ANNUAL
REPORT

PENGANA CAPITAL GROUP LIMITED

ANNUAL REPORT

30 JUNE
2019

**PENGANA CAPITAL
HEAD OFFICE**

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PENGANA.COM

PENGANA IS A LEADING PROVIDER OF PREMIUM PRODUCTS THAT ARE BENCHMARK UNAWARE AND ACTIVELY MANAGED.

CURRENTLY, PENGANA HAS CIRCA $3.3 BILLION OF FUNDS UNDER MANAGEMENT ACROSS BOTH GLOBAL AND AUSTRALIAN INVESTMENT STRATEGIES.

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CORPORATE DIRECTORY

DIRECTORS

Warwick Negus	Non-Executive Chairman
Russel Pillemer	Managing Director and Chief Executive Officer
Jeremy Dunkel	Non-Executive Independent Director
Kevin Eley	Non-Executive Independent Director
David Groves	Non-Executive Independent Director

COMPANY SECRETARY	Paula Ferrao
REGISTERED OFFICE	Level 12, 167 Macquarie Street Sydney NSW 2000 Tel: +61 2 8524 9900
SHARE REGISTER	Computershare Investor Services Pty Limited Level 3, 60 Carrington Street Sydney NSW 2000 Tel: 1300 787 272
AUDITOR	Grant Thornton Audit Pty Ltd Level 17, 383 Kent Street Sydney NSW 2000
STOCK EXCHANGE LISTING	Pengana Capital Group Limited shares are listed on the Australian Securities Exchange (ASX: PCG)
WEBSITE	www.pengana.com
CORPORATE GOVERNANCE STATEMENT	The Corporate Governance Statement which is approved at the same time as the Annual Report can be found at www.pengana.com/shareholders/pengana-capital-group/corporate-governance/

LETTER FROM THE CHAIRMAN

Dear fellow Pengana shareholders

Pengana Capital Group Limited ("PCG" or "the Company") had an eventful year in 2019 with substantial changes implemented across the business. In my view, the Company is now particularly well positioned to generate future growth in profitability and shareholder value.

Underlying profit after tax for the year was $8.7 million. This was a reduction of 30% from the previous year, as illustrated in the CEO's report. The key reason for this reduction was reduced performance fees across our major funds. Whilst this reduction was disappointing, in hindsight it is not an unexpected outcome, when taking into account the way in which our funds invest, i.e. in lower risks stocks that have generally been out of favour over this period. I note that performance fees by their very nature are variable over short timeframes but over longer periods of time, generally revert to the mean.

When taking into account non-operating items as well as one off costs (including $16.6 million from launching the Pengana Private Equity Trust), the underlying profit after tax of $8.7m translates into a statuary loss of $14.3 million.

In June the Company announced that it would embark on an on-market share buy-back, with the capacity to acquire up to 10% of the Company's issued capital over a period of 12 months. The buy-back is expected to be EPS accretive and in the best interests of all Pengana shareholders. The buyback will be funded from Pengana's existing cash reserves and no target price has been set.

The Board has decided that a dividend will not be paid for the six month period to 30 June 2019 as applying our capital to a share buy-back is in our view more beneficial for shareholders, as it will result in significant shareholder value accretion. Our decision was further supported by the lack of any available franking credits as the Company paid no tax for the period, i.e. any dividends to be paid would therefore be unfranked.

The lack of any dividend for the last 6 months should not be taken as a signal for future dividends, as the Board remains committed to paying out a significant proportion of underlying profits as dividends on an ongoing basis.

Pengana's entrepreneurial spirit means that we are always on the lookout for opportunities that deliver financial solutions that meet the financial needs of our investors and that, by extension, will increase shareholder value. The strength of our balance sheet allows us to take advantage of those opportunities when they arise.

One such opportunity and a key initiative for Pengana in the 2019 financial year was the successful launch of the Pengana Private Equity (ASX: PE1) initial public offering. PE1 listed on 30 April, having raised in excess of $205 million.

PE1 is an important asset for Pengana, given the opportunity it presented to partner with Grosvenor Capital Management, L.P., a leading global alternative asset manager, PE1's growth potential and the relatively high margins it delivers.

In addition to looking for new opportunities, we remain focused on expenses, and during the year we undertook a restructuring of the cost base, including the closure of an unprofitable division. The cost savings of this restructure were in part re-invested back into areas that assist in the growth of the Company, including increasing our sales and distribution capacity. The combination of shifting funds under management to higher margin products and the cost base restructure has resulted in a 21% improvement in our recurring fee revenue.

The extraordinary run in bull markets has seen funds reallocated from active managers to passive ETF type strategies, which typically have lower fees. In volatile or falling markets, passive strategies generally offer no downside risk protection, and in such an environment, we expect investors to re-allocate to active strategies that seek to minimise the risk of losing capital. It is inevitable that this time will come, and when it does, Pengana is well placed to benefit.

Pengana is a strong business with as broad range of growth options. We have a unique platform from which we serve more than 50,000 investors and our scale, network of advisers and proven ability to extract efficiencies provides a strong competitive advantage.

I'd like to acknowledge the Pengana team who demonstrate ongoing commitment in working torealise this potential. And as always, our thanks to our shareholders for your ongoing investment and support of Pengana.

Yours sincerely

Warwick Negus
Chairman
Pengana Capital Group Limited

CEO'S REPORT

The past year has been an atypical year for Pengana Capital Group Limited ("PCG" or "the Company" or "Pengana"). On the face of it, it might appear that our business has deteriorated as we have experienced negative growth in both funds under management ("FUM") as well as profitability. However, a closer examination shows that we have made substantial improvements to the Company and that we are now particularly well poised for future growth.

The focus of our activities over the period has been twofold, i.e. firstly to invest in areas where we see the greatest opportunity for future growth and secondly to restructure our cost base to support that growth. Throughout this period, we have remained investor centric, which is the key tenant to the creation of long term value for our business. The most significant activities undertaken across the group were:

- launch of the Pengana Private Equity Trust (ASX:PE1)
- further development of our International Equity strategy, and
- restructuring of our support engine to reduce costs and increase sales.

LAUNCH OF THE PENGANA PRIVATE EQUITY TRUST

The successful launch of the ASX listed Pengana Private Equity Trust provides a key stepping stone for our future growth. PE1 is the realisation of an important strategic development for Pengana, meeting all of our key criteria for undertaking new products:

- large and growing demand from retail and high-net-worth investors for private equity exposure
- product that delivers attractive long term returns with anticipated low levels of volatility
- lack of competitor products available to address a known gap in investor portfolios
- ability to leverage Pengana's infrastructure, relationships and expertise; and
- creation of a highly profitable and valuable business line for PCG shareholders.

PE1 is a first in the Australian market in several aspects. It provides an opportunity for Australian retail and high-net-worth investors to invest in an asset class that is notoriously difficult to access. In addition, offering private equity in a listed form means that one of the biggest impediments for these investors is removed – the lack of liquidity.

The structure of the offer was also unique. Current market practice meant Pengana as the manager paid for the expenses of the capital raising, however, in addition, for every dollar raised through the offer, Pengana issued 5 cents of convertible preference shares in PCG for effectively no cost to PE1 investors, effectively guaranteeing that the net asset value of PE1 on listing would benefit from an immediate 5% uplift, incentivising potential investors to participate in the IPO and not wait for the after-market.

The cost of launching PE1 was $16.6 million, including $6.3 million paid in cash and $10.3 million in PCG equity. This is a meaningful cost for the Company but it is small relative to the potential earnings that will be earned by Pengana over many years from:

- Base management fees estimated at 0.85-0.95% per annum; and
- Performance fees (not likely before year 2) of 20% of excess returns over 8.0%., paid half yearly.

The permanent capital nature of PE1 eliminates the requirement for the investment manager to liquidate positions to meet redemptions, making the vehicle perfectly suited to hold illiquid assets. Pengana will retain the Management Agreement for this income stream for a minimum of 10 years.

Importantly, PE1 has a large capacity with potential to capitalise on the strong and growing demand from investors for exposure into private equity, particularly relevant in the current environment of low interest rates and highly volatile equity markets. We are extremely happy with the investment we made in the development and launch of this product. We look forward to growing it to meet investor demand.

FURTHER DEVELOPMENT OF THE PENGANA INTERNATIONAL EQUITY RANGE OF FUNDS

On 1 July 2019, the Pengana International Equity team celebrated its fourth anniversary. Headed by Jordan Cvetanovski and Steven Glass, the various funds managed by the team are attracting increased support from key gate keepers, ratings agencies and research teams of independent financial planning groups, with increased presence in platforms and approved product lists. A largely untapped capacity means International Equities represents another key growth avenue for Pengana over the coming years.

On the face of it, the long term performance of the Pengana International Equities Fund since inception does not look particularly impressive, having only matched the market[i] since inception with a return of 9.7%[ii]. However, detailed analysis evidences that performance has been highly compelling, as the fund has generated its returns with a vast underweighting to large US technology stocks, which have been the predominant drivers of the growth in equity markets.

As many investors are now wary of the high prices of large US technology stocks and the possibility of substantial volatility and falls, they are seeking strategies managed by teams who have the ability to generate strong returns across multiple sectors and geographies and under multiple conditions. Over the past four years, the Pengana International Equity team have proven their ability to do exactly this, which is a rare feat in the industry. It is for this reason that our funds are particularly well placed to raise significant inflows over the coming years.

The table below shows the performance of the Pengana International Equity Fund in each of the main regions and sectors since inception, illustrating the team's excellent stock-picking skills and ability to generate strong returns across the markets.

PENGANA INTERNATIONAL FUND PERFORMANCE SINCE INCEPTION TO 30 JUNE 2019[iii, iv]

Region	Portfolio average weight	Index[iv] average weight	Portfolio return[v]	Index return[v, vi]
Europe ex UK	28.50%	14.90%	12.00%	5.40%
US	43.40%	56.80%	12.50%	11.10%
Sector				
Consumer Staples	14.60%	8.90%	12.50%	8.20%
Materials	12.40%	5.00%	11.80%	7.40%
IT	11.90%	13.50%	17.70%	17.16%
Financials	10.10%	18.00%	19.90%	6.00%
Market Cap				
USD 5bn–10bn	13.70%	8.50%	11.80%	-0.40%
>100bn USD	22.10%	33.40%	10.90%	14.70%

Source: Pengana and Bloomberg

BUSINESS RESTRUCTURING TO REDUCE COSTS AND INCREASE SALES

During the year, we undertook a restructuring of the business. We reduced our cost base substantially by closing unprofitable components, including the closure of our loss-making Singapore operations. This had a negative impact on our funds under management in the short term, however these strategies were unprofitable with limited growth prospects.

We have re-invested these cost savings in areas where we see the greatest opportunities to increase long term shareholder value, by increasing our sales and distribution capabilities in order to raise additional inflows across our funds.

DEVELOPMENTS IN THE FUNDS MANAGEMENT INDUSTRY

The Hayne Royal commission shone a spotlight on the Australian financial services sector, resulting in significant and wide ranging impacts. Whilst pure-play fund managers were essentially excluded from the debate, the industry has been indirectly impacted via large scale changes occurring in the financial advice industry. As an independent fund manager whose predominant source of funds under management is derived from financial advisors, we have felt this impact. Nevertheless, we are firmly of the view that independent, non-conflicted market participants will be the big winners from these industry changes that will inevitably result in the breakup of large vertically integrated groups.

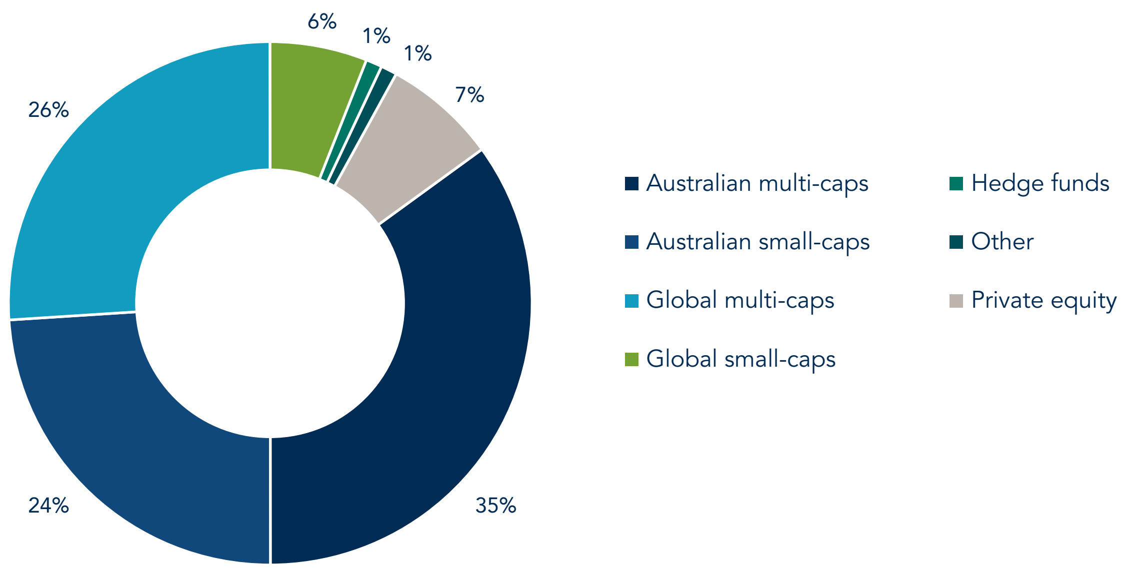
The performance of equity markets has also posed challenges to active fund managers. The decade long unbroken bull market has exacerbated the flight to passive, low cost index-type investment products, making fund raising difficult for active managers. However, in my view, the bull market is unlikely to continue for very much longer and when the market does turn, there is likely to be a reversal of these flows back to the best of the active managers.

I outlined the opportunities for true active managers like Pengana in more volatile times in a recent article written for the Australian Financial Review, which is re-printed in full in the next section of this Annual Report.

FUNDS UNDER MANAGEMENT

FUM reduced from $3.5 to $3.3 billion for the year. This was caused mainly by unusually large fund distributions to investors of $269m. This was a result of unusually large realisations of capital gains in our bigger funds. Overall PCG experienced a net fund outflow for the 12 month period of $50 million. Increases in FUM from investment performance was substantially lower than the average of previous years at only $71 million.

We consider the reduction in assets to be a temporary phenomenon and anticipate returning to positive growth in the near future, driven by our range of international equities funds as well as PE1.



FINANCIAL RESULTS

Pengana generated an underlying net profit after tax of $8.7 million which represents 8.40 cents per share.

Pengana Capital Group Operating EBITDA[iii]	June 2019 ($'000)	June 2018 ($'000)
Management fee revenue	37,554	38,450
Performance fee revenue	4,909	11,580
Net fund direct expenses	(3,241)	(2,830)
Operating expenses	(17,229)	(16,610)
Team profit share	(13,891)	(18,750)
Operating EBITDA	**8,102**	**11,840**
Interest and investment income distributions	641	1,531
Interest on loan funded share plan	2,233	2,110
Underlying profit before tax	**10,976**	**15,481**
Income tax expense	(2,282)	(3,081)
Underlying profit after tax	**8,694**	**12,400**

Gross management fee revenue of $37.6 million was marginally below the $38.5 million derived in prior comparable period (the year ended 30 June 2018) while gross performance fee revenue at $4.9 million was 58% below the $11.6 million derived in prior comparable period. Fees of $13.9 million were shared with our fund management partners.

It is important to note that performance fees will fluctuate, especially over relatively short periods of time. However, over the long term, we expect a reversion to the mean. The strong bull market has favoured momentum investors, with well-diversified active managers struggling to outperform indices that have run hard and fast, often driven by one single sector.

During the year we restructured our cost base significantly. Operating expenses at $17.2 million were 4% above the $16.6 million posted in the prior comparable period. This relatively small net increase was comprised of a reduction in our cost base from the closure of unprofitable components, including loss-making Singapore operations, offset by an increase in expenses to fund improved sales and distribution capabilities.

The combination of the restructure of our cost base with increased funds under management from products with a higher fee margin has seen our share of recurring fee revenue increase by 20.7% in the 2019 financial year:

Recurring fee profit	June 2019 $m	June 2018 $m	Variance $m	Variance %
Management fee revenue	38.19	38.85	(0.66)	(1.7)
Net fund direct expenses	(3.38)	(3.28)	(0.10)	3.0
Operating expenses	(15.77)	(16.12)	0.35	(2.2)
Management fee profit share	(11.59)	(13.28)	1.69	(12.7)
Recurring fee profit	**7.45**	**6.17**	**1.28**	**20.7**
Key ratios				
Total expenses / management fee revenue	50%	50%		
Management fee profit share / management fee revenue	30%	34%		
Profit margin	19%	16%		

As the business grows, our aim is to not only increase top line revenue, but also to ensure that more of it falls directly to bottom line profit. We aim to achieve this by leveraging the current scalable infrastructure and by focusing on growth from more profitable products such as PE1.

ANNOUNCEMENT OF SHARE BUY-BACK

The Company's shares are very thinly traded and in response to the weaker share price in recent months the Board announced its intention to buy back up to 10% of the Company's issued capital over a period of 12 months. The buy-back is expected to be EPS accretive and in the best interests of all Pengana shareholders. The buyback will be funded from Pengana's existing cash reserves and no target price has been set.

OUTLOOK

Our business remains well positioned due to the breath of strategies with excellent long term track records as well as the strength of our brand and distribution capabilities.

Pengana has built a strong and strategic framework for long term value creation, and growth in the coming year will be driven by focusing our sales and distribution capabilities on the areas that have the biggest growth capacity.

In closing I would like to thank our investors for entrusting us to manage their wealth. I am confident that over the next year we will continue to deliver superior investment outcomes for our investors and, by extension, create value for our shareholders.

As always, I thank you for your continued support and look forward to meeting you at our Annual General Meeting.

Russel Pillemer
Chief Executive Officer
Pengana Capital Group Limited

i. MSCI All Country World Total Return Index in AUD, with an annualised performance of 10.1% in the period from 1 July 2015 to 30 June 2019.
ii. Annualised performance of the Pengana International Fund since inception (1 July 2015) to 30 June 2019, after all fees and expenses and assume reinvestment of distributions. Past performance is not a reliable indicator of future performance, the value of investments can go up and down.
iii. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. Past performance is not a reliable indicator of future performance, the value of investments can go up and down.
iv. Inception 1st July 2015.
v. MSCI ACWI refers to MSCI All Country World Total Return Index in AUD.
vi. Annualised total return in local currency.
vii. Source: Pengana Management Accounts.

CEO'S INSIGHTS

A GOLDEN ERA FOR ACTIVE FUND MANAGERS IS COMING

Russel Pillemer, Australian Financial Review – 21 July 2019

The constant barrage of reports about the demise of the active fund manager is relentless.

The average investor might conclude the age of active is over and it's time to switch to low cost index-type solutions. However, more informed investors understand nothing could be further from the truth.

The coming years are likely to be a golden era for active managers. It is highly improbable the next decade will be a repeat of the last decade's smooth sailing.

Over the past 10 years, markets have experienced an incredible run with indices soaring. Momentum has been a key driver, and in times like these, fundamentals hardly matter, leading active managers to struggle to outperform.

There were many active managers who were, in reality, closet index managers. As the cost of index funds has decreased significantly, many of these managers have lost clients and been forced to close – and rightfully so.

Meanwhile, there has been a proliferation of active, with many raising too much money. It's a well understood phenomena that if a fund manager manages too much money (relative to the size of their market) they will be unable to perform well.

Asset gatherers are insufficiently incentivised to outperform.

Many of the large Australian institutional investors withdrew from active managers and moved to index funds. Either they consider low fees to be their primary objective (with returns being a distant second), or alternatively they have defined risk as the divergence of returns from the index, rather than the risk of losing capital.

This reasoning makes sense in a bull market, where index products have outperformed high-cost active strategies. However, it is patently obvious this is nonsensical in a sideways or downwards market.

It is not a stretch to imagine the next 10 years will be a golden age for Australian active managers.

Due to the large number of closures and losses of mandates, there is far less competition for fundamental trades. This is particularly significant for small and mid-cap companies, which includes almost all of the Australian market.

And passive index-style strategies are ideal counterparties for active managers who can identify mis-pricing opportunities that index strategies create by virtue of their "dumb" trading rules.

Survive and thrive

The index trade is overcrowded. We know this as so many investors have capitulated and moved to index-type solutions. But history teaches us that overcrowded trades will inevitably unwind.

Finally, active managers tend to thrive in volatile markets – and while it would be foolish to attempt to predict the direction of the markets over the next decade, it is reasonable to assume that volatility will be higher.

Investors need to identify active managers that are well-positioned to survive and thrive.

Look for highly skilled teams or individuals with substantial experience and proven track records. Ensure they have stuck to their guns and not surrendered their investment style to pressures emanating from the extended bull market.

A credible manager will construct their strategies with an interest in downside protection and limit the amount of money they are willing to accept. I would add that such a manager defines risk as in "the risk of losing money" not "the risk of divergence from the market return".

Good fund managers should be backed by appropriately resourced businesses so they are not faced with existential risks or operational complexity. Critically, they should not be hostage to large institutional investors who pose undue concentration risks.

While the investing masses are piling into low-cost index-type solutions, the smart money is seeking alternative managers with the above attributes.

These intelligent investors are predicting a very different decade ahead and focused on securing allocations in expert managers. Investors who are doing this are likely to be handsomely rewarded over the coming years.

Investors who are opting for low-cost solutions will inevitably realise the cheap lunch is likely to cost them dearly.

Russel Pillemer is the chief executive of Pengana Capital Group.

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DIRECTORS' REPORT 30 JUNE 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of Pengana Capital Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

DIRECTORS

The following persons were directors of Pengana Capital Group Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Warwick Negus	Non-Executive Chairman
Russel Pillemer	Managing Director and Chief Executive Officer
Jeremy Dunkel	Non-Executive Independent Director
Kevin Eley	Non-Executive Independent Director
David Groves	Non-Executive Independent Director

PRINCIPAL ACTIVITIES

The principal activity of the group is funds management with the objective of offering investment funds to high net worth and retail investors in Australia and New Zealand.

DIVIDENDS

Dividends paid during the financial year were as follows:

	Consolidated	
	2019 $'000	**2018 $'000**
On 28 August 2018, fully franked final dividend of 6.5 cents per ordinary share was declared for the year ended 30 June 2018 to be paid on 28 September 2018 to shareholders registered on 14 September 2018. (2018: 4.5 cents per ordinary share)	5,188	3,538
On 22 February 2019, an unfranked interim dividend of 4.0 cents per ordinary share was declared for the year ended 30 June 2019 and paid on 15 March 2019 to the shareholders registered on 1 March 2019 (2018: 6.5 cents per ordinary share)	3,193	5,111
	8,381	8,649

REVIEW OF OPERATIONS

The loss for the group after providing for income tax and non-controlling interest amounted to $14,295,000 (30 June 2018: profit of $6,980,000).

Please refer to the Chief Executive Officer's Report for further information on the current year results and future outlook.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 21 August 2018, the group acquired 100% of the shares in PT Private Capital Pty Ltd for the consideration of $3,303,000. Refer to note 32 of the financial statements for further details.

On 4 December 2018 the group closed the Pengana Absolute Return Asia Pacific Fund.

On 24 April 2019 the company's latest product offering, Pengana Private Equity Trust, (ASX: PE1) was admitted to the Official List of ASX Limited. Refer to note 6 for further information.

There were no other significant changes in the state of affairs of the group during the financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Refer to the Chief Executive Officer's Report for information on likely developments and further outlook.

ENVIRONMENTAL REGULATION

The group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

INFORMATION ON DIRECTORS

Name:	Warwick Negus
Title:	Non-Executive Chairman
Experience and expertise:	Warwick has more than 30 years' experience in the finance industry across Asia, Europe and Australia. His previous executive roles include the Chief Executive Officer ('CEO') of Colonial First State Global Asset Management, co-founder and CEO of 452 Capital, and a Managing Director of Goldman Sachs in Australia, London and Singapore. He was also a Vice President of Bankers Trust Australia.
Other current directorships:	Bank of Queensland Limited (ASX: BOQ); URB Investments Limited (ASX: URB); Virgin Australia Holdings Limited (ASX: VAH) and Washington H. Soul Pattinson and Company Limited (ASX: SOL)
Former directorships (last 3 years):	None.
Special responsibilities:	Member of the Audit and Risk Committee.
Interests in shares:	3,440,000 ordinary shares.

Name:	Russel Pillemer
Title:	Managing Director and Chief Executive Officer
Experience and expertise:	Russel co-founded Pengana in 2003 together with the Hon. Malcolm Turnbull. He has been Pengana's CEO since inception. Prior to founding Pengana, Russel worked in the Investment Banking Division of Goldman Sachs in New York where he specialised in providing advice to funds management businesses. Before moving to New York, he was responsible for leading Goldman Sachs' Australian Financial Institutions Group. He was previously Chairman of Centric Wealth Group and a Principal of Turnbull Pillemer Capital.
Other current directorships:	Pengana International Equities Limited (ASX: PIA)
Former directorships (last 3 years):	None.
Special responsibilities:	None.
Interests in shares:	10,350,081 ordinary shares and 15,872,528 ordinary shares (treasury shares held under the loan share plan).

Name:	Jeremy Dunkel
Title:	Non-Executive Independent Director
Experience and expertise:	Jeremy is a director of Taurus Capital, a family office investment consultancy specialising in philanthropy. His accounting and finance experience includes working for Chemical Bank, Chase Manhattan and Price Waterhouse. He is a director of Education Heritage Foundation, and the Moriah College Foundation, as well as being the Chair of Y2i.
Other current directorships:	None.
Former directorships (last 3 years):	None.
Special responsibilities:	Chairman of the Nomination and Remuneration Committee and member of the Audit and Risk Committee.
Interests in shares:	1,803,150 ordinary shares.

Name:	**Kevin Eley**
Title:	Non-Executive Independent Director
Experience and expertise:	Kevin has over 30 years' experience in management and investment in a broad range of industries including, manufacturing, mining, retail, finance and investment. He has worked for a major international accounting firm, two investment banks and was CEO of HGL Limited.
Other current directorships:	Milton Corporation Limited (ASX: MLT); EQT Holdings Ltd (ASX: EQT) and HGL Limited (ASX: HNG).
Former directorships (last 3 years):	Po Valley Energy Limited (ASX: PVE).
Special responsibilities:	Member of the Nomination and Remuneration Committee.
Interests in shares:	250,000 ordinary shares.

Name:	**David Groves**
Title:	Non-Executive Independent Director
Experience and expertise:	David has over 25 years' experience as a company director. He is Chairman of Tasman Sea Salt Pty Ltd and is a non-executive director of Pengana International Equities Limited, Redcape Hotel Group Management Ltd as responsible entity of the Redcape Hotel Group and of Pipers Brook Vineyard Pty Ltd. He is a former director of EQT Holdings Ltd, Tassal Group Ltd and GrainCorp Ltd and a former executive with Macquarie Bank Limited and its antecedent, Hill Samuel Australia. David is a member of the Council of Wollongong University. He is a member of the Institute of Chartered Accounts Australia and New Zealand and a fellow of the Australian Institute of Company Directors.
Other current directorships:	Pengana International Equities Limited (ASX: PIA) and Redcape Hotel Group (ASX: RDC).
Former directorships (last 3 years):	Pyrolyx AG (ASX: PLX).
Special responsibilities:	Chairman of the Audit and Risk Committee and member of the Nomination and Remuneration Committee
Interests in shares:	531,669 ordinary shares.

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

COMPANY SECRETARY

Ms Paula Ferrao has held the role of Company Secretary since 4 January 2017. Paula is an executive of the group and was previously interim CEO of Hunter Hall International Limited, having previously held the position of Chief Financial Officer since 2010. Paula has 20 years' experience in the funds management industry with strong expertise in financial reporting and tax for corporate entities, listed investment companies, managed investment schemes and public offer superannuation funds and in all aspects of funds operations.

MEETINGS OF DIRECTORS

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Warwick Negus	9	9	–	–	3	4
Russel Pillemer	9	9	–	–	–	–
Jeremy Dunkel	9	9	1	1	4	4
Kevin Eley	9	9	1	1	–	–
David Groves	8	9	1	1	4	4

	Board Sub-committee	
	Attended	Held
Warwick Negus	1	1
Russel Pillemer	1	1
Jeremy Dunkel	1	1
Kevin Eley	1	1
David Groves	1	1

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

REMUNERATION REPORT (AUDITED)

The remuneration report details the key management personnel ('KMP') remuneration arrangements for the group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

Principles used to determine the nature and amount of remuneration

The objective of the group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation; and
- transparency.

The Nomination and Remuneration Committee ('NRC') is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-Executive Directors' remuneration

Non-Executive Directors each have a letter of appointment with the company. Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are reviewed annually by the NRC. The NRC may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration. Non-Executive Directors do not receive share options or other incentives.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 28 November 2017, where the shareholders approved a maximum annual aggregate remuneration of $750,000.

Executive remuneration

The group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has the following components:

- fixed remuneration, including superannuation and long service leave;
- share-based payments; and
- discretionary cash bonus.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, will be reviewed annually by the NRC based on individual and business unit performance, the overall performance of the group and comparable market remuneration.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits where it does not create any additional costs to the group and provides additional value to the executive.

Short Term Incentives ('STI') are payable to KMP and other executives at the discretion of the Board and are not directly linked to the group profitability, however the profitability of the group is taken into consideration when determining bonuses. No STI was paid to KMP and other executives for the year ended 30 June 2019.

Long-Term incentives ('LTI')

The long-term incentives ('LTI') include long service leave and share-based payments.

The group operates a Loan Share Plan ('LSP') which is outlined below in the section 'Share-based compensation'.

A condition of the merger in the year ended 30 June 2017 was a voluntary escrow of equity owned by KMP and other executives. The escrow periods range from one to six years.

Use of remuneration consultants

During the financial year ended 30 June 2019, the group did not engage any remuneration consultants.

Voting and comments made at the Company's 2018 Annual General Meeting ('AGM')

At the 2018 AGM, shareholders voted to approve the adoption of the remuneration report for the year ended 30 June 2018. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

Details of the remuneration of KMP of the group are set out in this section.

The KMP of the group consisted of the Directors of Pengana Capital Group Limited and the following person:

- Katrina Glendinning – Chief Financial Officer

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2019	**Cash salary and fees $**	**Cash bonus $**	**Non-monetary $**	**Super-annuation $**	**Long service leave $**	**Equity-settled $**	**Total $**
Non-Executive Directors:							
Warwick Negus	127,854	–	–	12,146	–	–	140,000
Jeremy Dunkel	82,192	–	–	7,808	–	–	90,000
Kevin Eley	73,060	–	–	6,940	–	–	80,000
David Groves	91,325	–	–	8,675	–	–	100,000
Executive Directors:							
Russel Pillemer	522,936	–	72,017	20,531	11,783	–	627,267
Other KMP:							
Katrina Glendinning	354,468	–	–	20,531	6,970	22,891	404,860
	1,251,835	–	**72,017**	**76,631**	**18,753**	**22,891**	**1,442,127**

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2018	Cash salary and fees $	Cash bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
Warwick Negus	127,854	–	–	12,146	–	–	140,000
Robert Barry*	24,353	–	–	2,314	–	–	26,667
Jeremy Dunkel	82,192	–	–	7,808	–	–	90,000
Kevin Eley	73,060	–	–	6,940	–	–	80,000
David Groves	91,325	–	–	8,675	–	–	100,000
Executive Directors:							
Russel Pillemer	583,530	–	–	20,049	25,560	–	629,139
Other KMP:							
Katrina Glendinning	344,124	–	–	20,049	12,013	22,891	399,077
	1,326,438	**–**	**–**	**77,981**	**37,573**	**22,891**	**1,464,883**

* KMP of the group until 31 October 2017

Non-Executive Directors' remuneration is 100% fixed. The share-based payment incentive relates to the LSP.

	Fixed remuneration		LTI	
Name	2019 %	2018 %	2019 %	2018 %
Executive Directors:				
Russel Pillemer	100	100	–	–
Other KMP:				
Katrina Glendinning	94	94	6	6

SERVICE AGREEMENTS

Remuneration and other terms of employment for group executives are formalised in employment agreements. Details of the employment agreements with KMP are as follows:

Name:	Russel Pillemer
Title:	Managing Director and Chief Executive Officer
Term of agreement:	Ongoing - no fixed minimum term
Details:	A total fixed salary of $615,077 per annum, which includes statutory superannuation contributions and any salary sacrifice arrangements. Russel participates in the loan share plan (LSP). Either party may terminate the employment agreement by providing six months' notice.

Name:	Katrina Glendinning
Title:	Chief Financial Officer
Term of agreement:	Ongoing – no fixed minimum term
Details:	A total fixed salary of $375,471 per annum, which includes statutory superannuation contributions and any salary sacrifice arrangements. Katrina participates in the loan share plan (LSP). Either party may terminate the employment agreement by providing six months' notice.

KMP have no entitlement to termination payments in the event of removal for misconduct.

SHARE-BASED COMPENSATION

Issue of shares under the Loan Share Plan ('LSP')

The group operates a LSP whereby limited recourse loans were provided to employees and fund managers to acquire shares in the company. As the share acquisitions were funded by limited recourse loans, for accounting purposes the arrangement is treated as equity-settled share-based payments. The shares issued under the LSP (referred to as 'treasury shares') are fair valued on the date they are granted and amortised as an expense in profit or loss over the vesting period. The impact of this accounting treatment is a reduction in net assets equivalent to the value of loans outstanding under the LSP. As at 30 June 2019 loans outstanding under the LSP and not recorded as a receivable on the statement of financial position totalled $29,395,315 (2018: $27,527,613). Treasury shares have a service vesting period of 5 years, except those granted to Russel Pillemer all of which vested on the date they were granted.

As at 30 June 2019 outstanding loans to Russel Pillemer and Katrina Glendinning respectively are $18,533,517 (2018: $18,883,945) and $529,215 (2018: $523,606).

The terms and conditions of each grant of shares under the LSP affecting remuneration of directors and other KMP in this financial year or future reporting years are as follows:

Grant date	Name	Number of loan shares	Expiry date	Exercise price	Fair value per loan shares at grant date
03/03/2017	Katrina Glendinning	422,899	01/03/2024	$1.49	$0.271

There were no other options over ordinary shares granted to or vested in directors and other KMP as part of compensation during the year ended 30 June 2019 and 30 June 2018.

ADDITIONAL DISCLOSURES RELATING TO KMP

Shareholding

The number of shares in the company, excluding shares under the LSP, held during the financial year by each director and other members of KMP of the group, including their related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposal/other	Balance at the end of the year
Ordinary shares:					
Warwick Negus	3,425,000	–	15,000	–	3,440,000
Jeremy Dunkel	1,803,150	–	–	–	1,803,150
Kevin Eley	200,000	–	50,000	–	250,000
David Groves	393,667	–	138,002	–	531,669
Russel Pillemer	10,350,081	–	–	–	10,350,081
Katrina Glendinning	2,186,620	–	–	(27,090)	2,159,530
	18,358,518	**–**	**203,002**	**(27,090)**	**18,534,430**

Shares under the Loan Share Plan

The number of shares under the LSP in the company held during the financial year by each director and other members of KMP of the group, including their related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Shares under the Loan Share Plan:					
Russel Pillemer	15,872,528	–	–	–	15,872,528
Katrina Glendinning	422,899	–	–	–	422,899
	16,295,427	**–**	**–**	**–**	**16,295,427**

This concludes the remuneration report, which has been audited.

SHARES UNDER THE LOAN SHARE PLAN AND SHARES UNDER OPTIONS

Shares under the LSP in Pengana Capital Group Limited and reported as treasury shares at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number of loan shares
01/03/2017	28/02/2024	$1.49	5,149,796
01/03/2017	28/02/2024	$1.20	10,722,732
03/03/2017	01/03/2024	$1.49	6,981,194
03/10/2018	01/10/2025	$4.33	604,998
			23,458,720

The value of loans issued under the LSP total $29,220,000 (2018: $27,220,000) and the related treasury shares are reported as a reduction in issued capital, due to the operability of the LSP being accounted for as a share-based payments arrangement, similar in nature to the issue of options.

There were no unissued ordinary shares of Pengana Capital Group Limited under option outstanding at the date of this report.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

There were no ordinary shares of Pengana Capital Group Limited issued on the exercise of options during the year ended 30 June 2019 and up to the date of this report.

INDEMNITY AND INSURANCE OF OFFICERS

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where the indemnity is not permitted by law.

During the financial year the group paid premiums in respect of contracts to insure the directors and executives of the company and group. The contract of insurance prohibits disclosure of the nature of the risks insured and the amount of the premium.

INDEMNITY AND INSURANCE OF AUDITOR

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

NON-AUDIT SERVICES

There were no non-audit services provided during the financial year by the auditor.

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF GRANT THORNTON AUDIT PTY LTD

There are no officers of the company who are former partners of Grant Thornton Audit Pty Ltd.

ROUNDING OF AMOUNTS

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

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 immediately after this directors' report.

AUDITOR

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors,

Russel Pillemer
Chief Executive Officer

26 August 2019
Sydney

AUDITOR'S INDEPENDENCE DECLARATION

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Auditor's Independence Declaration

To the Directors of Pengana Capital Group Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Pengana Capital Group Limited for the year ended 30 June 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 audit; and

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

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Adam-Smith
Partner – Audit & Assurance

Sydney, 26 August 2019

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STATEMENT OF PROFIT OR LOSS

For the year ended 30 June:	Note	Consolidated 2019 $'000	2018 $'000
Revenue			
Management fees		37,735	39,621
Performance fees		4,952	11,696
Other fee revenue		859	–
Total revenue	**4**	**43,546**	**51,317**
Share of profits/(losses) of associates accounted for using the equity method		(239)	311
Interest revenue calculated using the effective interest method		147	182
Other income and gains	5	837	2,383
Total revenue and income		**44,291**	**54,193**
Expenses			
Human resources expenses		(14,048)	(12,343)
Fund manager profit share expense		(13,891)	(18,634)
Fund operating expenses		(4,001)	(3,761)
Distribution expenses		–	(195)
Impairment of financial assets		(299)	–
Occupancy expenses		(980)	(1,021)
Net change in assets attributable to unitholders		–	(281)
Cost of establishing Pengana Private Equity Trust	6	(6,299)	–
Non-cash issue of alignment shares to Pengana Private Equity Trust	6	(10,260)	–
Technology and communications expenses		(781)	(972)
Marketing and investment research expenses		(1,430)	(1,397)
Insurance expenses		(548)	(502)
Professional, registry and listing related expenses		(678)	(968)
Acquisition and restructuring costs		(168)	(633)
Depreciation and amortisation expenses	6	(2,652)	(2,559)
Other operating expenses		(275)	(756)
Finance costs	6	(53)	–
Total expenses		**(56,363)**	**(44,022)**
Profit/(loss) before income tax expense		**(12,072)**	**10,171**
Income tax expense	7	(2,213)	(3,081)
Profit/(loss) after income tax expense for the year		**(14,285)**	**7,090**

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

STATEMENT OF PROFIT OR LOSS (CONTINUED)

For the year ended 30 June:	Note	Consolidated 2019 $'000	2018 $'000
Profit/(loss) for the year is attributable to:			
Non-controlling interest		10	110
Owners of Pengana Capital Group Limited		(14,295)	6,980
		(14,285)	**7,090**
		Cents	**Cents**
Basic earnings per share	38	(17.75)	8.88
Diluted earnings per share	38	(17.75)	7.73

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

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 30 June:	Consolidated 2019 $'000	Consolidated 2018 $'000
Profit/(loss) after income tax expense for the year	**(14,285)**	**7,090**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Loss on the revaluation of equity instruments at fair value through other comprehensive income, net of tax	(570)	–
Items that may be reclassified subsequently to profit or loss		
Gain on the revaluation of available-for-sale financial assets, net of tax	–	168
Other comprehensive income for the year, net of tax	(570)	168
Total comprehensive income for the year	**(14,855)**	**7,258**
Total comprehensive income for the year is attributable to:		
Non-controlling interest	10	110
Owners of Pengana Capital Group Limited	(14,865)	7,148
	(14,855)	**7,258**

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

STATEMENT OF FINANCIAL POSITION

As at 30 June:	Note	Consolidated 2019 $'000	2018 $'000
Assets			
Current Assets			
Cash and cash equivalents	8	14,446	16,070
Trade and other receivables	9	442	5,206
Contract assets	10	4,747	–
Income tax refund due	7	–	759
Other current assets	11	1,072	782
Total current assets		**20,707**	**22,817**
Non-current assets			
Other receivables	12	1,349	1,732
Investments accounted using the equity method	13	4,275	7,481
Equity investment in financial assets at fair value through other comprehensive income	14	8,988	–
Investments in available-for-sale financial assets	15	–	9,637
Property, plant and equipment	16	263	315
Intangibles	17	65,455	64,541
Prepayments		153	197
Total non-current assets		**80,483**	**83,903**
Total assets		**101,190**	**106,720**
Liabilities			
Current liabilities			
Trade and other payables	18	7,657	9,889
Bank loan		1,250	–
Income tax liability	7	1,182	–
Employee benefits	19	992	943
Total current liabilities		**11,081**	**10,832**
Non-current liabilities			
Deferred tax	7	5,766	6,077
Employee benefits		93	78
Other		57	5
Bank loan	20	3,750	–
Total non-current liabilities		**9,666**	**6,160**
Total liabilities		**20,747**	**16,992**
Net assets		**80,443**	**89,728**
Equity			
Contributed equity	21	101,477	87,914
Reserves	22	29,263	29,445
Accumulated losses		(50,340)	(27,664)
Equity attributable to the owners of Pengana Capital Group Limited		**80,400**	**89,695**
Non-controlling interest		43	33
Total equity		**80,443**	**89,728**

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

STATEMENT OF CHANGES IN EQUITY

Consolidated	Contributed equity $'000	Reserves $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2017	87,161	28,899	(25,995)	52	90,117
Profit after income tax expense for the year	–	–	6,980	110	7,090
Other comprehensive income for the year, net of tax	–	168	–	–	168
Total comprehensive income for the year	**–**	**168**	**6,980**	**110**	**7,258**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 21)	753	–	–	–	753
Share-based payments (note 37)	–	378	–	–	378
Dividends paid (note 23)	–	–	(8,649)	(129)	(8,778)
Balance at 30 June 2018	**87,914**	**29,445**	**(27,664)**	**33**	**89,728**

Consolidated	Contributed equity $'000	Reserves $'000	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2018	87,914	29,445	(27,664)	33	89,728
Profit/(loss) after income tax expense for the year	–	–	(14,295)	10	(14,285)
Other comprehensive income for the year, net of tax	–	(570)	–	–	(570)
Total comprehensive income for the year	**–**	**(570)**	**(14,295)**	**10**	**(14,855)**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 21)	13,563	–	–	–	13,563
Share-based payments (note 37)	–	446	–	–	446
Dividends on treasury shares	–	(58)	–	–	(58)
Dividends paid (note 23)	–	–	(8,381)	–	(8,381)
Balance at 30 June 2019	**101,477**	**29,263**	**(50,340)**	**43**	**80,443**

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

STATEMENT OF CASH FLOWS

For the year ended:	Note	Consolidated 2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		47,901	55,197
Payments to suppliers, customers and employees (inclusive of GST)		(49,711)	(49,078)
		(1,810)	**6,119**
Dividends received		478	225
Interest received		104	186
Other revenue		283	939
Proceeds from the sale of financial instruments held at fair value		–	21,363
Purchase of financial instruments held at fair value through profit or loss		–	(16,790)
Income taxes paid		(272)	(4,327)
Net cash from/(used in) operating activities	**36**	**(1,217)**	**7,715**
Cash flows from investing activities			
Cash acquired on acquisition of subsidiaries	32	65	–
Payments for property, plant and equipment		(98)	(85)
Proceeds from disposal of interests in subsidiaries		–	7,732
Proceeds from disposal of investments in associates		2,967	–
Proceeds from security deposits		40	2
Net cash from investing activities		**2,974**	**7,649**
Cash flows from financing activities			
Payments to unitholders		–	(11,080)
Proceeds from loan repayments		–	246
Proceeds from borrowings		5,000	–
Dividends paid to company shareholders, net of treasury shares		(8,381)	(8,542)
Dividends paid to non-controlling interests and unitholders		–	(129)
Net cash used in financing activities		**(3,381)**	**(19,505)**
Net decrease in cash and cash equivalents		(1,624)	(4,141)
Cash and cash equivalents at the beginning of the financial year		16,070	20,167
Effects of exchange rate changes on cash and cash equivalents		–	44
Cash and cash equivalents at the end of the financial year	**8**	**14,446**	**16,070**

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

NOTES TO THE FINANCIAL STATEMENTS

PENGANA CAPITAL

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations adopted during the year are most relevant to the group:

AASB 9 Financial Instruments

The group has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

AASB 15 Revenue from Contracts with Customers

The group has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Impact of adoption

The group has adopted Accounting Standards AASB 9 and AASB 15 for the year ended 30 June 2019. The Accounting Standards were adopted from 1 July 2018 using transitional rules that allow for comparatives not be restated. There was no change in the carrying amounts on adoption of the standards and there was no impact on opening retained earnings.

The adoption of these Accounting Standards and Interpretations resulted in the following adjustments:

- interest revenue is now shown separately on the face of profit or loss;
- On 1 July 2018, investments classified as available for sale financial assets amounting to $9,637,000 under AASB 139 were reclassified to fair value through other comprehensive income ('FVTOCI'). The group intends to hold the investments for the foreseeable future and has irrecovably elected to classify them as such on transition date. As a result, $171,000 was transferred from the available for sale reserve to FVTOCI reserve on 1 July 2018. There was no impact on the fair value of investments, retained earnings or reserves on transition date;
- accrued income is now reclassified as contract assets; and
- additional disclosures relating to disaggregation of revenue which is included in note 4.

BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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 disclosed in note 2.

PARENT ENTITY INFORMATION

In accordance with the Corporations Act 2001, these financial statements present the results of the group only. Supplementary information about the parent entity is disclosed in note 31.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pengana Capital Group Limited ('company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Pengana Capital Group Limited and its subsidiaries together are referred to in these financial statements as the 'group'.

Subsidiaries are all those entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss, statement of financial position and statement of changes in equity of the group. Losses incurred by the group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

OPERATING SEGMENTS

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM are responsible for the allocation of resources to operating segments and assessing their performance.

FOREIGN CURRENCY TRANSLATION

The financial statements are presented in Australian dollars, which is Pengana Capital Group Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

REVENUE RECOGNITION

The group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Management fees

Management fee revenue is recognised over time.

Performance fees

Performance fees are recognised as revenue at a point in time when the right to receive payment has been established. Performance fees which are contingent upon performance to be determined at future dates have not been recognised as revenue or as a receivable at the reporting date as they are not able to be estimated or measured reliably and it is highly probable that there could be a significant reversal of revenue.

Dividends and distributions

Dividends and distributions are recognised when received or when the right to receive payment is established.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other fee revenue is recognised over time.

FUND MANAGER PROFIT SHARE EXPENSE

Fund manager profit share expense represents a 'shadow equity' program for fund managers under which the fund managers receive an agreed percentage of the profits of their respective fund and/or strategy ensuring alignment of interests between shareholders, fund managers and fund investors.

INCOME TAX

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Tax consolidated group

Pengana Capital Group Limited (the 'head entity') and its wholly-owned Australian subsidiaries formed an income tax consolidated group under the tax consolidation regime.

The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

The head entity and its wholly owned subsidiaries have a tax funding agreement that ensures the tax payable is met by Pengana Capital Group Ltd. Any difference between the amounts assumed and the amount receivable or payable under the funding agreement is recognized as a contribution to, or distribution from, the parent.

CURRENT AND NON-CURRENT CLASSIFICATION

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

TRADE AND OTHER RECEIVABLES

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. These receivables represent management fees that are accrued daily and paid monthly by the funds. They are usually recoverable within 20 business days.

The group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

CONTRACT ASSETS

Contract assets are recognised when the group has transferred goods or services to the customer but where the group is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes

ASSOCIATES

Associates are entities over which the group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The group discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, it's carrying value is written off.

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVTOCI) are equity investments including equity investments which the group intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition. On disposal of these equity investments, any related balance within the FVTOCI reserve is reclassified to retained earnings.

Impairment of financial assets

The group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Leasehold improvements	5 years
Furniture and fittings	5–10 years
Plant and equipment	2–4 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

LEASES

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

INTANGIBLE ASSETS

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Acquired relationships

Relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of between 7 and 13 years.

Other intangible assets

Significant costs associated with other intangible assets are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of between 3 and 4 years.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment of non-financial assets

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

BORROWINGS

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

FINANCE COSTS

Finance costs are expensed in the period in which they are incurred based on the effective interest method.

EMPLOYEE BENEFITS

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave, long service leave and other long term employee benefits not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high-quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. The group operates a loan share plan that is accounted for as equity-settled share-based payments similar to options.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option/share under the loan share plan, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option/share under the loan share plan, together with non-vesting conditions that do not determine whether the group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

FAIR VALUE MEASUREMENT

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

DIVIDENDS

Dividends are recognised when declared during the financial year.

BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Pengana Capital Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

GOODS AND SERVICES TAX ('GST') AND OTHER SIMILAR TAXES

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Trade debtors and creditors are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position. All other receivables and payables are stated exclusive of GST recoverable or payable.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

ROUNDING OF AMOUNTS

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the group for the annual reporting period ended 30 June 2019. The group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the group, are set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. For lessee accounting, the standard eliminates the 'operating lease' and 'finance lease' classification required by AASB 117 'Leases'. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) components. The impact of adoption of this standard as at 1 July 2019, using the modified retrospective approach, will result in the recognition of a right-of-use asset of approximately $729,000 with a corresponding increase in lease liability, in respect of the group's operating leases over premises. Refer to note 29 for undiscounted commitments in relation to non-cancellable operating leases as at 30 June 2019.

NEW CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

A revised Conceptual Framework for Financial Reporting is applicable for annual reporting periods beginning on or after 1 January 2020. This release impacts for-profit private sector entities that have public accountability that are required by legislation to comply with Australian Accounting Standards and other for-profit entities that voluntarily elect to apply the Conceptual Framework. Phase 2 of the framework is yet to be released which will impact for-profit private sector entities. The application of new definition and recognition criteria as well as new guidance on measurement will result in amendments to several accounting standards. The issue of AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework, also applicable from 1 January 2020, includes such amendments. Where the group has relied on the conceptual framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards, the group may need to revisit such policies. The group will apply the revised conceptual framework from 1 July 2020 and is yet to assess its impact.

NOTE 2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Fair value measurement hierarchy

The group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

Goodwill

The group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash- generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Business combinations

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Unconsolidated structured entities

The group has significant influence over the funds it manages due to its role as responsible entity and investment manager together with direct holdings in the funds. The funds referred to in note 35 are not consolidated by the group, and instead, equity accounted as interests in associates, as the group does not have control or joint control. These investments are managed in accordance with financial risk management practices as set out in note 24.

NOTE 3. OPERATING SEGMENTS

Identification of reportable operating segments

The main business activities of the group are the provision of funds management services. The Board of Directors and the Chief Executive Officer are identified as the Chief Operating Decision Makers ('CODM'), and they consider the performance of the main business activities on an aggregated basis to determine the allocation of resources.

Other activities undertaken by the group, including investing activities, are incidental to the main business activities.

Based on the internal reports that are used by the CODM the group has one operating segment being the provision of funds management services with the objective of offering investment funds to high net worth and retail investors in Australia and New Zealand, and offshore investors globally. There is no aggregation of operating segments.

The operating segment information is the same information as provided throughout the financial statements and are therefore not duplicated.

The information reported to the CODM is on a regular basis.

Major customers

There are no customers that account for more than 10% of the group's revenue.

NOTE 4. REVENUE

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated 2019 $'000
Timing of revenue recognition	
Services transferred over time - management and other fee revenue	38,594
Services transferred at a point in time - performance fees	4,952
	43,546

Disaggregation of revenue based on major service line is shown on the face of statement of profit or loss. The revenue from contracts with customers is substantially all in Australia. AASB 15 was adopted using the modified retrospective approach and as such comparatives relating to disaggregation of revenue have not been presented.

NOTE 5. OTHER INCOME AND GAINS

	Consolidated	
	2019 $'000	2018 $'000
Dividends and distributions	479	541
Rental income	283	277
Realised and unrealised gains/(losses) on financial instruments held at fair value through profit or loss	–	171
Realised and unrealised gains on held for trading financial assets	–	1,047
Other income	75	347
	837	**2,383**

NOTE 6. EXPENSES

	Consolidated	
	2019 $'000	2018 $'000
Profit/(loss) before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	37	36
Fixtures and fittings	13	29
Plant and equipment	79	88
Total depreciation	**129**	**153**
Amortisation		
Acquired relationships	2,405	2,406
Other intangible assets	118	–
Total amortisation	**2,523**	**2,406**
Total depreciation and amortisation	**2,652**	**2,559**
Finance costs		
Interest and finance charges paid/payable	53	–
Net foreign exchange loss		
Net foreign exchange loss	1	4
Rental expense relating to operating leases		
Minimum lease payments	949	967
Amortisation of deferred lease incentives	(27)	(12)
Total rental expense relating to operating leases	**922**	**955**
Superannuation expense	740	625
Share-based payments expense – included in human resources expenses		
Share-based payments expense	446	378
Cost incurred for Pengana Private Equity Trust		
Cost of establishing Pengana Private Equity Trust	6,299	–
Non-cash issue of alignment shares to Pengana Private Equity Trust	10,260	–
Total Cost incurred for Pengana Private Equity Trust	**16,559**	**–**

Expenses incurred in relation to Pengana Private Equity Trust

Pengana Private Equity Trust ('PPET') (ASX:PE1) was admitted to the Official List of the Australian Securities Exchange ('ASX') on the 24 April 2019 and provides an opportunity for investors to invest in a highly diversified portfolio of global private equity investments through an ASX listed vehicle.

To reward initial investors PPET was issued 4,909,228 convertible preference shares (Alignment shares) in Pengana Capital Group Ltd, valued at $10,260,000, for a nominal cost being an aggregate price of $1.00. Non-cash issue of alignment shares have been treated similar to share-based payments and the fair value of the shares have been expensed to the statement of profit or loss during the year. Further information on alignment shares can be found at note 21.

NOTE 7. INCOME TAX

	Consolidated 2019 $'000	2018 $'000
Income tax expense		
Current tax	2,003	3,144
Deferred tax – origination and reversal of temporary differences	210	(63)
Aggregate income tax expense	**2,213**	**3,081**
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	210	(63)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit/(loss) before income tax expense	(12,072)	10,171
Tax at the statutory tax rate of 30%	**(3,622)**	**3,051**
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income	(153)	(42)
Permanent differences	57	(675)
Share-based payment expense	134	113
Assessable income not in profit or loss	670	634
Non-cash issue of alignment shares to Pengana Private Equity Trust	3,078	–
Cost of establishing Pengana Private Equity Trust	1,893	–
	2,057	**3,081**
Prior period adjustments	(518)	–
Derecognise tax asset related to capital losses	674	–
Income tax expense	**2,213**	**3,081**
Amounts charged/(credited) directly to equity		
Deferred tax assets	(171)	72
Tax losses not recognised		
Capital tax losses for which no deferred tax asset has been recognised	2,247	–
Potential tax benefit at statutory tax rates	674	–

A potential income tax benefit of up to $1,890,000, being the tax effect of PPET establishment costs of $6,299,000, has not been recognised as it is subject to the outcome of a private ruling application the group lodged with the Australian Taxation Office ('ATO') and will be recognised once the ATO provides a ruling.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
NOTE 7. INCOME TAX (CONTINUED)

	Consolidated 2019 $'000	Consolidated 2018 $'000
Deferred tax liability		
Deferred tax asset/(liability) comprises temporary differences attributable to:		
Amounts recognised:		
Property, plant and equipment	65	73
Provision	603	429
Unrealised losses / (gains)	119	595
Acquired relationships	(6,553)	(7,174)
Deferred tax liability	**(5,766)**	**(6,077)**
Movements:		
Opening balance	(6,077)	(7,211)
Credited/(charged) to profit or loss	(210)	63
Credited/(charged) to equity	171	(72)
Additions through business combinations (note 32)	(135)	–
Tax effect on intangibles	485	1,143
Closing balance	**(5,766)**	**(6,077)**
Income tax refund due		
Income tax refund due	–	759
Provision for income tax		
Provision for income tax	1,182	–

NOTE 8. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2019 $'000	2018 $'000
Cash on hand and at bank	14,433	12,406
Cash on deposit	13	3,664
	14,446	**16,070**

NOTE 9. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated 2019 $'000	Consolidated 2018 $'000
Trade receivables	441	2
Accrued income	–	5,198
	441	**5,200**
Other receivables	1	6
	442	**5,206**

Allowance for expected credit losses

The group has recognised a loss of $nil (2018: $nil) in profit or loss in respect of the expected credit losses for the year ended 30 June 2019.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows

Consolidated	Expected credit loss rate 2019 %	Carrying amount 2019 $'000	Allowance for expected credit losses 2019 $'000
Not overdue	**–**	**441**	**–**

NOTE 10. CURRENT ASSETS – CONTRACT ASSETS

	Consolidated 2019 $'000	Consolidated 2018 $'000
Contract assets	**4,747**	**–**

Allowance for expected credit losses:

The group has recognised a loss of $nil in profit or loss in respect of the recoverability of contract assets for the year ended 30 June 2019.

NOTE 11. CURRENT ASSETS – OTHER CURRENT ASSETS

Prepayments	723	725
Security deposits	–	40
Other deposits	349	17
	1,072	**782**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12. NON-CURRENT ASSETS – OTHER RECEIVABLES

	Consolidated	
	2019 $'000	2018 $'000
Other receivables	–	400
Security deposits	476	476
Other loans	873	856
	1,349	**1,732**

The group has recognised a loss of $299,000 (2018: $nil) in profit or loss in respect of the non-recoverability on other receivables for the year ended 30 June 2019

NOTE 13. NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in associates	4,275	7,481

Refer to note 34 for further information on interests in associates.

NOTE 14. NON-CURRENT ASSETS - EQUITY INVESTMENT IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in listed equity securities	7,255	–
Investment in unlisted managed investment funds	1,733	–
	8,988	**–**

Refer to note 25 for further information on fair value measurement.

Refer to note 1 for impact of adoption of AASB 9 'Financial instruments' on transition date 1 July 2018.

NOTE 15. NON-CURRENT ASSETS – INVESTMENTS IN AVAILABLE-FOR-SALE FINANCIAL ASSETS

Investments in available-for-sale financial assets at fair value	–	9,637

Refer to note 25 for further information on fair value measurement.

Refer to note 1 for impact of adoption of AASB 9 'Financial instruments' on transition date 1 July 2018.

NOTE 16. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Leasehold improvements - at cost	162	162
Less: Accumulated depreciation	(83)	(46)
	79	**116**
Furniture and fittings - at cost	256	253
Less: Accumulated depreciation	(228)	(201)
	28	**52**
Plant and equipment - at cost	954	901
Less: Accumulated depreciation	(798)	(754)
	156	**147**
	263	**315**

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Leasehold improvements $'000	Furniture and fittings $'000	Plant and equipment $'000	Total $'000
Balance at 1 July 2017	**151**	**72**	**139**	**362**
Additions	1	9	97	107
Write off of assets	–	–	(1)	(1)
Depreciation expense	(36)	(29)	(88)	(153)
Balance at 30 June 2018	**116**	**52**	**147**	**315**
Additions	–	3	93	96
Disposals	–	(14)	(5)	(19)
Depreciation expense	(37)	(13)	(79)	(129)
Balance at 30 June 2019	**79**	**28**	**156**	**263**

NOTE 17. NON-CURRENT ASSETS – INTANGIBLES

	Consolidated	
	2019 $'000	2018 $'000
Goodwill – at cost	**43,612**	**40,627**
Acquired relationships – at cost	26,520	26,520
Less: Accumulated amortisation	(5,011)	(2,606)
	21,509	**23,914**
Other intangible assets - at cost	452	–
Less: Accumulated amortisation	(118)	–
	334	**–**
	65,455	**64,541**

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill $'000	Acquired relationships $'000	Other intangible assets $'000	Total $'000
Balance at 1 July 2017	**40,627**	**26,320**	**–**	**66,947**
Amortisation expense	–	(2,406)	–	(2,406)
Balance at 30 June 2018	**40,627**	**23,914**	**–**	**64,541**
Additions though business combinations (note 32)	2,985	–	452	3,437
Amortisation expense	–	(2,405)	(118)	(2,523)
Balance at 30 June 2019	**43,612**	**21,509**	**334**	**65,455**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
NOTE 17. NON-CURRENT ASSETS – INTANGIBLES (CONTINUED)

The group identifies a single cash-generating unit ('CGU') and, therefore, the recoverable amount has been determined at the group level.

The recoverable amount of the group's goodwill has been determined by value-in-use calculations. The calculations use cash flow projections based on the business plan approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below.

The following key assumptions were used in the discounted cash flow model:

a. Pre-tax discount rate of 13.2% (2018:11.9%);

b. Projected growth rate of 2.5% (2018:2.5%) beyond five year period for the CGU; and

c. Increase in operating costs and overheads based on current expenditure levels adjusted for inflationary increases.

For the financial year ended 30 June 2019, the recoverable amount of net assets for the Group is greater than the carrying value of the assets and therefore, the goodwill is not considered to be impaired.

Sensitivity analysis:

Management estimates that any reasonable changes in the key assumptions would not have a significant impact on the value-in-use of goodwill that would require the assets to be impaired.

The remaining amortisation period for the acquired relationships is between 3 and 11 years.

NOTE 18. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2019 $'000	2018 $'000
Trade payables	56	426
Accrued expenses	2,531	3,761
Fund manager profit share	4,645	5,353
Other payables	425	349
	7,657	**9,889**

Refer to note 24 for further information on financial instruments.

NOTE 19. CURRENT LIABILITIES – EMPLOYEE BENEFITS

Annual leave	485	475
Long service leave	507	468
	992	**943**

NOTE 20. NON-CURRENT LIABILITIES - BANK LOAN

Bank Loan	**3,750**	–

Refer to note 24 for further information on financial instruments.

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

Bank Loan	**5,000**	–

The company borrowed $5,000,000 from Investec Australia for costs associated with establishing Pengana Private Equity Trust. The loan is secured by a general security charge over the assets of the group, together with specific security over the bank account in which the fees from Pengana Private Equity Trust are deposited. The loan term is 4 years and the loan is subject to variable interest rates, which are based on the bank bill swap rate ('BBSY'), plus a margin of 4.25%. Effective 28 June 2019 the interest rate is 5.5%. Facility limit of $5,000,000 was fully drawn down at 30 June 2019.

PENGANA CAPITAL

NOTE 21. EQUITY – CONTRIBUTED EQUITY

	Consolidated			
	2019 Shares	2018 Shares	2019 $'000	2018 $'000
Ordinary shares – fully paid	103,277,160	101,689,016	120,437	115,134
Convertible preference shares (Alignment shares) - fully paid	4,909,228	–	10,260	–
Less: Treasury shares	(23,458,720)	(22,853,722)	(29,220)	(27,220)
	84,727,668	**78,835,294**	**101,477**	**87,914**

Movements in ordinary share capital

Details	Date	Shares	$'000
Balance	**1 July 2017**	**101,477,092**	**114,381**
Issue of shares as part consideration for investment in Global Credit Investments Pty Ltd	19 June 2018	137,350	490
Issue of shares in accordance with short term incentive	29 June 2018	74,574	263
Balance	**30 June 2018**	**101,689,016**	**115,134**
Issue of shares on acquisition of PT Private Capital Pty Ltd	21 August 2018	983,146	3,303
Issue of shares under the Pengana Capital Group Loan Share Plan	3 October 2018	604,998	2,000
Balance	**30 June 2019**	**103,277,160**	**120,437**

Movements in convertible preference share capital

Details	Date	Shares	$'000
Balance	**1 July 2017**	**–**	**–**
Balance	**30 June 2018**	**–**	**–**
Alignment shares issued to Pengana Private Equity Trust	29 April 2019	4,909,228	10,260
Balance	**30 June 2019**	**4,909,228**	**10,260**

Movements in treasury shares

Details	Date	Shares	$'000
Balance	**1 July 2017**	**(22,853,722)**	**(27,220)**
Balance	**30 June 2018**	**(22,853,722)**	**(27,220)**
Issue of shares under the Pengana Capital Group Loan Share Plan	3 October 2018	(604,998)	(2,000)
Balance	**30 June 2019**	**(23,458,720)**	**(29,220)**

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. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Convertible preference shares (Alignment shares)

Alignment shares issued to Pengana Private Equity Trust ('PPET')(ASX:PE1) 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, with priority over ordinary shareholders. The alignment shares are not redeemable, quoted or tradeable on the ASX and convert into ordinary shares on a one for one basis on being distributed by PPET to its unitholders. The Responsible Entity of PPET intends to distribute the Alignment Shares to the unitholders, subject to a determination by the responsible entity, approximately 2 years after the issue of the shares.

Alignment shares do not have any voting rights with the exception of a vote at a general meeting that affects the rights attached to alignment shares and capital restructure.

Treasury shares

The company has an equity scheme pursuant to which certain employees and fund managers may access a loan share plan ('LSP'). The acquisition of shares under this LSP is fully funded by the company through the granting of a limited recourse loan. The LSP shares are subject to escrow and transfer is restricted until the vesting conditions are satisfied and the loan is repaid. Vested and unvested shares are recorded as treasury shares representing a deduction against issued capital. These have been accounted for as a share-based payment. Refer to note 37 for further details. When the loans are settled the treasury shares are reclassified as ordinary shares and the equity will increase by the amount of the loan repaid.

Share buy-back

On 27 June 2019, the company announced an on-market buy-back of up to 10% of the company's issued capital for a period of 12 months.

Capital risk management

The group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

Two wholly owned subsidiaries of the group, Pengana Capital Limited ('PCL') and Pengana Investment Management Ltd ('PIML'), hold an Australian Financial Services License and are subject to regulatory financial requirements that include maintaining a minimum level of net tangible assets. As at 30 June 2019 PCL and PIML were required to maintain $5,000,000 and $3,200,000 (2018: $5,000,000 and $4,000,000) respectively in liquid assets, of which 50% (2018: 50%) is held in cash or cash equivalents.

The directors believe the group has adequate capital at 30 June 2019 to maintain the groups existing business activities and facilitate growth.

The capital risk management policy remains unchanged from the 2018 Annual Report.

NOTE 22. EQUITY – RESERVES

	Consolidated 2019 $'000	Consolidated 2018 $'000
Profits reserve	23,867	23,867
Share-based payments reserve	5,795	5,407
Available-for-sale reserve	–	171
Financial assets at fair value through other comprehensive income reserve	(399)	–
	29,263	**29,445**

Profits reserve

The reserve records the 2013 Pengana Holdings profit, which has not been offset against accumulated losses from prior years.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and fund managers as part of their remuneration, and other parties as part of their compensation for services.

Available-for-sale reserve

The reserve is used to recognise increments and decrements in the fair value of available-for-sale financial assets.

Financial assets at fair value through other comprehensive income ('OCI') reserve

The reserve is used to recognise increments and decrements in the fair value of financial assets at fair value through other comprehensive income.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Profits reserve $'000	Share-based payments reserve $'000	Available-for-sale reserve $'000	Financial assets at fair value through OCI reserve $'000	Total $'000
Balance at 1 July 2017	**23,867**	**5,029**	**3**		**28,899**
Revaluation - gross	–	–	240		240
Deferred tax	–	–	(72)		(72)
Share-based payments	–	378	–		378
Balance at 30 June 2018	**23,867**	**5,407**	**171**	**–**	**29,445**
Revaluation - gross	–	–	–	(813)	(813)
Deferred tax	–	–	–	243	243
Transfer from available-for-sale reserve to fair value through OCI reserve	–	–	(171)	171	–
Share-based payments	–	446	–	–	446
Dividends on treasury shares	–	(58)	–	–	(58)
Balance at 30 June 2019	**23,867**	**5,795**	**–**	**(399)**	**29,263**

NOTE 23. EQUITY – DIVIDENDS

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2019 $'000	2018 $'000
On 28 August 2018, fully franked final dividend of 6.5 cents per ordinary share was declared for the year ended 30 June 2018 to be paid on 28 September 2018 to shareholders registered on 14 September 2018. (2018: 4.5 cents per ordinary share)	5,188	3,538
On 22 February 2019, an unfranked interim dividend of 4.0 cents per ordinary share was declared for the year ended 30 June 2019 and paid on 15 March 2019 to the shareholders registered on 1 March 2019 (2018: 6.5 cents per ordinary share)	3,193	5,111
	8,381	8,649

Franking credits

Franking credits available for subsequent financial years based on a tax rate of 30%	2,468	3,553

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

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

NOTE 24. FINANCIAL INSTRUMENTS

Financial risk management objectives

The group's activities expose it to a variety of financial risks: market risk (including foreign currency, interest rate and price risk), credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group uses different methods to measure different types of risk to which it is exposed, including sensitivity analysis.

In particular, the group manages the investments of certain funds and clients where it is entitled to receive management fees and fees contingent upon performance of the portfolio managed, on an annual basis or longer. All fees are exposed to significant risk associated with the funds' performance, including market risks (interest rate risk and indirectly market risk and foreign exchange risk) and liquidity risk as detailed below.

Risk management is carried out by the Board of Directors and discussed at board meetings. Management identifies and evaluates financial risks.

Market risk

Foreign currency risk

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The group undertakes certain transactions denominated in foreign currency (mainly US dollar) and the balances at the reporting date are not material and a 10% movement in those balances would not cause a significant fluctuation in profit or loss or equity of the group.

Price risk

The group is not exposed to any significant price risk.

Interest rate risk

The group's main interest rate risk arises from its borrowings and cash at bank. Borrowings and cash at bank issued at variable rates expose the group to interest rate risk. Borrowings issued at fixed rates expose the group to fair value risk.

As at the reporting date, the group had the following variable rate bank accounts and borrowings:

	2019		2018	
Consolidated	Weighted average interest rate	Balance $'000	Weighted average interest rate	Balance $'000
Cash at bank	0.54%	14,433	0.14%	12,406
Cash on deposit	2.00%	13	2.00%	3,664
Bank Loan	5.50%	(5,000)	–	–
Net exposure to cash flow interest rate risk		**9,446**		**16,070**

The table below summarises the impact of a 50 basis point movement in interest:

	Basis points increase			Basis points decrease		
Consolidated – 2019	Basis points change	Effect on profit/loss before tax $'000	Effect on equity $'000	Basis points change	Effect on profit/loss before tax $'000	Effect on equity $'000
Net exposure to cash flow interest rate risk	50	47	33	(50)	(47)	(33)
Consolidated – 2018						
Net exposure to cash flow interest rate risk	50	80	56	(50)	(80)	(56)

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any expected credit loss allowance of those assets, as disclosed in the statement of financial position and notes to the financial statements. The group does not hold any collateral.

The group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables and contract assets through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the group based on recent sales experience, historical collection rates and forward-looking information that is available.

The group has a credit risk exposure with the cash at bank, redemptions receivable, loans to shareholders and fund managers and funds under management. The funds under management as at 30 June 2019 owed the group 100% (2018: 100%) of trade receivables and accrued income. The balance was within its terms of trade and no expected credit loss allowance was made as at the reporting date. These receivables represent management fees that are accrued daily and paid monthly by the Funds.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Other loans receivables amount to $873,000 as at 30 June 2019 (2018: $856,000). The loans were made to shareholders and used to fund the purchase of shares in Pengana Capital Group Limited. The loans are interest free and secured against the purchased shares in Pengana Capital Group Limited. The timing of these amounts due under these agreements are at the discretion of the group.

Liquidity risk

Managing liquidity risk requires the group to maintain sufficient liquid assets (mainly cash and cash equivalents and listed investments) to be able to pay debts as and when they become due and payable.

The group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

The following tables detail the group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated – 2019	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	56	–	–	–	56
Other payables	425	–	–	–	425
Fund manager profit share	4,645	–	–	–	4,645
Security deposits held	–	5	–	–	5
Interest-bearing - variable					
Bank loans	1,491	1,422	2,637	–	5,550
Total non-derivatives	**6,617**	**1,427**	**2,637**	**–**	**10,681**

Consolidated – 2018	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	426	–	–	–	426
Other payables	349	–	–	–	349
Fund manager profit share	5,353	–	–	–	5,353
Security deposits held	–	5	–	–	5
Total non-derivatives	**6,128**	**5**	**–**	**–**	**6,133**

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

NOTE 25. FAIR VALUE MEASUREMENT

Fair value hierarchy

The following tables detail the group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Observable market data used in valuation techniques to determine the fair value. Level 2 instruments are not traded in an active market

Level 3: Unobservable inputs for the asset or liability

Consolidated – 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Investment in financial assets at fair value through other comprehensive income	7,255	1,733	–	8,988
Total assets	**7,255**	**1,733**	–	**8,988**

Consolidated – 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Investments in available-for-sale financial assets	9,637	–	–	9,637
Total assets	**9,637**	**–**	**–**	**9,637**

There were no transfers between levels during the financial year.

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

NOTE 26. KEY MANAGEMENT PERSONNEL DISCLOSURES

Compensation

The aggregate compensation made to directors and other members of key management personnel of the group is set out below:

	Consolidated	
	2019	**2018**
	$	**$**
Short-term employee benefits	1,323,852	1,326,438
Post-employment benefits	76,631	77,981
Long-term benefits	18,753	37,573
Share-based payments	22,891	22,891
	1,442,127	**1,464,883**

NOTE 27. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company:

Audit services - Grant Thornton Audit Pty Ltd		
Audit or review of the financial statements	182,300	203,318

NOTE 28. CONTINGENT LIABILITIES

The group had no contingent liabilities at 30 June 2019 and 30 June 2018.

NOTE 29. COMMITMENTS

	Consolidated	
	2019	**2018**
	$'000	**$'000**
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	729	829
One to five years	467	1,196
	1,196	**2,025**

The property leases are non-cancellable leases with a maximum 5 year term, with rent payable monthly in advance.

NOTE 30. RELATED PARTY TRANSACTIONS

Parent entity

Pengana Capital Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 33.

Associates

Interests in associates are set out in note 34.

Key management personnel

Disclosures relating to key management personnel are set out in note 26 and the remuneration report included in the directors' report.

Transactions with related parties – managed investment schemes

The following transactions occurred with related parties:

	Consolidated	
	2019 $	**2018 $**
Sale of goods and services:		
Management fees	37,891,554	39,557,398
Performance fees	4,956,821	11,696,361

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

Current receivables:		
Trade receivables and accrued income from other related parties	5,004,169	5,200,630

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

NOTE 31. PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity.

Statement of Profit or Loss and Other Comprehensive Income

	Parent 2019 $'000	Parent 2018 $'000
Profit/(loss) after income tax	(5,303)	18,824
Total comprehensive income	(5,303)	18,824

Statement of Financial Position

	2019 $'000	2018 $'000
Total current assets	18,023	10,021
Total assets	233,120	227,929
Total current liabilities	1,246	1,970
Total liabilities	6,780	1,785
Equity		
Contributed equity	225,660	212,097
Share-based payments reserve	5,853	5,407
Available-for-sale reserve	–	82
Financial assets at fair value through other comprehensive income reserve	(47)	–
Retained profits/(accumulated losses)	(5,126)	8,558
Total equity	**226,340**	**226,144**

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2019 and 30 June 2018.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the group, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

NOTE 32. BUSINESS COMBINATIONS

PT Private Capital Pty Ltd

On 21 August 2018, the group acquired 100% of the shares in PT Private Capital Pty Ltd for the total consideration of $3,303,000. PT Private Capital Pty Ltd provides portfolio management services to high net worth clients. The purchase consideration was settled by issue of 983,146 shares in Pengana Capital Group Limited. The shares were valued at the market price on the date of settlement.

The goodwill of $2,985,000 represents profitability of the acquired business and the synergistic opportunities that will arise from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purpose. The acquired business contributed revenues of $859,000 and a loss after tax of $181,000 to the group for the period from 21 August 2018 to 30 June 2019.

The purchase price allocation of the acquisition is final at 30 June 2019.

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	65
Contract assets	22
Other intangible assets	452
Other payables	(85)
Deferred tax liability	(136)
Net assets acquired	**318**
Goodwill	2,985
Acquisition-date fair value of the total consideration transferred	**3,303**
Representing:	
Pengana Capital Group Limited shares issued to vendor	3,303
Acquisition costs expensed to profit or loss	12

NOTE 33. INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries with non-controlling interests in accordance with the accounting policy described in note 1:

		Parent		Non-controlling interest	
Name	Principal place of business / country of incorporation*	Ownership interest 2019 %	Ownership interest 2018 %	Ownership interest 2019 %	Ownership interest 2018 %
Pengana Holdings Pty Ltd	Australia	100%	100%	–	–
Pengana Capital Ltd	Australia	100%	100%	–	–
Pengana European Asset Management Pty Limited	Australia	50%	50%	50%	50%
Pengana Affinity Funds Pty Ltd	Australia	70%	70%	30%	30%
Pengana Singapore Pte. Ltd	Singapore	100%	100%	–	–
Pengana Investment Management Ltd	Australia	100%	100%	–	–
Rushcutter Investments Pty Ltd **	Australia	–	100%	–	–
Bennelong Administration Services Pty Ltd **	Australia	–	100%	–	–

* Principal activities of the subsidiaries listed above are provision of Investment Management Services.

** Entity deregistered on 22 May 2019

Summarised financial information for subsidiaries that have non-controlling interests, has not been provided as they are not material to the group.

NOTE 34. INTERESTS IN ASSOCIATES

The following interests in associates are accounted for using the equity method of accounting:

Name	Principal place of business / country of incorporation	Ownership interest 2019 %	Ownership interest 2018 %
Pengana Asia Special Events (Offshore) Fund	Cayman Islands	–	2.49%
Pengana Global Small Companies Fund	Australia	–	0.77%
Pengana International Fund	Australia	1.07%	1.38%
Global Credit Investments Pty Ltd	Australia	34.65%	34.65%

Summarised financial information relating to associates that are material to the group are set out below:

Summarised financial information

	Pengana International Fund		Global Credit Investments	
Summarised Statement of Financial Position	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**
Assets	94,606	78,788	1,218	1,596
Total assets	94,606	78,788	1,218	1,596
Liabilities	697	685	281	243
Total liabilities	697	685	281	243
Net assets	**93,909**	**78,103**	**937**	**1,353**
Summarised Statement of Profit or Loss and Other Comprehensive Income				
Revenue	9,120	6,565	1,324	2,000
Expenses	(1,196)	(824)	(2,224)	(1,329)
Profit/(loss) before income tax	7,924	5,741	(900)	671
Income tax benefit	–	–	155	–
Profit/(loss) after income tax	7,924	5,741	(745)	671
Other comprehensive income	–	–	–	–
Total comprehensive income	**7,924**	**5,741**	**(745)**	**671**
Reconciliation of the group's carrying amount				
Opening carrying amount	1,046	956	3,436	–
Share of profit/(loss) after income tax	50	90	(258)	–
Acquisition of interests	–	–	–	3,436
Closing carrying amount	**1,096**	**1,046**	**3,178**	**3,436**

The carrying amount of investments in associates approximate their fair value.

NOTE 35. 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 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 agreement.

The group considers all funds to be structured entities. The group invests in its own managed funds to seed the funds to develop a performance track record prior to external investment being received or provides early stage capital.

The funds' objectives are defined in the offer document and constitution of the respective fund. 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 group holds redeemable units in some of its own managed funds.

Unless specified otherwise, the group'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 group to potential loss.

NOTE 36. CASH FLOW INFORMATION

Reconciliation of profit/(loss) after income tax to net cash from operating activities

	Consolidated	
	2019 $'000	2018 $'000
Profit/(loss) after income tax expense for the year	**(14,285)**	**7,090**
Adjustment for:		
Depreciation and amortisation	2,652	2,559
Share of loss/(profit) - associates	297	(311)
Share-based payments	446	378
Foreign exchange differences	–	(21)
Distributions paid to unitholders -financing activity	–	627
Unitholder share of profit or loss	–	281
Write downs	–	136
Cost of alignment shares issued to Pengana Private Equity Trust	10,260	–
Other non-cash items	169	(173)
Net (gain)/loss on financial assets	–	(3,848)
Proceeds from sale of investments in financial assets at fair value through profit or loss	–	103

	Consolidated 2019 $'000	2018 $'000
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	4,765	(267)
Decrease/(increase) in contract assets	(4,747)	–
Decrease/(increase) in income tax refund due	759	–
Decrease/(increase) in prepayments	(286)	–
Decrease/(increase) in other financial assets at fair value through profit or loss	–	26,768
Increase/(decrease) in trade and other payables	(2,182)	(6,985)
Increase/(decrease) in provision for income tax	1,182	146
Increase/(decrease) in deferred tax liabilities	(311)	–
Increase/(decrease) in employee benefits	64	–
Increase/(decrease) in other financial liabilities at fair value through profit or loss	–	(18,768)
Net cash from/(used in) operating activities	**(1,217)**	**7,715**

Non-cash investing and financing activities

Shares issued in relation to business combinations	3,303	–
Shares issued under loan share plan	2,000	–
Loans granted under loan share plan	(2,000)	–
Shares issued in relation to purchase of investments in Associates	–	490
Shares issued in accordance with short term retention scheme	–	263
Alignment shares issued to Pengana Private Equity Trust	10,260	–
Purchase of investment into associates- reinvestment of dividends	–	(1,847)
Sale of investment in associates	–	1,571
Purchase of property, plant and equipment	–	(19)
Sale of investments in available-for-sale financial assets	5,500	–
Purchase of investments in available-for-sale financial assets	(5,500)	–
Dividends withheld from company shareholders with outstanding loans under loan share plan	(127)	–
Dividends applied on outstanding loans under loan share plan	127	–
	13,563	**458**

Changes in liabilities arising from financing activities

Consolidated	**Bank loan $'000**
Balance at 1 July 2017	**–**
Balance at 30 June 2018	**–**
Net cash from financing activities	5,000
Balance at 30 June 2019	**5,000**

NOTE 37. SHARE-BASED PAYMENTS

Loan Funded Share Plan ('LSP')

The group operates a LSP, whereby limited recourse loans totalling $29,220,000 (2018: $27,220,000) were provided to employees and fund managers to acquire shares in the company. Under the plan the CEO has 15,872,528 (2018: 15,872,528) shares, employees and fund managers have 7,586,192 (2018: 6,981,194) shares.

The loans are interest bearing and have a maximum term of up to seven years. Recourse on the loans (including associated interest) is limited to the associated shares and any dividend amounts applied to the loan balance. The shares granted under the LSP are subject to a vesting condition, that the employees and fund managers must remain continuously employed for five years from the grant date, except for shares associated with the LSP granted to the CEO which are not subject to a vesting condition and vested on the date the shares were granted.

As the share purchases are funded by limited recourse loans they are treated for accounting purposes as grants of share options and accounted for as equity-settled share-based payments. The shares issued under the LSP are fair valued on the date they are granted and amortised as an expense in profit or loss over the vesting period.

As the loans and associated shares issued are not recorded on the statement of financial position on grant date, there are no transactions in the statement of financial position relating to the issue of shares under the LSP, however a share-based payment expense of $446,000 has been recognised in profit or loss for the year ended 30 June 2019 (2018: $378,000).

Interest accruing on the loans and dividends applied to the loans are not recorded in the financial statements but do impact the outstanding loan balance. As at 30 June 2019 total outstanding loans related to treasury shares were $29,395,000 (2018: $27,528,000).

Set out below are summaries of shares granted under the LSP:

2019

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired / forfeited / other	Balance at the end of the year
01/03/2017	28/02/2024	$1.49	5,149,796	–	–	–	5,149,796
01/03/2017	28/02/2024	$1.20	10,722,732	–	–	–	10,722,732
03/03/2017	01/03/2024	$1.49	6,981,194	–	–	–	6,981,194
03/10/2018	01/10/2025	$4.33	–	604,998	–	–	604,998
			22,853,722	**604,998**	**–**	**–**	**23,458,720**
Weighted average exercise price			$1.35	$4.33	$0.00	$0.00	$1.43

2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired / forfeited / other	Balance at the end of the year
01/03/2017	28/02/2024	$1.49	5,149,796	–	–	–	5,149,796
01/03/2017	28/02/2024	$1.20	10,722,732	–	–	–	10,722,732
03/03/2017	01/03/2024	$1.49	6,981,194	–	–	–	6,981,194
			22,853,722	**–**	**–**	**–**	**22,853,722**
Weighted average exercise price			$1.35	$0.00	$0.00	$0.00	$1.35

Set out below are the shares granted under the LSP exercisable at the end of the financial year:

Grant date	Expiry date	2019 Number	2018 Number
01/03/2017	28/02/2024	5,149,796	5,149,796
01/03/2017	28/02/2024	10,722,732	10,722,732
		15,872,528	**15,872,528**

The weighted average share price during the financial year was $2.62 (2018: $3.26).

The weighted average remaining contractual life of shares granted under the LSP outstanding at the end of the financial year was 4.72 years (2018:5.67 years).

For the shares granted under the LSP during the current financial year, the Black-Scholes valuation model inputs used to determine the fair value at the grant date, are estimated as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Estimated Volatility*	Dividend yield	Risk-free interest rate	Fair value at grant date
03/01/2018	01/10/2025	$3.31	$4.33	35.35%	2.53%	2.29%	$0.751

*The expected price volatility is based on a period of observed historic volatility of a range of peer group companies.

NOTE 38. EARNINGS PER SHARE

	Consolidated 2019 $'000	2018 $'000
Profit/(loss) after income tax	(14,285)	7,090
Non-controlling interest	(10)	(110)
Profit/(loss) after income tax attributable to the owners of Pengana Capital Group Limited	**(14,295)**	**6,980**
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	80,528,415	78,628,294
Adjustments for calculation of diluted earnings per share: Options over ordinary shares	–	11,704,450
Weighted average number of ordinary shares used in calculating diluted earnings per share	**80,528,415**	**90,332,744**
	Cents	**Cents**
Basic earnings per share	(17.75)	8.88
Diluted earnings per share	(17.75)	7.73

The weighted average number of ordinary shares for year ended 30 June 2019 does not include 23,458,720 treasury shares (2018: 22,853,722).

For the year ended 30 June 2019, options have been excluded in the weighted average number of shares used to calculate diluted earnings per share as they were anti-dilutive.

NOTE 39. GENERAL INFORMATION

Pengana Capital Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 12
167 Macquarie Street
Sydney NSW 2000

A description of the nature of the group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 August 2019. The directors have the power to amend and reissue the financial statements.

NOTE 40. EVENTS AFTER THE REPORTING PERIOD

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

DIRECTORS' DECLARATION

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors,

Russel Pillemer
Chief Executive Officer

26 August 2019
Sydney

Warwick Negus
Chairman

26 August 2019
Sydney

INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report

To the Members of Pengana Capital Group Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Pengana Capital Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of 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 June, 2019 and of its performance for the year ended on that date; and

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

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 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.

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

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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 of the current period. These 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.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill & other intangibles – refer to Note 17. Non-current assets - intangibles	
The reverse acquisition of Hunter Hall on 1 June 2017 gave rise to goodwill of $40,627k and acquired relationships of $26,320k. The acquisition of PT Capital on 21 August 2018 gave rise to goodwill of $2,985k and other intangible assets of $452k. All assets must be assessed at each reporting date for any indication of impairment. Goodwill must be tested annually for impairment regardless of whether any indication of impairment exists. Pengana Capital Group Limited has utilised the value in use method to calculate the recoverable amount of intangible assets. Due to the significant estimation involved in calculating the recoverable amount, we have determined this to be a key audit matter.	Our procedures included, amongst others: • Assessing the competence and objectivity of management's independent expert; • Assessing the reasonableness of management's independent expert's conclusions and management's bias in the assessment of potential impairment indicators for finite life intangible assets and also in performing the impairment testing for goodwill; • Reviewing the goodwill impairment model for compliance with AASB 136; • Assessing the determination of the Cash Generating Unit (CGU) based on our understanding of how management monitors the entity's operations and makes decisions about groups of assets that generate independent cash flows; • Verifying the mathematical accuracy of the underlying model calculations and assessing the appropriateness of the methodologies; • Evaluating the cash flow projections and the process by which they were developed; • Performing sensitivity analysis in relation to cash flow projections, discount and growth rate assumptions on CGUs with a higher risk of impairment; and • Assessing the adequacy of financial report disclosures on the application of judgement in estimating future cash flows and the key methods and assumptions used in the impairment assessment.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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 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, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

GrantThornton

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 Group's ability 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 this 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

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 20 to 25 of the Directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Pengana Capital Group Limited, for the year ended 30 June 2019, complies with section 300A of the Corporations Act 2001.

Responsibilities
The Directors of the Company 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.

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Adam-Smith
Partner – Audit & Assurance

Sydney, 26 August 2019

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 16 August 2019.

DISTRIBUTION OF EQUITABLE SECURITIES

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	477
1,001 to 5,000	633
5,001 to 10,000	276
10,001 to 100,000	264
100,001 and over	51
Holding less than a marketable parcel	237

EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
WHSP Pengana Pty Ltd	27,176,596	26.31
RC Pillemer Pty Ltd (RC Pillemer Family A/C)	24,795,404	24.01
WHSP Hunter Hall Pty Ltd	6,641,522	6.43
Washington H Soul Pattinson and Company Limited	5,434,653	5.26
Farnworth House Pty Ltd	2,728,256	2.64
DJG Services Pty Limited (DKI Account)	2,079,994	2.01
Roxtrus Pty Limited (Roxanne Dunkel No. 2 A/C)	1,803,150	1.75
Damian Crowley Julie Crowley (Damian C Crowley Family Fund)	1,789,325	1.73
Radd Holdings Pty Limited (Myers Family A/C)	1,341,904	1.30
Russel Craig Pillemer	1,262,205	1.22
DBR Corporation Pty Ltd	1,255,260	1.22
HSBC Custody Nominees (Australia) Limited (A/C 2)	1,201,173	1.16
Tark Family Holdings Pty Ltd (Tark Family A/C)	1,100,162	1.07
LMCTA Pty Ltd (LMCTA Family A/C)	983,146	0.95
Steve Black	973,701	0.94
Ed Prendergast	973,701	0.94
Steve Black (Black Family A/C)	672,335	0.65
Meg O'Hanlon (O'Hanlon Family A/C)	672,335	0.65
Pretage Pty Ltd	630,051	0.61
WHSP Hunter Hall Pty Ltd	575,133	0.56

SHAREHOLDER INFORMATION (CONTINUED)
EQUITY SECURITY HOLDERS (CONTINUED)

Unquoted equity securities

There are 4,909,228 fully paid preference shares on issue held by Pengana Investment Management Limited as trustee for the Pengana Private Equity Trust registered in the name of BNP Paribas Securities Services.

SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Washington H Soul Pattinson and Company, WHSP Hunter Hall Pty Ltd and WHSP Pengana Pty Ltd	39,827,904	39.25%
Russel Craig Pillemer*	35,284,021	34.16%

* The substantial notice lodged for Russel Pillemer discloses that he has a relevant interest in 35,284,021 ordinary shares in the company. These relevant interests are as follows:

- 1,262,205 shares held by Russel Pillemer
- 24,795,404 shares held by RC Pillemer Pty Ltd (which Russel Pillemer controls)
- 165,000 shares held by MRJ Capital Pty Limited (which Russel Pillemer controls)

35,284,021 shares held by Pengana staff or their related parties (including the 26,222,609 shares referred to above held by Russel Pillemer, RC Pillemer Pty Ltd and MRJ Capital Pty Limited). As Russel Pillemer has voting power in the company above 20% pursuant to section 608(3)(a) of the Corporations Act 2001 he is deemed to have a relevant interest in these shares as the company has the power to prevent the disposal of each of these shares pursuant to a voluntary escrow agreement between the company and the relevant holder.

VOTING RIGHTS

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

SECURITIES SUBJECT TO VOLUNTARY ESCROW

Class	Expiry date	Number of shares
Ordinary shares	Until 15 February 2023 (portions to be released annually)	21,565,475
Ordinary shares	1 June 2022	6,981,194
Ordinary shares	Until 15 February 2020 (portions to be released annually)	1,337,736
Ordinary shares	Until 3 October 2023	604,998
Ordinary shares	Until 19 June 2020	137,350
		30,626,753

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