

24 July 2018

***By Electronic Lodgement***

The Manager  
Company Announcements Office  
ASX Ltd  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

**Pinnacle Investment Management Group Limited (ASX: PNI)  
Market Update on FY18 Result and equity raising to fund the acquisition of 35% of Metrics Credit  
and 40% of Omega**

Pinnacle Investment Management Group Limited (PNI) is pleased to provide the following update.

**Highlights**

- > **NPAT from continuing operations currently expected to be \$23.1m for the year, compared with \$12m for FY17 (up 92.5%)**
- > **Basic EPS from continuing operations currently expected to be 14.3 cents for the year, compared with 8.1 cents for FY17 (up 76.5%)**
- > **Funds under management (FUM) of \$38.0 billion at 30 June 2018, up \$5.7 billion or 17.6% on FUM at 31 December 2017 and up \$11.5 billion or 43.4% on FUM at 30 June 2017**
  - **Net inflows of \$3.9 billion between 1 January 2018 and 30 June 2018; and \$7.9 billion for the financial year to 30 June 2018**
  - **\$2.2 billion of the \$7.9 billion net inflows for the year were retail, including \$132m Spheria LIC but not including \$726m Metrics Credit LIT**
- > **Continued medium-term outperformance – 100% of 5-Year Affiliate strategies have outperformed at 30 June 2018**
- > **Cash and Principal Investments at 30 June 2018 of \$31.4 million**
- > **Fully franked final dividend of 7.0 cents per share payable in October 2018**

## Financial Update

Whilst the Board intends to announce the audited results for the year ended 30 June 2018 in late August 2018, it is anticipated that PNI's net profit after tax from continuing operations for the year ended 30 June 2018 will be approximately \$23.1m, compared with \$12.0m in the year ended 30 June 2017.

Earnings per share from continuing operations are anticipated to be approximately 14.3 cents per share for the year ended 30 June 2018, compared with 8.1 cents per share in the year ended 30 June 2017.

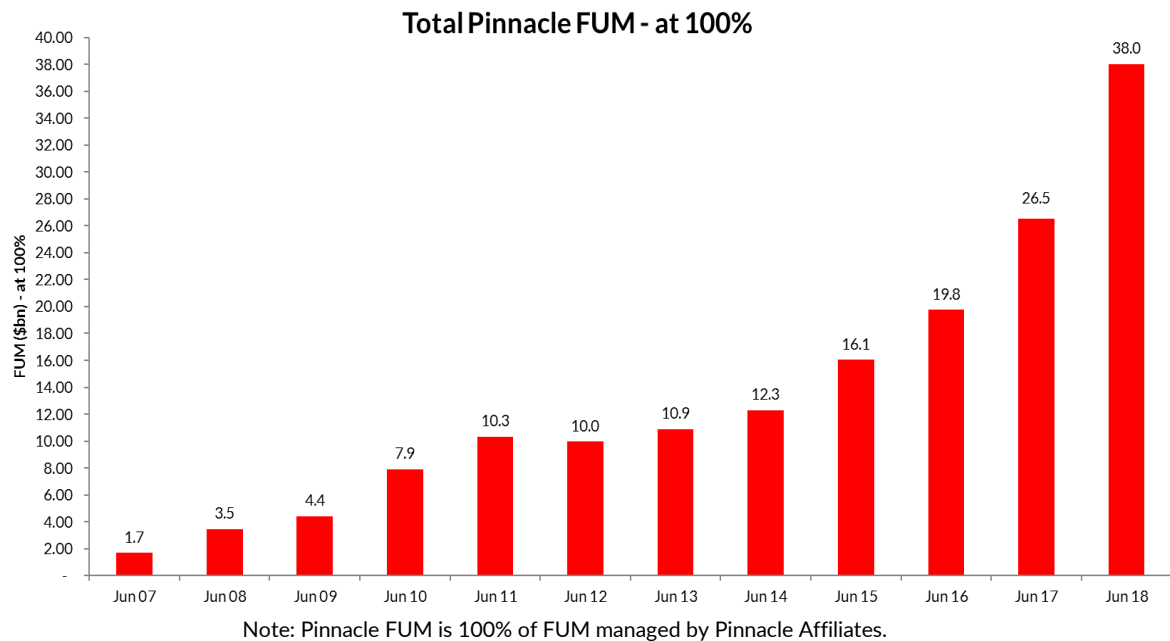
PNI advises that these estimates are based on information available at present and that the company's audit is yet to be concluded.

## FUM Update

The FUM of PNI's nine Affiliates as at 30 June 2018 was \$38.0 billion, which represents:

- > An increase in FUM of \$5.7 billion or 17.6% during the six month period from 31 December 2017 to 30 June 2018, comprising net fund inflows of \$3.9 billion and market movements/investment performance of \$1.8 billion
- > An increase in FUM of \$11.5 billion or 43.4% during the financial year to 30 June 2018, comprising net fund inflows of \$7.9 billion and market movements/investment performance of \$3.6 billion
- > A compounded annual growth rate (**CAGR**) of 27.0% p.a. over the last 10 years and 33.3% p.a. over the last 3 years

## Growth in FUM, 12 years to 30 June 2018



## Retail FUM Update

Retail FUM stood at \$7.8 billion<sup>1</sup> at 30 June 2018, compared with \$7.1 billion at 31 December 2017 and \$5.1 billion at 30 June 2017. The \$2.7 billion growth for the financial year was attributable to \$2.2 billion net inflows and the remainder to market movements/investment performance.

Of the \$3.9 billion of total net inflows for the half year to 30 June 2018, \$850 million was retail. (These numbers do not include the \$210m raised in the Metrics Credit LIT in April 2018<sup>2</sup>). This compares with \$1.35 billion of retail net inflows in the first half of the financial year, which included \$132 million of LIC FUM inflows and \$2.5 billion for the full year to 30 June 2017, which included approximately \$626 million of LIC inflows.

## Dividend

The Board declared a fully franked interim dividend of 4.6 cents per share, paid to shareholders on 23 March 2018.

The Board has also declared a fully franked final dividend of 7.0 cents per share, payable on 5 October 2018. The record date for the dividend will be 21 September 2018.

## Acquisition of 35% interest in Metrics Credit Partners

PNI is pleased to announce that it has entered into an agreement to invest \$46 million to acquire a 35% equity interest in Metrics Credit Partners Pty Limited (**MCP**) through its wholly-owned subsidiary Pinnacle Management Investment Limited (**PIML**).

PNI will acquire, subject to the satisfaction of certain limited conditions precedent, an equity interest of 35% in Metrics Credit Holdings Pty Limited (**MCH**) which owns 100% of MCP.

Established in 2011, MCP provides corporate borrowers with tailored direct lending options while providing investors with access to Australia's inter-bank corporate lending market.

As at 30 June 2018 MCP had approximately \$2.5 billion in FUM, of which approximately \$1.7 billion is from institutional investors and approximately \$790 million is from retail investors (via approximately \$730 million from the Listed Investment Trust MCP Master Income Trust (ASX: MXT) and \$60 million of unlisted retail FUM).

Key terms of the Agreement include:

- > PNI will invest \$46 million into MCP
- > Following PNI's investment, MCP will have approximately \$40m of excess cash to deploy in support of its medium term growth initiatives
- > The 7.5% trailing revenue share to which PNI is entitled pursuant to PNI's existing distribution agreement with MCP will convert to a more robust and ongoing 7.5% trailing revenue share arrangement
- > The acquisition is subject to certain limited conditions precedent including completion of the equity raising (described below)

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<sup>1</sup> Note - distributions to investors at 30 June 2018 as well as the reclassification of an account to institutional has led to retail FUM rising by \$100m compared to the 30 April 2018 FUM despite \$337m of net retail inflows during the 2 months of May and June 2018.  
<sup>2</sup> Note: Metrics Credit FUM are not included in our FUM numbers as Pinnacle did not own equity in Metrics Credit during the financial year ended 30 June 2018. Pinnacle does, however receive a share of Metrics Credit revenue - including \$1.1m for the LIT raises.

- > The existing owners of MCH and PIML will enter into a shareholders' agreement with standard minority protections for PIML
- > Completion is expected to occur on or about 7 August 2018
- > The acquisition of the stake in MCP will be earnings accretive in the first 12 months

Further details of the transaction are set out in the Presentation attached.

PNI Managing Director Ian Macoun commented that *“this acquisition is fully consistent with Pinnacle’s core values – MCP’s people and its investment offerings are amongst the highest quality in their field. We at Pinnacle have observed MCP in operation at ‘close quarters’ as their distribution partner for approximately 5 years. Their offerings do not overlap with those of existing Pinnacle Affiliates and the acquisition diversifies Pinnacle’s portfolio of Affiliates. We believe the MCP business has a very bright future with strong growth ahead in an extremely attractive, high growth investment field.”*

MCP Managing Partner Andrew Lockhart said *“the Principals of MCP are delighted that MCP will be continuing and deepening the already very successful partnership with Pinnacle, that has seen MCP grow to FUM of \$2.5 billion over the past 5 years since we entered into a distribution arrangement together. This will also provide MCP with substantial capital to enable it to pursue its growth ambitions.”*

#### **Acquisition of 40% interest in Omega Global Investors**

PNI is also pleased to announce the purchase of a 40% equity stake in Omega Global Investors (**Omega**) for \$2 million upfront and up to a \$2 million earn-out subject to profitability milestones.

Omega offers smart beta, factor investing and client solutions (including ESG) capability, multi-asset investment and implementation capabilities and a track record across government and corporate bonds, cash, FX and Australian & global equities delivered by a team of 11 including 8 investment professionals. PNI will bring distribution strength to the Omega products. As at 30 June 2018 Omega had FUM of \$4.2 billion.

The founders of Omega are ex-Vanguard and will retain a majority stake.

#### **Equity Capital raising**

##### **Institutional placement**

PNI has today launched an institutional placement to raise \$60 million at a price of \$5.50 per share, representing a 1.3% discount to the 5 day VWAP to 23 July 2018 of \$5.57 per share and a 3.0% discount to the last close on 23 July 2018 of \$5.67 per share. The funds from the placement will be applied as follows:

	\$ million
MCP equity investment	46.0
Omega up-front consideration	2.0
Equity raising costs	2.3

Funds available for seed FUM and to support new investment strategies and other growth initiatives following completion of the placement will be approximately \$41 million inclusive of existing cash and principal investments as at 30 June 2018.

Macquarie Capital (Australia) Limited and Wilsons are acting as Joint Lead Managers and Bookrunners in respect to the placement. Ord Minnett Ltd is acting as a Co-Lead Manager in respect to the placement.

### **Share Purchase Plan (SPP)**

In addition to the placement, PNI will offer all Eligible Shareholders<sup>2</sup> the opportunity to participate in an SPP.

Eligible shareholders will be invited to subscribe for up to a maximum of \$15,000 of additional new shares, free of brokerage and transaction costs. The SPP price will be \$5.50 being the same as the institutional placement.

The SPP may raise up to a maximum of A\$10 million and is not underwritten. Participation under the SPP is optional and subject to scale-back in PNI's absolute discretion.

Detail, including timetable, of the SPP including its terms will be set out in the SPP booklet, which will be lodged with the ASX and sent to shareholders in the near future.

The new shares offered under the institutional placement and the SPP will rank equally with existing PNI shares and will be eligible for the fully franked final dividend of 7 cents per share payable in October.

### **Indicative timetable**

The timetable below is indicative only and subject to change. PNI reserves the right to alter the below dates at its full discretion and without prior notice, subject to the relevant ASX Listing Rules.

### **Important dates**

<b>Event</b>	<b>Date</b>
Record date for SPP	Monday 23rd July
Trading halt and placement conducted	Tuesday 24th July
Placement completion announcement lodged with ASX	Wednesday 25th July

<sup>2</sup> (i) Registered on PNI's share register as a holder of one or more ordinary shares in PNI at 7.00pm on Monday 23<sup>rd</sup> July 2018; (ii) have a registered address in either Australia or New Zealand; and (iii) are not in the United States and are not acting for the account or benefit of a person in the United States. Eligible Shareholders who are "custodians" (as defined in paragraph 14 of ASIC Class Order 09/425) may participate in the SPP in accordance with the terms and conditions set out in the SPP Booklet. The SPP offer is not made to holders of PNI shares with a registered address outside of Australia and New Zealand

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PNI recommences trading on ASX

Wednesday 25th July

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Settlement of proceeds from placement

Monday 30th July

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Allotment of placement shares

Tuesday 31<sup>st</sup> July

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### **Investment Performance Update**

Refer to the attached Appendices.

### **Further information**

Further information on the transaction and institutional placement are contained in the investor presentation also provided to the ASX today. The investor presentation contains important information including specific key risks.

PNI has appointed Blackpeak Capital as its financial advisor and Gilbert + Tobin as its legal advisor in respect of the MCP acquisition and the equity capital raising.

Please contact Ian Macoun on +61 2 8970 7700, Andrew Chambers +61 3 9044 1100, Adrian Whittingham on +61 2 8970 7701 or Calvin Kwok on +61 2 8970 7718 if you require further information.

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## **Not for release or distribution in the United States**

This announcement has been prepared for publication in Australia and may not be released or distributed in the United States. This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or any other jurisdiction. Any securities described in this announcement have not been, and will not be, registered under the US Securities Act of 1933 and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration of the US Securities Act and applicable US state securities laws.

## **Forward looking statements**

This announcement may include forward-looking statements. These forward-looking statements are not historical facts but rather are based on PNI's expectations, estimates and projections about the industry in which the Company operates and its beliefs concerning future events. Forward-looking statements can generally be identified by the use of forward-looking words such as 'anticipate,' 'believe,' 'expect,' 'project,' 'forecast,' 'estimate,' 'likely,' 'intend,' 'should,' 'will,' 'could,' 'may,' 'target,' 'plan,' and other similar expressions within the meaning of securities laws of applicable jurisdictions, and include statements regarding the outcome and effects of the capital raising. Indications of, and guidance or outlook on future earnings, distributions or financial position or performance are also forward-looking statements. These statements are not guarantees of future performance, and are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of PNI and which could cause actual results to differ materially from such statements. The Company cautions shareholders and prospective shareholders not to place undue reliance on these forward-looking statements, which reflect the view of the Company only as the date of this release. PNI makes no undertaking to subsequently update or revise the forward-looking statements made in this announcement, to reflect the circumstances or events after the date of that announcement.

## Appendix 1 – Long-term Investment Performance

100% of Pinnacle Affiliated Investment Manager strategies and products (with a track record exceeding 5 years) have out performed their benchmarks over the 5 years to 30 June 2018:

	5Y	10Y	Inception	Inception date
<b>Pinnacle Investment Management</b>				
<b>Hyperion Asset Management - Gross Performance</b>				
Hyperion Australian Growth Companies Fund	13.74%	11.98%	12.73%	1/10/2002
<i>Outperformance</i>	3.75%	5.70%	3.34%	
Hyperion Small Growth Companies Fund	16.32%	18.58%	17.75%	1/10/2002
<i>Outperformance</i>	4.76%	15.99%	9.99%	
Hyperion Australian Equities Composite	13.47%	11.93%	13.74%	1/11/1996
<i>Outperformance</i>	3.48%	5.65%	4.63%	
<b>Plato Investment Management - Gross Performance</b>				
Plato Australian Shares Core Fund	11.48%	6.83%	6.84%	30/10/2006
<i>Outperformance</i>	1.49%	0.55%	1.14%	
Plato Australian Shares Equity Income Fund - Class A	12.91%		14.28%	9/09/2011
<i>Outperformance</i>	1.25%		2.10%	
<b>Solaris Investment Management - Gross Performance</b>				
Solaris Core Australian Equity Fund	13.12%	8.37%	7.11%	9/01/2008
<i>Outperformance</i>	3.14%	1.97%	2.34%	
Solaris High Alpha Australian Equity Fund	13.48%	8.59%	7.91%	4/02/2008
<i>Outperformance</i>	3.50%	2.19%	2.74%	
<b>Resolution Capital - Gross Performance</b>				
Resolution Capital Core Plus Property Securities Fund	13.71%		9.06%	30/09/2008
<i>Outperformance</i>	1.53%		2.65%	
Resolution Capital Global Property Securities Fund	11.94%		11.98%	30/09/2008
<i>Outperformance</i>	2.72%		4.40%	
<b>Palisade Investment Partners - Gross Performance</b>				
Palisade Diversified Infrastructure Fund	13.59%		10.90%	1/08/2008
Palisade Australian Social Infrastructure Fund	14.90%		16.45%	31/05/2011



## Appendix 2 - Pinnacle Affiliates Investment Performance (30 June 2018)

	1Y	3Y	5Y	10Y	Inception	Inception date
<b>Pinnacle Investment Management</b>						
<b>Hyperion Asset Management - Gross Performance</b>						
Hyperion Australian Growth Companies Fund	16.25%	12.98%	13.74%	11.98%	12.73%	1/10/2002
<i>Outperformance</i>	3.01%	3.84%	3.75%	5.70%	3.34%	
Hyperion Small Growth Companies Fund	17.92%	15.13%	16.32%	18.58%	17.75%	1/10/2002
<i>Outperformance</i>	-6.33%	0.12%	4.76%	15.99%	9.99%	
Hyperion Australian Equities Composite	15.70%	12.76%	13.47%	11.93%	13.74%	1/11/1996
<i>Outperformance</i>	2.46%	3.62%	3.48%	5.65%	4.63%	
Hyperion Global Growth Companies Fund (Class B Units)	38.43%	22.45%			23.66%	22/05/2014
<i>Outperformance</i>	22.49%	11.92%			9.82%	
<b>Plato Investment Management - Gross Performance</b>						
Plato Australian Shares Core Fund	15.40%	9.62%	11.48%	6.83%	6.84%	30/10/2006
<i>Outperformance</i>	2.16%	0.48%	1.49%	0.55%	1.14%	
Plato Australian Shares Equity Income Fund - Class A	14.23%	10.91%	12.91%		14.28%	9/09/2011
<i>Outperformance</i>	-0.42%	0.18%	1.25%		2.10%	
Plato Global Shares Income Fund	12.62%				8.15%	30/11/2015
<i>Outperformance</i>	-2.77%				-1.60%	
<b>Solaris Investment Management - Gross Performance</b>						
Solaris Core Australian Equity Fund	17.74%	11.86%	13.12%	8.37%	7.11%	9/01/2008
<i>Outperformance</i>	4.73%	2.82%	3.14%	1.97%	2.34%	
Solaris High Alpha Australian Equity Fund	18.06%	12.42%	13.48%	8.59%	7.91%	4/02/2008
<i>Outperformance</i>	5.05%	3.37%	3.50%	2.19%	2.74%	
Solaris Total Return Fund (including franking credits)	19.13%	13.29%			12.37%	13/01/2014
<i>Outperformance</i>	4.49%	2.64%			2.45%	
<b>Resolution Capital - Gross Performance</b>						
Resolution Capital Core Plus Property Securities Fund	12.83%	12.29%	13.71%		9.06%	30/09/2008
<i>Outperformance</i>	-0.37%	2.31%	1.53%		2.65%	
Resolution Capital Global Property Securities Fund	8.29%	9.47%	11.94%		11.98%	30/09/2008
<i>Outperformance</i>	1.87%	2.60%	2.72%		4.40%	
<b>Palisade Investment Partners - Gross Performance</b>						
Palisade Diversified Infrastructure Fund	14.36%	13.96%	13.59%		10.90%	1/08/2008
Palisade Australian Social Infrastructure Fund	13.43%	13.94%	14.90%		16.45%	31/05/2011
<b>Antipodes Partners - Gross Performance</b>						
Global Fund	13.59%	14.57%			14.57%	1/07/2015
<i>Outperformance</i>	-1.36%	4.96%			4.96%	
Global Long Only	18.79%	16.16%			16.16%	1/07/2015
<i>Outperformance</i>	3.84%	6.55%			6.55%	
Asia Fund	11.66%	11.53%			11.53%	1/07/2015
<i>Outperformance</i>	-2.43%	3.10%			3.10%	
<b>Spheria Asset Management - Gross Performance</b>						
Microcap Fund	17.51%				19.12%	16/05/2016
<i>Outperformance</i>	-6.73%				4.78%	
Smaller Companies Fund	23.24%				15.14%	11/07/2016
<i>Outperformance</i>	-1.01%				2.46%	
Opportunities Fund	23.26%				16.41%	11/07/2016
<i>Outperformance</i>	4.50%				1.97%	
<b>Two Trees Investment Management - Gross Performance</b>						
Global Macro Fund					-4.98%	1/11/2017
<i>Outperformance</i>					-6.18%	
<b>Firetrail Investments - Gross Performance</b>						
High Conviction Fund					6.17%	14/03/2018
<i>Outperformance</i>					0.85%	
Absolute Return Fund					4.48%	14/03/2018
<i>Outperformance</i>					4.04%	