

Annual Report

2020



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01. Pinnacle Glossary

| Term | Meaning |
|-----------------------------------|---|
| 2019 Annual Report | the Group's annual report for the 2019 financial year. |
| 2019 financial year | the period 1 July 2018 to 30 June 2019. |
| 2020 Annual Report | this document. |
| 2020 Financial Year | the period 1 July 2019 to 30 June 2020. |
| Affiliates or Pinnacle Affiliates | Pinnacle's sixteen affiliated investment managers, being Aikya, Antipodes, Coolabah, Firetrail, Hyperion, Longwave, Metrics, Omega, Palisade, Plato, Resolution Capital, Reminiscent, Riparian, Solaris, Spheria and Two Trees. |
| Aikya | Aikya Investment Management Limited. |
| Antipodes | Antipodes Partners Limited. |
| ASX Principles | the Corporate Governance Principles and Recommendations 3rd Edition, published by the ASX Corporate Governance Council. |
| Auditor | PricewaterhouseCoopers. |
| Board | the Board of Directors. |
| Board Committees | the Audit, Compliance and Risk Management Committee and the Remuneration and Nominations Committee. |
| Chair | Alan Watson, the Chair of the Board. |
| Company | Pinnacle Investment Management Group Limited. |
| Company Secretary | Calvin Kwok, who held the position during the 2020 financial year. |
| Coolabah | Coolabah Capital Investments Pty Ltd. |
| Corporations Act | Corporations Act 2001 (Cth). |
| Deutsche Australia | Deutsche Australia Limited, which held an 18.8% shareholding in the Company at the start of the 2016 financial year. As at the date of this report, Deutsche Australia no longer has any shareholding in the Company. |
| EOSP | Pinnacle Employee Option Share Plan. |
| Firetrail | Firetrail Investments Pty Limited. |
| Foundation | the Pinnacle Charitable Foundation. |
| FUM | funds under management. |
| Group or Pinnacle Group | Pinnacle and the entities that it controlled during the 2020 financial year. |
| Hyperion | Hyperion Asset Management Limited. |
| Key Management Personnel | the individuals identified as such on page 48 of the 2020 Annual Report. |
| LTI | long-term incentives offered to individuals who are staff of the Group. |
| Longwave | Longwave Capital Partners Pty Limited. |

| Term | Meaning |
|-----------------------|--|
| Managing Director | Ian Macoun, who was appointed as an executive director on 25 August 2016. |
| Metrics or MCP | Metrics Credit Partners Pty Limited. |
| New Loans | is a reference to the loans more fully described at page 65. |
| NPAT | net profit after tax. |
| NPBT | net profit before tax. |
| NTA | net tangible assets. |
| Omega | Omega Global Investors Pty Limited. |
| Palisade | Palisade Investment Partners Limited. |
| PIML | Pinnacle Investment Management Limited, the principal operating subsidiary of the Group. |
| PIML Acquisition | the transaction approved by shareholders on 16 August 2016, pursuant to which the Company acquired the 24.99% equity stake in PIML it did not already own. |
| PIML LTI Scheme | the long-term incentive scheme described on page 51 of the 2020 Annual Report. |
| Pinnacle or PNI | Pinnacle Investment Management Group Limited. |
| Pinnacle Omnibus Plan | the Pinnacle Omnibus Incentive Plan described on page 51 of the 2020 Annual Report. |
| Plato | Plato Investment Management Limited. |
| Principal Investments | investments made by the Group in listed and unlisted equities and unit trusts on its own behalf. |
| Reminiscent | Reminiscent Capital Pty Limited. |
| Resolution Capital | Resolution Capital Limited. |
| Riparian | Riparian Capital Partners Pty Limited. |
| Securities business | the corporate finance, equity capital markets, institutional sales, research and private wealth management businesses previously owned by the Company and now known as Wilsons Advisory. |
| Sellers | each of Macoun Superannuation Fund Pty Ltd as trustee for the Macoun Superannuation Fund, Macoun Generation Z Pty Ltd as trustee for the Macoun Generation Z Family Trust, Usinoz Pty Ltd as trustee for the Ihlenfeldt Family Trust, AJF Squared Pty Ltd as trustee for the AJF Squared Family Trust, Andrew Chambers and Fleur Chambers as trustee for the Andrew C Chambers Family Trust, Adrian Whittingham as trustee for the Whittingham Family Trust, Mark Cormack and Melanie Cormack as trustee for the Cormack Family Trust and Dellreid Pty Limited as trustee for the Dell Family Trust. |
| Solaris | Solaris Investment Management Limited. |
| Spheria | Spheria Asset Management Pty Limited. |
| STI | short-term incentives. |
| Two Trees | Two Trees Investment Management Pty Limited. |

Chair's Letter

Dear Fellow Shareholders

My colleagues and I are pleased to present Pinnacle's Annual Report for the financial year ended 30 June 2020.

It was indeed an unprecedented year - challenging, disruptive, and confronting. The extensive impact of the COVID-19 virus crisis, particularly during the second half of the year, is of course widely apparent in all global economies and markets. Having recovered from the significant downturn in the December 2018 quarter, equity markets moved to record highs in late February 2020, before falling precipitously in a matter of days in March as they sought to incorporate the negative commercial and economic effects of the virus, which continues to spread and cause extraordinary suffering for many across the globe. Here in Australia, the 2019-20 bushfire season saw devastation across wide swathes of the country, with lives and livelihoods lost or irrevocably changed; and to this has been added the appalling consequences of COVID-19. Whilst we in Australia have not been immune, thankfully, at the time of writing, we remain insulated from some of its worst effects. Still, the ultimate economic, social, and humanitarian impacts remain both unclear and uncertain.

In the past, I have closed this letter by thanking the people of both Pinnacle and the Affiliates

for their commitment to the business and the success that they have achieved to date, and also to thank our shareholders for their support. This year, perhaps as never before, the vital importance of outstanding people in our Company and its Affiliates has been apparent. Therefore, I wish to commence my letter by recognising the resilience, dedication and flexibility of the people of Pinnacle and its Affiliates, and thanking them for the extraordinary efforts in supporting our clients and their advisors, demonstrated through their resourcefulness and adaptability whilst maintaining high standards of investment and service delivery throughout unprecedented crisis conditions. In addition, we have been grateful for the support of our shareholders, and the interest of the equity research community, as we have sought to keep everyone informed with frequent briefings and updates submitted to the ASX as events unfolded.

Last year, we stated that we are not soothsayers of financial markets; rather, we are seeking to develop a business that will continue to prosper across the full range of market conditions, by enhancing our diversity of asset classes under management, increasing the diversity of sources of funds under management, retaining a healthy percentage of funds under

management exposed to performance fees, and maintaining a robust balance sheet. Although we are only part-way through this diversification process, we believe these strategies have begun to demonstrate their worth during the very challenging 2020 financial year. Whilst clearly not immune from substantial short-term pressure - the reduction in funds under management due to the drop in market (particularly equity market) valuations and the reduction in net FUM inflows combined to depress Affiliate and Pinnacle revenues substantially relative to prior expectations - the progress achieved at this stage in these diversification efforts has, to a material extent, mitigated the adverse market impacts and we have managed to deliver profit and earnings per share outcomes a little ahead of the previous financial year. We were particularly assisted in this regard by significant performance fees in five Affiliates, by the pace of inflows from offshore investors beginning to increase, and by the performance and positioning of our increasingly diverse stable of specialist, high conviction active fund managers.

In summary, during the 2020 financial year, Pinnacle produced a solid financial outcome in the prevailing circumstances, albeit below that which we expected at the start of the year:

- NPAT attributable to shareholders was \$32.2m (up 5.6% from \$30.5m in the 2019 financial year), which represented basic earnings per share of 18.8 cents per share (up 2.7% from 18.3 cents in the 2019 financial year);
- Aggregate Affiliate revenues (at 100%) grew 22.9% to \$291m (including performance fees of \$26.7m, and Coolabah revenues for part of the year);
- Pinnacle's share of aggregate Affiliate NPAT was \$38.0m, up 14.8%;
- Funds under management reached \$58.7 billion at 30 June 2020, up 8.1% from \$54.3

billion at 30 June 2019 (up \$1.4 billion or 2.6% excluding the \$3.0 billion 'acquired' with Coolabah) despite the 10.8% drop in the ASX300 index over the 12 month period;

- Net inflows of \$3.0 billion, of which retail was \$0.9 billion;
- Total dividends of 15.4 cents per share, the same as for the 2019 financial year;
- Retained a strong and flexible balance sheet, with net financial assets of \$20.1 million, comprising cash and Principal Investments of \$50.1 million at the end of the year, and debt of \$30.0 million

Further detail is provided in the Operating and Financial Review component of this Annual Report.

The Board has declared a fully franked final dividend of 8.5 cents per share, making a total of 15.4 cents for the full year. In arriving at this level of dividend distribution the Board was seeking to recognise the sound financial outcome for the year given prevailing circumstances, whilst also maintaining the self-discipline associated with paying a substantial proportion of earnings as dividends; however, tempering these with a level of caution that significant exogenous uncertainties and challenges may still lie before us.

Our strategies of carefully growing the number of Affiliates and further increasing our asset class diversification were advanced during the year with the Horizon 3 acquisition of a 25% interest in Coolabah Capital Investments (a long-only and long-short public markets credit manager), the Horizon 2 establishment of Aikya Investment Management (a global emerging markets manager, based in London) and the Horizon 2 launch of Reminiscent Capital (a Discretionary Asia Macro firm, based in Sydney). Pinnacle is both a retail and an institutional distribution partner with each of these Affiliates.

Finally, we have entered the 2021 financial year in good shape. We are poised to resume growth, to react to possible further external adversity and to take advantage of opportunities that may materialise. We have been tested this year and I am proud to say that our Company and the Affiliates have responded vigorously during this adversity. We plan to continue our strategy of further increasing the diversity of asset classes under management, and the diversity of sources of funds under management (particularly international) and retaining a healthy percentage of funds under management exposed to performance fees, thereby further increasing both the resilience and growth potential of Pinnacle.

In closing, it would be remiss of me not to thank, on all shareholders' behalf, my fellow executive and non-executive directors, who have supported the ambitions of your Company so tirelessly over the past year, and continue to provide expertise and counsel as we move forward.

Further operational detail is discussed in the Operating and Financial Report commencing on page 10, and detail of our remuneration philosophy and outcomes are described from page 44 in the Remuneration Report, including the letter from the Chair of the Remuneration and Nominations Committee.

We look forward to welcoming you to the Company's Annual General Meeting on 29 October, 2020, most likely by electronic means.

Yours sincerely



Alan Watson
4 August 2020



03.

Overview, Operating and Financial Report

Nature of operations and principal activities

Pinnacle is a leading Australia-based multi-affiliate investment management firm. Our mission is to establish, grow and support a diverse stable of world-class investment management firms.

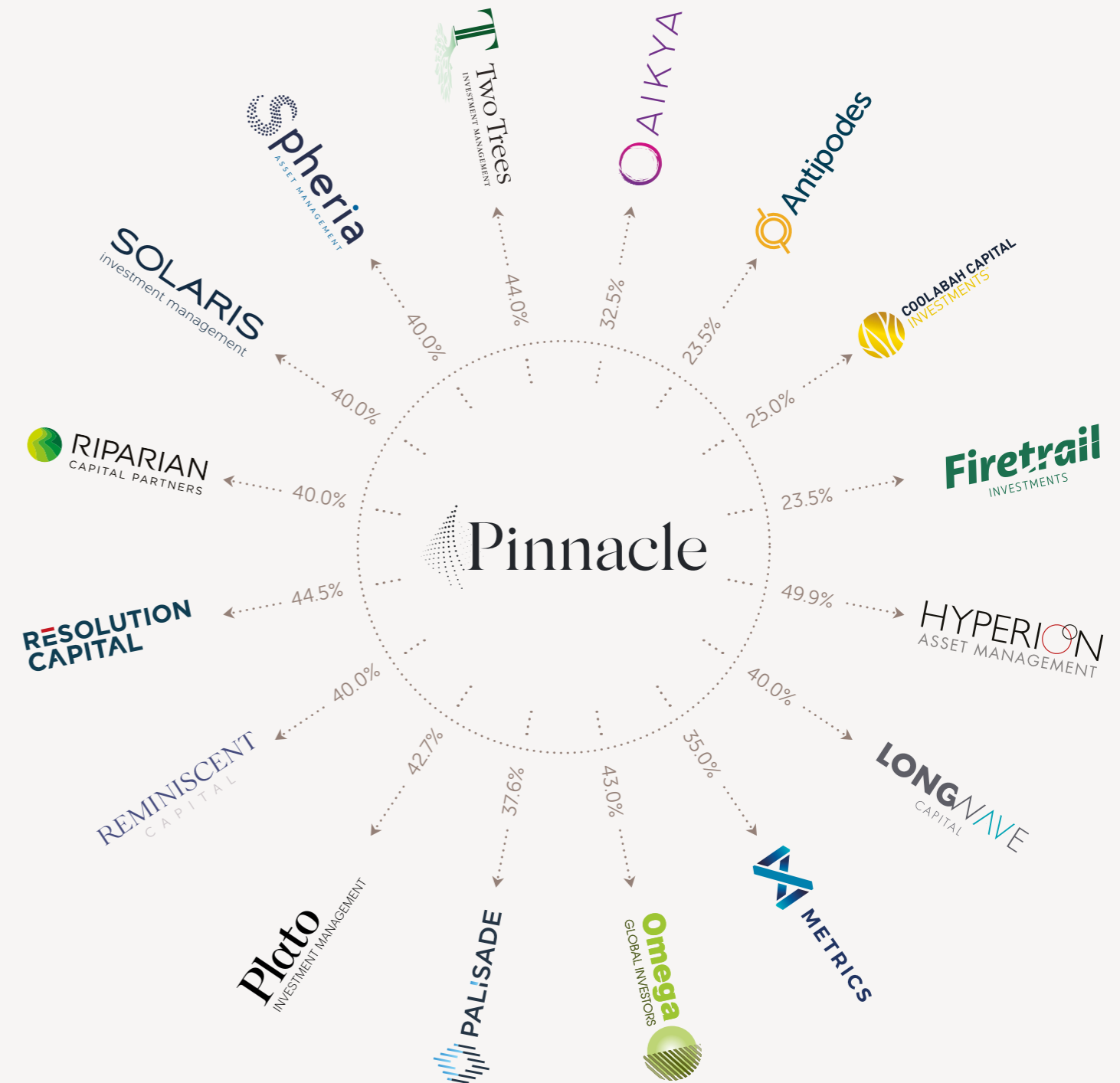
Founded in 2006, Pinnacle currently consists of 16 investment Affiliates. At 30 June 2020, the Pinnacle Affiliates collectively managed approximately \$58.7 billion in assets across a diverse range of asset classes. Pinnacle provides its Affiliates with:

- equity, seed capital and working capital;
- superior distribution services, business support and responsible entity services to allow investment managers to focus on delivering investment outperformance; and
- independence, including separate management reporting structures and boards of directors, whilst still offering the economies of scale and financial support inherent in being part of a larger investment group.

The principal activities of the Group during the 2020 financial year were:

- developing and operating investment management businesses; and
- providing distribution services, business support and responsible entity services to the Pinnacle Affiliates.

The diagram on the following page shows the Pinnacle Affiliates and Pinnacle's effective interest in each as at the date of this report.



\$291.1 million Affiliate revenues

NPAT of \$32.2 million

\$58.7 billion in FUM

18.8c earnings per share

8.5c fully franked final dividend

Key financial highlights

During the 2020 financial year, the Group held shareholdings (through its principal operating subsidiary, PIML) of between 23.5% and 49.9% in each of the Pinnacle Affiliates, which together have \$58.7 billion in FUM as at 30 June 2020.

In the 2020 financial year:

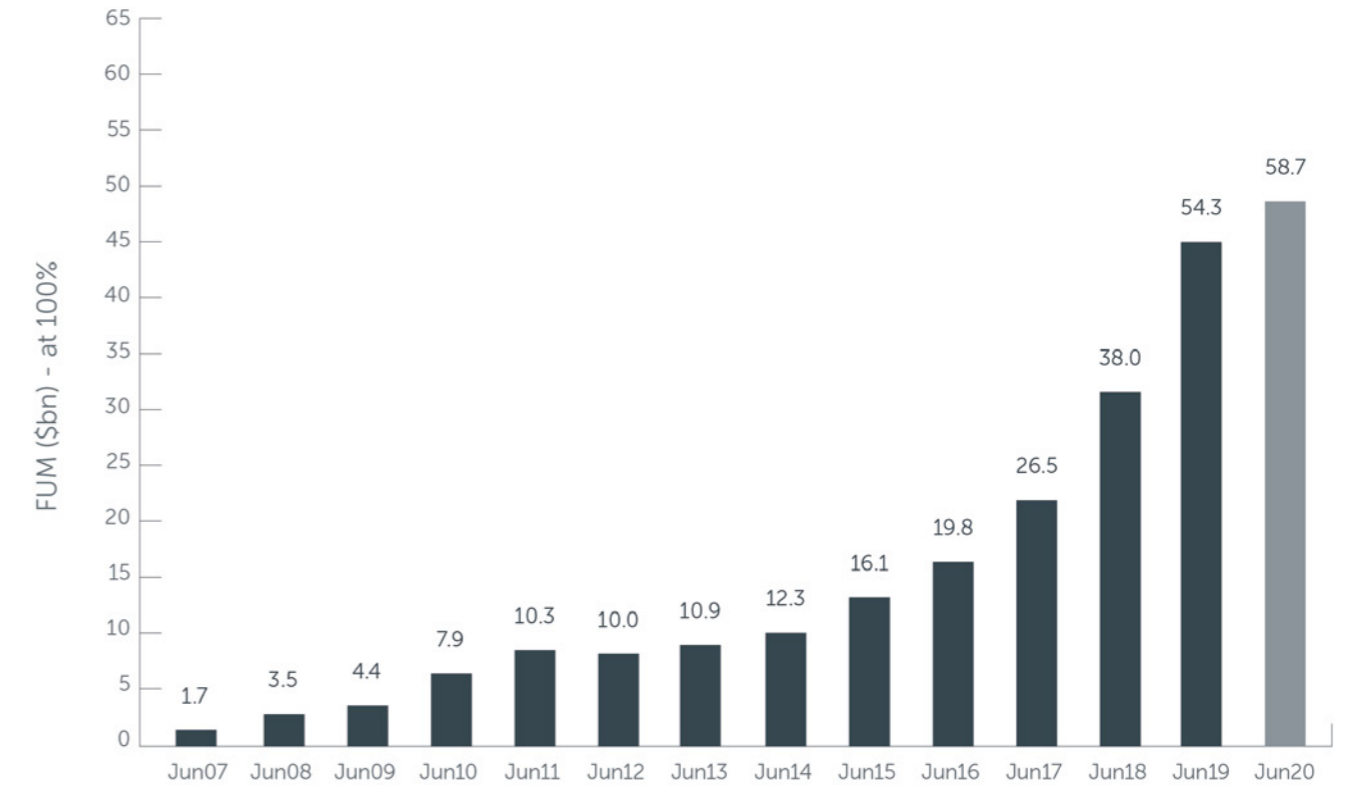
- Pinnacle Affiliates generated aggregate revenues (at 100%) of \$291.1 million, up 22.9% from \$236.8 million in the previous year. Of this, \$26.7 million was performance fees (\$15.3m in the previous year).
- Pinnacle generated total NPAT attributable to shareholders of \$32.2 million, up 5.6% from \$30.5 million in the prior year.
- Pinnacle's share of NPAT from Pinnacle Affiliates was \$38.0 million, up 14.8% on the prior year.

The table below outlines the performance of the Pinnacle Group for the 2020 and 2019 financial years:

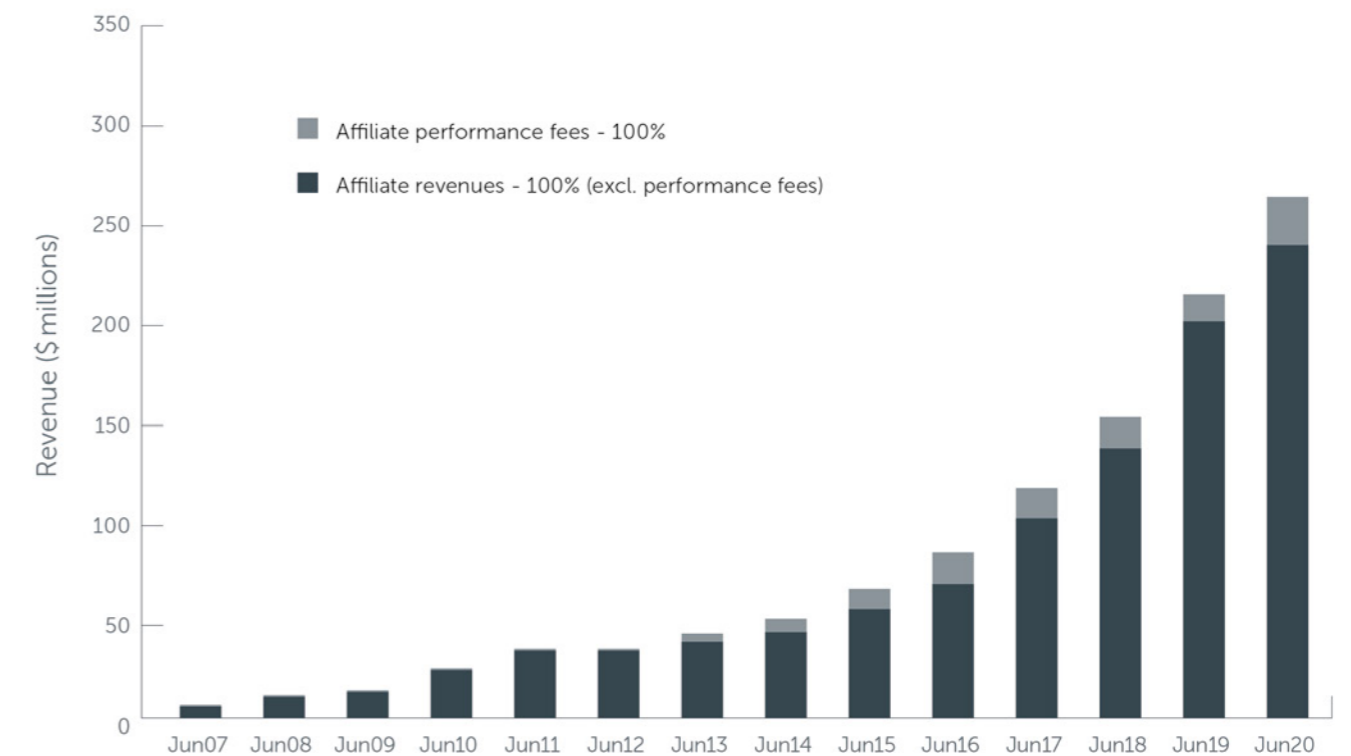
| | FY2020 (\$m) | FY2019 (\$m) |
|---|--------------|--------------|
| Pinnacle Affiliates (100% aggregate basis) | | |
| FUM (\$billion)* | 58.7 | 54.3 |
| Revenue (\$million) | | |
| Revenue | 291.1 | 236.8 |
| Net profit before tax | 142.7 | 123.1 |
| Tax expense | (42.5) | (34.0) |
| Net profit after tax | 100.2 | 89.1 |
| Pinnacle | | |
| Revenue | 22.4 | 21.1 |
| Expenses | (28.0) | (23.7) |
| Share of Pinnacle Affiliates net profit after tax | 38.0 | 33.1 |
| NPBT from continuing operations attributable to shareholders | 32.4 | 30.5 |
| Taxation | - | - |
| NPAT from continuing operations attributable to shareholders | 32.4 | 30.5 |
| Discontinued operations | (0.2) | 0.0 |
| Total profit attributable to shareholders | 32.2 | 30.5 |
| Basic earnings per share (cents): | | |
| From continuing operations | 18.9 | 18.3 |
| Total attributable to shareholders | 18.8 | 18.3 |

*Non-statutory measure

Pinnacle Affiliates - FUM Growth¹



Pinnacle Affiliates - Revenue Growth²



¹ Pinnacle FUM includes 100% of FUM managed by Pinnacle Affiliates.

² Revenue shown is 100% of all Pinnacle Affiliates' revenue. This is shown to indicate trend and excludes revenue derived by Pinnacle itself.

Pinnacle's focus during the year was on continuing to support each of the Pinnacle Affiliates and assisting them to grow their business and profitability.

Pinnacle Affiliates

Pinnacle's resourcing was increased significantly during the prior year, both in distribution and in infrastructure, with further strategic hires during the current financial year, with a focus on growing the Group's international distribution capability. The quality of the Pinnacle Affiliates was again affirmed and demonstrated during the year. Following is an overview of each of the Pinnacle Affiliates during the 2020 financial year:



Aikya

Aikya Investment Management was founded in 2020 and specialises in managing Emerging Markets equity portfolios. The team intends to maintain a small and simple organisational structure in order to avoid the bureaucracy and distractions that often arise in larger, more complex investment management businesses.

Aikya's edge is their long-term approach, which primarily focuses on assessing the quality of the business owners and managers in Emerging Markets. Aikya looks to identify long-term stewards who have grown cash flows, navigated a few economic cycles, and demonstrated fairness to all stakeholders. Their approach has proven over time that such people create shareholder value and drive long-term investment returns.

Sustainability is at the heart of Aikya's investment approach. The name Aikya means oneness in Sanskrit which reflects the team's core belief that true stewards align their businesses with the interests of all stakeholders. Companies that take short cuts when it comes to customers, employees, suppliers, the environment, or broader society are unlikely to be rewarding long-term investments.

The Aikya Global Emerging Markets Fund was launched in March 2020.



Antipodes Partners

Antipodes Partners is a pragmatic value manager of global equities (long and long-short) founded in 2015 by Jacob Mitchell, together with a number of former colleagues and like-minded value investors.

Antipodes aspires to grow client wealth over the long-term by generating absolute returns in excess of the benchmark at below market levels of risk. Antipodes' approach seeks to take advantage of the market's tendency for irrational extrapolation around change, identify great businesses that are not valued as such and build high conviction portfolios with a capital preservation focus.

As at 30 June 2020, Antipodes had \$8.0 billion in funds under management.



Coolabah

Coolabah Capital Investments (CCI) is a leading long-only and long-short active credit manager that is responsible for managing numerous institutional mandates, the Smarter Money Investments' product suite, and the BetaShares Active Australian Hybrid ETF (ASX: HBRD).

CCI's edge is in alpha generation in liquid, high-grade credit in contrast to traditional fixed-income strategies that drive returns through adding more interest rate duration, credit default, and/or illiquidity risk (beta). This alpha is a function of the world-class analytical insights rendered by CCI's human capital, which includes 23 executives with a long-term track-record of delivering prescient insights. In 2019, CCI's portfolio managers were selected as one of FE fundinfo's Top 11 "Alpha Managers" based on their risk-adjusted performance across all asset classes.

Pinnacle acquired a 25% holding in CCI in December 2019. As at 30 June 2020, CCI had \$3.7 billion in funds under management.



Firetrail Investments

Firetrail is a boutique investment manager founded in 2018. The firm was established with a goal to align its people with their clients. Importantly, the firm is majority owned by its investment staff and the team is invested alongside their clients in the investment strategies.

While founded in 2018, the Firetrail investment team have a long, successful track record of investing in equities. Prior to establishing Firetrail, the portfolio management team including Patrick Hodgins, Blake Henricks and James Miller worked together at Macquarie for over a decade. The team were responsible for managing the highly successful Macquarie High Conviction Fund, which was one of the top-performing Australian equity funds over the medium- and long-term.

Firetrail has a diverse client base across Institutional Investors, Foundations, Family Offices, HNW individuals, Financial Advisors and Retail Investors. As at 30 June 2020, funds under management for the firm were \$4.1 billion.



Hyperion Asset Management

Hyperion Asset Management exists to help clients protect and grow their capital over the long-term. When investing capital in listed companies on its clients' behalf, Hyperion has the mindset of long-term business owners, not short-term traders. The average holding period for the companies in their portfolios is 10 years and the long-term sustainability of the businesses Hyperion invests in is core to its philosophy.

The Hyperion Global Growth Companies Strategy was established in 2014 for wholesale investors. Based on the strong performance record of the strategy, it was opened to retail investors during the 2019 financial year. As at 30 June 2020, the fund has outperformed its benchmark by 11.0% (per annum, since inception, gross of fees). Hyperion's total funds under management at 30 June 2020 were \$7.8 billion.



Longwave Capital Partners

Longwave is a boutique investment manager that is dedicated to delivering superior, long-term results through the innovative combination of technology, experience and insight.

David Wanis and Jai Beathe are the founders of Longwave. Together, they have a long history of designing, building and managing highly successful investment strategies. From pioneering the Schroders Australia small and micro-cap strategies to running global multi-asset portfolios, they have worked with a broad range of institutional, retail, charitable and sovereign wealth fund clients.

The Longwave Australian Small Companies Fund, Longwave's active and diversified portfolio of high-quality small companies that has been built through the combination of quantitative discipline and fundamental insight, launched on 1 February 2019.



Metrics

Metrics is the leading Australian non-bank corporate lender with a presence in Sydney, Melbourne and Auckland, NZ. Metrics is an alternative asset manager specialising in fixed income, private credit, equity and capital markets. Through its managed funds, Metrics provides unrivalled access to the highly attractive Australian private debt market to investors ranging from individuals to global institutions.

Metrics launched its first wholesale fund in June 2013 and is the manager of a number of wholesale and retail investment trusts in addition to the MCP Master Income Trust (ASX: MXT), which successfully listed on the ASX in October 2017. Metrics' second ASX-listed vehicle, MCP Income Opportunities Trust (ASX: MOT), was successfully listed on the ASX in April 2019. Pinnacle acquired an equity interest in Metrics in August 2018, having been its distribution partner for a number of years. Assets under management at 30 June 2020 were \$5.3 billion, of which FUM was \$4.4 billion.



Omega Global Investors

Omega's Smart Beta Plus" approach optimises exposures to factors that are researched to be return drivers while controlling common risk, thereby ensuring investors are appropriately rewarded.

Omega believes the benefits derived from Smart Beta Plus are compelling, providing the opportunity for investors to improve investment outcomes via a cost-effective systematic approach. Omega offers smart beta, factor-based investing across bonds, equities, FX and cash. Pinnacle acquired an equity interest in Omega in July 2018. As at 30 June 2020, Omega had FUM of \$4.3 billion.



Palisade

Palisade provides institutional and wholesale investors with access to Australian infrastructure projects through tailored portfolios and co-mingled funds. Palisade's multi-disciplinary and experienced team focuses on attractive mid-market assets that are essential to the efficient functioning of the communities and economies they serve.

Palisade manages investments in assets within the Transport, Energy, Utilities, Renewables, Agri-infrastructure and Social (PPP) sectors. Each asset is specifically targeted in sectors where Palisade believes it can exhibit a competitive advantage.

As at 30 June 2020, funds under management and investor commitments totalled approximately \$2.9 billion across Palisade's three pooled funds and separately managed accounts. Palisade's flagship fund, Palisade's Diversified Infrastructure Fund, generated a gross return of 7.7% for the year, including 8.7% yield.



Plato Investment Management

Plato was founded in Sydney, Australia, in 2006 and is majority-owned and operated by its investment staff. Plato is a stable, research-led organisation focused on and aligned to client outcomes. The firm's strategies today encompass global and Australian equities that are tailored to specific investor objectives of wealth accumulation, income generation and downside protection.

The majority of Plato's domestic strategies outperformed in the financial year, whilst global shares proved more challenging, with large cap growth stocks leading the way. Whilst market volatility was high, Plato experienced virtually no net redemptions from clients. The team quickly responded to working in a COVID-19 environment. As at 30 June 2020, Plato had \$5.2 billion in funds under management.

Reminiscent

Reminiscent Capital is a Discretionary Asia Macro investment firm based in Sydney, Australia. Reminiscent aims to deliver attractive, uncorrelated absolute returns through a concentrated, directional and dynamic investment portfolio of fixed income, foreign exchange and equities, by employing an eclectic top-down approach for uncovering important macro themes and using a combination of conventional and novel methods for implementing skewed expressions of their best ideas.

Reminiscent was founded by David Adams, formerly of Brevan Howard and Morgan Stanley, in partnership with Pinnacle.

The Reminiscent Capital Global Macro Fund was launched in February 2019, with the strategy being made available through the Cayman Islands from April 2020.

Resolution Capital

Resolution Capital is a specialist global real estate securities manager, with a 25-year track record of successfully investing in listed real estate. The firm is majority employee-owned and is headquartered in Sydney, Australia and maintains an office in New York.

The firm is a fundamental analysis-orientated investment manager with the objective of delivering superior risk-adjusted long-term returns, compared with recognised industry benchmarks. This is achieved through investment in a concentrated portfolio of carefully selected listed real estate securities with an emphasis on avoiding fundamental flaws, which could reasonably result in permanent impairment of the underlying investments.

The firm continues to grow and diversify its investment and operational capabilities. During the year, the firm launched its listed Real Assets Strategy and as part of this initiative expanded its research coverage to include Australian and global listed infrastructure companies.

The firm also continues to diversify its client base and notably grow its funds sourced from international markets.

Funds under management were \$9.0 billion as at 30 June 2020.

Riparian Capital Partners

Riparian is a specialist water, agriculture and food investment firm, established in early 2019 with the specific purpose of identifying, acquiring and managing investments across the agricultural sector.

Riparian's investment team has extensive experience in agriculture, finance and asset management, predominantly in Australia but also covering the United States and Asia-Pacific. The team has proven its ability to identify key areas for operational efficiency, expansion and redevelopment of agri-sector assets while driving value through active management of water portfolios and exposures.

Solaris Investment Management

Solaris is a style neutral, Australian equities fund manager. The Solaris team consists of a diverse and experienced group of investment professionals.

Solaris analysts are empowered as portfolio managers, making them fully accountable for their investment ideas and decisions. Solaris's tried and tested investment process offers Core, High Alpha and Long Short strategies with after-tax investment as a specialty.

Solaris had \$8.5 billion in funds under management as at 30 June 2020 with incremental funds coming from new and existing clients. Solaris's core strategy has outperformed the S&P/ASX 200 Index by 1.7% per annum since inception on 9 January 2008 (to 30 June 2020). The information ratio for the strategy is notably strong since inception.

Launched in the 2017 financial year, investors in the Solaris Australian Equity Long Short Fund have benefited from strong investment performance since inception of 9.5% per annum (gross of fees) against the S&P/ASX 200 Index returning 5.2% per annum over the same period.



Spheria

Spheria is a fundamental-based investment manager specialising in small and microcap companies. Spheria specifically seeks out businesses where the present value of future free cash flows can be reasonably ascertained and the underlying security is trading at a discount to its intrinsic value. Spheria's mission is to achieve strong investment performance for its clients with an emphasis on risk management.

At 30 June 2020, Spheria had \$1.2 billion in funds under management.



Two Trees

Two Trees is an investment management firm that specialises in systematic global macro investing. Two Trees' mission is to help institutions, advisers, and individuals around the world grow their long-term wealth and attain genuine portfolio diversity for when they need it most.

Two Trees' competitive edge is in fusing together a deep philosophical understanding of financial economics with rigorous scientific techniques for forecasting returns, risk, and volatility, and the way in which they change through time.

Two Trees' Global Macro strategy is available through an Australian trust and a UCITS vehicle, which is domiciled in Ireland. Funds under management at 30 June 2020 were \$91 million.

Business strategies and prospects for future financial years

We continue to build Pinnacle by taking a measured approach to growth. Despite the turbulence in markets and the broader economy during the financial year ending on 30 June 2020, we made a conscious decision to keep our core capabilities well-resourced to enable us to both continue to support our Affiliates and to remain well-positioned for further growth. We invested in additional resources, particularly in international distribution, to support and drive this growth. We will also continue to invest in and seed new Affiliates where management teams have a strong track record and growth potential.

Economic conditions and material business risks

The major business risks facing the Group are equity market conditions and regulatory risk.

Equity market conditions

The Group's results and outlook are influenced by prevailing equity market conditions and, to a lesser extent, by broader economic trends and investor sentiment.

As set out in the Chair's letter, the 2020 financial year was unprecedented. The extensive impact of the COVID-19 virus crisis, particularly during the second half of the year, is of course widely apparent in all global economies and markets. Having recovered from the significant downturn in the December 2018 quarter, equity markets moved to record highs in late February 2020, before falling precipitously in a matter of days in March as they sought to incorporate the negative commercial and economic effects of

the virus, which continues to spread and cause extraordinary suffering for many across the globe. Here in Australia, in addition and prior to the onset of the virus, the bushfire season saw devastation across wide swathes of the country. The ultimate economic, social, and humanitarian impacts remain unclear and uncertain.

Stock markets both in Australia and overseas have rallied strongly since the lows of March, and we are beginning to see some early signs of 'work adaptation' and normalisation amongst our existing, and prospective, client base. Social distancing has restricted the ability of investors and consultants to conduct in-person meetings or on-site manager due diligence; however, there are emerging signs of 'virtual due diligence'. Pinnacle's support of its Affiliates has also been highlighted as a key reason why investors in Australia and abroad have been able to get comfortable with early-stage investing or overcoming the psychological and social 'tyranny of distance'.

At Pinnacle, we have deliberately sought to build a robust, diverse business, that is able to succeed across market cycles. As we have said in the past, we are not immune from the effects of a deterioration in market conditions - to a large extent, our Affiliates' FUM and, therefore, revenues are linked to movements in equities markets - but we recognise that our defence against such an event is to work with our Affiliates to create the best conditions within them where exceptional investment professionals can deliver outstanding investment performance. Whilst the past year has presented exceptional challenges, long-term performance remains excellent across the Affiliates. Pleasingly, performance fees were generated in five Affiliates during the financial year.

Pinnacle staff moved fully to remote-working from early March in response to the COVID-19 crisis. We have had limited staff back in our Brisbane and Sydney offices, from early July,

but remain fully remote in Melbourne, London and the US. Throughout this time, it has been largely 'business as usual'; we have paid close attention to the health and well-being of our people and, thankfully, we experienced minimal direct health impacts, but remain vigilant. Across the business, we ensured extensive contact, particularly within teams, using appropriate technology. We have also had more engagement than ever with our clients and their advisers; we recognise that their needs are greatest in times of difficulty. Net inflows for the financial year were lower than in recent years and, indeed, lower than our expectations at the start of the year but, against the extreme turbulence in markets and the broader economy, it is pleasing that we saw net inflows in both the first and second halves of the financial year, which is a testament to the quality of our Affiliates, our market-leading distribution capability and our client-centric approach.

It is still far from clear what the medium- to longer-term impacts of this crisis will be or, indeed, if we are really reaching a point of 'true recovery'. There remains great uncertainty about the spread of COVID-19, and there are numerous other geopolitical risks also threatening to impact on global growth prospects. Despite the short-term impact on our financial results, our approach remains clear - to work very hard (especially with clients and prospects) during the crisis period; and to keep our core capabilities well-resourced to enable us to both continue to support our Affiliates and to remain well-positioned for further growth.

Regulatory risk

The Group operates within a highly regulated environment. The Group remains vigilant with regard to regulatory requirements, which are continually evolving and, in response, Pinnacle

will continue to develop its business model to accommodate the changing environment within which it operates. We continue to invest in our Legal, Risk and Compliance function.

Review of Group Results

Total net profit after tax (NPAT) attributable to shareholders for the 2020 financial year was \$32.2 million. NPAT from continuing operations attributable to shareholders was \$32.4 million, with discontinued operations now effectively concluded.

- The Group delivered a \$32.2 million total NPAT attributable to shareholders for the 2020 financial year, a 5.6% improvement. This was underpinned by a 14.8% increase to \$38.0 million in Pinnacle's share of net profits from the Pinnacle Affiliates (of which \$6.6m was Pinnacle's share of performance fees earned by five Affiliates during the financial year, after tax, compared with \$3.2m in the 2019 financial year).
- FUM increased by 8.1% to \$58.7 billion in the 2019 financial year, which includes \$3.0 billion 'acquired' in the Coolabah transaction in December 2019.
- Group net tangible assets have increased by 5.4% to \$186.7 million.
- Basic earnings per share attributable to shareholders of 18.8 cents has increased by 2.7% from 18.3 cents.
- The Board has declared a fully franked final dividend of 8.5 cents per share payable on 11 September 2020.

Statement of Comprehensive Income

The following commentary provides an analysis of revenues and expenses for the 2020 financial year in comparison to the prior comparative period.

During the 2020 financial year, the Group's revenues and expenses were derived from Pinnacle and its controlled entities, which excludes the revenues and expenses of the Pinnacle Affiliates, the effect of which is reflected through Pinnacle's share of equity accounted net profits.

Revenue from Continuing Operations

Revenue from continuing operations increased by \$1.3 million to \$22.4 million, from \$21.1 million in the prior period. Shareholders will be aware that there is typically a 'skew' in revenues towards the second half of the financial year, when certain 'performance-based' distribution fee revenues crystallize. Due to the decline in the market in the second half and the impact on net inflows during March and April, these performance-based fees were lower than might otherwise have been expected and there was no such skew in revenues during the current financial year (revenues were \$11.0 million in the second half, compared with \$11.4 million in the first half).

Further information regarding revenues is provided below and at note 1 of the financial statements.

Gains/(losses) on financial assets at fair value through profit or loss

This reflects the mark-to-market gains or losses on the Group's Principal Investments.

During the year to 30 June 2020, the Group lost a net \$0.5 million on its Principal Investments, on a 'marked to market' basis. This loss consists of distribution and dividends received of \$0.8 million, and realised and unrealised losses of \$1.3 million.

Expenses from Continuing Operations

During FY20, the Group has made additional strategic hires, predominantly in offshore distribution, to support future growth. Employee benefits expense increased \$1.1 million to \$13.6 million, mainly due to the 'full-year effect' of significant recruitment activity in FY19, together with these additional hires.

Short-term incentives reduced by \$1.6 million to \$2.9 million, recognising that results for the year were below our expectations.

Share of net profit of jointly controlled entities

Share of net profit of jointly controlled entities accounted for using the equity method relates to the Group's share of the profits of the Pinnacle Affiliates which are equity accounted. Pinnacle's share of the net profits after tax from Pinnacle Affiliates for the 2020 financial year was \$38.0 million (of which \$6.6m was Pinnacle's share of performance fees earned by five Affiliates during the financial year, after tax, compared with \$3.2m in the 2019 financial year); up 14.8% or \$4.9 million on the prior comparative period. Underlying base management fees within the Pinnacle Affiliates also increased 19.4% on the prior comparative period.

Pinnacle Affiliates' FUM, which underpins the share of Pinnacle Affiliates' profits, increased by 8.1% to \$58.7 billion in the 2020 financial year, which includes \$3.0 billion 'acquired' in the Coolabah transaction in December 2019. We remind shareholders that a significant proportion of our Affiliates' FUM is linked to movements in equity markets, which dropped severely during March, before recovering over the remainder of the financial year (albeit still some way short of the highs reached in February 2020).

Further information is provided in note 23 to the financial statements.

Discontinued Operations

Discontinued operations contributed a \$0.2 million decrease to NPAT. This represents amounts paid to settle legacy claims associated with the Securities business.

Consolidated Statement of Financial Position

The following commentary provides an analysis of assets and liabilities for the 2020 financial year for continuing operations.

Cash and cash equivalents decreased by \$10.6 million to \$16.1 million at year-end compared to \$26.7 million at the end of the prior year. Cash inflows from operating activities were \$22.1 million, which included dividends received from Affiliates of \$33.0 million, compared with \$27.0 million in the prior year. Further information is provided at notes 6 and 25 of the financial statements.

Trade and other receivables. The value of trade and other receivables increased by \$0.3 million during the year in line with marginally higher revenues in Pinnacle. Further information is provided at note 7 of the financial statements.

Financial assets at fair value through profit or loss were \$34.0 million, an increase of \$9.5 million on the prior period. During the year, Pinnacle has continued to support its Affiliates in both equity recycling and through the provision of seed and foundation FUM for strategies managed by our Affiliates. Of the \$34.0 million, \$32.4 million is held in strategies managed by Pinnacle Affiliates. The Group has partially hedged its exposure to movements in the underlying indices.

Assets held at amortised cost. The value of current and non-current assets held at amortised cost decreased by \$1.5 million

to \$4.5 million at year end, following the repayment of certain loans to Affiliates and Affiliate executives. This balance includes loans to entities under joint control. Further information is provided at note 9 of the financial statements.

Investments accounted for using the equity method reflects the carrying value of Pinnacle's investments in the Pinnacle Affiliates. This increased by \$48.5 million during the period to \$161.9 million. The change is attributable to the equity accounted profits of \$38.0 million from Pinnacle Affiliates, less the dividends received from the Pinnacle Affiliates of \$33.0 million, plus additional net capital contributed to the Pinnacle Affiliates during the year of \$43.3 million (including the \$29.1 million and \$5.0 million contingent consideration deployed in the Coolabah transactions), plus impairment reversals of \$0.2 million. Further information is provided at note 23 of the financial statements.

Intangible assets increased by \$1.9m. Plato the Investment Manager of PL8 and an Affiliate of the Group, and the Group have entered into a distribution agreement for a period of three years. The costs associated with the acquisition of that contract have been capitalised as an intangible asset and are being amortised over the distribution agreement period of three years. Further information is provided at note 13.

Trade and other payables increased by \$1.3 million to \$9.8 million, which includes \$1.4m in funding due to Aikya under the terms of the Shareholders Agreement entered into with them. Further information is provided at note 14 of the financial statements.

Provisions. The value of current and non-current provisions increased by \$5.2 million compared with the prior year. \$5.0 million relates to the recognition of contingent consideration on the Coolabah transition, which is payable if the business achieves

certain profitability milestones over the next one- to four-year period. The Group has recognised this amount as payable as it believes that it is probable that those milestones will be reached. The balance of the increase relates directly to the increase in staff costs. Further information is provided at note 15 of the financial statements.

Lease liabilities and Right-of-use assets were \$3.8m each. The Group leases offices in Brisbane and Sydney. Until 30 June 2019, these leases were classified as operating leases; from 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Further information is provided at note 12 of the financial statements.

Borrowings increased to \$30.0m. The Group secured a \$30.0 million Loan Facility with the CBA during the financial year, which was fully drawn as at 30 June 2020 to fund the acquisition of a 25% interest in Coolabah Capital Investments Pty Ltd. Further information is provided at note 19 of the financial statements.



04.

Corporate Sustainability

We are focused on continuous improvement, striving to do better by building a long-term, sustainable firm that focuses on our staff, customers and shareholders, as well as the communities in which we engage.

Responsible Investment

Pinnacle's Affiliates are committed to investing responsibly, with ten Affiliates signatories to the United Nations supported Principles of Responsible Investment ("PRI"). Further commitment to responsible investing is highlighted on the following pages in reference to five of the Affiliates, as an example of the commitment they have to Environmental, Social and Governance principles (ESG).



- PRI signatory
- GRESB participant
- Active role in Women's Infrastructure Network
- Renewable energy portfolio powers over 350,000 homes and abates over 1 million tonnes of CO2 per year
- Sunshine Coast Airport is the first and only carbon neutral airport in Australia
- Very active at management sites in reducing power usage through solar installations, LED lights etc. Darwin and Alice Springs airports have on-site award-winning solar developments.
- Active scholarship program, focusing on women and financially disadvantaged students
- Priority Goals set by the Palisade team, aligned with UN's Sustainable Development Goals.



- PRI signatory since 2011
- Member of the Climate Action 100+ investor group
- Founding member of ESG Research Australia
- Signatory to the Montreal Carbon Pledge and active subscriber to carbon databases
- Built dedicated ESG tilted and Carbon Light portfolios for clients
- Women in Finance Scholarships at 3 universities
- Actively vote shares and engage with companies on important ESG issues.



- Fundamentally integrates ESG into the investment decision making process
- Philosophy of Ownership, Measurement & Engagement on ESG specific issues
- Actively participate in over 200+ ESG specific company engagements per annum
- Supporter of the 30% Club Australia since it launched in 2015 – to promote diversity in Australian Listed Company Boards

- Key focus on Modern Slavery issues in supply chain analysis in the companies they invest in
- Sponsorship of local community social and sporting groups including Sydney Uni Cricket & Guide Dogs Australia
- Partnership with Mirabel Foundation to support Australian families impacted by drug addiction
- Carbon offsetting for all staff travel on an annual basis since inception.

RESOLUTION CAPITAL

- PRI signatory since 2010
- UN Global Compact signatory (2019)
- Member of GRESB since 2017
- Member of ESG Research Australia
- Active engagement with investee companies – ESG disclosure, board diversity, GRESB participation, governance practices
- ESG screen in infrastructure securities within Real Assets strategy
- ESG Committee including staff from across all areas of the business
- Measure the carbon footprint of the portfolios they manage.

SOLARIS investment management

- PRI signatory since 2010
- Responsible Investment Association Australasia (RIAA) member
- Global Investor Statement on Climate Change Signatory
- Signatory to “Investor Statement on Bangladesh”
- Participant in PRI Climate Change Corporate Lobbying Engagement
- Signatory to the Montreal Carbon Pledge and Paris Pledge for Action
- Signatory to PRI Investor Statement in support of Modern Slavery Act
- Climate Action 100+ Signatory
- Signatory to Global Investor Statement on Antibiotic Stewardship (Member of FAIRR)
- Member RIAA Human Rights Working Group (Investor Toolkit – Human Rights with Focus on Supply Chain – Guidance for Investors re Modern Slavery Act)
- Member RIAA Corporate Engagement Working Group
- TCFD Supporter.

The Affiliates integrate ESG as follows:

| Affiliate | Signatory to PRI | Incorporate ESG into investment process | Have an ESG policy |
|--------------------|------------------|---|--------------------|
| Aikya | Yes | Yes | Yes |
| Antipodes | Yes | Yes | Yes |
| Coolabah | No | Yes | Yes |
| Firetrail | No | Yes | Yes |
| Hyperion | Yes | Yes | Yes |
| Longwave | Yes | Yes | Yes |
| Metrics Credit | Yes | Yes | Yes |
| Omega | No | Yes | Yes |
| Palisade | Yes | Yes | Yes |
| Plato | Yes | Yes | Yes |
| Reminiscent | No | Yes | N/A |
| Resolution Capital | Yes | Yes | Yes |
| Riparian | Provisional | Yes | Yes |
| Solaris | Yes | Yes | Yes |
| Spheria | Yes | Yes | Yes |
| Two Trees | No | No | Yes |

Carbon Offset and Emissions

Since the 2019 Financial Year, Pinnacle has been tracking and measuring its carbon footprint for air travel, travel via cars to client meetings, staff travel to and from work and energy usage at each of its office locations. Prior to COVID-19, we also sought to reduce or avoid travel in favour of video conferencing where possible.

To offset the firm’s carbon footprint, Pinnacle made a donation to Greenfleet equivalent to the amount of carbon emissions calculated for the 2019 Financial Year, plus a 50% premium.

Greenfleet is a leading Australian not-for-profit environmental organisation that takes practical climate action by offsetting carbon emissions through restoring forests.

We also made the commitment to move to Green Energy by the end of calendar year 2020, which we remain on course to deliver.

Pinnacle will move further towards addressing climate change risks by seeking Climate Active carbon neutral certification by the Australian Government.

We see climate change as an important issue for our staff, clients and shareholders and will look to implement further initiatives to reduce our impact and to support the environment.

Sustainable use of resources

Taking an active approach in reducing resources, a pre COVID-19 target was established to reduce printing across the firm by 25% in 2020. Paper and other materials that go into preparing marketing information have been a significant contributor to the levels of resources used. Paper usage reduced materially as a result of the move to remote-working, and we will endeavour to ensure that this change is permanent as more staff return to 'working from work' in the coming months. During the year we also implemented a project to remove all single use plastic from the firm by the end of calendar year 2020 and, where possible, we switched to more eco-friendly products (e.g., cleaning products). Over this coming financial year, we aim to identify where we can increase our recycling efforts.

People

Our people are key to the success of the Company and Pinnacle takes an active involvement in staff welfare, engagement and career development.

Pinnacle is fully supportive of initiatives to optimise the mental health of its employees. Pinnacle has an Employee Assistance Program for Pinnacle employees and their immediate family members. Confidential counselling is available to provide support on a range of personal and work-related issues. Pinnacle Directors monitor workloads, wellbeing and resourcing to ensure mental health is not compromised during periods of high stress.

The Company promotes and rewards behaviours that are in the best interest of clients and shareholders. Employees are encouraged to always act in Pinnacle's best interests and maintain a line of sight to long-term goals. To help enable this, as at 30 June 2020, approximately 36% of employees had an individual shareholding in the Company.

Pinnacle believes in pay equity at the time of joining the firm.

In addition to remuneration incentives, Pinnacle has a strong focus on the development of its staff and facilitates practical development initiatives such as secondments, on the job rotational assignments and on demand learning programs. Access to each of these is based on merit, learning needs and equality. Each individual within Pinnacle has a personal development plan and meets regularly with their manager to discuss performance and relevant development initiatives that support Pinnacle's commercial goals and the individual's career aspirations.

In addition to these regular employee check ins, to help ensure a sense of purposeful direction for each employee and connectedness, the Group comes together at least twice yearly to hear directly from Ian Macoun, Pinnacle's Managing Director.

Pinnacle is committed to providing a flexible working environment that suits an employee's personal circumstances. Several employees are currently on part time working arrangements to enable them to balance family and personal responsibilities. Compressed working weeks is another initiative Pinnacle is receptive to in circumstances where it is warranted. Following the birth of a child, the relevant people manager remains in communication with the employee on parental leave via 'Keeping in Touch' days so they feel informed and connected thereby assisting with the transition back to work. Pinnacle provides paid parental leave of up to 12 weeks for all permanent employees who have worked for Pinnacle for at least 12 months continuously at the time of birth or adoption of the child. Up to 2 weeks paid parental leave for the non-primary carer is also available to support new families.

Pinnacle prides itself on a culture that is based on continuous feedback. All employees who depart the organisation participate in an exit

interview. Pinnacle has also introduced 'stay' interviews which are conducted as needed to help understand how it can retain talented employees and maximise the engagement of its employees.

Diversity

Pinnacle recognises the benefits of a diverse group of employees reflecting different backgrounds, perspectives, styles, knowledge, experience and abilities. Workplace diversity in this context includes but is not limited to gender, gender identity, age, race, disability, nationality, marital status, cultural background, sexual orientation, religious belief and ethnicity.

We are committed to workplace diversity and the Pinnacle Diversity Policy further outlines its focus on recruiting, developing, rewarding and retaining people with diverse backgrounds to meet the needs of our clients, shareholders and community. Our overall diversity objectives are to:

- recruit, retain and reward an appropriately diverse and skilled workforce and Board, appointed on merit, which will support the achievement of the business' objectives;
- cultivate a corporate culture characterised by inclusive practices and behaviours for the benefit of all employees and directors;
- foster a work environment that values and utilises the contributions of employees and directors with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workforce diversity; and
- facilitate a high return to work and retention rate of employees on parental leave.

To support the achievement of these diversity objectives, Pinnacle has undertaken the following initiatives:

- equal opportunity recruitment process that draws a diverse pool of both applicants

and shortlisted candidates for all positions, including Board and senior management appointments;

- flexible work arrangements to assist employees to balance their work, personal and family responsibilities;
- sponsoring Women in Finance scholarships to assist female university students in gaining a greater understanding of and experience in investment management;
- taking a role as Founding Sponsor of the University of Queensland's first officially sanctioned networking group with a focus on women – UQWN;
- applying the principle of equality when setting salaries and considering the short-term and long-term incentives of all employees;
- applying the principle of equality when considering internal promotions and succession planning; and
- comprehensive employee behaviour and grievance resolution policy including equal opportunity, harassment, bullying, vilification, victimisation, whistleblowing and grievance resolution.

As at 30 June 2020, the Company had a total of 30% females across all positions within Pinnacle. The Company had a total of 22% of females occupying senior executive positions as at 30 June 2020, defined by those earning a minimum of \$200,000.

Community

Through collaboration with the Pinnacle Charitable Foundation (Foundation), the Company and Affiliates have continued to partner with a range of inspiring Australian charities (Charitable Partners) to drive positive, long-term social change. Through building the capacity of excellent charities, we are helping to deliver tangible impact within communities

across five key causes – identified as critically important by Affiliates, employees, shareholders and client groups.

As summarised by Pinnacle’s Managing Director, Ian Macoun:

“Each relationship is based on a long-term commitment, with all Charitable Partners carefully selected for their relevance to Pinnacle’s brand values, importance to our employees across Pinnacle and our Affiliates, and their strategic fit with the interests of particular fund managers. We are delighted that the Foundation continues to work so closely and successfully with our Affiliates, to build the capacity and increase the impact of these great not-for-profit organisations.

The determination, resilience and flexibility shown by our partners during the COVID-19 pandemic is extraordinary. Their willingness to see the ‘silver lining’ afforded by the virus’s impact, and the immense sense of commitment and responsibility that each partner feels towards those they support – who are increasingly vulnerable in these difficult times – is both humbling and inspiring”.

Donations

Funds of \$319,000 were made available through the Foundation during the year, supported by a further \$135,000 from Affiliates including Antipodes, Palisade, Plato, Resolution Capital, Firetrail and Spheria. These contributions of over \$450,000 were supplemented by access to facilities, advice, networks, volunteering time and events, championing the ongoing efforts of frontline Charitable Partners working across Australia to address five core focus areas. These are the following:

- Promotion of strong mental health awareness, together with support for prevention and early intervention strategies aimed at reducing mental illness and driving

down suicide rates. Long-term partnerships are in place with R U OK?, ReachOut Australia and batyr Australia.

- Support for children from a range of environments who face acute and / or systemic disadvantage, with partnerships in place with Mirabel Foundation, Yalari and Raise Foundation.
- Legal assistance and advocacy for victims of sexual abuse and domestic violence, through a multi-faceted relationship with the Full Stop Foundation.
- Capacity building for world-leading medical researchers seeking treatments and cures for children’s genetic diseases and for dementia sufferers, through supporting CMRI (Children’s Medical Research Institute) and Australian Alzheimer’s Research Foundation (AARF).
- Building awareness in a COVID-19 world of the critical need for kindness, empathy, community and resilience. In response to the pressures and stresses associated with the impact of COVID-19, a new relationship has been built with The Kindness Factory. Pinnacle is championing the organisation’s mission to “inspire all humans to play kind, have fun, stay connected with others, know when to reach out for help, exercise resilience and treat themselves, and the planet, with dignity and respect”.

Pinnacle’s Backing

With the financial backing of Pinnacle and access to extensive pro bono services across investment management, portfolio reporting, finance, marketing and IT, the Foundation is able to operate in a highly efficient manner with low overheads and high impact.

Its investment strategy aims to provide reasonable capital protection in volatile markets whilst seeking to drive growth over the longer term. Investments are held in a range

of suitable products offered across Affiliates, which include funds offering franking credits, monthly income streams, global exposure and a range of non-equity exposed assets. As part of their broad commitment to the Foundation, all Affiliates rebate management fees associated with investments.

This access to expertise, insight and market knowledge creates excellent opportunities for the Foundation to enable professional, well-governed organisations to improve the lives of those who need support – through partnerships which help them to achieve greater impact and focus on what matters most to them. <https://www.pinnacleinvestment.com/foundation>

Workplace Giving

Pinnacle and a number of Affiliates offer a matched Workplace Giving Program, whereby employee donations made to any charity of choice are matched by employers. Deductions are made pre-tax via salary sacrifice, with all associated administrative and operations costs covered by each employer.

In FY20, together, more than 50 charities received in excess of \$106,000 through the program, which also involved a special appeal held across the entire business to aid bushfire relief in February 2020. Both Pinnacle and the Foundation each matched employee donations up to \$50 given to selected emergency appeals, with extra contributions also made through several lump sum donations from Affiliates. A total of \$51,650 was gifted through this initiative, in support of the people, businesses, animals and countryside so badly affected.

Collaboration

Substantial additional support is provided by Pinnacle and Affiliates through other initiatives, reflecting their strong adherence to broad ESG principles.

In FY20 this included:

- Plato and Palisade fostering engagement with women studying finance and engineering through the provision of scholarships across several leading city and regionally based universities
- Palisade’s identification of Priority Goals, relevant to the portfolios they manage and issues that are of importance to the Palisade team. The Priority Goals are aligned with the United Nation’s Sustainable Development Goals (SDGs) and will provide the focus for new ESG initiatives
- Antipodes’ continued provision of pro bono investment services to Future Generation Global Investment Company Limited (FGG)
- Hyperion becoming an official supporter of the Task Force on Climate-related Financial Disclosures (TCFD)
- Together with the Foundation, employee fundraising activities have been actively encouraged, including for Palisade employees participating in Movember. Planned volunteering activities have been undertaken across a number of Affiliates, including the Firetrail team supporting charity partner Mirabel Foundation, and the Resolution Capital team and Indigigrow.

Donations have also been forthcoming to charities with a focus on land rehabilitation following the bushfires (Antipodes) and hospital services at the onset of COVID-19 (Resolution Capital).

Pinnacle also supports and sponsors events together with the wider funds management industry, which resonate with the firm’s business operations, strategic direction and values.

05. Directors' Profile



Alan Watson

(Non-executive Independent Chair; member of Remuneration and Nominations Committee) BSc, GAICD

Mr Watson joined the board on 15 July 2013 and became Chair on 23 October 2015. Mr Watson is a Sydney-based former investment banker with 35 years of experience within various global equity markets. Over this period he established, directed and was responsible for the conduct of securities business both in Europe and Asia advising many companies on capital structuring, initial public offerings, takeovers and mergers and investment relations strategies.

Mr Watson has held positions as Managing Director at Barclays de Zoete Wedd Limited, Donaldson, Lufkin & Jenrette Securities Corporation, at Lehman Brothers Holdings Inc and as Head of Securities Europe for Macquarie Capital (Europe) Ltd.

Mr Watson is also an Independent Director of Airboss of America, listed on the Toronto Stock Exchange; an Independent Non-Executive Director of Australis Oil and Gas, listed on ASX; and Chair of The Winifred West Schools Foundation.

ASX Listed Company Directorships held in last 3 years (current & recent):

- Director of Australis Oil & Gas

Interests in shares and options:

- 145,137 ordinary shares in the Company



Ian Macoun

(Managing Director) CFA, B Com, MFM, Dip FinSer (FP), FCPA, FAICD

Mr Macoun was appointed as Managing Director of the Company on 17 August 2016 and an executive director on 25 August 2016, having been the Managing Director and Chair of Pinnacle since 2006. Mr Macoun's career to date has included more than 25 years as the CEO and Chief Investment Officer of investment management firms, including the establishment of Australia's first "multi-boutique" funds management firm (Perennial Investment Partners – founding Managing Director from 1998), building a major new investment corporation (Queensland Investment Corporation; inaugural Chief Executive from 1988), and the management of a major Australian bank's investment operation (Westpac Investment Management; Managing Director from 1993).

Mr Macoun's early experience, in more than 10 years at Queensland Treasury, included extensive involvement with many major Australian and international financial market participants, and the Queensland Government's commercial participation in many major industrial development projects during the late 1970s and the 1980s. He was a First Assistant Under Treasurer when he moved to build and lead QIC.

Mr Macoun is also a director of the following Pinnacle Affiliates: Aikya, Antipodes, Coolabah, Hyperion, Metrics, Palisade, Plato, Resolution Capital and Solaris.

ASX Listed Company Directorships held in last 3 years (current & recent):

- None

Interests in shares and options:

- 27,276,077 ordinary shares in the Company



Deborah Beale AM

(Non-executive Independent Director, Chair of Remuneration and Nominations Committee and member of the Audit Compliance and Risk Management Committee) B Comm, Grad Dip App Fin, MBA

Ms Beale began her working career in the finance industry where she was employed by Merrill Lynch for over a decade. She then moved to Ernst & Young where she specialised in risk management, governance and public and government relations. Ms Beale also served and continues to serve on a number of government, public, private and not-for-profit boards. Her broad experience includes the areas of finance, corporate governance, risk management, government and public relations.

Ms Beale is also the Chair of Federation Square Pty Ltd, and a director of Visit Victoria, Victorian Ports Corporation (Melbourne) and The Production Company.

ASX Listed Company Directorships held in last 3 years (current & recent) : Interests in shares and options:

- None
- 111,878 ordinary shares in the Company



Lorraine Berends

(Non-executive Independent Director and member of Audit Compliance and Risk Management Committee and Remuneration and Nominations Committee) B Sc, FIAA, MAICD and FASFA

Ms Berends has worked in the financial services industry for 40 years and possesses extensive experience in both investment management and superannuation. Before moving to a non-executive career in 2014, she worked for 15 years with US based investment manager Marvin & Palmer Associates. Ms Berends contributed extensively to industry associations throughout her executive career, serving on the boards of the Investment Management Consultants Association (IMCA Australia, now the CIMA Society of Australia) for 13 years (7 as Chair) and the Association of Superannuation Funds Australia (ASFA) for 12 years (3 as Chair). Ms Berends has been awarded Life Membership of both IMCA Australia and ASFA. Ms Berends holds a BSc from Monash University, is a Fellow of the Actuaries Institute and a Fellow of ASFA.

Ms Berends is an independent non-executive director of Antipodes Global Investment Company Limited, Plato Income Maximiser Limited, Spheria Emerging Companies Limited and Hearts and Minds Investments Limited (listed investment companies) and a company appointed director of Qantas Superannuation Limited.

ASX Listed Company Directorships held in last 3 years (current & recent): Interests in shares and options:

- Antipodes Global Investment Company Limited
- Plato Income Maximiser Limited
- Spheria Emerging Companies Limited
- Hearts and Minds Investments Limited
- 20,832 ordinary shares in the Company



Gerard Bradley

(Non-executive Independent Director and Chair of the Audit Compliance and Risk Management Committee and member of the Remuneration and Nominations Committee) B Com, Dip Adv Acc

Mr Bradley is Chair of Queensland Treasury Corporation and related companies, having served for 14 years as Under Treasurer and Under Secretary of the Queensland Treasury Department. He has extensive experience in public sector finance in both the Queensland and South Australian Treasury Departments.

Mr Bradley has substantial board experience, including 10 years as Chair of QSuper, and a wide range of directorships of major Government financial and commercial corporations. Since 2012, he has worked in non-executive director roles in the public and private sectors.

Mr Bradley is also a Fellow of the Australian Institute of Company Directors, CPA Australia, Australian Institute of Chartered Accountants and Institute of Managers and Leaders.

ASX Listed Company Directorships held in last 3 years (current & recent): Interests in shares and options:

- Star Entertainment Group Limited
- 64,451 ordinary shares in the Company



Andrew Chambers

(Executive Director) MSc, B Arts (Hons), Grad Dip App Fin

Mr Andrew Chambers was appointed as Executive Director to the company on 1 September 2016 and has been a senior executive with Pinnacle since he commenced with the firm in March 2008. Mr Chambers has extensive multi-channel (retail, wholesale and institutional) and multi-jurisdictional distribution experience and is currently responsible for leading the firm's institutional and international distribution divisions. Prior to joining Pinnacle, Mr Chambers worked for Legg Mason, one of the world's largest, multi-affiliate investment management firms.

Mr Chambers is also a director of the following Pinnacle Affiliates: Metrics, Omega, Riparian and Two Trees.

ASX Listed Company Directorships held in last 3 years (current & recent): Interests in shares and options:

- None
- 5,603,614 ordinary shares in the Company



Adrian Whittingham

(Executive Director) B Bus

Prior to joining the Company in 2008, Mr Whittingham was Director, Head of Retail Sales with Schroder Investment Management in Sydney, from 2002 to April 2008. At Schroders, Mr Whittingham was responsible for leading the business's direction and engagement with researchers, consultants, dealer groups and private clients.

Prior to Schroders, Mr Whittingham spent 8 years at Zurich in product, research and business development roles.

Mr Whittingham is also a director of the following Pinnacle Affiliates: Coolabah, Firetrail, Hyperion, Longwave and Spheria.

ASX Listed Company Directorships held
in last 3 years (current & recent):

- None

Interests in shares and options:

- 4,403,614 ordinary shares in
the Company



06. Directors' Report

Your directors present their report on the Group, consisting of the Company and the entities it controlled at the end of, or during, the year ended 30 June 2020.

Directors

The directors of the Company during the whole of the financial year and up to the date of this report were:

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

Information on the qualifications, experience and responsibilities of the directors is included in the directors' profiles on pages 36 to 40 of the 2020 Annual Report.

Earnings per share

| | 2020 Cents | 2019 Cents |
|---|---------------|---------------|
| From continuing operations | | |
| Basic earnings per share | 18.9 | 18.3 |
| Diluted earnings per share | 18.0 | 17.1 |
| Total attributable to shareholders | | |
| Basic earnings per share | 18.8 | 18.3 |
| Diluted earnings per share | 17.9 | 17.1 |

Dividends

In the 2020 financial year, the following dividends were paid:

- a fully franked final dividend of 9.3 cents per share on 4 October 2019.
- a fully franked interim dividend of 6.9 cents per share on 20 March 2020.

Since the end of the financial year, the Company has declared:

- a fully franked final dividend of 8.5 cents per share, to be paid on 11 September 2020.

Total dividends declared in respect of the FY20 financial year were 15.4 cents per share (2019: 15.4 cents per share)

Operating and Financial Review

The Operating and Financial Review can be found at pages 10 to 27 of the 2020 Annual Report.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the reporting period.

Matters subsequent to the end of the financial year

Other than as outlined in note 30 of the financial statements at page 118, there has not arisen in the interval between the end of the financial year and the date of this directors' report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to significantly affect:

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

Remuneration Report

The Group's 2020 Remuneration Report sets out remuneration information for the Group's non-executive directors and Key Management Personnel.

The Remuneration Report contains the following sections:

1. Letter from the Chair of the Remuneration and Nominations Committee
2. Key Management Personnel
3. Role of Remuneration and Nominations Committee
4. Executive remuneration policy and framework for the Company
5. Links between performance and outcomes
6. Details of Executive Key Management Personnel remuneration
7. Executive service agreements
8. Non-executive director remuneration
9. Share based payment compensation
10. Equity instrument disclosures relating to Key Management Personnel
11. Loans to Key Management Personnel
12. Equity Capital

Information in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act.



1.

Letter from the Chair of the Remuneration and Nominations Committee

Dear Fellow Shareholders

In presenting the Remuneration Report for the year ended 30 June 2020, I would like to begin by echoing the statement made by our Board Chair, Alan Watson, that this year the vital importance of outstanding people both in Pinnacle and in the Affiliates has never been more apparent.

Our people have responded to the challenges posed by the COVID-19 crisis by demonstrating resilience, dedication, and flexibility. Everyone has worked hard to ensure a 'business as usual' environment including extensive interactions with clients and their advisors, using technology rather than 'face to face' meetings.

Last year in introducing the 2019 Remuneration Report I sought to explain in some detail the Company's remuneration philosophy. This philosophy has been specifically designed to serve the needs of our business and our clients. It recognises the value of longevity and stability of both investment processes and highly talented key employees, operating in a flexible and entrepreneurial environment. It enables us to recruit, retain and reward outstanding people.

The remuneration challenges every year are to balance the need to reward outstanding performance with the interests of shareholders, both in the short- and long-term.

Given the scale of the disruption, and that outcomes for shareholders are below the expectations we had at the start of the financial year, overall remuneration outcomes have been very restrained in each of the three key elements – base salary increases, short-term incentives and long-term incentive grants. Salaries for most executives have remain unchanged and no net additional LTI awards were made during this financial year.

STI amounts are determined both within the context of Pinnacle's performance and progress in achieving key commercial and business outcomes and the maximum potential reward specified for the role. As Pinnacle fell short of the original financial and FUM inflow expectations, the maximum STI payable during the 2020 financial year to any person was limited to 50% of the maximum that would be possible had the Company experienced a fully successful year. The 50% reduction was applied 'across the board' to the STI, including for the people assessed to have made truly outstanding contributions.

Our remuneration system requires that this year, as occurs every year, a combination of both quantifiable and non-quantifiable criteria be assessed to determine appropriate remuneration outcomes. We strongly believe that it is in the best interests of shareholders to have a flexible, rather than too formulaic, scheme and regard this as extremely effective in contributing to excellence, a high-performance culture, and the recruitment and retention of outstanding professionals vital for success.

Quantitative factors such as profitability, revenue growth, cost control and net sales are all vitally important but must be interpreted reflecting prevailing circumstances. Non-quantifiable factors such as team effort, consideration of Pinnacle's Purpose and Values, flexibility, work ethic, innovation,

fostering risk awareness and personal contribution to a positive work environment are all highly valuable and must also be considered. The weighting applied to the various factors varies from case to case so individual KPIs reflect the contribution required of each individual and each business unit to the overall objectives, in the short-, medium-, and long-term, of the Company.

Each year we report to shareholders on the key quantifiable factors which have been considered in determining STI grants for the year. This year they are set out on page 53 of this Remuneration Report and I repeat the key factors here for completeness:

- growth in basic earnings per share attributable to shareholders of 2.7% in the 2020 financial year; compound annual growth rate (CAGR) in basic earnings per share attributable to shareholders of 35.6% over the five years to 30 June 2020
- growth in total NPAT attributable to shareholders from \$30.5m in the 2019 financial year to \$32.2m in the 2020 financial year; CAGR in total NPAT attributable to shareholders of 48.2% over the five years to 30 June 2020
- increase in FUM from \$54.3bn as of 30 June 2019 to \$58.7bn as of 30 June 2020
- net FUM inflows of \$3.0bn during the 2020 financial year
- net retail FUM inflows of \$0.9billion during the 2020 financial year
- 90% of Affiliate strategies and products that have a track record of at least 5 years outperformed their benchmarks over the 5 years to 30 June 2020
- two new affiliates, Reminiscent and Aikya commenced during 2020
- an equity stake in Coolabah was also successfully acquired.

The process described above culminates in recommendations by the Managing Director to the Remuneration and Nominations Committee for an STI payment amount for every eligible person. The Remuneration and Nominations Committee reviews the recommended amounts, considers whether they are reasonable in the light of the results and outcomes of the Company's key success factors and decides on the amounts to be paid that it will recommend to the Board. Payments to KMP, and the aggregate amounts to be paid by Pinnacle, are reported and subject to shareholder review in our Annual Report and financial statements.

We are confident that this approach is highly effective in meeting the needs of our business.

Pinnacle's approach to remuneration is regularly reviewed to ensure continued alignment with the Company's strategy and growth.

We hope you find the information set out in this letter and the Remuneration Report that follows to be instructive and helpful.

Deborah Beale AM



Chair of Remuneration and Nominations Committee

2.

Key Management Personnel

This Remuneration Report provides details of the remuneration of the Key Management Personnel of the Group for the year ended 30 June 2020. The Key Management Personnel for this period are listed in the tables below:

Executive Key Management Personnel

| Name | Position |
|--------------------|--|
| Ian Macoun | Managing Director and Executive Director |
| Andrew Chambers | Executive Director |
| Adrian Whittingham | Executive Director |
| Alex Ihlenfeldt | Chief Operating Officer and Chief Financial Officer* |

Non-Executive Key Management Personnel

| Name | Position |
|------------------|------------------------|
| Alan Watson | Chair |
| Deborah Beale AM | Non-executive Director |
| Lorraine Berends | Non-executive Director |
| Gerard Bradley | Non-executive Director |

In accordance with the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011 (Cth), the Key Management Personnel of the Group for the year ended 30 June 2020 comprised:

- each non-executive director of the Company;
- Ian Macoun, Andrew Chambers and Adrian Whittingham, each being executive directors of the Company;
- Alex Ihlenfeldt as Chief Operating Officer and Chief Financial Officer of the Company*.

* Dan Longan was appointed as the Chief Financial Officer of the Company on 6 July 2020. Alex Ihlenfeldt remains the Chief Operating Officer.

3.

Role of Remuneration and Nominations Committee

The Remuneration and Nominations Committee is a committee of the Board. The committee performs its role consistent with the overall objective of ensuring maximum shareholder benefit from the retention of a high quality, high performing Board and executive team. Its responsibilities during the 2020 financial year included the following:

- reviewing and making recommendations in relation to the Group's remuneration policies and practices to ensure that the Group provides a competitive and flexible remuneration structure; fairly and responsibly rewards employees; recognises categories of financial and non-financial performance; links reward to the creation of shareholder value; and adopts an appropriate balance between fixed remuneration, short-term incentives and long-term incentives;
- reviewing executive remuneration and incentives and making recommendations to the Board in relation to share option schemes and equity participation plans;
- setting the terms and conditions of the employment of the Managing Director; advising the Board on the Managing Director's remuneration package; and reviewing the performance of the Managing Director at least annually including progress made towards achieving the Group's strategic goals;
- reviewing the remuneration of non-executive directors for serving on the Board or any committee (both individually and in total) and recommending to the Board the remuneration and retirement policies for non-executive directors having regard to market trends and shareholder interests;
- setting the entitlements and expenses policy for the Chair, non-executive directors and the Managing Director;
- ensuring the Group's remuneration policies and practices comply with the provisions of the ASX Listing Rules and the Corporations Act and have regard to the ASX Principles;
- facilitating the review of individual directors' performance and of the Board annually;
- making recommendations to the Board concerning the appointment of new directors and, to the extent delegated to it by the Board, the Managing Director;
- identifying individuals who, by virtue of their experience, expertise, skills, qualifications, backgrounds, contacts or other qualities, are suitable candidates for appointment to the Board or to any relevant management position and recommending individuals accordingly for consideration by the Board;
- establishing procedures, for recommendation to the Chair, for the proper oversight of the Board and management;
- preparing and recommending for approval by the Board and overseeing the implementation of the Company's diversity policy;
- on an annual basis, reviewing the proportion of women who are employed by the Company and submitting a report to the Board outlining its findings; and
- reviewing and approving relevant policies delegated to the RNC by the Board.

During the 2020 financial year, the Remuneration and Nominations Committee received recommendations on the remuneration for employees from the Managing Director. These recommendations were reviewed and, following discussion, recommendations were made to the Board.

The Charter for the Remuneration and Nominations Committee is incorporated in the Company's Corporate Governance Board Charters which can be found on the Company's website at <http://www.pinnacleinvestment.com/shareholders-investor-centre/>

4. Executive remuneration policy and framework for the Company

The Board remains focused on achieving sustainable growth and attractive returns for investors in the medium to long-term. During the 2020 financial year, it has adopted a remuneration framework consisting of base salary, short-term incentives and long-term incentives and a remuneration policy which is aimed at motivating and retaining highly skilled executives and aligning their interests with shareholders. The remuneration framework and policy apply to Pinnacle employees only as Affiliates independently determine their own remuneration practices.

Base salary

Base salary is structured as a package, which may be delivered as a combination of cash and prescribed non-financial benefits and includes superannuation contributions.

Executives are offered a competitive base salary that comprises a fixed component of pay and rewards. An executive's base salary is reviewed on promotion or a substantial change in responsibilities.

There are no guaranteed base salary increases included in any executive's contract.

During the 2020 financial year, there were no increases in base salary for any executive Key Management Personnel (Andrew Chambers and Alex Ihlenfeldt received modest increases in the 2019 financial year; the first increases since 2015). The fixed remuneration of the Managing Director, Ian Macoun, and Executive Director, Adrian Whittingham, remain unchanged (and have not been changed since 2015) as detailed in section 6.

Short-term incentives (STI)

STI is a discretionary 'at risk' cash incentive payment which is paid to executives and employees on an annual basis and in accordance with remuneration policies and the terms and conditions of employment.

The Remuneration and Nominations Committee is responsible for reviewing recommendations from the Managing Director for STI and recommending them to the Board for approval.

All executives have an annual 'maximum' STI expectation (up to, but not exceeding, 100% of their base salaries, in some cases) and, if their personal performance is strong, their work unit delivers on its key objectives and overall business performance meets or exceeds our objectives, then they should receive that expectation. We are clear that 'results matter' in determining remuneration, both at an individual and overall business level. We do not believe, however, that inflexible, formulaic targets against which personal performance is measured would achieve the best outcomes for shareholders. We have a group of, now, 16 Affiliates and supporting those which are early in their development and those which may be facing more challenging circumstances is as important to preserving and growing the value of our business as is continuing to deliver for Affiliates in times of great success. Certain initiatives require a significant investment of time, with no immediate reward, in order to lay the platform for future growth in profitability. It is important that we are able to reward people for genuine high-performance, even when the results of their efforts do not immediately translate into numerical success. It is on that basis that STI is largely discretionary, with final determination by the Remuneration and Nominations Committee, following recommendations from the Managing Director, incorporating the input of all members of the leadership group.

As well as individual performance, we also consider the performance of the business as a whole when determining STI for any given year. There may be years, such as the 2020 financial year, where results fall below our expectations and, even when this may be due to circumstances outside of our control, it is important that the remuneration of our people reflects this, through an adjustment to reductions in the 'maximum STI' people may receive in that year. We must always strike a balance between rewarding individual excellence, and recognising that we are accountable, as a Group, for the overall outcomes of the business. As Pinnacle fell short of the original financial and FUM inflow expectations in the 2020 financial year, the maximum STI payable to any person was 50% of the maximum that would have been possible had the Company experienced a fully successful year.

Further detail relating to the Company's approach to STI is set out in the letter from the Chair of the Remuneration and Nominations Committee at the beginning of this Remuneration Report.

Long-term incentives (LTI)

LTI is designed to encourage alignment of the interests of staff with increased value to shareholders in the long-term. Participants are granted LTI, which only vest subject to specific conditions being met by the end of the vesting period.

LTI awards are granted at the Board's discretion following recommendations from the Remuneration and Nominations Committee, which has responsibility for reviewing recommendations made by the Managing Director in relation to LTI awards.

Omnibus incentive plan

On 22 August 2018, the Board approved the Pinnacle Omnibus Incentive Plan, which constitutes a new set of LTI arrangements that provide for the ability to offer options, performance rights and loan funded shares to staff.

Executives will principally be offered loan funded ordinary shares in the Company, whereby the Company will provide limited recourse loans to senior executives to acquire shares at their current market value at the time of grant. The shares only vest once the employee remains employed with the Group for 5 years from the time of grant, with a portion vesting only upon the satisfaction of

the following performance condition (in addition to the 5 year service condition): the Company's earnings per share grows by an average annual growth rate of at least 15% per annum over the 5 year period.

During the 2020 financial year, 400,000 loan shares were forfeited by departed employees, whilst 150,000 loan shares and 200,000 options were issued, predominantly to new executives, resulting in no net new LTI issuance during the 2020 financial year.

Options component

In December 2014, the Company negotiated the PIML LTI Scheme with the senior executive shareholders of PIML. In July 2015, and as part of the PIML LTI Scheme, the Company issued 4.25 million options in the Company to senior executives under the EOSP at a strike price of 98.6 cents per share, calculated as the higher of the Company's NTA as at 1 January 2015 plus a premium of 20%, or the volume weighted average price of the Company's fully paid ordinary shares from 1 December 2014 to 31 March 2015.

50% of the options vested on 1 January 2018 and the balance vested on 1 January 2020. The participation of certain Key Management Personnel in this scheme was approved by shareholders on 26 June 2015.

Equity component

As part of the PIML LTI Scheme, in May 2015 the Company sold 4.29% of its equity in PIML to senior executives, subject to claw back arrangements. As part of the PIML Acquisition, this equity was 'swapped' for equity in the Company and a deed of acknowledgment was put in place, the effect of which is to roll over and preserve the long-term retentive nature of the PIML LTI scheme by continuing the service conditions. In particular, should the relevant executives of the Group cease employment prior to certain dates ranging from March 2017 to December 2020, they will be required to forfeit and repay increases in the value of certain equity holdings based on a pre-agreed formula. The PIML Acquisition, including the terms of these equity arrangements for senior executives, was approved by shareholders on 16 August 2016.

5.

Links between performance and outcomes

During the 2020 financial year, the Managing Director conducted performance reviews of senior executives and made recommendations to the Remuneration and Nominations Committee in respect of their STIs. In making those recommendations, regard was had to the Group, team and individual performance relative to expectations (both financial and non-financial) over the period, as well as to the degree of responsibility involved in each role.

The table below shows key financial performance indicators which have been applied consistently over many years, with the support and encouragement of shareholders, to measure the progress of the Group's performance during the 2020 financial year and over the last five financial years.

Key indicators of the Company's progress towards achieving its medium-term objectives included:

- growth in basic earnings per share attributable to shareholders of 2.7% in the 2020 financial year; compound annual growth rate (CAGR) in basic earnings per share attributable to shareholders of 35.6% over the five years to 30 June 2020
- growth in total NPAT attributable to shareholders from \$30.5m in the 2019 financial year to \$32.2m in the 2020 financial year; CAGR in total NPAT attributable to shareholders of 48.2% over the five years to 30 June 2020
- increase in FUM from \$54.3bn as at 30 June 2019 to \$58.7bn as at 30 June 2020
- net FUM inflows of \$3.0bn during the 2020 financial year
- net retail FUM inflows of \$0.9bn during the 2020 financial year
- 90% of Affiliate strategies and products that have a track record of at least 5 years outperformed their benchmarks over the 5 years to 30 June 2020
- two new affiliates, Reminiscent and Aikya, commenced during the 2020 financial year, and the equity stake in Coolabah was also successfully acquired.

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|-------|-------|-------|------|------|
| Net profit/(loss) after tax from continuing operations attributable to shareholders (\$m) | 32.4 | 30.5 | 23.1 | 12.0 | 5.8 |
| Total net profit/(loss) after tax attributable to shareholders (\$m) | 32.2 | 30.5 | 23.5 | 13.1 | 4.5 |
| Funds under management (\$bn)* | 58.7 | 54.3 | 38.0 | 26.5 | 19.8 |
| Net FUM Inflows* | 3.0 | 6.5 | 7.9 | 4.9 | 2.1 |
| Net Retail FUM Inflows* | 0.9 | 2.9 | 2.2 | 2.5 | 0.6 |
| Closing share price (\$) | 3.92 | 4.38 | 5.37 | 2.90 | 1.45 |
| Dividend per share (cents) | 15.40 | 15.40 | 11.60 | 7.00 | 3.30 |
| Basic earnings per share (cents) from continuing operations | 18.9 | 18.3 | 14.3 | 8.1 | 5.2 |
| Diluted earnings per share (cents) from continuing operations | 18.0 | 17.1 | 13.2 | 7.6 | 5.2 |
| Basic earnings per share (cents) attributable to shareholders | 18.8 | 18.3 | 14.5 | 8.9 | 4.1 |
| Diluted earnings per share (cents) attributable to shareholders | 17.9 | 17.1 | 13.4 | 8.2 | 4.1 |

* Non-statutory measure

6.

Details of Executive Key Management Personnel remuneration

The relative weightings of the three remuneration components for Key Management Personnel are set out in the table below for the year to 30 June 2020.

| | Fixed Remuneration | Performance-based remuneration | |
|--------------------|--------------------|--------------------------------|-----|
| | | STI | LTI |
| Ian Macoun | 58% | 28% | 14% |
| Andrew Chambers | 42% | 21% | 37% |
| Adrian Whittingham | 73% | 0% | 27% |
| Alex Ihlenfeldt | 62% | 15% | 23% |

Ian Macoun

In the 2020 financial year, Mr Macoun's base salary remained unchanged at \$600,000 per annum (inclusive of superannuation) and he earned an STI of \$300,000 (inclusive of superannuation). STI is a performance incentive of up to 100% of base salary awarded on the basis of meeting business and strategic objectives. Mr Macoun's salary has remained unchanged since the 2016 financial year.

Andrew Chambers

In the 2020 financial year, Mr Chambers' base salary remained unchanged at \$425,000 per annum (inclusive of superannuation) and he earned an STI of \$212,500 (inclusive of superannuation). STI is a performance incentive of up to 100% of base salary awarded on the basis of meeting business and strategic objectives.

Adrian Whittingham

In the 2020 financial year, Mr Whittingham's base salary remained unchanged at \$400,000 per annum (inclusive of superannuation). He did not receive an STI. Mr Whittingham's salary has remained unchanged since the 2016 financial year.

Alex Ihlenfeldt

In the 2020 financial year, Mr Ihlenfeldt's base salary remained unchanged at \$320,000 per annum (inclusive of superannuation) and he earned an STI of \$80,000 (inclusive of superannuation). STI is a performance incentive of up to 100% of base salary awarded on the basis of meeting business and strategic objectives.

Remuneration details for Executive Key Management Personnel (calculated in accordance with applicable accounting standards) are set out in the table below:

| Name | Short-term employee benefits | | | Post-employment benefits | | Total short-term and post-employment benefits | Long-term benefits | Share based payments | Termination benefits | Total | Portion of remuneration at risk - STI | Portion of remuneration at risk - LTI |
|---------------------------------------|------------------------------|------------------|-----------------------|--------------------------|---------------------|---|--------------------|----------------------|----------------------|-----------|---------------------------------------|---------------------------------------|
| | Cash salary & fees | Cash Bonus (STI) | Non-monetary benefits | Superannuation | Retirement benefits | | | | | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Managing Director | | | | | | | | | | | | |
| Ian Macoun | | | | | | | | | | | | |
| 2020 | 575,000 | 300,000 | - | 25,000 | - | 900,000 | 9,909 | 153,200 | - | 1,063,109 | 28% | 14% |
| 2019 | 575,000 | 450,000 | - | 25,000 | - | 1,050,000 | 9,910 | 117,250 | - | 1,177,160 | 38% | 10% |
| Other Key Management Personnel | | | | | | | | | | | | |
| Andrew Chambers | | | | | | | | | | | | |
| 2020 | 400,000 | 212,500 | - | 25,000 | - | 637,500 | (9,266) | 370,826 | - | 999,060 | 21% | 37% |
| 2019 | 400,000 | 318,750 | - | 25,000 | - | 743,750 | (20,843) | 254,876 | - | 977,783 | 33% | 26% |
| Adrian Whittingham | | | | | | | | | | | | |
| 2020 | 375,000 | - | - | 25,000 | - | 400,000 | 6,559 | 154,296 | - | 560,855 | 0% | 27% |
| 2019 | 375,000 | 200,000 | - | 25,000 | - | 600,000 | (11,689) | 119,545 | - | 707,856 | 28% | 17% |
| Alex Ihlenfeldt | | | | | | | | | | | | |
| 2020 | 295,000 | 80,000 | - | 25,000 | - | 400,000 | 4,998 | 117,409 | - | 522,407 | 15% | 23% |
| 2019 | 295,000 | - | - | 25,000 | - | 320,000 | 7,595 | 109,949 | - | 437,544 | 0% | 25% |
| Totals | | | | | | | | | | | | |
| 2020 | 1,645,000 | 592,500 | - | 100,000 | - | 2,337,500 | 12,200 | 795,731 | - | 3,145,431 | | |
| 2019 | 1,645,000 | 958,750 | - | 100,000 | - | 2,713,750 | (15,027) | 601,620 | - | 3,300,343 | | |

7. Executive service agreements

Remuneration and other terms of employment for Executive Key Management Personnel are formalised in service agreements.

Ian Macoun

Mr Macoun's contract provides for termination by either party upon giving three months' notice except where termination is due to misconduct. In addition, as part of the PIML Acquisition, shareholders voted to approve the payment of termination benefits to Mr Macoun in an amount of \$900,000 or 12 months' salary (whichever is higher), should Mr Macoun's employment be terminated in certain circumstances and consistent with his previous terms of employment. The termination provisions were agreed between Mr Macoun and PIML as part of his employment agreement in 2006 when he was initially employed by the Group. Termination benefits are not payable in the event of misconduct. No termination benefits were paid during the 2020 financial year.

In May 2015, PIML advanced to shareholding entities associated with Mr Macoun a loan of \$547,293 to acquire shares in PIML. The loan was unsecured, limited recourse and interest free. As part of the PIML Acquisition, this loan was repaid and new loans reissued by the Company under the EOSP on substantially the same terms, save that it is now subject to a share mortgage.

In August 2016, as part of the PIML Acquisition, which was approved by shareholders on 16 August 2016, the Company advanced to Mr Macoun's nominated shareholding entity a loan of \$500,000 for the express purpose of acquiring shares in the Company in the secondary market from Deutsche Australia. This loan is interest bearing and subject to a five-year term, limited recourse and secured by way of a share mortgage. Repayment will occur at the earlier of the end of the five-year term, the date on which any of the underlying shares are sold or within six months of the cessation of Mr Macoun's employment. Events of default under the loan include cessation of employment.

In November 2018, 300,000 loan shares were issued to Mr Macoun under the Pinnacle Omnibus Plan, approved by the board on 22 August 2018. The shares are subject to service and performance conditions and will vest after three years, if those conditions are met. The loans are interest free and limited in recourse to the shares. They are repayable 10 years from grant date, on termination of employment or when the underlying equity is sold, whichever occurs earlier.

Andrew Chambers

Andrew Chambers, an executive director of the Company, is engaged under an employment agreement dated 9 March 2008 and subsequently amended on 7 May 2015 and 25 August 2016. The contract provides for termination by either party on at least three months' notice, except where termination is due to misconduct.

In June 2009, July 2011 and January 2012, PIML advanced to Mr Chambers' nominated shareholding entity three unsecured, limited recourse and interest free loans to acquire shares in PIML. The loans were immediately repayable if Mr Chambers ceased employment with the Company or sold some or all of his shares.

In May 2015, and as part of the PIML LTI Scheme, PIML advanced to Mr Chambers' nominated shareholding entity, an unsecured, limited recourse and interest free loan of \$547,293 to acquire shares in PIML. The loan included clawback and share cancellation arrangements if Mr Chambers ceased employment with the Company prior to certain key dates. As part of the PIML Acquisition, which was approved by shareholders on 16 August 2016, all of the aforementioned loans were repaid and new loans reissued by the Company under the EOSP on substantially the same terms, save that they are now subject to various share mortgages.

In August 2016, as part of the PIML Acquisition, which was approved by shareholders on 16 August 2016, the Company advanced to Mr Chambers' nominated shareholding entity a loan of \$500,000 for the express purpose of acquiring shares in the Company in the secondary market from Deutsche Australia. This loan is interest bearing and subject to a five-year term, limited recourse and secured by way of a share mortgage. Repayment will occur at the earlier of the end of the five-year term, the date on which any of the underlying shares are sold or within six months of the cessation of Mr Chambers' employment. Events of default under the loan include cessation of employment.

In November 2018, 800,000 loan shares were issued to Mr Chambers under the Pinnacle Omnibus Plan, approved by the board on 22 August 2018. The shares are subject to service and performance conditions and will vest after five years, if those conditions are met. The loans are interest free and limited in recourse to the shares. They are repayable 10 years from grant date, on termination of employment or when the underlying equity is sold, whichever occurs earlier.

Adrian Whittingham

Adrian Whittingham, an executive director of the Company, is engaged under an employment agreement dated 28 April 2008 and subsequently amended on 7 May 2015 and 25 August 2016. The contract provides for termination by either party on at least three months' notice except where termination is due to misconduct.

In June 2009, July 2011 and January 2012, PIML advanced to Mr Whittingham's nominated shareholding entity, three unsecured, limited recourse and interest free loans to acquire shares in PIML. The loans were immediately repayable if Mr Whittingham ceased employment with the Company or sold some or all of his shares. In May 2015, and as part of the PIML LTI Scheme, PIML advanced to Mr Whittingham's nominated shareholding entity, an unsecured, limited recourse and interest free loan of \$547,293 to acquire shares in PIML. The loan included clawback and share cancellation arrangements if Mr Whittingham ceased employment with the Company prior to certain key dates. As part of the PIML Acquisition, which was approved by shareholders on 16 August 2016, all of the aforementioned loans were repaid and new loans were reissued by the Company under the EOSP on substantially the same terms, save that they are now subject to various share mortgages.

In August 2016, as part of the PIML Acquisition, which was approved by shareholders on 16 August 2016, the Company advanced to Mr Whittingham's nominated shareholding entity a loan of \$500,000 for the express purpose of acquiring shares in the Company in the secondary market from Deutsche Australia. This loan is interest bearing and subject to a five-year term, limited recourse and secured by way of a share mortgage. Repayment will occur at the earlier of the end of the five-year term, the date on which any of the underlying shares are sold or within six months of the cessation of Mr Whittingham's employment. Events of default under the loan include cessation of employment.

In November 2018, 300,000 loan shares were issued to Mr Whittingham under the Pinnacle Omnibus Plan, approved by the board on 22 August 2018. The shares are subject to service and performance conditions and will vest after five years, if those conditions are met. The loans are interest free and limited in recourse to the shares. They are repayable 10 years from grant date, on termination of employment or when the underlying equity is sold, whichever occurs earlier.

Alex Ihlenfeldt

Alex Ihlenfeldt, the Chief Operating Officer and Chief Financial Officer, is engaged under an employment agreement dated 1 February 2011 and subsequently amended on 30 January 2012, 7 May 2015 and 25 August 2016. The contract provides for termination by either party on one month's notice except where termination is due to misconduct.

In January 2012, PIML advanced to Mr Ihlenfeldt's nominated shareholding entity, an unsecured, limited recourse and interest free loan of \$416,070 to acquire shares in PIML. The loan was immediately repayable if Mr Ihlenfeldt ceased employment with PIML or sold some or all of his shares. In May 2015, PIML advanced to interests associated with Mr Ihlenfeldt a loan of \$309,522 to acquire shares in PIML. The loan was interest free and limited recourse with various repayment terms on cessation of employment, if before 31 December 2018, or following a sale of equity. As part of the PIML Acquisition, both of the aforementioned loans have been repaid and loans on substantially similar terms reissued by the Company under the EOSP, save that they are now subject to share mortgages.

In August 2016, as part of the PIML Acquisition, which was approved by shareholders on 16 August 2016, the Company advanced to Mr Ihlenfeldt's nominated shareholding entity a loan of \$500,000 for the express purpose of acquiring shares in the Company in the secondary market from Deutsche Australia. This loan is interest bearing and subject to a five-year term, limited recourse and secured by way of a share mortgage. Repayment will occur at the earlier of the end of the five-year term, the date on which any of the underlying shares are sold or within six months of the cessation of Mr Ihlenfeldt's employment. Events of default under the loan include cessation of employment.

In November 2018, 300,000 loan shares were issued to Mr Ihlenfeldt under the Pinnacle Omnibus Plan, approved by the board on 22 August 2018. The shares are subject to service and performance conditions and will vest after five years, if those conditions are met. The loans are interest free and limited in recourse to the shares. They are repayable 10 years from grant date, on termination of employment or when the underlying equity is sold, whichever occurs earlier.

8.

Non-executive director remuneration

The structure of non-executive director remuneration is separate and distinct from that of executive remuneration.

The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain non-executive directors with the appropriate skills and experience while incurring a cost that is acceptable to shareholders and other stakeholders.

Non-executive directors' fees are determined within an aggregate non-executive directors' fee pool limit, with any increase in the fee pool requiring approval by shareholders. The current aggregate fee pool currently stands at \$600,000 per annum and was approved by shareholders at the Company's annual general meeting on 24 October 2006. No changes were proposed or made to the aggregate fee pool during the 2020 financial year.

From the 2019 financial year, non-executive directors are able to sacrifice up to 100% of their fees in favour of immediately vesting Performance Rights under the Pinnacle Omnibus Incentive Plan, as approved at the AGM on 15 November 2018. During the 2020 financial year 28,256 (2019: 32,165) performance rights were granted to non-executive directors; 30,863 (2019: 10,720) were exercised during the year. The performance rights were granted in lieu of fees.

The fees paid to non-executive directors from 1 July 2019 for Board and Committee positions are set out in the table below:

| | Base fees |
|--|-----------|
| Chair | \$180,000 |
| Non-executive Director | \$100,000 |
| Audit Compliance and Risk Management Committee | |
| • Chair | \$15,000 |
| • Member | \$5,000 |
| Remuneration and Nominations Committee | |
| • Chair | \$15,000 |
| • Member | \$5,000 |

Non-executive directors are not eligible to receive STI but may be eligible to participate in the EOSP. There are currently no outstanding grants to non-executive directors under the EOSP and during the 2020 financial year, no non-executive directors participated in the EOSP.

Further details concerning the EOSP are set out from page 51.

Total remuneration for the non-executive directors in relation to the Company, Committee positions and subsidiaries for the 2020 financial year was \$535,000 and is presented in accordance with applicable accounting standards and shown in the table below:

| Name | Short-term employee benefits | | | Post-employment benefits | | Long-term benefits | Performance Rights | Termination benefits | Total | Total excluding non fee remuneration | Portion of remuneration at risk - STI | Portion of remuneration at risk - LTI |
|--------------------------------|------------------------------|------------------|-----------------------|--------------------------|---------------------|--------------------|--------------------|----------------------|----------------|--------------------------------------|---------------------------------------|---------------------------------------|
| | Cash salary & fees | Cash Bonus (STI) | Non-monetary benefits | Superannuation | Retirement benefits | Long Service leave | Performance rights | | | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| Non-executive Directors | | | | | | | | | | | | |
| Alan Watson | | | | | | | | | | | | |
| 2020 | 99,699 | - | - | 9,471 | - | - | 75,830 | - | 185,000 | 109,171 | - | - |
| 2019 | 131,558 | - | - | 12,498 | - | - | 50,303 | - | 194,359 | 144,056 | - | - |
| Deborah Beale | | | | | | | | | | | | |
| 2020 | 77,738 | - | - | 7,385 | - | - | 34,877 | - | 120,000 | 85,123 | - | - |
| 2019 | 86,659 | - | - | 8,233 | - | - | 20,750 | - | 115,642 | 94,892 | - | - |
| Gerard Bradley | | | | | | | | | | | | |
| 2020 | 80,356 | - | - | 3,644 | - | - | 36,000 | - | 120,000 | 84,000 | - | - |
| 2019 | 97,032 | - | - | - | - | - | 22,968 | - | 120,000 | 97,032 | - | - |
| Steven Wilson (i) | | | | | | | | | | | | |
| 2020 | - | - | - | - | - | - | - | - | - | - | - | - |
| 2019 | 32,925 | - | - | - | - | - | - | - | 32,925 | 32,925 | - | - |
| Lorraine Berends (ii) | | | | | | | | | | | | |
| 2020 | 89,175 | - | - | 8,471 | - | - | 12,354 | - | 110,000 | 97,646 | - | - |
| 2019 | 64,764 | - | - | 6,153 | - | - | 20,750 | - | 91,667 | 70,917 | - | - |
| Totals | | | | | | | | | | | | |
| 2020 | 349,968 | - | - | 28,971 | - | - | 159,061 | - | 535,000 | 375,940 | - | - |
| 2019 | 412,938 | - | - | 26,884 | - | - | 114,771 | - | 554,593 | 439,822 | - | - |

(i)2019: Mr Wilson was a Director until his resignation on 18 October 2018

(ii) 2019: Ms Berends was appointed a Director on 1 September 2018

Retirement allowances for non-executive directors

The Company does not provide retirement allowances for non-executive directors, which is consistent with the guidance contained in the ASX Principles. Superannuation contributions required under the Australian superannuation guarantee legislation are deducted from the relevant directors' overall fee entitlements where their fees are paid through payroll.

New non-executive director appointments

On appointment to the Board, new non-executive directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities, rights and the terms and conditions of their engagement. All new non-executive directors participate in an induction process, which covers the operation of the Board and its committees and financial, strategic, operational and risk management issues. For further detail, refer to the Corporate Governance Statement on the Company's website.

9.

Share-based payment compensation

Options

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods as at 30 June 2020 are as follows:

| Grant date | Category | Expiry date | Exercise period | Exercise price | Value per right / option at grant date | Number of rights / options granted during the year | Number of rights / options exercised during the year | Number of rights / options forfeited during the year | Number of rights / options at end of financial year | % Vested |
|-------------|----------|-------------|-----------------|----------------|--|--|--|--|---|----------|
| 1 July 2015 | Options | 30 Jun 20 | 125 Days | \$0.99 | \$0.32 | 0 | 1,337,000 | 0 | 0 | 100% |

Details of options provided as remuneration to Executive Key Management Personnel are set out below. These options form part of the PIML LTI Scheme and were approved for Mr Macoun and Mr Ihlenfeldt by shareholders on 26 June 2015. Mr Chambers and Mr Whittingham were not Key Management Personnel at the date of grant and accordingly their participation did not require shareholder approval.

| Name | Date of grant | Number of options / rights granted | Value (\$) of options / rights granted (i) | Vesting date | Number of options / rights vested (ii) | Value of options / rights vested (iii) | Number of options / rights forfeited / lapsed / sold | Value (\$) of options / rights forfeited / lapsed / sold |
|--|---------------|------------------------------------|--|--------------|--|--|--|--|
| Key Management Personnel of the Group | | | | | | | | |
| Ian Macoun | | | | | | | | |
| Options | 1-Jul-15 | 375,000 | \$120,525 | 1-Jan-20 | 375,000 | \$1,392,750 | - | - |
| Sub-total | | 375,000 | | | 375,000 | \$1,392,750 | - | - |
| Andrew Chambers | | | | | | | | |
| Options | 1-Jul-15 | 375,000 | \$120,525 | 1-Jan-20 | 375,000 | \$1,392,750 | - | - |
| Sub-total | | 375,000 | | | 375,000 | \$1,392,750 | - | - |
| Adrian Whittingham | | | | | | | | |
| Options | 1-Jul-15 | 375,000 | \$120,525 | 1-Jan-20 | 375,000 | \$1,392,750 | - | - |
| Sub-total | | 375,000 | | | 375,000 | \$1,392,750 | - | - |
| Alex Ihlenfeldt | | | | | | | | |
| Options | 1-Jul-15 | 212,000 | \$68,137 | 1-Jan-20 | 212,000 | \$787,368 | - | - |
| Sub-total | | 212,000 | | | 212,000 | \$787,368 | - | - |

- (i) Fair values at grant date are calculated using a Black-Scholes option pricing model that takes into account the exercise price, the terms of the right or option, 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 right or option. Model inputs for the grants made are set out in note 26 to the financial statements.
- (ii) On the vesting of each option/right, the holder becomes entitled to receive one fully paid ordinary share in the Company on exercise of the option/right.
- (iii) The amount is based on the intrinsic value of the option or right at vesting date.

Loan Shares

The terms and conditions of each grant of equity and associated loan to Key Management Personnel is provided at pages 56 to 58. Details of the loan arrangements affecting remuneration in the previous, this or future reporting periods as at 30 June 2020 are as follows:

| Name | Date of grant | Number of loan shares | Loan value at date of grant | Share based payments value (i) | Vesting date | Number of shares vested | Value of shares vested (ii) | Number of shares forfeited / lapsed / sold | Number of shares forfeited / lapsed / sold |
|--|---------------|-----------------------|-----------------------------|--------------------------------|--------------|-------------------------|-----------------------------|--|--|
| Key Management Personnel of the Group | | | | | | | | | |
| Ian Macoun | | | | | | | | | |
| Loan Shares | 25-Aug-16 | 288,210 | \$273,799 | \$30,799 | 31-Dec-18 | 288,210 | \$1,265,242 | - | - |
| Loan Shares | 25-Aug-16 | 287,888 | \$273,494 | \$33,846 | 31-Jan-20 | 287,888 | \$1,378,984 | - | - |
| Loan Shares | 25-Aug-16 | 1,111,112 | \$500,000 | \$14,162 | 25-Aug-16 | 1,111,112 | \$1,955,555 | - | - |
| Loan Shares | 15-Nov-18 | 300,000 | \$1,697,460 | \$649,587 | 14-Nov-21 | - | - | - | - |
| Sub-Total | | 1,987,210 | \$2,744,753 | \$728,394 | | 1,687,210 | \$4,599,781 | - | - |
| Andrew Chambers | | | | | | | | | |
| Loan Shares | 25-Aug-16 | 133,509 | \$126,834 | \$1,221 | 21-Mar-17 | 133,509 | \$311,076 | - | - |
| Loan Shares | 25-Aug-16 | 288,210 | \$273,799 | \$30,799 | 31-Dec-18 | 288,210 | \$1,265,242 | - | - |
| Loan Shares | 25-Aug-16 | 287,888 | \$273,494 | \$36,392 | 31-Dec-20 | - | - | - | - |
| Loan Shares | 25-Aug-16 | 1,111,112 | \$500,000 | \$14,162 | 25-Aug-16 | 1,111,112 | \$1,955,555 | - | - |
| Loan Shares | 15-Nov-18 | 800,000 | \$4,526,560 | \$1,732,233 | 14-Nov-23 | - | - | - | - |
| Sub-Total | | 2,620,719 | \$5,700,687 | \$1,814,807 | | 1,532,831 | \$3,531,873 | - | - |
| Adrian Whittingham | | | | | | | | | |
| Loan Shares | 25-Aug-16 | 133,509 | \$126,834 | \$1,221 | 21-Mar-17 | 133,509 | \$311,076 | - | - |
| Loan Shares | 25-Aug-16 | 288,210 | \$273,799 | \$30,799 | 31-Dec-18 | 288,210 | \$1,265,242 | - | - |
| Loan Shares | 25-Aug-16 | 287,888 | \$273,494 | \$36,392 | 31-Dec-20 | - | - | - | - |
| Loan Shares | 25-Aug-16 | 1,111,112 | \$500,000 | \$14,162 | 25-Aug-16 | 1,111,112 | \$1,955,555 | - | - |
| Loan Shares | 15-Nov-18 | 300,000 | \$1,697,460 | \$649,587 | 14-Nov-23 | - | - | - | - |
| Sub-Total | | 2,120,719 | \$2,871,587 | \$732,161 | | 1,532,831 | \$3,531,873 | - | - |
| Alex Ihlenfeldt | | | | | | | | | |
| Loan Shares | 25-Aug-16 | 437,968 | \$416,070 | \$74,503 | 30-Jan-18 | 437,968 | \$2,023,412 | - | - |
| Loan Shares | 25-Aug-16 | 163,083 | \$154,929 | \$17,428 | 31-Dec-18 | 163,083 | \$715,934 | - | - |
| Loan Shares | 25-Aug-16 | 162,761 | \$154,623 | \$20,575 | 31-Dec-20 | - | - | - | - |
| Loan Shares | 25-Aug-16 | 1,111,112 | \$500,000 | \$14,162 | 25-Aug-16 | 1,111,112 | \$1,955,555 | - | - |
| Loan Shares | 17-Sep-18 | 300,000 | \$2,187,510 | \$777,184 | 16-Sep-23 | - | - | - | - |
| Sub-Total | | 2,174,924 | \$3,413,132 | \$903,852 | | 1,712,163 | \$4,694,901 | - | - |

- (i) Fair values are calculated using a Black-Scholes option pricing model that takes into account the exercise price, the terms of the arrangement, 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 arrangement.
- (ii) The amount is based on the intrinsic value of the option or right at vesting date.

10.

Equity instrument disclosures relating to Key Management Personnel

Options and rights holdings

The number of options and rights over ordinary shares in the Company held during the 2020 financial year by the directors of the Company and other Key Management Personnel of the Group, including personally related parties, are set out below.

| | 2020 | 2019 |
|-----------------------------|-------------|-----------|
| Balance start of the year | 1,358,445 | 1,337,000 |
| Granted as compensation | 28,256 | 32,165 |
| Exercised | (1,367,863) | (10,720) |
| Expired and another changes | 0 | 0 |
| Balance at end of the year | 18,838 | 1,358,445 |

*Includes changes due to staff commencing or ceasing to be Key Management Personnel during the year.

Shareholdings

The numbers of shares in the Company held during the financial year by each Director of the Company and other Key Management Personnel of the Group, including their related parties, are set out below.

| | Balance at start of year | Granted during reporting year as compensation | Received during the year on the exercise of options and rights | Other changes during the year | Balance at the end of the year |
|---------------------------------|--------------------------|---|--|-------------------------------|--------------------------------|
| Non-executive directors | | | | | |
| Alan Watson | 130,936 | - | 14,201 | - | 145,137 |
| Lorraine Berends | 11,944 | - | 3,888 | 5,000 | 20,832 |
| Deborah Beale | 105,668 | - | 6,210 | - | 111,878 |
| Gerard Bradley | 55,691 | - | 6,564 | 2,196 | 64,451 |
| Executive directors | | | | | |
| Ian Macoun | 27,654,085 | - | 375,000 | (753,008) | 27,276,077 |
| Andrew Chambers | 5,525,414 | - | 375,000 | (296,800) | 5,603,614 |
| Adrian Whittingham | 4,325,414 | - | 375,000 | (296,800) | 4,403,614 |
| Key Management Personnel | | | | | |
| Alex Ihlenfeldt | 4,893,773 | - | 212,500 | (171,983) | 4,934,290 |

11.

Loans to Key Management Personnel

Details of loans made to Directors of the Company and other Key Management Personnel of the Group, including their related parties, are set out below.

i. Aggregates for Key Management Personnel

| | Balance at start of year | Repayments made | Interest paid and payable for the year | Interest not charged | Balance at end of year | Number in Group at end of year |
|------|--------------------------|-----------------|--|----------------------|------------------------|--------------------------------|
| | \$ | \$ | \$ | \$ | | |
| 2020 | 14,451,181 | (541,328) | 54,312 | 705,861 | 13,964,165 | 4 |

Details of options provided as remuneration to Executive Key Management Personnel are set out below.

ii. Individuals with loans above \$100,000 during the financial year

| | Balance at start of year | Repayments made | Interest paid and payable for the year | Interest not charged | Balance at end of year | Number in Group at end of year |
|--------------------|--------------------------|-----------------|--|----------------------|------------------------|--------------------------------|
| | \$ | \$ | \$ | \$ | | |
| Ian Macoun | 2,614,403 | (130,123) | 13,578 | 123,137 | 2,497,858 | 2,617,786 |
| Andrew Chambers | 5,654,668 | (191,448) | 13,578 | 284,387 | 5,476,798 | 5,658,048 |
| Adrian Whittingham | 2,848,658 | (130,123) | 13,578 | 135,680 | 2,732,113 | 2,852,040 |
| Alex Ihlenfeldt | 3,333,452 | (89,634) | 13,578 | 162,656 | 3,257,396 | 3,336,790 |

The loans referenced in the above table comprise:

- loans originally advanced by PIML for the purpose of acquiring shares in PIML
- the New Loans
- loans granted under the Pinnacle Omnibus Plan.

As part of the PIML Acquisition, shareholders approved the repayment of the original loans with the proceeds of loans reissued by the Company on 25 August 2016, as well as the advance of the New Loans. See pages 56 to 58 for further detail on the terms of the loans.

During the year to 30 June 2019, 1.7 million loan shares were issued to Key Management Personnel under the Pinnacle Omnibus Plan, approved by the board on 22 August 2018. See pages 56 to 58 for further details on the terms of the loans. No loan shares were issued to Key Management Personnel during the year to 30 June 2020.

The amounts shown for interest not charged in the tables above represent the difference between the amount paid and payable for the year and the amount of interest that would have been charged on an arms' length basis.

12.

Equity Capital

Shares under option/rights

Unissued ordinary shares of the Company under option at 30 June 2020 are as follows:

| Date options granted | Expiry date | Exercise price of options | Number under option |
|----------------------|------------------|---------------------------|---------------------|
| 21 December 2017 | 12 June 2023 | \$3.93 | 400,000 |
| 14 March 2018 | 14 March 2021 | Nil | 1,079,365 |
| 15 November 2018 | 15 November 2023 | \$5.6582 | 250,000 |
| 15 November 2019 | 15 November 2020 | Nil | 18,838 |
| 25 March 2020 | 25 March 2020 | \$2.9683 | 200,000 |
| TOTAL | | | 1,948,203 |

Under the terms of the transaction documents in respect of the PIML Acquisition, approved by shareholders on 16 August 2016, in the event that the Company conducted a placement prior to 30 June 2020 in respect of the options issued on 1 July 2015, the Sellers were entitled to subscribe in the placement for up to 1,416,667 ordinary shares at the subscription price of the options. The Sellers were entitled to subscribe in the placement in proportions that are pro-rata to their unvested options.

On 3 May 2018, the Sellers subscribed for 708,192 additional ordinary shares pursuant to their entitlement described above. On 15 April 2020, the Sellers subscribed for an additional 708,192 ordinary shares also pursuant to their entitlement described above.

200,000 of the options granted on 21 December 2017 lapsed during the current financial year, leaving a remaining balance at 30 June of 400,000.

On 14 March 2018, PIML entered into an agreement with Firetrail for the acquisition of a 24.35% ownership interest in Firetrail. This was funded partly by cash and partly by 2,158,733 zero-price options, issued by PNI. 1,079,365 options were exercised in the prior year.

On 15 November 2018, 250,000 options were issued to overseas staff under the Pinnacle Omnibus Plan. Additionally, 32,165 performance rights were granted to non-executive directors under the plan, of which 10,720 were exercised during the previous year and the remaining 21,445 were exercised during the year.

On 15 November 2019 a further 28,256 performance rights were granted to non-executive directors under the plan, of which 9,418 were exercised during the year. Additionally, on 25 March 2020, 200,000 options were issued to overseas staff under the Pinnacle Omnibus Plan.

Shares issued under the EOSP

As part of the PIML Acquisition, on 25 August 2016, 37,043,917 ordinary shares were issued under the EOSP to the Sellers as consideration for the sale of their equity in PIML. This allocation was approved by shareholders on 16 August 2016.

End of Remuneration Report

Meetings of Board and Board Committees

The number of meetings of the Company's Board and of the Board Committees held during the year ended 30 June 2020 and the number of meetings attended by each director were as follows:

Meetings of Board and Board Committees

| | | | Audit, Compliance and Risk Committee | | Remuneration and Nominations Committee | |
|---------------|----------|--------------------|--------------------------------------|--------------------|--|--------------------|
| | Attended | Eligible to Attend | Attended | Eligible to Attend | Attended | Eligible to Attend |
| A Watson | 10 | 10 | 6 | -* | 6 | 6 |
| I Macoun | 10 | 10 | 6 | -* | 6 | -* |
| D Beale AM | 8 | 10 | 4 | 6 | 5 | 6 |
| G Bradley | 10 | 10 | 6 | 6 | 6 | 6 |
| L Berends | 10 | 10 | 6 | 6 | 6 | 6 |
| A Chambers | 10 | 10 | - | - | - | - |
| A Whittingham | 9 | 10 | - | - | - | - |

*A Watson and I Macoun attended respective meetings by invitation.

Committee Membership

As at the date of this report, the Company had an Audit, Compliance and Risk Management Committee and a Remuneration and Nominations Committee.

Members acting on the committees of the Board are:

| Audit, Compliance and Risk Committee | Remuneration and Nominations Committee |
|--------------------------------------|--|
| G Bradley (Chair) | D Beale AM (Chair) |
| D Beale AM | L Berends |
| L Berends | G Bradley |
| | A Watson |

Company Secretary

The role of Company Secretary is performed by Mr Calvin Kwok. Mr Kwok is also Chief Legal, Risk & Compliance Officer of the Company with prior experience at Herbert Smith Freehills, UBS Global Asset Management and Deutsche Bank. Mr Kwok holds a Masters of Applied Finance, a Graduate Diploma of Applied Corporate Governance, a Bachelor of Laws and a Bachelor of Commerce.

Environmental regulation

The Group is not affected by any significant environmental regulation in respect of its operations.

Insurance of officers

The Company has paid a premium for a contract insuring all directors and executive officers of the Company and certain related bodies corporate against all liabilities and expenses arising as a result of work performed in their respective capacities, to the extent permitted by law. The directors have not included in this report details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors and executive officers insurance liability contract as disclosure is prohibited under the terms of the contract.

The Company has agreed to indemnify each person who is, or has been a director, officer or agent of the Company and/or of certain of its related bodies corporate against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as director, officer or agent, except where the liability arises out of conduct involving a lack of good faith. The Company is required to meet the full amount of any such liabilities, including costs and expenses for a period of seven years.

No liability has arisen since the end of the previous financial year which the Company would, by operation of the above indemnities, be required to meet.

Audit and non-audit services

The Company may decide to employ the Auditor (PricewaterhouseCoopers Australia) on assignments additional to their statutory audit duties.

Details of the amounts paid or payable to the Auditor for audit and non-audit services provided during the year are set out below.

The Board has considered the position and, in accordance with the advice received from the Audit, Compliance and Risk Management Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the Auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit, Compliance and Risk Management Committee to ensure they do not impact the impartiality and objectivity of the Auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the Auditor's own work, acting in a management or a decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

During the 2020 financial year the following fees were paid or are payable for services provided by the Auditor, its related practices and non-related audit firms:

| | 2020 \$ | 2019 \$ |
|--|----------------|----------------|
| (i) Audit and another assurance services | | |
| Audit and review of financial statements | 266,621 | 212,650 |
| Other assurance services: | | |
| Audit of regulatory returns | 21,939 | 21,299 |
| Audit of compliance plan – Responsible entity * | 102,744 | 91,198 |
| Other assurance services | 50,000 | - |
| Total remuneration for audit and other assurance services | 441,304 | 325,147 |
| (ii) Taxation services | | |
| Tax services | 93,759 | 108,873 |
| Total remuneration for taxation services | 93,759 | 108,873 |
| (iii) Other services | | |
| Other services | 2,987 | 60,808 |
| Total remuneration of PricewaterhouseCoopers Australia | 538,050 | 494,828 |
| Total remuneration of auditors | 538,050 | 494,828 |

* Compliance plan audit charges are on-charged to managed funds to which responsible entity services are provided.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 70 of the 2020 Annual Report.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in this report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act. This report is made in accordance with a resolution of directors.



A Watson, Chair
Pinnacle Investment Management Group Limited
Sydney, 4 August 2020

07.

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the audit of Pinnacle Investment Management Group Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'Ben Woodbridge'.

Ben Woodbridge
Partner
PricewaterhouseCoopers

Brisbane
4 August 2020

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Liability limited by a scheme approved under Professional Standards Legislation.

08. Financial Statements

Pinnacle Investment Management Group Limited
ABN 22 100 325 184
Financial Report – 30 June 2020

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These financial statements are the consolidated financial statements of the consolidated entity consisting of Pinnacle Investment Management Group Limited and its subsidiaries. The financial statements are presented in Australian currency.

Pinnacle Investment Management Group Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is Level 19, 307 Queen St, Brisbane QLD 4000 and its principal place of business is Level 35, 60 Margaret St, Sydney NSW 2000.

A description of the nature of the consolidated entity's operations and its principal activities is included in the Director's report, which is not part of these financial statements.

These financial statements were authorised for issue by the Directors on 4 August 2020. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at the 'about us' and investor relations pages on our website: www.pinnacleinvestment.com/shareholders-investor-centre

Consolidated statement of profit or loss

For the year ended 30 June 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|-------|----------------|----------------|
| Revenue from contracts with customers and other revenue | 1 | 22,407 | 21,123 |
| Fair value gains/(losses) on financial assets at fair value through profit or loss | | (1,292) | 1,246 |
| Employee benefits expense | | (13,567) | (12,420) |
| Short-term incentives expense | | (2,931) | (4,485) |
| Long-term incentives expense | 28(d) | (1,961) | (1,435) |
| Professional services expense | | (2,131) | (1,715) |
| Property expense | 2 | (1,148) | (1,259) |
| Travel and entertainment expense | | (407) | (814) |
| Technology and communications expense | | (1,003) | (760) |
| Other expenses from operating activities | 2 | (3,566) | (2,103) |
| Share of net profit of associates and joint ventures accounted for using the equity method | 23(d) | 37,953 | 33,133 |
| Profit before income tax | | 32,354 | 30,511 |
| Income tax expense | 3 | - | - |
| Profit from continuing operations | | 32,354 | 30,511 |
| Profit/(loss) from discontinued operations (attributable to equity holders of the Company) | | (148) | 38 |
| Profit for the year | | 32,206 | 30,549 |
| Profit for the year is attributable to: | | | |
| Owners of Pinnacle Investment Management Group Limited | | 32,206 | 30,549 |
| Earnings per share: | | | |
| | | Cents | Cents |
| For profit from continuing operations attributable to owners of Pinnacle Investment Management Group Limited | | | |
| Basic earnings per share | 5 | 18.9 | 18.3 |
| Diluted earnings per share | 5 | 18.0 | 17.1 |
| For profit attributable to owners of Pinnacle Investment Management Group Limited | | | |
| Basic earnings per share | 5 | 18.8 | 18.3 |
| Diluted earnings per share | 5 | 17.9 | 17.1 |

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

Consolidated statement of comprehensive income

For the year ended 30 June 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|-------|----------------|----------------|
| Profit for the year | | 32,206 | 30,549 |
| Other comprehensive income: | | | |
| Items that may be reclassified to profit or loss | | | |
| Changes in the fair value of financial assets at fair value through other comprehensive income | | - | - |
| Total comprehensive income/(loss) for the year | | 32,206 | 30,549 |
| Total comprehensive income for the year is attributable to: | | | |
| Owners of Pinnacle Investment Management Group Limited | | 32,206 | 30,549 |
| | | 32,206 | 30,549 |
| Total comprehensive income for the year attributable to owners of Pinnacle Investment Management Group Limited arises from: | | | |
| Continuing operations | | 32,354 | 30,511 |
| Discontinued operations | | (148) | 38 |
| | | 32,206 | 30,549 |

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

Consolidated statement of financial position

For the year ended 30 June 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|-------|----------------|----------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 6 | 16,066 | 26,720 |
| Trade and other receivables | 7 | 16,387 | 16,055 |
| Financial assets at fair value through profit or loss | 8 | 33,986 | 24,464 |
| Intangible assets | 13 | 858 | - |
| Assets held at amortised cost | 9 | 123 | 2,234 |
| Total current assets | | 67,420 | 69,473 |
| Non-current assets | | | |
| Investments accounted for using the equity method | 23 | 161,867 | 113,351 |
| Property, plant and equipment | | 162 | 118 |
| Intangible assets | 13 | 1,026 | 3 |
| Right-of-use assets | 12 | 3,823 | - |
| Assets held at amortised cost | 11 | 4,335 | 3,813 |
| Total non-current assets | | 171,213 | 117,285 |
| Total assets | | 238,633 | 186,758 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 14 | 9,827 | 8,495 |
| Lease liabilities | 12 | 1,566 | - |
| Borrowings | 19 | 21 | - |
| Provisions | 15 | 6,357 | 1,119 |
| Total current liabilities | | 17,771 | 9,614 |
| Non-current liabilities | | | |
| Lease liabilities | 12 | 2,241 | - |
| Borrowings | 19 | 30,000 | - |
| Provisions | 15 | 74 | 91 |
| Total non-current liabilities | | 32,315 | 91 |
| Total liabilities | | 50,086 | 9,705 |
| Net assets | | 188,547 | 177,053 |
| EQUITY | | | |
| Contributed equity | 16 | 237,663 | 231,255 |
| Reserves | 17(a) | (48,060) | (50,694) |
| Accumulated losses | 17(b) | (1,056) | (3,508) |
| Total equity | | 188,547 | 177,053 |

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

Consolidated statement of changes in equity

For the year ended 30 June 2020

| | Notes | Contributed equity \$'000 | Reserves \$'000 | Accumulated losses \$'000 | Total equity \$'000 |
|--|-----------|------------------------------|--------------------|------------------------------|------------------------|
| Balance at 1 July 2018 | | 154,762 | (46,251) | (10,414) | 98,097 |
| Total comprehensive income for the year | | - | - | 30,549 | 30,549 |
| TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS: | | | | | |
| Share-based payments | 17(a) | - | 1,434 | - | 1,434 |
| Options vested | | 4,749 | (4,749) | - | - |
| Shares issued | | - | - | - | - |
| Dividends paid to shareholders | 18 | 2,177 | - | (23,643) | (21,466) |
| Performance rights | | 61 | 54 | - | 115 |
| Share purchase plan, net of issue costs | 16 | 9,860 | - | - | 9,860 |
| Share placement, net of issue costs | 16 | 57,677 | - | - | 57,677 |
| Employee loan arrangements | 16, 17(a) | 1,969 | (1,182) | - | 787 |
| | | 76,493 | (4,443) | (23,643) | 48,407 |
| Balance at 30 June 2019 | | 231,255 | (50,694) | (3,508) | 177,053 |
| Balance at 1 July 2019 | | 231,255 | (50,694) | (3,508) | 177,053 |
| Total comprehensive income for the year | | - | - | 32,206 | 32,206 |
| TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS: | | | | | |
| Share-based payments | 17(a) | - | 1,961 | - | 1,961 |
| Shares issued on exercise of options | | 2,096 | - | - | 2,096 |
| Shares issued | | 698 | - | - | 698 |
| Dividends paid to shareholders | 18 | 1,907 | - | (29,754) | (27,847) |
| Performance rights | | 170 | (11) | - | 159 |
| Employee loan arrangements | 16, 17(a) | 1,537 | 684 | - | 2,221 |
| | | 6,408 | 2,634 | (29,754) | (20,712) |
| Balance at 30 June 2020 | | 237,663 | (48,060) | (1,056) | 188,547 |

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

Consolidated statement of cash flows

For the year ended 30 June 2020

| | Notes | 2020 \$'000 | 2019 \$'000 |
|---|-----------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 23,117 | 15,851 |
| Payments to suppliers and employees | | (23,612) | (22,307) |
| Dividends and distributions received from financial assets at fair value through profit or loss | | 344 | 915 |
| Dividends and distributions received from jointly controlled entities | | 32,995 | 27,028 |
| Interest received | | 132 | 64 |
| Finance and borrowings costs paid | | (526) | (105) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | 16,047 | 31,703 |
| Payments for financial assets at fair value through profit or loss | | (26,403) | (32,059) |
| Net cash inflow/(outflow) from operating activities | 25 | 22,094 | 21,090 |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (124) | (53) |
| Proceeds from sale of investments accounted for using the equity method | | 261 | 3,639 |
| Payments for intangible assets | | (2,574) | - |
| Payments for investments accounted for using the equity method | | (35,026) | (54,930) |
| Loan repayments from shareholders | | 2,221 | 787 |
| Loan repayments from related parties | | 295 | 2,283 |
| Loan advances to related parties | | (1,030) | (1,500) |
| Net cash inflow/(outflow) from investing activities | | (35,977) | (49,774) |
| Cash flows from financing activities | | | |
| Dividends paid to shareholders | | (27,847) | (21,465) |
| Lease payments | | (1,718) | - |
| Proceeds from borrowings | | 30,000 | - |
| Proceeds from issue of shares, net of issue costs | | 2,794 | 67,537 |
| Net cash (outflow)/inflow from financing activities | | 3,229 | 46,072 |
| Net increase/(decrease) in cash and cash equivalents | | (10,654) | 17,388 |
| Cash and cash equivalents at the beginning of the financial year | | 26,720 | 9,332 |
| Cash and cash equivalents at end of year | 6 | 16,066 | 26,720 |

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

Notes to the consolidated financial statements

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Group Results

This section provides information regarding the results and performance of the group during the year, including further detail regarding revenue and expenses, income tax, segment reporting and earnings per share.

1. Revenue from contracts with customers and other revenue

a. Disaggregation of revenue from contracts with customers

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

| | 2020 \$ | 2019 \$ |
|--|------------|------------|
| Revenue from contracts with customers | | |
| Services revenue – over time | | |
| Service charges | 21,305 | 19,357 |
| | 21,305 | 19,357 |
| Other revenue | | |
| Directors fees | 44 | 40 |
| Interest received or due | 169 | 248 |
| Dividends and distributions | 818 | 1,469 |
| Other revenue | 71 | 9 |
| | 1,102 | 1,766 |
| | 22,407 | 21,123 |

Dividends and distributions are received from financial assets held at fair value through profit or loss.

2. Expenses

| PROFIT BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC EXPENSES: | 2020 \$ | 2019 \$ |
|---|------------|------------|
| Finance cost expense – included in other expenses from operating activities | | |
| Interest and finance charges | 641 | 105 |
| Total finance cost expense | 641 | 105 |
| Rental expense relating to operating leases – included in property costs* | | |
| Minimum lease payments | - | 876 |
| Total rental expense relating to operating leases | - | 876 |
| * From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. See note 12 and 32(a)(iii) for details of the amount shown in the profit or loss relating to leases and for further details about the change in accounting policy. | | |
| Depreciation and amortisation expense – included in other expenses from operating activities | | |
| Depreciation – property, plant and equipment | 81 | 72 |
| Amortisation - intangible assets | 693 | - |
| Total depreciation and amortisation expense | 774 | 72 |

3. Income tax expense

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| a. Income tax expense/(benefit) | | |
| Income tax expenses is attributable to: | | |
| Continuing operations | - | - |
| Discontinued operations | - | - |
| Total income tax expense/(benefit) | - | - |
| Current tax | (3) | (608) |
| Deferred tax | 3 | 608 |
| Adjustments for tax in respect of prior periods | - | - |
| Total current tax expense | - | - |
| Deferred income tax expense/(benefit) included in income tax expense/(benefit) comprises: | | |
| (Increase)/decrease in deferred tax assets | 3 | 608 |
| Increase in deferred tax liabilities | - | - |
| Total deferred tax expense/(benefit) | 3 | 608 |
| b. Numerical reconciliation of income tax expense to prima facie tax payable | | |
| Profit from continuing operations before income tax expense | 32,354 | 30,511 |
| Profit /(Loss) from discontinued operations before income tax expense | (148) | 38 |
| Profit before income tax | 32,206 | 30,549 |
| Tax at the Australian tax rate of 30% (2019: 30%) | 9,662 | 9,164 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Share of profits of entities under joint control | (11,386) | (9,940) |
| Impairment | - | - |
| Non-deductible expenditure | 611 | 466 |
| Sundry items | 1,673 | - |
| | 560 | (310) |
| Adjustments for current tax in respect of prior periods | - | - |
| Deferred tax assets not recognised | (560) | 310 |
| Total income tax expense/(benefit) | - | - |
| c. Tax losses not recognised | | |
| Unused tax losses for which no deferred tax asset has been recognised | 61,333 | 60,364 |
| Potential tax benefit at 30% | 18,400 | 18,109 |

A deferred tax asset in relation to tax losses is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits against which to recover the losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax assets have not been recognised in full on the basis that there remains uncertainty regarding the timing and quantum of the generation of taxable profits.

d. Tax consolidation legislation

Pinnacle Investment Management Group Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 July 2003. Next Financial Limited and its subsidiaries joined the tax consolidated group on 1 April 2009. Pinnacle Investment Management Limited and its subsidiaries joined the tax consolidated Group on 25 August 2016. The accounting policy in relation to this legislation is set out in note 32(f) and further information is provided at Note 32(aa).

4. Segment information

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

5. Earnings per share

| | 2020 Cents | 2019 Cents |
|--|--------------------|--------------------|
| a. Basic earnings per share | | |
| From continuing operations | 18.9 | 18.3 |
| From discontinued operations | (0.1) | - |
| Total basic earnings per share attributable to the ordinary equity shareholders of the Company | 18.8 | 18.3 |
| b. Diluted earnings per share | | |
| Attributable to the ordinary equity shareholders of the Company | | |
| From continuing operations | 18.0 | 17.1 |
| From discontinued operations | (0.1) | - |
| Total diluted earnings per share attributable to the ordinary equity shareholders of the Company | 17.9 | 17.1 |
| c. Reconciliations of earnings used in calculating earnings per share | | |
| Basic and diluted earnings per share | | |
| Profit/(loss) attributable to the ordinary owners of the Company used in calculating basic and diluted earnings per share: | | |
| From continuing operations | 32,354 | 30,511 |
| From discontinued operations | (148) | 38 |
| Profit used in calculating basic and diluted earnings per share | 32,206 | 30,549 |
| d. Reconciliations of earnings used in calculating earnings per share | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 170,927,363 | 166,781,949 |
| Adjustments for calculation of diluted earnings per share: | | |
| Weighted average treasury stock (see note 16(d)) | 7,238,633 | 8,239,835 |
| Weighted average options | 1,956,724 | 3,724,021 |
| Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share | 180,122,720 | 178,745,805 |

e. Information concerning the classification of securities

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

Operating assets and liabilities

This section provides information regarding the assets and liabilities of the entity and includes more detailed breakdowns of individual balance sheet items.

6. Cash and cash equivalents

| | 2020 \$'000 | 2019 \$'000 |
|------------------------------------|----------------|----------------|
| Available cash at bank and on hand | 15,796 | 26,343 |
| Fixed-term deposits | 270 | 377 |
| | 16,066 | 26,720 |

a. Risk exposure

The Group's exposure to interest rate risk is discussed in note 20. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

b. Fixed term and at call deposits

Fixed-term and at-call deposits bear floating interest rates between 0.04% and 1.20% (2019: 1.45% and 1.75%). At-call deposits have an average maturity of 30 days. Fixed-term deposits have a maturity ranging from 90 days to 1 year.

7. Trade and other receivables

| | 2020 \$'000 | 2019 \$'000 |
|-------------------|----------------|----------------|
| Trade receivables | 7,562 | 7,757 |
| Income receivable | 4,707 | 4,223 |
| Other receivables | 3,930 | 3,871 |
| Prepayments | 188 | 204 |
| | 16,387 | 16,055 |

a. Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

b. Impairment and risk exposure

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 20(a) and 20(b).

8. Financial assets at fair value through profit or loss

| | 2020 \$'000 | 2019 \$'000 |
|----------------------------------|----------------|----------------|
| Australian listed securities | 12,941 | 12,615 |
| Other unlisted equity securities | 479 | 479 |
| Derivative financial assets | 1,075 | 712 |
| Unlisted unit trusts | 19,491 | 10,658 |
| | 33,986 | 24,464 |

Risk exposure and fair value measurements

Information about the Group's exposure to price risk and the methods and assumptions used in determining fair value is provided in note 20.

9. Assets held at amortised cost

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------------------|----------------|----------------|
| Loans to entities under joint control | 123 | 2,234 |
| | 123 | 2,234 |

Loans to entities under joint control includes any adjustments for accumulated equity accounted losses where the associated equity investment value is less than zero as a result of accumulated losses being greater than the carrying value of the investment.

As outlined in note 32(l)(ii) loans to entities under joint control are assessed at least annually for possible indicators of impairment. Where indicators of impairment exist, the recoverability of these loans is determined. If the carrying amount exceeds the recoverable amount an impairment expense is recorded.

10. Net deferred tax assets

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------------|----------------|----------------|
| Deferred tax assets (a) | 1,953 | 315 |
| Deferred tax liabilities (b) | (1,953) | (315) |
| Net deferred tax assets | - | - |

a. Deferred tax assets

The deferred tax asset balance comprises temporary differences attributable to:

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Unrealised loss on fair value assets | 376 | - |
| Lease liabilities | 1,415 | - |
| Other | 162 | 315 |
| Total deferred tax assets | 1,953 | 315 |
| Set-off of deferred tax liabilities pursuant to set-off provisions | (1,953) | (315) |
| Net deferred tax assets | - | - |

A deferred tax asset in relation to tax losses is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable income against which to recover the losses and from which the future reversal of underlying timing differences can be deducted. The deferred tax assets of the consolidated entity are currently not recognised under these criteria - refer note 3(c).

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| b. Deferred tax liabilities | | |
| The deferred tax liabilities balance comprises temporary differences attributable to: | | |
| Financial assets at fair value through profit or loss | 185 | 302 |
| Intangible assets | 565 | - |
| Right-of-use assets | 1,146 | - |
| Receivables | 57 | 13 |
| Total deferred tax liabilities | 1,953 | 315 |

11. Assets held at amortised cost – non-current

| | Note | 2020 \$'000 | 2019 \$'000 |
|--------------------------|------|----------------|----------------|
| Loans to related parties | 26 | 4,335 | 3,813 |
| | | 4,335 | 3,813 |

As outlined in note 32(l)(ii) loans to entities under joint control are assessed at least annually for possible indicators of impairment. Where indicators of impairment exist, the recoverability of these loans is determined. If the carrying amount exceeds the recoverable amount an impairment expense is recorded.

12. Leases

The Group leases offices in Brisbane and Sydney. Rental contracts are typically made for fixed periods of 3 – 5 years. Until 30 June 2019, these leases were classified as operating leases, from 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group, see note 32(a)(iii) and 32(g) for further details.

The balance sheet shows the following amounts relating to leases:

| RIGHT-OF-USE ASSETS | 30 June 2020 \$'000 | 1 July 2019 \$'000 |
|--|------------------------|-----------------------|
| Office leases | 5,544 | 5,544 |
| Office leases – accumulated amortisation | (1,721) | - |
| | 3,823 | 5,544 |
| Additions to the right-of-use assets during the 2020 financial year were \$5,544,000. | | |
| LEASE LIABILITIES | | |
| Current | 1,566 | 1,690 |
| Non-current | 2,241 | 3,742 |
| | 3,807 | 5,432 |
| The statement of profit or loss shows the following amounts relating to leases: | | |
| DEPRECIATION CHARGE OF RIGHT-OF-USE ASSETS (INCLUDED IN PROPERTY EXPENSES) | | |
| Office leases | 1,721 | - |
| | 1,721 | - |
| Interest expense (included in other expenses from operating activities) | 94 | - |

13. Intangible assets

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

| | Software \$'000 | Customer Contracts \$'000 | Total \$'000 |
|---------------------------------|--------------------|------------------------------|-----------------|
| AT 1 JULY 2018 | | | |
| Cost | 1,800 | - | 1,800 |
| Accumulated amortisation | (1,793) | - | (1,793) |
| Net book value | 7 | - | 7 |
| YEAR ENDED 30 JUNE 2019 | | | |
| Opening net book value | 7 | - | 7 |
| Additions | - | - | - |
| Amortisation charge | (4) | - | (4) |
| Closing net book value | 3 | - | 3 |
| AT 30 JUNE 2019 | | | |
| Cost | 15 | - | 15 |
| Accumulated amortisation | (12) | - | (12) |
| Net book value | 3 | - | 3 |
| YEAR ENDED 30 JUNE 2020 | | | |
| Opening net book value | 3 | - | 3 |
| Additions | - | 2,574 | 2,574 |
| Amortisation charge | (2) | (691) | (693) |
| Closing net book value | 1 | 1,883 | 1,884 |
| AT 30 JUNE 2020 | | | |
| Cost | 15 | 2,574 | 2,589 |
| Accumulated amortisation | (14) | (691) | (705) |
| Net book value | 1 | 1,883 | 1,884 |

14. Trade and other payables

| | 2020 \$'000 | 2019 \$'000 |
|------------------|----------------|----------------|
| Trade payables | 3,977 | 2,513 |
| Accrued expenses | 844 | 1,303 |
| Accrued bonuses | 3,057 | 4,238 |
| Other payables | 1,949 | 441 |
| | 9,827 | 8,495 |

15. Provisions

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Current | | |
| Employee benefits - annual leave and long service leave | 1,357 | 1,119 |
| Contingent consideration - investment in affiliates | 5,000 | - |
| | 6,357 | 1,119 |
| Non-Current | | |
| Employee benefits - long service leave | 74 | 91 |
| | 74 | 91 |

For further details about contingent consideration - investment in affiliates see note 23.

a. Movements in provisions

Movements in each class of provision during the financial year, are set out below:

| | Contingent Consideration \$'000 | Employee Benefits \$'000 |
|--------------------------------------|---------------------------------------|-----------------------------|
| Current | | |
| BALANCE AT 1 JULY 2019 | - | 1,119 |
| Amounts provided for during the year | 5,000 | 238 |
| Balance at 30 June 2020 | 5,000 | 1,357 |
| Non-Current | | |
| BALANCE AT 1 JULY 2019 | - | 91 |
| Amounts provided for during the year | - | (17) |
| Balance at 30 June 2020 | - | 74 |

16. Contributed equity

a. Share capital

| | 2020 Shares | 2019 Shares | 2020 \$'000 | 2019 \$'000 |
|-----------------------------------|--------------------|--------------------|----------------|----------------|
| Ordinary shares: | | | | |
| Fully paid contributed equity (b) | 173,132,050 | 169,676,000 | 237,663 | 231,255 |
| Total contributed equity | 173,132,050 | 169,676,000 | 237,663 | 231,255 |

b. Movements in ordinary share capital

| Date | Details | Number of shares | Issue price | \$'000 |
|---------------------|--|--------------------|-------------|----------------|
| 1 July 2018 | Opening balance | 153,905,571 | | 154,762 |
| | Issue of ordinary shares on exercise of options | 1,079,368 | - | - |
| | Transfer from options reserve on exercise of options | - | - | 4,749 |
| | Share placement, net of issue costs | 10,909,091 | \$5.50 | 57,677 |
| | Share purchase plan, net of issue costs | 1,811,402 | \$5.50 | 9,860 |
| | Issue of ordinary shares on exercise of performance rights | 10,720 | - | - |
| | Transfer from performance rights reserve on exercise of performance rights | - | - | 61 |
| | Dividend reinvestment | 333,199 | \$6.53 | 2,177 |
| | Treasury stock vested (d) | 1,626,649 | - | 1,969 |
| 30 June 2019 | Closing Balance | 169,676,000 | | 231,255 |
| | Issue of ordinary shares on exercise of options | 2,125,000 | \$0.99 | 2,096 |
| | Issue of ordinary shares | 708,192 | \$0.99 | 698 |
| | Issue of ordinary shares on exercise of performance rights | 30,863 | - | - |
| | Transfer from performance rights reserve on exercise of performance rights | - | - | 170 |
| | Dividend reinvestment | 491,097 | \$3.88 | 1,907 |
| | Treasury stock vested (d) | 100,898 | | 1,537 |
| 30 June 2020 | Closing Balance | 173,132,050 | | 237,663 |

c. Ordinary shares

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

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

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

d. Treasury stock

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

Treasury stock movement for the year includes the issue of 150,000 and the forfeiture of 400,000 loan shares to employees, issued under the Pinnacle Omnibus Plan approved by the board on 22 August 2018. Shares issued to executive directors in the prior year were approved by shareholders at the AGM on 18 October 2018.

| Date | Details | Number of treasury shares | Issue price |
|---------------------|--|---------------------------|---------------|
| 1 July 2018 | Opening balance | 10,018,936 | 5,848 |
| | Issue of loan shares under Pinnacle Omnibus Plan | 4,800,000 | 30,978 |
| | Loan share repayments | | (786) |
| | Treasury stock vested during the year | (1,626,649) | (1,074) |
| 30 June 2019 | Closing Balance | 13,192,287 | 34,966 |
| | Issue of loan shares under Pinnacle Omnibus Plan | 150,000 | 445 |
| | Forfeited loan shares | (400,000) | (2,647) |
| | Loan share repayments | | (1,550) |
| | Treasury stock vested during the year | (100,898) | (96) |
| 30 June 2020 | Closing Balance | 12,841,389 | 31,118 |

e. Employee share plans

Information relating to the Pinnacle Investment Management Group Employee Option Share Plan and Pinnacle Omnibus Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 28.

f. Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern, so it can continue to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

The Group monitors capital on the basis of both Group liquidity and capital and liquidity ratios required under various licenses held by subsidiaries.

There have been no reportable instances of non-compliance with externally imposed capital requirements in the current period.

17. Reserves and accumulated losses

a. Reserves

| | 2020 \$'000 | 2019 \$'000 |
|---|-----------------|-----------------|
| Share-based payments reserve | 6,750 | 4,106 |
| Options reserve | 4,749 | 4,749 |
| Transactions with non-controlling interests reserve | (59,603) | (59,603) |
| Performance rights reserve | 44 | 54 |
| | (48,060) | (50,694) |
| MOVEMENTS | | |
| Share-based payments reserve | | |
| Balance at 1 July | 4,106 | 3,854 |
| Share-based payments expense | 1,961 | 1,434 |
| Shares issued on exercise of options | - | - |
| Employee loans subject to share-based payments arrangements | 683 | (1,182) |
| Balance at 30 June | 6,750 | 4,106 |
| Options reserve | | |
| Balance at 1 July | 4,749 | 9,498 |
| Options issued (refer note 23(a)) | - | - |
| Options exercised | - | (4,749) |
| Balance at 30 June | 4,749 | 4,749 |
| Transactions with non-controlling interests reserve | | |
| Balance at 1 July | (59,603) | (59,603) |
| Balance at 30 June | (59,603) | (59,603) |

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised;
- the grant date fair value of shares issued to employees;
- the issue of shares held by employee share plans to employees; and
- the grant date fair value of reissued loans under the Pinnacle Long-term Employee Incentive Plan and Pinnacle Omnibus Incentive Plan approved by the board on 22 August 2018.

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

The options reserve is used to recognise the value of zero-priced options issued by Pinnacle associated with investments in entities under joint control (see note 23).

b. Accumulated losses

Movements in accumulated losses were as follows:

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Balance at 1 July | (3,508) | (10,414) |
| Profit/(loss) for the year attributable to owners of Pinnacle Investment Management Group Limited | 32,206 | 30,549 |
| Dividends paid to shareholders | (29,754) | (23,643) |
| Balance at 30 June | (1,056) | (3,508) |

18. Dividends

a. Ordinary shares

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Interim dividend for the year ended 30 June 2020 of 6.9 cents per fully paid ordinary share paid on 20 March 2020 (2019 – 6.1 cents paid on 22 March 2019) | | |
| Fully franked based on tax paid @ 30.0% | 12,759 | 11,095 |
| Final dividend for the year ended 30 June 2019 of 9.3 cents per fully paid ordinary share paid on 4 October 2019 (2019 – 7.0 cents paid on 5 October 2018) | | |
| Fully franked based on tax paid @ 30.0% | 16,995 | 12,548 |
| Total dividends paid | 29,754 | 23,643 |

b. Dividends not recognised at the end of the reporting period

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 8.5 cents per fully paid ordinary share (2019 – 9.3 cents). The aggregate amount of the proposed dividend to be paid on 11 September 2020 out of retained earnings at 30 June 2020, but not recognised as a liability at year end, is \$15,808,000 (2019 – \$17,007,000).

c. Franked dividends

The final dividends recommended after 30 June 2020 will be fully franked out of existing franking credits.

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Franking credits available for subsequent financial years based on a tax rate of 30% (2019: 30%) | 32,766 | 28,779 |

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

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

The consolidated amounts include franking credits that would be available to the Company if distributable profits of subsidiaries were paid as dividends.

19. Borrowings and Financing arrangements

a. Secured liabilities and assets pledged as security

In December 2019, the Group entered into an amended facility deed, which is secured by a general security deed over the assets of the Group and guarantees provided by the Company and other Group entities. The availability period for the Corporate Card Facility and Bank Guarantee is until 12 December 2020 and for the Loan Facility is until 12 December 2021. Further details regarding the Corporate Card Facility and Bank Guarantee are provided in Note 21.

| | 2020 | | | 2019 | | |
|-------------------------|-------------------|-----------------------|-----------------|-------------------|-----------------------|-----------------|
| Secured | Current \$'000 | Non-Current \$'000 | Total \$'000 | Current \$'000 | Non-Current \$'000 | Total \$'000 |
| Bank Loan | 20 | 30,000 | 30,020 | - | - | - |
| Total Borrowings | 20 | 30,000 | 30,020 | - | - | - |

The amended facility agreement includes the following covenants:

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

The Group has provided the bank with a security interest over its property excluding its holdings in Affiliates. Compliance with covenants is reviewed on a regular basis and compliance has been maintained during the period. As at 30 June 2020, the interest cover ratio was 83 times, the net leverage cover ratio was 0.9 and the tangible net wealth was \$187m (134% of the tangible net wealth at 30 June 2019).

The Loan Facility was fully drawn as at 30 June 2020 to fund the Acquisition of a 25% interest in Coolabah Capital Investments Pty Ltd. The loan is a variable rate, Australian-dollar denominated loan, which is carried at amortised cost. The facility term is two years from drawdown.

The carrying amounts of assets pledged as security at balance date in relation to the bank guarantees are set out below:

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Current | | |
| Cash and cash equivalents | 16,066 | 1 |
| Financial assets at fair value through profit or loss | 33,986 | - |
| Assets held at amortised cost | 123 | - |
| Receivables | 16,387 | 493 |
| Total current assets pledged as security | 66,562 | 494 |
| Non-current | | |
| Plant and equipment | 162 | 18 |
| Assets held at amortised cost | 4,335 | - |
| Total non-current assets pledged as security | 4,497 | 18 |
| Total assets pledged as security | 71,059 | 512 |

b. Interest rate risk exposure

Information about the Group's exposure to interest rate changes are provided in note 20.

20. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk, foreign currency risk and price risk), credit risk and liquidity risk. A core focus of the Group's overall risk management program focuses on the volatility of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk governance is managed through the Board's Audit, Compliance and Risk Management Committee, which provides direct oversight of the Group's risk management framework and performance. The Board approves written principles for risk management covering areas such as Principal Investments, including the use of appropriate hedging strategies, and cash flow management. The management of risk throughout the Group is achieved through the procedures, policies, people competencies and risk monitoring functions that form part of the overall Group risk management framework. This is achieved through regular updates in the form of targeted risk management analysis and reporting functions that provide an assessment of the Group's risk exposure levels and performance to benchmarks / tolerance limits.

The Group holds the following financial instruments:

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Financial assets | | |
| Cash and cash equivalents | 16,066 | 26,720 |
| Trade and other receivables* | 16,199 | 15,851 |
| Financial assets at fair value through profit or loss | 33,986 | 24,464 |
| Loans to jointly controlled associates (including affiliate executives) (non-current) | 4,335 | 3,813 |
| Loans to jointly controlled associates (including affiliate executives) (current) | 123 | 2,234 |
| | 70,709 | 73,082 |

*Excludes prepayments (see note 7)

| | 2020 \$'000 | 2019 \$'000 |
|---------------------------------|----------------|----------------|
| Financial liabilities | | |
| Trade and other payables | 9,827 | 8,495 |
| Lease liabilities (current) | 1,566 | - |
| Lease liabilities (non-current) | 2,241 | - |
| Borrowings (current) | 21 | - |
| Borrowings (non-current) | 30,000 | - |
| | 43,655 | 8,495 |

a. Market risk

i. Foreign exchange risk

The Group is not materially exposed to foreign exchange risk. All of its major contracts with counterparties are denominated and settled in Australian dollars, which is the reporting and operating currency of the Group. Substantially all of the Group's principal investments are also quoted and priced in Australian dollars.

ii. Price risk

Through its business transactions and investments, the Group is exposed to equity securities price risk. This risk is the potential for losses in Group earnings as a result of adverse market movements and arises from investments held by the Group that are classified on the consolidated statement of financial position as financial assets at fair value through profit or loss.

The Group manages the price impact of market risk through an established risk management framework. This includes the procedures, policies and functions undertaken by the business to manage market risk within tolerances set by the Board. Equity derivatives are used as an active risk mitigation function and the Group currently utilises such derivatives to reduce the market risk of its equity exposures. The performance of the Group's direct equity exposures and market risk mitigants are monitored on a regular basis.

The majority of the Group's equity investments are Australian listed equity securities and unlisted unit trusts as shown in the table below:

| | Total \$'000 |
|--|-----------------|
| 30 June 2020 | |
| ASSETS | |
| Australian listed equity securities | 12,941 |
| Other unlisted equity securities | 479 |
| Unlisted unit trusts | 19,491 |
| Derivative financial instruments - futures | 1,075 |
| Total assets at FVPL | 33,986 |
| 30 June 2019 | |
| ASSETS | |
| Australian listed equity securities | 12,615 |
| Other unlisted equity securities | 479 |
| Unlisted unit trusts | 10,658 |
| Derivative financial instruments - futures | 712 |
| Total assets at FVPL | 24,464 |

Sensitivity

The table below summarises the impact of increases/decreases in equity securities prices on the Group's after tax profit for the year and on equity. The analysis is based on the assumption that equity securities prices had increased/decreased by +/- 15% (2019: +/- 15%) at 30 June 2020 with all other variables held constant and all the Group's equity investments included in financial assets at fair value through profit and loss moved in correlation with the index.

| | Impact on after-tax profit | | Impact on equity | |
|-------|----------------------------|----------------|------------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Group | +721/-721 | +799/-799 | +721/-721 | +799/-799 |

iii. Interest rate risk

The Group's main interest rate risk arises from holding cash and cash equivalents and borrowings with variable rates. During 2020 and 2019, the Group's cash and cash equivalents were denominated in Australian dollars. The Group's borrowings were also denominated in Australian dollars. The Group reviews its interest rate exposure as part of the Group's cash flow management and takes into consideration the yields, duration and alternative financing options as part of the renewal of existing positions. As at the reporting date, the Group had the following cash and cash equivalents and borrowings:

| | 30 June 2020 | | 30 June 2019 | |
|---|--|-------------------------------------|--|-------------------------------------|
| | Weighted average interest rate % | Floating interest rate \$'000 | Weighted average interest rate % | Floating interest rate \$'000 |
| Cash and cash equivalents | 0.06% | 16,066 | 1.17% | 26,720 |
| Exposure to cash flow interest rate risk | | 16,066 | | 26,720 |

| | 30 June 2020 | | 30 June 2019 | |
|---|--------------|-----------------------|--------------|-----------------------|
| | 2020 \$'000 | % of total borrowings | 2019 \$'000 | % of total borrowings |
| Variable rate borrowings | 30,000 | 100% | - | 0% |
| Exposure to cash flow interest rate risk | | 100% | | 0% |

The Group's loans to entities under joint control are subject to fixed interest rates and carried at amortised cost. They are therefore not subject to interest rate risk in AASB 7.

Sensitivity

At 30 June 2020, if interest rates had changed by +/-100 basis points from the year end rates with all other variables held constant, after tax profit and equity for the year would have been \$112,000 lower/higher (2019: change of 100 basis points: \$187,000 lower/higher).

b. Credit risk

Credit risk arises from cash and cash equivalents, financial assets at fair value through profit or loss, loans to entities under joint control, loans to shareholders and outstanding receivables.

Credit risk is managed on a Group basis. Credit risk relates to the risk of a client or counterparty defaulting on their financial obligations resulting in a loss to the Group. These obligations primarily relate to distribution and management fees. The Group does not carry significant trade receivable exposure to either a single counterparty or a group of counterparties. For banks and financial institutions, only independently rated parties with a minimum rating of BBB+ / A-1 are accepted as counterparties. As at the reporting date, the Group held the following credit risks:

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Cash and cash equivalents | 16,066 | 26,720 |
| Trade and other receivables* | 16,199 | 15,851 |
| Financial assets at fair value through profit or loss | 33,986 | 24,464 |
| Loans to joint associates (including affiliate executives) (non-current) | 4,335 | 2,234 |
| Loans to joint associates (including affiliate executives) (current) | 123 | 3,813 |
| | 70,709 | 73,082 |

*Excludes prepayments (see note 7).

Impaired trade, other and loan receivables

The group has the following types of financial assets that are subject to the expected credit loss model:

- Trade and other receivables
- Loans to joint associates

While cash and cash equivalents and financial assets at fair value through profit or loss are also subject to the impairment requirements of AASB 9, the identified impairment loss was nil.

Loans to jointly controlled associates (including Affiliate executives)

All loans to jointly controlled associates are considered low credit risk, have had no significant increase in credit risk during the year, and as such the loss allowance was limited to 12 months' expected credit losses. Loans to joint associates are considered to be low credit risk when they have a low risk of default and the borrower has a strong capacity to meet its contractual cash flow obligations in the near term. New loans provided to joint associates are only provided once the underlying prospects of the entity have been fully evaluated. Additionally, loans to individuals to purchase shares are structured in such a way that they are either full recourse or secured on the shares issued. As such, at 30 June 2020 and 30 June 2019, the expected credit loss rate in relation to loans to joint associates was 0% and the loss allowance was \$nil.

Refer to note 32(l) for more information on the investments and other financial assets policy of the Group.

Trade and other receivables

The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rate and loss allowance has been assessed as \$nil as at 30 June 2020 (30 June 2019: \$nil). This is because there is no history of default, revenue is generated primarily through investments in jointly controlled entities and cost recharges are also primarily to jointly controlled entities, hence the recoverability of receivables can be determined with a high degree of certainty on a forward-looking basis. Furthermore, the Group also considered the classification of trade receivables as shown below. Refer to note 32(k) for more information on the trade receivables policy of the Group.

The Group records trade receivables and loans in the following classifications:

Neither past due nor impaired trade receivables and loans are those that are within their relevant contractual payment terms and thus have no expected credit loss due to the reasons above.

Past due but not impaired trade receivables and loans are those that have fallen outside of their contractual settlement terms. However there remains an expectation of full recovery, with no change in credit risk based on the value of the underlying equities and the financial position of the client or counterparty and as such there is no expected credit loss.

Past due and impaired trade receivables and loans are those that have fallen outside of the prescribed settlement terms and/or there is evidence to suggest that the client or counterparty will fail to meet their obligations and thus would result in an expected credit loss. This is \$nil as at 30 June 2020 (2019 - \$nil).

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Trade and other receivables | | |
| Neither past due nor impaired | 16,387 | 16,055 |
| Past due but not impaired | - | - |
| | 16,387 | 16,055 |
| Loans held at amortised cost | | |
| Neither past due nor impaired | 4,458 | 6,047 |
| Total trade, other and loan receivables | 4,458 | 6,047 |

Credit quality

The credit quality of financial assets can be assessed by reference to external credit ratings. These credit ratings are only available for cash assets, Australian listed debt securities and non-exchange traded derivative financial assets:

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Cash at bank and short-term bank deposits | | |
| AA- | 16,066 | 26,720 |
| | 16,066 | 26,720 |

c. Liquidity risk

The Group manages liquidity risk by continuously monitoring actual and forecast cash flows. Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding through available cash and readily liquefiable investments in the Group's Principal Investments portfolio. At 30 June 2020, the Group has \$50.1 million in available cash and Principal Investments (\$20.1 million net of the \$30.0 million debt facility).

Subsidiaries of the Company, Pinnacle Funds Services Limited, Pinnacle Investment Management Limited and Pinnacle RE Services Limited hold Australian Financial Services Licences and hold amounts in liquid assets in accordance with relevant ASIC regulations on the basis of expected cash flows. This is generally carried out at a local level in the operating companies of the Group in accordance with practice and limits set by the Group. In addition, the Group's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Maturities of financial liabilities

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

| CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES | 1 - 30 days | 30 days to 90 days | 90 days to 1 year | 1 to 2 years | 2 to 5 years | Total contractual cash flows | Carrying amount |
|---|--------------|--------------------|-------------------|---------------|--------------|------------------------------|-----------------|
| At 30 June 2020 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Trade and other payables | 6,770 | 3,057 | - | - | - | 9,827 | 9,827 |
| Borrowings (see note 19) | - | - | 21 | 30,000 | - | 30,021 | 30,021 |
| Lease liabilities (see note 12) | 146 | 292 | 1,128 | 1,029 | 1,310 | 3,905 | 3,807 |
| Total financial liabilities | 6,916 | 3,349 | 1,149 | 31,029 | 1,310 | 43,753 | 43,655 |
| At 30 June 2019 | | | | | | | |
| Trade and other payables | 4,258 | 4,237 | - | - | - | 8,495 | 8,495 |
| Total financial liabilities | 4,258 | 4,237 | - | - | - | 8,495 | 8,495 |

d. Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

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

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

The following table presents the Group's assets and liabilities measured and recognised at fair value:

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|----------------|----------------|----------------|---------------|
| 30 June 2020 | | | | |
| ASSETS | | | | |
| Australian listed equity securities | 8,920 | 4,021 | - | 12,941 |
| Other unlisted equity securities | - | - | 479 | 479 |
| Unlisted unit trusts | - | 19,491 | - | 19,491 |
| Derivative financial instruments - futures | 1,075 | - | - | 1,075 |
| Total assets | 9,995 | 23,512 | 479 | 33,986 |

No liabilities were held at fair value at 30 June 2020.

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|----------------|----------------|----------------|---------------|
| 30 June 2019 | | | | |
| ASSETS | | | | |
| Australian listed equity securities | 12,615 | - | - | 12,615 |
| Other unlisted equity securities | - | - | 479 | 479 |
| Unlisted unit trusts | - | 10,658 | - | 10,658 |
| Derivative financial instruments - futures | 712 | - | - | 712 |
| Total assets | 13,327 | 10,658 | 479 | 24,464 |

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

The Group has reclassified unlisted unit trusts from level 1 to level 2 during the current year. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. The Group has also reclassified unlisted unit trusts as level 2 in the prior year.

The fair value of Australian listed securities and exchange traded futures is based on quoted market prices at the end of the reporting period. The quoted price used for Australian listed securities and exchange traded options held by the Group is the current bid price. These instruments are included in level 1.

The quoted market price used for unlisted unit trusts is the current exit unit price. These instruments are included in level 2.

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

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

Fair value measurements using significant unobservable inputs (level 3)

Level 3 items include unlisted equity securities held by the Group, and contingent consideration from disposal of discontinued operations. The following table presents the changes in level 3 instruments for the years ended 30 June 2020 and 30 June 2019:

| | Contingent consideration \$'000 | Unlisted equity securities \$'000 |
|---|------------------------------------|--------------------------------------|
| Closing balance 30 June 2018 | 114 | 364 |
| Contingent consideration received | (152) | - |
| Fair value adjustments recognised in profit or loss | 38 | 115 |
| Closing balance 30 June 2019 | - | 479 |
| Contingent consideration received | - | - |
| Fair value adjustments recognised in profit or loss | - | - |
| Closing balance 30 June 2020 | - | 479 |

i. Transfer between levels 1 and 3

There were no transfers between levels 1 and 3 during the year.

ii. Valuation process

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

21. Contingencies and commitments

a. Secured liabilities and assets pledged as security

i. Guarantees

Pinnacle Investment Management Group Limited has provided guarantees in relation to Australian Financial Services License Net Tangible Asset obligations (via bank guarantee) in respect of:

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

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

- iii. Pinnacle Services Administration Pty Ltd - \$786,000 (30 June 2019 - \$251,000)

The guarantee for the leases noted above is held between Pinnacle Investment Management Group Limited (\$426,000) and Pinnacle Investment Management Limited (\$360,000).

The unused bank guarantee facility available at balance date was \$24,000 (30 June 2019: \$199,000). The Group has also provided guarantees in relation to its corporate credit card facility (facility limit of \$660,000 of which \$625,000 was unused at balance date).

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

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

b. Commitments

i. Capital commitments

There were no capital expenditure commitments at balance sheet date.

ii. Lease commitments: Group as lessee

The Group leases offices in Brisbane and Sydney. Rental contracts are typically made for fixed periods of 3 – 5 years. The lease agreements do not impose any covenants. Until the current financial year, leases of property were classified as operating leases. From 1 July 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 12 and note 32(a)(iii) for further information.

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities are payable as follows: | | |
| Within one year | - | 1,583 |
| Later than one year but not later than five years | - | 2,695 |
| Non-cancellable operating leases | - | 4,278 |

c. Other expenditure commitments

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Commitments contracted for at reporting date but not recognised as liabilities are payable as follows: | | |
| Within one year | - | - |
| Later than one year and not later than five years | - | - |
| | - | - |

d. Other commitments

The Group has previously entered into agreements whereby it has agreed to advance sufficient funds to entities under joint control to cover their operating expenses until such time as the entity becomes profitable on a monthly basis and is generating positive cash flows. Further information in relation to these balances is provided in note 26.

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Joint Venture commitments contracted for at reporting date but not recognised as liabilities are payable as follows: | | |
| Within one year | - | - |
| Later than one year and not later than five years | - | - |
| | - | - |

Group Structure

This section provides information regarding the Group's subsidiaries and associates, and detail regarding discontinued operations.

22. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following significant subsidiaries in accordance with the accounting policy described in note 32(b). The country of incorporation of all subsidiaries is also their principal place of business.

| Name of entity | Country of incorporation | Class of security | Equity holding | |
|--|--------------------------|-------------------|----------------|--------|
| | | | 2020 % | 2019 % |
| Pinnacle Investment Management Limited | Australia | Ordinary share | 100 | 100 |
| Pinnacle Funds Services Limited | Australia | Ordinary share | 100 | 100 |
| Pinnacle Services Administration Pty Ltd | Australia | Ordinary share | 100 | 100 |
| Pinnacle RE Services Limited | Australia | Ordinary share | 100 | 100 |
| Priority Funds Management Pty Ltd | Australia | Ordinary share | 100 | 100 |
| Priority Investment Management Pty Ltd | Australia | Ordinary share | 100 | 100 |
| Ariano Pty Ltd | Australia | Ordinary share | 100 | 100 |
| Next Financial Holdings Pty Ltd | Australia | Ordinary share | 100 | 100 |
| PNI Option Plan Managers Pty Ltd | Australia | Ordinary share | 100 | 100 |
| Pingroup IM Limited | United States | Ordinary share | 100 | - |
| Pinnacle Investment Management (UK) Ltd | United Kingdom | Ordinary share | 100 | 100 |

23. Investment accounted for using the equity method

a. Carrying amounts

The Group holds investments in entities under joint control that undertake funds management activities. Information relating to these entities under joint control is set out below.

| Name of company | Principal Activity | Ownership interest | | Carrying value | |
|---|--------------------|--------------------|--------|----------------|-------------|
| | | 2020 % | 2019 % | 2020 \$'000 | 2019 \$'000 |
| Plato Investment Management Limited | Funds Management | 42.66 | 43.15 | 1,274 | 425 |
| Palisade Investment Partners Limited | Funds Management | 37.60 | 35.98 | 8,127 | 5,645 |
| Hyperion Holdings Limited | Funds Management | 49.99 | 49.99 | 16,560 | 11,492 |
| Foray Enterprises Pty Limited | Funds Management | 44.50 | 43.50 | 18,839 | 16,362 |
| Solaris Investment Management Ltd | Funds Management | 40.00 | 40.00 | 3,415 | 4,009 |
| Spheria Asset Management Pty Ltd | Funds Management | 40.00 | 40.00 | 1,565 | 1,559 |
| Antipodes Partners Holdings Pty Ltd | Funds Management | 23.57 | 23.57 | 8,277 | 6,950 |
| Two Trees Investment Management Pty Ltd | Funds Management | 43.96 | 43.96 | - | - |
| Firetrail Investments Limited | Funds Management | 23.50 | 23.50 | 15,552 | 14,797 |
| Metrics Credit Holdings Pty Limited | Funds Management | 35.00 | 35.00 | 45,769 | 48,881 |
| Omega Global Investors Pty Limited | Funds Management | 42.97 | 40.00 | 1,861 | 1,839 |
| Longwave Capital Partners Pty Limited | Funds Management | 40.00 | 40.00 | 1,131 | 420 |
| Riparian Capital Partners Pty Limited | Funds Management | 40.00 | 40.00 | 1,284 | 588 |
| Reminiscent Capital Pty Limited | Funds Management | 40.00 | 25.00 | 1,135 | 384 |
| Coolabah Capital Investments Pty Ltd | Funds Management | 25.00 | - | 35,860 | - |
| Aikya Investment Management Limited | Funds Management | 32.50 | - | 1,218 | - |
| | | | | 161,867 | 113,351 |

Each of the entities in the previous table under joint control (except for Aikya Investment Management Limited) is incorporated and has their principal place of business in Australia. Aikya Investment Management Limited is incorporated and has its principal place of business in the United Kingdom. Each of the above entities are accounted for using the equity method.

On 16 December 2019, the Group completed the acquisition of a 25% interest in Coolabah Capital Investments Pty Ltd (CCI) for \$29.1m, together with a further \$5m upon the business achieving certain profit milestones over the next one- to four-year period. The Group has assessed that it is probable that the additional \$5m will become payable and has therefore recorded the amount, in full, as contingent consideration payable, with a corresponding increase in the carrying value of the investment in CCI (see note 15).

The acquisition was funded by a facility from the Commonwealth Bank of Australia (CBA) (see note 19).

Impairment testing is carried out on the carrying value of the Group's investments accounted for using the equity method at each reporting date. For the purpose of impairment testing, each investment is assessed individually as each represents a separate 'cash generating unit' (CGU), with the carrying value compared to the 'recoverable amount'. The 'recoverable amount' is defined as the higher of each CGU's fair value less costs of disposal and its value in use.

There are many accepted methods for valuing funds management businesses, including multiples on revenue, EBITDA, NPAT and FUM. The measure used may be different depending on the type (or relative maturity) of each business. During recent years, the Group has conducted a number of transactions and therefore has recent and relevant data on which to base its assessment.

For CGUs where fair value less costs of disposal was utilised to assess the recoverable amount, the assumptions were adjusted for any estimation uncertainty by stress testing the inputs to take into consideration forecast economic uncertainty.

Other CGUs utilised the value in use method. Value in use is defined as the present value of the future cash flows expected to be derived from an asset. In each case, the value in use has been based on management's best estimates over a five-year period, with a terminal value in perpetuity of 2.5%. Management has considered the impacts of COVID-19 on investment markets and fund flows and factored this into its best estimates. Management also assessed a range of scenarios in consideration of the estimation uncertainty over the five-year period. Such scenarios included whether performance fees will or will not be earned; variations in projected FUM flows; fee rates on new business; and changes in discount rates. The assessment of recoverable amounts in a reasonable range of possible scenarios were, in each case, higher than the carrying value.

As a result of these analyses, there has been no impairment to the Group's investments accounted for using the equity method in the financial year ended 30 June 2020 (30 June 2019: \$nil).

b. Summarised financial information for joint ventures

The tables below provide summarised financial information for those joint ventures and associates that are material to the group. The Group assesses materiality based on each joint venture's relative contribution to share of carrying value and share of net profits, and other qualitative factors. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and joint ventures and not Pinnacle Investment Management Group Limited's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

| | Hyperion Holdings Limited | | Foray Enterprises Pty Limited* | | Palisade Investment Partners Limited | | Solaris Investment Management Limited | |
|---|---------------------------|---------------|--------------------------------|---------------|--------------------------------------|---------------|---------------------------------------|---------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Summarised statement of financial position | | | | | | | | |
| Total current assets | 25,220 | 9,044 | 20,610 | 16,766 | 31,328 | 25,410 | 10,008 | 11,854 |
| Total non-current assets | 15,169 | 17,898 | 4,855 | 5,763 | 7,134 | 6,404 | 366 | 438 |
| Total current liabilities | (7,415) | (4,068) | (10,588) | (10,467) | (6,514) | (13,107) | (3,739) | (4,191) |
| Total non-current liabilities | (78) | (110) | (557) | (636) | (15,153) | (5,036) | (62) | (44) |
| Net Assets | 32,896 | 22,764 | 14,320 | 11,426 | 16,795 | 13,671 | 6,573 | 8,057 |
| Group share in % | 49.99% | 49.99% | 44.50% | 43.50% | 37.60% | 35.98% | 40.00% | 40.00% |
| Reconciliation to carrying amounts: | | | | | | | | |
| Opening net assets 1 July | 22,764 | 21,782 | 11,426 | 8,759 | 13,671 | 12,982 | 8,057 | 7,900 |
| Issued shares | - | - | - | - | 708 | - | - | - |
| Reserves | - | - | 125 | 65 | 263 | 136 | - | - |
| Total comprehensive income | 24,813 | 15,641 | 14,769 | 15,102 | 9,953 | 9,559 | 13,316 | 11,857 |
| Dividends paid | (14,681) | (14,659) | (12,000) | (12,500) | (7,800) | (9,006) | (14,800) | (11,700) |
| Closing net assets | 32,896 | 22,764 | 14,320 | 11,426 | 16,795 | 13,671 | 6,573 | 8,057 |
| Group's share of net assets | 16,445 | 11,380 | 6,372 | 4,970 | 6,315 | 4,919 | 2,629 | 3,223 |
| Excess consideration over share of net assets | 115 | 112 | 12,467 | 11,392 | 1,812 | 726 | 786 | 786 |
| Carrying amount | 16,560 | 11,492 | 18,839 | 16,362 | 8,127 | 5,645 | 3,415 | 4,009 |
| Summarised statement of comprehensive income | | | | | | | | |
| Revenue | 44,467 | 31,217 | 39,973 | 37,192 | 25,577 | 25,600 | 27,395 | 24,582 |
| Net profit for the year after tax | 24,813 | 15,641 | 14,769 | 15,102 | 9,953 | 9,559 | 13,316 | 11,857 |
| Other comprehensive income | - | - | - | - | - | - | - | - |
| Total comprehensive income | 24,813 | 15,641 | 14,769 | 15,102 | 9,953 | 9,559 | 13,316 | 11,857 |
| Dividends received from joint venture entities | (7,341) | (7,328) | (5,280) | (5,278) | (3,207) | (3,410) | (5,920) | (4,680) |

*holding company for Resolution Capital Limited

Individually immaterial jointly controlled entities

In addition to the interests disclosed above, the Group also has interests in a number of individually immaterial entities under joint control that are accounted for using the equity method.

| | 2020 \$'000 | 2019 \$'000 |
|---|--------------|---------------|
| Aggregate carrying amount of individually immaterial joint ventures | 114,926 | 75,842 |
| Aggregate amounts of the Group's share of: | | |
| Profit for the year | 9,984 | 10,725 |
| Other comprehensive income | - | - |
| Total comprehensive income | 9,984 | 10,725 |

c. Movements in carrying amounts

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Carrying amount at the beginning of the financial year | 113,351 | 55,601 |
| Purchase of shares in entities under joint control | 43,548 | 54,930 |
| Sales of shares in entities under joint control | (261) | (3,639) |
| Share of profit after income tax | 37,953 | 33,133 |
| Adjustment for loan impairment | 271 | 354 |
| Dividends received/receivable | (32,995) | (27,028) |
| Carrying amount at the end of the financial year | 161,867 | 113,351 |

d. Share of entities' revenue, expenses and results

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------------|---------------|---------------|
| Revenues | 105,676 | 85,778 |
| Expenses | (51,412) | (39,732) |
| Profit before income tax | 54,264 | 46,046 |
| Income tax expense | (16,311) | (12,913) |
| Profit after income tax | 37,953 | 33,133 |

e. Summary of entities under joint control

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------|----------------|---------------|
| Current assets | 73,788 | 61,156 |
| Non-current assets | 36,639 | 32,635 |
| Total assets | 110,427 | 93,791 |
| Current liabilities | 23,520 | 26,191 |
| Non-current liabilities | 12,027 | 17,773 |
| Total liabilities | 35,547 | 43,964 |
| Net assets | 74,880 | 49,827 |

24. Parent Entity financial information

a. Summary financial information

The individual financial statements for the Parent Entity (PNI) show the following aggregate amounts:

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Statement of financial position | | |
| Current assets | 2,623 | 584 |
| Non-current assets | 140,865 | 129,655 |
| Total assets | 143,488 | 130,239 |
| Current liabilities | 112 | 262 |
| Non-current liabilities | 10,029 | 9,588 |
| Total liabilities | 10,141 | 9,850 |
| Net assets | 133,347 | 120,389 |
| Shareholders' equity | | |
| Contributed equity | 237,663 | 231,255 |
| Reserves | (57,012) | (62,794) |
| Accumulated losses | (47,304) | (48,072) |
| Total equity | 137,347 | 120,389 |
| Profit/(loss) for the year | 30,520 | 22,079 |
| Total comprehensive income/(loss) | 30,520 | 22,079 |

b. Guarantees entered into by the Parent Entity

Details of guarantees entered into by the Group are provided at note 21.

25. Additional cash flow information

a. Reconciliation to cash at the end of the year

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash at bank and on hand, deposits at call and cash held in trust net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Cash and cash equivalents | 16,066 | 26,720 |
| Balances per statement of cash flows | 16,066 | 26,720 |

b. Reconciliation of net cash flow from operating activities to profit

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Profit/(loss) for the year | 32,206 | 30,549 |
| Depreciation and amortisation | 774 | 64 |
| Right-of-use asset depreciation and interest charge | 1,815 | - |
| Reinvested distributions received | (460) | (554) |
| Equity settled share-based payments | 2,120 | 1,549 |
| Net losses/(gains) on financial assets at fair value through profit or loss | 1,530 | (1,695) |
| Assets at amortised cost | (37) | (183) |
| Change in operating assets and liabilities, net of effects from acquisition and disposal of businesses: | | |
| Trade and other receivables | (445) | (5,492) |
| Investments accounted for using the equity method | (4,958) | (6,106) |
| Financial assets at FVTPL | (10,592) | 56 |
| Trade and other payables | (101) | 2,602 |
| Borrowings | 21 | - |
| Provisions | 221 | 300 |
| Net cash inflow/(outflow) from operating activities | 22,094 | 21,090 |

The reconciliation of net cash flow from operating activities to profit/(loss) includes both continuing and discontinued operations.

26. Related party transactions

a. Parent Entity

The Parent Entity of the Group is Pinnacle Investment Management Group Limited (refer note 24).

b. Subsidiaries and jointly controlled entities

Interests in subsidiaries are set out in note 22.

Interests in jointly controlled entities are set out in note 23.

Details of service charges to jointly controlled entities are provided in note 1.

Details of dividend payments from entities under joint control are provided in note 23.

c. Key Management Personnel and Compensation

Disclosure relating to Key Management Personnel is set out in note 27.

Disclosure relating to share-based payments is set out in note 28.

d. Transactions with other related parties

The following transactions occurred with related parties: No new loans were issued in the current financial year.

i. Movement in loans to key management personnel - Loans provided 25 August 2016

Upon acquisition of the non-controlling interests of Pinnacle Investment Management Limited, the Company provided senior executives of its subsidiary Pinnacle Investment Management Limited with loans totalling \$3,000,002, the proceeds of which were used to partially fund the acquisition of shares from Deutsche Australia. This included loans of \$500,000 each to Mr Ian Macoun, Mr Alex Ihlenfeldt, Mr Adrian Whittingham and Mr Andrew Chambers who are key management personnel of the Group.

The key terms of the loans are as follows:

- The loans have a five year term, are limited recourse and are interest bearing;
- They are secured by way of a share mortgage (see further detail below);
- Repayment will occur at the earlier of the end of the five year term, the date on which any shares are sold or within six months of cessation of employment;
- Events of default include cessation of employment, insolvency or any representation or warranty or statement of the borrower being incorrect or misleading.

As security for the loans, the Company has obtained a first ranking mortgage over 1,111,111 shares held by each executive. In the occasion of any event of default under the loans, the Company can exercise its rights to enforce its security including by the appointment of a receiver.

During the year interest of \$13,578 accrued on each of these loans to key management personnel. The balance of each loan at 30 June 2020 including capitalised interest was \$550,326.

ii. Movement in loans to key management personnel - Loans re-issued 25 August 2016

Upon acquisition of the non-controlling interest of Pinnacle Investment Management Limited, existing loans amounting to \$4,303,485 issued by Pinnacle Investment Management Limited in prior years to its senior executives to assist executives to acquire equity were re-issued by the Company. This included existing loans to Mr Ian Macoun, Mr Alex Ihlenfeldt, Mr Adrian Whittingham and Mr Andrew Chambers who are key management personnel of the Group.

The loans date from 2009, 2011, 2012 and 2015 and were used to assist the executives to acquire equity in PIML. The loans are interest free and repayable on termination of employment or when the underlying equity is sold, whichever event occurs earlier. The re-issued loans are also secured by share mortgages with limited recourse to the shares.

The value of re-issued loans for each of the Key Management Personnel and repayments made during the year were as follows:

| Key Management Personnel | Loan balance – 1 July 2019 \$ | Repayments made \$ | Loan balance – 30 June 2020 \$ |
|--------------------------|----------------------------------|-----------------------|-----------------------------------|
| Ian Macoun | 394,051 | (93,328) | 300,723 |
| Alex Ihlenfeldt | 638,945 | (52,839) | 586,106 |
| Adrian Whittingham | 628,305 | (93,328) | 534,977 |
| Andrew Chambers | 628,305 | (93,328) | 534,977 |

iii. Loan Shares issued under the Pinnacle Omnibus Plan

During the year to 30 June 2019, 1.7 million loan shares were issued to Key Management Personnel under the Pinnacle Omnibus Plan. No further loan shares were issued during the year to 30 June 2020. The shares are subject to service and performance conditions and will vest after five years, if the conditions are met. The loans are interest free and limited in recourse to the shares. They are repayable 10 years from grant date, on termination of employment or when the underlying equity is sold, whichever occurs earlier.

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

| Key Management Personnel | Loan balance – 1 July 2019 \$ | Repayments made \$ | Loan balance – 30 June 2020 \$ |
|--------------------------|----------------------------------|-----------------------|-----------------------------------|
| Ian Macoun | 1,683,605 | (36,795) | 1,646,810 |
| Alex Ihlenfeldt | 2,157,756 | (36,795) | 2,120,961 |
| Adrian Whittingham | 1,683,605 | (36,795) | 1,646,810 |
| Andrew Chambers | 4,489,614 | (98,120) | 4,391,494 |

iv. Loans to other Related Parties

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

During the year, interest of \$0.1m accrued on these loans and repayments of \$2.2m were made. The balance of the loans at 30 June 2020 including capitalised interest was \$1.7m.

e. Loans to/from related parties

| | 2020 \$ | 2019 \$ |
|---|------------------|------------------|
| Loans to joint associates (including affiliate executives) | | |
| Balance at 1 July | 6,047,018 | 7,000,823 |
| Loans advanced | 1,030,000 | 1,500,000 |
| Interest accrued | 125,467 | 183,671 |
| Loans repaid | (2,471,852) | (2,282,847) |
| Share of equity accounted losses from affiliates | (271,827) | (354,629) |
| Balance at 30 June | 4,458,806 | 6,047,018 |

f. Guarantees

The Group has provided guarantees to subsidiaries as described in note 21.

g. Transactions with other related parties and jointly controlled entities

The following transactions occurred with related parties:

- i. Sales of services to other related parties/jointly controlled affiliates \$21,070,413 (2019: 19,151,893)
- ii. Purchase of financial assets at fair value through profit and loss \$25,025,000 (2019: \$31,113,928)
- iii. Proceeds for disposal of financial assets at fair value through profit and loss \$15,335,538 (2019: \$31,703,327)
- iv. Dividend revenue \$818,324 (2019: \$1,469,151)

27. Key Management Personnel

a. Key Management Personnel compensation

| | 2020 \$ | 2019 \$ |
|--|------------------|------------------|
| Short-term employee benefits | 2,237,500 | 2,853,750 |
| Post-employment benefits | 100,000 | 100,000 |
| Long-term benefits | 12,200 | (15,027) |
| Share-based payments | 795,731 | 601,620 |
| Total Key Management Personnel compensation | 3,145,431 | 3,540,343 |

Certain Key Management Personnel are party to the long-term employee incentive arrangement described in note 32(s)(vii). At 30 June 2020, the balance of loans issued to Key Management Personnel was \$11,762,818 (2019: \$12,304,146) relating to 4,685,272 shares issued in the Company (2019: 4,685,272 shares).

Detailed remuneration disclosures for Key Management Personnel are provided in the Remuneration Report.

b. Loans to Key Management Personnel

Details of loans made to directors of Pinnacle Investment Management Group Limited and other Key Management Personnel of the Group, including their related parties, are set out below.

i. Aggregates for Key Management Personnel

| | Balance at the start of the year \$ | Interest paid and payable for the year \$ | Loans advanced during the year \$ | Loan repayments received \$ | Other changes* \$ | Balance at the end of the year \$ | Interest not charged \$ | Number in Group at the end of the year |
|-------------|--|--|---|--------------------------------------|-------------------------|---|-------------------------------|---|
| 2020 | 14,451,181 | 54,312 | - | (541,328) | - | 13,964,165 | 705,861 | 4 |
| 2019 | 4,652,865 | 52,828 | 10,108,990 | (363,502) | - | 14,451,181 | 190,226 | 4 |

The amounts shown for interest not charged in the table on the previous page represents the difference between the amount paid and payable for the year and the amount of interest that would have been charged on an arm's length basis.

28. Share-based payments

a. Pinnacle Investment Management Group Employee Option Share Plan

The establishment of the Pinnacle Investment Management Group Employee Option Share Plan (EOSP) was approved by the Board during the 2007 financial year. The EOSP is designed to provide long-term incentives for staff (including executive and non-executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain service conditions are met. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Set out below are summaries of options granted under the plan.

| Grant date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Exercised during the year | Forfeited during the year | Balance at end of the year | Vested and exercisable at end of the year |
|---------------------------------|--------------|----------------|------------------------------|-------------------------|---------------------------|---------------------------|----------------------------|---|
| 2020 | | | | | | | | |
| 1 July 2016 (B) | 30 June 2020 | \$0.986 | 2,125,000 | - | 2,125,000 | - | - | - |
| | | | 2,125,000 | - | 2,125,000 | - | - | - |
| Weighted average exercise price | | | \$0.99 | - | \$0.99 | - | - | - |
| 2019 | | | | | | | | |
| 1 July 2016 (B) | 30 June 2020 | \$0.986 | 2,125,000 | - | - | - | 2,125,000 | - |
| | | | 2,125,000 | - | - | - | 2,125,000 | - |
| Weighted average exercise price | | | \$0.99 | - | - | - | \$0.99 | - |

2,125,000 options were exercised during the current year (2019: nil). In the current year, the weighted average share price at the date of exercise of options exercised during the year was \$4.70 (2019: \$nil). The weighted average remaining contractual life of share options outstanding at the end of the year was 0.0 years (2019: 1.0 years).

Under the plan, participants are granted options which vest if the employees are still employed by the Group at the end of the vesting period. The Board may elect to waive the continuing service condition (for example in cases of redundancy) and allow options to continue.

Options granted under the plan carry no dividend or voting rights.

The plan is consolidated into the Group's financial statements in accordance with note 32(b)(ii).

Fair value of interests granted – 1 July 2016 (B)

Options were granted for no consideration and vest based on fulfilment of specified service conditions. Vested options are exercisable for a period of 6 months after vesting. The fair value of options was determined using a Black-Scholes pricing model taking into account the exercise price,

the term of the option, 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 instrument.

- Fair value at grant date: \$0.32 per option
- Exercise price: \$0.986
- Grant date: 1 July 2016
- Vesting date: 1 January 2020
- Share price at grant date: \$1.20
- Expected price volatility of the Company's shares: 31%
- Expected dividend yield: 3.63%
- Risk-free interest rate: 2.31%

b. Pinnacle Long-term Employee Incentive Plan

Information regarding the Pinnacle Long-term Employee Incentive Plan is provided in notes 32(s)(vii) and 25(a).

c. Pinnacle Omnibus Plan

The establishment of the Pinnacle Omnibus Plan was approved by the Board on 22 August 2018 and by shareholders at the AGM on 18 October 2018. The Omnibus Plan is designed to provide long-term incentives for staff (including executive and non-executive directors) to deliver long-term shareholder returns. The plan provides for the ability to offer options, performance rights and loan funded shares to staff. Under the plan, the shares and options only vest if certain service and performance conditions are met. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Set out below are summaries of options and loan shares granted under the plan.

i. Loan Shares

| Grant date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Exercised during the year | Forfeited during the year | Balance at end of the year | Vested and exercisable at end of the year |
|---------------------------------|-------------------|----------------|------------------------------|-------------------------|---------------------------|---------------------------|----------------------------|---|
| 2020 | | | | | | | | |
| 17 September 2018 | 16 September 2023 | \$7.2917 | 2,600,000 | - | - | (400,000) | 2,200,000 | - |
| 15 November 2018 | 14 November 2023 | \$5.6582 | 1,400,000 | - | - | - | 1,400,000 | - |
| 12 March 2019 | 11 March 2024 | \$5.1234 | 800,000 | - | - | - | 800,000 | - |
| 25 March 2020 | 24 March 2025 | \$2.9683 | - | 150,000 | - | - | 150,000 | - |
| | | | 4,800,000 | 150,000 | - | (400,000) | 4,550,000 | - |
| Weighted average exercise price | | | \$6.45 | \$2.97 | - | \$7.29 | \$6.27 | - |
| 2019 | | | | | | | | |
| 17 September 2018 | 16 September 2023 | \$7.2917 | - | 2,600,000 | - | - | 2,200,000 | - |
| 15 November 2018 | 14 November 2023 | \$5.6582 | - | 1,400,000 | - | - | 1,400,000 | - |
| 12 March 2019 | 11 March 2024 | \$5.1234 | - | 800,000 | - | - | 800,000 | - |
| | | | - | 4,800,000 | - | - | 4,800,000 | - |
| Weighted average exercise price | | | - | \$6.45 | - | - | \$6.45 | - |

150,000 loan shares were issued to staff during the financial year and 400,000 loan shares were forfeited by staff who left employment during the year. The shares are subject to service and performance conditions and will vest after five years, if the conditions are met. The loans are interest free (until vesting date) and limited in recourse to the shares. They are repayable 10 years from grant date, on termination of employment or when the underlying equity is sold, whichever occurs earlier.

Loan shares issued under the plan carry dividend and voting rights.

Fair value of interests granted – 17 September 2018

The fair value of loan shares were determined using a Black-Scholes pricing model taking into account the exercise price, the term of the option, 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 instrument.

- Fair value at grant date: \$2.59 per loan share
- Exercise price: \$7.2917
- Grant date: 17 September 2018
- Vesting date: 16 September 2023
- Share price at grant date: \$7.31
- Expected price volatility of the Company's shares: 36%
- Expected dividend yield: 0.0%
- Risk-free interest rate: 2.28%.

Fair value of interests granted – 15 November 2018

The fair value of loan shares were determined using a Black-Scholes pricing model taking into account the exercise price, the term of the option, 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 instrument.

- Fair value at grant date: \$2.17 per loan share
- Exercise price: \$5.6582
- Grant date: 15 November 2018
- Vesting date: 14 November 2023
- Share price at grant date: \$5.64
- Expected price volatility of the Company's shares: 40%
- Expected dividend yield: 0.0%
- Risk-free interest rate: 2.28%

Fair value of interests granted – 12 March 2019

The fair value of loan shares were determined using a Black-Scholes pricing model taking into account the exercise price, the term of the option, 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 instrument.

- Fair value at grant date: \$2.31 per loan share
- Exercise price: \$5.1234
- Grant date: 12 March 2019
- Vesting date: 11 March 2024
- Share price at grant date: \$5.18
- Expected price volatility of the Company's shares: 49%
- Expected dividend yield: 0.0%
- Risk-free interest rate: 1.76%

Fair value of interests granted – 25 March 2020

The fair value of loan shares were determined using a Black-Scholes pricing model taking into account the exercise price, the term of the option, 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 instrument.

- Fair value at grant date: \$1.02 per loan share
- Exercise price: \$2.9683
- Grant date: 25 March 2020
- Vesting date: 24 March 2025
- Share price at grant date: \$2.51
- Expected price volatility of the Company's shares: 53%
- Expected dividend yield: 0.0%
- Risk-free interest rate: 0.48%

ii. Options

| Grant date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Exercised during the year | Forfeited during the year | Balance at end of the year | Vested and exercisable at end of the year |
|---------------------------------|------------------|----------------|------------------------------|-------------------------|---------------------------|---------------------------|----------------------------|---|
| 2020 | | | | | | | | |
| 15 November 2018 | 14 November 2023 | \$5.6582 | 250,000 | - | - | - | 250,000 | - |
| 25 March 2020 | 24 March 2025 | \$2.9683 | - | 200,000 | - | - | 200,000 | - |
| | | | 250,000 | 200,000 | - | - | 450,000 | - |
| Weighted average exercise price | | | \$5.66 | \$2.97 | - | - | \$4.46 | - |

| Grant date | Expiry date | Exercise price | Balance at start of the year | Granted during the year | Exercised during the year | Forfeited during the year | Balance at end of the year | Vested and exercisable at end of the year |
|---------------------------------|------------------|----------------|------------------------------|-------------------------|---------------------------|---------------------------|----------------------------|---|
| 2019 | | | | | | | | |
| 15 November 2018 | 14 November 2023 | \$5.6582 | - | 250,000 | - | - | 250,000 | - |
| | | | - | 250,000 | - | - | 250,000 | - |
| Weighted average exercise price | | | - | \$5.66 | - | - | \$5.66 | - |

Fair value of interests granted – 15 November 2018

250,000 options were granted for no consideration and vest based on fulfilment of specified service and performance conditions and will vest after five years if the conditions are met. The fair value of options were determined using a Black-Scholes pricing model taking into account the exercise price, the term of the option, 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 instrument.

- Fair value at grant date: \$1.86 per option
- Exercise price: \$5.6582
- Grant date: 15 November 2018
- Vesting date: 14 November 2023
- Share price at grant date: \$5.64
- Expected price volatility of the Company's shares: 40%
- Expected dividend yield: 1.6%
- Risk-free interest rate: 2.28%

Options issued under the plan carry no dividend and voting rights.

Fair value of interests granted – 25 March 2020

200,000 options were granted for no consideration and vest based on fulfilment of specified service and performance conditions and will vest after five years if the conditions are met. The fair value of loan shares were determined using a Black-Scholes pricing model taking into account the exercise price, the term of the option, 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 instrument.

- Fair value at grant date: \$0.75 per loan share
- Exercise price: \$2.9683
- Grant date: 25 March 2020
- Vesting date: 24 March 2025
- Share price at grant date: \$2.51
- Expected price volatility of the Company's shares: 53%
- Expected dividend yield: 3.7%
- Risk-free interest rate: 0.48%

Options issued under the plan carry no dividend and voting rights.

d. Expenses arising from share-based transactions

Total expenses arising from share-based payment transactions recognised during the period as part of incentive expenses were as follows:

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Pinnacle Investment Management Group Employee Option Share Plan | 76 | 153 |
| Pinnacle Omnibus Plan | 1,823 | 1,210 |
| Pinnacle Long-term Employee Incentive Plan | 62 | 72 |
| Total share-based payment transactions | 1,961 | 1,435 |

29. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Company and its related practices:

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| a. PricewaterhouseCoopers Australia | | |
| i. The deferred tax asset balance comprises temporary differences attributable to: | | |
| Audit and review of financial statements | 266,621 | 212,650 |
| Other assurance services: | | |
| Audit of regulatory returns | 21,939 | 21,299 |
| Audit of compliance plan - Responsible entity * | 102,744 | 91,198 |
| Other assurance services | 50,000 | - |
| Total remuneration for audit and other assurance services | 441,304 | 325,147 |
| ii. Taxation Services | | |
| Tax services | 93,759 | 108,873 |
| Total remuneration for taxation services | 93,759 | 108,873 |
| iii. Other Services | | |
| Other services | 2,987 | 60,808 |
| Total remuneration of PricewaterhouseCoopers Australia | 538,050 | 494,828 |
| Total remuneration of auditors | 538,050 | 494,828 |

* Compliance plan audit charges are on-charged to managed funds to which responsible entity services are provided.

30. Events occurring after the reporting period

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

31. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

a. Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future in the preparation of the financial statements. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i. Estimated impairment of non-financial assets

The Group tests at least annually whether assets have suffered any impairment, in accordance with the accounting policy stated in note 32(i). Where required, the recoverable amounts of assets have been determined based on value-in-use calculations. These calculations require the use of assumptions. For impairment policies regarding financial assets see notes 32(k) and 32(l).

ii. Income taxes

The Group can recognise deferred tax assets relating to carried forward tax losses and deductible timing differences to the extent that it is considered probable that there will be future taxable profits relating to the same taxation authority against which the carried forward tax losses and deductible timing differences will be utilised. As at the reporting date the deferred tax assets of the consolidated entity have not been recognised on the basis that their recovery is not considered probable.

b. Critical judgements in applying the Group's accounting policies

i. Fair value of financial assets

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date (refer to note 20(d) for further details).

ii. Entities subject to joint control

Entities subject to joint control are not considered controlled entities for the purposes of AASB 10 on the basis that all key strategic and operational decisions require a unanimous vote by the Board of directors (refer to note 32(b) for further details).

iii. Share-based payments

The Group measures equity settled share-based payment transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by management using option pricing models that use estimates and assumptions. Management exercises judgement in preparing the valuations and these may affect the value of any share-based payments recorded in the financial statements (refer to notes 32(s)(iv) and 26 for further details).

iv. Contingencies

The Group has made certain judgements and estimates relating to the contingent assets and

liabilities outlined in note 21(a). These assumptions are based on all existing information available through to the date of signing the Financial Report.

v. Contingent consideration

The Group has made certain judgements and estimates relating to contingent consideration payable outlined in notes 23 and 15. In the event that certain milestones are achieved over the next one- to four-year period, the Group has estimated the fair value of the contingent consideration payable by calculating the present value of the expected future cash flows.

32. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Pinnacle Investment Management Group Limited and its subsidiaries ("the Group") - refer to note 22.

a. 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 and the Corporations Act 2001. The Group is a for profit entity for the purpose of preparing the financial statements.

i. Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

ii. New and amended standards adopted by the Group

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2019:

- AASB 16 Leases
- AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
- AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle
- AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement
- Interpretation 23 Uncertainty over Income Tax Treatments.

The Group had to change its accounting policies and make retrospective adjustments as a result of adopting AASB 16 Leases. The impact of the adoption of the leasing standard and the new accounting policies are disclosed on the following page. The other standards did not have any impact on the Group's accounting policies and did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

iii. AASB 16 Leases – Impact of adoption

The Group has adopted AASB 16 retrospectively from 1 July 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.5%.

Operating Lease Commitments disclosed at 30 June 2019:

| | 30 Jun 2019 \$'000 |
|---|-----------------------|
| Operating Lease Commitments disclosed at 30 June 2019 | 4,278 |
| Discounted using the Group's incremental borrowing rate at the date of initial application: | 4,166 |
| | 4,166 |
| Lease liability recognised at 1 July 2019: | |
| Current lease liability | 1,690 |
| Non-current lease liability | 3,742 |
| | 5,432 |

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

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

The recognised right-of-use assets are shown below:

| | 30 June 2020 \$'000 | 1 July 2019 \$'000 |
|--|------------------------|-----------------------|
| Office leases | 5,544 | 5,544 |
| Office leases – accumulated depreciation | (1,721) | - |
| | 3,823 | 5,544 |

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

- Right of use assets – increase by \$5,544,000
- Lease liabilities – increase by \$5,432,000

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

In applying AASB 16 for the first time, the Group has used the following practical expedients as permitted by the standard:

- Applying a single discount rate for its property leases, as permitted by the standard in relation to a portfolio of leases with reasonably similar characteristics.

For details of the change in accounting policy, see note 32(g).

iv. Early adoption of standards

The Group has elected not to apply any of the pronouncements before their operative date in the annual reporting period beginning 1 July 2019.

v. Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, and financial assets (including derivative instruments) at fair value through profit or loss.

b. Principles of consolidation

i. Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pinnacle Investment Management Group Limited as at 30 June 2020 and the results of all subsidiaries for the year then ended. Pinnacle Investment Management Group Limited and its subsidiaries together are referred to in these financial statements as the "Group" or the "consolidated entity".

Subsidiaries are all entities (including structured 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 deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 32(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies 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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position, respectively.

ii. Employee share trust

The Group has formed a trust to administer the Group's employee share plans. Where the substance of the relationship is that control rests with the Group, the employee share trust is consolidated and any shares held by the trust are disclosed as treasury stock and deducted from contributed equity (refer to note 16 and note 28(a)).

iii. Entities under joint control

Entities under joint control are all entities over which the Group has a shareholding of between 20% and 49.99% of the voting rights, which have been assessed to meet the classification of joint venture under AASB 11 Joint arrangements, due to the requirement for unanimous decision making in relation to a number of strategic matters contained in the shareholders agreements. Further, the Group does not have direct rights to the assets, and obligations for the liabilities of the entities. Investments in entities under joint control are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in entities under joint control includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 23).

The Group's share of the post-acquisition profits or losses and other comprehensive income of entities under joint control is recognised in the consolidated statement of comprehensive income.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received or receivable from entities under joint control are recognised as a reduction in the carrying amount of the investment in the consolidated statement of financial position.

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

Unrealised gains on transactions between the Group and entities under joint control are eliminated to the extent of the Group's interest in the entities under joint control. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of entities under joint control have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amounts of investments in entities under joint control is tested for impairment in accordance with the policy described in note 32(i).

iv. Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate transactions with non-controlling interests reserve within equity attributable to owners of Pinnacle Investment Management Group Limited.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in the consolidated statement of comprehensive income. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, entity under joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are

reclassified to the consolidated statement of comprehensive income.

If the ownership interest in an entity under joint control is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

c. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

d. Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is also the functional and presentation currency of all entities in the Group.

ii. Transactions and balances

Foreign currency transactions are translated into the 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 year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

e. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of amounts collected on behalf of third parties. The Group recognises revenue based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Revenue is recognised for the major business activities as follows:

i. Service charges

Revenue for providing services is recognised over time using the output method in the accounting period when the services are rendered. Fees are not recognised where there is a risk of significant revenue reversal. Where the contracts include multiple performance obligations, the transaction will be allocated based on the stand-alone selling prices. Consideration is payable when invoiced.

ii. Interest received or due

Interest income is recognised using the effective interest method. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit impaired financial assets, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial asset (after deduction of the loss allowance).

iii. Dividends and distributions

Dividends and distributions are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence (refer to note 32(i)).

f. Income tax

The income tax expense or benefit for the period is the tax payable or receivable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and entities under joint control operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

i. Tax consolidation legislation

Pinnacle Investment Management Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated statement of financial position.

The head entity, Pinnacle Investment Management Group Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts.

These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred amounts, Pinnacle Investment Management Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities. Details about the tax funding agreement are disclosed in note 32(aa)(ii).

g. Leases

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

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

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

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

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

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

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

Previous accounting policy for leases

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (note 21). Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

h. Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration for a business combination is classified either as equity or a financial liability.

Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

i. Impairment of non-financial assets

Non-financial assets are tested 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. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

j. Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and 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.

Cash held in trust for clients is reported as other cash and cash equivalents and is included within trade payables.

k. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires lifetime expected losses to be recognised from initial recognition of the receivables. The expected loss rates are based on the payment profiles of sales over a period of 36 months before the reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are also adjusted to reflect current and forward-looking information on factors affecting the ability of the customers to settle the receivables.

Trade receivables are written off if there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 180 days past due. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

I. Investments and other financial assets

Classification and measurement

The classification and measurement of financial instruments is determined by the accounting standard AASB 9 Financial Instruments. AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and liabilities, and is driven by the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial instruments.

In accordance with AASB 9 Financial Instruments: Recognition and Measurement, the Group's investments and other financial assets are categorised in one of the three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss.

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also carried at fair value through profit or loss unless they are designated as hedges (see note 32(m) for further details about the types of derivatives held).

At initial recognition, the Group measures a financial instrument at fair value through profit or loss at its fair value. Transaction costs of financial assets and liabilities at fair value through profit or loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within net gains/(losses) on financial instruments at fair value through profit or loss in the period in which they arise.

Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current.

ii. Loans at amortised cost

A financial asset is classified at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument represent solely payments of principal and interest (SPPI) on the principal outstanding. This comprises loans to joint associates (including affiliate executives), which are included in other current and non-current assets within the statement of financial position.

Loans are held for collection of contractual cash flows and the contractual cash flows under the instrument represent solely payments of principal and interest (SPPI) on the principal outstanding. Loans assets are measured initially at fair value plus transaction costs and subsequently at amortised cost using the effective interest rate method, less impairment losses if any. Such assets are reviewed at each reporting date to determine whether there is objective evidence of impairment.

At each reporting date, the Group measures the loss allowance on loans at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Group shall measure the loss allowance at an amount equal to 12-month expected credit losses.

Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income on a separate line item. When a loan receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

Recognition and derecognition

The Group recognises financial assets on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets from this date.

Financial assets are derecognised when the right to receive cash flows from the investments has expired or the Group has transferred substantially all risks and rewards of ownership.

m. Derivative financial instruments

Derivative instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value through profit and loss at each reporting date. Derivative instruments include equity futures, interest rate futures and equity options.

The Group enters into transactions in certain derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments such as forwards, futures and options. The Group uses derivatives to manage its exposure to equity investments held.

The Group holds the following derivative instruments:

Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange.

n. Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or in the case of leasehold improvements, the shorter lease term as follows:

- Plant and equipment 2 - 5 years
- Furniture and fittings 2 - 5 years
- Leasehold improvements 3 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 32(ii)).

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.

o. Intangible assets

IT development and software

Costs incurred in developing products or systems and acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. The costs capitalised are external direct costs of materials and services, and where applicable the direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 5 years from the point at which the asset is ready to use.

IT development costs include only those costs directly attributable to the development phase that can be reliably measured and are only recognised following completion of technical feasibility and where the Group has an intention and ability to use the asset.

Customer contracts

Costs incurred which are directly associated with the acquisition of a customer contract, have been capitalised as an intangible asset and are being amortised over the agreement term of 3 years. Amortisation is calculated on a straight-line basis over the contract term.

p. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

q. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

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

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

AASB101(69) Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

r. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

s. Employee benefits

i. Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months after the end of each reporting period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

ii. Other long-term employee benefit obligations

The liabilities for long service leave and annual leave which are not expected to be settled wholly

within 12 months after the end of the reporting period in which the employees render the related service are recognised in the provision for employee benefits. They are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. 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 end of the reporting period on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. Remeasurement as a result of experience adjustments and changes in assumption are recognised in the consolidated statement of comprehensive income.

The obligations are presented as current liabilities in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

iii. Retirement benefit obligations

Contributions to defined contribution funds are recognised as an employee benefits expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The Group has no further payment obligations once the contributions have been paid.

iv. Share-based payments

Share-based compensation benefits are provided to certain employees via the Pinnacle Investment Management Group Employee Option Share Plan, the Pinnacle Omnibus Plan and where applicable, Pinnacle long-term employee incentive agreements. Information relating to these schemes is set out in note 28.

The fair value of options and rights granted under the plans is recognised as an employee benefits expense with a corresponding increase in share based payments reserve. The total amount to be expensed is determined by reference to the fair value of the options and rights granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market performance vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options and rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to the share based payment reserve.

The plan is administered by AET Structured Finance Services Pty Ltd, see note 32(b)(ii). When the options are exercised, the trust transfers the appropriate amount of shares to the employee. The proceeds received net of any directly attributable transaction costs are credited directly to equity.

The fair value at grant date of the plans is determined using option pricing models that take into account the exercise price, the vesting period, the vesting and performance criteria, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the expected dividend yield, and the risk-free interest rate for the vesting period.

v. Bonuses

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

vi. Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

vii. Long-term employee incentive agreements

The Group has long-term employee incentive schemes which enable certain employees of the Group, under full recourse and limited recourse loan arrangements, to acquire PNI shares. The schemes are designed to align the interests of the employees with those of shareholders.

The fair value of the limited recourse loan arrangements under the long-term employee incentive schemes are recognised as an employee benefits expense with a corresponding increase in share-based payment reserve. The total amount to be expensed is determined by reference to the fair value of the limited recourse loan arrangements, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions. The total expense is recognised over the vesting period, which is the period over all of the specified vesting conditions are to be satisfied. The inflows and outflows associated with these arrangements are accounted for on a net basis, as the arrangements are expected to be settled net.

Certain entities under joint control have similar incentive schemes and Pinnacle may provide cash funding to certain employees of these entities in order for the employees to acquire shares in the entities. Pinnacle accounts for these contributions as investments in entities under joint control. Remuneration of the employees is recorded in the entities under joint control and Pinnacle records its share of the profits or losses of these entities upon equity accounting. A liability is recorded to the extent that Pinnacle has a net obligation to the employee of a jointly-controlled entity under the employee contract.

t. Contributed equity

Ordinary shares are classified as equity (note 16).

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.

u. Dividends

Provision is made for the amount of any dividend declared being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

v. Earnings per share

i. Basic earnings per share

Basic earnings after tax per share is calculated by dividing the profit attributable to owners of the Company, 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 year and excluding treasury shares (see note 16(d)).

ii. 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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

w. Goods and Services Tax (GST)

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

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 taxation authority, are presented as operating cash flows.

x. Discontinued operations

A discontinued operation is a component of the Group's business that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of comprehensive income.

y. Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Director's Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

z. New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published which are not mandatory for 30 June 2020 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below. These standards that are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

aa. Parent Entity financial information

The financial information for the Parent Entity, Pinnacle Investment Management Group Limited, disclosed in note 24 has been prepared on the same basis as the consolidated financial statements, except as set out below.

i. Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Pinnacle Investment Management Group Limited.

ii. Tax consolidation legislation

Pinnacle Investment Management Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation – refer note 30(f)(i).

The entities have entered into a tax funding agreement under which the wholly-owned entities fully compensate Pinnacle Investment Management Group Limited for any current tax payable assumed and are compensated by Pinnacle Investment Management Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Pinnacle Investment Management Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

iii. Share based payments

The grant by the Parent Entity of options over its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution to that subsidiary. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to share based payment reserve.

bb. Government Grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Grants related to income are presented as part of profit or loss, deducted in reporting the related expense. Government Jobkeeper assistance of \$564,000 is included in the 'employee benefits expense' line item as an offset. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

09.

Directors' Declaration

In the directors' opinion:

- a) the financial statements and notes set out on pages 72 to 136 are in accordance with the Corporations Act, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date, and
- b) there are reasonable grounds to believe that Pinnacle Investment Management Group Limited will be able to pay its debts as and when they become due and payable.

Note 32(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the Corporations Act.

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



Alan Watson, Chair
Sydney, 4 August 2020

10. Independent Auditor's Report



Independent auditor's report

To the members of Pinnacle Investment Management Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2020
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of profit or loss for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

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Our audit approach

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

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

During the year, the Group held equity interests in sixteen affiliated fund managers (the Pinnacle Affiliates or Affiliates) with differing investment styles and offerings. The Group also provides distribution services, business support and responsible entity services to the Pinnacle Affiliates and external parties via subsidiaries.

The Group has minority shareholdings in the Pinnacle Affiliates and has assessed them to be joint ventures due to the requirement for unanimous decision making in relation to a number of strategic matters contained in the shareholders agreements. The financial results of the Group include the consolidation of subsidiaries and the share of net profit of associates and joint ventures accounted for using the equity method for the Pinnacle Affiliates.



Materiality

- For the purpose of our audit we used overall Group materiality of \$1,617 thousand which represents approximately 5% of the Group's profit before tax from continuing operations.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We audited the most financially significant subsidiaries within the Group, being Pinnacle Investment Management Limited, Pinnacle Funds Services Limited and Pinnacle RE Services Limited. We performed targeted audit procedures over the remaining significant balances, and we performed further audit procedures over the consolidation process.
- We, or component auditors, performed an audit of each of the financially significant Pinnacle Affiliates on a standalone basis. In establishing the overall approach to the Group audit, we considered the type of work that needed to be performed by us, as the Group's auditor, or by the component auditors operating under instructions.
- We audited the Group's equity accounting for the Pinnacle Affiliates, including the Group's share of net profit of jointly controlled entities accounted for using the equity method and the Group's investments accounted for using the equity method recognised in the Group financial statements.

Key audit matters

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

Key audit matter

Share of net profit of associates and joint ventures accounting for use the equity method

(Refer to note 23(d) - \$37,953k)

Pinnacle Affiliates' funds under management have the potential to earn performance fees, based on an assessment of performance relative to benchmarks. These benchmarks are agreed between the Affiliates and their clients and set out in relevant Product Offering Documents.

This was a key audit matter because the performance fee revenues recognised by Pinnacle Affiliates are material in nature, and the variability of returns can be significant depending on the performance relative to contractual benchmarks.

The performance fee revenue has a significant impact on the Group's share of net profits of jointly controlled entities accounted using the equity method.

How our audit addressed the key audit matter

We performed the following procedures, amongst others:

- For a sample of performance fees recorded we obtained the relevant source documents and:
 - Read the source documents to develop an understanding of the contractual arrangements.
 - Assessed whether the calculation methodologies used by management were in accordance with the contractual arrangements, the Group accounting policy, and the requirements of Australian Accounting Standards.
 - Compared the hurdle rates and any accumulated deficiency clauses to the relevant contracts.
 - Obtained evidence from relevant external sources to assess key inputs into the calculations (for example net asset values and fund returns).
 - Reperformed the performance fee calculation with reference to the key inputs used in the calculations.
 - Traced the performance fee revenue to subsequent cash receipts in the bank statements.

Assessment of carrying amount of investments in Affiliates

(Refer to note 23(a) Investments accounted for using the equity method - Carrying amounts) \$161,867k

In accordance with Accounting Standard AASB 136 Impairment of Assets (AASB 136), interests in associates and joint ventures need to be assessed for indicators of impairment at the reporting date. If indicators of impairment exist at a cash generating unit (CGU), the recoverable amount for each CGU needs to be estimated and compared to the carrying value.

These assessments involve significant judgements in estimating future cash flows and the rate at which they are discounted, and in evaluating fair value less costs of disposal.

The Group has identified each Affiliate as a separate CGU.

The impacts of the COVID-19 pandemic resulted in a number of these Affiliates showing an indicator of impairment at 30 June 2020.

This was a key audit matter given the extent of judgement involved, particularly with regard to the estimation uncertainty caused by the COVID-19 pandemic, and the financial significance of the carrying values on the balance sheet.

We evaluated the Group's methodologies used to estimate the recoverable amounts of material interests in associates and joint ventures.

For the samples selected, based on their financial significance, and/or associated estimation uncertainty of future cash flows, our procedures included:

- evaluating the Group's assessments of whether there were any indicators of impairment for each of the CGUs
- evaluating the appropriateness of the methodology, and reasonableness of the key assumptions adopted in calculating the recoverable amount
- comparing previous profit before tax forecasts to actual results to assess the ability of the Group to forecast accurately
- together with our valuations team experts, we assessed if the discount rate assumption was reasonable by comparing it to market data, comparable companies, and other industry research
- assessed the Group's consideration of the sensitivity to a change in key assumptions that either individually or collectively would be required for CGUs to be impaired and considered the likelihood of such a movement in those key assumptions arising
- assessing certain underlying data used in determining the carrying value and recoverable amount of the relevant samples, and
- testing the mathematical accuracy of the Group's discounted cashflow models which were used to determine the recoverable amount of the CGU.

We assessed the reasonableness of the Group's disclosures in the financial report in light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, 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 accordingly we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 37 to 55 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Pinnacle Investment Management Group Limited for the year ended 30 June 2020 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.

A stylized, handwritten signature of 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature of 'Ben Woodbridge' in a cursive script.

Ben Woodbridge
Partner

Brisbane
4 August 2020



11. Shareholder Information

The shareholder information set out below is correct as at 31 July 2020.

Shares on issue

Distribution of securities

| Range | No. of shareholders | No. of shares | % of issued shares |
|-------------------------|---------------------|--------------------|--------------------|
| 1 – 1,000 | 1,063 | 492,687 | 0.26 |
| 1,001 – 5,000 | 1,522 | 4,219,344 | 2.27 |
| 5,001 – 10,000 | 526 | 3,833,985 | 2.06 |
| 10,001 – 100,000 | 540 | 14,513,797 | 7.80 |
| 100,001 – 9,999,999,999 | 128 | 162,913,626 | 87.60 |
| Rounding | | | 0.01 |
| Total | 3,779 | 185,973,439 | 100.00 |

Unmarketable parcels

| | Minimum parcel size | No. of shareholders | No. of shares |
|---|---------------------|---------------------|---------------|
| Minimum \$500 parcel at \$5.05 per unit | 100 | 172 | 3,235 |

Twenty largest shareholders (as at 31 July 2020)

| Rank | Name | No. of shares | % of issued shares |
|------|---|--------------------|--------------------|
| 1 | HSBC Custody Nominees (Australia) Limited | 26,726,743 | 14.37 |
| 2 | J P Morgan Nominees Australia Limited | 21,391,885 | 11.50 |
| 3 | Macoun Generation Z Pty Ltd | 20,367,506 | 10.95 |
| 4 | Macoun Superannuation Pty Ltd | 6,027,999 | 3.24 |
| 5 | Andrew Chambers & Fleur Chambers | 5,603,614 | 3.01 |
| 6 | National Nominees Limited | 5,038,979 | 2.71 |
| 7 | Kinauld Pty Ltd | 4,720,000 | 2.54 |
| 8 | Mr Alexander William Macdonald | 4,670,090 | 2.51 |
| 9 | Mr Adrian Whittingham | 4,403,614 | 2.37 |
| 10 | BNP Paribas Nominees Pty Ltd | 3,101,724 | 1.67 |
| 11 | Warragai Investments Pty Ltd | 3,100,000 | 1.67 |
| 12 | Usinoz Pty Ltd | 3,061,827 | 1.65 |
| 13 | AJF Squared Pty Ltd | 3,037,609 | 1.63 |
| 14 | Earlston Nominees Pty Ltd | 3,000,000 | 1.61 |
| 15 | Mr David Francis Cleary | 2,907,149 | 1.56 |
| 16 | Mr David Noel Groth | 2,811,224 | 1.51 |
| 17 | BNP Paribas Noms Pty Ltd | 1,987,953 | 1.07 |
| 18 | Citicorp Nominees Pty Limited | 1,951,003 | 1.05 |
| 19 | Mark Cormack and Melanie Cormack | 1,585,435 | 0.85 |
| 20 | Mr Barry Athol Bicknell | 1,175,000 | 0.63 |
| | Total | 126,669,354 | 68.11% |
| | Total remaining holders balance | 59,304,085 | 31.89% |

The names of the shareholders who have notified the Company of a substantial holding in accordance with section 671B of the Corporations Act are:

| Substantial shareholder | No. of shares | % of shares |
|-----------------------------|---------------|-------------|
| Ian Macoun and associates | 27,276,077 | 14.67% |
| Steve Wilson and associates | 21,350,000 | 11.48% |
| FIL Limited and associates | 13,303,197 | 7.15% |

Voting rights

Upon a poll each share shall have one vote.

Options and performance rights on issue

Distribution of securities

Options

There are 1,929,365 options on issue as at 31 July 2020.

The options are held by:

A&T Structured Finance Services Pty Ltd as trustee for the Pinnacle Investment Management Group Employee Option Share Plan;

Redback Capital Pty Ltd;

Headlands Nominees Pty Ltd;

Roys Peak Pty Ltd;

Fist Family Pty Ltd;

Kyle Macintyre and Daniella Macintyre;

Alison Maschmeyer;

Ben Cossey; and

Nick Keem.

The options are not listed.

Performance rights

There are 18,838 performance rights on issue as at 3 August 2020.

The performance rights are held by:

Alan Watson

Dab Hand Pty Ltd

Gerard Bradley

Voting rights

There are no voting rights attaching to the options or performance rights.



12.

Corporate Directory

Pinnacle Investment Management Group Limited

Incorporated in Queensland on 23 April 2002

ABN

22 100 325 184

Directors

Alan Watson

Chair

Ian Macoun

Managing Director (from 17 August 2016; Executive Director from 25 August 2016)

Deborah Beale AM (appointed 1 September 2016)

Lorraine Berends (appointed 1 September 2018)

Gerard Bradley (appointed 1 September 2016)

Andrew Chambers (appointed 1 September 2016)

Adrian Whittingham (appointed 1 September 2016)

General Counsel and Company Secretary

Calvin Kwok

Chief Financial and Chief Operating Officer

Alex Ihlenfeldt*

Share Registry

Computershare Investor Services Pty Limited
Level 1, 200 Mary Street
Brisbane QLD 4000
Telephone 1300 850 505

*Dan Longan was appointed as the Chief Financial Officer of the Company on 6 July 2020. Alex Ihlenfeldt remains the Chief Operating Officer.

ASX Code

PNI

Shares are listed on the Australian Securities Exchange

Bankers

Commonwealth Bank of Australia
240 Queen Street
Brisbane QLD 4000

Auditor

PricewaterhouseCoopers
480 Queen Street
Brisbane QLD 4000

Australia

Brisbane

Registered Office
Level 19, 307 Queen Street
Brisbane QLD 4000
Telephone 1300 651 577

Sydney

Level 35, 60 Margaret Street
Sydney NSW 2000
Telephone 1300 651 577

Melbourne

Level 18, 567 Collins Street
Melbourne VIC 3000

United Kingdom

London

7th Floor Dashwood House
69 Old Broad Street
London EC2M 1OS

Website address

www.pinnacleinvestment.com

 Pinnacle