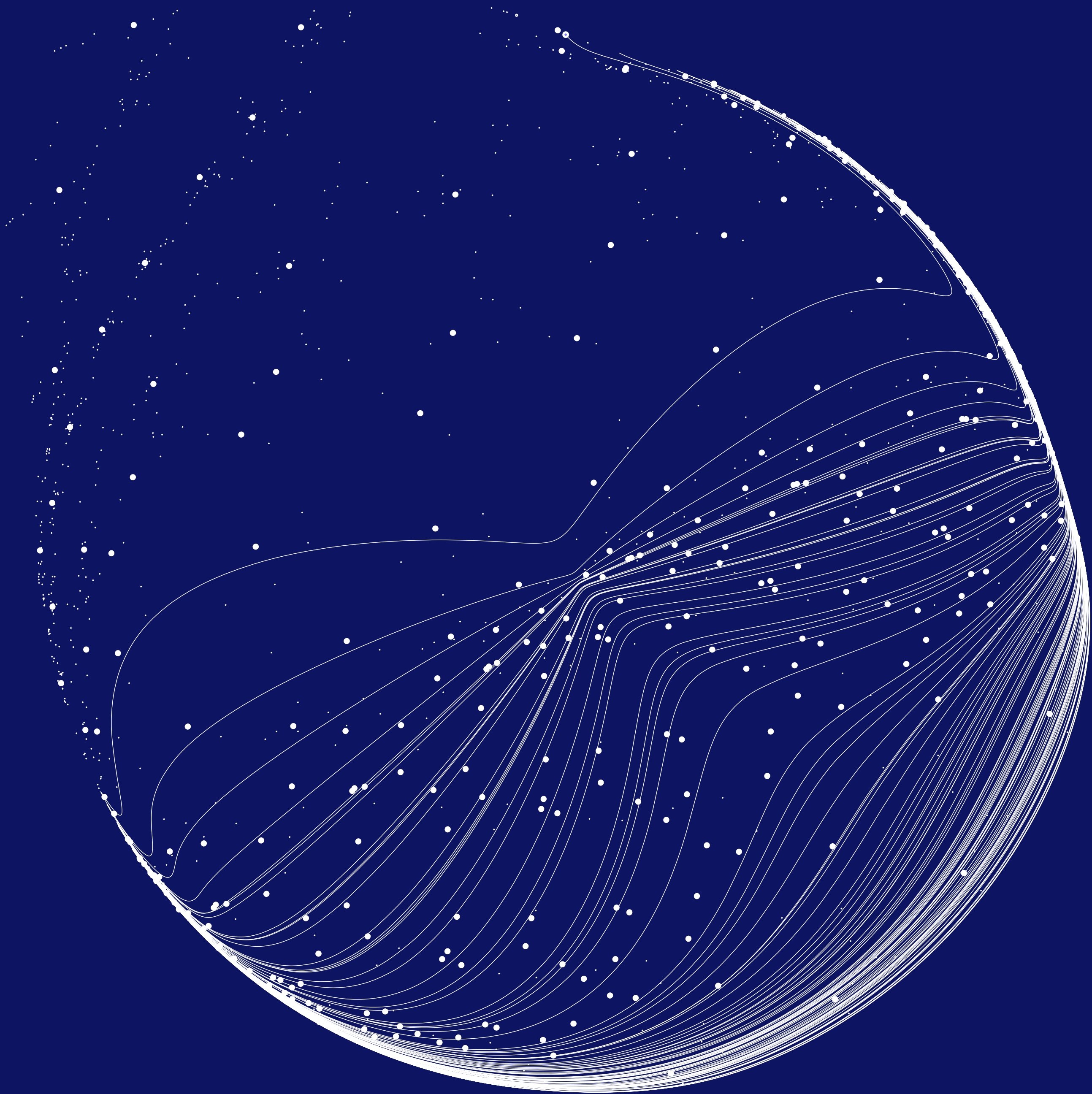
PENDAL

Annual Report 2018

Delivering Investment Strategies Globally



PENDAL

Contents

Key dates

Record date for final dividend	7 December 2018
2018 Annual General Meeting	14 December 2018
Payment date for final dividend	20 December 2018
2019 Interim results announcement	2 May 2019
2019 Final results announcement	6 November 2019

Please note the above dates are subject to change

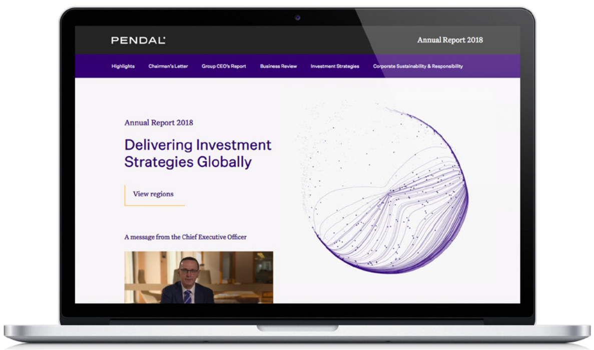
2018 Annual General Meeting

Date:	Friday, 14 December 2018
Time:	10.00am (Sydney time)
Venue:	Sofitel Sydney Wentworth 61-101 Phillip Street Sydney NSW 2000

Full details of the meeting are included in the Notice of Meeting

Go to **annual-report-2018.pendalgroup.com** to review the Group's online annual review for 2018, including a video address from the Group CEO and the philosophies behind our investment strategies.

The 2018 Corporate Governance Statement can be viewed on the Group's website at **pendalgroup.com/CGS2018**



2018 Highlights

- Continued growth in earnings
- Achieved $100 billion in funds under management
- Sixth consecutive year of growth in full year dividend

Closing funds under management (FUM)

$101.6 billion

↑ 6%

(2017: $95.8 billion)

Average funds under management (FUM)

$99.5 billion

↑ 10%

(2017: $90.4 billion)

Record cash net profit after tax (Cash NPAT)

$201.6 million

↑ 17%

(2017: $173.1 million)

Revenue

$558.5 million

↑ 14%

(2017: $491.0 million)

Base management fees
$501.1 million, ↑ 12%
(2017: $447.2 million)

Performance fees
$54.5 million, ↑ 44%
(2017: $37.9 million)

Record cash earnings per share (EPS)

63.7 cents

↑ 15%

(2017: 55.3 cents)

Record total dividends per share

52.0 cents

↑ 16%

(2017: 45.0 cents)

Continued growth in earnings as a result of a successful, diversified, global funds management strategy.

Growth in equities markets around the world and the investment in and diversification of our business, has delivered continued growth in earnings. This is our sixth year of uninterrupted growth in funds under management (FUM), base management fees and dividends. Our key measure of financial performance, cash net profit after tax (Cash NPAT), increased 17 per cent to $201.6 million. Cash earnings per share (EPS) increased 15 per cent to 63.7 cents per share.

Your Board is pleased to declare a final dividend of 30 cents per share for the period, bringing total dividends for the year to 52 cents, an increase of 16 per cent on the previous year. Total Shareholder Return since listing is 226 per cent, which is well above the 52 per cent return of the Standard and Poor's ASX 200 Accumulation Index over the same period.

This long-term growth in earnings reflects the strength of our business model and our strategy of diversification. When the Company listed in December 2007, it was a purely domestic company, predominately focused on managing Australian equities, with funds under management of $41.9 billion and 137 employees. Today, we have 320 employees in five countries, serve clients across major global markets and multiple currencies, and have over $100 billion in funds under management.

We operate in an industry in which profitability has a strong correlation to financial markets. Therefore, our objective is to develop a business model with the requisite resilience and agility to manage through market cycles and deliver long-term growth to our shareholders. Through our strategy of diversification, our emphasis on investment independence, our multi-boutique business model, and our disciplined approach to capital management, we have delivered for shareholders and clients since listing and are well positioned to navigate the volatility through the various cycles.

'Pendal' – our heritage and opportunity

Our culture of investment independence has attracted and retained the best talent and built trust and belief in our approach to investment on behalf of our clients. With this in mind, the Board and management determined that the time had come to invest in an independent name and a brand identity of our own. The philosophy and success of BT's investment ethos since the 1970s, when the Pendal name was first used, has led us to link our new name to our heritage. We are preserving the strengths, values and culture of BT while looking to the future as an independently successful international asset manager.

True to strategy

Our core business is active investment in equities on behalf of our clients. While we know equities are a high-performing asset class over the long term, markets will rise and fall and our short-term earnings will inevitably be affected by these cyclical events. This is an accepted and necessary element of operating in this asset class. We expect and plan for these market fluctuations, while always remaining true to our core business.

Our approach is to build resilience through the continued diversification of the business, which reduces our reliance on any one client, sector, or currency. The successful execution of this strategy is evident in our ability to progressively grow our business, in spite of market volatility, over the long term. Resilience is also top of mind in our approach to risk and capital management.

As a global asset manager, we operate in a variety of markets and jurisdictions, and are subject to not only market fluctuations but also regulatory changes which can create uncertainty and impact the way we do business. Once again, our strategy of diversification builds resilience and long-term stability.

Long-term view

Good corporate governance requires us to periodically review and assess the company's strategy, and we do so with a long-term view, ensuring it remains appropriate to market cycles and events well beyond the next reporting period.

For example, when we invest seed capital to fund a new strategy, we do so with the understanding that the fund will not be marketable until it has a three-year track record. Given the volatility of the asset class, a strong track record over one year is not an indicator of propensity for long-term outperformance. Investing in new strategies therefore requires patience and foresight.

We must also take a long-term view of our greatest asset – our people. We are in the business of talent management, and it is incumbent on the Board and Executive team to continually invest in the future sustainability of the business by recruiting and retaining top investment talent and providing sustainable and attractive career paths.

Our appropriate and transparent remuneration model attracts talent to the business. And by weighting remuneration heavily towards variable pay for both executives and portfolio managers, we ensure alignment between performance incentives and long-term outcomes for clients and shareholders.

Financially strong – positioned for the future

As we move into a period of greater volatility and increasing regulatory costs, the Board takes a long-term view of balance sheet management in order to safeguard a strong capital position through market cycles. We have no debt and continue to look at markets, capabilities and products where we see good growth potential.

Based on the Company's strong capital position, the Board determined to deactivate the Dividend Reinvestment Plan (DRP) for the 2018 Financial Year final dividend. Over the last six years, the DRP has supported the Company's need for capital in repaying all debt taken on at the time of the J O Hambro Capital Management acquisition in 2011 and increasing the size of the seed investment pool. The Board has determined there is no further need for additional capital to be raised via the DRP at this time.

Board composition – reflecting the global nature of our business

During the period we saw the retirement of long-serving director, Meredith Brooks. I would like to thank Meredith for her significant contribution to the Company's growth and development over the past five years. Meredith was an experienced and valued member of the Board and executed her responsibilities with focus and dedication. My Board colleagues and I wish her well for her future.

We continue to develop our Board to reflect the scale and diversity of the international business we have become, and I am pleased to announce the appointment of two new Board members.

Sally Collier was appointed to the Board in July and brings over 30 years' experience in the financial services industry. Having worked in the UK and Hong Kong, she adds further international perspective to the Board.

Christopher Jones will join the Board in November and brings significant industry knowledge and global experience. Based in New York, Chris' understanding of US financial markets will be of significant value.

In these two new appointments, we have sought directors with experience in funds management, complementary skills, and truly global outlooks.

Corporate governance

The Board views ongoing review of our corporate governance procedures as more than a minimum requirement – it is an integral element of our business strategy.

This year we engaged an independent expert to undertake a detailed review of our Board function with the objective of assessing areas in which the Board could strengthen and enhance its performance. This process involved observing Board meetings and interviewing executives and Board members to form detailed insights and recommendations. In overview, the assessment considered access to accurate, timely information necessary to govern properly; structural and process issues associated with oversight of a global company; leadership and company culture; Board composition and succession planning and maintenance of a Board dynamic of intellectualism and robust discussion and debate. We are implementing recommended enhancements.

Outlook

Nobel Laureate Ilya Prigogine famously said: "The future is uncertain but this uncertainty is at the very heart of human creativity."

Change and uncertainty are always with us. We see uncertainty in the UK over Brexit. The political landscape is changing in Europe. Some look askance at challenges in our own region. But this is part and parcel of investing successfully on behalf of our clients. We have just marked ten years since the Global Financial Crisis. And a decade on, the equity markets in the US are now at record highs.

We do not take a short-term view and are alert to the sometimes dramatic events which impact the markets in which we operate. We need to have conviction in the positions we take, knowing that there will always be worrying events in the short term but also not being caught up in the hubris of booms. It is the ability to manage uncertainty and develop creative strategies to overcome inevitable difficulties that Ilya Prigogine was referring to.

At Pendal we take nothing for granted and where some see problems, we may see opportunity. We cannot predict the future but we can set in place strategies to help deal with whatever unfolds.

In the current environment we are seeing volatile share markets and economic uncertainty across the globe. This type of volatility and uncertainty can impact businesses like ours and more broadly, general investor confidence.

However, your Board's role as custodians of your investment in Pendal means that we take a long-term view, ensuring we have a robust and sustainable business that is as agile as it is strong, with a balance sheet that is positioned to invest for future growth.

Through this steadfast commitment to our strategy of diversification across geographies, clients and products, and investing for long-term growth, we have evolved through numerous market cycles and emerged as a leading global asset management business. We remain confident that we have a business model to continue to deliver long-term value to our shareholders.

I would like to thank the management team and all our people for their personal contribution to another successful year. I would also like to acknowledge my Board colleagues for their resolve and commitment to the long-term success of the business.

James Evans

James Evans

Chairman

Group Chief Executive Officer's Report

The 2018 financial outcome is the sixth consecutive year of earnings per share growth.

Pendal Group marked a number of milestones this financial year. We reported our sixth year of uninterrupted growth in profitability and FUM, which took us to a notable achievement of exceeding $100 billion in funds under management. In December 2017, we celebrated our ten-year anniversary since listing on the ASX, and in May we launched our independent brand identity, Pendal Group.

While achieving three positive milestones in one year is pleasing, we are not complacent, recognising the continual change in our industry and the markets in which we operate. Over the years, market conditions have fluctuated, but our growth and development has continued. This I attribute to the consistent execution of our strategy and our commitment to the fundamentals of our business: investment independence, the attraction and retention of investment talent, and diversification across markets, clients and geographies.

Cash NPAT, our key measure of profitability, was 17 per cent higher at $201.6 million, while Cash earnings per share (Cash EPS) increased 15 per cent. This result was underpinned by continued strong growth in base management fee revenue, up 12 per cent on pcp to $501.1 million. This was led by a 10 per cent increase in average funds under management (FUM) and a higher base management fee margin of 51 basis points (bps), up 1 bp on pcp.

The increase in average FUM over the period was assisted by higher markets, with the average level of the MSCI All Countries World Index in local currency terms up 13 per cent, and the average level of the S&P/ASX 300 Index 6 per cent higher compared to pcp.

Despite some strategies coming in and out of favour and the flow mix across channels varying, our overall base management fee revenue has continued to grow. This demonstrates our core strategy at work: strength through diversification, giving us steady and sustained revenue growth over the long term.

> **While we have enjoyed another successful year and markets have continued to rise, it is a challenging time for the financial services sector.**

There were net outflows of $3.7 billion, which were driven by redemptions associated with the BT Financial Group MySuper portfolio reconfiguration, as well as a mandated loss from a UK Equities strategy following the retirement of a key fund manager in late 2017. It was a much more difficult period for the Asia and Japan strategies, which significantly underperformed their benchmarks.

Importantly, we've garnered strong client support for strategies that have demonstrated longevity and strong performance over the long term. In particular, we raised $2.8 billion across Australian Equities (excluding Westpac), while European Concentrated Values and UK Dynamic strategies together raised $1.5 billion, and the Global Emerging Markets Opportunities Fund raised $0.5 billion during the period. The consistency, stability and longevity of these teams provides confidence to clients, which is reflected in positive flows.

Also, US pooled funds continued the momentum from prior periods, with the JOHCM International Select Fund attracting $1.5 billion (US$1.1 billion) and positively contributing to our fee margin growth.

While we have enjoyed another successful year and markets have continued to rise, it is a challenging time for the financial services sector. Disciplined cost management is a focus to offset rising regulatory costs and industry-wide fee pressure.

In Australia, The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has created a level of mistrust amongst customers and stakeholders in the financial services industry. We await the outcome of the final Royal Commission Report in 2019, but the Interim Report suggests it will usher in an era of increased prudential supervision. During the year, three out of the top four banks have divested, or indicated that they will divest, their wealth management businesses. As an independent, active manager, we see opportunities from these types of structural changes in the wealth management sector as it opens up the market for more competition.

The global trend towards increased regulation continues to drive compliance costs higher as more resources are required to meet the needs of increased regulation. The positive side of the growing regulatory scrutiny is that it increases the barriers to entry and makes it very onerous and expensive for teams to 'go out on their own'. This makes Pendal's business proposition even more appealing for investment talent who value what we have to offer.

The ongoing trend in the growth of passive investment strategies continues to apply fee pressure across the industry. This puts the onus of responsibility on active managers, like ourselves, to better articulate our value proposition. We strongly believe in the opportunity to identify mispriced securities in the marketplace. The continued strength in flows towards passive strategies increases this mispricing as more and more capital is allocated based on a company's size instead of its fundamentals. The market can and does get it wrong, and for this reason alone there will always be a place for active managers. With the right skill and processes we can create wealth for our clients, but it takes discipline and patience, and we will continue to remind investors of our value proposition and demonstrate our proven results.

A summary of the macroeconomic conditions affecting our various markets can be found of pages 18 and 19 of this year's Annual Report, and a more detailed view of our Investment Strategies across the Group can be found on our Pendal Annual Report website. In the more expansive online report, our investment managers summarise the year in review, explain our portfolio positioning and provide market perspectives.

Managing capacity is important for delivering sustainable long-term investment performance as well as protecting revenue margins. We recognise that our clients are focused on value, and our ability to earn our fees is directly proportional to our investment performance and the success of our wealth generation strategies. Protecting investment performance is key, hence our strong discipline in the management of our capacity to ensure we can sustain our success.

As at 30 September 2018, we have five soft-closed strategies. The need to progressively soft-close funds reflects our success, and the courage to limit the capacity of investment strategies is necessary to position us for continued success. Further to this, we are a firm that prides itself on investment independence, and allowing our portfolio managers to regulate their capacity helps us to attract and retain the best investment talent.

Our business spans multiple markets and jurisdictions and we are now represented in 90 per cent of the world's markets where assets are being managed. The largest market is the US and we have had good success in raising FUM. This remains a focus for the business with continued investment in sales and ongoing support in marketing and compliance. In October 2017 we moved to a permanent New York office with the addition of the Multi-Asset Investment team. We are focused on continuing to broaden our investment offering, which means seeking out individuals who can provide strategies that complement our current offering, as well as providing extension strategies to build on our current capabilities.

As a talent management business, it is incumbent on us to continuously seek investment talent that creates long-term value for clients and shareholders. To that end, we maintain a program of expanding our investment capacity, either through development of internal talent and new extension strategies emanating from existing investment teams, or by attracting new investment talent to the business.

Notably, we launched three new investment strategies during the period. The JOHCM Global Income Builder Fund was launched in the US in November 2017 and represents our first multi-asset proposition outside Australia. This taps into the tremendous demand for income-generating strategies catering to the swelling ranks of income-focused retirees across the developed world. We also created the Pendal Dynamic Income Fund and initiated the Pendal Multi-Asset Target Return Fund in the Australian market.

In last year's report, I touched on the investment of seed capital to support new teams as part of our strategy to diversify and expand our investment offering. Seed capital can be used to fund a new strategy, or to scale up a fund to make it marketable for clients. During the period, we committed a further $100 million to the following strategies: the JOHCM Global Income Builder Fund, JOHCM Emerging Markets Small Mid Cap Equity Fund, and the Pendal Multi-Asset Target Return Fund. Importantly, the ability to utilise our balance sheet and support our growth through seed investment gives confidence to clients willing to co-invest in the funds. Indeed, a review of our seed portfolio shows that since October 2011 we have raised $4.8 billion in flows for funds that we have seeded over that period, with much of that success coming three years after initial seeding.

Investment in new teams requires patience and long-term vision. Pleasingly, we have a number of funds that have recently achieved strong three-year track records, allowing them to be rated and marketed. These are the JOHCM Emerging Markets Small Mid Cap Equity Fund, which has delivered a return of 7.3 per cent per annum in excess of its benchmark over a three-year period; the JOHCM Global Smaller Companies Fund, which outperformed its relevant benchmark by +3.4 per cent per annum, and the JOHCM European Concentrated Value Fund, which achieved outperformance of +3.2 per cent per annum, both over the same timeframe.

This year, we successfully launched Pendal as our new brand name and identity. The change applies to the listed parent company, Pendal Group, and the Australian business. Over the past decade we have achieved standalone success and carved out an independent reputation as a global asset manager. This independence is now reflected in a new name and identity which supports our culture, serves our reputation, and builds our brand into a valuable asset. The name Pendal was chosen for its connection to the origins of the firm, derived from the name given to BT's nominee company, established to hold assets on behalf of its first prospective client: Dal(gety) Pen(sions). The J O Hambro name continues to trade in markets outside of Australia.

Looking to the future, we see exciting opportunities.

We may be at a critical turning point in the financial cycle. We are seeing a steady transition away from the ultra-loose monetary policy environment that defined the post-Global Financial Crisis decade and helped fuel prices of equities, bonds and real estate. The US Federal Reserve is in the vanguard of this policy shift, steadily normalising US interest rates to keep inflation in check with the US economy running at full pace, helped by President Trump's pro-growth agenda. Rising interest rates and bond yields globally may well have significant implications for equity markets. Certainly, higher US interest rates and a stronger dollar have weighed heavily on emerging market economies and stock markets in 2018, leading to marked investment outflows and currency weakness.

These conditions present an opportunity to earn our corn as an active manager. After an unusually long bull market, the immediate years ahead may prove tougher for investors to navigate successfully. As interest rates rise and the global cost of capital resets, we believe the role of active managers as discriminating stewards of capital will become more, not less, important.

Our challenge is deciding where best to allocate our resources and what opportunities not to pursue. I have already pointed out the importance of the US market and our ongoing investment in a business that has already achieved good early success. We continue to look for new investment talent that can add to our existing capabilities and we have further plans to expand our distribution channels to drive sales.

We will look to expand in Europe, particularly in light of the developments around the UK's impending exit from the European Union, which will affect the cross-border marketing and provision of financial services by UK-based companies across Europe. While a range of Brexit outcomes exists, our planning has been predicated on a 'hard Brexit', where there is no ongoing relationship between the UK and the EU other than World Trade Organisation rules. We are in a strong position to manage the transition in that we already manage an Irish-domiciled UCITS fund in which continental European clients currently invest. We are in the process of restructuring our funds in Dublin so we can continue to market to and service our European clients. Once we have more clarity on post-Brexit trade arrangements, we will consider our options on opening an office in Europe.

Another area of opportunity is in the growing ESG/Responsible Investing space. We already have specific ESG-themed funds where we manage $2.1 billion under ESG criteria. We have a strong heritage in this area through our 50 per cent ownership of Regnan, a governance research and engagement business that addresses environmental, social and corporate governance practices. This sets a strong platform to think more broadly about our capability and products in this fast-growing segment of the market, as we seek to globalise our ESG investment offering.

We are also seeking to expand our fixed income offerings, given the anticipated rise in demand for income solutions expected to come from an ageing population worldwide. With advances in healthcare technology leading to increases in life expectancy and individuals generally enjoying longer, healthier, and more active retirement phases of their lives, we see a long-term trend towards increasing demand for income-generating, low volatility investment strategies. Governments around the world are increasingly legislating for individuals to be responsible for their own self-funded retirement, rather than relying on social welfare pensions.

Both the ESG and fixed income areas represent future growth opportunities and we already have established capability within the Group to build on while we assess other complementary opportunities.

Another area of focus for the Group is the use of technology in our processes and how can we better leverage technology to improve efficiencies. This comes at a particularly pertinent time for us, as the Australian business is tasked with replacing existing service arrangements, held with Westpac, with new providers. This represents an opportunity to redesign our processes and improve efficiency, recognising the important role technology can play as a business enabler.

We look to the future with promise but we are cognizant of the many challenges that lie ahead. We have a strong balance sheet, excellent investment capability, a clear strategy for growth and dedicated staff. We remain confident that our high conviction, investment-performance-led approach will continue to resonate with our clients in the years ahead. I would like to thank our teams across Australia, the UK, Europe, Asia and the US for another year of hard work and dedication. It is their passion and commitment to the business and clients that has helped deliver the results we have been able to achieve.

Emilio Gonzalez, CFA
Group Chief Executive Officer

"Over the past decade, we have achieved standalone success and carved out an independent reputation as a global asset manager.

To deliver exceptional investment returns to clients by attracting and retaining superior investment talent.

The company has experienced six years of consecutive growth in funds under management (FUM), cash net profit after tax (Cash NPAT) and dividends to shareholders as we deliver on our strategy of building out a diverse and truly global asset management business.

The Board and senior management annually review the opportunities and challenges facing the Group to identify strategic priorities over a three to five-year timeframe. The strategy discussion focuses on expanding our investment capabilities, developing and enhancing our distribution channels, identifying opportunities for growth and setting the key priorities for management. This provides clear direction on resource allocation and prioritises the areas that strategically matter most.

Our strategy reflects our core business proposition of global diversification, expanded investment offerings and continued investment in talent.

As part of our global diversification strategy we plan on expanding our presence in the US through growing our sales presence and broadening our product offering via new teams and 'step-out' strategies from our existing teams.

Talent management continues to be a key strategic focus as we seek out new investment strategies and teams, emphasising scalability and diversification of our existing portfolio. The Board regularly reviews retention and succession plans to promote sustainable growth in FUM.

Responsible Investing (RI) presents a growth opportunity for the business, driven by strong demand and interest for ESG/RI capabilities that align investor values while delivering strong financial returns. We are well positioned given our rich history in this segment in the Australian market and our focus is on how to leverage our existing capabilities and relationships in this area to expand our ESG offering on a broader scale.

We are also focused on utilising technology to create a more efficient and effective operational platform to not only drive costs down, but connect with our clients in a more meaningful way. We are tapping into cross-industry knowledge and drawing on expertise from the fin-tech sector, to explore and harness more dynamic ways of meeting our clients' needs in 2019 and beyond. This will enable us to not only manage costs and drive efficiencies, but also enhance the client experience, and deliver competitive advantages to build FUM.

The tables on the right detail our strategic imperatives, our achievements during the 2018 Financial Year and our focus for the year ahead.

Learn more about our strategy at **annual-report-2018.pendalgroup.com/strategic-report**

Grow in new and existing markets

Continued investment in the US for growth

Expand investment capabilities

Identify new investment capabilities to diversify and provide for future growth

Build effective distribution channels

Develop and enhance distribution channels to drive sales

Purpose

- Pendal has been investing for growth in the US over the course of the last five years
- The North American markets represent approximately half the global asset management industry, so are an important focus for our future growth
- Growth in the US market is important to diversify the risk away from reliance on the International Select strategy

FY18 Achievements

- USD 1.3 billion (AUD 1.7 billion) of net flows in US Pooled funds
- The US now represents 28 per cent of Group base management fee revenue, with FUM now USD 15.6 billion (AUD 21.6 billion)
- Launched the Global Income Builder product in the US in November 2017
- Global Income Builder Fund already available on four major US platforms
- Added seven FTE including institutional sales, client servicing and corporate support

FY19 Focus

- Continue ongoing discussions with investment talent that will add complementary investment strategies
- Broaden product offering by leveraging strength of existing relationships or 'step-out' strategies from existing teams
- Promote new Global Income Builder product to garner traction
- Continued investment in the US market, including enhancing sales resources and on-the-ground coverage for the US West Coast

Purpose

- Maintain a diverse and attractive product range for existing and new clients
- Develop opportunities for growth by expanding our investment capabilities
- Utilise 'step-out' strategies to create further capacity for growth
- Further diversify our revenue streams across new strategies

FY18 Achievements

- Launched three new investment strategies during FY18
- Launched the Global Income Builder strategy in the US and Europe
- Launched the Pendal Dynamic Income Fund in Australia
- Launched the Multi-Asset Target Return strategy in the Australian market

FY19 Focus

- Identify new investment strategies and teams that can materially grow FUM
- Build on existing investment capabilities by identifying extension strategies
- Broaden and strengthen Responsible Investing (RI) and ESG product offering

Purpose

- Adding to sales capabilities and broadening distribution are critical to driving demand for our products and attracting inflows
- Build effective distribution channels by:
  - Increasing awareness of our investment teams and products
  - Strengthening client relationships
  - Developing new and existing distributor relationships
  - Tailoring our services and products for markets and clients

FY18 Achievements

- Added a dedicated institutional sales resource in Boston office
- Added resources into client servicing and RFP teams for US and European markets
- High net worth channel focus in Australia delivered AUD 400 million in net flows
- Australian wholesale sales team delivered record AUD 500 million in new net flows in year

FY19 Focus

- Add further US wholesale sales resources and on-the-ground coverage for the US West Coast
- Establish an EU presence (Ireland) to meet EU regulatory requirements
- Continue to target SMAs and the high net worth segment in Australia
- Explore global distribution of Pendal Australia's investment strategies
- Develop broader relationships in Australian wealth market following Royal Commission

Funds Under Management (FUM)

2018 Financial Year represents another strong year. The Group's FUM closed at $101.6 billion, an increase of $5.8 billion, or 6 per cent over the year. Growth was delivered through investment performance and higher markets which contributed $5.8 billion, favourable foreign currency movements of $3.7 billion on foreign denominated FUM, offset by net outflows of $3.7 billion.

FUM $ billion	30 Sept 2017 Closing FUM	Net flows	Other[1]	FX Impact	30 Sept 2018 Closing FUM
Institutional[2]	**29.2**	**1.5**	**2.0**	**1.2**	**33.9**
Wholesale					
– Australia	6.4	0.9	0.6	-	7.9
– OEICs	23.9	(2.3)	0.6	1.3	23.5
– US Pooled	11.5	1.7	0.9	1.2	15.3
Pendal Group Core Funds	**71.0**	**1.8**	**4.1**	**3.7**	**80.6**
Westpac – Other[3]	17.2	(4.7)	1.0	-	13.5
Westpac – Legacy	7.6	(0.8)	0.7	-	7.5
TOTAL FUM	**95.8**	**(3.7)**	**5.8**	**3.7**	**101.6**

1 Other: includes market movement, investment performance and distributions
2 $6.6b of Westpac mandates previously classified in Institutional FUM as at 30 September 2017 has been reclassified to Westpac – Other
3 Westpac – Other: represents all Westpac directed mandates covering corporate and retail superannuation, multi-manager portfolios, managed accounts and Westpac capital

FUM growth was assisted by positive market performance and a lower Australian dollar over the year. The S&P/ASX 300 Index and the MSCI All Countries World Index (ACWI) in local currency terms were both 9 per cent higher over the year, while the average levels of the S&P/ASX 300 and the MSCI ACWI in local currency were 6 per cent and 13 per cent higher respectively. The Australian dollar weakened over the year and was 6 per cent lower versus the British pound and 8 per cent lower versus the US dollar, while on average the Australian dollar was 6 per cent lower versus the British pound and flat against the US dollar, compared to the prior financial year.

Total net outflows were $3.7 billion which were led by outflows from the Westpac channels which saw $4.6 billion redeemed as a result of changes made by BT Financial Group to its MySuper portfolio and the run-off in the legacy book (-$0.8 billion). The OEICs were also in outflow (-$2.3 billion) as investor sentiment in Europe fell in the second half of the year.

The institutional channel saw $1.5 billion in net inflows which was a pleasing outcome following the loss of a significant mandate in the UK Opportunities strategy (-$1.2 billion) after the retirement of a senior fund manager in late 2017. Pendal Australia took in $3.2 billion in institutional net inflows with Australian equities (+$2.5 billion) and cash strategies (+$1.0 billion) favoured. The Australian and US wholesale channels were also a source of good fund flow through the year with Australian inflows of +$0.9 billion, a record year for that channel, and the US Pooled funds (+$1.7 billion) continuing the good momentum in that channel seen over the last few years.

Investment strategies garnering notable net inflows over the course of the year include Australian large cap (+$2.8 billion) in the institutional and wholesale channels, International Select (+$1.5 billion), UK Dynamic (+$0.8 billion), Global Opportunities (+$0.7 billion), UK Equity Income (+$0.6 billion), Global Emerging Markets Opportunities (+$0.5 billion), and cash strategies (+$1.4 billion).

It is also pleasing to note the European Concentrated Value and Emerging Markets Small Mid Cap strategies achieved their three-year track records during the year, and have grown to $1.6 billion and $0.4 billion respectively as at 30 September 2018. During the year three new strategies were brought to market, with two multi-asset and one income fund launched, which are targeted at the growing retirement market and demand for income products with low capital volatility.

Highlights	FY18	FY17	Change
Cash NPAT	$201.6m	$173.1m	+17%
Statutory NPAT	$191.0m	$147.5m	+30%
Operating revenue	$558.5m	$491.0m	+14%
Operating expenses	$316.9m	$281.9m	+12%
Operating profit margin	43%	43%	-
Cash earnings per share (cents)	63.7	55.3	+15%
Dividends (cents per share)	52	45	+16%
Franking	15%	27%	-44%
Average FUM	$99.5b	$90.4b	+10%
Closing FUM	$101.6b	$95.8b	+6%

Investment Performance

Across the Group long-term investment performance remains strong with 93 per cent of FUM with a sufficient track record outperforming respective benchmarks over five years to 30 September 2018.

Asset class	FUM 30 Sept 2018 A$ billion	% FUM outperformed respective benchmark at 30 Sept 2018[1]	
		3 Year	5 Year
Equities			
Australian	16.7	71%	92%
Global/International	28.9	67%	98%
UK	11.5	84%	100%
European	9.9	100%	100%
Emerging Markets	4.6	83%	100%
Asian	2.7	1%	3%
Property	1.8	100%	100%
Cash	10.0	100%	100%
Fixed Income	6.8	44%	97%
Multi-Asset	7.7	1%	64%
Other	1.0	82%	100%
TOTAL FUM	**101.6**	**69%**	**93%**

[1] Fund performance is pre-fee, pre-tax and relative to the fund benchmark; % of FUM outperforming relates to FUM with sufficient track record only.

Fund performance over one year has been mixed with a number of investment strategies under-performing benchmarks, particularly the value orientated strategies. However, a number of funds performed strongly through the year and outperformed their benchmarks over the 12 month period to 30 September 2018. These included:

- JOHCM International Select Fund (+7.6%)
- JOHCM Global Smaller Companies Fund (+7.4%)
- JOHCM US Small Mid Cap Equity Fund (+5.2%)
- JOHCM Global Select Fund (+4.1%)
- Pendal Monthly Income Plus Fund (+4.1%)
- Pendal Focus Australian Share Fund (+3.3%)
- JOHCM International Small Cap Equity Fund (+3.1%)
- Pendal MidCap Fund (+2.6%)

A number of JOHCM and Pendal Australia funds earn performance fees for the achievement of above benchmark returns. JOHCM earns performance fees on a calendar year basis and Pendal Australia earns fees on a 30 June year basis. The 2018 Financial Year saw performance fees earned from nine JOHCM investment strategies and four Pendal Australia investment strategies. Notable performance fees were generated from the following funds:

- JOHCM UK Equity Income
- JOHCM UK Dynamic Fund
- Pendal Focus Australian Share Fund
- Pendal MidCap Fund

Profitability

Cash NPAT for the year was $201.6 million, an increase of 17 per cent on the previous year (2017: $173.1 million), while Statutory NPAT increased 30 per cent to $191.0 million (2017: $147.5 million). The result was achieved by higher average FUM on the back of higher market levels, increased performance fees, and favourable currency as the Australian dollar depreciated over the year.

Cash EPS increased 15 per cent to 63.7 cents (2017: 55.3 cents).

Revenue

Total fee revenue was $558.5 million which represented a 14 per cent increase on the previous year (2017: $491.0 million).

Base management fees rose 12 per cent to $501.1 million (2017: $447.2 million) as a result of higher average FUM, which was 10 per cent higher than the previous year. Average fee margins increased 1 basis point to 51 basis points. The growth in average FUM benefited from higher market levels which saw the average level of the S&P/ASX 300 Index 6 per cent higher, and the average level of the MSCI ACWI in local currency 13 per cent higher, compared to the 2017 Financial Year. The increase in fee margin was a result of FUM growth in higher margin channels.

Performance fees for the year totalled $54.5 million, 44 per cent higher than the previous year (2017: $37.9 million). The performance fees were predominantly earned in JOHCM funds which earned $47.5 million, while Pendal Australia funds delivered $7.0 million in performance fees for the year.

Expenses

Total operating expenses were $316.9 million, a 12 per cent increase on the prior year (2017: $281.9 million).

Total employee costs were $224.7 million, 8 per cent higher than last year (2017: $208.1 million), with fixed employee costs of $77.2 million (2017: $67.9 million) and variable employee costs of $147.5 million (2017: $140.2 million). Fixed employee costs were 14 per cent higher as 11 new FTE were added across the group during the year taking total FTE to 320 as at 30 September 2018. This included two FTE into the distribution teams, three into the investment teams and six into operations and corporate support. Variable employee costs were 5 per cent higher than last year, largely driven by higher performance fees.

Non-staff operating costs were $92.2 million which is 25 per cent higher than the prior year (2017: $73.8 million). Fixed non-staff costs were $13.2 million higher to $66.5 million (2017: $53.3 million) attributable to higher occupancy costs resulting from the UK office moving premises, one-off costs associated with the Pendal brand launch, and increased regulatory costs associated with the European Union's MiFID II implementation. Non-staff variable costs were $25.7 million (2017: $20.5 million), 25 per cent higher as a result of increased third party investment management fees on higher FUM and lower performance-related fees in the prior year.

Financing costs for the year were $0.1 million, down from last year (2017: $0.2 million).

The overall operating cost to income ratio was flat on the 2017 Financial Year at 57 per cent, while the compensation ratio of 40 per cent declined from 42 per cent in the prior year.

Earnings per share

Fully diluted Cash EPS was 63.7 cents per share, a 15 per cent increase versus the prior financial year (2017: 55.3 cents per share). During the year ordinary shares on issue increased from 314,998,763 to 318,006,576, due to the issuance of new shares as part of the Fund Linked Equity (FLE) program and shares issued as part of the Dividend Reinvestment Plan (DRP), which remained active through the financial year.

Dividends

The Directors declared a final dividend of 30.0 cents per share, bringing total dividends for the year to 52.0 cents per share, a 16 per cent increase on last year's dividend of 45.0 cents per share. The total dividend represents a payout ratio of 82 per cent, which is within the Group's payout ratio target of 80-90 per cent of Cash NPAT.

The franking level for dividends paid in the 2018 Financial Year dividends was 15 per cent which compares to 27 per cent for the prior year. The lower franking level reflects the increased contribution of offshore earnings to Pendal Group's profit. In accordance with the Company's capital management plan, and to the extent possible, retention of franking credits is minimised.

The DRP, which was initially activated in the 2013 Financial Year, has been deactivated for the 2018 Financial Year final dividend. Over the last six years, the DRP has supported the Company's need for capital in repaying all debt taken on at the time of the J O Hambro Capital Management acquisition in 2011, and increasing the size of the seed investment pool. The Board has determined there is no further need for additional capital to be raised via the DRP at this time.

Financial position

Pendal Group actively manages its operational and strategic capital requirements using a combination of appropriate earnings retention and, at times, debt and new equity issuance. The Group has a AUD 25 million multi-currency revolving loan facility with the Westpac Group. During the 2018 Financial Year the facility was not drawn upon.

During the year, Pendal Group increased its seed capital portfolio by investing in new and existing funds to provide scale as they establish an investment performance track record. During the 2018 Financial Year, an additional $75.1 million of capital was funded into the corporate seed portfolio which totals $237.5 million as at 30 September 2018. The current level of seed capital within the Pendal Group sits within the Board's risk appetite.

Included on Pendal Group's balance sheet as at 30 September 2018 were intangible assets of $545 million consisting of goodwill and management rights associated with the acquisition of JOHCM in 2011 and goodwill arising from Pendal Group Limited's initial public offering in 2007. There was no impairment to the carrying value of goodwill during the year. The management rights associated with the acquisition of JOHCM continue to be amortised over time.

The Pendal Group operates the Fund Linked Equity (FLE) program, a remuneration scheme for certain JOHCM fund managers. Periodically shares are issued to satisfy equity rights held by fund managers as part of the FLE scheme. During the 2018 Financial Year, 2,304,178 ordinary shares were newly issued as part of the FLE scheme.

The FLE program is designed to be broadly Cash EPS neutral due to a reduction in revenue share the fund managers subsequently receive, which has a positive contribution to Pendal Group earnings, provided FUM is maintained post share-issuance. Full details of the FLE scheme and the share issuance are set out on pages 36 and 37 in the remuneration section of this report.

Exchange rate

Pendal Group earns revenue and incurs expenses in a number of different currencies with its primary currencies being the British pound (GBP), US dollar (USD) and Australian dollar (AUD). JOHCM's operating results are denominated in British pounds and, for consolidation purposes, these results are converted to Australian dollars at the prevailing exchange rate each month throughout the Financial Year.

Over the course of the year the average AUD/GBP exchange rate was 0.5665, which is 6 per cent lower compared to prior year (2017: 0.6002). The AUD/GBP rate fluctuated between 0.5417 and 0.5987 throughout the year and the spot rate as at 30 September 2018 was 0.5519.

The average level of the AUD/USD exchange rate through the 2018 Financial Year was 0.7605 which was marginally lower than the previous year (2017: 0.7624). The spot AUD/USD rate as at 30 September 2018 was 0.7222.

Reconciliation of Cash and Statutory NPAT

NPAT includes accounting adjustments required under International Financial Reporting Standards (IFRS) for amortisation of employee equity grants, amortisation of employee deferred share of performance fees, and amortisation and impairment of intangible assets. These non-cash charges are not considered by the Directors to be part of the underlying earnings of the Group and therefore the Directors believe that Cash NPAT is a more suitable measure of profitability. A reconciliation of Statutory NPAT to Cash NPAT is set out below.

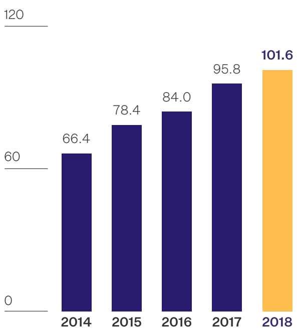
Regulation

The financial services industry continues to undergo significant legislative and regulatory reform. The Group continuously monitors regulatory changes impacting its Australian and offshore businesses.

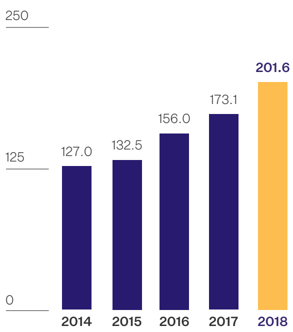
Heading the regulatory challenges currently facing the Group's UK/European based operations is Brexit and its product distribution and staffing implications. Brexit will have significant implications for the Group's operations in the region. While negotiations remain ongoing and outcomes uncertain, a European presence is currently being established in Ireland leveraging off the existing Irish fund range. The approval for the new entity being established remains subject to the Bank of Ireland approval. The Group continues to monitor developments and is well placed to respond to all potential outcomes, including a 'hard Brexit'.

Reconciliation of Statutory NPAT to Cash NPAT	FY18	FY17
Statutory NPAT	191.0	147.5
Add back:		
Amortisation of employee equity grants	43.3	53.7
Amortisation of employee deferred share of performance fees	10.3	-
Amortisation and impairment of intangibles	7.7	7.8
Deduct:		
Cash cost of employee equity grants payable during the year	(37.6)	(38.8)
Cash cost of employee deferred share performance fees in respect of the current period	(17.1)	-
Add/(deduct): tax effect	4.0	2.9
Cash NPAT	**201.6**	**173.1**

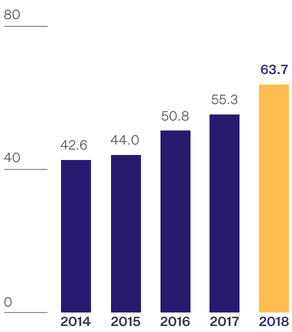
Closing funds under management (FUM) – $billion



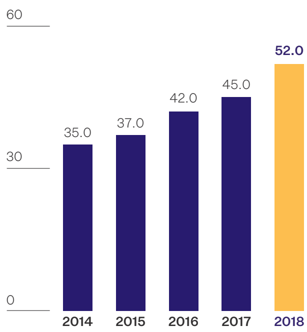
Cash net profit after tax (Cash NPAT) – $million



Cash earnings per share (Cash EPS) – cents per share



Dividend per share – cents per share



Beyond Brexit are the continued reforms to the EU's Markets in Financial Instruments Directive (known as MiFID II) which became effective in January 2018 with additional rules coming into force throughout the year. This has had a profound impact on the Group's UK/European operations as the requirements of MiFid II have driven a wholesale change in the way financial markets operate. This has included the unbundling of external research and brokerage costs for the first time, with payment for external research now being made via the Group's own profit and loss account. In the coming year, additional changes will be subject to scrutiny as part of the UK's ongoing preparations for Brexit.

During the year there were significant reforms to privacy laws across the globe. The laws were enforced in May 2018 and implemented by way of the EU General Data Protection Regulation (GDPR) mainly affecting the Group's operations in the UK and Europe, whilst the Australian business experienced a knock-on effect. Locally, in Australia, a change in privacy laws followed on from the UK and Europe and was introduced via the Notifiable Data Breaches Scheme. A readiness assessment for the privacy reforms was performed by each of the Group's businesses to ensure all operations and contracts within the Group would be compliant with the new regulations.

We also saw key regulators tighten their expectations on governance and risk management frameworks and the role and responsibilities undertaken by senior managers to promote appropriate conduct at all times. Most significantly, in the UK the Financial Conduct Authority (FCA) announced that their Senior Managers and Certification Regime (SMCR) which has applied to banks since March 2016 will be extended to all other financial services by December 2019. To respond to the FCA's expectations, the Group's UK business is undertaking a review to ensure compliance with the requirements. The FCA also published its final report on its investigation into the asset management industry in June 2018. Key highlights from the report were the FCA's observations on the quality of governance, the lack of adequate price competition, poor fund performance and a lack of clarity around costs and charges. It has subsequently issued consultation papers on some of its proposed remedies, some of which may be implemented as part of the SMCR. The Group will continue to monitor the potential impact on its UK operations and changes more broadly.

Similarly, the Australian Securities and Investments Commission (ASIC) has been focused on governance, risk management frameworks and conduct and, as a result, enforced Regulatory Guide 259 – Risk Management Systems. The revised RG259 outlines ASIC's expectations for how responsible entities assess, manage and report their risk management activities. In response, the Australian business aligned its Risk Management Framework to the requirements of RG259.

We are closely watching the proposed development of the Asia Region Funds Passport (ARFP) as a common framework of coordinated regulatory oversight to facilitate the cross-border issuing of managed investment funds. It enables a fund registered in its home jurisdiction to be 'passported' to other participating countries, which include Australia, Japan, Korea, Thailand and New Zealand. During the year, draft legislation was released in relation to both the ARFP regime and the new Corporate Collective Investment Vehicles in order to facilitate investment by foreigners into Australian funds. As the legislation is released, the Group's Australian business will continually monitor and assess opportunities as they arise.

Learn more about our global operations at
annual-report-2018.pendalgroup.com/global-operating-review

Risk Management

Risk Management Framework

Pendal Group is a pure investment manager. We use our global investment expertise to manage investment risk and generate wealth for our clients. Our goal is to provide investment products that meet or exceed our clients' expectations. The key to our success is earning the trust of our clients over the long term. We aim to grow our business by successfully investing over multiple market cycles. Our products are clear in their investment goals and transparent in their fees. Our culture encourages individuals to act with integrity and honesty and to place the interests of our clients as our first priority.

The Group has an established Risk Management Framework (The Framework) in place to ensure risk management principles are met. The Framework is subject to regular review and stress testing to confirm its effectiveness.

The success of the Group's business is based on taking risks that are known, understood, assessed and managed in line with the Board-approved Risk Appetite Statement.

The Group seeks to proactively identify all material risks that may affect the organisation and ensure that these are managed appropriately. When assessing risk appetite, the Group has adopted risk posture statements, which specify the acceptable risk level for each of the identified risks. The Group's most conservative risk posture is in the management of critical areas such as key investment personnel, strategic alignment and execution, reputation (business and brand), behaviour and conduct, regulation, fiduciary obligations to clients and oversight of third party providers. This means that the Board has a narrower tolerance for these risks. In relation to risks associated with business growth and initiatives, the Board accepts a higher risk appetite, consistent with its strategic objectives that include investing shareholder funds in the form of seed capital to support growth.

The Board has developed a Risk Appetite Statement which is subject to review at least annually. This process incorporates review of key aspects of the strategy and assesses whether adjustments to the Risk Appetite Statement need to be made as strategy evolves.

Risk and responsibilities

Overall accountability for risk management lies with the Board. The Audit & Risk Committee (ARC) assists the Board in its oversight of risk management, financial and assurance matters. The Board delegates responsibility for the implementation of risk management to the Group CEO and the Global Executive Committee. The Global Executive Committee has accountability and responsibility to manage the Group in a sustainable way, to enhance and maintain the Group's reputation, to ensure compliance with legal and regulatory obligations and industry standards, to strive to achieve the Group's objectives and to take all necessary steps to promote ongoing long-term investment performance for clients. The Group Chief Risk Officer is responsible for coordinating the identification, assessment, control, monitoring and reporting of risk exposures and their associated mitigants and controls throughout the Group.

Key business risks

The Group actively manages a range of business risks and uncertainties which have the potential to exercise a material impact on the Group and its ability to achieve its stated objectives. This includes the possible loss of FUM and accompanying revenue which may have a significant impact on the Group's profitability. While every effort is made to identify and manage material risks, additional risks not currently known or detailed below may also adversely affect future performance. The Board has identified the Group's material risks as outlined below.

Key Risk	Risk Description	Risk Management
Strategic Alignment and Execution	The risk that the Pendal Group's strategy is not aligned to future growth opportunities, including the selection of appropriate products in the right geographies at the right time. The risk associated with the failure to effectively execute the Group's strategy and that the strategy does not produce the expected results.	• Annual strategy and budget process, with outcomes approved by the Board • Employee objectives aligned to strategic objectives • Clearly articulated objectives and governance structure • Robust due diligence for acquisitions, engaging subject matter experts • Regular monitoring and strong reporting mechanisms
Talent	The Pendal Group's performance is largely dependent on its ability to attract and retain talent and, in particular, key investment personnel. Loss of key personnel could adversely affect financial performance and business growth.	• Long-term retention plans • Competitive remuneration structures in the relevant employment markets to attract, motivate and retain talent, with alignment to client and shareholder outcomes • Succession planning to develop or attract talent for sustainable growth • Maintenance of a strong reputation and culture which promotes an attractive workplace
Investment Performance	The management of investment performance risk is a core skill of the Group. This is the risk that portfolios will not meet their investment objectives or that there is a failure to deliver consistent performance that meets or exceeds our clients' expectations. The risk that our investors seek other investment products if we are unable to meet investment objectives.	• Talent hiring and succession planning • Clearly defined investment strategies and investment processes within stated risk parameters • Regular investment performance reviews and analysis of investment risks across all asset classes and strategies • Investment monitoring performed independent of our portfolio managers

Key Risk	Risk Description	Risk Management
Changing Client Preferences	The inability to respond effectively to changing client preferences with regard to products and solutions, fee structures, and asset classes. Such a risk could lead to offering investment products that are no longer in demand, loss of revenue from fee compression and FUM loss from the increasing prevalence of passive investment preferences in the market.	• Management of a diverse product range, which includes client engagement on the development of new product strategies • Increasingly diverse product offering to address evolving investor needs • Ongoing monitoring and review of strategy • Ongoing fee reviews on all portfolios
Product and Revenue Concentration	The risk of uneven distribution of exposure to particular sectors, geographic regions, clients and/or products.	• Clear strategy targeted at diversity across investment strategies, style and geographies • Expanded distribution network broadening the client base across channels • Ongoing pursuit of new investment talent to broaden investment capability • Monitoring and reporting to assess areas of concentration which identify elevated thresholds
Country and Regulatory Risk	The global operations of the Pendal Group are conducted in Australia, the United Kingdom, the United States, Singapore and Europe. There is a risk that the Group will not be able to effectively respond to regulatory change, or comply with multi-jurisdictional laws and regulations which could materially affect the business. Failure to effectively manage these risks may have an associated impact on operating costs through increased legal and compliance costs, and potential for regulatory sanctions and fines, which reduces profitability. The impending withdrawal of the UK from the European Union (EU) in March 2019 presents an increased risk of loss of revenue and the ability to manage and distribute funds into the EU.	• Clearly defined compliance framework to meet compliance obligations • Established policies and procedures supporting the risk and compliance framework • Experienced and appropriate level of legal, risk and compliance resources to manage obligations, change and complexity • Regular and constructive engagement with regulators including participation on industry bodies • Brexit Steering Committee in place • Establishment of new Irish Management Company (subject to regulatory approval) • Ongoing monitoring, reporting and review of regulatory obligations and country risks, including new and proposed legislation
Outsourced Service Providers	The Pendal Group has a number of key outsourced service providers, particularly with respect to fund administration and custody services. Failure to manage key outsourced service providers appropriately exposes the business to a risk of potential financial loss and/or reputational damage. This includes services provided by external parties not being conducted in line with the respective service level agreements, as well as service providers ceasing to provide services and the subsequent migration to new providers. Over the next three years the Pendal Group's Australian operations will be exposed to heightened third party risks as the business seeks to transition its back office service providers.	• Robust due diligence process • Clearly defined framework, policies and procedures • Regular monitoring and review of service level agreements and standards • Independent annual audit of the design and effectiveness of internal controls • Annual Business Continuity Planning and regular testing of critical systems • Strategic skill-sets for project teams tasked with transformational projects • Ongoing monitoring and reporting
Behaviour and Conduct	The risk of inappropriate behaviour which is not in line with the Pendal Group's core values, including the risk of senior management failing to set an appropriate cultural 'tone from the top', which may result in the delivery of detrimental or sub-optimal outcomes for our clients and shareholders.	• Clearly defined Code of Conduct which outlines the expected behaviour of all individuals • Independent whistleblowing provider • Embedded Risk Management Framework, which incorporates conduct risk management • Ongoing risk and compliance training and confidential staff engagement surveys • Internal audit program incorporating conduct assessments
Business Interruption and Disruption (including cyber risk)	The risk that the Pendal Group may suffer service disruptions such that losses may arise from defects such as system failures, faults or incompleteness in computer operations, or illegal or unauthorised use of computer systems and personal information including cybercrime.	• Business Continuity and Crisis Management Plans • Annual testing of Disaster Recovery Plans • Independent review of the design and effectiveness of internal controls • Staff training • Cyber Security Incident Response Plan • Ongoing consultation with cyber security specialists
Market, Financial, and Treasury	The Pendal Group's fee income is derived from the assets we manage on behalf of our clients. The assets we manage face a variety of risks arising from the unpredictability of financial markets, including movements in equity markets, interest rates and foreign exchange rates. The Pendal Group also invests its own capital alongside clients when establishing new financial products and building them to scale. This exposes the business to the same potential loss of capital as our clients.	• Diversification across asset classes, investment styles and geographies • Budgeting and financial forecast management • Ongoing monitoring and review of strategy • Conservative approach to leverage • Monthly offshore earnings hedged into Australian dollars • Clearly defined Seed Capital Policy • Ongoing monitoring and annual board review of seed capital portfolio performance

Delivering Investment Strategies Globally

Australian Equities

The S&P/ASX 300 Accumulation Index gained 9.0 per cent over the 12 months to 30 September 2018. The strongest gains were concentrated in higher growth parts of the market, such as technology and healthcare sectors, which saw sustained valuation re-rating. Energy was also strong on the back of a rising oil price. This offset more muted growth in parts of the market under sustained regulatory, political, or competitive pressure such as financials and communication services.

ASX 300

UK Equities

UK equities made modest progress over the year despite the ongoing uncertainty created by Brexit negotiations. The lack of clarity over the terms of the UK's exit from the EU, which is scheduled to occur on 29 March 2019, has contributed to the unloved status of the asset class: data from the Investment Association, the UK investment industry's trade body, reveals net retail outflows of £10 billion from UK equity funds since the June 2016 Brexit referendum.

FTSE All-Share TR Index

European Equities

European equities made modest gains, initially driven higher by optimism over the European economic outlook and evidence of a global economic upswing. The Eurozone Consumer Sentiment Index recorded its highest reading since 2001, the flash Manufacturing Purchasing Managers' Index (PMI) survey hit 60.6, its highest mark since 1997, and the Eurozone Composite PMI recorded its best showing since 2011. However, optimism receded as the year progressed with weaker data from February in the PMI surveys and industrial production.

MSCI Europe NR Index
(net dividends reinvested)

Asia ex Japan Equities

Asian equities made modest gains in US dollar terms, which began with investors cheering the successful passage of the US tax reform bill and the easing monetary policy stance maintained by the European Central Bank. However, more hawkish US monetary policy and protracted tense trade negotiations between the US and China unsettled investors globally, sparking fears of a trade war. The slowing Chinese economy, strong US dollar and depreciation in the Chinese yuan also dampened sentiment.

MSCI AC Asia ex Japan NR Index
(net dividends reinvested)

Japan Equities

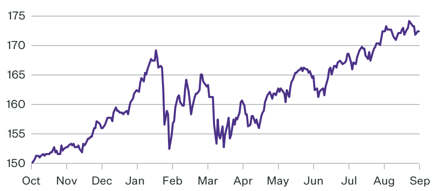
Japanese equities are often overlooked by international investors but the stock market remains the world's third-largest by market capitalisation. The pronounced underperformance of 'value' stocks versus 'growth' stocks in Japan since 2010 has left the valuation gap between the two styles at a 40-year high. Any form of mean reversion that saw this extreme market anomaly start to unwind would have a powerfully positive effect upon our portfolios.

TOPIX TR Index

US Equities

The US Government's pro-growth economic policies have been a resounding success and the combination of regulatory relief and the landmark tax reforms passed in December 2017 have accelerated growth and improved corporate revenues. With capital expenditure poised to surge over the next 12 - 18 months, the regulatory environment becoming more business-friendly, potential for fiscal stimulus through the promised infrastructure bill for 2019 and US consumers in an ebullient mood, the outlook for US earnings growth remains highly positive.

Russell 2500 NR Index



Global & International Equities

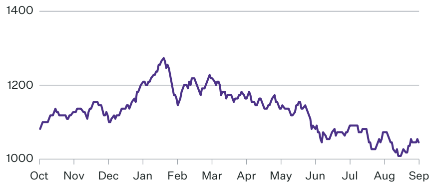
Global equities enjoyed a solid year with a significant proportion of returns driven by the strength in US equities. Buoyed by US tax cuts in December 2017, strong earnings momentum, high business and consumer confidence and regulatory reform, the S&P 500 Index reached record highs in August 2018. International equities (global ex US) also finished in positive territory as worldwide growth lifted investor sentiment. However, trade war concerns have cast a shadow over the economic outlook.

MSCI ACWI NR Index
(net dividends reinvested)

Emerging Market Equities

Emerging market equities began the period strongly, boosted by a weaker US dollar, recovering corporate earnings, a synchronised global economic upturn and investor demand for technology stocks. However, many of these factors reversed over the period and provided headwinds in the latter half of 2018. India remains a market where the team sees significant potential and is one of the largest active overweights in the portfolio.

MSCI Emerging Markets NR Index
(net dividends reinvested)



Multi-Asset Investments

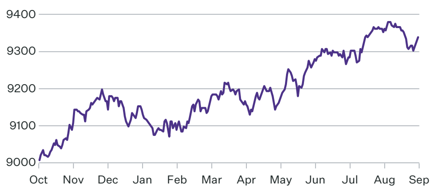
Our Multi-Asset Investments strategy seeks to provide an attractive and persistent stream of income along with capital growth, while investing with a margin of safety. Our Multi-Asset teams employ a bottom-up approach to investing across asset classes, rooted in global value investing and utilising investment strategies which aim to preserve capital. Our portfolios typically hold 30-70 per cent in equities, with the balance invested in fixed income, commodities and cash.

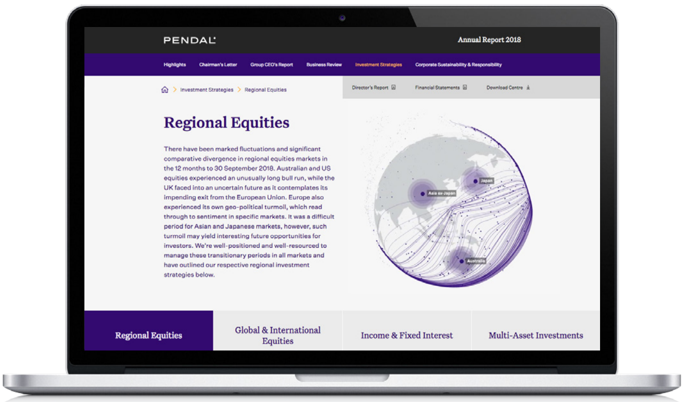
Active Balanced Fund Benchmark
(Morningstar Aus Msec Growth TR AUD)

Income & Fixed Interest

Further monetary normalisation by global central banks and geopolitical disruptions were two key drivers of fixed interest markets over the year. The sell-off in emerging markets contributed to a rise in volatility.

Bloomberg AusBond Composite 0+ Yr Index





For a complete overview of our investment strategies, fund performance and our investment management teams go to **annual-report-2018.pendalgroup.com/ regional-equities**

We recognise the benefit of identifying and managing ESG matters, not only for our investments, but also within our business operations.

As an asset manager, environmental, social and governance (ESG) issues are for us two-fold. Firstly, they have the potential to impact the value of the investments we make on behalf of our clients and need to be factored into our decision-making accordingly. Secondly, there are a number of issues which are material to the operations of our own business, and therefore should also be of interest to our shareholders.

In our view, during 2018 the key issues were:

- **How we consider ESG risks and opportunities** within our investment process, acknowledging increased stakeholder interest in how we consider climate change in particular
- **Human capital** including our ability to attract, engage and retain the talent required to deliver our strategy and differentiate our business
- **Ethical conduct** given the spotlight the current Royal Commission has put on the entire Australian financial services sector
- **The actions we take as a corporate citizen** including how we consider our impacts on the environment, the community and our other stakeholders.

Details of how we approach these issues and progress made during the year are contained within the Corporate Sustainability & Responsibility report which can be found online at annual-report-2018.pendalgroup.com/csr as well as within the Risk Management section on pages 16 and 17 of the 2018 Annual Report.

A summary of key issues and progress made during the year is set out below:

Material Items During 2018	Highlights
Considering ESG within investment processes	Commenced reporting aligned with the Task Force on Climate-related Financial Disclosures (TCFD) framework
	85% of active engagements by Regnan have demonstrated progress on material ESG issues since first engaged
	Engaged with over 39 ASX-listed companies on climate-related risks, and over 27 on TCFD disclosures, either directly, or indirectly via Regnan
	Signed on to the Climate Action 100+ initiative, working with other investors to seek company action on climate change
	Further deepened the consideration of ESG factors across asset classes, including Sustainable Development Goals (SDGs) mapping and ESG training in fixed income
	Launched the Pendal Sustainable Future Australian Share Portfolio (featuring a fossil fuel-free Ethical and Sustainability strategy)
Human Capital Management	Maintained 50% female representation at Board level which exceeds our target of 40% Increased female representation at the Executive level from 29% to 32% against a target of 40% to be achieved by 2023
	Increased female participation in investment management through company-specific initiatives and also as founding members of industry-wide diversity initiatives, including the Mercer Future IM/Pact Program and the Serendis Career Returners Program
	Participated in McLagan Gender Diversity Study focused on the investment industry in the UK
	Strong commitment to Group internship, apprenticeship and work experience programs targeted at increasing the pipeline of diverse talent from a socio-economic and gender perspective
Ethical Conduct	Introduced an independent whistleblowing mechanism
Corporate Citizenship	The Pendal Group engaged in volunteering and fundraising activities in support of a number of charities, including but not limited to: The Running for Premature Babies Foundation, School Home Support Charity, Indigenous Marathon Foundation, Macmillan Charity, The Wayside Chapel, Richard House Children's Hospice

One of the key global initiatives to tackle climate change.

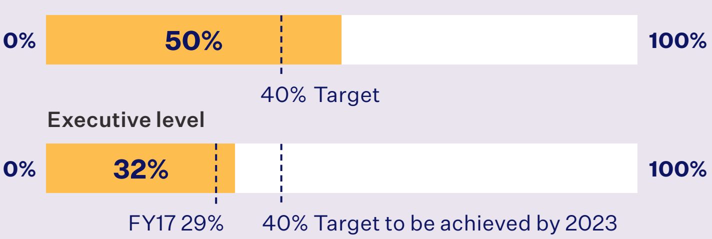
An investor-led initiative to engage with companies with significant risks associated with the transition to a lower carbon economy to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

Published initial TCFD disclosures

Engaged with over **27 companies** on TCFD disclosure

Diversity & Inclusion

Progress on gender targets for the 2018 Financial Year



Commitment & Initiatives

- Commitment to increasing female representation in investment management - Founder member of Mercer Future IM/ Pact Program and Serendis Career Returners Program
- Pendal Group continues to maintain membership with key industry bodies, including Diversity Council Australia, NEEOPA, Women in Banking and Finance
- Focused on increasing the pipeline of diverse talent from a socio-economic and gender perspective

Responsible Investment = Active ownership

Company research
Understand stock, specific industry and mega trends

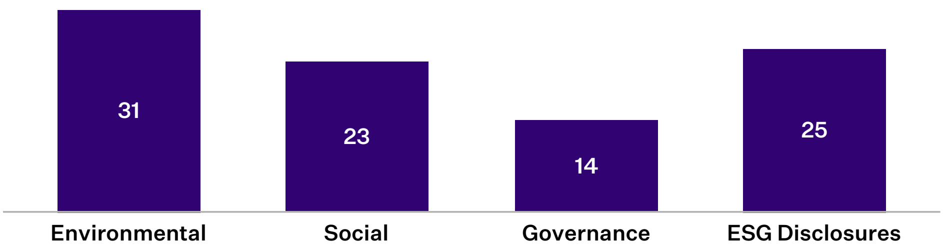
Identify risks
Avoid value destruction and reputational risk

Corporate engagement
Improve financial & ESG outcomes with management & board

Proxy voting
Ensure the board is representing investor interests

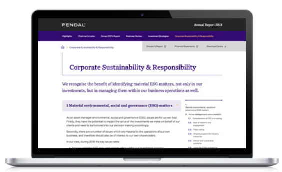
Change evident following engagement

Number of companies, Year to 30 June 2018



Engaged by Regnan

More details on these, and other initiatives, are available online at **annual-report-2018.pendalgroup.com/csr**



2018 Financial Report

Contents

The Directors present their report and the annual financial report for the Company for the 2018 Financial Year.

The Directors of the Company during the 2018 Financial Year and up to the date of this report are:

Director	Date of Appointment	Period
James Evans	Appointed to the Board on 2 June 2010. Appointed Chairman on 6 December 2013.	Full year
Emilio Gonzalez	Appointed Managing Director & Chief Executive Officer on 22 January 2010	Full year
Meredith Brooks	1 April 2013	Part year. Retired on 30 April 2018
Sally Collier	2 July 2018	Part year. Appointed on 2 July 2018
Andrew Fay	1 October 2011	Full year
Kathryn Matthews	1 December 2016	Full year
Deborah Page AM	7 April 2014	Full year

Details of the qualifications, experience and responsibilities of the current Directors are set out below:

James Evans
BEc CA F Fin FAICD

Independent Non-executive Chairman

Board Committees: Nil

James Evans, who is based in Australia, has over 40 years of corporate experience. His most recent executive role, which he held from 2003 to 2008, was as the Chief Risk Officer, Wealth Management at the Commonwealth Bank of Australia. As part of this role, James held various directorships in the Commonwealth Bank's funds management, general insurance, life insurance and lease financing businesses. James also held a number of other senior executive roles with the Commonwealth Bank in the areas of finance, accounting, business development and strategy.

Before joining the Commonwealth Bank in 1996, James was a senior executive with Lend Lease in the Property Investment Services Group, holding directorships in property investment and joint venture companies. Prior to that, James held senior executive positions at GEC Australia and Grace Bros.

James is currently the Chairman of J O Hambro Capital Management Holdings Limited and Suncorp Portfolio Services Limited, and a non-executive director of Investa Wholesale Funds Management Limited and ICPF Holdings Limited.

James previously served as a non-executive director of Australian Infrastructure Fund Limited (2010-2013) and Hastings Funds Management Limited (2009 – May 2016).

Directorships of other listed entities over the past three years: Nil

Emilio Gonzalez
BCom (Ec) CFA

Group CEO & Managing Director

Board Committees: Nil

Emilio Gonzalez is the Group's Managing Director & Chief Executive Officer. He was appointed a member of the Group's Global Executive Committee on its establishment on 1 May 2016.

Prior to joining Pendal Group, Emilio was Group Executive, Global Equities at Perpetual Limited. Prior to this role, he was the Chief Investment Officer for seven years. During his early tenure at Perpetual, Emilio was responsible for establishing and running a currency program, tactical asset allocation strategies, Perpetual's diversified and balanced funds, as well as being Head of Research.

Prior to joining Perpetual, Emilio worked as the Chief Dealer at Nikko Securities (Australia) Limited and as a retail client adviser at Norths Stockbroking Limited.

Emilio is a director and chairman of PFSL, PIL, J O Hambro Capital Management Limited, JOHCM Funds (UK) Limited, JOHCM Singapore Pte Limited and JOHCM (USA) Inc. Emilio is a director of Pendal UK Limited and J O Hambro Capital Management Holdings Limited. Emilio is also a director of The Banking and Finance Oath Limited.

Directorships of other listed entities over the past three years: Nil

Sally Collier
BEc GAICD

Independent Non-executive Director

Board Committees: Member of the Audit & Risk Committee and the Remuneration & Nominations Committee

Sally Collier was appointed Non-executive Director of the Company on 2 July 2018 and is a member of the Remuneration and Nominations Committee and Audit and Risk Committee.

Sally, who is based in Australia, has over 30 years' experience in the financial services industry and has held senior executive positions in financial services businesses in the UK and Hong Kong.

Sally was previously a partner at international private equity and infrastructure investment firm, Pantheon where she held leadership roles in business development, marketing and communications and product development. This followed 12 years in investment banking, mostly at HSBC Investment Bank in the UK, where she held a broad range of roles in corporate finance before joining the Management Committee as an Executive Director.

Sally is currently a non-executive director of J O Hambro Capital Management Holdings Limited and Indue Limited, and a director of Utilities of Australia Pty Limited and Clayton Utz Foundation. She is also a member of the Endowment Investment Advisory Committee of The Benevolent Society.

Directorships of other listed entities over the past three years: Nil

Andrew Fay

BAgEc (Hons) A Fin

Independent Non-executive Director

Board Committees: Chair of the Remuneration & Nominations Committee

Andrew Fay, who is based in Australia, has over 30 years' experience in the financial services sector and was Chief Executive Officer at Deutsche Asset Management (Australia) Limited from 2005 to 2008 and Chief Investment Officer from 2000 to 2008. Prior to that, he held a number of other senior investment roles at Deutsche Asset Management and previously at AMP Capital. From 1998 to 2006, he was a member of the Investment Board Committee of the Financial Services Council.

Andrew is currently a non-executive director of J O Hambro Capital Management Holdings Limited, Cromwell Property Group, Spark Infrastructure RE Limited, South Australia Power Networks Pty Limited and National Cardiac Pty Limited.

Andrew has previously served as the Chairman of Deutsche Asset Management (Australia) Limited, Deutsche Managed Investments Limited and Tasman Lifestyle Continuum Limited.

Directorships of other listed entities over the past three years:
Gateway Lifestyle Operations Limited (2015-2018)

Kathryn Matthews

BSc BEc

Independent Non-executive Director

Board Committees: Member of the Audit & Risk Committee and the Remuneration & Nominations Committee

Kathryn Matthews, who is based in the United Kingdom, has over 35 years' experience in the financial services industry. She has held executive positions in global asset management businesses in the UK and Hong Kong, including Chief Investment Officer, Asia Pacific ex Japan at Fidelity International based in Hong Kong. She commenced her career at Baring Asset Management, holding a broad range of roles over sixteen years as a global equity portfolio manager and latterly as the Head of Institutional Business, Europe and UK.

Kathryn is currently a non-executive director of J O Hambro Capital Management Holdings Limited as well as the following companies: Barclays Bank UK Plc, JP Morgan Chinese Investment Trust and APERAM Plc. Kathryn is also a member of the Council and Chairman of Pension Trustees for the Duchy of Lancaster, the private estate of the British sovereign, and a member of the Board of Trustees for The Nuffield Trust.

Directorships of other listed entities over the past three years: Nil

Deborah Page AM

BEc FCA FAICD

Independent Non-executive Director

Board Committees: Chair of the Audit & Risk Committee

Deborah Page, who is based in Australia, is an experienced company director and Chartered Accountant. Deborah has worked exclusively as a non-executive director since 2001 across a range of industries including insurance, financial services, property, manufacturing and energy.

Deborah has held senior executive roles with the Commonwealth Bank, Allen Allen & Hemsley and the Lend Lease Group. Prior to undertaking those roles, she was a Partner at KPMG Peat Marwick/Touche Ross.

Deborah is currently a non-executive director of J O Hambro Capital Management Holdings Limited, Brickworks Limited, Service Stream Limited and GBST Holdings Limited.

Her previous listed roles include Chairman of Investa Office Fund from 2011 to 2016, non-executive director of Australian Renewable Fuels Limited from 2012 to 2015 and non-executive director of Investa Property Group from 2001 to 2007.

Directorships of other listed entities over the past three years:

Australian Renewable Fuels Limited (2012 - 2015)

Chairman, Investa Office Fund (2011 - 2016)

Group Company Secretary & Head of Corporate Governance

Joanne Hawkins

BCom LLB Grad Dip CSP FGIA GAICD

Joanne is responsible for Company Secretarial and Corporate Governance functions for all entities across the Group.

Joanne has extensive experience in corporate governance within the funds management industry. Joanne started her career as a solicitor at a major law firm and then held in-house and legal roles in New Zealand and Solomon Islands. Prior to joining Pendal Group in 2017, Joanne held the role of Company Secretary at Perpetual Limited, which included responsibility for the Legal, Compliance and Company Secretariat functions across the Perpetual group of companies.

Directors' meetings

The number of meetings of the Board and of each Board Committee held during the 2018 Financial Year and the number of meetings attended by each Director during that year are set out in the following table:

Director	Board		Audit & Risk Management Committee		Remuneration & Nominations Committee	
	A	B	A	B	A	B
James Evans	10	10	-	-	-	-
Emilio Gonzalez	10	10	-	-	-	-
Sally Collier	3	3	2	2	1	1
Meredith Brooks	5	5	-	-	3	3
Andrew Fay	10	10	4	4	5	5
Kathryn Matthews	10	10	5	5	5	5
Deborah Page	10	10	5	5	-	-

A - Meetings eligible to attend as a member of the Board or Committee.

B - Meetings attended as a member of the Board or Committee.

Global Executive Committee

In May 2016, the Company established a Global Executive Committee.
The current members of Global Executive Committee are:

Name of Group Executive	Position	Joined the Pendal Group	Appointed to current position
Emilio Gonzalez	Group Chief Executive Officer	2010	2016
Richard Brandweiner	Chief Executive Officer, Pendal Australia	2018	2018
Cameron Williamson	Group Chief Financial Officer	2008	2016
Andrew Shiels	Interim Group Risk Officer	2017	2017

Details of the qualifications, experience and responsibilities of the members of the Global Executive Committee are set out below:

Emilio Gonzalez
BCom (Ec) CFA

Group Chief Executive Officer

Refer to Directors' biographies.

Richard Brandweiner
BEc (Hons) CFA

Chief Executive Officer, Pendal Australia

Richard Brandweiner was appointed Chief Executive Officer, Pendal Australia in February 2018.

Richard has over 20 years' experience in investment management and is responsible for the Australian arm of Pendal Group, including asset management, operations, sales and marketing. Before joining the Company, Richard was a Chief Investment Officer (CIO) at First State Super, one of Australia's largest pension funds. Prior to that, Richard was Group Executive at Perpetual Investments.

Richard is a CFA Charterholder and holds a Bachelor of Economics from the University of New South Wales. Richard previously served as President of the CFA Society (Sydney) and is Vice Chair of the Australian Advisory Board on Impact Investing.

Cameron Williamson
BAcc CA

Group Chief Financial Officer

Cameron Williamson was appointed Chief Financial Officer in February 2010, having joined the Company in 2008. He was appointed Group Chief Financial Officer and a member of the Global Executive Committee on its establishment, on 1 May 2016.

With more than 20 years' experience in financial markets, Cameron is responsible for Pendal Group's overall financial operations and reporting, business planning, taxation and investor relations.

Cameron is also a director of PFSL, PIL and Pendal UK Limited.

Prior to joining the Company, Cameron held Chief Financial Officer and Company Secretary responsibilities at Clairvest Group, a mid-market private equity group in Toronto. His previous positions also included senior finance roles with Franklin Templeton and CIBC World Markets in Toronto, UBS in the UK and KPMG in Australia.

Andrew Shiels
MBA (Oxon) FCIBS ACSI

Interim Group Chief Risk Officer

Andrew Shiels was appointed Interim Group Chief Risk Officer and a member of the Global Executive Committee in November 2017.

Andrew has spent his entire career to date in the financial services industry, of which the past 18 years have been devoted to specialising in risk management. He is responsible for Pendal Group's risk management function.

Prior to joining the Company, Andrew held a number of Chief Risk Officer positions for UK regulated banks and other financial services firms.

Andrew holds a MBA degree from Oxford University Business School, is a Fellow of the Chartered Institute of Bankers and an Associate Member of the Chartered Institute for Securities and Investment.

Principal activities

The principal activity of the Pendal Group during the 2018 Financial Year was the provision of investment management services. There has been no significant change in the nature of this activity during the year ended 30 September 2018. On 4 May 2018 BT Investment Management Limited changed its name to Pendal Group Limited.

Operating and Financial Review

The Operating and Financial Review (OFR) containing the information on the operations and financial position of the Pendal Group is set out in the Chairman's Letter, Group CEO's Report and Global Operating Review on pages 2 to 17 of this Annual Report. These pages also deal with the Pendal Group's business strategies and prospects for future financial years.

Since acquiring J O Hambro Capital Management Limited (JOHCM) in 2011, the Pendal Group operates under two operating segments comprising the investment management business in Australia (Pendal Australia), and outside of Australia (Pendal International). The statutory net profit after tax (Statutory NPAT)[1] of the Pendal Group for the 2018 Financial Year was $190,957,870 (2017: $147,455,203).

The Pendal Group's cash net profit after tax (Cash NPAT)[1] for the 2018 Financial Year was $201,620,523 (2017: $173,050,005). The 16.5% increase on the prior year is predominantly a result of higher funds under management (FUM), higher performance fee revenue and a weaker Australian dollar.

Reconciliation of Statutory NPAT to Cash NPAT[1]	2018 $'000	2017 $'000
Statutory NPAT	190,958	147,455
Add back:		
Amortisation of employee equity grants	43,303	53,672
Amortisation of employee deferred share of performance fees[2]	10,305	-
Amortisation and impairment of intangibles[3]	7,701	7,838
Deduct:		
Cash cost of ongoing equity grants in respect of the current period	(37,605)	(38,842)
Cash cost of employee deferred share of performance fees in respect of the current period[2]	(17,070)	-
Add back/(deduct): tax effect	4,029	2,927
Cash NPAT	**201,621**	**173,050**

Notes:

1. Net profit after tax (Statutory NPAT) includes accounting adjustments required under International Financial Reporting Standards (IFRS) for amortisation of employees' equity grants, amortisation of employee deferred share of performance fees, and amortisation and impairment of intangible assets. These non-cash charges are not considered by the Directors to be part of the underlying earnings of the Group and therefore the Directors believe that Cash NPAT is a more suitable measure of profitability. The adjustments made to Statutory NPAT to arrive at Cash NPAT to eliminate the impact of these IFRS adjustments are categorised as follows:
   - amortisation of equity grants less the after-tax cash costs of equity grants in respect of the current period;
   - amortisation of employee deferred share of performance fees less the after-tax cash cost of current period employee deferred share of performance fees; and
   - after-tax amortisation and impairment of intangible assets.
2. The implementation of new UK regulatory requirements and considerations relating to variable compensation paid to JOHCM fund managers from performance fees has resulted in amended remuneration arrangements with employees. As a result of these changes, from 1 October 2017 variable compensation relating to performance fees will be recognised over time in accordance with the employment arrangements (typically 3 years).
3. Amortisation and impairment of intangibles relates to fund and investment management contracts.

Funds under management at 30 September 2018 was $101.6 billion, an increase of 6.1% from the FUM of $95.8 billion at 30 September 2017. The movement for the full year ended 30 September 2018 has been a result of positive market and investment performance of $5.8 billion, and positive currency movements of $3.7 billion offset by net outflows of $3.7 billion.

Dividends

The Directors have resolved to pay a final dividend of 30.0 cents (15% franked[3]) per share, (2017: 26.0 cents per share 25% franked) on ordinary shares. The amount of dividend which has not been recognised as a liability at 30 September 2018 is $89.9 million (2017: $79.8 million). The Company paid an interim dividend of 22.0 cents per share ($65.7 million) on 2 July 2018.

Equity dividends on ordinary shares		2018 $'000	2017 $'000
(a)	**Dividends declared and paid during the Financial Year**		
	Final 25% franked[4] dividend for the 2017 Financial Year: 26.0 cents per share (2016 Financial Year: 24.0 cents per share 35% franked)	78,191	71,365
	Interim 15% franked[3] dividend for the 2018 Financial Year: 22.0 cents per share (2017 Financial Year: 19.0 cents per share 30% franked)	65,665	54,653
		143,856	**126,018**
(b)	**Dividends proposed to be paid subsequent to the end of the Financial Year and not recognised as a liability**		
	Final dividend for the 2018 Financial Year 30.0 cents (15% franked[4]) per share (2017 Financial Year: 26.0 cents per share 25% franked)	89,873	79,761

4. The whole of the unfranked amount of the dividend will be Conduit Foreign Income, as defined in the Income Tax Assessment Act 1997.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Pendal Group during the 2018 Financial Year.

Matters subsequent to the end of the financial year

A final dividend of 30.0 cents (15 % franked[4]) per share on ordinary shares is to be paid on all ordinary shares at the record date.

Subsequent to year end, the licence for the J O Hambro trademark was extended to 26 April 2019.

There are no other matters or circumstance which are not otherwise reflected in this Financial Report that have arisen subsequent to the balance date, which have significantly affected or may significantly affect the operations of the Pendal Group, the results of those operations or the state of affairs of the Pendal Group in subsequent financial periods.

Likely developments and expected results of operations

The OFR sets out the information on the business strategies and prospects for future financial years (refer to our Chairman's Letter, Group CEO's Report and Global Operating Review on pages 2 to 17 of the Annual Report accompanying this Directors' Report). Information in the OFR is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of the Pendal Group.

Environmental regulations

The operations of the Pendal Group are not subject to any particular or significant environmental regulation under any law of the Commonwealth of Australia or of any state or territory thereof.

The Pendal Group has not incurred any liability (including rectification costs) under any environmental legislation.

Indemnities and insurance

In accordance with the provisions of the *Corporations Act 2001*, the Pendal Group has insurance policies covering directors' and officers' liabilities. Under the terms of the policies, disclosure of the amount of cover and premiums paid is prohibited.

A message from the Chair of the Remuneration & Nominations Committee

On behalf of the Board, I am pleased to present the Pendal Group Remuneration Report for the 2018 Financial Year. Our Remuneration Report is designed to demonstrate the link between strategy, performance and remuneration outcomes for Executives and covers the remuneration arrangements for our Executives and Non-Executive Directors for the year ended 30 September 2018.

Our Vision is clear: to be a global asset management business that delivers exceptional investment returns to clients by attracting and retaining superior investment talent. As a global investment management business, we need to have in place a remuneration framework that supports our business model, vision and values.

As a people business, our remuneration policy is designed to strike the right balance between competitively and equitably rewarding our Executives and our fund managers, who are the ‘talent’ at the core of our value proposition; safeguarding and promoting the interests of our clients and creating long-term value for our shareholders.

As you will read further in the report, our Global Reward Framework is made up of three key principles that are directly aligned to our business strategy. Firstly, remuneration is weighted towards medium and long-term share rewards because we want our employees to be aligned to our shareholders and have an ownership mindset. Secondly, recruiting exceptional talent relies on market benchmarking, paying fairly for skills, ability and responsibility. The third principle is performance accountability which includes delivering annual business results within the risk tolerances set by the Board.

The annual incentive pools are directly linked to the financial outcomes with due reference to risk management. The Board and Group Chief Executive Officer (Group CEO) play an active role in determining key financial and conduct expectations for the business and employees.

Remuneration continues to be an issue of significant interest to shareholders, regulators, governments and the general public. We are cognisant of this and monitor prevailing sentiment and trends to ensure we are meeting the expectations of our stakeholders and comply with any regulatory changes in the jurisdictions in which we operate.

During the year, we carried out the following actions to maintain a relevant remuneration framework:

- Review of the Group CEO remuneration framework;
- Review of Sales remuneration arrangements in UK and Singapore;
- Approved conversions under the Fund Linked Equity Scheme;
- Approved the conversion of the 2015 performance share rights applicable to eligible participants including the Group CEO and other Global Executive Committee members in November 2018;
- Evaluated and implemented changes to address the introduction of the UK regulation UCITS V Directive for the Group;
- Continued the ongoing review of the consequences of the Senior Managers and Certification Regime; and
- The Board undertook a thorough independent review over an eight-month period, which focused on the Board’s effectiveness including decision making, board make-up and skills

Finally, the governance structure of the UK subsidiaries was reviewed given regulatory changes and Brexit developments. From this, a decision has been made to appoint two independent Directors to J O Hambro Capital Management Limited and one independent Director to JOHCM Funds (UK) Limited and these appointments will be made in the current year.

We will continue to review and refine our remuneration arrangements to ensure they deliver on our goals, accounting for the ever-changing business environment, legislative reform and to reflect your feedback.

Andrew Fay
Chair of the Remuneration & Nominations Committee

Introduction to the 2018 Remuneration Report

The Directors are pleased to present the Remuneration Report for the year ended 30 September 2018. The Remuneration Report includes remuneration information for the Company's Key Management Personnel (KMP) and insights into how fund managers, sales teams and other corporate employees are rewarded.

Report Structure

The Remuneration Report is structured in the following sections:

1. Key Management Personnel

KMP are defined as those persons who have authority and responsibility for planning, directing and controlling the activities of the Pendal Group. The Global Executive Committee holds such authority within the Pendal Group and are the reportable executives for the 2018 Financial Year.

From 1 October 2017 to 30 September 2018, the KMP for the Pendal Group were the Non-executive Directors of the Company and the members of the Global Executive Committee.

Non-executive Directors during the 2018 Financial Year

Name	Position	Term as KMP
James Evans	Chairman	Full year
Meredith Brooks	Director	1 October 2017 to 30 April 2018
Sally Collier	Director	2 July 2018 to 30 September 2018
Andrew Fay	Director	Full year
Kathryn Matthews	Director	Full year
Deborah Page	Director	Full year

Global Executive Committee during the 2018 Financial Year

Name	Position	Term as KMP
Emilio Gonzalez	Group Chief Executive Officer	Full Year
Michael Bargholz[1]	Chief Executive Officer, Australia	1 October 2017 to 30 July 2018
Richard Brandweiner[1]	Chief Executive Officer, Australia	26 February 2018 to 30 September 2018
Ken Lambden[2]	Chief Executive Officer, JOHCM Group	Full Year
Andrew Shiels[3]	Interim Group Chief Risk Officer	16 November 2017 to 30 September 2018
Cameron Williamson	Group Chief Financial Officer	Full Year

Notes:

1 Following his notice of retirement on 31 January 2018, Michael Bargholz was placed on gardening leave for the duration of his six (6) month notice period from 5 February to 30 July 2018. Richard Brandweiner replaced Michael Bargholz and commenced in the role of CEO, Pendal Australia from 28 February 2018.

2 Ken Lambden was employed by J O Hambro Capital Management Limited for the full 2018 Financial Year, however he commenced a period of gardening leave from 17 August 2018, following notification of Ken stepping down from the Chief Executive Officer role.

3 Andrew Shiels was appointed interim Group Chief Risk Officer on 16 November 2017 and was engaged on a consultancy basis, whilst recruitment for a permanent Group Chief Risk Officer was underway. Bindesh Savjani has been appointed Global Chief Risk Officer and will commence employment with the Company in February 2019. It should be noted that his remuneration will be disclosed in the 2019 Annual Report.

2. Global Reward Framework

Pendal Group's remuneration approach is directly aligned to our Corporate Vision and Strategic Drivers. The success of our reward framework is evidenced by both our business growth and ongoing performance over the past ten years and the attraction and retention track record of our investment, sales and corporate employees. Below is further detail of our framework and how it links to the company's strategy. Further in the report there are illustrations of our ten year results for Total Shareholder Return (TSR) and Cash Earning Per Share (Cash EPS). It is clearly noted that over the past six years the hurdles in our Long Term Incentive Plan have directly delivered to both our shareholders and our employees at a time of ongoing industry volatility.

Pendal Group Corporate Vision

To be a global asset management business that delivers exceptional investment returns to clients by attracting and retaining superior investment talent.

Pendal Group Strategic Drivers

- Global growth and investment diversification
- Build a sustainable business supported by strong retention
- Build on existing distribution capability to continue to deliver and support growth

Pendal Reward Framework

A Global Total Reward Framework aligns our Corporate Vision and Strategic Drivers to deliver a balance between short term achievement and long term performance. Our remuneration policies are framed by three principles and weighted towards longer term rewards encouraging share ownership that aligns our employees' interests to our shareholders.

Fixed Remuneration

- Set to attract exceptional talent
- Benchmarked to market and rewards individuals for the skills, attributes and accountabilities in the role and includes salary, benefits and any statutory entitlements

Considerations

- Scope of individual's role, level of knowledge, skills and expertise
- Individual performance
- Market benchmarking
- Internal relativities

Long Term Incentive (LTI) – Performance Reward Scheme (PRS)

- Further detail to be found in pages 42-43
- On invitation basis only
- Performance Share Rights are issued for no consideration
- Two equally weighted hurdles one measured against the S&P/ASX 200 Accumulation Index, and the other measured on Cash EPS growth. Both are measured over three years

Performance Conditions

- Long term targets
- Performance hurdles equally weighted between relative TSR performance and fully diluted Cash EPS growth

Short Term Incentives (STI) Cash

- Board sets annual performance expectations for payment of bonuses and determines bonus pools
- Payments are funded by business performance
- Individual STI target range is determined by role

Performance Conditions

- Objectives are set to deliver annual operating plans and progress against strategy. They are clearly defined, measurable and are agreed at the beginning of the year. Measures include:
  - Group or Divisional Cash NPAT
  - Net FUM
  - Fund or Asset Class Performance
  - Client retention
  - Progress against strategy
  - Risk Management
  - Leadership and culture

Short Term Incentives Deferral

- Aligned to employee ownership and shareholder alignment. Subject to quantum up to fifty percent of the annual STI is delivered in Pendal Group shares with vesting periods of up to five years
- This element of reward represents a significant deferral of annual remuneration and it is designed to foster sustainable growth and sound financial, operational and risk management practices

Performance Conditions

- Time based and encourages long term decision making

Risk Management is a serious consideration for the Pendal Group when determining variable remuneration outcomes. The Pendal Group ensures that risk management is embedded into the culture by retaining it as a key performance metric with an impact on variable remuneration. Sound risk management practices include:

- Employees being ineligible for a variable remuneration payment if they exhibit poor risk behaviours;
- Incorporating risk management performance measures in all Global Group Executives scorecards;
- Reviewing the alignment between remuneration outcomes and performance achievement for incentive plans on an annual basis;
- Deferring a significant portion of variable remuneration in PDL performance share rights and restricted shares to align employee remuneration with shareholders;
- Assessing outcomes with longer term Company performance;
- An ability for the Board to adjust incentive payments, if required;
- A provision for the Board to lapse variable remuneration (performance share rights and restricted shares) in certain circumstances: and
- Continuous monitoring of remuneration outcomes by the Board, to ensure that results are promoting behaviours that support Pendal Group's long term financial position and the desired culture.

Target remuneration mix

The Remuneration & Nominations Committee sets a target remuneration mix. The elements are set referring to market benchmarking and are designed to attract and retain the calibre of executives required to drive Pendal Group's strategic outcomes.

Charts 1 and 2 below outline target remuneration mix. Actual variable remuneration outcomes will depend on achievement against performance measures of both short and long term incentives. The cash portion of STI awards are paid to members of the Global Group Executive Committee in December each year.

Details of the remuneration components for the 2018 Financial Year for the Global Executive Committee are included in Table 7a (i) and 7a (ii).

Charts 1 and 2: Global Executive Committee – Target Remuneration Mix

Chart 1: Group and Regional CEO Target Remuneration Mix

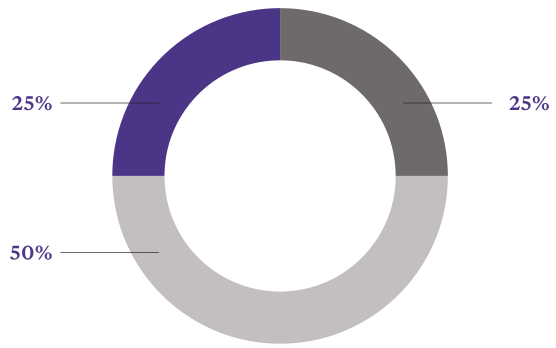
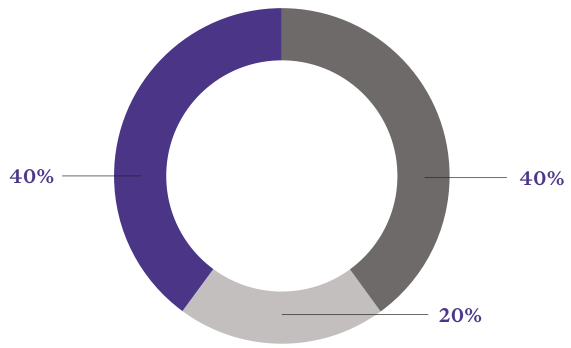


Chart 2: Group CFO Target Remuneration Mix



Reward Element

■ Fixed remuneration ■ Cash variable remuneration ■ Equity variable remuneration

3. Remuneration Structure

Group CEO Remuneration

The Group CEO has the following remuneration components in place:

- Fixed Remuneration of $800,000 per annum;
- Target STI of $1.4 million with a STI floor of $0 and a maximum range of $2.8 million for performance that exceeds aggregate Key Performance Indicators; and
- LTI opportunity of $1.0 million.

The actual outcome reflects the Board's assessment against clearly specified performance indicators. Performance indicators are designed to create sustainable shareholder value and are scaled to reflect profit outcomes. The Group CEO's LTI (and the component of STI deferred into equity) provides a direct link to real earnings and shareholder value creation in the medium to long term. A significant proportion of the Group CEO's variable reward is therefore impacted by increases and decreases in the share price over time as illustrated in Graph 1 below and predominately evident in the LTI component of his remuneration that has vested over the last four years.

Graph 1: Group CEO's Variable Reward Over Time

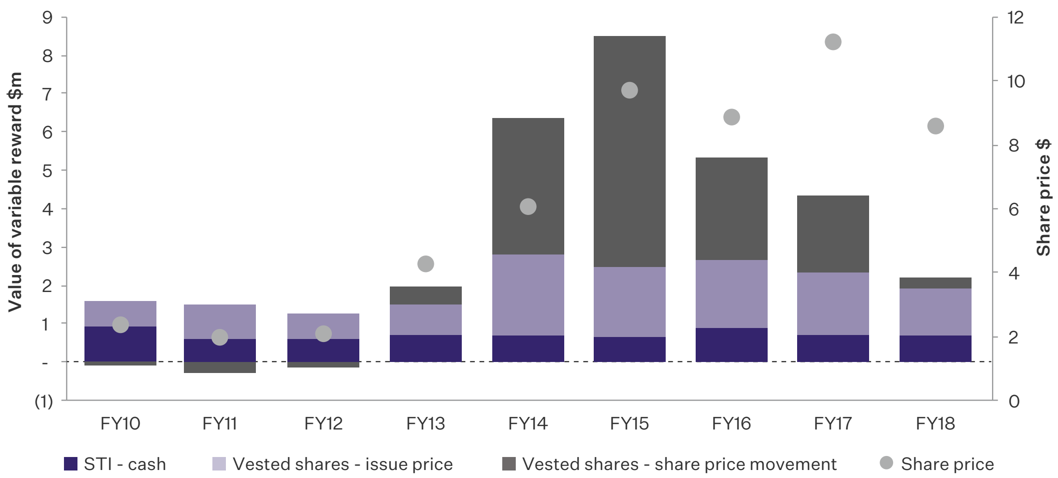


Table 1 outlines the Group CEO's remuneration structure for the 2018 Financial Year

Remuneration component	Description
Fixed Remuneration	Consists of base salary (and includes any fringe benefits and applicable taxes) as well as employer contributions to superannuation.
Target STI	The Group CEO's target STI opportunity is determined annually by the Board with reference to external market benchmarking. The Group CEO's target STI for the 2018 Financial Year was $1.4 million with a STI floor of $0 and a maximum of $2.8 million for performance that exceeds aggregate Key Performance Indicators. The Board has the discretion to vary the Group CEO's awarded STI outcome (up or down) with consideration to Pendal Group's financial performance and the Group CEO's overall performance. The Group CEO's awarded STI outcome is approved annually by the Board. 50% of the awarded STI is delivered as cash, with the remaining 50% deferred into restricted shares that vest over five years. For the 2018 Financial Year the Group CEO's Key Performance Indicators included the following and performance against these objectives has been outlined on page 44:

Financial	Cash NPAT Base Management Fee Revenue (targets previously agreed with Board)
Deliver Superior Global Investment Performance	Progress against Strategic Objectives previously approved by the Board including relevance of new and existing products Investment returns
Execute on Growth Strategy	Progress against Strategic Objectives previously approved by the Board
Global Leadership	Global Executive team working collaboratively and effectively Material progress in global transformation of organisation from a Cultural and Brand perspective
Risk Management & Operational Effectiveness	Effective risk management framework with sound outcomes and a robust operational platform

LTI grant

After receiving approval from shareholders, the Group CEO was granted Performance Share Rights to PDL shares for no consideration. The Group CEO's LTI opportunity represents the maximum incentive opportunity under the award and is determined with reference to market benchmarking.

The award is subject to two equally weighted hurdles, measured over three years:

a) 50% subject to relative TSR performance, and

b) 50% subject to Fully Diluted Cash EPS growth.

Hurdles designed to be reasonably stable over the cycle.

TSR performance hurdle

The TSR portion of awards vests as follows, subject to relative performance against the constituents of the S&P/ASX 200 Accumulation Index.

TSR performance	Percentage of TSR-tested award to vest
Below weighted median	Nil
At weighted median	50%
Between the weighted median and top quartile	Straight line between 50% and 100%
At or above top quartile	100%

Fully Diluted Cash EPS performance hurdle

The Cash EPS portion of awards vests as follows, based on compounded annual growth rate (CAGR) performance.

Cash EPS CAGR	Percentage of cash EPS-tested award to vest
Less than or equal to 5% CAGR	Nil
Above 5% CAGR	50%
Above 5% CAGR but less than 10% CAGR	Vesting occurs on a straight-line basis from 50% to 100%
At or above 10% CAGR	100%

Details of equity based remuneration

Details of the various equity-based reward plans are noted in Table 2 below. As at 30 September 2018, approximately 13.2% of the share register represents employee interests. From a governance and administration perspective, external Trustees are responsible for managing the two employee equity plan trusts which the Company uses to facilitate the acquisition and holding of shares for employee incentive arrangements.

In accordance with the disclosure requirements under Listing Rule 4.10.22, during the 2018 Financial Year, it should be noted that the Trustees of the Pendal Group Employee Equity Plan and the Pendal Group Employee Benefit Trust acquired a total of 3,071,341 PDL shares at an average price of $10.51 totalling $32.3 million. These securities were acquired to satisfy Pendal Group's obligations under various employee equity plans. The value of the equity award an individual employee receives is divided by the average price the equity was acquired to determine the number of shares allocated at the grant date. Pendal estimates that for the 2019 Financial Year its share requirements will be $43.1 million which will be acquired via on market purchasing and employee share sales throughout the year, with the exception of the FLE shares which are issued. It should be noted that shares issued to fulfil the FLE scheme is designed to be EPS neutral, provided FUM is maintained. Table 2 provides details on all equity programs available to employees.

Table 2: Equity-based employee reward schemes/plans

Variable Reward Scheme/Plan	Description	Participants
Pendal Australia Corporate Variable Reward (VR) Scheme, CEO, Pendal Australia VR Plan, JOHCM Senior Staff Bonus Scheme and General Staff Bonus Scheme	The four schemes are designed to reward performance specifically for senior and general employees (including the CEO, Pendal Australia and CEO, JOHCM Group) who work within the Pendal Australia and JOHCM corporate support teams and who do not participate in a revenue share arrangement. The variable component for each individual employee is set annually and is based on regular analysis of competitor market data for each role. The schemes are linked to the performance of Pendal Australia and JOHCM through the creation of variable pools from which employees are paid their variable outcomes. The size of the variable pool for each of the four schemes is based on performance against their financial objectives. Compulsory deferral into PDL equity applies to these plans.	Corporate roles including Global Executive Committee members and investment teams not covered by the Boutique VR Scheme
Sales Incentive Plans	The Sales Incentive Plans are designed to reward performance specifically for business development managers who work within the Pendal Australia and JOHCM sales teams. The pool is derived from the actual sales performance of individual members of the sales teams according to an agreed formula, based on a percentage of net flows. Compulsory variable reward deferral applies to these plans.	Sales roles
Pendal Australia and JOHCM Performance Reward Schemes (PRS)	The PRS was implemented in 2012 and is a broad-based LTI program which provides all eligible corporate employees with an amount of equity aimed at rewarding success. Performance conditions are Cash EPS and TSR. PRS awards vest at the end of a three-year performance period. Awards granted in 2015 were tested against performance at the end of the 2018 Financial Year. Vesting outcomes for 2015 PRS awards are set out in Charts 6a and 6b below.	Corporate roles including the Group CEO and other Global Executive Committee members and Australian investment teams not covered by the Pendal Australia Boutique VR Scheme
Pendal Australia Boutique Variable Reward (VR) Scheme	The Boutique VR Scheme is a scheme to reward performance specifically for investment employees who are in boutiques on a revenue share arrangement. For the 2018 Financial Year, the Equity Strategies, Income & Fixed Interest and Global Equities boutiques operated under their own arrangements, as per the Boutique VR Scheme. The VR pool for each boutique is based on an agreed formula that accounts for profit share directly attributable to the boutique. Compulsory deferral into PDL equity applies to these plans.	Fund Managers
JOHCM Fund Manager Remuneration Schemes (FMRS)	The FMRS are designed to recognise and reward Fund Managers for fund performance and asset/client retention. The FMRS cater for two plans including a legacy plan and the FLE Scheme. Investment professionals managing more established funds receive a variable reward opportunity as part of the profit share arrangement, with a portion of the variable reward deferred into PDL equity with a vesting period of up to five years. Investment professionals managing new funds are eligible to participate in the FLE Scheme that rewards for business building outcomes measured through FUM. Fund Managers can choose not to participate in the FLE Scheme. Further detail on the FLE Scheme is outlined in the Fund Manager Remuneration section.	Fund Managers
JOHCM Long Term Retention Equity	An LTI plan has been put in place to provide long term retention of certain Fund Managers which is linked to individual performance. Part of the LTI plan is time-based where a portion of the variable reward is issued as equity and vests over a period up to six years. Selected employees were also issued retention equity which vests over a specified holding period or after cessation of employment, provided certain conditions have been satisfied.	Fund Managers

Fund Manager remuneration

This section describes our approach to Fund Manager remuneration to provide shareholders with further insight into our business model.

Fund Managers are provided fixed remuneration at market competitive rates, approved at the beginning of the financial year by the relevant CEO.

In Australia, variable remuneration is based on a profit share approach. Our funds management teams are not awarded a set percentage of profits. Each team negotiates an arrangement with the CEO upon joining the Pendal Group. Our bespoke approach makes sure that the variable reward delivered to teams and Fund Managers reflects the value each team adds to the Group and its shareholders.

Where revenue is directly attributable to the skill and efforts of the funds management team (e.g. performance fees) this will generally attract a greater profit share percentage. Conversely, assets which have come from the Group attract a lower profit share.

Outside Australia, the revenue share arrangements with Fund Managers within the JOHCM Group are based on a slightly different formula and differ between more established funds and newer investment strategies. Performance fees similarly attract a greater revenue share and so JOHCM Fund Manager total remuneration will vary over time, dependent on the source of funds and performance.

How Fund Managers earn equity in the business

Pendal Group seeks to align Fund Manager remuneration with longer term shareholder interests without compromising client outcomes. For teams managing funds in the growth phase, remuneration arrangements have a greater focus on rewarding business-building outcomes such as growth in recurring investment management fees. For teams managing established funds, remuneration arrangements focus more on rewarding long term investment performance, and thus FUM retention. Equity in the Group is only earned when the investment strategies of funds management teams have been successful in raising FUM that results in revenue generation for the business.

The Fund Manager remuneration schemes will vary depending on the lifecycle of the fund, the complexity of the team structure and the market in which it operates. Fund Managers can participate in one of the two plans, outlined below.

Plan 1 – Variable reward in PDL shares

For teams managing established funds, a portion of the variable reward is mandatorily deferred into PDL equity and vests over five years. The deferred shares are not subject to any additional performance conditions, beyond continued employment. Participants receive dividends and voting rights from the time of grant.

Plan 2 – JOHCM Fund Linked Equity (FLE) Scheme

To attract new teams and reward for value creation in newly established strategies, JOHCM operates an FLE Scheme that rewards Fund Managers with PDL equity as a result of growing recurring investment management fees.

The FLE Scheme has been an instrumental part of the JOHCM business model in attracting investment talent to the firm.

The FLE Scheme was introduced in the 2009 Financial Year, prior to JOHCM becoming part of the Pendal Group. The FLE Scheme runs for seven years from product launch and participating Fund Managers have the right to partly convert the revenue generated by the investment strategy into PDL equity over time, with full conversion required by the end of the seven year period. The conversion formula takes revenue generated by the FUM linked to the strategy, applies an after-tax operating margin and then applies a multiple to determine an implied market value of the investment strategy. This capitalised value is shared between the managers and the Pendal Group and delivered to Fund Managers in the form of PDL equity. The benefit of the model for shareholders is that no equity is granted until FUM and revenue is generated by the strategy. The Company issued 2,304,178 ordinary shares to two investment teams who converted their previously issued awards under the FLE Scheme.

When the FLE is converted to PDL equity, the revenue share to which the Fund Managers are entitled decreases in exchange for the equity grant which has a positive contribution to the future earnings of the Group. If shares are issued to satisfy the equity grant, the net result is designed to be broadly Cash EPS neutral provided FUM is maintained. In a scenario where FUM declines post issuance of the grant, the Cash EPS outcome may be adversely affected. The shares are subject to time vesting restrictions of up to five years as a retention mechanism. As the PDL equity is considered to have been earned, it is not subject to further performance hurdles and attracts dividends and voting rights from the time of issuance.

Table 3 below summarises the operation of the FLE scheme and how it interacts with Fund Manager remuneration and key Pendal Group metrics.

Table 3: Operation of Plan 2 – JOHCM Fund Linked Equity Scheme

	Year 0 through to Year 3	Year 3 through to 7
Funds Under Management	FUM growth over time.	Revenue from FUM raised in the investment strategy is used as the basis to determine rights to PDL equity (i.e. through the conversion ratio).
Revenue Share	Fund Managers remunerated through a revenue-share arrangement, based on a pre-determined percentage.	On election by Fund Managers, a proportion of revenue share can be taken in the form of PDL equity (with vesting restrictions over a period of four or five years). Conversion into PDL equity reduces the Fund Manager's revenue share percentage and is designed to be broadly Cash EPS neutral. Full conversion is required by the end of the seven year period.
Equity	No PDL equity granted during the period as the revenue share is delivered in cash.	Equity awarded on FLE conversion approximates the market value for the FLE based on revenue generated by the fund (and other market factors). The award of equity results in the decrease in revenue share percentage for the Fund Manager and the Group retains a higher proportion of the fund's revenue. Note that restricted PDL shares issued on conversion vest equally over a period of 4 or 5 years.
Cash Earnings Per Share	Reflected in earnings as a result of growth in FUM.	Due to the reduction in Fund Manager revenue share, Cash EPS should be broadly neutral, provided FUM is maintained.

Participation in the FLE

During the 2018 Financial Year 2,304,178 PDL shares were issued to satisfy the remaining conversion of the FLE applicable to two participating investment teams.

Post the 2018 conversions, investment strategies participating in the FLE Scheme represents FUM of $10.2 billion as at 30 September 2018. These investment strategies have been supporting the strong growth in the business. Based on the FUM at 30 September 2018, the value of PDL equity that may be granted to participants in the FLE Scheme is approximately $52.9 million over future years. The value of PDL equity to be granted under the FLE Scheme will vary from year to year based on market movements, FUM growth, management fee margins, foreign currency, and new teams participating in the FLE Scheme.

If shares are issued to meet the delivery of the $52.9 million in PDL equity, this would equate to 4.9 million newly issued shares based on a theoretical PDL share price of $9.02 in accordance with the FLE Scheme rules. The 4.9m shares would increase the fully diluted share count by 1.5%.

Assuming other remaining FLE rights are converted into PDL equity at the end of year 7, the estimated number of PDL shares to be issued over the coming years is outlined in Table 4 below.

Table 4: Investment Strategies participating in the FLE scheme

Financial years	2019	2020	2021	2022
Estimated number of shares to be issued (m)	3.3	-	0.5	1.1

Notwithstanding the share issuance under the FLE, shareholders' portion of revenue from the investment strategies increases (as Fund Manager share of revenue is reduced) such that Cash EPS should be broadly neutral, provided FUM is maintained post issuance.

It is expected that as new investment teams and strategies are added to our business and improve our growth prospects, the program will expand. For every $1 billion (at current fee levels) in FUM raised under the FLE Scheme, this would equate to approximately 1.3 million newly issued shares based on the 30 September 2018 PDL share price in accordance with the FLE Scheme rules.

Sourcing of equity issued to employees

For employee incentive arrangements other than FLE, PDL equity has been delivered by either purchasing shares on market and or accessing shares from employees selling post restrictions. In the case of the FLE Scheme, significant equity requirements are planned to be delivered by way of new shares. Shares issued under the FLE Scheme are designed to be broadly Cash EPS neutral as they are offset by a reduction in the revenue share that the Fund Managers earn on their investment strategies.

Benefits of our Fund Manager remuneration approach in our business model

Our business model is designed to provide 'the best of both worlds' where Fund Managers operate in an environment that is investment-led with independence, where they share in economic value created, have creative independence and an absence of bureaucratic structures combined with the strengths of a significant institution that provides a strong operational platform (i.e. brand, distribution, compliance, back-office).

The result for Funds Management teams is that their income each year is a direct function of the financial success of their own efforts while their longer term wealth is driven by the success of the overall Group.

As a result of our approach, our Senior Fund Managers have a significant shareholding in the Pendal Group which produces strong alignment between the interests of Fund Managers and shareholders. Consequently, Fund Managers also have a keen interest in the Pendal Group's dividends and earnings per share performance.

By providing equity in a listed entity (i.e. Pendal Group Limited), equity value can be tracked on a daily basis and value can be realised over time.

With respect to the FLE Scheme, the capitalised value is shared between Fund Managers and the Pendal Group when the FLE is converted into PDL equity. No equity is granted until FUM and revenue are generated.

We believe this approach cultivates a performance oriented and stable environment that aligns Fund Managers to the business. Therefore, promoting a desirable business for our clients when determining a suitable Fund Manager.

Further, we have been careful to mitigate against an asset gathering mentality that would likely impact investment performance. Specifically:

- Investment performance, and the individual contribution to it, is a key factor in how the pool for the funds management team is divided up;
- There is no evidence of an asset-gathering mentality – indeed every funds management team has voluntarily imposed capacity constraints where appropriate on some or all of their products. In the case of JOHCM, every product has a stated capacity agreed with the fund managers; and
- Interests are aligned by earning performance fees on certain fund returns that exceed benchmarks.

Sales remuneration

Business Development Managers within our retail and institutional sales teams are provided market competitive fixed and variable remuneration. Consistent with other employee groups, fixed remuneration is reviewed at the beginning of each financial year.

Variable remuneration is derived from the actual sales performance of individual members of the sales teams according to an agreed formula which is based on FUM flows generating fee revenue. There is also a variable component expressed as a percentage of fixed remuneration that is determined by non-sales factors such as team cooperation, business profitability, client retention and sales support.

The formula is different for the institutional sales channels versus the retail channels (in Australia the wholesale channel, OEICS in Europe and mutual funds in the US). In line with Fund Managers and other employees, sales employees are required to take a portion of their variable remuneration in the form of deferred equity, vesting between three and five years.

The time horizon of payments for the revenue generation scheme varies between one to three years. Typically, payment outcomes are provided over shorter time horizons to reinforce the link between revenue generation and reward.

JOHCM sales remuneration was reviewed in the 2018 Financial Year as a result of regulatory changes taking place in the UK.

4. Oversight and governance

The Board, through its Remuneration & Nominations Committee and its subsidiary JOHCM Holdings Limited Remuneration Committee (together, the Remuneration Committees), provides oversight of remuneration and incentive policies. This includes specific recommendations on remuneration packages and other terms of employment for Executive Directors, Senior Executives, Non-executive Directors (NEDs) and Fund Managers.

In summary, the Remuneration Committees are responsible for the following functions and responsibilities:

- Review and make recommendations to the Board in relation to remuneration arrangements and policies for the Group CEO and other Global Executive members as well as other Senior Executives and appointments;
- Approve Group equity allocations and Group VR pools;
- Significant changes in remuneration policy and structure, including employee equity plans and benefits;
- Review and make recommendations to the Board in relation to the succession plans for the Group CEO and review succession plans for other Global Group Executives;
- Provide oversight over the Company's strategic human resource initiatives, including diversity, culture and leadership;
- Assess the collective skills required to effectively discharge the Board's duties, having regard to the Company's performance, financial position, strategic direction and performance of Directors;
- Review the composition, functions, responsibilities, size of the Board and Director tenure; and
- Consider the suitability of candidates and make recommendations to the Board for the appointment of directors, director appointment criteria and succession planning.

During the 2018 Financial Year, the Board and Remuneration Committees actioned the following significant items in relation to remuneration arrangements as outlined in Table 5 below.

Table 5: Significant issues considered during the 2018 Financial Year

Approved conversions of various equity schemes	Approved conversions under the FLE Scheme; and Approved the conversion of the 2015 performance share rights applicable to eligible participants including the Group CEO and other Global Executive Committee members in October 2018.
Review of the Group CEO's remuneration arrangements	Review of the Group CEO Remuneration arrangements with a decision to maintain the current arrangements.
Approved remuneration of incoming and outgoing executives	Approved the appointment and remuneration arrangements for the CEO, Pendal Australia, the Group Chief Risk Officer and members of the UK and Australian Executive teams; and Approved termination arrangements for outgoing Executives.
Continued evaluation on the consequences of UCITS V, MiFID and Senior Managers Regime for the Group	The evaluation of the UCITS V Directive for the Group is well advanced in identifying the various policy adjustments needed to comply. This work is ongoing; and The impacts of the Senior Managers and Certification Regime are currently being assessed.
Replaced Australian based director and recruited a US based Director	Sally Collier (replacing Meredith Brooks) was appointed and joined the Board on 2 July 2018. Also identified Christopher Jones as a suitably qualified director, and he joined the Board in November 2018.
Updated Board skills matrix	The Board skills matrix was reviewed and updated to reflect the cross section of skills across the Board.
Completed an independent review of Board effectiveness	An independent review assessing the Board's effectiveness was completed during the 2018 Financial Year.

Engagement of remuneration consultants

The Remuneration & Nominations Committee has a Charter in place that acknowledges its obligations under the *Corporations Act 2001* in respect of remuneration advice or remuneration recommendations for KMP. This includes:

- Committee approval is required to appoint any remuneration consultant to advise in relation to KMP remuneration;
- Any advice from the remuneration consultant must be provided directly to the Chair of the Committee and not to management; and
- Dialogue between KMP to whom the advice relates and the remuneration consultant is precluded and a declaration of their independence from the KMP to whom their recommendations relate. Confirmation that the Remuneration & Nominations Committee's conditions of engagement have been observed is also required.

By observing these requirements, the Remuneration & Nominations Committee receives assurance that the remuneration advice and recommendations provided by remuneration consultants are independent from management.

Independent Board advice and services

Guerdon Associates continues to act as the Remuneration & Nominations Committee's appointed remuneration adviser and provided the Board with benchmarking information for the Group CEO in the 2018 Financial Year.

No consultants were engaged to provide recommendations to the Remuneration & Nomination Committee in relation to KMP remuneration that fit within the definition of a 'remuneration recommendation' under the *Corporations Amendment (Improving Accountability on Directors and Executive Remuneration) Act 2011*.

Services provided to management and the Committee

The following organisations provided management with remuneration benchmarking data for employees:

- Financial Institutions Remuneration Group (FIRG)
- McLagan
- Mercer-Kepler
- Egan Associates

The following organisations provided management with assistance on assessment of regulatory impacts as it relates to remuneration arrangements:

- Allen and Overy
- Tapestry Global Compliance Partners
- Ernst & Young (EY)

EY also provided management updates on legislative and regulatory developments in the financial services industry.

5. Link between remuneration outcomes and group performance

Pendal Group's position against peer groups

For the purposes of assessing the Group CEO's remuneration, the Company is positioned in the upper quartile against the Australian ASX benchmarks for market capitalisation amongst the Australian Asset Management peers. The Company is placed closer to the lower quartile against the UK market. Graph 2 Illustrates both market capitalisation and share price over time.

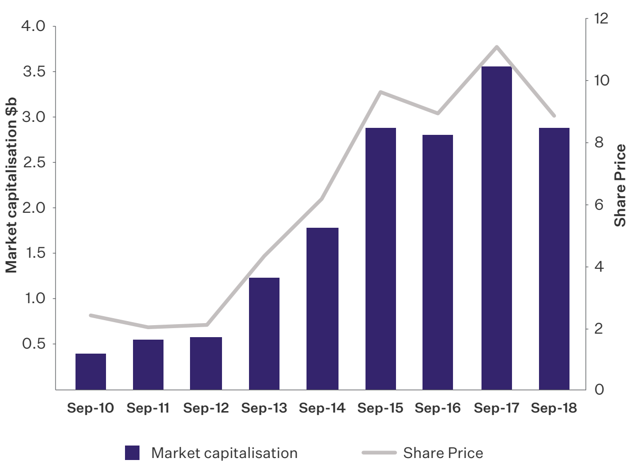
Pendal historical Group CEO reward movements against share price and market capitalisation

Graphs 2 and 3 below outline Pendal's Group CEO's annual total reward since he joined the organisation relative to share price growth and market capitalisation. It bears noting that the Company did not have a LTI scheme for the Group CEO until the 2012 Financial Year, when it was introduced in response to shareholder feedback. The introduction of the Group CEO LTI required alignment with the intent of both short-term and long term incentives and with shareholder outcomes. On this basis, the STI component decreased, with the result that the Group CEO's remuneration opportunity reduced for three years until the first LTI vesting in 2014.

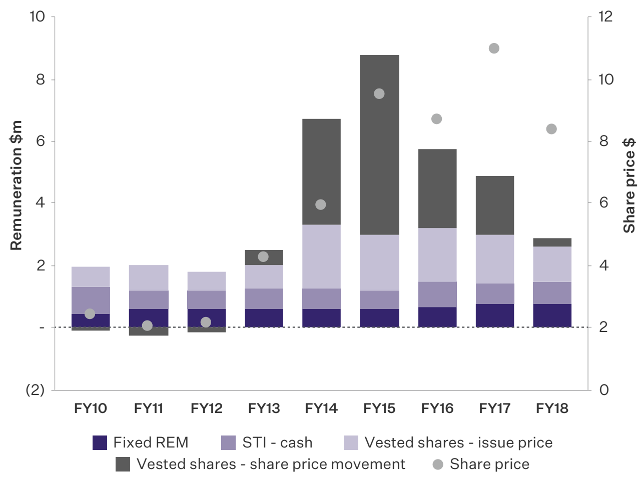
The graphs illustrate strong share price and market capitalisation growth since the Group CEO's commencement with the Company. During this time, Pendal Group has grown substantially by every measure and accordingly, the Group CEO's remit has transformed in scale and complexity and has an increasing global focus. Except for some minor adjustments to reflect Superannuation Guarantee legislation increases, the Fixed Remuneration element for the Group CEO remained unchanged since his commencement in 2010 until 1 January 2017, when it was increased as outlined in last year's Remuneration Report. There were no changes made to the Group CEO's arrangements this year.

As can be seen from Graph 3 and table 7(b) the Group CEO's total remuneration including the value of vested equity which decreased by approximately 40% in 2018 when compared to 2017. This was driven by the share price fall and only partial vesting of the LTI award (see vesting of LTI Grants on page 42). The alignment of the Group CEO's variable remuneration with other shareholders is evident in this outcome.

Graph 2: Share Price and Market Capitalisation Growth over time



Graph 3: Group CEO's Total Remuneration over time

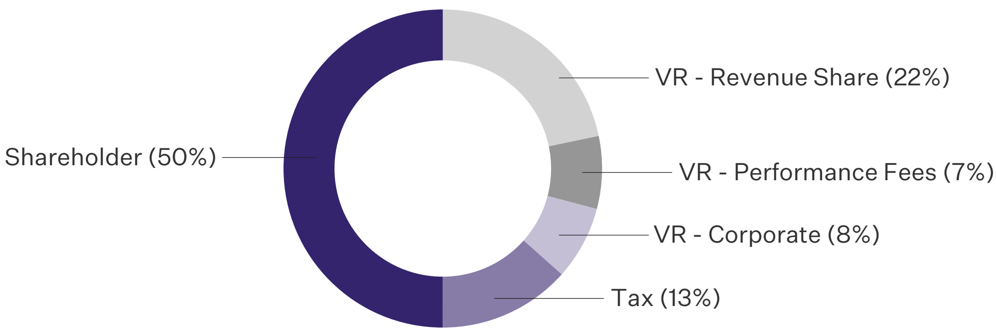


How the share of profits (pre-tax pre-variable reward) is divided

As part of Pendal Group's remuneration philosophy, our business model involves sharing profits amongst Fund Managers, generated by the efforts and skill of the funds management teams with the support of Corporate employees, and between shareholders and employees via the variable reward schemes. These schemes vary for different groups of employees to reward outcomes and behaviours appropriate to their roles and responsibilities.

The allocation of profits attributed to both Shareholders and employees is outlined in Chart 3. This is calculated taking into account all of the variable remuneration schemes across the business as described above, when the share of pre-tax pre-variable reward profits (revenue less operating costs of running the business prior to distribution of variable reward and profits to shareholders) is assessed.

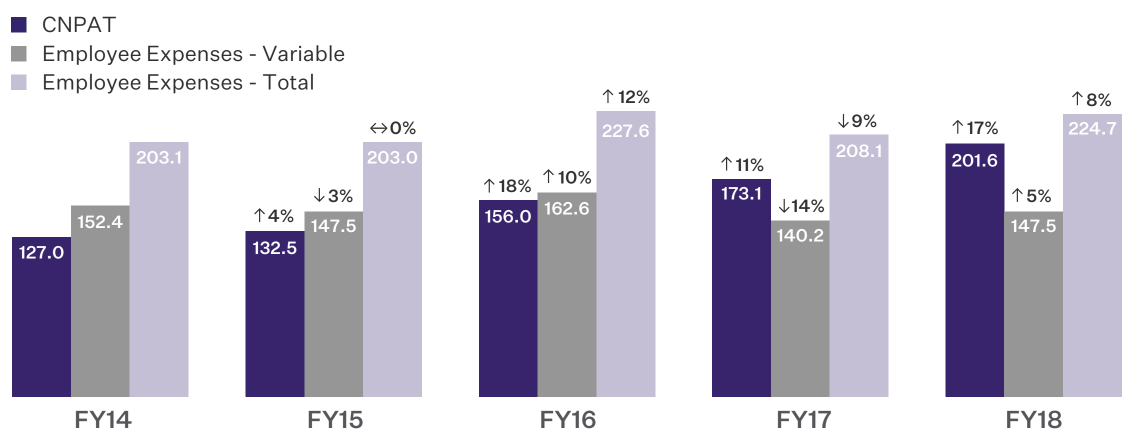
Chart 3: Actual Share of profits (pre-tax pre-variable reward)



Graph 4 demonstrates the linkage between Pendal Group performance (i.e. Cash NPAT) and overall remuneration outcomes (i.e. variable reward and total employee expenses) over the last five years.

Remuneration outcomes and Pendal Group's performance is linked primarily via the contracted revenue scheme for the Fund Managers and the variable reward schemes for Corporate employees including the Group CEO and other Global Group Executives. The schemes link variable remuneration to either a change in revenue (as is the case for the Fund Managers under a revenue sharing agreement) or a change in Company profitability (in the case of corporate employees). The 2018 Financial Year remuneration was primarily impacted by an increase in both performance and base management fees.

Graph 4: VR Outcomes compared to Company performance over the last five years

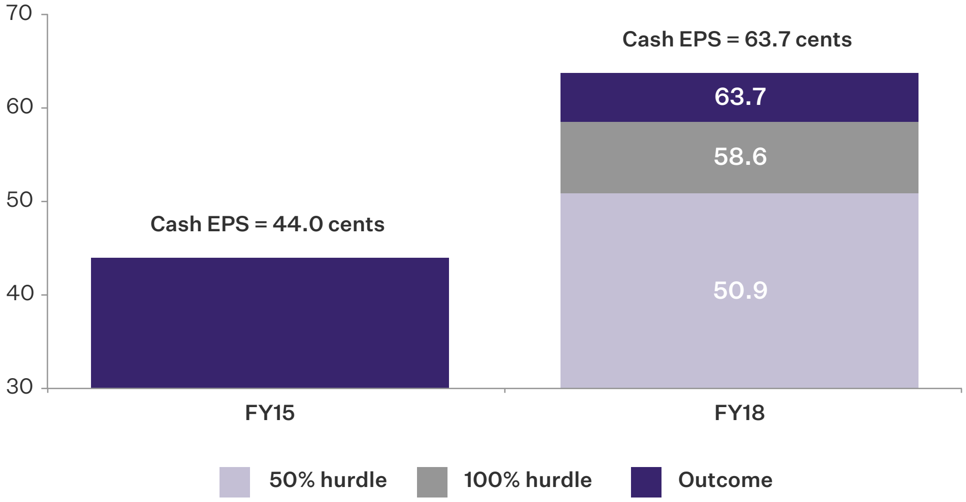


Vesting of LTI grants

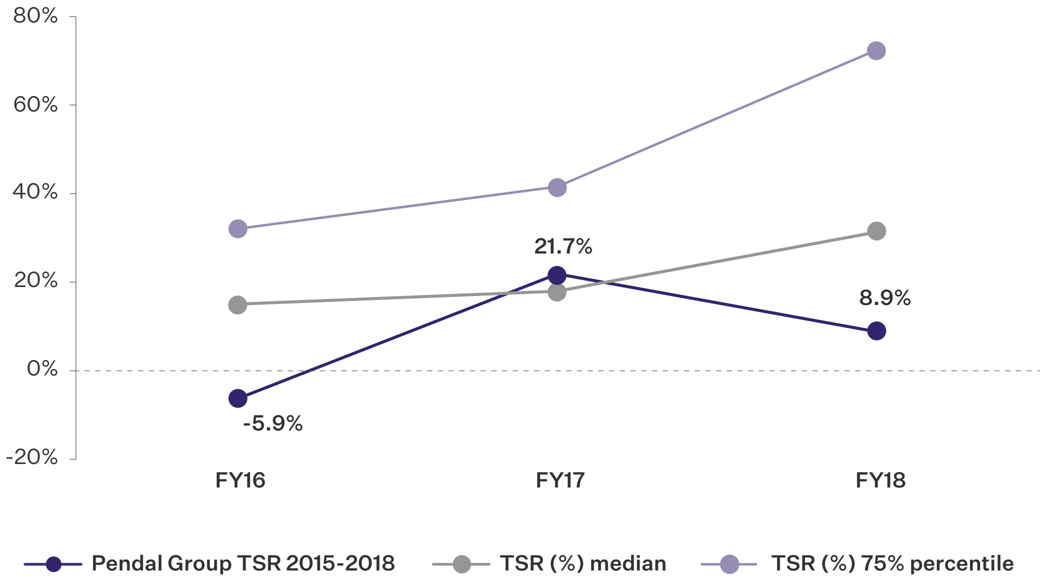
The 2015 Financial Year LTI grant to the Group CEO represents 51,998 shares on conversion (based on a face value of $1,000,000 and share price of $9.73 at the date of grant with 50% vesting). LTI grants were also awarded to other Global Executive Committee members under the Performance Reward Scheme. The LTI grants were subject to two performance hurdles, TSR and fully diluted Cash EPS, and is the fourth grant to mature under this PRS Scheme. Charts 5a and 5b illustrate the performance of the hurdles during the three year period as follows:

1. **TSR: 50% of award**. Pendal Group's TSR over the three-year performance period of 29.9% was in the third quartile of the ASX 200 comparator group and so the relative **TSR portion of the award will not vest**.
2. Fully Diluted **Cash EPS growth: 50% of award**. Target range of greater than 5% to 10% annual compound growth. Cash EPS over the three year performance period has been achieved at 13%, therefore **100% of the Cash EPS portion of the award will vest**.

Graph 5a: Performance Reward Scheme – Cash EPS outcomes over the three year performance period



Graph 5b: Performance Reward Scheme – TSR % outcomes over each three year performance period

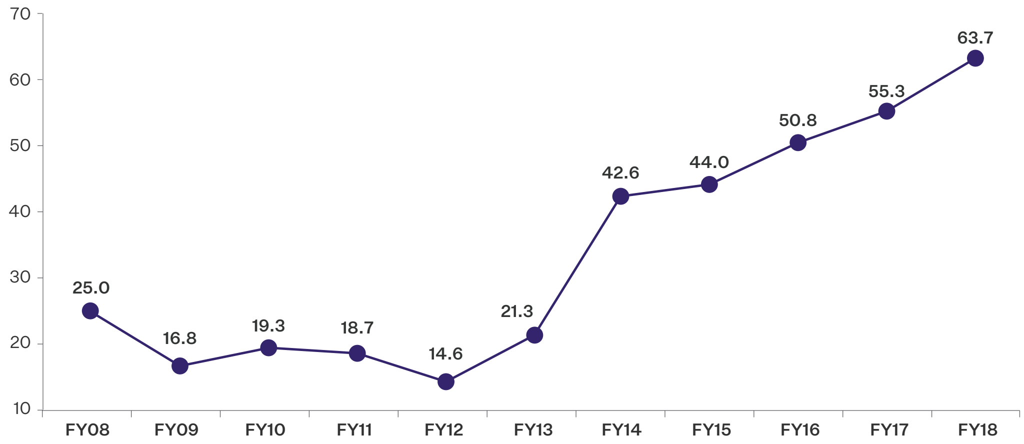


Vesting of LTI grants and link to Pendal Group's Performance

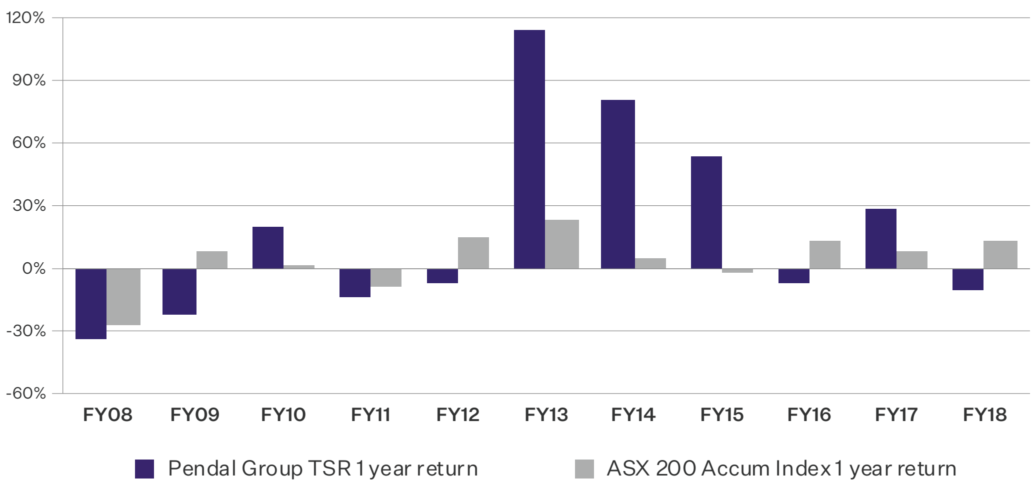
Why relative TSR and Fully Diluted Cash EPS hurdles?

The TSR hurdle of 50-100% is aligned with common market practice to ensure an equitable reward for executives to peer executives assessed on a similar basis. The Cash EPS hurdle of 5-10% has been set by the Board's requirement that management builds a business that is sustainable through various economic cycles, irrespective of whether the markets are up or down. The Board set the 5-10% band for Cash EPS vesting by considering the evidence and expectations for reasonable long term earnings growth. The goal is to maintain a consistent hurdle across the market cycle so that the goals are very clear for management and shareholders, to be realistically achievable but not easy, and to represent a result that would produce a healthy investment for shareholders. Graphs 6a and 6b below provide a ten year historical overview of Pendal Group's Cash EPS and TSR relative performance against the S&P/ASX 200 Accumulation Index. As illustrated in the graphs below Pendal Group has recently achieved the Cash EPS target comfortably, but this has not always been the case. In light of the growth of the Company, the Board continues to regard these targets as sufficiently challenging for the future.

Graph 6a: Pendal Group Cash EPS (cps) over time



Graph 6b: Pendal TSR and S&P/Accumulation Index over time



Group CEO and other Global Executive Committee members' performance outcomes in the 2018 Financial Year

Group CEO Performance and Short Term Incentive Outcome

The Group CEO remuneration structure that applied in the 2018 Financial Year is in line with the remuneration structure as set out earlier in the report.

The 2018 Financial Year short term incentive outcome of $1.4 million reflects the Boards assessment of the Group CEO's performance against the Key Performance Indicators including financial and non-financial measures as outlined below.

Table 6: Group CEO Performance Against KPIs and Remuneration Outcomes

	Description of key performance indicators and performance			
	Performance Measure	**Key Performance Indicators (KPIs)**	**Weighting**	**FY18 Performance Against KPIs**
Short Term Incentive $1.4m	**Financial**	Cash NPAT Base Management Fee Revenue	20%	Record profit for the year. Continued growth in key financial measures including: • Average FUM of +10% • Base management fee revenue of +12% • Cash net profit after tax of +17% • Cash earnings per share of +15% *Overall Met Target*
	Deliver a Global Portfolio of Superior Investment Teams and Products	Progress against Strategic Objectives including relevance of new and existing products Investment returns	20%	Mixed investment performance over the one year, however, key investment strategies performing well with outperformance in 69% of FUM over three years and 93% of FUM over five years Disciplined management of allocating limited capacity to higher fee margin channels Early platform approval for US based multi asset income product. *Overall Slightly Below Target*
	Execute on Growth Strategy	Progress against Strategic Objectives	20%	Net FUM flows lower than Plan however positive improvements were made in the following areas: • Record year of flows for Pendal Australia achieving $4.1 billion in net flows (ex-Westpac portfolio) • Some progress made on the US business but further work to be done • Three new strategic investments (funds) established in key markets UK Portfolio Manager retirement resulted in more than anticipated funds outflow *Overall Below Target*
	Global Leadership	Global Executive team working collaboratively and effectively Material progress in global transformation of organisation from a Cultural and Brand perspective	20%	Employed Global CRO and Australian CEO following retirement Rebranding to Pendal Group was well planned and executed Globalisation of key support functions progressed *Overall Slightly Above Target*
	Risk Management & Operational Effectiveness	Effective risk management and operational risk framework	20%	No significant regulatory issues identified in 2018 Continued enhancement of global and regional Risk framework Thorough and timely response provided to regulators in addressing historic compliance matter in the UK MiFiD II and GDPR requirements successfully implemented Commenced establishment of presence in Ireland to meet European regulation post Brexit *Overall Above Target*

	Description of Long Term Incentive Award performance hurdles and performance outcome
Long Term Incentive Award $1,000,000 **Vesting of 50% of 2015 LTI Award**	The Group CEO was awarded $1 million face value equivalent of performance share rights to PDL shares for no consideration for the 2018 Financial Year, following a vote by shareholders at the 2017 Annual General Meeting. The Group CEO's LTI opportunity represents the maximum incentive opportunity under the award and is determined with reference to market benchmarking. Hurdles are designed to be reasonably stable over the cycle. Vesting of the award is subject to two equally weighted hurdles, measured over three years: a) 50% ($500,000) subject to relative TSR performance, and b) 50% ($500,000) subject to Cash EPS growth. For the LTI award for which performance was measured over three years from 1 October 2015 to 30 September 2018, the TSR and Cash EPS performance hurdles have been tested. The TSR was not achieved and the Cash EPS has been achieved at 100% (refer to Graph 5a and 5b for further details). Therefore only 50% the total 2015 LTI allocation has vested, equating to an approximate value $457,062*.

*The value of LTI that has vested in the 2018 Financial Year has been calculated using the closing share price of $8.79 as at 30 September 2018

Other Global Executive Committee Members' Performance

Each year the Group CEO, taking into account market data and the scope of the role, considers the appropriate variable reward target for each member of the Global Executive Committee. The recommendations are presented to the Remuneration & Nominations Committee who discuss and approve the remuneration package for each individual. Changes in company profitability that impact the size of the Corporate VR pool are an important determinant in Senior Executive variable reward outcomes with non-financial factors, including risk management, also having an influence. Financial performance indicators considered include profitability, expense management and sales performance.

The Group CEO determined a set of priorities and key deliverables for the Global Executives that align with the strategic goals of the business. The Group CEO undertakes a review with each Global Executive and conducts a formal discussion with them about their key achievements during the performance year, and identifies areas for improvement and focus going forward. The non-financial measures that are incorporated will differ from one Global Executive to the next depending on the role but are made up of business critical objectives such as business strategy, people management, quality and delivery of project work, client satisfaction, support to the boutiques, ability to resolve issues and risk management.

Once the objectives are agreed, the Group CEO meets regularly with his direct reports to assess progress and adjust or change priorities depending on the needs of the business. A more formal review of achievements and an assessment against objectives is carried out twice per year. The Group CEO reviews the performance of the Global Executive Committee members annually with the Remuneration and Nominations Committee.

6. Details of the Global Executive Committee remuneration outcomes

The following section contains both statutory (in accordance with applicable accounting standards and regulations) and voluntary disclosures of awarded remuneration for KMP. The differences between Tables 7a, 7b and 7c are largely in relation to the treatment of share-based payments:

- Table 7a (i) and 7a (ii): Voluntary disclosure outlining remuneration awarded in the current financial year comprising fixed pay and the grant of share-based payments under short and long term equity awards. The amounts represent the actual cash cost to the Company and are charged to Cash NPAT. The number of shares granted to each KMP is determined by the amount paid by the Company and acquired by each Group Employee Equity Trust through a combination of on market and off market purchases. The STI equity benefit shown is based on the allocation price (which is the average purchasing price) of shares at the date of award and, in the case of the long term equity payments assumes the satisfaction of all performance hurdles;
- Table 7b: Voluntary disclosure outlining remuneration awarded in the current financial year, comprising fixed pay and the vested value of share-based payments under the short- and long term equity awards (i.e. the realised value of equity awards based on current performance; a "cash" table – this relates to 2018 Financial Year STI awards and LTI awards granted in 2015); and
- Table 7c: Mandatory disclosure of statutory remuneration including the amortised value (in accordance with AASB2) of share-based payments under the short- and long term equity awards for the current financial year.

Table 7a (i): Voluntary disclosure of awarded remuneration for Global Executive Committee in the 2018 and 2017 Financial Years, based on the grant value of long term equity payments

		Employment benefits							
		Short term					Long Term Share-based payments		
	FY	Salary & fees $	Super-annuation & pension benefits $	Total fixed remuneration $	Cash component of VR[1] $	Non-monetary benefits[2] $	Long term equity payments[3] $	Other[4] $	Total $
KMP									
Emilio Gonzalez	18	775,000	25,000	800,000	700,000	12,502	1,000,000	107,620	**2,620,122**
	17	718,491	32,500	750,991	700,000	12,502	1,000,000	137,954	**2,601,447**
Michael Bargholz[6]	18	489,348	23,930	513,278	-	-	-	218,051	**731,329**
	17	490,962	20,962	511,924	300,000	-	600,000	970,000	**2,381,924**
Richard Brandweiner[7]	18	308,866	16,905	325,771	225,000	-	350,000	-	**900,771**
	17	-	-	-	-	-	-	-	**-**
Ken Lambden[5]	18	610,080	875	610,955	583,554	6,820	-	-	**1,201,329**
	17	549,817	-	549,817	769,743	9,628	1,166,278	-	**2,495,466**
Andrew Shiels[5&8]	18	759,284	-	759,284	-	-	-	-	**759,284**
	17	-	-	-	-	-	-	-	**-**
Cameron Williamson	18	406,062	25,000	431,062	280,040	-	300,000	18,833	**1,029,935**
	17	403,104	28,750	431,854	280,040	-	175,000	20,693	**907,587**
Total Global Executive Committee Remuneration	**18**	**3,348,640**	**91,710**	**3,440,350**	**1,788,594**	**19,322**	**1,650,000**	**344,504**	**7,242,770**
	17	**2,162,374**	**82,212**	**2,244,586**	**2,049,783**	**22,130**	**2,941,278**	**1,128,647**	**8,386,424**

Notes to Table 7a (i):

1 The cash component of VR represents the award for performance during the 2018 Financial Year and will be paid in December 2018. These projected amounts were determined on 2 October 2018, after performance reviews were completed, and approved by the Board. It should be noted there may be changes to these figures following final approval of the relative proportions of cash and equity as part of the annual remuneration review cycle.

2 The non-monetary benefits for Emilio Gonzalez include salary sacrifice benefits which are accessible by all employees and may include but are not limited to car parking, novated leases and/or computers etc. The non-monetary benefits provided to Ken Lambden include healthcare coverage, life cover and long term disability cover.

3 All LTI awards granted to Senior Executives are subject to performance hurdles. The amounts shown in Table 7a (i) represent the face value of the grants at time of allocation. Actual outcomes may differ materially from the values shown, depending on the extent to which the relevant performance hurdles are met and the PDL share price at the time of vesting.

4 Other payment for Emilio Gonzalez and Cameron Williamson represents the dividend equivalent payment made in relation to the 2013 and 2014 performance share rights that vested in October 2016 and 2017. Other payments for Michael Bargholz represent a payment in lieu of his cash make-good equity that vested on 1 October 2018.

5 Ken Lambden and Andrew Shiels are remunerated in Pounds Sterling. An average exchange rate of 0.5655 for 2018 (2017:0.6002) has been applied to convert their remuneration to Australian dollars.

6 Michael Bargholz's total fixed remuneration represents a pro-rata amount from the start of the financial year to his date of separation.

7 Richard Brandweiner's fixed and variable remuneration has been pro-rated from his date of commencement being the 26 February 2018.

8 Andrew Shiels is engaged on a consultancy basis and is not entitled to equity as part of his remuneration.

Table 7a (ii): Voluntary disclosure of Short Term Equity Payments awarded to the Global Executive Committee in the 2018 and 2017 Financial Years

KMP	FY	Cost of Short Term Equity Payments[1,2] ($)	Closing share price at 30 September 2018[2] ($)	Allocation price for FY17 Short term equity Awards[3] ($)	Estimated Number of shares[4] (#)	Estimated Value of award at 30 September 2018 ($)
Emilio Gonzalez	18	700,000	8.79		79,635	699,992
	17	700,000		10.24	68,347	600,770
Michael Bargholz	18	-	8.79		-	-
	17	840,000		10.94	86,285	758,445
Richard Brandweiner	18	225,000	8.79		25,597	224,998
	17	-		n/a	n/a	n/a
Ken Lambden	18	-	8.79		-	-
	17	329,883		10.20	32,351	284,365
Cameron Williamson	18	119,960	8.79		13,647	119,957
	17	119,952		10.24	11,712	102,948
Total	**18**	**1,044,960**	**8.79**		**118,879**	**1,044,947**
	17	**1,989,835**		**10.24**	**198,695**	**1,746,528**

Notes to Table 7a (ii):

1 Equity-based remuneration in table 7a (ii) represents the actual short term equity awarded for performance for the 2018 Financial Year. These projected amounts were determined on 2 October 2018 and 2 November 2018, after performance reviews were completed, and approved by the Board. It should be noted there may be immaterial changes to these figures following final approval of the relative proportions of cash and equity as part of the annual remuneration review cycle.

2 The closing share price for 30 September 2018 of $8.79 has been used to illustrate the value of awards within this table. The final allocation price for the 2018 Financial Year STI award will be finalised closer to the 6 December allocation date.

3 The final allocation price for the 2017 Financial Year STI equity awards has been used to calculate the number of shares allocated on 7 December 2017.

4 Actual number of shares allocated for the 2018 Financial Year award will be determined closer to the allocation date on 6 December 2018.

Table 7b: Voluntary disclosure of awarded remuneration for the Global Executive Committee in the 2018 Financial Year based on the value of vested short term and long term equity payments

		Employment benefits										
		Short term						Share-based payments				
	FY	Salary & fees $	Super-annuation & pension benefits $	Total fixed remune-ration[1] $	Cash component of VR[2] $	Non-Monetary benefits[3] $	Long Service Leave[4] $	STI equity payments[5,6] $	LTI equity payments[7] $	Equity forfeited[8] $	Other[9] $	Total $
KMP												
Emilio Gonzalez	18	775,000	25,000	800,000	700,000	12,502	7,711	1,032,057	452,605	-	107,620	**3,112,495**
	17	718,491	32,500	750,991	700,000	12,502	24,580	1,823,950	1,722,118	-	137,954	**5,172,095**
Michael Bargholz	18	489,348	23,930	513,278	-	-	-	-	-	(586,125)	218,051	**145,204**
	17	490,962	20,962	511,924	300,000	-	5,719	-	-	-	970,000	**1,787,643**
Richard Brandweiner	18	308,866	16,905	325,771	225,000	-	3,759	-	-	-	-	**554,530**
	17	-	-	-	-	-	-	-	-	-	-	**-**
Ken Lambden	18	610,080	875	610,955	583,554	6,820	-	56,325	-	-	-	**1,257,654**
	17	549,817	-	549,817	769,743	9,628	-	-	-	-	-	**1,329,188**
Andrew Shiels	18	759,284	-	759,284	-	-	-	-	-	-	-	**759,284**
	17	-	-	-	-	-	-	-	-	-	-	**-**
Cameron Williamson	18	406,062	25,000	431,062	280,040	-	21,079	156,336	79,204	-	18,833	**986,554**
	17	403,104	28,750	431,854	280,040	-	4,935	241,786	301,370	-	20,693	**1,280,678**
Total Global Executive Committee Remuneration	**18**	**3,348,640**	**91,710**	**3, 440,350**	**1,788,594**	**19,322**	**32,549**	**1,244,718**	**531,809**	**(586,125)**	**344,504**	**6,815,720**
	17	**2,162,374**	**82,212**	**2,244,586**	**2,049,783**	**22,130**	**35,234**	**2,065,736**	**2,023,488**	**-**	**1,128,647**	**9,569,604**

Table 7c: Mandatory disclosure of statutory remuneration for the Global Executive Committee in the 2018 and 2017 Financial Years

		Short term				Long term						
	FY	Salary & fees $	Super-annuation & pension benefits $	Total fixed remun-eration[1] $	Cash component of VR[2] $	Non-monetary benefit[3] $	Long service leave[4] $	STI Equity payments[5,6] $	LTI Equity payments[7] $	Equity forfeited[8] $	Other[9] $	Total $
Emilio Gonzalez	18	775,000	25,000	800,000	700,000	12,502	7,711	592,307	813,896	-	107,620	**3,034,036**
	17	718,491	32,500	750,991	700,000	12,502	24,580	1,038,503	809,533	-	137,954	**3,474,063**
Michael Bargholz	18	489,348	23,930	513,278	-	-	-	-	-	(428,146)	218,051	**303,183**
	17	490,962	20,962	511,924	300,000	-	5,719	575,950	163,557	-	970,000	**2,527,150**
Richard Brandweiner	18	308,866	16,905	325,771	225,000	-	3,759	46,310	94,513	-	-	**695,353**
	17	-	-	-	-	-	-	-	-	-	-	**-**
Ken Lambden	18	610,080	875	610,955	583,554	6,820	-	225,701	-	(324,630)	-	**1,102,400**
	17	549,817	-	549,817	769,743	9,628	-	156,273	324,630	-	-	**1,810,091**
Andrew Shiels[10]	18	759,284	-	759,284	-	-	-	-	-	-	-	**759,284**
	17	-	-	-	-	-	-	-	-	-	-	**-**
Cameron Williamson	18	406,062	25,000	431,062	280,040	-	21,079	89,229	176,183	-	18,833	**1,016,426**
	17	403,104	28,750	431,854	280,040	-	4,935	139,952	141,664	-	20,693	**1,019,138**
Total Global Executive Committee Remuneration	**18**	**3,348,640**	**91,710**	**3,440,350**	**1,788,594**	**19,322**	**32,549**	**953,547**	**1,084,592**	**(752,776)**	**344,504**	**6,910,681**
	17	**2,162,374**	**82,212**	**2,244,586**	**2,049,783**	**22,130**	**35,234**	**1,910,678**	**1,439,384**	**-**	**1,128,647**	**8,830,442**

Notes to Table 7b and 7c:

1 Ken Lambden and Andrew Shiels are remunerated in Pounds Sterling. An average exchange rate of 0.5655 for 2018 (2017:0.6002) has been applied to convert their remuneration to Australian dollars.

2 The cash component of VR represents the award for performance during the 2018 Financial Year and will be paid in December 2018. These projected amounts were determined on 2 October 2018, after performance reviews were completed, and approved by the Board. It should be noted there may be changes to these figures following final approval of the relative proportions of cash and equity as part of the annual remuneration review cycle.

3 The non-monetary benefit for Emilio Gonzalez is a salary sacrifice benefit which is accessible to all employees and includes but is not limited to car parking, novated leases and/or computers, etc. The non-monetary benefits provided to Ken Lambden include healthcare coverage, life cover and long term disability cover.

4 Although long service leave benefits continue to accumulate, the amount recognised in the financial statements for such benefits has been re-valued during the 2018 Financial Year in accordance with actuarial-based valuation methodologies.

5 Equity-based remuneration in Tables 7b and 7c are represented differently and as follows:
   a. In Table 7b the equity awards that vested on 1 October 2018 have been treated as vesting in the 2018 Financial Year. The equity value has been calculated as the number of securities that vested during the year ended 30 September 2018, multiplied by the five day volume weighted average price of PDL ordinary shares at the time they vested.
   b. In Table 7c equity-based remuneration represents the amortisation of 'fair value' at grant over the vesting period of all grants allocated up to the year ended 30 September 2018, and does not represent the vested portions of the grant (refer to Table 9). 'Fair value' is determined as required by accounting standards as 'the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged'. Accounting standards set out specific requirements in relation to the calculation of fair value of equity-based remuneration. Pendal Group complies with all relevant requirements.

6 The equity component of the VR outcome for KMPs for the 2018 Financial Year is not included in Tables 7b and 7c as the equity was not granted in the 2018 Financial Year and will be reported in the 2019 Financial Year. Table 9 includes equity that vested on 1 October 2018.

7 Long term equity payments in Tables 7b and 7c are represented differently and as follows:
   a. In Table 7b the LTI equity that vested on 1 October 2018 has been treated as vesting in the 2018 Financial Year. The equity value has been calculated as the number of securities that vested during the year ended 30 September 2018, multiplied by the five day volume weighted average price of PDL Ordinary shares at the time they vested.
   b. In Table 7c the LTI equity has been valued independently by Orient Capital using Binomial/Monte-Carlo simulation models which take into account the performance hurdles relevant to the issue of those equity instruments. The share-based payment remuneration in relation to the LTI equity is the amount expensed in the financial statements for the year and includes adjustments to reflect the expectation as at 30 September 2018 of the likely level of vesting of LTI grants with non-market hurdles. For grants with non-market conditions including EPS hurdles, the number of shares expected to vest is estimated at the end of each reporting period and the amount to be expensed is adjusted accordingly. For grants with market conditions such as TSR, the number of shares expected to vest is included in the estimated fair value of securities at grant date in accordance with AASB2, and is not adjusted during the life of the grant. The accounting treatment of non-market and market conditions is in accordance with Accounting Standards.

8 Represents Michael Bargholz forfeited equity following separation from the company and Ken Lamden's forfeited LTI following departure and commencement of his gardening leave.

9 Other payment for Emilio Gonzalez and Cameron Williamson represents the dividend equivalent payment made in relation to the 2013 and 2014 performance share rights that vested in October 2016 and 2017. Other payments for Michael Bargholz represent a cash make-good payments paid following separation.

10 Andrew Shiels is engaged on a consultancy basis and is not entitled to equity as part of his remuneration.

Table 8 illustrates the relative proportions of fixed, cash VR and equity remuneration in the relevant financial year (calculated based on statutory accounting disclosures; i.e. Table 7c) as a percentage of total remuneration. Table 8 differs to Charts 1 and 2 on page 32 which are based on the target equity-based remuneration.

Table 8: 2018 and 2017 Financial Years fixed and variable remuneration as a proportion of total remuneration

	Fixed remuneration as a percentage of total remuneration[1]		Cash VR as a percentage of total remuneration		Equity as a percentage of total remuneration[2]	
Global Executive Committee	2018 %	2017 %	2018 %	2017 %	2018 %	2017 %
Emilio Gonzalez	27	23	23	20	50	57
Michael Bargholz	70	20	-	12	30	68
Richard Brandweiner	48	n/a	32	n/a	20	n/a
Ken Lambden	43	31	41	42	16	27
Andrew Shiels	100	n/a	n/a	n/a	n/a	n/a
Cameron Williamson	44	43	28	27	28	30

Notes to Table 8:

1 Non-monetary benefits and long service leave have been included in the fixed remuneration calculation, if applicable.

2 The equity component represented in this table includes the equity-based remuneration awarded for the 2018 and 2017 Financial Years and long term incentives.

Share based-payments

Details of the shares in Pendal granted as compensation to the Group CEO and other Global Executive Committee Members under the Employee Equity Plan during the reporting period are set out below.

Table 9: Group CEO and other Global Executive Committee members short term equity allocations

	Date of grant	Number of shares granted (#)	Value of award at grant ($ per award)	Number of shares vested[1] 1 Oct 2018	Proportion of award vested (%)	Proportion of award forfeited (%)
Group CEO						
Emilio Gonzalez	5-Dec-13	214,822	4.86	42,964	100	-
	4-Dec-14	133,328	6.78	26,666	80	-
	3-Dec-15	94,638	13.01	18,926	60	-
	8-Dec-16	81,714	10.82	16,343	40	-
	7-Dec-17	68,347	10.69	13,670	20	-
Other Global Executive Committee Members						
Michael Bargholz	23-Nov-16	56,994	11.30	-	41	59
	7-Dec-17	29,291	10.24	-	-	100
Ken Lambden	7-Dec-17	32,351	10.40	6,471	20	-
Cameron Williamson	5-Dec-13	32,919	4.86	6,584	100	-
	4-Dec-14	22,030	6.78	4,406	80	-
	3-Dec-15	15,457	13.01	3,093	60	-
	8-Dec-16	7,688	10.82	1,538	40	-
	7-Dec-17	11,712	10.69	2,343	20	-

Notes to Table 9:

1 The shares allocated for deferred VR, sign on and retention vest over five years with vesting dates of 1 October each year in most cases.

The Group's remuneration outcomes also focus on driving performance and creating shareholder alignment in the longer term. We do this by providing our Global Executive Committee members with LTI awards in the form of performance share rights with three year vesting periods. Table 10 below provides an overview of the Group CEO and other Global Executives' current LTI awards which have not yet vested.

Table 10 – Group CEO and other Global Executive Committee members long term incentive awards

FY18	Commencement of Test Period for Grant[3]	Award vehicle[2]	Award granted	Value of award at grant TSR Hurdle[1] $	Value of award at grant Non TSR Hurdle[1] $	Date of vesting	Vested during the year	Lapsed during the year	Balance as at 1 Oct 2018
Emilio Gonzalez	1-Oct-15	Performance Share Rights	103,997	5.92	9.73	1-Oct-18	51,998	51,999	-
	1-Oct-16	Performance Share Rights	111,873	5.68	8.94	1-Oct-19	-	-	111,873
	1-Oct-17	Performance Share Rights	90,546	6.85	11.04	1-Oct-20	-	-	90,546
Michael Bargholz[4]	1-Oct-16	Performance Share Rights	67,123	5.68	8.94	1-Oct-19	-	67,123	-
	1-Oct-17	Performance Share Rights	54,328	6.85	11.04	1-Oct-20	-	54,328	-
Richard Brandweiner	1-Oct-17	Performance Share Rights	31,691	6.85	11.04	1-Oct-20	-	-	31,691
Ken Lambden[4]	1-Oct-16	Performance Share Rights	133,227	5.68	8.94	1-Oct-19	-	133,227	-
	1-Oct-17	Performance Share Rights	108,439	6.85	11.04	1-Oct-20	-	108,439	-
Cameron Williamson	1-Oct-15	Performance Share Rights	18,199	5.92	9.73	1-Oct-18	9,099	9,100	-
	1-Oct-16	Performance Share Rights	19,577	5.68	8.94	1-Oct-19	-	-	19,577
	1-Oct-17	Performance Share Rights	27,164	6.85	11.04	1-Oct-20	-	-	27,164

Notes to Table 10:

1 Table 10 outlines the fair value of the performance share rights which has been based on Australian Accounting Standards and has been independently calculated using Binomial/Monte-Carlo simulation models. For further details on the fair value methodology, refer to Note D2 within the financial statements.
2 The LTIs are subject to performance hurdles which are tested at the end of three years for performance shares.
3 The performance share rights allocated to the Global CEO and other Global Group Executives with a test period commencement date of 1 October 2015 only met the Cash EPS hurdle and are treated as having partially vested in this table.
4 Michael Bargholz and Ken Lambden's performance share rights have been included in this table for completeness but were forfeited following departure and in the case of Ken Lamden following him commencing gardening leave.

Table 11 below outlines VR deferred to equity that has been awarded to the Group CEO and other Global Executive Committee members with an associated vesting schedule for the 2018 Financial Year. The shares vest over a period of up to five years, provided the vesting conditions are met. No shares will vest if the vesting conditions are not satisfied and the minimum value of the shares yet to vest is nil. The maximum value of the shares yet to vest has been determined as the market value of the shares at grant as reflected in the table below.

Table 11: Equity components of variable remuneration

				Maximum cost of equity grants allocated by the company that may vest in future years[1&2]				
Global Executive Committee	**FY of grant**	**Value of equity grants at grant $**	**Minimum total value of grant yet to vest $**	**FY19 $**	**FY20 $**	**FY21 $**	**FY22 $**	**FY23 onwards $**
Emilio Gonzalez	2014	1,044,035	Nil	208,805	-	-	-	-
	2015	903,964	Nil	180,789	180,789	-	-	-
	2016	1,231,240	Nil	246,253	246,253	246,253	-	-
	2016	813,778	Nil	813,778	-	-	-	-
	2017	884,145	Nil	176,831	176,831	176,831	176,820	-
	2017	817,793	Nil	-	817,793	-	-	-
	2018	699,996	Nil	140,005	140,005	139,995	139,995	139,995
	2018	809,934	Nil	-	-	809,934	-	-
Richard Brandweiner	2018	283,476	Nil	-	-	283,476	-	-
Ken Lambden	2018	329,883	Nil	329,883	-	-	-	-
Cameron Williamson	2014	159,986	Nil	31,993	-	-	-	-
	2015	149,363	Nil	29,873	29,873	-	-	-
	2016	201,096	Nil	40,214	40,214	40,214	-	-
	2016	142,405	Nil	142,405	-	-	-	-
	2017	83,184	Nil	16,641	16,641	16,641	16,620	-
	2017	143,106	Nil	-	143,106	-	-	-
	2018	119,952	Nil	23,997	23,997	23,986	23,986	23,986
	2018	242,982	Nil	-	-	242,982	-	-

Notes to Table 11:

1 The equity grants comprise shares and performance share rights. The equity grants issued vest over three or five years with vesting dates of 1 October each year in most cases.

2 The vesting schedule for a component of the VR equity for the Group CEO and other Global Group Executives differs from the standard vesting schedule, whereby shares vest equally over five years.

7. Global Executive Committee members' employment agreements

Remuneration and other terms of employment for the Group CEO and other Global Executive Committee members are also formalised in employment agreements. Each of these agreements takes into consideration the provision of fixed remuneration (which is reviewed annually), performance-based cash incentives, other benefits, and participation, when eligible, in relevant equity-based plans. The employment agreements for the Group CEO and other Global Executive Committee members are currently open-ended, permanent, full time, common law employment agreements.

Other significant provisions of the agreements relating to remuneration are set out in Tables 12 and 13.

Table 12: Summary of notice periods

Name	Notice period
Emilio Gonzalez	6 months
Michael Bargholz	6 months
Richard Brandweiner	6 months
Ken Lambden	6 months
Andrew Shiels	1 month
Cameron Williamson	3 months

Table 13: Summary of termination entitlements

Term	Who	Conditions
Termination with notice	Emilio Gonzalez	Any amount payable on the termination of employment will be made up of the following components: • accrued but unpaid fixed remuneration as at the date of termination of employment (Termination Date); • accrued but unused annual leave and long service leave as at the Termination Date; • any vested portion of any Equity Grants, will be released in accordance with the Equity Plan Rules; • all unvested shares will be determined by the Board at its discretion; • any payment of a variable reward in the year of termination, including cash and/or equity, will be determined by the Board at its discretion; and • Pendal Group retains the right to bring the employment to an immediate end and pay an amount in lieu of notice, equal to the fixed remuneration that would have applied during the notice period.
	Michael Bargholz	Any amount payable on the termination of employment will be made up of the following components: • accrued but unpaid fixed remuneration up to the Termination Date; • accrued but unused annual leave and long service leave as at the Termination Date; • any vested portion of any Equity Grants or Make Good Equity Grant, will be released in accordance with the Equity Plan Rules; • any portion of any Equity Grant that has not vested as at the Termination Date will be treated in accordance with the Equity Plan Rules or PRS (as the case may be) unless the Board determines otherwise in its absolute discretion; and • any variable reward, whether in respect of the Financial Year in which the Notice Date or the Termination Date occurs or any prior Financial Year will be determined by the Company and or the Board in its absolute discretion (and may be determined by the Company and or Board to be nil).
	Richard Brandweiner	Any amount payable on the termination of employment will be made up of the following components: • accrued but unpaid fixed remuneration up to the Termination Date; • accrued but unused annual leave and long service leave as at the Termination Date; • any portion of any Equity Grant that has not vested as at the Termination Date will be treated in accordance with the Equity Plan Rules or PRS (as the case may be) unless the Board determines otherwise in its absolute discretion; • any variable reward, whether in respect of the Financial Year in which the Notice Date or the Termination Date occurs or any prior Financial Year will be determined by the Company and or Board in its absolute discretion (and may be determined by the Company and or Board to be nil); and • Pendal Group retains the right to bring the employment to an immediate end and pay an amount in lieu of notice, equal to the fixed remuneration that would have applied during the notice period.

Term	Who	Conditions
	Ken Lambden	Any amount payable on the termination of employment will be made up of the following components: • accrued but unpaid base salary as at the Termination Date; • any accrued but unused holiday and cost to the Company of providing company benefits as at the Termination Date; • any vested entitlement of equity grants which have been allocated as at the Termination Date will be released in accordance with the relevant Equity Plan Rules; • any unvested equity grants which have been allocated as at the Termination Date will be subject to the relevant Equity Plan Rules; and • any payment of a variable reward in the year of termination, including cash and/or equity, will be determined by the Group CEO and Board at its discretion.
	Andrew Shiels	Accrued but unpaid consultancy fees as at the Termination Date will be payable on the termination of the consultancy agreement.
	Cameron Williamson	Any amount payable on the termination of employment will be made up of the following components: • accrued but unpaid fixed remuneration package as at the Termination Date. • accrued but unused annual leave and long service leave as at the Termination Date; • any vested portion of any Equity Grants, will be released in accordance with the Equity Plan Rules; • any payment of variable reward in the year of termination, including cash and/or equity, and all unvested equity entitlements relating to grants as at the Termination Date will be determined in accordance with the relevant plan rules; and • Pendal Group retains the right to bring the employment to an immediate end and pay an amount in lieu of notice, equal to the fixed remuneration that would have applied during the notice period.
Termination for cause	Emilio Gonzalez	Any amount payable on the termination of employment will be made up of the following components: • accrued but unpaid fixed remuneration package as at the date of termination of employment (Termination Date); • accrued but unused annual leave and long service leave as at the Termination Date; • any vested portion of any Equity Grants, will be released in accordance with the Equity Plan Rules; and • no entitlement to any variable reward for the year in which termination occurs or to any unvested equity grants.
	Michael Bargholz	Any amount payable on the termination of employment will be made up of the following components: • accrued but unpaid fixed remuneration package as at the Termination Date; • accrued but unused annual leave and long service leave as at the Termination Date; • any vested entitlement of equity grants which have been allocated as at the Termination Date will be released in accordance with the Equity Plan Rules; and • no entitlement to any variable reward for the year in which termination occurs or to any unvested equity grants.
	Ken Lambden	Any amount payable on the termination of employment will be made up of the following components: • accrued but unpaid base salary package as at the Termination Date; • accrued but unused annual leave as at the Termination Date; • any vested entitlement of equity grants which have been allocated as at the Termination Date will be released in accordance with the relevant Equity Plan Rules; • any unvested equity grants which have been allocated as at the Termination Date will be subject to the relevant Equity Plan Rules; and • no entitlement to any variable reward for the year in which termination occurs or to any unvested equity grants.
	Andrew Shiels	Accrued but unpaid consultancy fees as at the Termination Date will be payable on the termination of the consultancy agreement.
	Cameron Williamson	Any amount payable on the termination of employment will be made up of the following components: • accrued but unpaid fixed remuneration package as at the Termination Date; • accrued but unused annual leave and long service leave as at the Termination Date; • any vested portion of any Equity Grants, will be released in accordance with the Equity Plan Rules; and • any payment of a variable reward in the year of termination, including cash and/or equity, and all unvested equity entitlements relating to grants as at the Termination Date will be determined in accordance with the relevant plan rules.

Post-employment restraint

Employment agreements for the Group CEO and other Global Executive Committee members include a post-employment restraint clause which provides that for a period of six months, with the exception of Cameron Williamson, Group CFO who has three months. After cessation of employment, there is a prohibition during that period on soliciting employees or clients of the Company.

8. Non-executive Director remuneration

NED Fees

The total NED fee pool for the 2018 Financial Year was $1.6 million, which was approved by shareholders at the 2015 AGM.

NEDs are paid a fixed fee for their service on the Board. NEDs (with the exception of the Chairman of the Board) also receive additional fees for their service on the Board's committees. In addition to these fixed fees, NEDs receive superannuation contributions that are made in accordance with legislative requirements. NEDs do not receive performance-based remuneration and are not eligible to participate in any Pendal Group share plan or other incentive arrangements.

A summary of the fees payable to NEDs during the 2018 Financial Year are set out in Table 14 below.

Table 14: Non-executive Director fees

Pendal Group Board fees	Fee policy (A$'000s)	Fee Policy (GBP£'000s)
Board Chairman	400	
Other Non-executive Directors	160	110
Pendal Group Board Committee fees	**Fee policy ($'000s)**	
Audit & Risk Committee – Chair	40	
Audit & Risk Committee – Member	20	15
Remuneration & Nominations Committee – Chair	40	
Remuneration & Nominations Committee – Member	20	15

NED remuneration in the 2018 Financial Year

The annual fees payable to NEDs are set out in Table 14 above.

NED annual fee pool

At the AGM on 8 December 2015, shareholders approved the current aggregate NED fee pool of $1.6 million. For the 2018 Financial Year, $1.3 million (82%) of the annual fee pool was used.

It is anticipated that the total NED fees will increase in the next financial year with the addition of a new NED. However, overall fees will remain below the $1.6 million NED fee pool. As disclosed in the 2017 Remuneration Report, NED fees were increased effective 1 January 2017. For 2017 the fees, as illustrated in Table 15, represent nine (9) months of the increase and for 2018 this represents a full year impact. No adjustments to the base fees were made in the 2018 Financial Year.

Retirement allowances

No allowance is payable on the retirement of NEDs. Superannuation payments are made in line with legislative requirements.

NED Director shareholdings

NEDs (including the Chairman) are expected to hold a minimum number of shares in the Company that is equal to the value of the Director's annual base fee. Newly appointed NEDs are expected to reach the minimum shareholding within three years of their appointment to the Board.

The number of Pendal Group shares held by each NED is set out in Table 16.

NED employment agreements

On appointment to the Board, all NEDs enter into an employment agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies in relation to tenure, remuneration and other matters relevant to the office of the NED.

Remuneration for NEDs

The fees paid to NEDs in the 2018 and 2017 Financial Years are shown in Table 15.

Table 15: 2018 & 2017 Financial Year Non-executive Director remuneration

2018 Financial Year		Fees[1] $	Superannuation $	Total $
Non-executive directors				
James Evans	2018	398,467	25,000	**423,467**
	2017	366,858	28,740	**395,598**
Meredith Brooks[2]	2018	130,268	12,375	**142,643**
	2017	181,533	15,893	**197,426**
Andrew Fay	2018	202,682	19,051	**221,733**
	2017	201,763	19,014	**220,777**
Kathryn Matthews[3]	2018	247,569	-	**247,569**
	2017	161,355	-	**161,355**
Deborah Page	2018	199,234	18,927	**218,161**
	2017	182,797	16,112	**198,909**
Sally Collier[4]	2018	49,042	2,912	**51,954**
	2017	-	-	**-**
Total	**2018**	**1,227,262**	**78,265**	**1,305,527**
	2017	**1,094,306**	**70,9759**	**1,174,065**

Notes to Table 15:

1 The revised Director fees took effect from 1 January 2017 and therefore for the 2017 Financial Year, the previous fees were applied for three months and new fees for nine months. No adjustments to the base fees were made in the 2018 Financial Year.
2 Meredith Brooks retired effective 30 April 2018, and therefore her fees represent a pro-rata portion of her annual fees.
3 Kathryn Matthews commenced her term on 1 December 2016, and therefore her 2017 fees represent a pro-rata portion of her annual fees.
4 Sally Collier commenced her term on 2 July 2018, and therefore her fees represent a pro-rata portion of her annual fees.

9. Director and global executives' holdings

The table below outlines all holdings, including holdings not yet vested. For vesting, refer to Table 11.

Table 16: Director and Global Executives' holdings

	Type of holding	Equity held at 1 Oct 2017	In the 2018 Financial Year: Number of securities acquired	In the 2018 Financial Year: Number of securities granted as remuneration	In the 2018 Financial Year: Net change other[1]	Equity held at 30 Sep 2018
Non-executive Directors						
James Evans	Ordinary	37,218	12,000	-	(11,109)	38,109
Meredith Brooks	Ordinary	20,296	494	-	(20,790)	-
Andrew Fay	Ordinary	33,609	-	-	-	33,609
Kathryn Matthews	Ordinary	5,000	-	-	-	5,000
Deborah Page	Ordinary	21,001	4,200	-	-	25,201
Sally Collier	Ordinary	-	-	-	-	-
Total for Non-executive Directors		**117,124**	**16,694**	**-**	**(31,899)**	**101,919**
Global Executive Committee						
Emilio Gonzalez	Ordinary	1,333,845	-	68,347	155,940	1,558,132
	Performance share rights	379,699	-	90,546	(163,829)	306,416
Michael Bargholz	Ordinary	56,994	-	29,291	(86,285)	-
	Performance share rights	67,123	-	54,328	(121,451)	-
Richard Brandweiner	Performance share rights	-	-	31,691	-	31,691
Ken Lambden	Ordinary	-	-	32,351	-	32,351
	Performance share rights	133,227	-	108,439	(241,666)	-
Cameron Williamson	Ordinary	169,444	-	11,712	27,289	208,445
	Performance share rights	66,446	-	27,164	(28,670)	64,940
Total for Global Executive Committee		**2,206,778**	**-**	**453,869**	**(458,672)**	**2,201,975**

Notes to Table 16:

1 Net Change Other relate to the conversion of performance share rights to ordinary shares, sale of shares, shares forfeited and change of Director during the year.

10. Other Disclosure Details

Loans to KMP and their related parties

No loans were provided to KMP or their related parties during the year or as at the date of this report.

Rounding of amounts

Amounts in this report and the accompanying Financial Report have been rounded to the nearest thousand dollars, in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise stated.

Loans to Directors and Senior Executives

There were no loans made to, nor are there any outstanding loans with, Directors or Senior Executives.

2018 Corporate Governance Statement

Pendal Group's 2018 Corporate Governance Statement can be viewed on the following website at www.pendalgroup.com/CGS2018.

Auditors
Non-audit services

The Company may decide to employ the external auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Pendal Group are important.

Details of the amounts paid or payable to the external auditor, PricewaterhouseCoopers (PwC), for non-audit services provided during the year are set out below.

The Directors are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act* for the following reasons:

- all non-audit services have been reviewed by the Audit & Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the 2018 Financial Year the following fees were paid or payable for non-audit services provided by the Pendal Group's auditor, and its related practices:

	2018 $	2017 $
Non-audit services		
PricewaterhouseCoopers – Australia	14,000	14,000
PricewaterhouseCoopers – outside of Australia	–	–
Total remuneration for non-audit services	**14,000**	**14,000**

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act* is set out on page 60.

This Directors' Report is made in accordance with a resolution of Directors.

James Evans
Chairman
8 November 2018

Emilio Gonzalez
Managing Director and Group Chief Executive Officer
8 November 2018

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Pendal Group Limited (formerly known as BT Investment Management Limited) for the year ended 30 September 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Pendal Group Limited and the entities it controlled during the period.

V. Papageorgiou

Voula Papageorgiou
Partner
PricewaterhouseCoopers

Sydney
8 November 2018

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 $'000	2017 $'000
Revenue from continuing operations			
Investment management fees		503,701	448,857
Performance fees		54,483	37,886
Transaction fees		267	4,181
Total revenue from continuing operations	**B2**	**558,451**	**490,924**
Other income	**B2**	**15,446**	**7,456**
Total revenue	**B2**	**573,897**	**498,380**
Expenses			
Employee expenses			
Salaries and related expenses		170,039	169,258
Amortisation of employee equity grants	D2	43,303	53,672
Amortisation of employee deferred share of performance fees		10,305	-
Information and technology		22,497	15,169
Fund administration		16,533	14,618
Business development and promotion		13,593	11,816
Depreciation, amortisation and impairment		10,812	9,473
Professional services		10,316	9,117
Occupancy		10,280	5,690
General office and administration		7,843	9,882
Investment management		6,717	4,395
Distribution		2,404	1,477
Finance costs		149	185
Total expenses		**324,792**	**304,752**
Profit before income tax		**249,105**	**193,628**
Income tax expense	B4	58,147	46,173
Profit attributable to owners of Pendal Group Limited		**190,958**	**147,455**
Other comprehensive income for the financial year *Items that may be reclassified to profit or loss*			
Exchange differences on translation of foreign operations	C3	24,686	1,755
Net unrealised gain on available-for-sale assets	C3	22,582	14,482
Net realised gain on available-for-sale assets reclassified to the profit or loss	C3	(8,046)	(3,752)
Loss on hedging activities	C3	(2,294)	(3,068)
Income tax relating to components of other comprehensive income	C3	(3,525)	(2,174)
Other comprehensive income, net of tax		**33,403**	**7,243**
Total comprehensive income for the financial year attributable to owners of Pendal Group Limited		**224,361**	**154,698**
Earnings per share for profit attributable to ordinary equity holders of Pendal Group Limited		**Cents**	**Cents**
Basic earnings per share	B3	68.3	54.8

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying Notes.

Consolidated Statement of Financial Position

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	B5	168,134	194,199
Trade and other receivables		69,902	65,963
Derivatives		314	–
Prepayments		5,281	4,813
Total current assets		**243,631**	**264,975**
Non-current assets			
Property, plant and equipment		5,392	3,566
Available-for-sale financial assets	C5	255,687	133,136
Deferred tax assets	B4	42,465	45,671
Intangible assets	F1	545,013	535,278
Total non-current assets		**848,557**	**717,651**
Total assets		**1,092,188**	**982,627**
Current liabilities			
Trade and other payables		44,889	37,880
Employee benefits	D1	100,745	105,865
Derivatives		–	2,577
Borrowings	C6	–	–
Lease obligations		1,343	83
Current tax liabilities		19,669	16,200
Total current liabilities		**166,646**	**162,607**
Non-current liabilities			
Employee benefits	D1	6,961	5,630
Lease obligations		4,369	1,006
Deferred tax liabilities	B4	20,654	17,652
Total non-current liabilities		**31,984**	**24,288**
Total liabilities		**198,630**	**186,895**
Net assets		**893,558**	**795,732**
Equity			
Contributed equity	C2	427,137	426,577
Reserves	C3	271,541	221,377
Retained earnings		194,880	147,778
Total equity		**893,558**	**795,732**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying Notes.

Consolidated Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2018

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 October 2017		**426,577**	**221,377**	**147,778**	**795,732**
Profit for the financial year		–	–	190,958	190,958
Other comprehensive income for the financial year		–	33,403	–	33,403
Total comprehensive income for the financial year		**–**	**33,403**	**190,958**	**224,361**
Transactions with owners in their capacity as owners:					
Treasury shares acquired	C2	(32,296)	–	–	(32,296)
Treasury shares released	C2	25,801	(25,801)	–	–
Share-based payments	C3	–	42,562	–	42,562
Dividend reinvestment plan	C2	7,055	–	–	7,055
Dividends paid	C4	–	–	(143,856)	(143,856)
Balance at 30 September 2018		**427,137**	**271,541**	**194,880**	**893,558**

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 October 2016		**441,059**	**176,439**	**126,341**	**743,839**
Profit for the financial year		–	–	147,455	147,455
Other comprehensive income for the financial year		–	7,243	–	7,243
Total comprehensive income for the financial year		**–**	**7,243**	**147,455**	**154,698**
Transactions with owners in their capacity as owners:					
Converting notes converted into ordinary shares	C2	121	–	–	121
Treasury shares acquired	C2	(42,607)	–	–	(42,607)
Treasury shares released	C2	22,104	(22,104)	–	–
Share-based payments	C3	–	59,799	–	59,799
Dividend reinvestment plan	C2	5,900	–	–	5,900
Dividends paid	C4	–	–	(126,018)	(126,018)
Balance at 30 September 2017		**426,577**	**221,377**	**147,778**	**795,732**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying Notes.

Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Fees and other income received		574,806	502,459
Interest received		422	178
Distributions from unit trusts		1,447	1,892
Expenses paid		(283,441)	(240,940)
Income tax paid		(51,984)	(51,698)
Net cash inflows from operating activities	B5	**241,250**	**211,891**
Cash flows from investing activities			
Payments for property, plant and equipment		(4,192)	(1,170)
Payments for available-for-sale financial assets		(115,101)	(43,223)
Proceeds from sales of available-for-sale financial assets		26,258	15,438
Payments for IT development		(845)	(755)
Payments for derivative hedging instruments		(5,206)	(491)
Net cash outflows from investing activities		**(99,086)**	**(30,201)**
Cash flows from financing activities			
Payments for purchase of treasury shares		(32,297)	(42,607)
Interest and other financing costs		(149)	(185)
Dividends paid		(136,799)	(120,119)
Net cash outflows from financing activities		**(169,245)**	**(162,911)**
Net increase/(decrease) in cash and cash equivalents		**(27,081)**	**18,779**
Cash and cash equivalents at the beginning of the financial year		194,199	174,231
Effects of exchange rate changes on cash and cash equivalents		1,016	1,189
Cash and cash equivalents at the end of the financial year		**168,134**	**194,199**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying Notes.

A. About this report

This is the financial report of Pendal Group Limited (the "Company") and its subsidiaries (together referred to as the "Pendal Group"). The Company is domiciled in Australia and the Pendal Group is a for-profit entity for the purpose of preparing financial statements. On 4 May 2018 BT Investment Management Limited changed its name to Pendal Group Limited.

A1. Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

A2. Basis of preparation

The Financial Report is presented in Australian dollars, which is the Company's functional and presentation currency, with all values rounded to the nearest thousand ('$000), in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise stated. The Financial Report has been prepared on a historical cost basis, except for the revaluation of available-for-sale financial assets, and financial assets and liabilities at fair value through profit or loss.

Significant accounting policies

The principal accounting policies adopted in the preparation of the Financial Report are contained within the notes to which they relate. These policies have been consistently applied to all the years presented, unless otherwise stated.

Critical accounting assumptions and estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Pendal Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined below.

Accounting assumptions and estimates	Note
Share-based payments	D2
Deferred tax on share-based payments	D2
Intangibles	F1

A3. New and amended accounting standards

New and amended accounting standards adopted by the Pendal Group

The Pendal Group has adopted all of the mandatory new and amended standards and interpretations issued by the AASB that are relevant to its operations and effective for the current reporting period. The mandatory new and amended standards adopted by the Pendal Group for the year ended 30 September 2018 have not had a significant impact on the current period or any prior period and are not likely to have a significant impact in future periods.

New and amended accounting standards not yet adopted by the Pendal Group

Certain new and revised accounting standards have been published that are not subject to mandatory adoption until future reporting periods. They are available for early adoption but have not been applied in preparing this Financial Report. The Pendal Group's assessment of the impact of these new standards is set out below:

- AASB 9 Financial Instruments (effective for the Pendal Group from 1 October 2018) addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also introduces revised rules around hedge accounting and impairment. The standard is available for early adoption, however the Pendal Group has decided not to adopt the standard before its mandatory effective date. The Pendal Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 October 2018:

  Pendal Group anticipate that certain financial instruments currently classified as available-for-sale financial assets held at fair value through other comprehensive income will be classified as financial assets held at fair value through profit or loss. This includes the Pendal Group's seed investments held which total $237.5 million as at 30 September 2018 and includes unrealised gains of $34.2 million as at 30 September 2018. The unrealised gains will be transferred from the available-for sale assets reserve to retained earnings for the start of the 2019 Financial Year.

The other financial instruments held by the Pendal Group include derivative financial instruments measured at fair value through profit or loss which will continue to be measured on the same basis under AASB 9. Accordingly, the Pendal Group does not expect the new guidance to affect the classification and measurement of these financial instruments.

The Pendal Group's current hedge relationships will qualify as continuing hedges upon the adoption of AASB 9.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Pendal Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

- AASB 15 Revenue from Contracts with Customers (effective for the Pendal Group from 1 October 2018). The AASB has issued a new standard for recognition of revenue. This will replace AASB 118 Revenue which covers contracts for goods and services and AASB 111 Construction Contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer replacing the existing notion of risks and rewards. The Pendal Group has performed an assessment on existing revenue contracts and does not expect any material impact on the financial statements. The majority of investment management fee revenue is accrued when earned, and the impact assessment indicates no change to the current revenue recognition methodology.

  The Pendal Group has decided not to adopt the standard before its mandatory effective date.
- AASB 16 Leases (effective for the Pendal Group from 1 October 2019). AASB 16 eliminates the classification of leases as either operating leases or finance leases for a lessee and requires lease assets and lease liabilities to be recognised in the Statement of Financial Position, initially measured at present value of future lease payments. In addition, depreciation of the lease assets and interest on lease liabilities will be recognised in the Statement of Comprehensive Income. Cash payments will be separated into principal and interest in the Statement of Cash flows. The result will be an increase in the value of Pendal Group's gross assets and gross liabilities, however will not have a material impact on the net assets or results. Pendal Group anticipates that the adoption of the standard will result in increased disclosure.

  The Pendal Group has decided not to adopt the standard before its mandatory effective date.

B. Results for the year

This section provides information that is most relevant to understanding the financial performance of the Pendal Group.

B1. Segment information

Description of segments

Operating segments have been reported in a manner consistent with internal management reporting provided to the chief operating decision-maker (CODM) for assessing performance and in determining the allocation of resources. CODM consists of the Group Chief Executive Officer and other members of the Global Executive Committee. As a result, the Pendal Group has determined it has two operating segments, being the Pendal Group's investment management business in Australia (Pendal Australia), and the Pendal Group's investment management business outside of Australia (Pendal International). Pendal International comprises Pendal (UK) Limited and its subsidiaries including JOHCM.

The CODM assesses the performance of the operating segments based on a combined measure of cash net profit after tax (Cash NPAT) and operating profit before tax which excludes non-operating items such as gains and losses on seed investments, interest income and expense, foreign exchange gains and losses and tax.

Cash NPAT excludes the amortisation of equity-settled share-based payments and employee deferred share of performance fees, and includes the after-tax cash costs of equity grants and employee deferred share of performance fees made in respect of the current period. Cash NPAT also excludes the after-tax amortisation and impairment of intangibles relating to fund and investment management contracts.

Segment information provided to the chief operating decision-maker:

	Pendal Australia		Pendal International		Total Group	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Revenue	154,040	158,665	404,425	332,272	558,465	490,937
Inter-segment revenue	6,831	7,084	3,973	2,890	10,804	9,974
Total segment revenue	**160,871**	**165,749**	**408,398**	**335,162**	**569,269**	**500,911**
Other operating expenses	(125,266)	(120,044)	(191,581)	(161,863)	(316,847)	(281,907)
Inter-segment expense	(3,973)	(2,890)	(6,831)	(7,083)	(10,804)	(9,973)
Total segment expenses	**(129,239)**	**(122,934)**	**(198,412)**	**(168,946)**	**(327,651)**	**(291,880)**
Operating profit before income tax	**31,632**	**42,815**	**209,986**	**166,216**	**241,618**	**209,031**
Non-operating items	3,235	4,931	10,886	2,335	14,121	7,266
Income tax expense	(10,026)	(14,586)	(44,092)	(28,661)	(54,118)	(43,247)
Cash NPAT	**24,841**	**33,160**	**176,780**	**139,890**	**201,621**	**173,050**
Deduct:						
amortisation of employee equity grants	(18,013)	(20,548)	(25,290)	(33,124)	(43,303)	(53,672)
amortisation of employee deferred share of performance fees	–	–	(10,305)	–	(10,305)	–
amortisation and impairment of intangibles	–	–	(7,701)	(7,838)	(7,701)	(7,838)
Add back:						
cash cost of ongoing equity grants	16,359	18,002	21,246	20,840	37,605	38,842
cash cost of employee deferred share of performance fees	–	–	17,070	–	17,070	–
Add back/(deduct): tax effect	321	393	(4,350)	(3,320)	(4,029)	(2,927)
Statutory NPAT	**23,508**	**31,007**	**167,450**	**116,448**	**190,958**	**147,455**
Segment assets	484,383	415,366	607,805	567,216	1,092,188	982,582
Segment liabilities	(46.728)	(39,062)	(151,902)	(147,788)	(198,630)	(186,850)
Net assets	**437,655**	**376,304**	**455,903**	**419,428**	**893,558**	**795,732**

B2. Revenue and other income

	2018 $'000	2017 $'000
Management, fund and trustee fees	500,638	446,485
Performance fees	54,483	37,886
Transaction fees	267	4,181
Other revenue	3,063	2,372
Total revenue from continuing operations	**558,451**	**490,924**
Net gain on sale of available-for-sale financial assets	8,046	3,894
Distributions from unit trusts	5,772	1,783
Net foreign exchange gain	1,206	1,600
Interest income	422	179
Total other income	**15,446**	**7,456**
Total revenue and other income	**573,897**	**498,380**

Accounting policy

Revenue from continuing operations

Revenue from continuing operations is measured at the fair value of the consideration received or receivable and is recognised if it meets the criteria below:

Management, fund and trustee fees	Management, fund and trustee fees are recognised based on the applicable service contracts, usually on a time proportionate basis. Management fees related to investment funds are recognised over the period the service is provided.
Performance fees	Performance fees are recognised in the accounting period in which the performance hurdles have been met.
Transaction fees	Transaction fees on products which are non-annuitised are recognised over the period in which the service is being provided.

Other income

Distribution from unit trusts	Distributions are recognised as revenue when the right to receive payment is established.
Net gain on sale of available-for-sale assets	Net gain on sale of available-for-sale assets is recognised as proceeds less costs on sale of seed investments.
Net foreign exchange gain	Net foreign exchange gains represent exchange differences in the translation or settlement of foreign denominated monetary and intercompany balances.

B3. Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding during the financial period, that is, ordinary shares less treasury shares.

	2018	2017
Profit attributable to ordinary equity holders of the Company ($000)	**190,958**	**147,455**
Weighted average number of ordinary shares on issue ('000)	316,735	312,736
Weighted average number of treasury shares ('000)	(36,989)	(43,645)
Weighted average number of ordinary shares ('000)	**279,746**	**269,091**
Basic earnings per share (cents per share)	**68.3**	**54.8**

Options totalling 13,191,568 and performance share rights totalling 1,694,025 issued to staff of the Pendal Group as at 30 September 2018 have not been included in the calculation of EPS for the financial year. This is because ordinary shares have been and are anticipated to be acquired on-market over time to settle the exercise of the options and the conversion of the performance share rights.

B4. Taxation

(a) Reconciliation of income tax expense

The income tax expense in the Statement of Comprehensive Income reconciles to accounting profit as follows:	2018 $'000	2017 $'000
Profit before tax	249,105	193,628
Income tax calculated at the Australian tax rate of 30% (2017: 30%)	74,732	58,088
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Difference in overseas tax rates	(23,351)	(14,649)
Previously unrecognised deferred tax assets	2,723	23
State and local taxes	2,507	1,511
Effect on deferred taxes of reduction in tax rates	2,047	496
Sundry non-deductible / (non-assessable) items	(769)	1,001
Employee equity grant amortisation	185	369
Adjustments for current tax of prior financial year	139	(120)
Tax credits and rebates	(66)	(546)
Total income tax expense	**58,147**	**46,173**
Represented by:		
Current tax	*55,315*	*48,936*
Deferred tax	*2,693*	*(2,643)*
Adjustments for current tax of prior periods	*139*	*(120)*

(b) Deferred tax balances

	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
	2018 $'000	2018 $'000	2017 $'000	2017 $'000
Employee equity grants	30,522	–	32,058	–
Employee benefits	10,416	–	11,885	–
Accrued expenses	973	–	1,203	–
Property, plant and equipment	371	–	1,248	–
Lease expenses	164	–	(682)	–
Business-related costs	19	–	29	–
Intangible assets	–	11,396	–	12,168
Available-for-sale financial assets	–	9,254	–	5,482
Foreign exchange (gain)/loss	–	4	(70)	2
Total	**42,465**	**20,654**	**45,671**	**17,652**

(c) Movements in deferred tax balances

	Balance as at 1 October $000	Charged to profit or loss $000	Charged to comprehensive income $000	Charged to equity $000	Balance as at 30 September $000
2018					
Deferred tax assets	45,671	(4,154)	1,689	(741)	42,465
Deferred tax liabilities	(17,652)	1,461	(4,463)	–	(20,654)
2017					
Deferred tax assets	39,341	69	134	6,127	45,671
Deferred tax liabilities	(17,910)	2,574	(2,316)	–	(17,652)

(d) Unrecognised temporary differences

Temporary difference relating to investments in subsidiaries for which deferred tax liabilities have not been recognised:

	2018 $'000	2017 $'000
Foreign currency translation	49,889	25,193
Unrecognised deferred tax liabilities relating to the above temporary differences	14,967	7,558

Accounting policy

Current tax

Current tax assets and liabilities are measured at the amount of income taxes payable or recoverable for the period, using tax rates and laws enacted or substantively enacted by the reporting date in the countries where the Company and its subsidiaries operate. The effective corporate tax rates applicable for the current period are 30% (2017: 30%) on Australian taxable income, 19% (2017: 19.5%) on UK taxable income, 24.5% (2017: 35%) on US federal taxable income and 17% (2017: 17%) on Singapore taxable income.

Deferred tax

Deferred tax is accounted for in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the asset can be utilised.

Deferred tax is not recognised if it arises from the initial recognition of goodwill or an asset or liability in a transaction, other than a business combination, which affects neither taxable income nor accounting profit or from investments in controlled entities, or foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax is measured using tax rates (and laws) that have been enacted or substantively enacted for each jurisdiction by the end of the reporting period and are expected to apply when the temporary differences reverse.

Current and deferred tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation

The Company and its wholly-owned Australian controlled entities are part of a tax consolidated group under Australian tax legislation. The Company is the head entity in the tax-consolidated group. Entities within the tax consolidated group have entered into a tax funding and a tax sharing agreement with the head entity.

Under the terms of the tax funding agreement, the Company and each entity in the tax consolidated group has agreed to pay (or receive) a tax equivalent payment to (or from) the head entity, based on the current tax liability or current tax asset of the entity. The funding amounts are recognised as current inter-company receivables or payables.

B5. Reconciliation of cash flow from operating activities

(a) Reconciliation of cash flow from operating activities

	2018 $'000	2017 $'000
Profit after tax for the financial year	190,958	147,455
Adjustments for non-cash expense items:		
Depreciation and write-off of fixed assets	3,112	1,635
Amortisation and impairment of intangibles	7,701	7,838
Amortisation of employee equity grants	43,303	53,672
Reinvested distribution income	(4,319)	–
Net gain on sale of available-for-sale financial assets	(8,046)	(3,894)
Interest and finance costs	149	185
Net exchange differences	(1,206)	(1,600)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(3,939)	(7,052)
Decrease in prepayments	(468)	12
Increase in deferred tax assets	4,155	(69)
Increase/(decrease) in trade and other payables	7,009	6,701
Increase/(decrease) in employee benefits	(3,790)	12,290
Increase in lease liabilities	4,623	173
Decrease in current tax liabilities	3,468	(2,881)
Decrease in deferred tax liabilities	(1,460)	(2,574)
Net cash inflow from operating activities	**241,249**	**211,891**

(b) Cash and cash equivalents

	2018 $'000	2017 $'000
Cash at bank and in hand	92,199	94,667
Restricted cash in escrow	4,396	16,718
Deposits at call	71,539	82,814
Total cash and cash equivalents	**168,134**	**194,199**

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions.

Restricted cash in escrow relates to deferred employee remuneration that is held by the Pendal Group in trust until certain service conditions have been satisfied by the employee. A corresponding employee benefit liability is recognised on the Consolidated Statement of Financial Position.

Deposits at call are invested in cash management trusts managed by the Pendal Group.

C. Capital and financial risk management

This section provides information relating to the Pendal Group's capital structure and its exposure to financial risk and how they are managed.

C1. Capital management

The Pendal Group's objectives when managing capital are to maintain a strong capital base in excess of regulatory requirements throughout all business cycles that supports the execution of its strategic goals, in order to optimise returns to its shareholders, while ensuring compliance with the Pendal Group's Risk Appetite Statement.

The Company's current dividend policy is to pay out 80% - 90% of Cash NPAT each year. Capital retained in the business to grow the Pendal Group is largely used to provide seed capital for new funds and investment strategies. The seed capital portfolio has been growing as investments are made in new strategies and further capital support is provided to scale up funds as they achieve an established investment performance track record. During this financial year an additional $75.1 million was funded into the Pendal Group's corporate seed portfolio which totals $237.5 million as at 30 September 2018. The current level of seed capital within the Pendal Group sits within the Board risk appetite.

Cash profits generated from off-shore business units, beyond working capital and regulatory requirements, are repatriated back to the Company through dividends whereby a hedging program is in place to mitigate foreign exchange risk. In accordance with the Company's capital management plan, and to the extent possible, retention of franking credits is minimised.

The Board regularly reviews Pendal Group's free cash flow generation, cash and cash equivalents, borrowings, seed investments, tax and other financial factors in order to maintain an optimal capital structure. Debt may also be used at times to provide capital to the Pendal Group. In order to maintain an optimal capital structure, the Board may:

- adjust the amount of dividends paid to shareholders;
- utilise the dividend reinvestment plan;
- return capital to shareholders;
- increase or decrease borrowings;
- contribute to or redeem seed investments; or
- issue new shares.

The Pendal Group operates legal entities in a number of countries that are subject to various regulatory and capital requirements. These include:

- In Australia, Pendal Fund Services Limited (PFSL) acts as a responsible entity of the Pendal Australia registered and unregistered trusts, and Pendal Institutional Limited (PIL) provides investment management services to institutional clients and all Pendal Australia's registered and unregistered trusts. Both PFSL and PIL are required to maintain minimum capital requirements as part of the Australian Securities and Investments Commission's Australian financial services licensing conditions. The level of regulatory capital required as at 30 September 2018 is $6.2 million.
- In the UK, J O Hambro Capital Management Limited (JOHCML) provides investment management services to JOHCM's UK and Irish Open Ended Investment Companies (OEIC's), US Mutual Funds, institutional clients and other JOHCM entities. JOHCML has established an Internal Capital Adequacy Assessment Process (ICAAP) that is used to determine the amount of regulatory capital required to meet its licencing requirements with the Financial Conduct Authority (FCA). The level of regulatory capital required as at 30 September 2018 in accordance with the ICAAP is $69.0 million (£38.1 million). During 2016, JOHCM was awarded an investment firm waiver by the FCA. The waiver expires on 30 September 2021 with the impact eliminating the need to hold additional capital as a result of intangibles generated via the Company's acquisition of JOHCM in 2011.
- In Singapore, JOHCM (Singapore) Pte Limited provides investment management services to other JOHCM entities and a JOHCM Cayman fund. It is required to maintain minimum capital requirements as part of its licencing requirements with the Monetary Authority of Singapore. The level of regulatory capital required as at 30 September 2018 is $2.1 million (S$2.1 million).
- In the USA, JOHCM (USA) Inc. provides investment management services to a number of JOHCM's Delaware Statutory Trusts and other JOHCM entities. It is registered as an investment adviser with the Securities and Exchange Commission. It does not have any minimum capital requirements as part of its licence.

All entities complied with regulatory capital requirements at all times throughout the 2018 Financial Year.

In preparation for the UK exiting the European Union, a new entity was incorporated in Ireland to establish a European presence as a UCITs management company. The regulatory approval with the Central Bank of Ireland remains outstanding as at 30 September 2018. Once approval is received, the entity is expected to have a capital requirement of approximately $4.2 million (€2.6 million).

During the year, a new entity was incorporated in the UK to act as the Authorised Corporate Director for the J O Hambro Capital Management Umbrella Fund Plc, which is currently being performed by JOHCML. As at 30 September 2018 the regulatory approval remains outstanding with the FCA. Once licensed, the entity is expected to have a capital requirement of approximately $2.5 million (£1.4 million).

C2. Contributed equity

	2018 $'000	2017 $'000
Ordinary shares 318,006,576 (2017: 314,998,763) each fully paid	617,668	610,613
Treasury shares 36,406,060 (2017: 43,456,344)	(190,531)	(184,036)
Total contributed equity 281,600,516 (2017: 271,542,419)	**427,137**	**426,577**

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends as declared and in the event of a winding up of the Company, to participate in the proceeds in proportion to the number of and amounts paid on the shares held. Ordinary shares entitle the holder to one vote per share, either in person or by proxy, at a meeting of the Company shareholders. All ordinary shares issued have no par value.

Movements in ordinary shares during the year:

	2018 Shares '000	2018 $'000	2017 Shares '000	2017 $'000
Balance at the beginning of the financial year	314,999	610,613	307,431	604,592
Converting notes converted into ordinary shares[1]	–	–	3,087	121
Fund linked equity share issuance [2]	2,304	–	3,951	–
Dividend reinvestment plan	704	7,055	530	5,900
Balance at the end of the year	**318,007**	**617,668**	**314,999**	**610,613**

1. The converting notes were issued to JOHCM employees in October 2011. Subject to certain adjustments, each converting note converted into one ordinary share in the Company over a period of up to five years provided certain conditions were met. Converting notes were fully converted by 4 November 2016.
2. The shares were issued to fund managers who operate under the FLE Scheme.

(b) Treasury shares

Treasury shares are those shares issued through the Company's 2007 Initial Public Offer and the Fund Linked Equity (FLE) Scheme together with those shares purchased as necessary, in order to meet the obligations of the Pendal Group under its employee share plans. These represent shares either held by the employee benefit trusts for future allocation or shares held by employees within Pendal Group share plans, subject to restrictions. These are recorded at cost and when restrictions on employee shares are lifted, the cost of such shares is appropriately adjusted to the share-based payment reserve. Details of the balance of treasury shares at the end of the financial year were as follows:

	2018 Shares '000	2018 $'000	2017 Shares '000	2017 $'000
Balance at the beginning of the year	(43,456)	(184,036)	(43,304)	(163,533)
Treasury shares acquired	(3,071)	(32,296)	(4,499)	(42,607)
Fund linked equity share issuance [3]	(2,304)	–	(3,951)	–
Treasury shares released	12,425	25,801	8,298	22,104
Balance at the end of the year	**(36,406)**	**(190,531)**	**(43,456)**	**(184,036)**

3. The shares were issued to fund managers who operate under the FLE Scheme.

Details of treasury shares at the end of the year were as follows:

	2018 Shares '000	2018 $'000	2017 Shares '000	2017 $'000
Unallocated shares held by trustees	18,277	130,425	18,603	126,840
Shares allocated to employees	18,129	60,106	24,853	57,196
Balance at the end of the year	**36,406**	**190,531**	**43,456**	**184,036**

Accounting policy

Ordinary shares

Ordinary shares are recognised at the amount paid per ordinary share, net of directly attributable issue costs.

Treasury shares

Where the Company or other entities of the Pendal Group purchase shares in the Company, the consideration paid is deducted from total shareholders' equity and the shares treated as treasury shares. Treasury shares are recorded at cost and when restrictions on the sale of shares granted to employees are lifted from the employee share plans, the cost of such shares is appropriately adjusted to the share-based payment reserve.

C3. Reserves

Share-based payment reserve

The share-based payment reserve relates to the amortised portion of the fair value of equity instruments granted to employees for no consideration, recognised as an expense. Deferred tax in relation to amounts not recognised in the Statement of Comprehensive Income is also recognised in the share-based payment reserve. The balance of the share-based payment reserve is reduced by the payment of certain dividends not paid from retained earnings, where the requirements of the *Corporations Act* are met.

Foreign currency translation reserve

Exchange differences arising on the translation of the foreign controlled entities in addition to gains and losses on derivatives that are designated as net investment hedges are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. The cumulative amount is reclassified to profit or loss when the net investment is partially disposed of or sold.

Available-for-sale financial assets reserve

The available-for-sale financial assets reserve represents changes in the fair value and exchange differences arising on translation of investments, classified as available-for-sale financial assets. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

Cash flow hedge reserve

The cash flow hedge reserve is used to record gains or losses on hedging instruments that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transactions affect profit or loss.

Common control reserve

The common control reserve relates to the Company's purchase of the investment management business from a number of wholly owned subsidiaries of Westpac Banking Corporation effective 19 October 2007. Any difference between the cost of acquisition (fair value of consideration paid), and the amounts at which the assets and liabilities are recorded, has been recognised directly in equity as part of a business combination under the common control reserve.

	Share-based payment reserve $'000	Foreign currency translation reserve $'000	Available-for-sale-financial asset reserve $'000	Cash flow hedge reserve $'000	Common control reserve $'000	Total reserves $'000
Balance at 1 October 2017	201,575	22,125	23,149	–	(25,472)	221,377
Share-based payment expense	43,303	–	–	–	–	43,303
Deferred tax	(741)	–	(3,525)	–	–	(4,266)
Treasury shares released	(25,801)	–	–	–	–	(25,801)
Currency translation difference	–	24,686	–	–	–	24,686
Gain/(loss) on hedging activities	–	(2,304)	–	10	–	(2,294)
Revaluation	–	–	22,582	–	–	22,582
Reclassification to profit or loss	–	–	(8,046)	–	–	(8,046)
Balance at 30 September 2018	**218,336**	**44,507**	**34,160**	**10**	**(25,472)**	**271,541**

Balance at 1 October 2016	163,880	23,438	14,593	–	(25,472)	176,439
Share-based payment expense	53,672	–	–	–	–	53,672
Deferred tax	6,127	–	(2,174)	–	–	3,953
Treasury shares released	(22,104)	–	–	–	–	(22,104)
Currency translation difference	–	(1,313)	–	–	–	(1,313)
Revaluation	–	–	14,482	–	–	14,482
Reclassification to profit or loss	–	–	(3,752)	–	–	(3,752)
Balance at 30 September 2017	**201,575**	**22,125**	**23,149**	–	**(25,472)**	**221,377**

C4. Dividends

Equity dividends on ordinary shares

		2018 $'000	2017 $'000
(i)	Dividends declared and paid during the Financial Year		
	Final 25% franked[1] dividend for the 2017 Financial Year: 26.0 cents per share (2016 Financial Year: 24.0 cents per share 35% franked[1])	78,191	71,365
	Interim 15% franked[1] dividend for the 2018 Financial Year: 22.0 cents per share (2017 Financial Year: 19.0 cents per share 30% franked[1])	65,665	54,653
		143,856	**126,018**
(ii)	Dividends proposed to be paid subsequent to the end of the Financial Year and not recognised as a liability		
	Final dividend for the 2018 Financial Year 30.0 cents (15% franked[1]) per share (2017 Financial Year: 26.0 cents per share 25% franked[1])	89,873	79,761

1. The whole of the unfranked amount of the dividend will be Conduit Foreign Income, as defined in the Income Tax Assessment Act 1997.

Franked dividends

Dividends declared or paid during the year were 25% and 15% franked, respectively, at the Australian corporate tax rate of 30%.

The franked portions of the final dividend declared or paid after 30 September 2018 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 September 2019.

	2018 $'000	2017 $'000
Franking credits available for subsequent financial years	24	160

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(i) franking credits that will arise from the payment of the amount of the provision for income tax
(ii) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
(iii) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividends declared or paid by the Directors since year end, but not recognised as a liability at financial year end, will be a reduction in the franking account of $5,777,577 (2017: $8,545,851).

Accounting policy

Dividends

A provision is made for the amount of any dividend declared by the Directors before or at the end of the financial year but not distributed at balance date.

C5. Available-for-sale financial assets

	2018 $'000	2017 $'000
Unlisted securities		
Units held in pooled funds	237,530	129,542
Escrow units held in pooled funds[1]	17,847	3,295
Shares in Regnan-Governance Research and Engagement Pty Limited	100	100
Shares in James Hambro & Partners LLP	210	199
Total	**255,687**	**133,136**

1. Escrow units held in pooled funds relate to deferred employee remuneration that is held by the Pendal Group in trust until certain service conditions have been satisfied by the employee. A corresponding employee benefit liability is recognised on the Consolidated Statement of Financial Position.

Accounting policy

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified as financial assets through profit or loss or loans and receivables.

Purchases and sales of available-for-sale financial assets are recognised on trade date, being the date on which the Pendal Group commits to purchase or sell the asset. Available-for-sale financial assets are initially recognised and subsequently carried at fair value. Gains and losses arising from changes in the fair value are recognised directly in equity, until the financial asset is de-recognised (when the rights to receive cash flows from the financial assets have expired or where the Pendal Group has transferred substantially all the risks and rewards of ownership), at which time the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Income when the right to receive a payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Pendal Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Available for sale financial assets are assessed for impairment at each balance date. If objective evidence of impairment exists, such as a significant or prolonged decline in the fair value of a security below its cost, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the Statement of Comprehensive Income. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments classified as available-for-sale financial assets are not reversed through the Statement of Comprehensive Income.

C6. Borrowings

Multi-currency debt facility

On 2 November 2016, Pendal Group Limited entered into a new $25 million multi-currency debt facility with Westpac for a three year term. The facility remains undrawn at balance date.

Accounting policy

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as finance costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the Statement of Comprehensive Income as other income or finance costs.

C7. Financial risk management

The Pendal Group manages its business in Australia and outside of Australia and is consequently exposed to a number of financial risks. The key financial risks are market risk (including price risk, interest rate risk and foreign exchange risk), credit risk and liquidity risk. The Board is responsible for the establishment and oversight of an effective system of risk management. The Board delegates authority to management to conduct business activity within the limits of the approved business plans, policies and procedures.

The Pendal Group held the following financial instruments as at 30 September:

	2018 $'000	2017 $'000
Financial assets		
Cash and cash equivalents	168,134	194,199
Trade and other receivables	69,902	65,919
Available-for-sale financial assets	255,687	133,136
Derivatives	314	–
	494,037	**393,254**
Financial liabilities		
Trade and other payables	44,889	37,837
Derivatives	–	2,577
	44,889	**40,414**

C7. Financial risk management (continued)

(a) Market risk

The Pendal Group may take on exposure to market risks which include securities' price risk, interest rate risk and foreign exchange risk due to the nature of its investments and liabilities. The key direct risks are a result of investment and market volatility which have a resulting impact on the funds under management (FUM) of the Pendal Group. A reduction in FUM will reduce management fee income, calculated as a percentage of FUM, and consequently reduce net profit or loss after tax (Statutory NPAT). The Pendal Group estimates the potential movements in overall FUM, covering all its asset classes, and their impact on Statutory NPAT is as follows:

Profit sensitivity to movement in FUM:

	2018		2017	
	10% increase	10% decrease	10% increase	10% decrease
FUM ($ billion)	10.2	(10.2)	9.6	(9.6)
Statutory NPAT ($'000)	31,154	(31,052)	30,886	(30,892)

The sensitivity calculation is made on the basis of FUM as at 30 September 2018 increasing or decreasing by 10%. The profit or loss sensitivity calculation is derived by holding net flows, foreign currencies and market movements flat for 12 months, maintaining the current management fee margin, and flowing the revenue result through the current operating cost parameters and/or assumptions. Depending on the extent and duration of an actual FUM movement, management would respond with appropriate measures which would change the parameters and/or assumptions and potentially reduce or improve the calculated profit or loss impact.

(i) Price risk

The Pendal Group is exposed to securities' price risk. This arises from both FUM and investments directly held by the Pendal Group for which prices in the future are uncertain. The majority of the Pendal Group's revenue consists of fees derived from FUM. Exposure to securities price risk could result in fluctuations in FUM that would impact the Pendal Group's profitability.

Exposure to price risk also exists from directly held units in funds managed by the Pendal Group (refer C5), which invest in shares in unlisted companies and other investments.

Equity price risk sensitivity

The Pendal Group provides seed capital into a number of funds which invest in regions including the UK, Europe, Emerging Markets, US, Asia (ex Japan) and Australia which may be subject to price volatility. In aggregate, if the price increased or decreased by 10% with all other variables held constant, the value of other components of equity would move by:

	2018		2017	
	10% increase $'000	10% decrease $'000	10% increase $'000	10% decrease $'000
Equity	25,538	(25,538)	13,284	(13,284)

(ii) Interest rate risk

The Pendal Group is subject to interest rate risk, which impacts both the Pendal Group's FUM and the Pendal Group's cash balances and borrowings. This risk is managed through asset/liability management strategies that seek to limit the impact arising from interest rate movements.

Fair value sensitivity analysis

The Pendal Group does not account for any fixed rate financial instruments at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not result in a change of fair value affecting profit or loss.

C7. Financial risk management (continued)

a) Market risk (continued)

Cash flow sensitivity analysis for variable rate instruments

A change in interest rates would be applicable to the Pendal Group's cash balances and borrowings. A change of 50 bps in the average of the effective interest rates over the year ended 30 September 2018 would have increased/(decreased) Statutory NPAT and equity by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit or loss after tax		Equity	
	50 bps increase $'000	50 bps decrease $'000	50 bps increase $'000	50 bps decrease $'000
2018				
Cash and cash equivalents	632	(632)	–	–
2017				
Cash and cash equivalents	725	(725)	–	–

(iii) Foreign exchange risk

The Pendal Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Pendal Group's functional currency.

In order to manage the Pendal Group's dividend requirements, a hedging program is in place to hedge a portion of its investment in its offshore operations.

Under AASB 139 any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to any ineffective portion is recognised immediately in Statement of Comprehensive Income within other income or other expenses. Gains or losses accumulated in equity are reclassified to Statement of Comprehensive Income when the foreign operation is partially disposed of or sold.

As at 30 September 2018, the notional exposure of the Company's hedging instruments totalled $76.0 million (2017: $53.7 million).

The following table details the Pendal Group's net exposure to foreign currency as at reporting date in Australian dollar equivalent amounts:

	Financial assets				Financial liabilities			Total
	Cash at bank $'000	Trade receivables $'000	Available-for-sale $'000	Derivatives $'000	Trade payables $'000	Derivatives $'000	Borrowings $'000	Net exposure $000
2018								
GBP	79,229	25,649	52,817	314	(14,547)	–	–	143,462
EUR	44	979	1,415	–	(8,353)	–	–	(5,914)
USD	1,988	22,656	190,811	–	(3,676)	–	–	211,780
SGD	403	198	–	–	(924)	–	–	(322)
2017								
GBP	85,051	27,131	3,857	–	(11,045)	(2,577)	–	102,417
EUR	197	660	8,074	–	(8,457)	–	–	474
USD	428	18,497	116,917	–	(5,288)	–	–	130,554
SGD	463	181	–	–	(646)	–	–	(2)

The table below shows the impact on the Pendal Group's Statutory NPAT and equity of a 10% movement in foreign currency exchange rates against the Australian dollar for financial assets and financial liabilities:

	Profit or loss after tax		Equity	
	10% increase $'000	10% decrease $'000	10% increase $'000	10% decrease $'000
2018				
GBP	210	(210)	14,136	(14,136)
EUR	(733)	733	142	(142)
USD	1,758	(1,758)	19,420	(19,420)
SGD	–	–	(32)	32
2017				
GBP	1,259	(1,259)	10,242	(10,242)
EUR	(760)	760	807	(807)
USD	1,491	(1,491)	11,565	(11,565)
SGD	–	–	–	–

(b) Credit risk

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part under a contract. Credit risk exposures are monitored regularly with all Pendal Group counterparties. The major counterparties are The Westpac Group, Bank of Scotland, the funds for which Pendal Australia and JOHCM are the fund managers as well as outstanding receivables including credit exposures to wholesale and institutional clients. Exposure to credit risk arises on the Pendal Group's financial assets which are disclosed at the beginning of this Note.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The credit quality of financial assets is AA- for The Westpac Group and A+ for Bank of Scotland (2017: AA- for The Westpac Group and A for Bank of Scotland). For wholesale customers the credit quality of the customer is assessed by taking into account its financial position, past experience and other factors.

Credit risk further arises in relation to financial guarantees given to certain parties (refer E1). Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval.

(c) Liquidity risk

Liquidity risk is the risk that the Pendal Group may not be able to meet its financial obligations in a timely manner at a reasonable cost. The Pendal Group maintains sufficient cash and working capital in order to meet future obligations and statutory regulatory capital requirements.

Maturities of financial liabilities

The table below analyses the Pendal Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year $'000	Between 1 – 2 years $'000	Over 2 years $'000	Total contractual cash flows $'000	Carrying amount of liabilities $'000
2018					
Trade and other payables	44,889	–	–	44,889	44,889
2017					
Trade and other payables	37,837	–	–	37,837	37,837

(d) Fair value estimation

The Pendal Group measures and recognises its available-for-sale financial assets (see Note C5) and derivatives at fair value on a recurring basis, and its borrowings and converting notes initially at fair value and subsequently at amortised cost (see Note C6).

The Pendal Group also has a number of financial instruments which are not measured at fair value in the balance sheet. Due to the short-term nature of the current receivables and current payables, the carrying amount is assumed to approximate their fair value.

C7. Financial risk management (continued)

(i) Fair value hierarchy

The Pendal Group classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Changes in Level 2 and 3 fair values are analysed at each reporting date and there were no transfers between Levels 2 and 3 during the financial period.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2018				
Financial assets				
Available-for-sale assets:				
Units held in pooled funds [1]	–	237,530	–	237,530
Escrow units held in pooled funds [2]	–	17,847	–	17,847
Shares in James Hambro & Partners LLP [3]	–	–	210	210
Shares in Regnan-Governance Research and Engagement Pty Limited (Regnan)	–	–	100	100
Derivatives	–	314	–	314
Total financial assets	**–**	**255,691**	**310**	**256,001**
Financial liabilities				
Derivatives	–	–	–	–
Total financial liabilities	**–**	**–**	**–**	**–**
2017				
Financial assets				
Available-for-sale assets:				
Units held in pooled funds [1]	–	129,542	–	129,542
Escrow units held in pooled funds [2]	–	3,295	–	3,295
Shares in James Hambro & Partners LLP [3]	–	–	199	199
Shares in Regnan-Governance Research and Engagement Pty Limited (Regnan)	–	–	100	100
Total financial assets	**–**	**132,837**	**299**	**133,136**
Financial liabilities				
Derivatives	–	2,577	–	2,577
Total financial liabilities	**–**	**2,577**	**–**	**2,577**

Notes:

1. These securities represent shares held in unlisted pooled funds managed by the Pendal Group and are measured at fair value. The fair value is measured with reference to the underlying net asset values of the pooled funds.
2. Escrow units held in pooled funds relate to deferred employee remuneration that is held by the Pendal Group in trust until certain service conditions have been satisfied by the employee. A corresponding employee benefit liability is recognised on the Consolidated Statement of Financial Position.
3. James Hambro & Partners LLP is an independent private asset management partnership business.

C7. Financial risk management (continued)

(ii) Valuation techniques used to derive Level 2 and Level 3 fair values

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments that are not in an active market are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and do not rely on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3, as is the case for unlisted equity securities.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Pendal Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Specific valuation techniques used to value financial instruments include:

Pooled funds

JOHCM has two open-ended investment companies (OEICs), domiciled in the United Kingdom and Ireland, an open-end registered investment company responsible for the JOHCM mutual fund range and Delaware Statutory Trust, both domiciled in the United States of America. Each investment vehicle is an umbrella scheme with various sub-funds, each with their own investment strategy. Each sub fund had a single price directly linked to the fair value of its underlying investments.

Pendal Australia have unit trusts, domiciled in Australia where units are redeemable at any time for cash based on redemption price, which is equal to a proportionate share of the unit trust's net asset value.

Shares

The shares in Regnan and in James Hambro & Partners LLP are considered Level 3 as the inputs to the asset valuation are not based on observable market prices and are measured at cost, which approximates the fair value of the shares held based on the net assets of the company at balance date. The Pendal Group performs the valuations for Level 3 fair values for financial reporting purposes. The valuations are carried out half-yearly in line with the Pendal Group's reporting dates.

Derivatives

The fair value of derivative foreign exchange forward contracts that are designated as hedging instruments was determined using forward exchange rates at balance date.

(iii) Unobservable inputs

The following table represents the movement in Level 3 financial instruments:

	Shares in Regnan $'000	Shares in James Hambro & Partners LLP $'000	Total fair value – level 3 $'000	Carrying amount $'000
2018				
Balance at the beginning of the financial period	100	199	299	299
Effects of foreign exchange movements	–	11	11	11
Balance at the end of the financial period	100	210	310	310
2017				
Balance at the beginning of the financial period	100	197	297	297
Effects of foreign exchange movements	–	2	2	2
Balance at the end of the financial period	100	199	299	299

D. Employee remuneration

This section provides a breakdown of how the Pendal Group rewards and remunerates its employees, including Key Management Personnel (KMP). Talent management is at the centre of Pendal Group's remuneration systems which are aimed at attracting, retaining and equitably rewarding its highly talented workforce while safeguarding the interests of its clients and delivering returns to shareholders.

Further information on Pendal Group's overall remuneration approach, remuneration of KMP and insights into how the fund managers, sales teams and general corporate employees are remunerated can be found in the Remuneration Report.

D1. Employee benefits

	2018 $'000	2017 $'000
Annual leave	1,678	1,478
Long service leave	1,535	1,235
Provision for incentives	97,532	103,152
Total current employee liabilities	**100,745**	**105,865**
Long service leave	1,135	1,219
Provision for incentives	5,826	4,411
Total non-current employee liabilities	**6,961**	**5,630**

Included in employee expenses recognised in the Consolidated Statement of Comprehensive Income is an amount related to the Pendal Group's defined contributions to employees' superannuation and pensions of $5.0 million (2017: $4.5 million)

Accounting policy

Employee benefits

Employee benefit liabilities represents accrued wages, salaries, annual and long-service leave entitlements and other incentives recognised in respect of employee services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled and include related on-costs, such as payroll tax.

D2. Share-based payments

(a) Share options and performance share rights

The Pendal Group has four long-term incentive plans which are aimed at driving performance by delivering value only when specific performance hurdles are met or exceeded. Under these plans eligible employees are granted either nil cost options or performance share rights in the Company, which convert to ordinary shares on a one-to-one basis when performance and service conditions are met.

Scheme	Description	Vesting conditions	Vesting period
Pendal Australia Performance Reward Scheme (Pendal Aust PRS)	This scheme gives the employee the right to receive ordinary shares at a future point in time upon meeting specified vesting conditions, with no amount payable. They are granted at no consideration and carry no dividend entitlement or voting rights until they vest, however, there will be a dividend-equivalent payment made for dividends attributable to performance share rights that vest at the end of the performance period.	Continued employment and performance hurdles based on Total shareholder return (TSR), and Cash earnings per share growth (Cash EPS).	Up to 8 years
JOHCM Performance Reward Schemes (JOHCM PRS)	This scheme gives the employee the right to receive ordinary shares at a future point in time upon meeting specified vesting conditions, with no amount payable. They are granted at no consideration and carry no dividend entitlement or voting rights until they vest, however, there will be a dividend-equivalent payment made for dividends attributable to performance share rights that vest at the end of the performance period.	Continued employment and performance hurdles based on TSR, and Cash EPS.	3 years
JOHCM Long Term Retention Equity – nil cost options (LTR – NCOs)	As part of the acquisition of JOHCM, JOHCM fund managers were awarded nil cost options which will vest and be exercised into ordinary shares in the Company, on a one-to-one basis.	Continued employment and FUM retention.	Up to 1 year post fund manager departure
JOHCM Long Term Retention Equity – (NCOs)	Following the JOHCM acquisition additional awards were made. The number of other nil cost options awarded is determined with reference to individual performance each year through the performance period ending 30 September.	Continued employment.	Up to 7 years

Number and weighted average exercise price (WAEP) of nil cost options and performance share rights awarded during the year:

	Pendal Aust PRS		JOHCM PRS		LTR – NCOs		NCOs	
	Rights No.	WAEP $	Rights No.	WAEP $	Rights No.	WAEP $	Rights No.	WAEP $
2018								
Outstanding at 1 October	1,087,115		973,750		5,618,628		6,772,201	
Granted	340,450	8.95	339,829	8.95	–	–	1,482,085	10.69
Vested / Exercised	(407,926)		(318,000)		(681,346)		–	
Forfeited	(142,155)		(383,916)		–		–	
Lapsed	(20,672)		(16,116)		–		–	
Outstanding at 30 September	856,812		595,547		4,937,282		8,254,286	
Exercisable at 30 September	137,910		99,960		681,346		–	
2017								
Outstanding at 1 October	1,565,927		1,033,125		5,618,628		5,393,012	
Granted	399,030	7.31	397,372	7.31	–	–	1,379,189	10.82
Vested / Exercised	(786,895)		(425,792)		–		–	
Forfeited	(90,947)		(30,955)		–		–	
Lapsed	–		–		–		–	
Outstanding at 30 September	1,087,115		973,750		5,618,628		6,772,201	
Exercisable at 30 September	417,882		325,762		681,346		–	

D2. Share-based payments (continued)

Fair value of nil cost options granted during the year

The fair value of the options are valued with reference to the Company's share price at grant date. The fair value at grant date of the nil cost options issued during the year was $10.69 (2017: $10.82). The weighted average remaining contractual life of outstanding nil cost options as at 30 September 2018 was 1.4 years (2017: 2.4 years).

Fair value of performance share rights awarded during the year

The fair value of the performance share rights linked to Cash EPS or revenue targets are valued with reference to the Company's share price at grant date and the fair value of performance share rights linked to TSR are determined using a Monte Carlo simulation pricing model with the following inputs:

- Risk free interest rate 2.15%
- Volatility 32%
- Dividend yield 0%

The fair value at grant date of the performance share rights issued during the year was $6.85 (2017: $5.68) for the TSR performance share rights and $11.04 (2017: $8.94) for the Cash EPS performance share rights. The weighted average remaining contractual life of outstanding performance share rights at 30 September 2018 was 1.5 years (2017: 1.6 years).

(b) Equity grants

The Pendal Group has a number of short-term incentive schemes, under which ongoing equity grants are made to employees and key management personnel. Details of the schemes are as follows:

Scheme	Description	Vesting conditions	Vesting period
Pendal Australia new and existing employee equity grants	New and existing employees may receive one-off equity grants for retention.	Continued employment	Up to 5 years
Pendal Australia Boutique variable reward scheme	Eligible fund managers receive variable remuneration based on a profit share arrangement directly attributed to the boutique, with a portion of the variable reward deferred into ordinary shares in the Company.	Continued employment	Up to 5 years
Pendal Australia Corporate variable reward scheme	Management employees are paid a combination of fixed and variable reward in the form of cash and mandatorily deferred ordinary shares in the Company.	Continued employment	Up to 5 years
Pendal Australia Annual CEO award	To recognise individual achievement, the winner of the Annual CEO Award is eligible to receive $5,000 of ordinary shares in the Company.	Continued employment	Up to 1 year
Sales Incentive Plans	Incentive scheme designed to reward performance of Business Development Managers who work within the Pendal Australia and JOHCM sales teams.	Continued employment	Up to 5 years
JOHCM Fund manager variable reward scheme	Eligible fund managers receive variable remuneration based on a profit share arrangement with a portion of the variable reward deferred into ordinary shares in the Company.	Continued employment	Up to 5 years
JOHCM Corporate variable reward scheme	Management employees are paid a combination of fixed and variable reward in the form of cash and/or ordinary shares in the Company.	Continued employment	Up to 5 years

Number and weighted average grant date fair value of equity grants awarded during the year:

	Equity grants 2018 Number	Fair value 2018 $	Equity grants 2017 Number	Fair value 2017 $
Total	2,235,949	10.69	2,058,802	10.82

Fair value of equity grants awarded during the year

The fair value of the equity grants was estimated by taking the Company's share price on grant date and a discount rate reflecting the expected dividend yield over their vesting periods.

D2. Share-based payments (continued)

(c) Fund linked equity (FLE)

The fund linked equity scheme is for JOHCM fund managers which allow them to convert part of the revenue generated from the growth in FUM related to their investment strategies into ordinary shares in the Company based on a pre-determined formula.

No dividends are payable on the fund linked equity and the fund linked equity does not carry voting rights.

The fair value of the fund linked equity at the time of grant is independently determined based on a market based valuation of the investment strategies.

At the time of conversion, the number of ordinary shares in the Company exchanged for fund linked equity is based on a pre-determined formula which applies a market based measure to the after-tax profits generated by the investment strategies. The ordinary shares in the Company exchanged subsequently have a vesting profile over a period of five years.

The fund linked equity is an equity settled scheme which is not re-measured after grant date. If the scheme was re-measured to reflect current after tax profits generated by the investment strategies, the current value of the fund linked equity issued would exceed the valuation accounted for at grant date.

During the year, new FLE awards were issued to one investment team who had rights to participate in the FLE Scheme. In addition the Company issued 2,304,178 ordinary shares to two investment teams who converted their previously issued awards under the FLE Scheme. The shares issued are subject to vesting conditions of up to five years.

Further details on the FLE Scheme are outlined on pages 36 to 38 of the Remuneration Report.

(d) Expenses arising from share-based payment transactions

Expenses of the Pendal Group arising from share-based payment transactions recognised during the financial year as part of employee benefit expense were as follows:

	2018 $'000	2017 $'000
Total amortisation of employee equity grants	43,303	53,672

Critical accounting assumptions and estimates: Share based payments

The cost of equity-settled share-based payments is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value calculation is performed by an external valuation expert and is determined using Binomial/Monte-Carlo simulation valuation techniques and other market based valuation techniques, taking into account the terms and conditions upon which the equity instruments were granted. The valuation methodologies involve a number of judgements and assumptions which may impact the share based payment expense taken to profit and loss and equity.

The tax effect of the excess of estimated future tax deductions for share-based payments over the related cumulative remuneration expense is recognised directly in equity. The estimated future tax deduction is based on the share price of ordinary shares in the Company at balance date in accordance with AASB 112 Income Taxes.

Accounting policy

Share-based payments

Share-based payment compensation benefits are provided to employees via employee share, performance share rights and option schemes. The fair value of shares, performance share rights and options granted to employees for no consideration is recognised as an expense over the vesting period, with a corresponding increase in shareholders' equity. The fair value of shares, performance share rights and options granted without market-based vesting conditions approximates the listed market price of the shares on the ASX at the date of grant. The fair value of shares granted with market-based vesting conditions has been determined using option-equivalent valuation methodologies. The fair value of performance share rights and options granted are measured using Binomial/Monte-Carlo simulation valuation techniques, taking into account the terms and conditions upon which the performance share rights and options were granted.

D3. Key management personnel disclosures

(a) KMP compensation

	2018 $	2017 $
Short-term employee benefits	6,053,908	5,790,661
Post-employment benefits	169,975	152,888
Long-term benefits	32,549	35,234
Share-based payments	1,629,867	(2,795,351)
Total	**7,886,299**	**3,183,432**

(b) Shareholdings

The following table sets out details of number of ordinary shares in the Company held by key management personnel (including their related parties):

	2018	2017
Held at the beginning of the year	1,677,407	2,617,707
Granted as remuneration	141,701	186,211
Purchases	16,694	19,981
Sales	(11,109)	(1,260,535)
Other changes[1]	76,154	114,043
Held at the end of the year	**1,900,847**	**1,677,407**

1. Other changes relate to the conversion of performance share rights to ordinary shares and change of key management personnel during the year.

(c) Other equity instruments

The following table sets out the number of performance share rights and converting notes held by key management personnel (including related parties):

	2018			2017		
	Performance share rights	Performance shares	Converting notes	Performance share rights	Performance shares	Converting notes
Held at the beginning of the year	646,495	–	–	744,168	2,049,230	968,728
Granted as remuneration	312,168	–	–	331,800	–	–
Acquired during the year	–	–	–	–	–	–
Vested during the year	(183,229)	–	–	(262,910)	(204,923)	(968,728)
Lapsed during the year	(9,270)	–	–	–	(1,844,307)	–
Other changes[2]	(363,117)	–	–	(166,563)	–	–
Held at the end of the year	**403,047**	**–**	**–**	**646,495**	–	–

2. Other changes relate to change of key management personnel during the year.

E. Group structure

This section explains significant aspects of the Pendal Group structure including changes during the year.
The ultimate parent entity within the Pendal Group is Pendal Group Limited which is a listed entity in Australia with subsidiaries in Australia and overseas.

E1. Parent entity information

(a) Summary financial information

	Company	
	2018 $'000	2017 $'000
Profit for the financial year	180,803	151,762
Total comprehensive income for the financial year	**187,338**	**150,693**
Current assets	87,842	116,555
Total assets	**817,041**	**758,100**
Current liabilities	32,657	43,371
Total liabilities	**39,011**	**45,859**
Shareholders' equity:		
Contributed equity	435,785	426,577
Reserves		
Common control reserve	(25,472)	(25,472)
Share-based payment reserve	196,836	179,334
Available for sale reserve	10,889	1,999
Foreign currency translation reserve	(5,383)	(3,068)
Cash flow hedge reserve	10	–
Retained earnings	165,365	132,871
Total equity	**778,030**	**712,241**

(b) Guarantees entered into by the parent entity

The parent entity has guaranteed the obligations of its subsidiary, PIL, to its institutional clients. The effect of the guarantee which is capped at $5 million will provide recourse to capital exceeding the minimum regulatory capital required to be maintained by PIL.

(c) Contingent liabilities of the parent entity

The parent entity has contingent liabilities as outlined in Note F3.

(d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity had no contractual commitment for the acquisition of property, plant and equipment (2017: $nil).

Accounting policy

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements of the Pendal Group except for the items below.

Capital contributions

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Pendal Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

E2. Subsidiaries and controlled entities

			Equity holding	
Name	Country of incorporation/ formation	Class of shares	2018 %	2017 %
Pendal Institutional Limited	Australia	Ordinary	100	100
Pendal Fund Services Limited	Australia	Ordinary	100	100
Pendal UK Limited	UK	Ordinary	100	100
J O Hambro Capital Management Holdings Limited	UK	Ordinary	100	100
J O Hambro Capital Management Limited	UK	Ordinary	100	100
JOHCM (USA) Inc.	USA	Ordinary	100	100
JOHCM (Singapore) PTE Limited	Singapore	Ordinary	100	100
JOHCM Funds (UK) Limited	UK	Ordinary	100	–
JOHCM Funds (Ireland) Limited	Ireland	Ordinary	100	–
Pendal Group Limited Employee Equity Plan Trust	Australia	Ordinary	–	–
Pendal Group Employee Benefit Trust	Jersey	Ordinary	–	–

Accounting policy

Principles of consolidation

The Financial Report incorporates the financial statements of the Company and entities controlled by the Pendal Group and its subsidiaries. Subsidiaries are all those entities over which the Pendal Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the Company obtains control and until such time as control ceases.

In preparing the Financial Report, all Intercompany transactions, balances and unrealised gains arising within the Pendal Group are eliminated in full.

Controlled entities within the Pendal Group conduct investment management and other fiduciary activities as responsible entity, trustee or manager on behalf of individuals, trusts, retirement benefit plans and other institutions. These activities involve the management of assets in investment schemes and superannuation funds, and the holding or placing of assets on behalf of third parties.

Where the controlled entities, as responsible entity or trustee, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. To the extent these assets are sufficient to cover liabilities, and it is not probable that the controlled entity will be required to settle them; the liabilities are not included in the consolidated financial statements.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses included in the Statement of Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income in the foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

E3. Unconsolidated structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity and the relevant activities are directed by means of contractual arrangements. The Pendal Group has significant influence over the funds it manages due to its power to participate in the financial and operating policy decisions of the investee through its investment management agreements.

The Pendal Group considers all its fund vehicles to be structured entities. The Pendal Group invests in its own capital for the purpose of seeding fund vehicles to develop a performance track record prior to external investment being received. The Pendal Group also receives management and performance fees for its role as investment manager.

The funds' objectives range from achieving medium to long term capital growth and whose investment strategy does not include the use of leverage. The funds invest in a number of different financial instruments including equities and debt instruments. The funds finance their operations by issuing redeemable units which are puttable at the holder's option and entitle the holder to a proportional stake in the respective fund's net assets.

The Pendal Group holds redeemable units in its managed funds. The nature and extent of the Pendal Group's interests in funds is summarised by asset class below:

	Australian equities $'000	Australian diversified and property $'000	Australian cash and fixed income $'000	International equities $'000	Other $'000	Total $'000
2018						
Cash and cash equivalents	–	–	71,539	–	–	71,539
Trade and other receivables	2,233	–	1,352	31,910	264	35,759
Available-for-sale financial assets	–	–	–	255,377	–	255,377
Total Assets	**2,233**	**–**	**72,891**	**287,287**	**264**	**362,675**
Maximum exposure to loss	**2,233**	**–**	**72,891**	**287,287**	**264**	**362,675**
Net asset value of funds	3,235,807	1,610,023	4,241,378	41,750,159	918,009	51,755,376
2017						
Cash and cash equivalents	–	–	82,814	–	–	82,814
Trade and other receivables	3,130	–	5,456	30,875	–	39,461
Available-for-sale financial assets	–	–	–	132,837	–	132,837
Total Assets	**3,130**	**–**	**88,270**	**163,712**	**–**	**255,112**
Maximum exposure to loss	**3,130**	**–**	**88,270**	**163,712**	**–**	**255,112**
Net asset value of funds	2,924,966	1,224,964	3,890,571	38,334,751	840,750	47,216,002

Unless specified otherwise, the Company's maximum exposure to loss is the total of its on-balance sheet positions as at reporting date. There are no additional off balance sheet arrangements which would expose the Company to potential loss.

During the year the Company earned both management and performance fee income from structured entities. Refer to Note B2 for further information.

E4. Related party transactions

J D Hambro is Deputy Chairman of J O Hambro Capital Management Holdings Limited, a wholly owned subsidiary of the Company, and is also a member and has a significant holding directly and indirectly in James Hambro & Partners LLP (JH&P), of which JOHCM holds a 5.13% interest (2017: 5.13%).

J D Hambro is also a director and substantial holder of Runnall Limited, and a director and shareholder of JH&P Holdings Limited, which are both members of JH&P.

J D Hambro holds an equity interest in Barnham Broom Holdings Limited which holds the trademark licences for the J O Hambro name. The licence for the trademark is for a term of 7 years at a fee of $90,580/£50,000 (2017: $85,543/£50,000), which was extended to 26 April 2019 subsequent to year-end.

F. Other

This section provides details on other required disclosures to comply with the Australian Accounting Standards and International Financial Reporting Standards.

F1. Intangible assets

	Goodwill $'000	Fund and investment management contracts $'000	Other intangibles $'000	Total $'000
2018				
Net book value as at 1 October 2017	463,341	69,997	1,940	535,278
Additions	–	–	845	845
Foreign exchange gain	13,588	3,994	–	17,582
Amortisation expense	–	(5,735)	(746)	(6,480)
Impairment loss	–	(1,967)	(245)	(2,211)
Net book value as at 30 September 2018	**476,929**	**66,290**	**1,794**	**545,013**
Represented by:				
Cost	*476,929*	*134,988*	*4,710*	*616,628*
Accumulated amortisation and impairment	*–*	*(68,698)*	*(2,916)*	*(71,615)*
2017				
Net book value as at 1 October 2016	462,049	77,620	1,834	541,503
Additions	–	–	755	755
Foreign exchange loss	1,292	216	–	1,508
Amortisation expense	–	(5,639)	(649)	(6,288)
Impairment loss	–	(2,200)	–	(2,200)
Net book value as at 30 September 2017	**463,341**	**69,997**	**1,940**	**535,278**
Represented by:				
Cost	*463,341*	*127,459*	*4,242*	*595,042*
Accumulated amortisation and impairment	*–*	*(57,462)*	*(2,302)*	*(59,764)*

F1. Intangible assets (continued)

Fund and investment management contracts:
Fund management contracts relate to contractual relationships to manage open-ended funds (OEICs). Investment management contracts comprise contractual relationships with individual clients. They were acquired via the business combination with JOHCM and are made up as follows:

	2018 $'000	2017 $'000
Fund management contracts – OEICs	60,056	61,995
Investment management contracts – Segregated mandates	6,234	8,002
Total	**66,290**	**69,997**

The recoverable amount of each fund and management contract has been measured using the present value of future cash flows expected to be derived for each asset. The discount rate used to discount the cash flow projections (post tax) is 12% (2017:12%), based on the cost of capital.

An impairment loss of $2.0 million (2017: $2.2 million) due to the re-measurement of the fund and investment management contracts to the lower of their carrying value and their recoverable amount is included in the depreciation, amortisation and impairment expense in the Statement of Comprehensive Income. Reversal of impairment losses are made in certain circumstances if there has been a change in forecasts and market conditions used in determining the recoverable and carrying amounts.

Goodwill:
Goodwill has been derived from the following business combinations:

	2018 $'000	2017 $'000
Purchase of the investment management business from Westpac effective 19 October 2007	233,300	233,300
Acquisition of JOHCM effective 1 October 2011	243,629	230,041
Total	**476,929**	**463,341**

For the purpose of impairment testing, assets are grouped at the lowest level for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units or CGUs). To determine if goodwill is impaired, the carrying value of the identified CGU to which the goodwill is allocated is compared to its recoverable amount.

Goodwill is allocated to CGUs according to operating segments (refer B1). Goodwill attributable to Pendal Australia and Pendal International is $233.3 million and $243.6 million respectively.

The recoverable amount of each CGU is determined using a 'Fair value less cost of disposal' methodology that utilises cash flow projections (post tax) based on management's best estimates over a 5 year period and then applies a terminal value in perpetuity of 3%. The discount rates used to discount the cash flow projections for Pendal Australia and Pendal International are rounded up to 11% and 12% (2017: 11% and 12%) respectively based on the cost of capital (post tax) for each of these CGU's.

Management is of the view that reasonably possible changes in the key assumptions, such as an increase to the discount rate of 2% or a reduction in cash flow of 10%, would not cause the recoverable amount for each CGU to fall short of the carrying amounts as at 30 September 2018.

There has been no impairment of goodwill during the year ended 30 September 2018. The amount of goodwill relating to the JOHCM acquisition has been translated from the British pound to Australian dollar using the spot rate at 30 September 2018.

Accounting policy

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Pendal Group's share of the net identifiable assets acquired at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

Fund and investment management contracts

Fund and investment management contracts acquired as part of a business combination are recognised separately from goodwill. They are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, currently estimated at between 5 and 20 years.

F1. Intangible assets (continued)

Accounting policy

Other intangibles

Other intangibles relates to IT development and software costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction. Costs capitalised include external direct costs of service and are recognised as intangible assets. Amortisation is calculated on a straight-line basis between three and five years.

Impairment

Goodwill and other intangibles assets are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired, or whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

An impairment loss is recognised through the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount. Intangible assets other than goodwill are reviewed for possible reversal of impairment losses at each reporting date. Reversals are made in certain circumstances if there has been a change in forecasts and market conditions used in determining the recoverable and carrying amounts.

Critical accounting assumptions and estimates: Intangible assets

The Fund and investment management contracts are initially measured at their fair value. This involves the use of judgements, estimates and assumptions about future fund flows and investment performance, based largely on past experience and contractual arrangements.

The Pendal Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on 'fair value less cost of disposal' methodology which requires the use of assumptions. Key assumptions requiring judgement include projected cash flows, growth rate assumptions and, discount rates.

F2. Lease and capital commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2018 $'000	2017 $'000
Within one year	4,630	4,121
Later than one year but not later than five years	26,711	16,072
Later than five years	21,496	5,248
Total commitments	**52,837**	**25,441**

Lease commitments predominantly represent property leases entered into by the Pendal Group. The Pendal Group had no finance leases as at 30 September 2018.

During the year, a 10 year lease was entered into for a new London office to accommodate recent and future growth in the business. The existing premises are expected to be vacated from 26 November 2018 and remain unlet with a further 24 months remaining before the lease can be terminated. As there is currently no immediate prospect of being let, the Pendal Group has recognised an onerous contract provision of $3.8 million (£2.1 million) for the year ended 30 September 2018, representing the future amounts payable under the existing lease.

As at 30 September, $3.9 million in capital expenditure for the new London office was committed to and is unpaid.

Accounting policy

Leases

When the terms of a lease transfer substantially all the risks and rewards of ownership to the Pendal Group, the lease is classified as a finance lease, all other leases are classified as operating leases. Payments made under operating leases are recognised as an expense on a straight-line basis over the period of the lease, net of any incentives received from the lessor which are deducted from the lease incentive liability in the Statement of Financial Position.

F3. Contingent assets and liabilities

Performance fees

The Pendal Group manages the investments of certain funds and clients for which it may be entitled to receive fees contingent upon performance of the portfolio managed, on an annual basis or longer. Performance fees which are contingent upon performance to be determined at future dates have not been recognised as income or as a receivable at 30 September 2018 as they are not able to be estimated or measured reliably and may change significantly. All fees are exposed to significant risk associated with the funds' performance, including market risks (such as price risk, interest rate risk and foreign exchange risk) and liquidity risk.

Regulatory authority

J O Hambro Capital Management Limited is the subject of an investigation by its UK regulator relating to the eligibility of certain services approximating $9.1 million (£5.0 million) paid for out of dealing commissions between 2006 and 2016. It is possible that, as part of the investigation, the eligibility of other services may also be assessed. This is a continuation of the dialogue arising out of a thematic industry review referenced in Pendal Group's prior period financial reports. The UK regulator has stated that, although an investigation has been commenced, this does not mean that any determination has been made that rule breaches and/or other contraventions have occurred. The likely outcome or consequence of this matter (including any sanctions or penalties) is unable to be reliably estimated at this time.

Capital guarantee

The Company has guaranteed the obligations of PIL to its institutional clients. The effect of the guarantee, which is capped at $5 million in aggregate, will provide recourse to capital exceeding the minimum regulatory capital required to be maintained by PIL.

F4. Remuneration of auditors

(a) Audit and other services – Australia

	2018 $	2017 $
PricewaterhouseCoopers		
Audit and review of Financial Reports	407,798	441,224
Other services	14,000	14,000
Audit of Australian Financial Service Licences	17,364	17,364
Total remuneration for services – Australia	**439,162**	**472,588**

(b) Audit and other services – outside of Australia

	2018 $	2017 $
PricewaterhouseCoopers		
Audit and review of Financial Reports	253,624	234,388
Other services	126,436	–
Financial Conduct Authority client assets report	117,754	83,832
	497,814	**318,220**

(c) Non-audit services

It is the Pendal Group's policy to engage PwC on assignments additional to their statutory audit duties where PwC's expertise and experience is important to the Pendal Group.

(d) Other services to non-consolidated trusts

The external auditor, PwC, provides audit and non-audit services to non-consolidated trusts for which PFSL and PIL act as trustee, manager or responsible entity. The fees were approximately $1,310,759 for the financial year (2017: $1,509,757).

F5. Subsequent events

Subsequent to year end, the licence for the J O Hambro trademark was extended to 26 April 2019.

There is no other matter or circumstance which is not otherwise reflected in this Financial Report that has arisen subsequent to the balance date, which has significantly affected or may significantly affect the operations of the Pendal Group, the results of those operations or the state of affairs of the Pendal Group in subsequent financial periods.

Directors' Declaration

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2018

In the Directors' opinion:

a) the financial statements and notes set out on pages 61 to 95 are in accordance with the *Corporations Act*, including:

i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements

ii) giving a true and fair view of the Pendal Group's financial position as at 30 September 2018 and of its performance for the year ended on that date; and

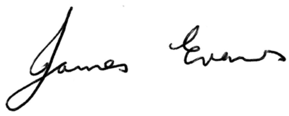
b) there are reasonable grounds to believe that Pendal Group Limited will be able to pay its debts as and when they become due and payable.

Note A1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations required under section 295A of the *Corporations Act* by the Group Chief Executive Officer and Group Chief Financial Officer.

This declaration is made in accordance with a resolution of the Directors.

For and on behalf of the Board.



James Evans
Chairman

Emilio Gonzalez
Managing Director and Group Chief Executive Officer

Sydney, 8 November 2018

Independent auditor's report

To the members of Pendal Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Pendal Group Limited (formerly known as BT Investment Management Limited) (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 September 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group's financial report comprises:

- the consolidated statement of financial position as at 30 September 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the 'Code') that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

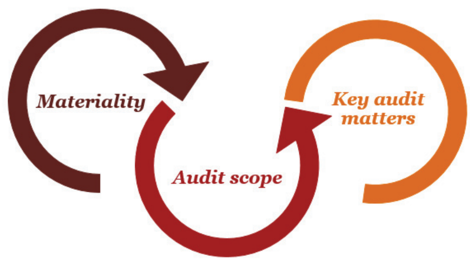
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates. The Group provides investment management services through its two operating segments comprised of the investment management business in Australia (Pendal Australia formerly known as BTIM Australia) and outside Australia (Pendal International formerly known as BTIM International).



Materiality	***Audit scope***	***Key audit matters***
• For the purpose of our audit we used overall Group materiality of $12.5 million, which represents approximately 5% of the Group's profit before tax. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is commonly measured. • We utilised a 5% threshold based on our professional	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The Group engagement team directed the involvement of component auditors, who performed an audit of the financial information of Pendal International. All other audit procedures were performed by the Group engagement team. • For the work performed by component auditors, we considered the level of involvement we needed to have in their audit work to be able to evaluate whether sufficient appropriate audit evidence had been obtained as a basis for	• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: – Carrying value of intangible assets comprising goodwill and fund and investment management contracts – Accounting for employee remuneration schemes and employee incentives – Recognition of fee revenue • These are further described in the *Key audit matters* section of our report.

judgement, noting it is within the range of commonly acceptable thresholds.	our opinion on the Group financial report as a whole. This included active dialogue during the audit and review of their work.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	***How our audit addressed the key audit matter***
Carrying value of intangible assets - goodwill and fund and investment management contracts *Refer to Note F1 of the financial report* This was a key audit matter as the intangible assets were the largest asset balance ($545 million as at 30 September 2018) and due to the complexity and judgments in the discounted cash flow models used each year by the Group to perform an impairment assessment of the assets. The Group's significant judgements in assessing impairment of goodwill, fund and investment management contracts included forecasting cash flows of the Group for five years for goodwill and between five and twenty years for fund and investment management contracts, which involved making revenue growth rate and discount rate assumptions.	Our audit procedures on the goodwill asset included, amongst others: • Obtaining an understanding and evaluating relevant controls associated with the Group's goodwill impairment process. • Assessing whether the Group's determination of Cash Generating Units (CGUs), which are the smallest identifiable groups of assets that can generate largely independent cash inflows, was consistent with our understanding of the nature of the Group's operations and internal Group reporting. • Testing the mathematical accuracy of the calculations in the discounted cash flow models used in the impairment assessment (the models). • Evaluating the cash flow forecasts used in the models and the process by which they were developed, including comparing the forecasts to historical results and the latest Board-approved management accounts. • Assessing the historical ability of the Group to forecast future cash flows by comparing current year (2018) actual results with the prior year (2017) forecast to consider whether any forecasts included assumptions that, with hindsight, had been optimistic. • Comparing the key assumptions for revenue growth rates and discount rates with market information, calculating what rates would result in an impairment and considering whether these levels were reasonably possible based on our knowledge of the business and historical results. • Performing stress-test calculations of the potential impact from severe market shocks on the impairment of goodwill.

Key audit matter	*How our audit addressed the key audit matter*
	• Assessing if the disclosures of the goodwill are in accordance with the requirements of Australian Accounting Standards. Our audit procedures on the fund and investment management contracts included, amongst others: • Selecting a sample of contracts based on certain risk criteria and comparing the cash flow forecasts in the discounted cash flow model used to assess impairment to actual contract performance for the year. • Recalculating the amortisation charge for the year for each contract and comparing this to the Group's calculations, checking that the key inputs were consistent with contractual terms. • Varied key assumptions within the model to identify what change would result in an impairment. • Assessing if the Group's disclosures relating to fund and investment management contracts are in accordance with the requirements of Australian Accounting Standards.
Accounting for employee remuneration schemes and employee incentives *Refer to Section D and the remuneration report of the financial report* Accounting for employee remuneration schemes and incentives, specifically Fund Linked Equity (FLE) and share-based payments, was a key audit matter due to the financial significance of the expenses in the consolidated statement of comprehensive income, the nature of the expenses and the level of judgement that is applied in their determination, including assessing the likelihood of specific performance hurdles being met. During the year, the Group issued 2.3 million ordinary shares to satisfy a partial exercise of the equity rights by fund managers under the FLE schemes.	Our audit procedures performed on the FLE expense included, amongst others: • Recalculating the FLE expense and agreeing the key inputs in the calculation (such as the listed share price of the Group, FUM, margin, earnings per share) to appropriate supporting data. • Obtaining an understanding of performance hurdles specified in the FLE agreements and assessing if the calculations of the FLE were consistent with the actual performance. • Assessing the disclosures in the financial report in light of our understanding of the matter and the requirements of Australian Accounting Standards. Our audit procedures performed on the share-based payments expense included, amongst others: • For a sample of employees, compared the number of shares granted in the year to third party confirmations and approval by the Company, and agreeing the grant date share price to published pricing data. • For grants made in prior periods, recalculating the

Key audit matter	*How our audit addressed the key audit matter*
	amortisation expense for the current year based upon the grant date share price and the number of shares. • For a sample of share-based payment expenses recognised during the year, we obtained the relevant employee contract and checked the performance and service conditions were met. • Recalculating the current and deferred tax impact of the accounting entries posted.
Recognition of fee revenue *Refer to Note B2 of the financial report* This was a key audit matter because revenue was the most significant account balance in the consolidated statement of comprehensive income. Additionally, although there was no significant judgement involved in their determination, performance fees fluctuate depending on market performance and some employee incentives are linked to fund performance. Revenue of $558 million comprises a number of streams including, amongst others: • Investment management fees ($504 million) • Performance fees ($54 million) • Transactions fees ($0.3 million) The calculations of these fees were performed by the service providers used by the Group to provide accounting and other services. The terms of these fees were set out in signed agreements and are invoiced regularly throughout the year.	In relation to the key controls over recognising fee revenue for Pendal Australia • We obtained the most recent report issued by the provider of accounting and administration services setting out the controls in place at that service organisation (including those over the recognition of fee revenue). This report included an independent audit opinion over the design and operating effectiveness of those controls. • We assessed the report by: developing an understanding of the control objectives and associated control activities; evaluating the tests undertaken by the auditor; and evaluating the results of these tests and the conclusions formed by the auditor on the design and operational effectiveness of controls to the extent relevant to our audit of the Group. For Pendal International and Pendal Australia, we also performed the following audit procedures, amongst others: • Assessing whether the revenue accounting policy was consistent with the requirements of Australian Accounting Standards. • Agreeing a sample of investment management, performance and transaction fees back to invoices and relevant supporting external evidence, such as underlying fund financial statements and third party calculations (Pendal International). • Recalculating a sample of investment management fees and performance fees.

pwc

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 September 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Report included in the Group's financial report. We expect the remaining other information to be made available to us after the date of this auditor's report, including Chairman's Letter, Group Chief Executive Officer's Report, Strategic Report, Global Operating Review, Investment Strategies Overview, Corporate Sustainability & Responsibility, Shareholder information, Glossary and Corporate Directory.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 29 to 58 of the directors' report for the year ended 30 September 2018.

In our opinion, the remuneration report of Pendal Group Limited for the year ended 30 September 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Group are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

V. Papageorgiou

Voula Papageorgiou
Partner

Sydney
8 November 2018

Shareholder Information

The shareholder information set out below is current as at 12 October 2018.

Securities Exchange Listing

The ordinary shares of Pendal Group Limited are listed on the Australian Securities Exchange under the ASX code PDL.

Number of shareholders and shares on issue

The Company has 318,006,576 ordinary shares on issue, held by 31,127 shareholders.

Twenty largest shareholders

Details of the 20 largest holders of ordinary shares in the Company are:

	Name	Number of shares	%
1	HSBC Custody Nominees (Australia) Limited	58,282,160	18.33
2	J P Morgan Nominees Australia Limited	39,376,372	12.38
3	Westpac Financial Services Group Limited	30,814,493	9.69
4	Pacific Custodians Pty Limited <PDL Plans Ctrl A/C>	27,062,307	8.51
5	Citicorp Nominees Pty Limited	15,102,916	4.75
6	National Nominees Limited	12,687,982	3.99
7	BNP Paribas Nominees Pty Ltd <Agency Lending Drp A/C>	9,464,705	2.98
8	Equiniti Tst (Jersey) Ltd <PDL Emp Benefit Tst 3 A/C>	8,254,286	2.6
9	Equiniti Tst (Jersey) Ltd <PDL Emp Benefit Tst 1 A/C>	4,134,620	1.3
10	BNP Paribas Noms Pty Ltd <Drp>	3,128,732	0.98
11	Equiniti Tst (Jersey) Ltd <PDL Emp Benefit Tst A/C>	2,693,169	0.85
12	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	1,985,503	0.62
13	Milton Corporation Limited	1,156,643	0.36
14	BKI Investment Company Limited	1,093,185	0.34
15	Equiniti Tst (Jersey) Ltd <PDL Emp Benefit Tst 2 A/C>	979,463	0.31
16	Pacific Custodians Pty Limited <EEP Tst Prs/Lti Schm A/C>	967,277	0.3
17	UBS Nominees Pty Ltd	821,199	0.26
18	AMP Life Limited	796,607	0.25
19	BNP Paribas Nominees Pty Ltd <HUB24 Custodial Serv Ltd DRP>	742,829	0.23
20	Mrs Belinda Jane Hannan	728,315	0.23
Total for Top 20		**220,272,763**	**69.27**
Total Number of Shares		**318,006,576**	**100.00**

Distribution schedule

Holding	Number of shareholders	Number of shares	%
1 - 1,000	7,631	4,275,171	1.34
1,001 - 5,000	19,948	39,768,032	12.51
5,001 - 10,000	2,252	16,333,058	5.14
10,001 - 100,000	1,239	26,988,915	8.49
100,001 and over	57	230,641,400	72.53
Total	**31,127**	**318,006,576**	**100.00**

Unmarketable parcels of shares

There are 473 shareholders holding less than a marketable parcel of ordinary shares.

Substantial shareholders

The number of securities held by substantial shareholders and their associates, as disclosed in substantial holding notices given to the Company, is set out below:

Name	Number of shares	%
Hyperion Asset Management Limited	17,488,185	5.50
Lazard Asset Management Pacific Co	20,091,126	6.32
Pendal Group Limited (Employee Equity Plans including vested and unvested shares)	38,228,825	12.10
Pinnacle Investment Management Group Limited and subsidiaries	30,046,112	9.49
Westpac Financial Services Group Limited and associated entities	32,728,987	10.40

Restricted securities

There are no restricted securities or securities subject to voluntary escrow.

Unquoted securities

The following unquoted securities are on issue:

Nil cost options: 13,191,568

Voting rights of ordinary shares

Under the Company's Constitution, holders of fully paid ordinary shares have at a general meeting, one vote on a show of hands and on a poll one vote for each share held.

No voting rights are attached to converting notes or nil cost options.

Shareholder Calendar

Record date for final dividend	7 December 2018
2018 Annual General Meeting	14 December 2018
Payment date for final dividend	20 December 2018
2019 Interim results announcement	2 May 2019
2019 Final results announcement	6 November 2019

Please note that the above dates are subject to change.

Glossary

$	Australian dollars, unless indicated otherwise
£ or GBP	Pounds sterling
2018 Financial Year or FY18	The financial year ended 30 September 2018
20XX Financial Year or FYXX	Refers to the financial year ended 30 September 20XX, where XX is the two-digit number for the year
AASB	Australian Accounting Standards Board
ABN	Australian Business Number
ACN	Australian Company Number
ASX	Australian Securities Exchange or ASX Limited (ABN 98 008 624 691)
Board	Board of Directors
bps	Basis points
Brexit	A process by which the UK will withdraw from the European Union, as a result of a referendum held in June 2016
BTFG	BT Financial Group, the wealth management division of Westpac
CGU	Cash generating unit
CODM	Chief operating decision-maker. This is the Company's Global Executive Committee
Company	Pendal Group Limited (ABN 28 126 385 822)
Corporations Act	*Corporations Act* 2001
cps	Australian cents per share
Directors	Directors of the Company
DRP	Dividend reinvestment plan
EBITDA	Earnings before interest and tax after depreciation and amortisation
ESG	Environmental, social and governance
EUR	Euro
FUM	Funds under management
GEC	Global Executive Committee, as listed on page 30 of this Report
Group	Pendal Group Limited and its consolidated subsidiaries
JOHCM	J O Hambro Capital Management Limited
JOHCM Holdings	J O Hambro Capital Management Holdings Limited
Key management personnel or KMP	Those persons having authority and responsibility for planning, directing and controlling the activities of Pendal Group, as listed on page 30 of this Report
KPIs	Key performance indicators

M & A	Mergers and acquisitions
NED	Non-executive Directors
NPAT	Net profit after tax
OEIC	Open-ended investment company
Pendal Australia	The Australian operations of the Group
Pendal Funds	The managed investment schemes or unit trusts of which PFSL is the RE
Pendal Group	Pendal Group Limited and its consolidated subsidiaries
PFSL	Pendal Fund Services Limited (ABN 13 161 249 332), a wholly-owned subsidiary of the Company and the RE of the Pendal Funds
PIL	Pendal Institutional Limited (ABN 17 126 390 627), a wholly-owned subsidiary of the Company
PwC	PricewaterhouseCoopers, the external auditor of the Pendal Group
RE	Responsible entity
Reporting period	The financial year ended 30 September 2018
RI	Responsible Investing
S$ or SGD	Singapore dollars
SMA	Separately managed account
Soft-close	Strategies and funds closed to new investors but which remain open to existing investors on existing terms
VR	Variable reward
TSR	Total shareholder return is calculated using share price movements and dividends to shareholders. The share price movement is calculated using the average three-month closing share price prior to the beginning and end of the performance period, consistent with market practices.
US$ or USD	US dollars

Corporate Directory

Directors
James Evans (Chairman)
Emilio Gonzalez (Group CEO)
Sally Collier
Andrew Fay
Deborah Page AM
Kathryn Matthews

Company Secretary
Joanne Hawkins

Registered Office
Level 14
The Chifley Tower
2 Chifley Square
Sydney NSW 2000
Telephone: +61 2 9220 2000
Facsimile: +61 2 9220 2307
Email: enquiries@pendalgroup.com

Postal address
GPO Box 7072
Sydney NSW 2001

Website
www.pendalgroup.com

Australian Company Number
126 385 822

Australian Business Number (ABN)
28 126 385 822

ASX Code
PDL

Auditors
PricewaterhouseCoopers
One International Towers Sydney
Watermans Quay
Barangaroo
Sydney NSW 2000

Share Registry
Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000
Telephone: +61 2 8280 7100
Facsimile: +61 2 9287 0303

About this report

This report has been printed on Sovereign Silk and Sovereign Offset from FSC® certified Mix stock, manufactured with elemental chlorine free pulp.

MIX
Paper from responsible sources
FSC® C018183

The printer is also FSC® and ISO 14001 and ISO 9001 accredited. These certifications specify the product has been completed according to international standards.

Designed and produced by walterwakefield.com.au