and comply with ASA guidelines on NED commitments. Mr Evans holds a chairman role with ME Bank and a NED position with Investa Funds Management. Ms Page also holds NED positions with Brickworks Ltd and Service Stream Ltd.

Whilst both Mr Evans and Ms Page comply with ASA guidelines on the duration of tenure and commitments regards their Pental shareholdings (skin in the game) it is worth reiterating that the 3 year 360 performance review could be significantly improved to an annual review to ensure ongoing board effectiveness.

<b>Item 3</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

Pendal has taken steps forward in improving the performance measures and targets it uses for its CEO remuneration such as the adoption of the UPAT within its target performance measures for the CEO rem (a preferred method the ASA had previously requested). This will hopefully create more clarity moving forward for shareholders. As we have mentioned in previous reports, the Remuneration Report is comprehensive but still complex. The company is however trying different methods of presenting information to aid shareholder understanding.

STI -The Target was not achieved by the CEO, (50% of short-term incentive (STI) is payable in cash, which matches ASA requirements and the balance in restricted equity to vest over five years). Any additional STI above Target would be split 50/50. The STI awards for the executive team were reduced. The STI proportion relative to the total was reduced to 50% at target (60% at target 2019) and 25% (74% 2019) at maximum achievable STI, which is another positive move for Pendal with the CEO REM.

The weightings for the key performance indicators (KPIs) changed in 2019 with the financials weighting rising from 20% to 30%. This was a step in the right direction however it is still falling short of the ASA recommendations of 70% weighting for financials, with genuine stretch and revealed measurable targets.

The long-term incentive (LTI) was not achieved (targets from 2017). The LTI Target was \$1m all in equity, with 50% awarded for achieving the weighted mean of relative total shareholder return of ASX 200 index. The CEO thus receives 50% of share rights for achieving the average of ASX 200 TSR, we view this as basically an award for achieving average performance of the ASX index.

Consequently, if the companies TSR performance in one year is lower than their TSR performance in previous periods, the LTI may still be awarded, the actual TSR growth/reduction of Pendal is not taken into consideration.

Cash EPS Rights- The other 50% is linked to Diluted Cash EPS, not actual statutory EPS growth. This is awarded upon achievement of performance hurdles over 3 years, not 4 or more as per ASA guidelines. The calculation of the number of shares is based upon the face value at the time of the grant. The CEO receives 50% of shares vested if he achieves 5% compounded annual growth in eps, 5% seems a very low hurdle and we would see 8% as a minimum as more appropriate.

Whilst the majority of the CEOs Rem is still proportioned to STI rather than being split equally with LTI, the spread of 5 years used for measuring and vesting of the STI, ensures the CEOs incentives are over a longer time horizon and are thus better aligned with shareholders' interests.

Pendal has continued to make some positive changes to its remuneration structure and report in the last two years and it is also transparent regards its CEO actual take home pay as well as drawing closer to meeting ASA guidelines.

<b>Item 4</b>	<b>Approval of 2020 LTI Grant of Performance Share Rights to Emilio Gonzales, Managing Director &amp; Group CEO</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

The rights granted (180746) equate to the \$1m divided by the volume weighted average price (VWAP) over 5 trading days (\$5.53). The hurdles are relative TSR and Cash EPS split equally. Cash EPS commences at 5% with maximum payable at 10%.

As explained previously the ASA is not in favour of the Remuneration Report and will also vote against the approval of the grant.

CEO Pay available for 2020	Target \$m	% of Total	Max opportunity \$m	% of Total
Fixed Remuneration	0.8	25	0.8	18
STI - Cash	0.7	22	1.4	30
STI- Equity	0.7	22	1.4	30
LTI	1.0	31	1.0	22
Total	3.2	100	4.6	100

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