27 October 2023

By Electronic Lodgement

Market Announcements Office
ASX Ltd
20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam

2023 Annual General Meeting – Managing Director's Address

Please find attached a copy of the Managing Director's address which will be delivered at the Pinnacle Investment Management Group Limited Annual General Meeting this morning.

Authorised by:

Calvin Kwok
Company Secretary

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Refer to slide 18

This slide shows the main topics I plan to address today:

- Firstly I will review the key themes and outcomes for our company for the 2023 financial year;
- I will briefly review the financial results for the 2023 financial year;
- Then provide an update on developments during the first quarter of the new (2024) financial year;
- I will elaborate on the success we have had during the past several years in executing on our strategy of increasing the diversity and robustness of the business, whilst delivering strong average annual rates of growth;
- I will explain how this has created an excellent platform from which we can continue to grow, both in Australia and internationally, in a variety of ways (with three mutually reinforcing horizons of growth), whilst being robust to the kinds of external adversity experienced in the 2020 and now the 2022 and 2023 financial years;
- I will provide a brief update on our most recent Affiliates; and
- I will share some detail on the strong progress we have made in the vitally important area of corporate sustainability and the great work of the Pinnacle Charitable Foundation.

As shareholders are aware, the 2023 financial year was a second consecutive difficult year for our company following the deterioration in market and funds management industry conditions that began in the second half of the 2022 financial year. The buoyant conditions in the world's share markets that prevailed through FY21 and the first part of the 2022 financial year gave way to weak conditions in the second half of FY22, most of FY23 and the first quarter of FY24. The result was that our profitability for the 2023 financial year was essentially the same as for the 2022 financial year and about 14% above the record-at-the-time FY21 NPAT of $67 million when we had that big lift and doubled our profit from that of the previous year. As we stand here this morning markets of many kinds remain extremely uncertain and against that background it is clearly difficult at present to predict this current financial year's outcomes. Nevertheless, the diversified (and high quality) nature of our business, which has served us well in the past, will serve to moderate the impact of negative factors in any individual asset class.

Refer to slide 19

The slide now showing on the screen has been extracted from our Annual Results presentation of 2 August 2023 and sets out how we summarised the key themes and outcomes for our company for the 2023 financial year.

Investment for future growth continued, particularly through our extensive 'Horizon 2' program; performance fees during the second half showed the benefits of our diversified platform, and new business conditions have remained challenging. We benefited during FY 23, as we did in FY22 – and this will increasingly be the case going forward - from having further diversified our business, including increasing the proportion of FUM not exposed to listed equity markets.

Our Affiliates delivered strong relative investment performance.

Net inflows into private market strategies have remained resilient, with a growing product set offering these strategies to more end markets, in Australia and overseas.

We have achieved growing success overseas - importantly, in distribution and also in the quality of our overseas based Affiliates.

Pinnacle and the Affiliates all undertook substantial further investment that will add to capacity and add to the growth in our FUM and profits in future years. These investments have short term negative profit impacts but are well worthwhile.

Certain market and style shifts significantly impacted our FUM and therefore revenues, during the year – notably Hyperion in the first half, and Resolution Capital as REITs were marked down in the environment that prevailed throughout the year.

Domestic retail market conditions have remained challenging (as have conditions in virtually all markets globally) but we have further increased our investment in this important capability, both to maintain our strong relative positioning in the short term but also to ensure that we are well positioned to prosper – as we have in the past – as market confidence returns.

I will provide further detail on our profit, FUM and fund flows shortly.

Refer to slide 20

Slides 20 and 21 elaborate these Themes.

The fact that we were able to hold to the FY22 NPAT (which itself represented some increase over the record levels of FY21) was a useful demonstration of the continuing benefits from the increasing diversity in our business of:

- Asset class and investment strategies of Affiliates
- Client type and domicile, and
- Performance fee exposure.

Although we are planning to continue this diversification process for many more years, the outcomes we have delivered during the recent period of difficult conditions give us confidence in the robustness of the business and our ability to continue to be resilient in the face of external adversity.

I would draw your attention now to point 3 - Net inflows into private market strategies have remained resilient – we generated over $2 billion of committed and/or drawn capital for private market Affiliates during the year, more than $900 million of which was from wholesale and retail investors.

To point 4 – at 30 June we had $10.5 billion of FUM from 43 countries outside of Australia, having achieved more than $5 billion of net inflows from offshore over the past 3 years. And overseas based managers Aikya, Langdon and Palisade Americas are all going well already.

Refer to slide 21

I have mentioned the large Horizon 2 investments, the estimated impact of which on FY23 net profit was $14 million.

Our core business remains in good shape, notwithstanding the challenging FUM flow environment.

And the industry-wide retail market challenges have held back our results despite the very high quality of our distribution capabilities.

Refer to slide 22

Slide 22 sets out the highlight numbers for the 2023 financial year. Our diversified platform demonstrated resilience in challenging market conditions. And we made very substantial (short term NPAT-retarding) investments in support of future earnings growth. FUM grew 10% to $91.9 billion, retail FUM grew 8% to $22.7 billion and aggregate performance fee FUM grew 13% to $34 billion during the financial year.

Pinnacle

Refer to slide 23

Shareholders are aware that we work hard to be a high growth company and we don't like to disappoint our shareholders by delivering anything less than high growth. Clearly, though, there is a significant degree of cyclicality to our earnings pattern and the trajectory will not be a smooth, upward straight line. What we have managed to date is very high growth during favourable market conditions, then holding on to that success (although not sustaining such high annual rates of growth), during market downturns - resulting in still high average annual growth rates. We have the very recent example of only single digit growth in FY20 – the initial seriously COVID disrupted year – followed by a doubling of profits in FY21, then low growth over the past two years. The average growth in eps is now 24.2% pa over the last 5 years even though this includes the two recent 'down' periods. We have always said that we cannot predict future market conditions and that we would not be immune from any market downturns, but we have worked hard to make the company increasingly resilient.

Market downturns are of course part and parcel of our industry. I am old enough to have experienced many during my career - as have my colleagues. We can't predict precisely when we will come out of them but we do know that recovery does inevitably come and our job right now is to achieve the best outcomes possible in the current circumstances, but at the same time – importantly - to keep our company strong, and our high quality capabilities intact and match fit – so we can continue rapid growth and take full advantage when conditions again become more favourable.

Refer to slide 24

Slide 24 provides some further information related to this theme. It concludes with an expression of our confidence in our ability to deliver continuing earnings growth over the medium to long term.

Refer to slide 25

We note also that the FUM with performance fee potential has increased, both in absolute dollars and as a % of the total FUM. We now have 24 strategies with the potential to deliver performance fees, and during FY23 eleven Affiliates earned performance fees totalling $58.2 million, of which Pinnacle's post-tax share was $14.7 million.

Refer to slide 26

Slide 26 provides details of Affiliates' strong performance rebound during the second half of the financial year, and at 30 June sixteen Affiliate strategies were at their high water marks, representing 57% of the FUM that has the potential to generate performance fees. Across the portfolio, 81% of strategies with a track record of five years or longer, have outperformed their benchmarks.

Refer to slide 27

Slide 27 shows in graphs the growth of our FUM over the 17 years of Pinnacle's life to date. FUM has grown at a CAGR of 23.8% over the past 10 years (22.2% if you exclude 'acquired' FUM). The bottom slide shows the strong growth in retail and overseas based FUM. And we have continued to win business into private market asset classes and from offshore.

Refer to slide 28

Turning now to the September quarter, the first quarter of this new financial year.

The Aggregate of the Affiliates' Funds Under Management stood at $90.4 billion at 30 September 2023. This was down $1.5 billion or 2% from $91.9 billion at 30 June 2023. This reduction was entirely due to changes in the level of asset markets as we achieved net inflows of $200 million during the quarter. $90.4 billion compares with $80.5 billion at 30 September 2022 (up 12.3%) and $83.7 billion at 30 June 2022 (up 8%).

The overall $200 million of net inflows comprised $700 million of retail net inflows and $500 million of offshore net inflows, offset by $1 billion of domestic institutional net outflows.

Total Retail Funds Under Management at 30 September 2023 stood at $23.5 billion, which was up $800 million or 3.5% from $22.7 billion at 30 June 2023.

$23.5 billion compares with retail FUM of $20.4 billion at 30 September 2022 (up 15.2%) and $21.1 billion at 30 June 2022 (up 11.4%).

Overall, equities markets had a negative impact on aggregate fund levels from the beginning to the end of the quarter. The S&P/ASX 300 index was down 2.2% over the three months ending 30 September 2023, the MSCI World index was down 3.8%, the NASDAQ (relevant to Hyperion global) was down 4.1% and the FTSE EPRA/NAREIT index (relevant to Resolution Capital global) was down 3.7%.

Refer to slide 29

Headline net flows were marginally positive for the quarter in markets that remain volatile and challenging.

Retail net inflows were resilient with notable inflows in private credit, private equity and fixed income.

International momentum is continuing to build, with positive net inflows, particularly in global emerging markets and global equities, and ongoing growth of our internationally based affiliates.

The Australian institutional market remains challenging with asset class rebalancing and fund consolidation presenting both an opportunity and a risk.

Markets ended the quarter at lower levels than at the start of the financial year, having been broadly higher in July and August. They were down significantly in the month of September and at this point they are generally down a little further during October to date.

And, again, most of the Affiliates' strategies have continued to deliver performance to expectations or better.

Refer to slides 30 and 31

Slides 30 and 31 provide the specifics of the 5 year performance track records of the 36 Affiliate Funds or strategies.

Refer to slides 32 and 33

Slides 32 and 33 provide further performance detail.

Refer to slide 34

Slide 34 updates on our more recent major industry awards.

Skip over slide 35

Refer to slide 36

In Slide 36 we remind shareholders that we think in terms of 3 Horizons of Growth.

Horizon 1 is the main game – it is continuing to pursue net inflows into existing strategies of existing Affiliates. We remain very confident of our ability to continue to do that (and particularly to continue to grow Affiliate revenue). We conservatively estimate the capacity of the Affiliates' existing strategies at $400 billion – so there is plenty of Horizon 1 runway left, with the attendant strong gains in operating leverage that will be accompanied by such growth.

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Horizon 2 is the subject of an enormous amount of activity both within Pinnacle itself and within all of the Affiliates. We have stated that we estimate this cost in the order of $14 million in FY23 to Pinnacle's 'bottom line' NPAT.

Skip over slide 37

Refer to slide 38

This is a slow, patient process where we invest now for medium term gain but we have been doing this for a long time, and have a strong record of very high returns on our past Horizon 2 investments, not even including unrealised capital gains on the value of the businesses and strategies we have built. We are confident that will continue to be the case in the future.

Refer to slides 39, 40, 41, 42 and 43

We have mentioned specific Horizon 2 initiatives in slides 39, 40 and 41, and in addition slides 42 and 43 specifically explain Metrics' Horizon 2 activities.

Refer to slide 44

In relation to Horizon 3 – which of course is where we use capital to buy into existing businesses – slide 44 explains that our most recent transaction was the acquisition of a 25% interest in Private Equity and Venture Capital manager Five V in December 2021. Slide 49 provides an Update on Five V progress since then.

We have explored many Horizon 3 opportunities, seeking the characteristics set out on the slide – we seek investments that are strategically attractive and diversifying relative to the current Affiliate composition; we would prefer internationally based opportunities but also have looked at select opportunities in Australia; and we seek asset classes that are in high demand including infrastructure, real estate, credit and hedge funds.

In the final analysis we haven't so far progressed with any since Five V. We have remained disciplined and patient in relation to the quality of opportunities and their valuations.

Skip over slide 45

Refer to Slides 46 to 49

Slides 46 to 49 provide updates on our most recent Affiliates Coolabah, Langdon, Aikya and Five V. I don't have time to go through these now but we can elaborate on them during questions including in specific sessions planned for later today and on Monday.

Refer to slide 50

Slide 50 commences the Section of the Presentation on Corporate Responsibility.

Refer to Slide 51

Over the course of the year, we continued to progress our Sustainability agenda which is structured around three principal focus areas – Purpose, People and Planet.

Pinnacle Affiliates approach responsible investment in ways that are most relevant to their investment strategies, with all Affiliates integrating ESG considerations into investment decision-making. Our role in this regard is to support and advise – we do not take any part in their investment activities.

During 2022, we formed the Pinnacle ESG Working Group, which is attended by key executives from Pinnacle and all of our Affiliates and is underpinned by a charter that Pinnacle and all Affiliates were invited to adopt, setting out our combined commitment to Corporate Responsibility. Working together, we can be a much more effective force for good than operating alone.

This group has identified two key focus areas – Supplier Engagement and Workforce Diversity – with focus groups formed to work on each initiative.

The Pinnacle Group Supplier Engagement Group is a collaborative initiative aiming to maximise leverage in supplier engagements and promote key sustainable themes within our corporate supply chain.

In December, we voluntarily submitted our first Modern Slavery Statement. The Statement details our commitment to partnering with suppliers, communities and Affiliates who respect and protect fundamental human rights.

Over the year, we continued to promote a work environment of inclusion by introducing a Public Holiday Swap Policy and introducing a Women and Allies Network across Pinnacle and Affiliates. Most notably, we awarded 20 Women in Finance Scholarships to students across 4 universities. This is the fourth year of the program, which commenced in 2019 with just 8 scholarships. We currently have six former scholars in employment across Pinnacle and Affiliates and are committed to providing opportunities for all current and future scholars.

Refer to slide 52

We remain committed to reducing the environmental impact of our operations.

This year we introduced an intensity target to reduce our tonnes of carbon dioxide equivalent emitted per full-time equivalent employee by 60% by FY30. This target aims to hold us accountable for emission reductions while accounting for future company growth. The Board and Executive Committee look forward to reporting our progress against this commitment in the coming years.

Pinnacle is proud to have received Climate Active Carbon Neutral certification for our FY22 emissions and we remain committed to maintaining our carbon neutral status each year. Our commitment to carbon neutrality enables us to accelerate climate action in the near term, as an interim solution, and support organisations like the Aboriginal Carbon Foundation to implement their fire management program.

However, our primary focus remains on reducing our environmental impact.

More detail is set out in our Corporate Sustainability Report on our website, which we would encourage you to read.

Skip over slide 53

Refer to slide 54

Slide 54 explains that total donations by the Pinnacle Charitable Foundation in FY23 exceeded $620,000, with a further $290,000 donated by Affiliates.

Skip over slide 55

Slides 69 to 71 in the Additional Information section provide an update on the institutional and international markets and flows, and Slides 72 to 74 provide an update on the wholesale and retail market and retail flows. We will likely discuss these further during question time.

Refer to slide 56

<u>In conclusion,</u> I would like to remind shareholders of the basis on which we remain so confident of our company's ability to grow and prosper, which is the strong funds management platform that we have built, and our highly regarded, distinctive business model. Slides 57 and 58 provide some further detail in this regard.

Shareholders can be assured that nothing has fundamentally changed in your companies' ambitions, strategies, and growth plans. We have simply had to show some patience in the face of market turbulence - and it is not the first time we have had to do that during our 17 year history.

That concludes the commentary I wanted to provide on the slides and on the performance of the business during the last financial year and the September quarter – Q1 of the current (2024) financial year.

Thank you everyone for listening.