

# **Pinnacle Investment Management Group Limited**

ABN 22 100 325 184

## **Interim Report for the half year 31 December 2019**

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# Pinnacle Investment Management Group Limited

ABN 22 100 325 184

## Interim Report - 31 December 2019

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## Directors' report

Your Directors present our report on the consolidated group consisting of Pinnacle Investment Management Group Limited (the Company) and the entities it controlled (together, the Group) at the end of, or during, the half year ended 31 December 2019.

### Directors

The following persons were Directors of Pinnacle Investment Management Group Limited during the whole of the half year and up to the date of this report:

Mr A Watson  
Mr I Macoun  
Ms D Beale AM  
Mr G Bradley  
Mr A Chambers  
Mr A Whittingham  
Ms L Berends

### Review of operations

During the half year, there has been continuing growth in the Group's revenues and capabilities.

Profit attributable to shareholders for the half year was \$13.8 million (8.1 cents per share basic, 7.7 cents per share diluted), compared with \$10.1 million (6.1 cents per share basic, 5.7 cents per share diluted) for the prior corresponding period.

While income tax was paid at the Affiliate level, there was no income tax expense at the Group level for both the half year and the prior corresponding period, hence profit before tax and profit after tax are the same

A fully franked interim dividend of 6.9 cents has been declared and will be payable on 20 March 2020 to shareholders registered on the record date of 6 March 2020. This represents a payout ratio of 90% of the diluted earnings per share from continuing operations for the half year. In addition, during the half year dividends totaling \$17.0 million have been paid to shareholders by the Company.

Aggregate Affiliates' funds under management (at 100%), increased by 13% during the half year from \$54.3 billion at 30 June 2019 to \$61.6 billion at 31 December 2019.

On 11 December 2019, the Group announced that it had entered into an agreement to acquire a 25% equity interest in Coolabah Capital Investments Pty Ltd. The Group paid an initial \$29.1m, together with a further \$5m payable upon the business achieving certain milestones over the following 18 month to 4.5 year period. The transaction was funded by a \$30m facility from the Commonwealth Bank of Australia, which was drawn down in full.

Throughout the half, and consistent with prior periods, the Group has continued to invest in medium term 'Horizon 2' initiatives, including offshore distribution, ETF, direct to retail consumers and in servicing new, not-yet-profitable Affiliates, laying the foundation for future revenue growth.

### Matters subsequent to the end of the reporting period

In the interval between the end of the half year and the date of this Directors' report there has not arisen any item, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the Company, to significantly affect the:

- Group's operations in future financial years; or
- Results of those operations in future financial years; or
- Group's state of affairs in future financial years.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

**Rounding of amounts**

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors.



Mr A Watson  
Chairman  
Sydney  
6 February 2020

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## *Auditor's Independence Declaration*

As lead auditor for the review of Pinnacle Investment Management Group Limited for the half-year ended 31 December 2019, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'Ben Woodbridge', written in a cursive style.

Ben Woodbridge  
Partner  
PricewaterhouseCoopers

Brisbane  
6 February 2020

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# Pinnacle Investment Management Group Limited

ABN 22 100 325 184

## Interim Financial Report - 31 December 2019

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Pinnacle Investment Management Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This interim financial report covers the consolidated entity consisting of Pinnacle Investment Management Group Limited and its subsidiaries.

The interim financial report is presented in Australian currency.

Pinnacle Investment Management Group Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

Level 19, 307 Queen Street  
Brisbane QLD 4000

Its principal place of business is:

Level 35, 60 Margaret Street  
Sydney NSW 2000

The financial statements were authorised for issue by the Directors on 6 February 2020. The Directors have the power to amend and re-issue the interim financial report.

**Pinnacle Investment Management Group Limited**  
**Consolidated Statement of Profit or Loss**  
**For the half year ended 31 December 2019**

		Half Year	
	Notes	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Revenue from continuing operations</b>	3	11,419	8,582
Fair value gains/(losses) on financial assets at fair value through profit or loss		(255)	(1,103)
Employee benefits expense		(6,945)	(5,795)
Short-term incentives expense		(2,938)	(2,232)
Long-term incentives expense		(1,013)	(457)
Professional services expense		(1,127)	(974)
Property expense	4	(570)	(711)
Travel and entertainment expense		(446)	(453)
Technology and communications expense		(420)	(369)
Other expenses from operating activities	4	(1,569)	(684)
Share of net profit of jointly controlled entities accounted for using the equity method		17,689	14,302
<b>Profit before income tax from continuing operations</b>		<b>13,825</b>	<b>10,108</b>
Income tax expense	5	-	-
<b>Profit from continuing operations</b>		<b>13,825</b>	<b>10,108</b>
<b>Profit for the half year</b>		<b>13,825</b>	<b>10,108</b>
Profit for the half year is attributable to:			
<b>Owners of Pinnacle Investment Management Group Limited</b>		<b>13,825</b>	<b>10,108</b>
Non-controlling interests		-	-
		<b>13,825</b>	<b>10,108</b>
		Cents	Cents
<b>Earnings per share:</b>			
<b>From continuing operations attributable to owners of Pinnacle Investment Management Group Limited</b>			
Basic earnings per share	10	8.1	6.1
Diluted earnings per share	10	7.7	5.7
<b>Total profit attributable to owners of Pinnacle Investment Management Group Limited</b>			
Basic earnings per share	10	8.1	6.1
Diluted earnings per share	10	7.7	5.7

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

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**Pinnacle Investment Management Group Limited**  
**Consolidated Statement of Comprehensive Income**  
**For the half year ended 31 December 2019**  
**(continued)**

Notes	Half Year	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Profit for the half year</b>	13,825	10,108
<b>Other comprehensive income:</b>		
<b>Total comprehensive income for the half year</b>	13,825	10,108
Total comprehensive income for the half year is attributable to:		
<b>Owners of Pinnacle Investment Management Group Limited</b>	13,825	10,108
	13,825	10,108
Total comprehensive income for the half year attributable to owners of Pinnacle Investment Management Group Limited arises from:		
<b>Continuing operations</b>	13,825	10,108
	13,825	10,108

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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**Pinnacle Investment Management Group Limited**  
**Consolidated Statement of Financial Position**  
**As at 31 December 2019**

	Notes	31 Dec 2019 \$'000	30 Jun 2019 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	7,884	26,720
Trade and other receivables		13,894	16,055
Financial assets at fair value through profit or loss	15	36,808	24,464
Intangible assets	7	859	-
Assets held at amortised cost		<u>2,040</u>	<u>2,234</u>
<b>Total current assets</b>		<u>61,485</u>	<u>69,473</u>
<b>Non-current assets</b>			
Investments accounted for using the equity method		149,229	113,351
Property, plant and equipment		99	118
Intangible assets	7	1,454	3
Right-of-use assets	1(b)(i)	4,683	-
Assets held at amortised cost	15(b)	<u>2,225</u>	<u>3,813</u>
<b>Total non-current assets</b>		<u>157,690</u>	<u>117,285</u>
<b>Total assets</b>		<u>219,175</u>	<u>186,758</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		6,797	8,495
Borrowings	12	37	-
Lease liabilities	1(b)(i)	1,730	-
Provisions		<u>1,142</u>	<u>1,119</u>
<b>Total current liabilities</b>		<u>9,706</u>	<u>9,614</u>
<b>Non-current liabilities</b>			
Borrowings	12	30,000	-
Lease liabilities	1(b)(i)	2,883	-
Provisions		<u>96</u>	<u>91</u>
<b>Total non-current liabilities</b>		<u>32,979</u>	<u>91</u>
<b>Total liabilities</b>		<u>42,685</u>	<u>9,705</u>
<b>Net assets</b>		<u>176,490</u>	<u>177,053</u>
<b>EQUITY</b>			
Contributed equity	8	232,707	231,255
Reserves	9(a)	(49,539)	(50,694)
Accumulated losses	9(b)	<u>(6,678)</u>	<u>(3,508)</u>
<b>Total equity</b>		<u>176,490</u>	<u>177,053</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

**Pinnacle Investment Management Group Limited**  
**Consolidated Statement of Changes in Equity**  
**For the half year ended 31 December 2019**

	Notes	Attributable to owners of Pinnacle Investment Management Group Limited			Total equity \$'000	Total equity \$'000
		Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000		
Opening balance at 1 July 2018		154,762	(46,251)	(10,414)	98,097	98,097
<b>Profit and total comprehensive income for the half year</b>		-	-	<b>10,108</b>	<b>10,108</b>	<b>10,108</b>
<b>Transactions with owners in their capacity as owners:</b>						
Dividends paid to shareholders	11	1,195	-	(12,547)	(11,352)	(11,352)
Shares issued, net of costs	8	67,540	-	-	67,540	67,540
Employee loan arrangements	8	1,568	(1,182)	-	386	386
Share-based payments	9(a)	-	457	-	457	457
Performance Rights		-	26	-	26	26
		<u>70,303</u>	<u>(699)</u>	<u>(12,547)</u>	<u>57,057</u>	<u>57,057</u>
<b>Closing balance at 31 December 2018</b>		<b>225,065</b>	<b>(46,950)</b>	<b>(12,853)</b>	<b>165,262</b>	<b>165,262</b>
Opening balance at 1 July 2019		231,255	(50,694)	(3,508)	177,053	177,053
<b>Profit and total comprehensive income for the half year</b>		-	-	<b>13,825</b>	<b>13,825</b>	<b>13,825</b>
<b>Transactions with owners in their capacity as owners:</b>						
Dividends paid to shareholders	11	851	-	(16,995)	(16,144)	(16,144)
Employee loan arrangements	8	480	177	-	657	657
Share-based payments	9(a)	-	1,013	-	1,013	1,013
Performance Rights		121	(35)	-	86	86
		<u>1,452</u>	<u>1,155</u>	<u>(16,995)</u>	<u>(14,388)</u>	<u>(14,388)</u>
<b>Closing balance at 31 December 2019</b>		<b>232,707</b>	<b>(49,539)</b>	<b>(6,678)</b>	<b>176,490</b>	<b>176,490</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

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**Pinnacle Investment Management Group Limited**  
**Consolidated Statement of Cash Flows**  
**For the half year ended 31 December 2019**

	Notes	Half Year	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		13,812	7,497
Payments to suppliers and employees		(16,454)	(12,446)
Dividends and distributions		16,776	12,751
Interest received		37	142
Finance and borrowings costs paid		(56)	(51)
Proceeds from sale of financial assets at fair value through profit or loss		5,604	5,682
Payments to purchase financial assets at fair value through profit or loss		(17,833)	(23,000)
<b>Net cash inflow/(outflow) from operating activities</b>		<u>1,886</u>	<u>(9,425)</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(8)	(54)
Payments for intangibles		(2,389)	-
Loan repayments from related parties		347	2,099
Loan advances to related parties		(630)	(1,500)
Loan repayments from shareholders		657	386
Proceeds from investments accounted for using the equity method		261	2,992
Payments for investments accounted for using the equity method		(32,816)	(51,000)
<b>Net cash outflow from investing activities</b>		<u>(34,578)</u>	<u>(47,077)</u>
<b>Cash flows from financing activities</b>			
Ordinary dividends paid to shareholders	11	(16,144)	(11,352)
Proceeds from borrowings	12	30,000	-
Proceeds from issue of shares	8	-	67,540
<b>Net cash inflow from financing activities</b>		<u>13,856</u>	<u>56,188</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(18,836)</u>	<u>(314)</u>
Cash and cash equivalents at the beginning of the half year		<u>26,720</u>	<u>9,332</u>
<b>Cash and cash equivalents at end of half year</b>	6	<u>7,884</u>	<u>9,018</u>

The consolidated statement of cash flows includes cash flows from continuing and discontinued operations.

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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## 1 Basis of preparation of half year report

This consolidated interim financial report for the half year reporting period ended 31 December 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Pinnacle Investment Management Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

### (a) Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, as disclosed in the 30 June 2019 annual report, except for the adoption of new and amended standards as set out below.

### (b) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting *AASB 16 Leases*.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

#### (i) AASB 16 Leases - Impact of adoption

The Group has adopted AASB 16, which has been applied retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of *AASB 117 Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.5%.

Operating Lease Commitments disclosed at 30 June 2019:

	30 Jun 2019 \$'000
Operating Lease Commitments disclosed at 30 June 2019	4,278
Discounted using the Group's incremental borrowing rate at the date of initial application:	4,166
	4,166

Lease liability recognized at 1 July 2019:

Current lease liability	1,690
Non-current lease liability	3,742
	5,432

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

On 1 July 2019 an existing lease was surrendered, and a new lease entered into in relation to one of the Group's office leases. The lease liability recognized at 1 July 2019 is shown after the surrender of the existing lease and includes the new lease.

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## 1 Basis of preparation of half year report (cont.)

The recognized right of use assets are shown below:

	<b>31 Dec 2019</b>	<b>1 July 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Leased Properties – initial recognition	5,544	5,544
Leased Properties – accumulated amortization	(861)	-
	<b>4,683</b>	<b>5,544</b>

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- Right of use assets – increase by \$5,544,000
- Trade and other receivables – decrease by \$113,000
- Lease liabilities – increase by \$5,431,000

There is no additional impact on segment reporting, as the Group operates one business segment being the funds management operations of Pinnacle. There was also no impact on earnings per share as a result of the adoption of AASB 16.

In applying AASB 16 for the first time, the Group has used a single discount rate for its property leases, as permitted by the standard in relation to a portfolio of leases with reasonably similar characteristics.

### ***(ii) AASB 16 Leases – Change in accounting policy***

The Group leases offices in Brisbane and Sydney. Rental contracts are typically made for fixed periods of 3 – 5 years. The lease agreements do not impose any covenants. Until the current financial year, leases of property were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and
- restoration costs.

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## 1 Basis of preparation of half year report (cont.)

### (c) Adjustment of prior period balances

Prior period balances have been adjusted where changes in the business have resulted in additional or altered disclosures in the current period.

### (d) Impact of standards issued but not yet applied by the entity

There are no standards that are not yet effective that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## 2 Segment information

The Group operates one business segment being the funds management operations of Pinnacle. The business is principally conducted in one geographic location, being Australia.

## 3 Revenue from operations

The Group derives its revenue from contracts with customers from the transfer of services over time. A disaggregation of the Group's revenue is shown below.

	Half Year	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Revenue from contracts with customers</b>		
<i>Services revenue – over time</i>		
Service charges	10,574	7,926
	10,574	7,926
<b>Other revenue</b>		
Interest received or due	115	142
Directors fees	22	22
Dividends and distributions	639	488
Other revenue	69	4
	845	656
	11,419	8,582

## 4 Expenses

	Half Year	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Profit before income tax includes the following specific expenses:</b>		
<i>Finance cost expense – included in other expenses from operating activities</i>		
Interest and finance charges - corporate	139	51
	139	51
<i>Right-of-use asset amortization – included in property expenses</i>		
Right-of-use asset amortization – leased properties	861	-
	861	-
<i>Customer contracts amortization – included in other expenses from operating activities</i>		
Customer contracts amortization (refer note 7)	267	-
	267	-

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## 5 Income tax expense

### Numerical reconciliation of income tax expense to prima facie tax payable

	Half Year	
	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Profit from continuing operations before income tax expense	13,825	10,108
Profit before income tax	<u>13,825</u>	<u>10,108</u>
Tax at the Australian tax rate of 30.0% (31 December 2018 - 30.0%)	4,147	3,032
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Share of profits of jointly controlled entities	(5,307)	(4,291)
Non-deductible expenditure	687	161
Sundry items	(1)	(10)
	<u>(474)</u>	<u>(1,108)</u>
Offset against deferred tax assets *	474	1,108
Total income tax expense	<u>-</u>	<u>-</u>

\* Deferred tax assets have not been recognized in full on the basis that there remains uncertainty regarding the timing and quantum of the generation of taxable profits.

## 6 Current assets - Cash and cash equivalents

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Available cash at bank and on hand	7,619	26,343
Fixed-term deposits	265	377
	<u>7,884</u>	<u>26,720</u>

## 7 Intangible Assets

Plato Income Maximiser Limited (ASX: PL8) undertook an entitlement and shortfall offer in August 2019. As part of the arrangements pursuant to which it was appointed as distributor to the offer, and will be paid distribution fees, the Group agreed to pay the costs associated with the offer. Plato Investment Management Limited, the Investment Manager of PL8 and an Affiliate of the Group, and the Group have entered into a distribution agreement for a period of three years (customer contract). These costs, which are associated with the acquisition of that contract, have been capitalized as an intangible asset and are being amortised over the distribution agreement period of three years.

	Software \$'000	Customer Contracts \$'000	Total \$'000
30 June 2019			
Cost	1,800	-	1,800
Accumulated amortization	(1,797)	-	(1,797)
Net book value	<u>3</u>	<u>-</u>	<u>3</u>
<b>Half year ended 31 December 2019</b>			
Opening net book amount	3	-	3
Additions	-	2,577	2,577
Accumulated amortization	(1)	(266)	(267)
Closing net book amounts	<u>2</u>	<u>2,311</u>	<u>2,313</u>

**7 Intangible Assets (cont.)**

	Software \$'000	Customer Contracts \$'000	Total \$'000
<b>31 December 2019</b>			
Cost	1,800	2,577	4,377
Accumulated amortization	(1,798)	(266)	(2,064)
Net book value	<b>2</b>	<b>2,311</b>	<b>2,313</b>

**8 Contributed equity**

**(a) Share capital**

	31 Dec 2019 No. of shares	30 Jun 2019 No of. shares	31 Dec 2019 Paid \$'000	30 Jun 2019 Paid \$'000
Ordinary shares:				
Fully paid contributed equity - Company	<b>169,991,505</b>	169,676,000	<b>232,707</b>	231,255
<b>Total contributed equity</b>	<b>169,991,505</b>	169,676,000	<b>232,707</b>	231,255

**(b) Movements in ordinary share capital**

Date	Details	Number of shares	Issue price	\$'000
1 July 2019	Opening balance	169,676,000		231,255
	Shares issued under DRP	193,162	\$4.40	851
	Performance rights vested	21,445		121
	Treasury stock vested	100,898		480
31 Dec 2019	Closing Balance	<b>169,991,505</b>		<b>232,707</b>

**(c) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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## 8 Contributed equity (cont.)

### (d) Treasury stock

Treasury stock are shares in Pinnacle Investment Management Group Limited that are subject to share mortgage under employee loans used for the purposes of acquiring interests in the Company (refer note 14). The value ascribed to treasury stock is the balance of the loans secured by share mortgage at period end.

Treasury stock movement for the period is detailed in the table below:

Date	Details	Number of treasury shares	\$'000
1 July 2019	Opening balance	13,192,287	34,966
	Loan share repayments		(492)
	Forfeited	(150,000)	(1,079)
	Treasury stock vested during the year	(100,898)	(95)
31 Dec 2019	Closing Balance	<u>12,941,389</u>	<u>33,300</u>

## 9 Reserves and accumulated losses

### (a) Reserves

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Share-based payments reserve	5,296	4,106
Options reserve	4,749	4,749
Performance rights reserve	19	54
Transactions with non-controlling interests reserve	(59,603)	(59,603)
	<u>(49,539)</u>	<u>(50,694)</u>

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised;
- the grant date fair value of shares issued to employees;
- the issue of shares held by employee share plans to employees; and
- the grant date fair value of the Pinnacle Long-term Employee Incentive Plan and Pinnacle Omnibus Incentive Plan.

The transactions with non-controlling interests reserve is used to recognise the excess of the consideration paid to acquire non-controlling interests above the carrying value of the non-controlling interest at time of acquisition.

### (b) Accumulated losses

Movements in accumulated losses were as follows:

	\$'000
Balance at 1 July 2019	(3,508)
Profit attributable to owners of Pinnacle Investment Management Group Limited	13,825
Dividends paid to shareholders (refer note 11)	(16,995)
Balance at 31 December 2019	<u>(6,678)</u>

## 10 Earnings per share

	Half Year	
	31 Dec 2019	31 Dec 2018
	Cents	Cents
<b>(a) Basic earnings per share</b>		
Attributable to the ordinary equity holders of the Company:		
<b>From continuing operations</b>	8.1	6.1
<b>From total operations</b>	8.1	6.1

<b>(b) Diluted earnings per share</b>		
Attributable to the ordinary equity holders of the Company:		
<b>From continuing operations</b>	7.7	5.7
<b>From total operations</b>	7.7	5.7

	Half Year	
	31 Dec 2019	31 Dec 2018
	\$'000	\$'000
<b>(c) Basic earnings per share</b>		
<i>Basic and diluted earnings per share</i>		
Profit/(loss) attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share:		
From continuing operations	13,825	10,108
Profit used in calculating basic and diluted earnings per share	13,825	10,108

	Half Year	
	31 Dec 2019	31 Dec 2018
	Number	Number
<b>(d) Weighted average number of shares used as the denominator</b>		
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	169,839,712	164,605,749
Adjustments for calculation of diluted earnings per share:		
Weighted average options and treasury stock	10,180,990	13,129,761
<i>Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	180,020,702	177,735,510

### (e) Information concerning the classification of securities

Options granted to employees under employee share schemes are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share.

## 11 Dividends

	Half Year	
	31 Dec 2019	31 Dec 2018
	\$'000	\$'000
<b>(a) Ordinary shares</b>		
Final dividend for the year ended 30 June 2019 of 9.3 cents per fully paid ordinary share paid on 4 October 2019 (2018 - 7.0 cents paid on 5 October 2018)		
Fully franked based on tax paid @ 30.0%	16,995	12,547
Total dividends paid	16,995	12,547

The Company activated its dividend reinvestment plan (DRP) on 29 August 2017. The final dividend for the year ended 30 June 2019, totaling \$16,994,547, was paid \$16,143,939 in cash, and \$850,608 via the DRP.

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## 11 Dividends (cont.)

### (b) Dividends not recognised at the end of the half year

Since period end the Directors have recommended the payment of an interim dividend of 6.9 cents per fully paid ordinary share (2019 – 6.1 cents), fully franked based on tax paid at 30%. The aggregate amount of the dividend expected to be paid on 20 March 2020 (2019 – 22 March 2019), but not recognised as a liability at half year end, is:

<b>12,622</b>	<b>11,029</b>
<b>12,622</b>	<b>11,029</b>

## 12 Borrowings and Financing Facilities

In December 2019, the Group entered into an amended facility deed, which is secured by a general security deed over the assets of the Group and guarantees provided by the Company and other Group entities. The availability period for the Corporate Card Facility and Bank Guarantee is until 12 December 2020 and for the Loan Facility is until 12 December 2021. Further details regarding the Corporate Card Facility and Bank Guarantee are provided in Note 13.

As at 31 December 2019, the contractual maturities of the Group's non-derivative financial liabilities were as follows:

<b>31 December 2019</b>	<b>0 - 1 year \$'000</b>	<b>1 - 2 years \$'000</b>	<b>2 - 5 years \$'000</b>	<b>Total contractual cashflows \$'000</b>	<b>Carrying Amount \$'000</b>
<i>Contractual maturity of financial liabilities</i>					
Trade payables	6,797	-	-	6,797	6,797
Borrowings	37	30,000	-	30,037	30,037
Lease Liabilities (see note 1)	1,729	1,201	1,827	4,757	4,613
<b>Total non-derivatives</b>	<b>8,563</b>	<b>31,201</b>	<b>1,827</b>	<b>41,591</b>	<b>41,447</b>

<b>30 June 2019</b>	<b>0 - 1 year \$'000</b>	<b>1 - 2 years \$'000</b>	<b>2 - 5 years \$'000</b>	<b>Total contractual cashflows \$'000</b>	<b>Carrying Amount \$'000</b>
<i>Contractual maturity of financial liabilities</i>					
Trade payables	8,495	-	-	-	8,495
Borrowings	-	-	-	-	-
Lease Liabilities (see note 1)	-	-	-	-	-
<b>Total assets</b>	<b>8,495</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,495</b>

The amended facility agreement includes the following covenants:

- The interest cover ratio must be at least 4.0 times
- The net leverage cover ratio is no more than 2.0 times
- The minimum tangible net wealth in respect of any financial year must be at least the greater of:
  - \$55,000,000; and
  - an amount equal to 75% of the tangible net wealth in respect of the previous financial year.

The Group has provided the bank with a security interest over its property excluding its holdings in Affiliates. Compliance with covenants is reviewed on a regular basis and compliance has been maintained during the period. As at 31 December 2019, the interest cover ratio was 38x, the net leverage cover ratio was 1.0 and the tangible net wealth was \$174m.

The Loan Facility was fully drawn as at 31 December 2019 to fund the acquisition of a 25% interest in Coolabah Capital Investments Pty Ltd. The loan is a variable rate, Australian-dollar denominated loan which is carried at amortised cost. The facility term is two years from drawdown.

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## 13 Contingencies

### Guarantees

The Group has provided guarantees in respect of Australian Financial Services License Net Tangible Asset obligations (via bank guarantee) in respect of:

- (i) Pinnacle Funds Services Limited - \$5,000,000 (30 June 2019: \$5,000,000).
- (ii) Pinnacle RE Services Limited - \$50,000 (30 June 2019 - \$50,000)

The Group has also provided guarantees in respect of its leased premises:

- (i) Pinnacle Services Administration Pty Ltd - \$426,000 (30 June 2019 - \$251,000)

The unused bank guarantee facility at balance date was \$24,000 (30 June 2019: \$199,000). The Group has also provided guarantees in relation to its corporate credit card facilities (facility limits totaling \$660,000, of which \$574,000 was unused at balance date).

These guarantees may give rise to liabilities for the Group if the related entities do not meet their obligations that are subject to the guarantees.

No material losses are anticipated in respect of any of the above contingent liabilities.

### Acquisition of Minority holding in Coolabah Capital Investments Pty Ltd (CCI)

On 11 December 2019, the Group announced that it had entered into an agreement to acquire a 25% equity interest in Coolabah Capital Investments Pty Ltd. The Group paid an initial \$29.1m, together with a further \$5m payable upon the business achieving certain milestones over the following 18 month to 4.5 year period.

## 14 Related party transactions

### (a) Movement in loans to Key Management Personnel

#### (i) Loans provided 25 August 2016

Further details of these loans are provided in the Group's 2019 annual report at pages 41 and 43.

During the half year, interest of \$6,784 accrued on each of these four loans to key management personnel. The balance of each loan at 31 December 2019 including capitalised interest was \$543,532.

#### (ii) Loans re-issued 25 August 2016

Further details of these loans are provided in the Group's 2019 annual report.

The value of re-issued loans for each of the key management personnel at period end and repayments made during the half year were as follows:

Key Management Personnel	Loan balance – 1 July 2019 \$	Repayments made \$	Loan balance - 31 Dec 2019 \$
Ian Macoun	394,051	(53,577)	340,474
Alex Ihlenfeldt	638,945	(30,333)	608,612
Adrian Whittingham	628,305	(53,577)	574,728
Andrew Chambers	628,305	(53,577)	574,728

#### (iii) Loan Shares issued under the Pinnacle Omnibus Plan

Further details of these loans are provided in the Group's 2019 annual report.

The value of the loans issued for each of the key management personnel at period end and repayments made during the half year were as follows:

Key Management Personnel	Loan balance – 1 July 2019 \$	Repayments made \$	Loan balance - 31 Dec 2019 \$
Ian Macoun	1,683,605	(21,123)	1,662,482
Alex Ihlenfeldt	2,157,756	(21,123)	2,136,633
Adrian Whittingham	1,683,605	(21,123)	1,662,482
Andrew Chambers	4,489,614	(56,328)	4,433,286

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## 14 Related party transactions (cont.)

### (b) Loans to other Related Parties

On 27th October 2017, a subsidiary of the Company provided loan funding totalling \$5.226m to a number of executives of Palisade Investment Partners Limited ("Palisade"), an Affiliate of the Group, to facilitate their purchase of shares in Palisade from an exiting shareholder. The loans have terms of between five and seven years, are interest-bearing and secured by shares in Palisade. The loans are recorded within non-current assets held at amortized cost in the consolidated statement of financial position.

During the half year, interest of \$0.07m accrued on these loans and repayments of \$2.1m were made. The balance of the loans at 31 December 2019 including capitalized interest was \$1.74m.

On 20<sup>th</sup> December 2019, the Group also purchased additional shares in Palisade from an exiting shareholder. The payment for additional capital is recorded within investments accounted for using the equity method in the consolidated statement of financial position.

## 15 Fair value measurement of financial instruments

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report.

### (a) Fair value hierarchy

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2019 and 30 June 2019 on a recurring basis:

31 December 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
<i>Financial assets at fair value through profit or loss:</i>				
Australian listed equity securities	17,546	-	-	17,546
Unlisted unit trusts	18,233	-	-	18,233
Derivative financial instruments - futures	550	-	-	550
Other unlisted equity securities	-	-	479	479
	<b>36,329</b>	<b>-</b>	<b>479</b>	<b>36,808</b>
<b>Total assets</b>	<b>36,329</b>	<b>-</b>	<b>479</b>	<b>36,808</b>

No liabilities were held at fair value at 31 December 2019.

30 June 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
<i>Financial assets at fair value through profit or loss:</i>				
Australian listed equity securities	12,615	-	-	12,615
Unlisted unit trusts	10,658	-	-	10,658
Derivative financial instruments - futures	712	-	-	712
Other unlisted equity securities	-	-	479	479
	<b>23,985</b>	<b>-</b>	<b>479</b>	<b>24,464</b>
<b>Total assets</b>	<b>23,985</b>	<b>-</b>	<b>479</b>	<b>24,464</b>

No liabilities were held at fair value at 30 June 2019.

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**15 Fair value measurement of financial instruments (cont.)**

The Group did not measure any financial assets or liabilities at fair value on a non-recurring basis as at 31 December 2019.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

**(b) Valuation techniques used to determine fair values**

The fair value of Australian listed securities and unlisted unit trusts is based on quoted market prices at the end of the reporting period. The quoted price used for Australian listed securities is the current bid price. The quoted market price used for unlisted unit trusts is the current exit unit price as published. These instruments are included in level 1.

The fair value of unlisted equity securities is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

The carrying amounts of cash and cash equivalents and trade receivables and payables are assumed to approximate their fair values due to their short-term nature. Loans to entities under joint control and loans to shareholders are carried at amortised cost. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

**(c) Fair value measurements using significant unobservable inputs (level 3)**

Level 3 items include unlisted equity securities held by the Group. The following table presents the changes in level 3 instruments for the half year ended 31 December 2019:

	<b>Unlisted equity securities \$'000</b>
<b>Opening balance 1 July 2019</b>	479
Unrealised gains / (losses) recognised in fair value gains / (losses) on financial assets at fair value through profit and loss	-
Fair value adjustments recognised in other comprehensive income	-
<b>Closing balance 31 December 2019</b>	<u>479</u>

*(i) Valuation process*

Unlisted equity securities valued under level 3 are investments in unlisted companies. Where possible, the investments are valued based on the most recent transaction involving the securities of the investee company. Where there is no recent information or the information is otherwise unavailable, the value is derived from calculations based on the value per security of the underlying net tangible assets of the investee company.

*(ii) Transfer between levels*

There were no transfers between levels during the half year.

**16 Investments accounted for using the equity method**

On 11 December 2019, the Group announced that it had entered into an agreement to acquire a 25% equity interest in Coolabah Capital Investments Pty Ltd. The Group paid an initial \$29.1m, together with a further \$5m payable upon the business achieving certain milestones over the following 18 month to 4.5 year period. The transaction was funded by a facility from the Commonwealth Bank of Australia (see note 12).

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## **17 Events occurring after the reporting period**

No matter or circumstance has occurred subsequent to year-end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years

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In the opinion of the Directors of Pinnacle Investment Management Group Limited (the Company):

- (a) the Interim financial report and notes set out on pages 6 to 23 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Mr A Watson  
Chairman  
Sydney  
6 February 2020





## **Independent auditor's review report to the members of Pinnacle Investment Management Group Limited**

### ***Report on the interim financial report***

We have reviewed the accompanying interim financial report of Pinnacle Investment Management Group Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

### ***Directors' responsibility for the interim financial report***

The directors of the Company are responsible for the preparation of the interim 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 interim financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pinnacle Investment Management Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Pinnacle Investment Management Group Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'Ben Woodbridge'.

Ben Woodbridge  
Partner

Brisbane  
6 February 2020

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