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Pendal works to manage global risks while aiming for opportunistic growth

Company/ASX Code	Pendal Group Ltd (PDL)
AGM date	10am, 13 December 2019
Time and location	Fullerton Hotel, 1 Martin Place, Sydney, NSW, 2000
Registry	Link Market Service
Webcast/teleconference	TBA
Poll or show of hands	Poll on all items
Monitor	Sue Erbag and Orlene McKinley
Pre AGM Meeting?	Yes, with Chair James Evans & Andrew Fay (NED)

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

Pendal (PDL) has a mix of in house and outsourced fund managers and portfolios making it something between an investment fund and fund of funds.

Financial Year 2019 (FY19) was challenging for PDL with statutory net profit after tax (NPAT) falling from $202m in FY18 to $154m in FY19. The Cash NPAT or underlying PAT (UPAT) also fell 16.5% from $201m to $163m. The company uses Cash NPAT (UPAT) which excludes amortisation of employee equity grants for its executive remuneration rewards calculations. Amortisation of employee equity grants are ongoing annual items; it is therefore ASA's view that these items should not be excluded from the executive remuneration rewards calculations. Our concern regarding the use of Cash NPAT/UPAT for executive remuneration rewards calculations was voiced last year, however the company disagrees and continues to use this calculation.

Base management fee revenue fell 3.7% to $482m ($500.6m in FY18) during the year, whilst performance fees fell 89% to $5.84m ($54.4m in FY18) and the fee margin declined by 2 basis points (200th of 1 per cent). These falls were largely attributed 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. Closing Funds Under Management (FUM) fell marginally to $100.4bn (2018 $101.6bn). The mix of Group FUM changed with FUM in UK and Europe falling by $3.1bn, subsequently offset by an increase in FUM in Australia and the US of $2.7bn. The Group's strategy for increasing growth is focused on growing FUM in the US, which has happened 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.

Risk Management - With stress testing measures outlined in their report and discussed at the pre-AGM meeting, Pendal is focused on downside risk. However, with only one annual review of the Risk Management framework by the Board, with responsibility and accountability with CEO and Executives, we would prefer to see the board practising more oversight regards risk. Pendal believes that their diversified business model, with a mix of asset classes, managed in their portfolios, acts as a form of risk management. Pendal also stressed that with no financial leverage, derivatives are used to hedge risk does not create profits, they consider themselves a lower risk investment organisation. Whilst we appreciate the current risk measures in place, it would be great to see clearer articulation and discussion of the emerging risks Pendal faces and how it manages these, within their Strategic Report.

On 31 October JOHCM Ireland Ltd, replaced JOHCM Ltd UK, as manager of the group's Irish domiciled UCITS vehicle, JOHCM Umbrella Fund plc, thus allowing the operations of the group to continue on an ongoing basis in the event that the UK formally withdraws from the EU.

Senior Management Changes

Last year it was noted that the restructuring of the company in 2017 had resulted in some changes to senior management, with two internal executives appointed as CEO of Australia and CEO of JOHCM Group (the UK/Europe operation). Both executives departed the business during 2018. Pendal Group was thus left without a CEO of its JOHCM (the UK/Europe operations) for most of 2018. As a consequence, the Group CEO, Emilio Gonzales, stepped in as CEO in London both filling this role and sourcing a new CEO. In 2019 Pendal Group hired Alexandra Altinger to head its JOHCM Europe/UK operations. Ms Altinger had only held one previous CEO role in a considerably smaller organisation than JOHCM, whilst she had considerable experience in directorship sales and marketing roles with larger organisations. We were concerned with Ms Altinger's lack of experience in the role of CEO in a comparably sized organisation. Ms Altinger's previous position was with Sandaire Investments a multi-family office business with 45 clients and assets $3bn, compared to her current role with Pendal, heading JOHCM UK/Europe FUM $48.5bn. We raised these concerns at the pre-AGM meeting. The chair informed us that whilst he recognised Ms Altinger's limited experience in the role of a CEO, she had held Directorship roles in other large Investment companies and Pendal's focus had been on hiring someone with a stronger background in Sales and marketing as they wished to focus on growth for JOHCM.

Directors' Report

Last year it was noted that there was no 5-year table listing the key, financial metrics that are common to most annual reports, subsequently making it difficult for the reader to quickly gain a long-term view of the results. Pendal Group took this on board and this year's report contained a 5-year table listing relevant performance related metrics.

Regards the Remuneration Report, whilst some of Pendal's key management personnel (KMP) incentive plans fall short of ASA's recommendations, we commend Pendal for including a table showing actual take-home pay in addition to the required 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 2019, most of the NEDs have close to or exceed their salary value as measured by the equity they hold in Pendal.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	163.5	201.6	173.1	156	126.4
Group Cash NPAT or UPAT ($m)	154.5	202	147.5	142	132.2
Share price ($)	8.79	7.35	11.05	8.89	9.62
Dividend (cents)	45	52	45	42	37
TSR (%)	17.4	-31.5	23.5	-7.17	59.1
EPS (cents)	51.3	63.7	55.3	50.8	44.0
# deferred shares vested to CEO	90,423	170,568	321,093	502.009	-
CEO total remuneration, actual ($m)	2.52	3.23	5.17	6.22	9.2

Notes

1. Share price is financial year-end closing price
2. Deferred shares and performance share rights vesting on 1 October for each year

For 2019, the CEO's total actual remuneration was 28.55 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2	**Re-election of Director Kathryn Matthews**
ASA Vote	**Undecided**

Summary of ASA Position

We raised our concern over the workload of Ms Matthews. She chairs Barclays Investment Solutions Limited, a publicly listed organisation, and holds another four non-executive director (NED) positions. According to ASA guidelines, this represents an excessive workload and ASA believes it will affect her ability to effectively oversee the management and running of a large and complex organisation. When ASA monitors raised this issue, they were informed that two of those positions were for trusts which did not consume as much time as traditional NED roles. It is difficult for us to quantify Ms Mathews roles on listed entities and for this reason we are adopting an Undecided vote for her re-election and will determine our vote at the AGM.

Item 3	**Adoption of Remuneration Report**
ASA Vote	**Against**

Summary of ASA Position

CEO Pay available for 2019	Target $m	% of Total	Max opportunity $m	% of Total
Fixed Remuneration	0.800	25	0.800	18
STI - Cash	0.700	22	1.400	30
STI- Equity	0.700	22	1.400	30
LTI	1.000	31	1.000	22
Total	3.200	100	4.600	100

The Remuneration Report is comprehensive but still difficult to follow, the chair of the remuneration committee has however communicated and summarised many key points concerning remuneration in his review of the report on p36.

Half (50%) of the short-term incentive (STI) is payable in cash and the balance in restricted equity to vest over five years. The STI floor is $0 but the STI at target is $1.4m and a maximum of $2.8m can be earned as STI. The board also has discretion to vary the Group CEO's awarded STI outcome up or down with regards to the group and the CEO's performance. ASA prefers downward discretion only. The current STI is measured against a number of factors outlined in the report, which include Cash NPAT, Base Management Fee Revenue based on targets agreed with the board, development of succession plans for Key Management Personnel (KMP), execution on growth strategy, developing global leadership and risk management and operational effectiveness.

The weighting of financial indicators in the STI mix (30%) is significantly lower than the non-financial indicators (70%) with a scorecard being presented only for the financial indicators. ASA would prefer a stronger focus on measurable financial indicators as these align more with shareholder interests, as well as being less subjective. Alongside these, the STI proportion relative to the total is still too great, representing 44% of the total remuneration at target and 60% of the total remuneration at maximum opportunity.

The long-term incentive (LTI) was not achieved (targets from 2016). The LTI Target was $1m all in equity.

Half of this equity is awarded for achieving the weighted mean of relative total shareholder return (TSR) of S&P/ASX200 Index. The CEO thus receives 50% of 68,042 share rights for achieving the average of S&P/ASX200 TSR, we view this as basically an award for achieving average performance of the ASX index.

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

The other 50% is linked to Diluted Cash EPS (earnings per share), 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 68,043 shares vested if he achieves 5% compounded annual growth in EPS. The 5% seems like a very low hurdle, we recommend 8% as a minimum.

Whilst Pendal has made some positive changes to its remuneration structure and report since last year and should be commended on its transparency regards CEO actual take home pay, Pendal still have some way to go in terms of meeting ASA guidelines. Therefore, an Against vote will be made this year.

Item 4	**Approval of 2018 LTI Grant of Performance Share Rights to Emilio Gonzales, Managing Director and Group CEO**
ASA Vote	**Against**

Summary of ASA Position

The rights granted (136,085) equate to the $1m divided by the volume weighted average price (VWAP) over 5 trading days ($7.34). 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.

The individuals involved in the preparation of this voting intention do not have shareholdings in this company.