

# ANNUAL REPORT

— 2017 —

Two Trees  
INVESTMENT MANAGEMENT

Spheria  
ASSET MANAGEMENT

SOLARIS  
INVESTMENT MANAGEMENT

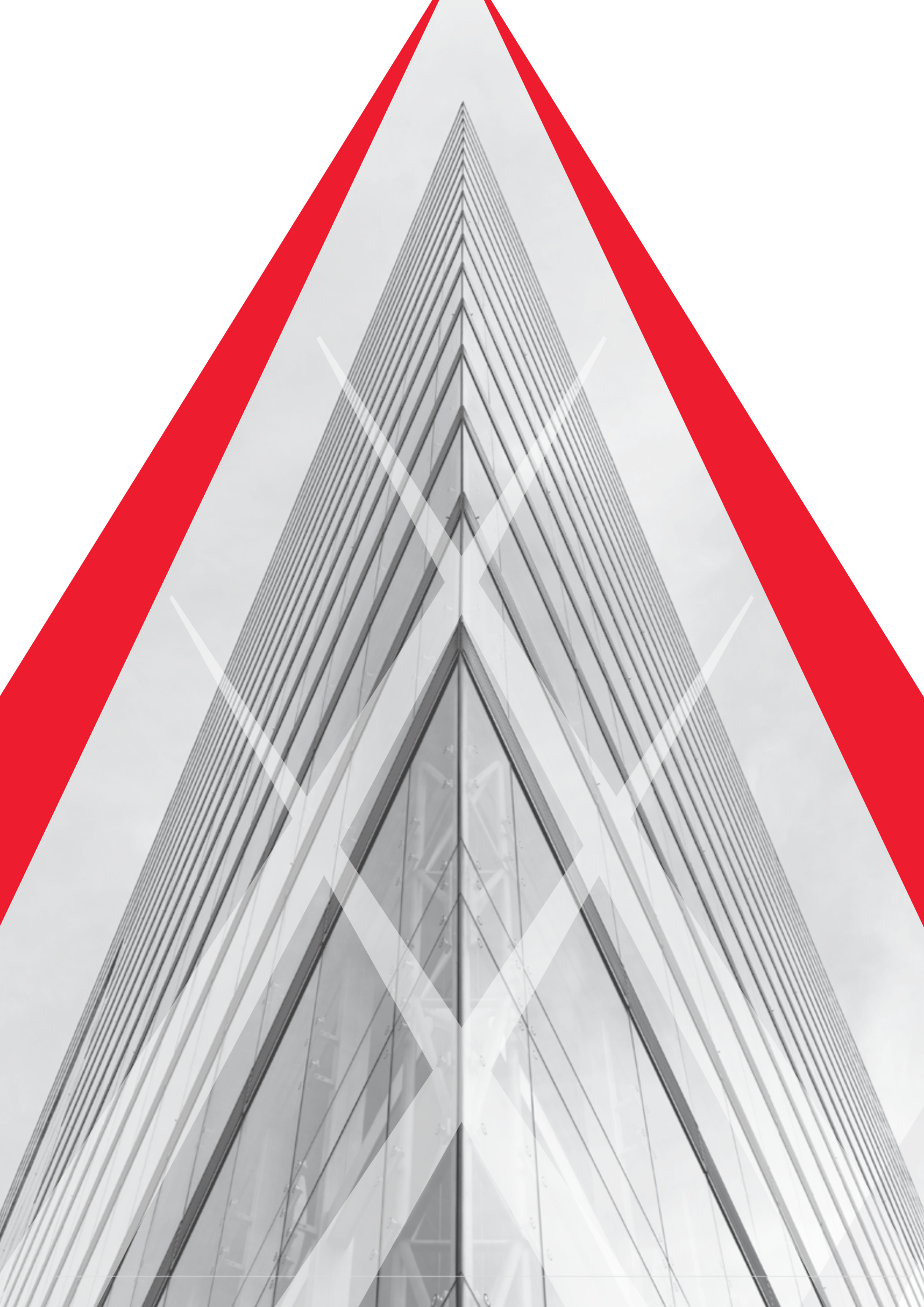
RESOLUTION  
CAPITAL

Plato  
INVESTMENT MANAGEMENT

PALISADE

HYPERION  
ASSET MANAGEMENT

ANTIPODES  
GLOBAL INVESTMENT PARTNERS



# Contents

	Page
00 Glossary .....	1
01 Chairman's letter .....	3
02 Overview, Operating and Financial Report .....	5
03 Community .....	13
04 Directors' profiles .....	14
05 Directors' Report .....	17
06 Auditor's independence declaration .....	40
07 Financial Statements .....	42
08 Directors' Declaration .....	100
09 Independent Auditor's Report .....	101
10 Shareholder Information .....	107
11 Corporate Directory .....	108

## Financial calendar

Final dividend record date .....	22 September 2017
Final dividend payment date .....	6 October 2017
Annual General Meeting .....	23 November 2017
Interim Results announcement .....	23 February 2018
Full Year Results announcement .....	28 August 2018

The Company reserves the right to change these dates.

## Annual General Meeting

The 2017 Annual General Meeting will be held at 11am on 23 November 2017 at the Company's Sydney office at Level 35, 60 Margaret Street, Sydney.

Notice of the Annual General Meeting will be forwarded to all shareholders separately.

## Corporate Governance

The corporate governance statement for PNI can be found at <https://www.pinnacleinvestment.com/shareholders-investor-centre/>

## 00 > Glossary

Term	Meaning
2016 Annual Report	the Group's annual report for the 2016 financial year.
2016 financial year	the period 1 July 2015 to 30 June 2016.
2017 Annual Report	this document.
2017 financial year	the period 1 July 2016 to 30 June 2017.
Affiliates or Pinnacle Affiliates	Pinnacle's eight affiliated investment managers, being Antipodes, Hyperion, Palisade, Plato, Resolution Capital, Solaris, Spheria and Two Trees.
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 of the Company.
Board Committees	the Audit, Compliance and Risk Management Committee and the Remuneration and Nominations Committee.
Chairman	Alan Watson, the Chairman of the Board.
Company	Pinnacle Investment Management Group Limited.
Company Secretary	Eleanor Padman, who held the position during the 2017 financial year and who resigned from the position on 22 June 2017. Calvin Kwok was appointed to the role of Company Secretary on 22 June 2017.
Corporations Act	<i>Corporations Act 2001</i> (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 Investment Management Group Employee Option Share Plan.
Foundation	the Pinnacle Charitable Foundation.
FUM	funds under management.
Group or Pinnacle Group	Pinnacle and the entities that it controlled during the 2017 financial year.
Hyperion	Hyperion Asset Management Limited.
Key Management Personnel	the individuals identified as such on page 21 of the 2017 Annual Report.
LTI	long-term incentives offered to individuals who are staff of the Group.
Managing Director	from 17 August 2016, Ian Macoun, who was appointed as an executive director on 25 August 2016.
New Loans	is a reference to the loans more fully described at page 35.
NLAT	net loss after tax.
NPAT	net profit after tax.
NTA	net tangible assets.
Palisade	Palisade Investment Partners Limited.

Term	Meaning
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 pages 23 and 24 of the 2017 Annual Report.
Pinnacle or PNI	Pinnacle Investment Management Group Limited.
Plan Rules	the rules governing the Company's EOSP.
Plato	Plato Investment Management Limited.
Principal Investments	investments made by the Group in listed and unlisted equities and unit trusts on its own behalf and for its own benefit.
Priority Funds	means each of Wilson Group Priority Growth fund and Wilson Group Priority Core fund, being two proprietary funds managed by Priority Investment Management Pty Ltd during the 2016 financial year. On 1 July 2016, Spheria Asset Management Pty Ltd was appointed as the new investment manager.
Resolution Capital	Resolution Capital 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 incentive.
Two Trees	Two Trees Investment Management Pty Limited.

Dear Shareholders

The 2017 financial year marks the first year of the Pinnacle Group's operation as a pure listed funds management business. As a result, for the majority of this year shareholders have enjoyed access to 100% of PIML's cash flows and increased efficiencies from the consolidation of the businesses within the Group.

This delivered NPAT from continuing operations of \$12.0 million, representing earnings per share of 8.1 cents, up 56% from the 2016 financial year. Group NPAT was \$13.1 million, or 8.9 cents per share, up 117% from the 2016 financial year. Total dividends declared for the year rose 112% to 7.0 cents per share, compared with ordinary dividends of 3.3 cents per share in 2016 (excluding the 5 cents special dividend declared as part of the 'roll-up' transaction).

During the year, Pinnacle enjoyed continued robust financial performance, driven principally by ongoing sound investment performance across the Affiliates and very strong fund inflows. Performance fees were 13.0% of Affiliates' revenues this year, down from 19.2% in 2016. This was not unexpected, as the investment styles pursued consistently by our Affiliates are intended to deliver excess returns over the medium term, and therefore year to year performance may vary somewhat. In this regard, all of the Affiliates' strategies and products that have a track record of at least 5 years again outperformed their benchmarks over the 5 years to 30 June 2017.

Details of funds flows are included within the report but, in summary, net funds inflows totalled \$4.9 billion, including \$2.5 billion of retail net inflows, and overall Group Funds Under Management increased by \$6.8 billion or 34.3% to \$26.5 billion at the end of the year. The retail net inflows include the \$307 million raised for Antipodes Global Investment Company Limited, net of expenses, in October 2016 and the \$319 million raised for Plato Income Maximiser Limited, net of expenses, in May 2017.

Our two newest operating Affiliates, Antipodes and Spheria, achieved very strong early success and demonstrated the benefits of Pinnacle's strong commitment to partnering with high quality fund managers. Antipodes, for example, grew its FUM from \$450m to \$3.8 billion during the year, which was just its second year of operation, and has delivered strong investment performance since inception. Towards the end of the year, we also commenced a new Affiliate, Two Trees Investment Management. The Two Trees partners together have extensive experience in systematic global macro funds management.

The most important part of our business is our people, within both the Affiliates and our Company. These are exceptional individuals who have chosen to work within our business model and culture, which we hold fundamental to creating and delivering value both for shareholders and for investors in our funds. The Board thanks all of the respective teams for their commitment to the business and the success that they have achieved to date and remains determined to sustain the environment that will allow the continuation of that success. Throughout both the Company and the Affiliates we believe we have now built a high quality platform which can accommodate substantial growth over the years to come.

We have entered the 2018 financial year with strong momentum. Throughout this year we will be striving to continue our sound investment performance; to continue to achieve strong net fund inflows in both the retail and the institutional markets in Australia, as well as continuing to develop our early distribution efforts in offshore markets, particularly the UK/Europe, the United States and New Zealand; and to add new affiliates and new investment strategies at a measured pace. As we have previously stated, we will continue to invest in activities which we believe will bring substantial benefits over the medium term, whilst recognising that such investment may restrain

our profits to some degree in the short-term. In addition, we will continue to adhere to our 'high hurdle' criteria in evaluating Horizon 3 opportunities.

Finally, we thank you, our shareholders, for the continued support and encouragement that you have shown to us throughout the year, including in the equity capital raising that was undertaken in January 2017. We are pleased to note that the company's share price doubled during the year, from \$1.45 at 30 June 2016 to \$2.90 at 30 June 2017.

We look forward to welcoming you to the Group's Annual General Meeting, which will be held in Sydney on 23 November 2017.

Yours sincerely



Alan Watson  
29 August 2017

## 02 > Overview, Operating and Financial Report

### Nature of operations and principal activities

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

Established in its current form in 2006, Pinnacle currently consists of eight investment affiliates that collectively manage approximately A\$26.5 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 fund managers to focus on delivering fund outperformance;
- > 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 2017 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 below shows the Pinnacle Affiliates and Pinnacle’s ownership stake in each as at the date of this report:





## Key financial highlights

**\$128.3 million**  
Affiliate revenues

**NPAT of**  
**\$12.0 million**

**\$26.5 billion**  
in FUM

**8.1c earnings**  
per share

**7.0c fully franked**  
dividend

During the 2017 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 \$26.5 billion in FUM as at 30 June 2017.

In the 2017 financial year:

- Pinnacle Affiliates generated aggregate revenues of \$128.3 million, up 38.3%. Of this, \$16.7 million was performance fees
- Pinnacle generated NPAT from continuing operations attributable to shareholders of \$12.0 million, up 108% from \$5.8 million in the prior year
- Pinnacle's share of NPAT from Pinnacle Affiliates was \$17.6 million, up 10.5% on the prior year.

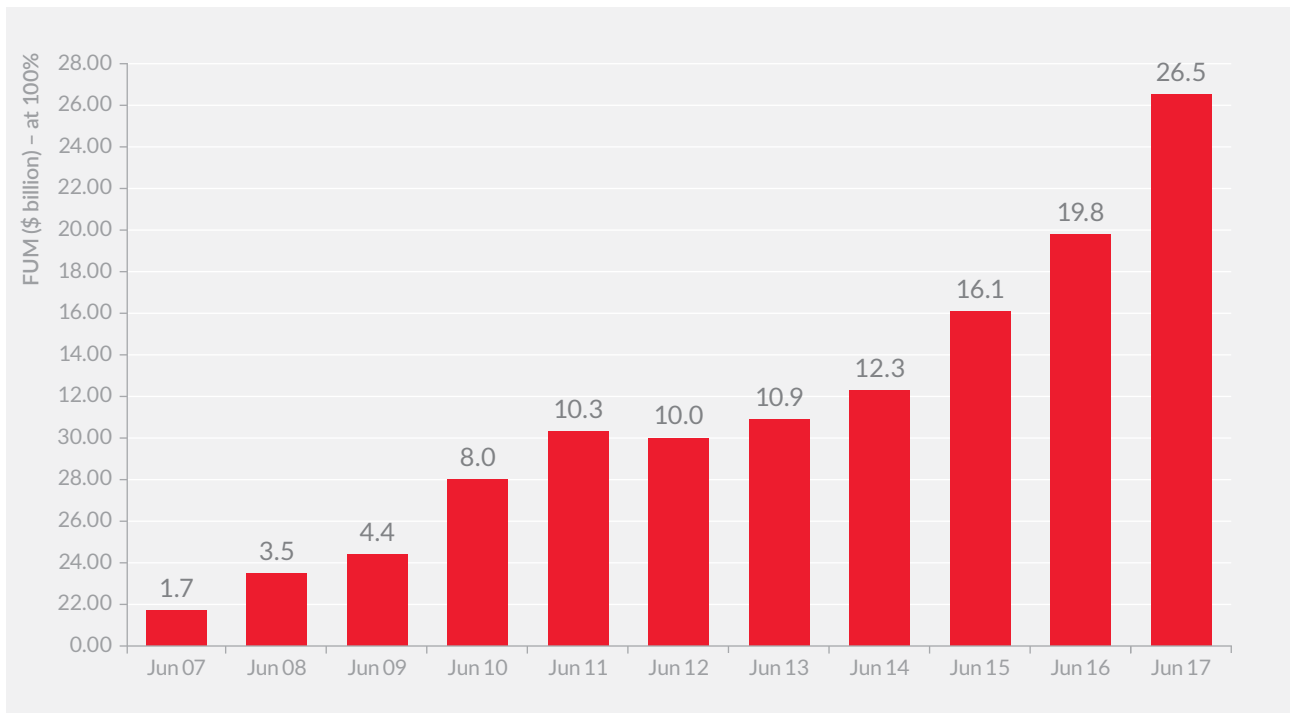
The table below outlines the performance of the Pinnacle Group for the 2017 and 2016 financial years.

	FY2017	FY2016
<b>Pinnacle Affiliates (100% aggregate basis)</b>		
FUM (\$billion)	26.5	19.8
Revenue (\$million)	128.3	92.8
<b>Net profit before tax</b>	<b>62.7</b>	<b>51.5</b>
Tax expense	(19.1)	(14.9)
<b>Net profit after tax</b>	<b>43.6</b>	<b>36.7</b>

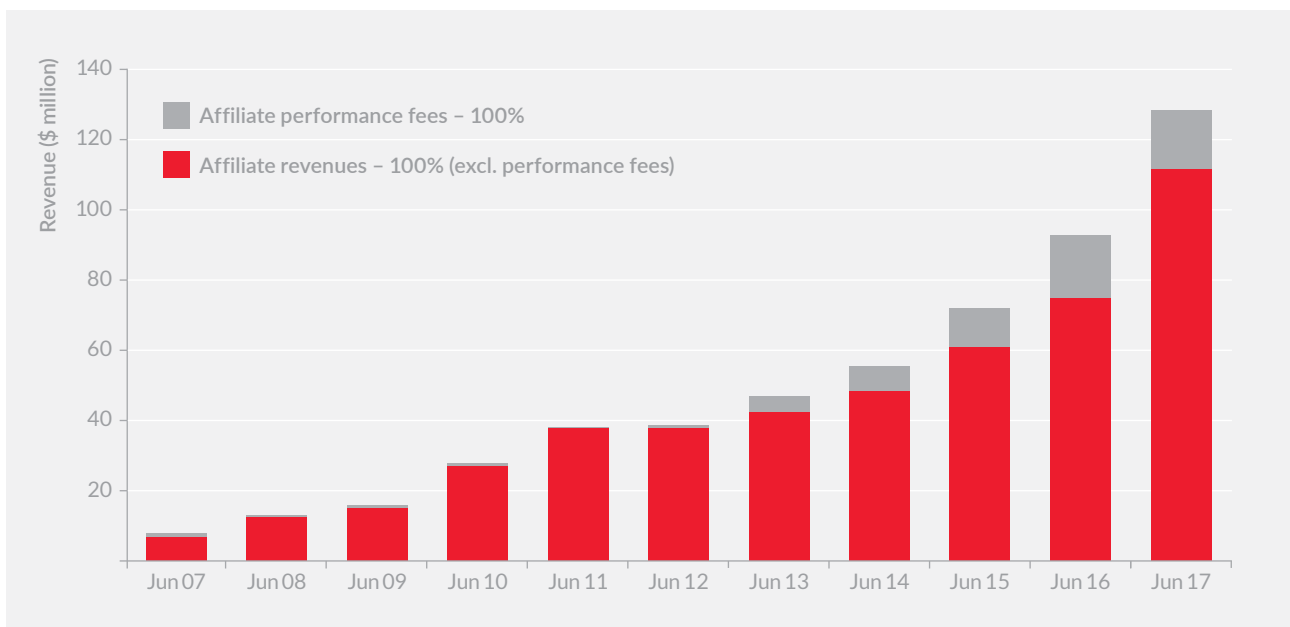
	FY2017	FY2016
<b>Pinnacle</b>		
Revenue	10.9	8.4
Expenses	(16.4)	(15.8)
Share of Pinnacle Affiliates net profit after tax	<b>17.6</b>	<b>15.9</b>
<b>Net profit before tax (NPBT) from continuing operations</b>	<b>12.1</b>	<b>8.5</b>
Minority interests	(0.1)	(2.6)
<b>NPBT from continuing operations attributable to shareholders</b>	<b>12.0</b>	<b>5.9</b>
Taxation	-	(0.1)
<b>NPAT from continuing operations attributable to shareholders</b>	<b>12.0</b>	<b>5.8</b>
Discontinued operations	1.1	(1.3)
<b>Total profit attributable to shareholders</b>	<b>13.1</b>	<b>4.5</b>
<b>Earnings per share:</b>		
From continuing operations	<b>8.1</b>	<b>5.2</b>
Total attributable to shareholders	<b>8.9</b>	<b>4.1</b>

## 02 > Overview, Operating and Financial Report

### Pinnacle Affiliates – FUM Growth<sup>1</sup>



### Pinnacle Affiliates – Revenue Growth<sup>2</sup>



<sup>1</sup> Pinnacle FUM includes 100% of FUM managed by Pinnacle Affiliates.

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

## Pinnacle Affiliates

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. The quality of the Pinnacle Affiliates was affirmed and demonstrated in many ways during the year, including by the investment returns they produced and the strength of market interest and support for their investment offerings. Following is an overview of each of the Pinnacle Affiliates during the 2017 financial year:



### Antipodes Partners

Antipodes Partners is a global asset manager offering a pragmatic value approach across long only and long-short strategies.

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. The investment approach seeks to take advantage of the market's tendency for irrational extrapolation, to identify investments that offer a high margin of safety and build portfolios with a capital preservation focus.

Antipodes experienced strong inflows in the 2017 financial year from investors attracted to the team's pedigree, differentiated approach and strong results since inception. In October 2016 Antipodes completed the successful IPO of the Antipodes Global Investment Company Limited, an ASX-listed version of its flagship global long-short strategy. As at 30 June 2017 Antipodes had \$3.8 billion in funds under management.



### Hyperion Asset Management

Hyperion is a specialist manager of Australian and global equities following a concentrated quality growth style.

Hyperion ended the financial year with \$5.9 billion in funds under management. Approximately \$330 million of that amount comprised global equities raised from existing and new clients as a result of the commencement of marketing of Hyperion's latest portfolio, the Hyperion Global Growth Companies Strategy.

The returns of the global portfolio have been very strong, returning 20.2% p.a. for the three years since inception. This equates to an outperformance over benchmark of 6.8% p.a.

The Hyperion Australian Growth Companies Fund ended the year with an absolute performance of 5.3% after fees and the Hyperion Small Growth Companies Fund ended the year with an absolute performance of 5.6%. The Hyperion Global Growth Companies Fund produced a 20% gross return for the year.



### Palisade Investment Partners

Palisade is a specialist manager of unlisted infrastructure assets with pooled funds and separately managed portfolios for wholesale investors.

As at 30 June 2017, funds under management and investor commitments totalled approximately \$2.4 billion. Palisade's flagship fund, Palisade's Diversified Infrastructure Fund, generated a gross return of 15.7% during the year.

Palisade continues to enjoy support of asset consultants, is raising further capital for investment and has a strong pipeline of investment opportunities. During the year, Palisade launched a new pooled fund for wholesale investors, Palisade's Renewable Energy Fund, a portfolio of existing operating assets, assets under construction and a number of development assets.

## 02 > Overview, Operating and Financial Report



### Plato Investment Management

Plato is a specialist manager of Australian and global equities following a systematic quantitative style, with a focus on after tax investing for pension phase and accumulation phase superannuation.

During the year all of Plato's beta one strategies outperformed or matched their benchmarks. Plato's lower risk strategy did, however, struggle during the year, but is still up strongly since inception.

Plato continues to have very significant interaction with consultants and prospective investors, including financial advisers. During the year Plato successfully launched a listed investment company – Plato Income Maximiser Limited – raising \$326m making it the third largest LIC IPO in Australia. This, together with other inflows, lifted FUM to \$4 billion at the end of the financial year.



### Resolution Capital

Resolution Capital is a dedicated global listed property securities investment manager.

Resolution Capital's long-term investment track record remains pleasing. During the year the global real estate investment strategy marked its 10 year performance anniversary with industry leading results. The business continues to make good progress on its ambition to diversify its client base with endorsement from a number of major asset consultants, research houses and institutional investors.

Funds under management grew to \$6.0 billion during the year, representing a year on year growth of 30.1%.



### Solaris Investment Management

Solaris is a specialist manager of listed Australian equities following a neutral style.

Solaris had \$5.1 billion in funds under management as at 30 June 2017 with incremental funds coming from new and existing clients and investment performance.

Solaris' clients benefited from solid investment out-performance in the year with the Core strategy outperforming the S&P/ASX200 by 2.0%. Solaris' core strategy has outperformed the S&P/ASX 200 Index by 2.1% per annum since inception on 9 January 2008 (to 30 June 2017). The information ratio for the strategy is notably strong over 1 year, 3 year, 5 year, and since inception.

During the 2017 financial year, Solaris launched the Solaris Australian Equity Long Short Fund for which performance has been strong in the short period since inception. In the forthcoming year, Solaris seeks to continue to provide its clients in all strategies with consistent investment performance.



### Spheria Asset Management

Spheria Asset Management is a fundamental-based investment manager specialising in small and microcap companies.

Spheria commenced operations in April 2016 and has a bottom-up focus to achieve strong investment returns for clients with an emphasis on risk management. Assessing risk is fundamental to Spheria's investment philosophy. Explicit risk controls include a preference for companies with low or no balance sheet gearing. When the company does have debt, Spheria ensures that free cash flow can support the level of gearing and is appropriate for the nature of the business.

At 30 June 2017 Spheria had \$211 million in funds under management.



## Two Trees Investment Management

Two Trees Investment Management is a specialist systematic global macro investment firm based in Sydney, Australia. Two Trees combines a deep understanding of financial economics, quantitative techniques, and cutting edge risk management to construct liquid, diversified, absolute return multi-asset portfolios that exhibit low correlations to traditional asset classes.

The firm will be launched by the end of 2017.

## Business strategies and prospects for future financial years

The Group's strategy is to continue to pursue excellence in its investment management business and to support the growth of the Pinnacle Affiliates.

Pinnacle will seek to strengthen its portfolio of affiliated asset managers through investment and service provision including high quality distribution, responsible entity and investment management infrastructure services.

As part of its growth, Pinnacle will consider assisting experienced and talented investment professionals to establish new affiliates in investment strategies where we know demand to be strong and special talent to be needed. Pinnacle anticipates further strong growth, underpinned by expectations that the investment management industry will continue to expand over the coming decade and beyond.

## Economic Conditions and Material Business Risks

The material 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.

Broadly, the global economy performed strongly during the 2017 financial year, particularly in the first half, which drove strong gains across equity markets. The rate of growth slowed during the second half of the year and there remain numerous global and domestic risks. The majority of the Pinnacle Affiliates delivered positive returns against their respective benchmarks for the year, in challenging conditions. Importantly, long-term performance remains excellent across all Affiliates.

### Regulatory risk

The Group operates within a highly regulated environment. The Group remains vigilant in regards to regulatory requirements which are continually evolving.

## 02 > Overview, Operating and Financial Report

### Review of Group Results

Group net profit after tax from continuing operations attributable to shareholders for the 2017 financial year is \$12.0 million. Total profit attributable to shareholders is \$13.1 million, after accounting for a gain from discontinued operations of \$1.1 million.

- > The Group delivered a \$12.0 million net profit from continuing operations attributable to shareholders for the 2017 financial year, a 108% improvement. This was underpinned by a 10.5% increase to \$17.6 million in Pinnacle's share of net profits from the Pinnacle Boutiques. FUM increased by 34% to \$26.5 billion in the 2017 financial year.
- > Group net tangible assets have increased by 51.7% to \$75.2 million with earnings per share of 8.1 cents up 56% from 5.2 cents from continuing operations.
- > The Board has declared a fully franked final dividend of 4.8 cents per share payable on 6 October 2017.

### Statement of Comprehensive Income

The following commentary provides an analysis of revenues and expenses for the 2017 financial year for continuing operations in comparison to the prior comparative period.

During the 2017 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 the equity accounted net profits.

#### Revenue from Continuing Operations

Revenue from continuing operations increased \$2.5 million to \$10.9 million, from \$8.4 million in the prior period. Further information regarding revenues are provided below and at note 1 of the financial statements.

#### Performance Fees

Performance fees for Pinnacle Affiliates are included in the equity accounted net profits attributable to Pinnacle Affiliates and are not separately included in the Group's 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 2017, the Group earned a net \$1.2 million on its Principal Investments, on a 'marked to market' basis.

#### Expenses from Continuing Operations

Employee benefits expense decreased by \$0.5 million to \$7.4 million. The decrease is largely as a result of efficiencies gained within the business following the PIML Acquisition in August 2016.

Legal and professional fees are down \$0.1 million during the year. There were a number of one-off costs arising from the PIML Acquisition incurred during FY16, while the spend for the current year includes expenditure relating to the set-up of new Affiliates and the Group's strengthening of its offshore distribution capabilities.

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. Net profits after tax from Pinnacle Affiliates are up 10.5% or \$1.7 million on the prior comparative period. Pinnacle Affiliates' FUM, which underpins the share of Pinnacle Affiliates' profits, increased by 34.3% to \$26.5 billion during the 2017 financial year. Underlying base management fees within the Pinnacle Affiliates also increased 49.1% on the prior comparative period. Further information is provided on page 71 in note 21 to the financial statements.

## Discontinued Operations

Discontinued operations contributed \$0.6 million to total comprehensive income, and a \$1.1 million increase to NPAT. This represents \$0.2 million of expenditure in relation to legacy items, plus the recycling of the balance received from the Securities business for use of the deferred tax asset transferred on separation, of \$1.3 million. This balance was recognised within other comprehensive income in the prior comparative period, and was reclassified to form part of NPAT on receipt of the funds during the current financial year. Further information is provided at note 23 of the financial statements.

## Consolidated Statement of Financial Position

The following commentary provides an analysis of assets and liabilities for the 2017 financial year for continuing operations.

**Cash.** Cash and cash equivalents reduced by \$2.6 million to \$10.9 million at year-end compared to \$13.5 million at the end of the prior year. Cash outflows from operating activities were \$17.4 million, which included net outflows of \$20.7 million relating to purchases and sales of financial assets during the year, including Principal Investments. Further information is provided at notes 6 and 24.

**Trade and other receivables.** The value of trade and other receivables decreased slightly by \$0.6 million during the year.

**Financial assets at fair value through profit or loss** were \$31.6 million, an increase of \$20.7 million on the prior period. On 30 January 2017 Pinnacle completed a placement of \$30 million (pre expenses) via an underwritten placement to institutional and sophisticated investors at \$2.40 per share, a discount of 2% on the then trade price. Pinnacle intends to utilise the additional capital to support its strategy to grow FUM and profitability through organic growth from its existing investment affiliates, supporting the creation of new investment managers, and making acquisitions when attractive opportunities which satisfy its criteria arise. Until required, additional capital is being invested in order to maximise returns and support Pinnacle's existing affiliates. Of the \$31.6 million, \$29.9 million is held in strategies managed by the Pinnacle Affiliates. The Group has hedged approximately 65% of its total exposure to movements in the underlying indices.

**Other current assets** reduced by \$1.7 million to \$0.9 million at year end. 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 Pinnacle's investments in the Pinnacle Affiliates. This increased by \$8.1 million during the period to \$32.6 million. The change is attributable to the equity accounted profits of \$17.6 million from Pinnacle Affiliates, less the dividends received from the Pinnacle Affiliates of \$11.4 million, plus additional capital contributed to the Pinnacle Affiliates during the year of \$1.9 million. Further information is provided at note 21 of the financial statements.

**Trade and other payables** decreased by \$1.2 million to \$5.0 million, relating largely to decreases in accrued incentive payments. Further information is provided at note 11 of the financial statements.

**Provisions.** The value of current and non-current provisions remained steady compared with the prior year. Further information is provided at note 13 of the financial statements.

## 03 > Community

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### **Pinnacle Charitable Foundation**

Pinnacle is a strong believer in the importance of actively contributing to the broader community and to selecting charitable partners which align with the interests of key stakeholders including employees and client groups.

In addition to partnering with its Affiliates in assisting them to further their commitment to ESG principles, Pinnacle actively engages in supporting the community through the Pinnacle Charitable Foundation. Recently rebranded and refocussed, the Foundation traces its origins back to 1987.

During the year, Pinnacle has directly contributed to the Foundation's corpus, and has active representation on its Board. Pinnacle and its Affiliates also provide a range of pro bono services to the Foundation, including investment management and reporting. Pinnacle executives have encouraged Affiliates to engage with the Foundation, which has subsequently entered into discussions with each of them and their employees. Jointly funded partnerships which address causes of importance to their business strategies and employee interests have been researched, with the aim of establishing and nurturing relationships with innovative and progressive charitable organisations. Affiliates have agreed to rebate fees for Foundation investments, further demonstrating their commitment to its long-term sustainability.

### **Future plans**

Pinnacle is also expanding its Community Investment activities through the introduction of a Workplace Giving program for employees based on matched funding, in conjunction with its Affiliates. The Company also seeks collaborative opportunities with them, and across the wider funds management industry, in support of community initiatives which have strategic relevance to Pinnacle's business operations.

During the course of the 2017 financial year, the Foundation made donations to charities totalling \$165,000 and the detailed activities of the Pinnacle Charitable Foundation and its current charity partners can be found at <http://www.pinnacleinvestment.com/foundation/>



## 04 > Directors' profiles



### Alan Watson

(Non-executive Independent Chairman and Chairman of Remuneration and Nominations Committee) BSc, GAICD

Mr Watson joined the board on 15 July 2013 and became Chairman on 23 October 2015. Mr Watson had a 30 year investment banking career, during which he had been Managing Director of several Australian, American and UK based investment banks. During this period he worked in the Securities markets of the UK, Australia, Canada, China and Japan. Immediately prior to his retirement Mr Watson was with Macquarie Group, where he had been recruited to establish its European Securities business.

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

- > Director of Australis Oil & Gas
- > Director of Aurora Oil and Gas

Interests in shares and options

- > 125,000 ordinary shares



### 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 chairman of Pinnacle since 2006. Mr Macoun's career to date has included more than 20 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 1970's and the 1980's. 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: Hyperion, Palisade, Plato, Resolution Capital and Solaris.

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

- > None

Interests in shares and options

- > 25,983,596 ordinary shares in the Company
- > 750,000 options



## Deborah Beale

(Non-executive Independent Director and member of the Audit Compliance and Risk Management Committee and Remuneration and Nominations 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 currently the Chair of Hyperion Asset Management Ltd one of the Company's most successful affiliated fund managers.

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

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ASX Listed Company Directorships held in last 3 years (current & recent):  
> None

Interests in shares and options  
> 62,500 ordinary shares in the Company



## Gerard Bradley

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

Mr Bradley is Chairman 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.

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ASX Listed Company Directorships held in last 3 years (current & recent):  
> Star Entertainment Group Limited

Interests in shares and options  
> 50,000 ordinary shares in the Company



## Andrew Chambers

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

Mr Chambers has been with Pinnacle since 2009. Prior to this, Mr Chambers commenced his career in investment management in 2001 when he joined Legg Mason, one of the world's largest pure play, multi-affiliate investment management firms.

Since then, Mr Chambers has developed extensive multi-channel investment management distribution skills and a proven track record of raising significant capital for new and existing affiliate firms, from institutional and retail markets in Australia and offshore.

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

> None

Interests in shares and options

> 4,647,214 ordinary shares in the Company  
> 750,000 options



## 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' 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.

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

> None

Interests in shares and options

> 4,447,214 ordinary shares in the Company  
> 750,000 options



## Steve Wilson AM

(Non-executive director and member of the Audit Compliance and Risk Management Committee and Remuneration and Nominations Committee) B Com, LLB, Hon PhD, FAICD, SF Fin, MSAA

Mr Wilson has over 35 years of professional investment experience, including 4 years with Cazenove & Co. in London before joining Wilson & Co in 1984. Since then he has spent 25 years as either Executive Chairman, Managing Director or Joint Managing Director of the Company.

Under his leadership, Hyperion was established in 1996, Priority Funds in 2005 and Pinnacle in 2006.

Mr Wilson has substantial board experience including as Chairman of Southbank Corporation, Racing Queensland and Hyperion Flagship and non-executive directorships of Telstra and Tourism Queensland.

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

> None

Interests in shares and options

> 20,020,000 ordinary shares in the Company

## 05 > 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 2017.

### 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 (appointed on 25 August 2016)
- > Ms D Beale (appointed on 1 September 2016)
- > Mr G Bradley (appointed on 1 September 2016)
- > Mr A Chambers (appointed on 1 September 2016)
- > Mr A Whittingham (appointed on 1 September 2016)
- > Mr S M Wilson AM
- > Mr A Grant served as a director until his resignation on 16 August 2016 and Mr S M Skala AO served as a director until his resignation on 26 August 2016.

Information on the qualifications, experience and responsibilities of the directors is included in the directors' profiles on pages 14 to 16 of the 2017 Annual Report.

### Earnings per share

	2017 Cents	2016 Cents
<b>From continuing operations</b>		
Basic earnings per share	8.1	5.2
Diluted earnings per share	7.6	5.2
<b>Total attributable to shareholders</b>		
Basic earnings per share	8.9	4.1
Diluted earnings per share	8.2	4.1

### Dividends

In the 2017 financial year, the following dividends were paid:

- > a fully franked special dividend of 5 cents per share on 9 September 2016.
- > a fully franked final dividend of 1.9 cents per share on 3 October 2016.
- > a fully franked interim dividend of 2.2 cents per share on 17 March 2017.

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

- > a fully franked final dividend of 4.8 cents per share, to be paid on 6 October 2017.

### Operating and Financial Review

The Operating and Financial Review can be found at pages 5 to 12 of the 2017 Annual Report.

### Significant changes in the state of affairs

On 25 August 2016 the Group completed the PIML Acquisition (refer note 15(c) of the financial statements at page 59 for further information).

Apart from this, 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 29 of the financial statements at page 84, 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 2017 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 Other transactions with former Key Management Personnel
- 13 Equity Capital

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

## 05 > Directors' Report

### 1 Letter from the Chair of the Remuneration and Nominations Committee

Dear Shareholders

The Board is pleased to present shareholders with the 2017 Remuneration Report.

Over the past twelve months, we have been joined by a good number of new shareholders. In addition this is the first Remuneration Report prepared since the PIML Acquisition, which resulted in the Board assuming responsibility for the remuneration of all former PIML employees. Recognising these two important changes, we thought it would assist shareholders if we summarise the key features and underlying philosophy behind our remuneration structures and practices.

#### Responsibility

The Board is responsible for the remuneration of the directors and employees of Pinnacle and its controlled entities. The Board does not set the remuneration of the senior executives or employees of our eight Affiliates, as these arrangements are the responsibility of their respective boards, are negotiated prior to the establishment of each Affiliate and are subject to formal agreements in each case. The board of each Affiliate includes at least one representative of Pinnacle.

#### Philosophy

The Board strongly believes that Pinnacle's past and continued financial success is totally bound to the maintenance of a consistent high quality management team, operating in a flexible and entrepreneurial environment, within which individual behaviours and interests of the leadership of our executive group are directly aligned with external long-term shareholders through common long-term equity ownership.

This philosophy has been applied to Pinnacle since its foundation in 2006. Whilst this has been delivered to executives in a combination of base salary, short-term incentive and long-term incentive, it is worth noting that the LTI arrangements that Pinnacle established in 2009 required executives to stay with us for 6 years to earn the full equity awards. Similarly, the current Pinnacle LTI Scheme requires our senior executives (with the exception of Mr Macoun, who must remain employed until 31 January 2020) to be employed by Pinnacle until the end of 2020 to get the full benefit of these arrangements. As a consequence of the long-term nature of these provisions, shareholders should expect there will be years when little or no new LTI will be awarded, and there may be years when a more substantial LTI will be required, amongst other things, to accommodate new significant hires, promote and retain existing high performing employees and reset provisions that are expiring.

#### Applying our philosophy to 2017 financial year results

The outcome for the 2017 financial year can be summarised as follows:

- > there have been no increases in fixed remuneration for KMP
- > there have been no new LTIs issued to KMP
- > STIs were paid to KMP in relation to the 2017 financial year. In considering these, the Board noted:
  - growth in earnings per share from continuing operations of 56%
  - growth in NPAT from continuous operations attributable to shareholders for the 2017 financial year of 108%
  - growth in funds under management of 34%
  - net funds under management inflows of \$4.9bn (2016 : \$2.1bn)
  - retail net inflows of funds under management of \$2.5bn (2016 : \$0.6bn)

Further detail on the remuneration policy and framework for the 2017 financial year adopted by the Remuneration and Nominations Committee can be found at pages 23 to 24.

## Historical Remuneration Outcomes

New shareholders in particular may not be familiar with the circumstances that have driven certain historical remuneration outcomes, and we felt it would be helpful to give some background to three specific matters. These are:

- the PIML LTI Scheme
- various related party loans
- a 2006 loan to Mr Ian Macoun

Shareholder approval for these matters has been previously sought and granted, hence these matters appear in the Remuneration Report as a matter of historical record.

### PIML LTI Scheme

Shareholders approved the participation of certain KMP in the LTI on 26 June 2015.

Under this approval, executives received a combination of PIML equity and options in the Company. The options, which remain in place, were issued at a strike price which was at a premium to the prevailing share price. Further details are set out at pages 23 to 24. No new options have been issued since the inception of the PIML LTI Scheme.

### Related party loans

As shareholders will recall, the PIML Acquisition, which involved a “swap” of equity held by a number of PIML senior executives for newly issued equity in the Company, was approved by shareholders on 16 August 2016.

As part of the acquisition, the Company re-issued existing loans to PIML executives which had previously allowed executives’ prior purchases of PIML equity, and issued the New Loans to PIML senior executives totalling \$3 million for the express purpose of acquiring additional equity from Deutsche Bank. The key terms of the aforementioned loans are set out at pages 27 to 28.

### 2006 Loan to I Macoun

In 2006, whilst setting up PIML, the Company advanced Mr Macoun a loan of \$1.1 million to acquire shares in PIML and agreed to pay, at the time of repayment of the loan (being the time of sale of the shares in PIML by Mr Macoun) a bonus to Mr Macoun with a net value equal to the outstanding balance of the loan. The PIML Acquisition triggered repayment of this loan, which occurred on 25 August 2016. Specific shareholder approval for the repayment of this loan was granted on 16 August 2016. As the loan was a long standing obligation dating back to 2006, the liability was expensed in prior years.

The Company’s approach to remuneration will be regularly reviewed to ensure continued alignment with the Company’s strategy and growth. We hope you find the Remuneration Report that follows to be instructive and helpful.



Alan Watson  
Chair of Remuneration and Nominations Committee

## 05 > Directors' Report

### 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 2017. The Key Management Personnel for this period are listed in the tables below:

#### Executive Key Management Personnel

<i>Name</i>	<i>Position</i>
Ian Macoun	Managing Director (from 17 August 2016) and Executive Director (from 25 August 2016)
Andrew Chambers	Executive Director (from 1 September 2016)
Adrian Whittingham	Executive Director (from 1 September 2016)
Alex Ihlenfeldt	Chief Operating Officer and Chief Financial Officer

#### Non-executive Key Management Personnel

##### Current

<i>Name</i>	<i>Position</i>
Alan Watson	Chairman
Steve Wilson AM	Non-executive Director
Deborah Beale	Non-executive Director (from 1 September 2016)
Gerard Bradley	Non-executive Director (from 1 September 2016)

##### Former

<i>Name</i>	<i>Position</i>
Alexander Grant	Managing Director (until his resignation on 16 August 2016)
Steven Skala AO	Non-executive Director (until his resignation on 26 August 2016)

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 2017 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.



### 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 2017 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, adopts an appropriate balance between fixed remuneration, short-term incentives and long-term incentives and limits payments on termination to statutory or pre-agreed contractual amounts;
- 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, 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 Chairman, 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;
- preparing, recommending for approval by the Board and overseeing the implementation of the Company's diversity policy; and
- 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.

During the 2017 financial year, the Remuneration and Nominations Committee received recommendations on the remuneration for employees from Mr Macoun, the Managing Director. These recommendations were reviewed and in turn recommended 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 returns for investors in the medium to long-term. During the 2017 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 to motivate and retain highly skilled executives and align their interests with shareholders.

#### 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 2017 financial year, no Executive Key Management Personnel received any increase to their base salary.

#### 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.

#### Long-term incentives (LTI)

##### *Options component*

The Company's employee option share plan (EOSP) is designed to encourage alignment of the interests of staff with increased value to shareholders in the long-term. Participants are granted options, which only vest subject to specific conditions being met at the end of the vesting period.

Participation in the EOSP is at the Board's discretion. Options granted under the EOSP carry no dividend or voting rights.

The rules of the EOSP contain restrictions on removing the 'at-risk' aspect of the instruments granted to executives, including to Key Management Personnel.

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 Company's NTA as at 1 January 2015 and a premium of 20% of the volume weighted average price of the Company's fully paid ordinary shares from 1 December 2014 to 31 March 2015.

The options vest in two equal tranches on 1 January 2018 and 1 January 2020 with a six month exercise period. Any options that remain unexercised at the end of the exercise period will lapse. The options are subject to claw back arrangements and bad leaver provisions. 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 elements of the PIML LTI scheme by creating 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 any 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 2017 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.

The table below shows key financial performance indicators which described the progress of the Group's performance over the last five financial years.

	2017	2016	2015	2014	2013
<b>Net profit/(loss) after tax attributable to shareholders (\$m)</b>	13.1	4.5	(9.0)	4.8	(1.6)
Closing share price (\$)	2.90	1.45	1.20	0.61	0.19
Dividend per share (cents)	7.00	3.30	1.60	2.75	Nil
Diluted earnings per share (cents)	8.1	4.1	(8.5)	4.5	(1.6)
<b>Net profit/(loss) after tax attributable to shareholders (\$m) before derecognition of DTA*</b>	13.1	4.5	0.4	4.8	(1.6)
Diluted earnings per share (cents) before derecognition of DTA	8.1	4.1	0.4	4.5	(1.6)

\* In the 2015 year NPAT from continuing operations was reduced by \$9.4 million relating to the de-recognition of deferred tax assets.

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

- growth in earnings per share from continuing operations of 56% in the 2017 financial year
- growth in NPAT from continuing operations attributable to shareholders from \$5.8m in the 2016 financial year to \$12.0m in the 2017 financial year
- increase in FUM from \$19.8bn as at 30 June 2016 to \$26.5bn as at 30 June 2017
- net FUM inflows of \$4.9bn during the 2017 financial year
- net retail FUM inflows of \$2.5bn during the 2017 financial year
- 100% 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 2017
- a new affiliate, Two Trees Investment Management, being commenced during 2017.

## 05 > Directors' Report

### 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 2017.

	% of total remuneration		
	Fixed remuneration	Performance-based remuneration	
		STI	LTI
Ian Macoun	47%	46%	7%
Andrew Chambers	41%	49%	10%
Adrian Whittingham	41%	49%	10%
Alex Ihlenfeldt	45%	44%	11%

#### Ian Macoun

In the 2017 financial year, Mr Macoun's base salary remained unchanged at \$600,000 per annum (inclusive of superannuation) and he earned an STI of \$600,000 (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 and STI remained unchanged from the 2016 financial year, having been determined by the Board of PIML and then contracted to remain unchanged as part of the PIML Acquisition which was approved by shareholders on 16 August 2016.

In addition and in accordance with the terms of the PIML LTI scheme described on page 23, on 1 July 2015 the Company granted 750,000 options over its ordinary shares to Mr Macoun. This grant of options was subject to shareholder approval given at an extraordinary general meeting on 26 June 2015.

#### Andrew Chambers

In the 2017 financial year, Mr Chambers's base salary remained unchanged at \$400,000 per annum (inclusive of superannuation) and he earned an STI of \$400,000 (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.

In addition and in accordance with the terms of the PIML LTI scheme described on page 23, on 1 July 2015 the Company granted 750,000 options over its ordinary shares to Mr Chambers.

#### Adrian Whittingham

In the 2017 financial year, Mr Whittingham's base salary remained unchanged at \$400,000 per annum (inclusive of superannuation) and he earned an STI of \$400,000 (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.

In addition and in accordance with the terms of the PIML LTI scheme described on page 23, on 1 July 2015 the Company granted 750,000 options over its ordinary shares to Mr Whittingham.

#### Alex Ihlenfeldt

In the 2017 financial year, Mr Ihlenfeldt's base salary remained unchanged at \$300,000 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.

In addition and in accordance with the terms of the PIML LTI scheme described on page 23, on 1 July 2015 the Company granted 425,000 options over its ordinary shares to Mr Ihlenfeldt. This grant of options was subject to shareholder approval given at an extraordinary general meeting on 26 June 2015.

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			Long-term benefits		Share based payments		Portion of remuneration at risk – STI		Portion of remuneration at risk – LTI	
	Cash salary & fees	Cash bonus (STI)	Non-monetary benefits	Super-annuation	Retirement Benefits	Long service leave	Options & Rights (LTI)	Termination benefits	Total	Total	%	Total	%	
														\$
<b>Managing Director:</b>														
Ian Macoun	2017	565,000	600,000	-	35,000	-	9,131	97,745	-	1,306,876	46%	7%		
	2016	565,000	600,000	-	35,000	-	21,592	8,443	-	1,230,035	49%	1%		
<b>Other Key Management Personnel</b>														
Andrew Chambers*	2017	309,117	400,000	-	24,216	-	5,071	84,709	-	823,113	49%	10%		
	2016	-	-	-	-	-	-	-	-	-	-	-		
Adrian Whittingham*	2017	309,117	400,000	-	24,216	-	5,071	84,709	-	823,113	49%	10%		
	2016	-	-	-	-	-	-	-	-	-	-	-		
Alex Ihlenfeldt	2017	273,973	296,027	-	30,000	-	4,564	75,678	-	680,242	44%	11%		
	2016	273,973	296,027	-	30,000	-	4,916	15,509	-	620,425	48%	2%		
Alexander Grant#	2017	47,038	-	-	4,469	-	844	-	-	52,351	-	-		
	2016	365,000	-	-	35,000	-	(22,088)	65,709	85,000	528,621	-	12%		
<b>Totals</b>	<b>2017</b>	<b>1,504,245</b>	<b>1,696,027</b>	<b>-</b>	<b>117,901</b>	<b>-</b>	<b>24,680</b>	<b>342,841</b>	<b>-</b>	<b>3,685,695</b>				
	2016	1,203,973	896,027	-	100,000	-	4,420	89,661	85,000	2,379,081				

\* KMP from 1 September 2016

# KMP until 16 August 2016

## 05 > Directors' Report

### 7 Executive service agreements

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

#### Ian Macoun

During the 2017 financial year, and as part of the PIML Acquisition that was approved by shareholders on 16 August 2016, Ian Macoun was appointed Managing Director of the Company and entered into a new service agreement, the terms of which are substantially similar to his previous contract as Managing Director of PIML. 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 2017 financial year.

In 2006, the Group advanced shareholding entities associated with Mr Macoun a loan of \$1.119 million to acquire shares in PIML and agreed to pay, at the time of repayment of the loan (being the time of sale of PIML shares by interests associated with Mr Macoun) a bonus with a net value equal to the outstanding balance of the loan. The loan was unsecured, limited in recourse to the shares in PIML and interest free. As part of the PIML Acquisition, and following the approval of shareholders on 16 August 2016, the Company paid Mr Macoun the bonus which was in turn applied to repay the loan. As the loan was a long standing obligation dating back to 2006, the liability was expensed in prior years.

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 has been 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 5 year term, limited recourse and secured by way of a share mortgage. Repayment will occur at the earlier of the end of the 5 year term, the date on which any of the underlying shares are sold or within 6 months' of the cessation of Mr Macoun's employment. Events of default under the loan include cessation of employment.

#### 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 totalling \$234,354 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, 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 5 year term, limited recourse and secured by way of a share mortgage. Repayment will occur at the earlier of the end of the 5 year term, the date on which any of the underlying shares are sold or within 6 months' of the cessation of Mr Chambers' employment. Events of default under the loan include cessation of employment.

### **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 totalling \$234,354 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, 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 5 year term, limited recourse and secured by way of a share mortgage. Repayment will occur at the earlier of the end of the 5 year term, the date on which any of the underlying shares are sold or within 6 months' of the cessation of Mr Whittingham's employment. Events of default under the loan include cessation of employment.

### **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 5 year term, limited recourse and secured by way of a share mortgage. Repayment will occur at the earlier of the end of the 5 year term, the date on which any of the underlying shares are sold or within 6 months' of the cessation of Mr Ihlenfeldt's employment. Events of default under the loan include cessation of employment.

### **Alexander Grant**

Alexander Grant resigned as Managing Director on 16 August 2016.

## 05 > Directors' Report

### 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 2017 financial year.

On 12 October 2015, the Board resolved to suspend the payment of fees for the Chair of the Remuneration and Nomination Committee in recognition of the Committee's more limited duties following the sale of the Securities business. On 6 December 2016, fees for the Chair of the Remuneration and Nominations Committee were reinstated following completion of the PIML Acquisition and now that the Remuneration and Nominations Committee has assumed responsibility for oversight of the Company's remuneration policy and practices.

The fees paid to non-executive directors from 16 December 2016 for Board and Committee positions are set out in the table below:

	Base fees
Chairman	\$100,000
Non-executive Director	\$70,000
Audit Compliance and Risk Management Committee	
– Chair	\$10,000
– Member	\$0
Remuneration and Nominations Committee	
– Chair	\$10,000
– Member	\$0
Subsidiary Boards	\$0

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 2017 financial year, no non-executive directors participated in the EOSP.

Further details concerning the EOSP are set out on page 23.



Total remuneration for the non-executive directors in relation to the Company, Committee positions and subsidiaries for the 2017 financial year was \$311,807 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			Share based payments			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	Super-annuation	Retirement Benefits	Long service leave	Options & Rights (LTI)	Termination benefits	Total	Total	excluding non fee remuneration	\$	\$	%	%	\$	%	
																		\$
<b>Non-executive directors</b>																		
Alan Watson <sup>(i)</sup>	2017	97,158	-	-	8,676	-	-	-	-	105,834	105,834	-	-	-	-	-	-	-
	2016	77,771	-	-	14,513	-	-	-	-	92,284	92,284	-	-	-	-	-	-	-
Deborah Beale <sup>(ii)</sup>	2017	53,272	-	-	5,061	-	-	-	-	58,333	58,333	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gerard Bradley <sup>(iii)</sup>	2017	66,667	-	-	-	-	-	-	-	66,667	66,667	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Steven Wilson <sup>(iv)</sup>	2017	69,755	-	-	-	-	-	-	-	69,755	69,755	-	-	-	-	-	-	-
	2016	84,148	-	-	-	-	-	-	-	84,148	84,148	-	-	-	-	-	-	-
Steven Skala <sup>(v)</sup>	2017	10,245	-	-	973	-	-	-	-	11,218	11,218	-	-	-	-	-	-	-
	2016	99,239	-	-	7,844	-	-	-	-	107,084	107,084	-	-	-	-	-	-	-
Chum Darvall <sup>(vi)</sup>	2017	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	2016	16,500	-	-	-	-	-	-	-	16,500	16,500	-	-	-	-	-	-	-
<b>Totals</b>	<b>2017</b>	<b>297,097</b>	<b>-</b>	<b>-</b>	<b>14,710</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>311,807</b>	<b>311,807</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>2016</b>	<b>277,657</b>	<b>-</b>	<b>-</b>	<b>22,358</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>300,015</b>	<b>300,015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(i) 2016: Mr Watson was a director from 1 July 2015 to 23 October 2015, at which time he was appointed Chairman.

(ii) 2017: Ms Beale was appointed a Director on 1 September 2016. She is also Chair of Hyperion Asset Management Limited, a Pinnacle Affiliate, and received \$50,416 in this capacity in addition to the fees above.

(iii) 2017: Mr Bradley was appointed a Director on 1 September 2016.

(iv) 2016: Mr Wilson received \$68,666 as director's fees, \$7,333 in relation to his directorship of Pinnacle, and \$8,148 in relation to his role as chair of the Priority Funds Investment Committee.

(v) 2017: Mr Skala was a Director until his resignation on 26 August 2016, 2016: Mr Skala was Chairman until 23 October 2015, and a director for the balance of the year. Mr Skala received director's fees of \$90,417 plus a sum of \$16,667 by way of administrative support.

(vi) 2016: Mr Darvall was a director of Wilson Group Limited until his resignation on 31 August 2015. Mr Darvall was a director of Pinnacle until his resignation on 30 June 2016 and received \$85,000 in this capacity in addition to the fees above.

## 05 > Directors' Report

### 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 2017 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 18	124 Days	\$0.99	\$0.30	2,125,000	0	0	2,125,000	0%
1 July 2015	Options	30 Jun 20	125 Days	\$0.99	\$0.32	2,125,000	0	0	2,125,000	0%

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
<b>Key Management Personnel of the Group</b>								
<b>Ian Macoun</b>								
Options	1-Jul-15	375,000	\$110,663	1-Jan-18	-	-	-	-
Options	1-Jul-15	375,000	\$120,525	1-Jan-20	-	-	-	-
<b>Sub-Total</b>		<b>750,000</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Andrew Chambers</b>								
Options	1-Jul-15	375,000	\$110,663	1-Jan-18	-	-	-	-
Options	1-Jul-15	375,000	\$120,525	1-Jan-20	-	-	-	-
<b>Sub-Total</b>		<b>750,000</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Adrian Whittingham</b>								
Options	1-Jul-15	375,000	\$110,663	1-Jan-18	-	-	-	-
Options	1-Jul-15	375,000	\$120,525	1-Jan-20	-	-	-	-
<b>Sub-Total</b>		<b>750,000</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Alex Ihlenfeldt</b>								
Options	1-Jul-15	213,000	\$62,856	1-Jan-18	-	-	-	-
Options	1-Jul-15	212,000	\$68,137	1-Jan-20	-	-	-	-
<b>Sub-Total</b>		<b>425,000</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

- (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 27 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.

## 05 > Directors' Report

### Loan Shares

The terms and conditions of each grant of equity and associated loan to Key Management Personnel is provided at pages 27 to 28. Details of the loan arrangements affecting remuneration in the previous, this or future reporting periods as at 30 June 2017 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	Value (\$) of shares forfeited/lapsed/sold
<b>Key Management Personnel of the Group</b>									
<b>Ian Macoun</b>									
Loan Shares	25-Aug-16	288,210	273,799	\$30,799	31-Dec-18	-	-	-	-
Loan Shares	25-Aug-16	287,888	273,494	\$33,846	31-Jan-20	-	-	-	-
Loan Shares	25-Aug-16	1,111,112	500,000	\$14,162	25-Aug-16	1,111,112	1,955,555	-	-
<b>Sub-Total</b>		1,687,210	1,047,293	\$78,807		1,111,112	1,955,555	-	-
<b>Andrew Chambers</b>									
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	-	-	-	-
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	-	-
<b>Sub-Total</b>		1,820,719	1,174,127	\$82,575		1,244,621	2,266,631	-	-
<b>Adrian Whittingham</b>									
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	-	-	-	-
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	-	-
<b>Sub-Total</b>		1,820,719	1,174,127	\$82,575		1,244,621	2,266,631	-	-
<b>Alex Ihlenfeldt</b>									
Loan Shares	25-Aug-16	437,968	416,070	\$74,503	30-Jan-18	-	-	-	-
Loan Shares	25-Aug-16	163,083	154,929	\$17,428	31-Dec-18	-	-	-	-
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	-	-
<b>Sub-Total</b>		1,874,924	1,225,622	\$126,667		1,111,112	1,955,555	-	-

(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 2017 financial year by the directors of the Company and other Key Management Personnel of the Group, including personally related parties, are set out below.

	2017	2016
Balance at start of year	1,175,000	600,000
Granted as compensation	0	1,175,000
Exercised	0	(600,000)
Expired and other changes*	1,500,000	0
<b>Balance at end of the year</b>	<b>2,675,000</b>	<b>1,175,000</b>

\* 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.

Name	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
<b>Non-executive directors</b>					
Alan Watson	-	-	-	125,000	125,000
Steve Wilson	20,003,000	-	-	17,000	20,020,000
Deborah Beale	-	-	-	62,500	62,500
Gerard Bradley	-	-	-	50,000	50,000
<b>Former non-executive director</b>					
Steven Skala	683,753	-	-	(683,753)	-
<b>Executive directors</b>					
Ian Macoun	100,000	-	-	25,883,596	25,983,596
Andrew Chambers	-	-	-	4,647,214	4,647,214
Adrian Whittingham	-	-	-	4,447,214	4,447,214
<b>Key Management Personnel</b>					
Alex Ihlenfeldt	1,458,498	-	-	3,231,198	4,689,696
<b>Former Key Management Personnel</b>					
Alexander Grant	6,228,738	-	-	(6,228,738)	-

\* includes changes resulting from commencing or ceasing to be KMP

## 05 > Directors' Report

### 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 \$	Loan issued during year \$	Other changes during the year (i) \$	Repayments made \$	Interest paid and payable for the year \$	Interest not charged \$	Balance at end of year \$	Number in Group at end of year
2017	2,391,917	2,000,000	1,563,096	(1,203,220)	42,632	166,670	4,794,426	4

#### (ii) Individuals with loans above \$100,000 during the financial year

	Balance at start of year \$	Loan issued during year \$	Other changes during the year (i) \$	Repayments made \$	Interest paid and payable for the year \$	Interest not charged \$	Balance at end of year \$	Highest indebtedness during the year \$
Ian Macoun	1,666,293	500,000	-	(1,142,620)	10,658	41,328	1,034,331	1,666,293
Andrew Chambers	-	500,000	781,548	(23,620)	10,658	42,720	1,268,586	1,282,983
Adrian Whittingham	-	500,000	781,548	(23,620)	10,658	42,720	1,268,586	1,282,983
Alex Ihlenfeldt	725,624	500,000	-	(13,360)	10,658	39,901	1,222,922	1,227,059

The loans referenced in the above table comprise:

- > loans originally advanced by PIML and were for the purpose of acquiring shares in PIML
- > the New Loans.

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 27 to 28 for further detail on the terms of the loans.

The amounts shown for interest not charged in the tables above represents 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 Other transactions with former Key Management Personnel

#### Steven Skala AO

Mr Skala was a non-executive director of the Company, is Vice Chairman of Deutsche Bank AG Australia and New Zealand and was a director of Deutsche Australia. During the 2016 financial year, Deutsche Bank AG was a substantial shareholder of the Company through Deutsche Australia, which held an 18.55% interest in the Company's shares (2015 - 18.55%) until 18 May 2016 and a 9.27% interest from 18 May 2016 to 30 June 2016. On 25 August 2016, Deutsche Australia ceased to be a shareholder. On 26 August 2016, Mr Skala resigned as a director of the Company.

#### Chum Darvall AM

Chum Darvall was a non-executive director of PIML until 30 June 2016 and was a vice chairman of Deutsche Bank AG Australia and New Zealand until 1 July 2014. Mr Darvall is a member of Palisade's advisory board for which he is paid \$60,000 per annum plus GST. Mr Darvall was also the chairman of Metrics Credit (until December 2016), which has a distribution agreement with, and pays fees to, the Group on normal commercial terms.

## 13 Equity Capital

### Shares under option/rights

Unissued ordinary shares of the Company under option at 30 June 2017 are as follows:

Date options granted	Expiry date	Exercise price of options	Number under option
1 July 2015	30 June 2018	\$0.99	2,125,000
1 July 2015	30 June 2020	\$0.99	2,125,000
<b>TOTAL</b>			<b>4,250,000</b>

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 conducts a placement prior to 30 June 2020 in respect of the options set out above, the Sellers are entitled to subscribe in the placement for up to 1,416,667 ordinary shares at the subscription price of the options. The Sellers will be entitled to subscribe in the placement in proportions that are pro-rata to their invested options.

### 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

## 05 > Directors' Report

### Meetings of Board and Board Committees

The number of meetings of the Company's Board and of each Board committee held during the year ended 30 June 2017 and the number of meetings attended by each director were as follows:

	Board		Audit, Compliance and Risk Committee		Remuneration and Nominations Committee	
	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend
A Watson	19	19	4	-	3	3
I Macoun	18	18	4	-	3	-
D Beale	15	17	4	4	3	3
G Bradley	16	17	4	4	3	3
A Chambers	17	17	-	-	-	-
A Whittingham	17	17	-	-	-	-
S Wilson AM	18	19	5	5	3	3

### 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 (Chairman)	A Watson (Chairman)
D Beale	D Beale
S Wilson AM	G Bradley
	S Wilson AM

### Company Secretary

During the 2017 financial year, the role of Company Secretary was performed by Mrs Eleanor Padman until 22 June 2017. From 22 June 2017 to the end of the 2017 financial year, the role of Company Secretary was performed by Mr Calvin Kwok. Mr Kwok is also legal counsel of the Company with prior experience at Herbert Smith Freehills, UBS Global Asset Management and Deutsche Bank. Mr Kwok holds a Master of Applied Finance, 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.

### Non-audit services

The Company may decide to employ the Auditor 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. 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 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
- 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.

## 05 > Directors' Report

During the 2017 financial year the following fees were paid or are payable for services provided by the Auditor, its related practices and non-related audit firms:

	2017 \$	2016 \$
<b>(i) Audit and other assurance services</b>		
Audit and review of financial statements	212,491	364,115
Other assurance services:		
Audit of regulatory returns	20,085	26,000
Audit of compliance plan – Responsible entity *	52,178	26,395
Other assurance services	-	59,765
<b>Total remuneration for audit and other assurance services</b>	<b>284,754</b>	<b>476,275</b>
<b>(ii) Taxation services</b>		
Tax services	42,968	128,588
<b>Total remuneration for taxation services</b>	<b>42,968</b>	<b>128,588</b>
<b>(iii) Other services</b>		
Other services	-	-
<b>Total remuneration of PricewaterhouseCoopers Australia</b>	<b>327,722</b>	<b>604,863</b>
<b>Total remuneration of auditors</b>	<b>327,722</b>	<b>604,863</b>

\* 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 is set out on page 40 of the 2017 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  
Chairman  
Pinnacle Investment Management Group Limited

Sydney  
29 August 2017

## 06 > Auditor's independence declaration



### Auditor's Independence Declaration

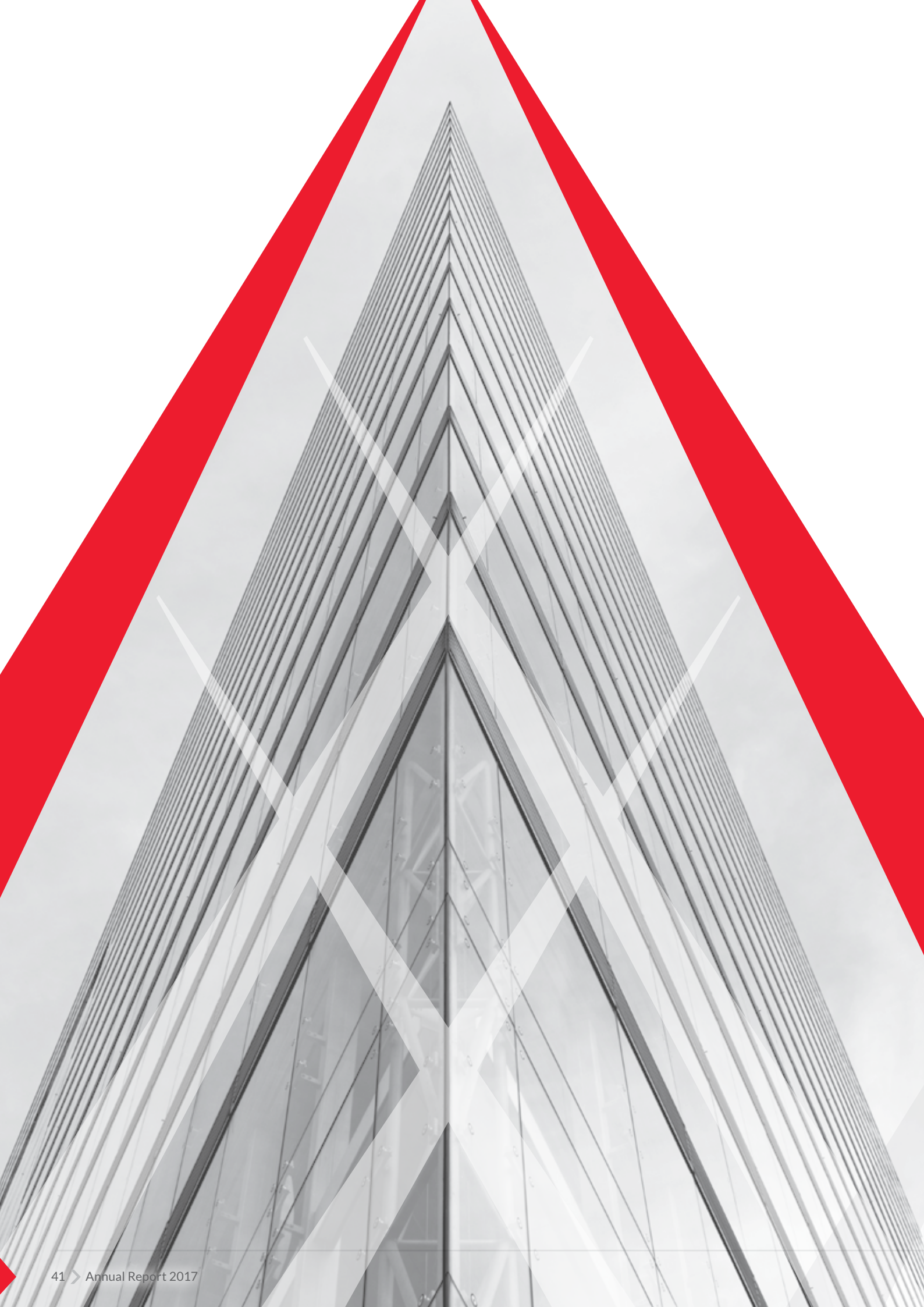
As lead auditor for the audit of Pinnacle Investment Management Group Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. 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.

Craig Thomason  
Partner  
PricewaterhouseCoopers

Sydney  
29 August 2017



## 07 > Financial Statements

### Pinnacle Investment Management Group Limited

ABN 22 100 325 184

Financial Report – 30 June 2017

	Page
Consolidated statement of profit or loss .....	43
Consolidated statement of comprehensive income .....	44
Consolidated statement of financial position .....	45
Consolidated statement of changes in equity .....	46
Consolidated statement of cash flows .....	47
Notes to the consolidated financial statements .....	48
Directors' declaration .....	100
Independent auditor's report to the members .....	101

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 29 August 2017. 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/](http://www.pinnacleinvestment.com/shareholders-investor-centre/)

**07** > **Consolidated statement of profit or loss**

For the year ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
Revenue from continuing operations	1	10,976	8,384
Fair value gains/(losses) on financial assets at fair value through profit or loss		(636)	344
Employee benefits expense		(7,413)	(7,901)
Incentives expense		(4,087)	(3,851)
Professional services expense		(1,555)	(1,704)
Property expense	2	(533)	(721)
Travel and entertainment expense		(441)	(468)
Technology and communications expense		(373)	(559)
Other expenses from operating activities	2	(1,361)	(871)
Share of net profit of jointly controlled entities accounted for using the equity method	21(d)	17,598	15,920
<b>Profit before income tax</b>		<b>12,175</b>	<b>8,573</b>
Income tax expense	3	-	(133)
<b>Profit from continuing operations</b>		<b>12,175</b>	<b>8,440</b>
Profit/(loss) from discontinued operations	23(b)	1,082	(1,248)
<b>Profit for the year</b>		<b>13,257</b>	<b>7,192</b>
Profit for the year is attributable to:			
<b>Owners of Pinnacle Investment Management Group Limited</b>		<b>13,098</b>	<b>4,537</b>
Non-controlling interests		159	2,655
		<b>13,257</b>	<b>7,192</b>
<b>Earnings per share:</b>		<b>Cents</b>	<b>Cents</b>
<b>From continuing operations attributable to owners of Pinnacle Investment Management Group Limited</b>			
Basic earnings per share	5	8.1	5.2
Diluted earnings per share	5	7.6	5.2
<b>Total profit attributable to owners of Pinnacle Investment Management Group Limited</b>			
Basic earnings per share	5	8.9	4.1
Diluted earnings per share	5	8.2	4.1

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

**07 > Consolidated statement of comprehensive income**

For the year ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
<b>Profit for the year</b>		13,257	7,192
<b>Other comprehensive income:</b>			
<i>Items that may be reclassified to profit or loss</i>			
Changes to the fair value of available-for-sale financial assets	23(c)	(495)	943
<b>Total comprehensive income/(loss) for the year</b>		<b>12,762</b>	<b>8,135</b>
Total comprehensive income for the year is attributable to:			
<b>Owners of Pinnacle Investment Management Group Limited</b>		<b>12,603</b>	<b>5,480</b>
Non-controlling interests		159	2,655
		<b>12,762</b>	<b>8,135</b>
Total comprehensive income for the year attributable to owners of Pinnacle Investment Management Group Limited arises from:			
<b>Continuing operations</b>		<b>11,521</b>	<b>5,785</b>
Discontinued operations	23(b)	1,082	(305)
		<b>12,603</b>	<b>5,480</b>

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

**07** > Consolidated statement of financial position

For the year ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	10,945	13,544
Trade and other receivables	7	5,079	5,670
Financial assets at fair value through profit or loss	8	31,571	10,918
Other current assets	9	933	2,661
<b>Total current assets</b>		<b>48,528</b>	<b>32,793</b>
<b>Non-current assets</b>			
Investments accounted for using the equity method	21	32,627	24,528
Property, plant and equipment		139	135
Intangible assets		10	14
Available-for-sale financial assets	23(c)	448	943
<b>Total non-current assets</b>		<b>33,224</b>	<b>25,620</b>
<b>Total assets</b>		<b>81,752</b>	<b>58,413</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	5,021	6,206
Provisions	13	1,000	979
Other current liabilities	12	-	1,572
<b>Total current liabilities</b>		<b>6,021</b>	<b>8,757</b>
<b>Non-current liabilities</b>			
Provisions	13	71	73
<b>Total non-current liabilities</b>		<b>71</b>	<b>73</b>
<b>Total liabilities</b>		<b>6,092</b>	<b>8,830</b>
<b>Net assets</b>		<b>75,660</b>	<b>49,583</b>
<b>EQUITY</b>			
Contributed equity	14	148,834	61,946
Reserves	15(a)	(54,383)	1,167
Accumulated losses	15(b)	(18,791)	(19,982)
<b>Capital and reserves attributable to owners of Pinnacle Investment Management Group Limited</b>		<b>75,660</b>	<b>43,131</b>
Non-controlling interests	15(c)	-	6,452
<b>Total equity</b>		<b>75,660</b>	<b>49,583</b>

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



## 07 > Consolidated statement of changes in equity

For the year ended 30 June 2017

	Notes	Attributable to owners of Pinnacle Investment Management Group Limited			Total \$'000	Non- controlling interests \$'000	Total equity \$'000
		Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000			
<b>Balance at 1 July 2015</b>		<b>61,466</b>	<b>(307)</b>	<b>(20,486)</b>	<b>40,673</b>	<b>3,797</b>	<b>44,470</b>
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>943</b>	<b>4,537</b>	<b>5,480</b>	<b>2,655</b>	<b>8,135</b>
<b>Transactions with owners in their capacity as owners:</b>							
Share-based payments	15(a)	-	531	-	531	-	531
Dividends paid to shareholders	16	-	-	(4,033)	(4,033)	-	(4,033)
Issue of shares on exercise of options		480	-	-	480	-	480
		480	531	(4,033)	(3,022)	-	(3,022)
<b>Balance at 30 June 2016</b>		<b>61,946</b>	<b>1,167</b>	<b>(19,982)</b>	<b>43,131</b>	<b>6,452</b>	<b>49,583</b>
<b>Balance at 1 July 2016</b>		<b>61,946</b>	<b>1,167</b>	<b>(19,982)</b>	<b>43,131</b>	<b>6,452</b>	<b>49,583</b>
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>(495)</b>	<b>13,098</b>	<b>12,603</b>	<b>159</b>	<b>12,762</b>
<b>Transactions with owners in their capacity as owners:</b>							
Share-based payments	15(a)	-	575	-	575	-	575
Dividends paid to shareholders	16	-	-	(11,907)	(11,907)	-	(11,907)
Acquisition of non-controlling interests	15(c)	65,197	(59,603)	-	5,594	(6,611)	(1,017)
Share placement, net of issue costs	14	28,527	-	-	28,527	-	28,527
Employee loan arrangements	14, 15(a)	(6,836)	3,973	-	(2,863)	-	(2,863)
		86,888	(55,055)	(11,907)	19,926	(6,611)	13,315
<b>Balance at 30 June 2017</b>		<b>148,834</b>	<b>(54,383)</b>	<b>(18,791)</b>	<b>75,660</b>	<b>-</b>	<b>75,660</b>

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

**07** > **Consolidated statement of cash flows**

For the year ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		9,344	7,325
Payments to suppliers and employees		(17,539)	(16,902)
Dividends and distributions received		11,400	13,691
Interest received		126	198
Finance and borrowings costs paid		(94)	(197)
Proceeds from sale of financial assets at fair value through profit or loss		10,652	1,117
Payments to purchase financial assets at fair value through profit or loss		(31,307)	(5,407)
Net cash (outflow) from operating activities	24	(17,418)	(175)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(55)	(124)
Payments for intangible assets		-	(9)
Proceeds from sale of investments in subsidiaries		975	4,000
Payments for investments accounted for using the equity method		(615)	(3,150)
Loan advances to shareholders		(3,000)	-
Loan repayments from shareholders		145	-
Loan repayments from related parties		1,500	3,474
Loan advances to related parties		(751)	(366)
Net cash inflow/(outflow) from investing activities		(1,801)	3,825
<b>Cash flows from financing activities</b>			
Dividends paid to shareholders		(11,907)	(4,033)
Proceeds from issue of shares, net of issue costs		28,527	357
Net cash inflow/(outflow) from financing activities		16,620	(3,676)
Net (decrease) in cash and cash equivalents		(2,599)	(26)
Cash and cash equivalents at the beginning of the financial year		13,544	13,570
Cash and cash equivalents at end of year	6	10,945	13,544

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

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

**07** > **Notes to the consolidated financial statements**

30 June 2017

	Page
<b>Group Results</b>	
1 Revenue	49
2 Expenses	49
3 Income tax	50
4 Segment information	51
5 Earnings per share	52
<b>Operating Assets and Liabilities</b>	
6 Cash and cash equivalents	53
7 Trade and other receivables	53
8 Financial assets at fair value through profit or loss	54
9 Other current assets	54
10 Net deferred tax assets	54
11 Trade and other payables	55
12 Other current liabilities	55
13 Provisions	55
<b>Capital and Financial Risk Management</b>	
14 Contributed equity	56
15 Reserves and accumulated losses	58
16 Dividends	60
17 Financing arrangements	61
18 Financial risk management	62
19 Contingencies and Commitments	69
<b>Group Structure</b>	
20 Subsidiaries	70
21 Investments accounted for using the equity method	71
22 Parent Entity financial information	74
23 Discontinued operations	74
<b>Other Information</b>	
24 Additional cash flow information	77
25 Related party transactions	78
26 Key Management Personnel	81
27 Share-based payments	82
28 Remuneration of auditors	84
29 Events occurring after the reporting period	84
30 Critical accounting estimates and judgements	85
31 Summary of significant accounting policies	86

**07** > **Notes to the consolidated financial statements**

30 June 2017 (continued)

**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**

	2017 \$'000	2016 \$'000
<b>Services revenue</b>		
Fund management fees	-	914
Performance fee income	-	1,105
Service charges to entities under joint control	8,915	5,704
Interest income on structured products	-	15
	<b>8,915</b>	<b>7,738</b>
<b>Other revenue</b>		
Directors fees	44	44
Interest received or due	136	189
Dividends and distributions	1,840	195
Other revenue	41	218
	<b>2,061</b>	<b>646</b>
	<b>10,976</b>	<b>8,384</b>

**2 Expenses**

	2017 \$'000	2016 \$'000
Profit before income tax includes the following specific expenses:		
<b>Finance cost expense</b>		
Interest and finance charges – corporate	94	97
Total finance cost expense	<b>94</b>	<b>97</b>
<b>Rental expense relating to operating leases</b>		
Minimum lease payments	425	549
Total rental expense relating to operating leases	<b>425</b>	<b>549</b>
<b>Depreciation and amortisation expense</b>		
Depreciation – property, plant and equipment	51	36
Amortisation – intangible assets	3	2
Total depreciation and amortisation expense	<b>54</b>	<b>38</b>
<b>Impairment</b>		
Impairment expense – loans to related parties and investments accounted for using the equity method	-	941
Reversal of impairment expense – loans to related parties and investments accounted for using the equity method	-	(1,148)
Total impairment (reversal) / expense	<b>-</b>	<b>(207)</b>

**07** > **Notes to the consolidated financial statements**

30 June 2017 (continued)

**3 Income tax****(a) Income tax expense**

	2017 \$'000	2016 \$'000
Income tax expenses is attributable to:		
Continuing operations	-	133
Discontinued operations	-	76
<b>Total income tax expense</b>	<b>-</b>	<b>209</b>
Current tax	(1,394)	(2,414)
Deferred tax	1,394	2,410
Adjustments for tax in respect of prior periods	-	213
	-	209
Deferred income tax expense included in income tax expense comprises:		
Decrease in deferred tax assets	1,394	2,228
Increase in deferred tax liabilities	-	182
	<b>1,394</b>	<b>2,410</b>

**(b) Numerical reconciliation of income tax expense to prima facie tax payable**

	2017 \$'000	2016 \$'000
Profit from continuing operations before income tax	12,175	8,573
Profit/(loss) from discontinued operations before income tax	1,082	(1,172)
<b>Profit before income tax</b>	<b>13,257</b>	<b>7,401</b>
<b>Tax at the Australian tax rate of 30% (2016: 30%)</b>	<b>3,977</b>	<b>2,220</b>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share of profits of entities under joint control	(5,279)	(4,776)
Impairment	-	282
Non-deductible expenditure	202	187
Sundry items	(272)	(171)
	<b>(1,372)</b>	<b>(2,258)</b>
Adjustments for tax in respect of prior periods	-	213
Deferred tax assets not recognised	1,372	2,254
	<b>1,372</b>	<b>2,467</b>
<b>Total income tax expense</b>	<b>-</b>	<b>209</b>

**07** > **Notes to the consolidated financial statements**

30 June 2017 (continued)

**3 Income tax (continued)****(c) Tax losses not recognised**

	2017 \$'000	2016 \$'000
Unused tax losses for which no deferred tax asset has been recognised	59,607	54,553
Potential tax benefit at 30%	17,882	16,366

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. The deferred tax assets of the consolidated entity are currently not recognised under this criteria.

**(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 31(f) and further information is provided at note 31(z).

**4 Segment information**

During the period, the group re-assessed its business segmentation, identifying one business segment being the funds management operations of Pinnacle.

Previously, two business segments were identified, being Pinnacle and Wilson Group. The Wilson Group segment consisted of specialty funds management through the Priority Funds, holding selected investments as principal, and servicing structured products for clients via Next Financial Limited. The investment management of the Priority Funds was transferred to Spheria Asset Management Pty Limited on 1 July 2016, and the Australian Financial Services License of Next Financial Limited was cancelled effective 8 July 2016. Therefore Wilson Group is no longer identified as a segment and the results of principal investments are included within the broader Group results.

The funds management business of Pinnacle is conducted in one geographic location, being Australia.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 5 Earnings per share

#### (a) Basic earnings per share

	2017 Cents	2016 Cents
Attributable to the ordinary equity shareholders of the Company		
<b>From continuing operations</b>	<b>8.1</b>	<b>5.2</b>
From discontinued operations	0.8	(1.1)
<b>From total operations</b>	<b>8.9</b>	<b>4.1</b>

#### (b) Diluted earnings per share

	2017 Cents	2016 Cents
Attributable to the ordinary equity shareholders of the Company		
<b>From continuing operations</b>	<b>7.6</b>	<b>5.2</b>
From discontinued operations	0.5	(1.1)
<b>From total operations</b>	<b>8.1</b>	<b>4.1</b>

#### (c) Reconciliations of earnings used in calculating earnings per share

	2017 Cents	2016 Cents
<b>Basic and diluted earnings per share</b>		
Profit/(loss) attributable to the ordinary owners of the Company used in calculating basic and diluted earnings per share:		
From continuing operations	12,016	5,785
From discontinued operation	1,082	(1,248)
<b>Profit/(loss) used in calculating basic and diluted earnings per share</b>	<b>13,098</b>	<b>4,537</b>

#### (d) Weighted average number of shares used as the denominator

	2017 Number	2016 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	147,598,707	110,580,932
Adjustments for calculation of diluted earnings per share:		
Weighted average Treasury stock (see note 14(d))	9,191,633	-
Weighted average options	2,226,861	1,129,086
<b><i>Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share</i></b>	<b>159,017,201</b>	<b>111,710,018</b>

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

Options 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 have not been included in the determination of basic earnings per share.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### Operating assets and liabilities

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

#### 6 Cash and cash equivalents

	2017 \$'000	2016 \$'000
Available cash at bank and on hand	10,634	13,238
Fixed-term deposits	310	305
Other committed cash at bank and on hand	1	1
	<b>10,945</b>	<b>13,544</b>

##### (a) Risk exposure

The Group's exposure to interest rate risk is discussed in note 18. 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 1.45% and 2.43% (2016: 1.7% and 3.25%). 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

	2017 \$'000	2016 \$'000
Trade receivables	2,200	3,235
Income receivable	2,413	476
Other receivables	338	1,696
Prepayments	128	263
	<b>5,079</b>	<b>5,670</b>

##### (a) Effective interest rates and credit risk

All of the Group's receivables are classified as current and are non-interest bearing.

There is no significant concentration of credit risk with relation to current receivables. Refer to note 18 for more information on the financial risk management policy of the Group.

##### (b) Fair value and credit risk

Information about the Group's exposure to credit risk and about the methods and assumptions used in determining fair value is provided in note 18(b) and 18(d).



## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 8 Financial assets at fair value through profit or loss

	2017 \$'000	2016 \$'000
Australian listed securities	12,551	285
Other unlisted equity securities	364	231
Derivative financial assets	1,208	-
Unlisted unit trusts	17,448	10,402
	<b>31,571</b>	<b>10,918</b>

#### 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 18.

### 9 Other current assets

	2017 \$'000	2016 \$'000
Loans to entities under joint control	933	1,766
Capitalised transaction costs	-	895
	<b>933</b>	<b>2,661</b>

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

As outlined in note 30(a) 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. This relies on assumptions regarding the future profitability of the jointly controlled entities and their ability to service the loans.

### 10 Net deferred tax assets

	2017 \$'000	2016 \$'000
Deferred tax assets (a)	15	425
Deferred tax liabilities (b)	(15)	(425)
<b>Net deferred tax assets</b>	<b>-</b>	<b>-</b>

#### (a) Deferred tax assets

	2017 \$'000	2016 \$'000
<b>The deferred tax asset balance comprises temporary differences attributable to:</b>		
Unrealised loss on fair value assets	15	260
Other	-	165
<b>Total deferred tax assets</b>	<b>15</b>	<b>425</b>
Set-off of deferred tax liabilities pursuant to set-off provisions	(15)	(425)
<b>Net deferred tax assets</b>	<b>-</b>	<b>-</b>

**07** > **Notes to the consolidated financial statements**

30 June 2017 (continued)

**10 Net deferred tax assets (continued)****(a) Deferred tax assets (continued)**

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. The deferred tax assets of the consolidated entity are currently not recognised under this criteria – refer note 3(c).

**(b) Deferred tax liabilities**

	2017 \$'000	2016 \$'000
<b>The deferred tax liabilities balance comprises temporary differences attributable to:</b>		
Financial assets at fair value through profit or loss	11	425
Receivables	4	-
<b>Total deferred tax liabilities</b>	<b>15</b>	<b>425</b>

**11 Trade and other payables**

	2017 \$'000	2016 \$'000
Trade payables	1,097	319
Accrued expenses	1,569	2,168
Accrued bonuses	2,145	3,229
Other payables	210	490
	<b>5,021</b>	<b>6,206</b>

**12 Other current liabilities**

	2017 \$'000	2016 \$'000
Payables to disposal group	-	1,572
	<b>-</b>	<b>1,572</b>

**13 Provisions**

	2017 \$'000	2016 \$'000
<b>Current</b>		
Employee benefits – annual leave and long service leave	1,000	979
	<b>1,000</b>	<b>979</b>
<b>Non-Current</b>		
Employee benefits – long service leave	71	73
	<b>71</b>	<b>73</b>

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 13 Provisions (continued)

#### (a) Movements in provisions

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

	Employee Benefits \$'000
<b>Current</b>	
Carrying amount at the start of the year	979
Additional provisions recognised	21
<b>Carrying amount at end of year</b>	<b>1,000</b>
<b>Non-Current</b>	
Carrying amount at the start of the year	73
Amounts utilised during the year	(2)
<b>Carrying amount at end of year</b>	<b>71</b>

### Capital and financial risk management

This section provides information about the capital structure of the consolidated entity and dividends paid to shareholders during the year, discusses the Group's exposure to various financial risks and how these risks are managed, and outlines the Group's contingent assets and liabilities and its financial commitments.

### 14 Contributed equity

#### (a) Share capital

	2017 Shares	2016 Shares	2017 \$'000	2016 \$'000
<b>Ordinary shares:</b>				
Fully paid contributed equity – Company	149,818,238	111,131,752	148,834	61,946
<b>Total contributed equity</b>	<b>149,818,238</b>	<b>111,131,752</b>	<b>148,834</b>	<b>61,946</b>

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

Date	Details	Number of shares	Issue price	\$'000
<b>1 July 2015</b>	<b>Opening balance</b>	<b>110,531,752</b>		<b>61,466</b>
	Exercise of employee options – Nov 2015 grant	600,000	\$0.60	357
	Transfer from share-based payments reserve	-		123
<b>30 June 2016</b>	<b>Balance</b>	<b>111,131,752</b>		<b>61,946</b>
	Issue of ordinary shares as consideration for acquisition of non-controlling interests of Pinnacle Investment Management Limited (refer note 15(c))	37,043,917	\$1.76	65,197
	Share placement, net of issue costs	12,500,000	\$2.40	28,527
	Treasury stock at year-end	(10,857,431)		(6,836)
<b>30 June 2017</b>	<b>Balance</b>	<b>149,818,238</b>		<b>148,834</b>

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 14 Contributed equity (continued)

#### (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 (refer note 15(c)). The value ascribed to treasury stock is the value of the loans secured by share mortgage at period end.

#### (e) Employee share plans

Information relating to the Pinnacle Investment Management Group Employee Option Share 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 27.

#### (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 material instances of non-compliance with externally imposed capital requirements in the current period.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 15 Reserves and accumulated losses

#### (a) Reserves

	2017 \$'000	2016 \$'000
Share-based payments reserve	4,772	224
Transactions with non-controlling interests reserve	(59,603)	-
Available-for-sale financial assets reserve	448	943
	<b>(54,383)</b>	<b>1,167</b>

#### Movements:

<i>Share-based payments reserve</i>		
<b>Balance at 1 July</b>	<b>224</b>	<b>(307)</b>
Share-based payments expense	575	531
Employee loans subject to share-based payments arrangements (refer note 15(c))	3,973	-
<b>Balance at 30 June</b>	<b>4,772</b>	<b>224</b>
<i>Transactions with non-controlling interests reserve</i>		
Balance at 1 July	-	-
Acquisition of non-controlling interests of Pinnacle Investment Management Limited (refer note 15(c))	(59,603)	-
<b>Balance at 30 June</b>	<b>(59,603)</b>	<b>-</b>
<i>Available-for-sale financial assets reserve</i>		
<b>Balance at 1 July</b>	<b>943</b>	<b>-</b>
Changes in fair value of available-for-sale financial assets (refer note 23)	(495)	943
<b>Balance at 30 June</b>	<b>448</b>	<b>943</b>

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.

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

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.

**07** > **Notes to the consolidated financial statements**

30 June 2017 (continued)

**15 Reserves and accumulated losses (continued)****(b) Accumulated losses**

Movements in accumulated losses were as follows:

	2017 \$'000	2016 \$'000
Balance at 1 July	(19,982)	(20,486)
Profit/(loss) for the year attributable to owners of Pinnacle Investment Management Group Limited	13,098	4,537
Dividends paid to shareholders	(11,907)	(4,033)
<b>Balance at 30 June</b>	<b>(18,791)</b>	<b>(19,982)</b>

**(c) Acquisition of non-controlling interest**

Following approval by shareholders of the Company at an extraordinary general meeting held on 16 August 2016, on 25 August 2016 the Company acquired the remaining 24.99% interest in its subsidiary Pinnacle Investment Management Limited that it did not already own from Executive shareholders ("Vendors").

As a consequence of the transaction the Company:

- issued 37,043,917 shares in the Company to the Vendors in exchange for their shareholdings in Pinnacle Investment Management Limited;
- provided loans to the Vendors to assist them to acquire shares in the Company from Deutsche Australia (refer note 25(d)(i));
- re-issued existing loans in respect of shares in Pinnacle Investment Management Limited that were being exchanged for the shares in the Company (refer note 25(d)(ii));
- took security in respect of the various loans described above by way of Share Mortgage;
- made a bonus payment to facilitate the repayment of a loan of \$1,119,000 on behalf of Mr Ian Macoun in accordance with contractual arrangements entered into in 2006 (refer note 25(d)(iii));
- appointed Mr Ian Macoun as Managing Director, Mr Adrian Whittingham and Mr Andrew Chambers as Executive Directors, and Mr Gerard Bradley and Ms Deborah Beale as Non-executive Directors; and
- changed the name of the Company from Wilson Group Limited to Pinnacle Investment Management Group Limited.

The share price of the Company at the date of acquisition was \$1.76, giving a fair value of the 37,043,917 shares issued of \$65,197,000. The carrying value of the non-controlling interest to the Group at the date of acquisition was \$6,611,000. The difference between the fair value of the consideration paid and the carrying value of the non-controlling interest of \$58,586,000, plus applicable transaction costs of \$1,017,000, has been recognised in equity in the Transactions with Non-Controlling Interests Reserve (refer note 15(a)).

Loans provided to the Vendors, and loans re-issued to the Vendors represent share based payments arrangements and are accounted for in share based payments reserve (refer note 15 (b) and note 27). Shares issued to the Vendors that are subject to share mortgage are regarded as treasury stock (refer note 14(a) and (d)).

Further detail of the transaction was provided in the notice of meeting dated 13 July 2016 provided for the extraordinary general meeting regarding the purchase of non-controlling interests of Pinnacle Investment Management Limited.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 16 Dividends

#### (a) Ordinary shares

	2017 \$'000	2016 \$'000
Special dividend of 5.0 cents per fully paid ordinary share paid on 9 September 2016 (2016: 2.25 cents paid on 18 September 2015)		
Fully franked based on tax paid @ 30.0%	5,557	2,487
Final ordinary dividend for the year ended 30 June 2016 of 1.9 cents per fully paid ordinary share paid on 3 October 2016 (2016 - \$nil)		
Fully franked based on tax paid @ 30.0%	2,815	-
Interim dividend for the year ended 30 June 2017 of 2.2 cents per fully paid share paid on 17 March 2017 (2016 - 1.4 cents paid on 31 March 2016)		
Fully franked based on tax paid @ 30.0%	3,535	1,546
<b>Total dividends paid</b>	<b>11,907</b>	<b>4,033</b>

#### (b) Dividends not recognised at the end of the reporting period

Since year end the directors have declared the payment of a final dividend of 4.8 cents per fully paid ordinary share fully franked based on tax paid at 30%. The aggregate amount of the dividend expected to be paid on 6 October 2017 but not recognised as a liability at year end, is \$7,712,432 (2016 - 1.9 cent ordinary dividend and 5.0 cent special dividend totalling \$8,372,000 not recognised as a liability at year-end).

#### (c) Franked dividends

The franked portions of final dividends recommended after 30 June 2017 will be franked out of existing franking credits.

	2017 \$'000	2016 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2016: 30%)	26,361	26,578

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.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 17 Current liabilities – Financing arrangements

#### (a) Secured liabilities and assets pledged as security

The Group has a bank facility subject to annual review which is secured by a general security deed over the assets of a subsidiary of the Group, Ariano Pty Ltd, and guarantees provided by the Company and other Group entities (excluding entities within the Pinnacle Investment Management Limited and Next Financial Limited groups). The facility's next anniversary date is 30 June 2018. Details of the facility are as follows:

	2017 \$'000	2016 \$'000
Bank guarantee (amount used at balance date – \$5,050,000)	5,500	5,500
Corporate credit card (amount used at balance date – \$28,000)	100	100
	<b>5,600</b>	<b>5,600</b>

The bank facility is supported by a negative pledge that states that (subject to certain exceptions) the Group will not provide any security over its assets and that the Group's consolidated tangible net assets must not be less than 60% of its total tangible assets. Ongoing compliance with covenants is reviewed on a regular basis and compliance has been maintained during the period.

#### Assets pledged as security

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

	2017 \$'000	2016 \$'000
<b>Current</b>		
Cash and cash equivalents	23	78
Receivables	493	420
Other current assets	-	1,119
<b>Total current assets pledged as security</b>	<b>516</b>	<b>1,617</b>
<b>Non-current</b>		
Other non-current assets	-	176
Plant and equipment	57	70
<b>Total non-current assets pledged as security</b>	<b>57</b>	<b>246</b>
<b>Total assets pledged as security</b>	<b>573</b>	<b>1,863</b>

#### (b) Interest rate risk exposure

Information about the Group's exposure to interest rate changes are provided in note 18.



## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 18 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate 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:

	2017 \$'000	2016 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	10,945	13,544
Trade and other receivables	4,951	5,407
Financial assets at fair value through profit or loss	31,571	10,918
Available for sale financial assets	448	943
Loans to entities under joint control (current)	933	1,766
	<b>48,848</b>	<b>32,578</b>
<b>Financial liabilities</b>		
Trade and other payables	5,021	6,206
Other current liabilities	-	1,572
	<b>5,021</b>	<b>7,778</b>

#### (a) Market risk

##### (i) Foreign exchange risk

The Group is not materially exposed to foreign exchange risk.

##### (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 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.

**07** > **Notes to the consolidated financial statements**

30 June 2017 (continued)

**18 Financial risk management (continued)****(a) Market risk (continued)****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% (2016: +/- 15%) 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	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Group	+2,034/-2,034	+1,637/-1,637	+2,034/-2,034	+1,637/-1,637

**(iii) Interest rate risk**

The Group's main interest rate risk arises from holding cash and cash equivalents. During 2017 and 2016, the Group's cash and cash equivalents were 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:

	30 June 2017		30 June 2016	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash and cash equivalents	1.15%	10,945	1.96%	13,544
<b>Exposure to cash flow interest rate risk</b>		<b>10,945</b>		<b>13,544</b>

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 as defined in AASB 7.

**Sensitivity**

At 30 June 2017, 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 \$77,000 lower/higher (2016: change of 100 basis points: \$95,000 lower/higher).

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 18 Financial risk management (continued)

#### (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 material 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:

	2017 \$'000	2016 \$'000
Cash and cash equivalents	10,945	13,544
Trade and other receivables	4,951	5,407
Financial assets at fair value through profit or loss	31,571	10,918
Available-for-sale financial assets	448	943
Loans to entities under joint control (current)	933	1,766
	<b>48,848</b>	<b>32,578</b>

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 there is no evidence to suggest that the client or counterparty will fail to meet their obligations.

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 based on the value of the underlying equities and the financial position of the client or counterparty.

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. Refer to note 31(k) for more information on the trade receivables policy of the Group.

	2017 \$'000	2016 \$'000
<b>Trade and other receivables</b>		
Neither past due nor impaired	4,951	5,394
Past due but not impaired	-	13
	<b>4,951</b>	<b>5,407</b>
<b>Loans</b>		
Neither past due nor impaired	933	1,766
<b>Total trade and loan receivables</b>	<b>5,884</b>	<b>7,173</b>

#### Impaired trade and loan receivables

As at 30 June 2017 receivables of the Group with a nominal value of \$nil (2016: \$nil) were impaired.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 18 Financial risk management (continued)

#### (b) Credit risk (continued)

##### Past Due but not impaired

As of 30 June 2017, trade receivables of \$nil (2016: \$13,000) were past due but not impaired. These relate to customers for whom there is no recent history of default. The ageing of these receivables is as follows:

	2017 \$'000	2016 \$'000
1 to 3 months	-	13
	-	13

##### 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:

	2017 \$'000	2016 \$'000
<b>Cash at bank and short-term bank deposits</b>		
AA-	10,945	13,544
	10,945	13,544
<b>Australian listed debt securities</b>		
AA-	51	135
BBB	-	150
	51	285

#### (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 2017 the Group has \$42.5 million in available cash and Principal Investments.

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.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 18 Financial risk management (continued)

#### (c) Liquidity risk (continued)

##### *Maturities of financial liabilities*

The table below 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 to 30 days \$'000	30 days to 90 days \$'000	90 days to 1 year \$'000	Total contractual cash flows \$'000	Carrying amount \$'000
<b>At 30 June 2017</b>					
Trade and other payables	2,826	2,195	-	5,021	5,021
<b>Total financial liabilities</b>	<b>2,826</b>	<b>2,195</b>	<b>-</b>	<b>5,021</b>	<b>5,021</b>
<b>At 30 June 2016</b>					
Trade and other payables	3,399	2,807	-	6,206	6,206
Other current liabilities	-	1,572	-	1,572	1,572
<b>Total financial liabilities</b>	<b>3,399</b>	<b>4,379</b>	<b>-</b>	<b>7,778</b>	<b>7,778</b>

#### (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).

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 18 Financial risk management (continued)

#### (c) Fair value measurements (continued)

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

30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Australian listed equity securities	12,500	-	-	12,500
Australian listed debt securities	51	-	-	51
Other unlisted equity securities	-	-	364	364
Unlisted unit trusts	17,448	-	-	17,448
Derivative financial instruments – futures	1,208	-	-	1,208
Contingent consideration from disposal of discontinued operation	-	-	448	448
<b>Total assets</b>	<b>31,207</b>	<b>-</b>	<b>812</b>	<b>32,019</b>

No liabilities were held at fair value at 30 June 2017.

30 June 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Australian listed debt securities	285	-	-	285
Other unlisted equity securities	-	-	231	231
Unlisted unit trusts	10,402	-	-	10,402
Contingent consideration from disposal of discontinued operation	-	-	943	943
<b>Total assets</b>	<b>10,687</b>	<b>-</b>	<b>1,174</b>	<b>11,861</b>

No liabilities were held at fair value at 30 June 2016.

There were no transfers between levels for recurring fair value measurements 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 fair value of Australian listed securities and exchange traded options 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. The quoted market price used for unlisted unit trusts is the current exit unit price. These instruments are included in level 1.

The fair value of unlisted equity securities and contingent consideration from disposal of discontinued operation 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, trade receivables and payables, loans to entities under joint control and loans to shareholders are assumed to approximate their fair values due to their short-term nature. 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.

**07 > Notes to the consolidated financial statements**

30 June 2017 (continued)

**18 Financial risk management (continued)****(c) Fair value measurements (continued)****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 2017 and 30 June 2016:

	Contingent consideration \$'000	Unlisted equity securities \$'000
<b>Opening balance 1 July 2015</b>	-	358
Unrealised losses recognised in fair value gains/(losses) on financial assets at fair value through profit or loss	-	(127)
Fair value adjustments recognised in other comprehensive income	943	-
<b>Closing balance 30 June 2016</b>	<b>943</b>	<b>231</b>
Unrealised gains recognised in fair value gains/(losses) on financial assets at fair value through profit or loss	-	133
Fair value adjustments recognised in other comprehensive income	(495)	-
<b>Closing balance 30 June 2017</b>	<b>448</b>	<b>364</b>

**(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.

Contingent consideration valued under Level 3 relates to the disposal of discontinued operations (refer note 23(c)). The fair value of contingent consideration from disposal of the Securities business is determined based on forecasts of profits, taxable income and deferred tax asset utilisation using the latest financial information available for the business at balance date.

**07** > **Notes to the consolidated financial statements**

30 June 2017 (continued)

**19 Contingencies and Commitments****(a) Contingent assets and liabilities****(i) Guarantees**

The Group 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 (2016: \$5,000,000)
- (ii) Pinnacle RE Services Limited – \$50,000 (2016: \$50,000)

The unused bank guarantee facility available at balance date was \$450,000 (30 June 2016: \$450,000). The Group has also provided guarantees in relation to its corporate credit card facility (facility limit of \$100,000 of which \$72,000 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.

**(ii) Disposal of Securities Business**

The group has contingent liabilities and assets in respect to its historical ownership of the Wilson HTM Securities business prior to its disposal on 1 July 2015 (refer note 23).

**(iii) Acquisition of non-controlling interests of Pinnacle Investment Management Limited**

The group has contingent liabilities in respect to warranties provided to the vendors of the non-controlling interests of Pinnacle Investment Management Limited, acquired on 25 August 2016 (refer note 15(c)).

**(b) Commitments****(i) Capital commitments**

There were no capital expenditure commitments at balance sheet date.

**(ii) Lease commitments: Group as lessee**

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities are payable as follows:

	2017 \$'000	2016 \$'000
Within one year	622	598
Later than one year but not later than five years	1,449	2,070
	<b>2,071</b>	<b>2,668</b>
Non-cancellable operating leases	2,071	2,668



## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 19 Contingencies and Commitments (continued)

#### (c) Other expenditure commitments

Commitments contracted for at reporting date but not recognised as liabilities are payable as follows:

	2017 \$'000	2016 \$'000
Within one year	117	123
Later than one year and not later than five years	29	145
	<b>146</b>	<b>268</b>

#### (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 25.

## Group Structure

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

### 20 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 31(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	
			2017 %	2016 %
Pinnacle Investment Management Limited	Australia	Ordinary share	100	75
Pinnacle Funds Services Limited	Australia	Ordinary share	100	75
Pinnacle Services Administration Pty Ltd	Australia	Ordinary share	100	75
Pinnacle RE Services Limited	Australia	Ordinary share	100	75
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
Plato Global Shares Income Fund (Managed Risk)	Australia	Units	-	100

**07** > **Notes to the consolidated financial statements**

30 June 2017 (continued)

**21 Investments 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	
		2017 %	2016 %	2017 \$'000	2016 \$'000
<b>Unlisted</b>					
Plato Investment Management Limited	Funds Management	47.94	49.92	1,680	566
Palisade Investment Partners Limited	Funds Management	35.15	35.71	3,606	2,279
Hyperion Holdings Limited	Funds Management	49.99	49.99	5,533	4,239
Foray Enterprises Pty Limited	Funds Management	42.00	40.00	14,362	12,741
Solaris Investment Management Ltd	Funds Management	40.00	40.00	3,763	2,786
Spheria Asset Management Pty Ltd	Funds Management	40.00	40.00	1,067	632
Antipodes Partners Holdings Pty Ltd	Funds Management	23.57	23.57	2,616	1,285
Two Trees Investment Management Pty Ltd	Funds Management	43.96	-	-	-
				<b>32,627</b>	<b>24,528</b>

Each of the above entities under joint control is incorporated and has their principal place of business in Australia and are accounted for using the equity method.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 21 Investments accounted for using the equity method (continued)

#### (b) Summarised financial information for joint ventures

	Hyperion Holdings Limited		Foray Enterprises Pty Limited		Solaris Investment Management Limited	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<b>Summarised statement of financial position</b>						
Total current assets	11,761	9,041	13,514	10,432	9,961	7,182
Total non-current assets	2,661	3,205	3,379	3,014	648	707
Total current liabilities	(3,385)	(3,808)	(6,428)	(4,728)	(3,025)	(2,801)
Total non-current liabilities	(139)	(187)	(138)	(44)	(166)	(131)
<b>Net Assets</b>	<b>10,898</b>	<b>8,251</b>	<b>10,327</b>	<b>8,674</b>	<b>7,418</b>	<b>4,957</b>
Group share in %	49.99%	49.99%	42.0%	40.0%	40.0%	40.0%

#### Reconciliation to carrying amounts:

Opening net assets 1 July	8,251	8,316	8,674	5,768	4,957	4,426
Total comprehensive income	15,208	20,454	7,630	5,143	5,619	2,981
Dividends paid	(12,561)	(20,519)	(5,977)	(2,237)	(3,158)	(2,450)
<b>Closing net assets</b>	<b>10,898</b>	<b>8,251</b>	<b>10,327</b>	<b>8,674</b>	<b>7,417</b>	<b>4,957</b>
Group's share of net assets	5,448	4,125	4,337	3,470	2,967	1,983
Excess consideration over share of net assets	85	114	10,026	9,271	796	803
<b>Carrying amount</b>	<b>5,533</b>	<b>4,239</b>	<b>14,363</b>	<b>12,741</b>	<b>3,763</b>	<b>2,786</b>

#### Summarised statement of comprehensive income

Revenue	30,577	37,293	23,279	18,018	15,410	11,877
Profit for the year	15,208	20,454	7,630	5,143	5,619	2,962
Other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income</b>	<b>15,208</b>	<b>20,454</b>	<b>7,630</b>	<b>5,143</b>	<b>5,619</b>	<b>2,962</b>
Dividends received from joint venture entities	(6,280)	(10,259)	(2,400)	(900)	(1,280)	(980)

#### 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.

	2017 \$'000	2016 \$'000
Aggregate carrying amount of individually immaterial joint ventures	8,968	7,548
<b>Aggregate amounts of the Group's share of:</b>		
Profit for the year	4,944	3,702
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>4,944</b>	<b>3,702</b>

**07** > **Notes to the consolidated financial statements**

30 June 2017 (continued)

**21 Investments accounted for using the equity method (continued)****(c) Movements in carrying amounts**

	2017 \$'000	2016 \$'000
Carrying amount at the beginning of the financial year	24,528	19,408
Purchase of shares in entities under joint control	1,900	2,140
Share of profit after income tax	17,598	15,920
Recovery of impairment	-	556
Dividends received/receivable	(11,399)	(13,496)
<b>Carrying amount at the end of the financial year</b>	<b>32,627</b>	<b>24,528</b>

**(d) Share of entities revenue, expenses and results**

	2017 \$'000	2016 \$'000
Revenues	51,073	38,070
Expenses	(25,653)	(15,184)
Profit before income tax	25,420	22,886
Income tax expense	(7,822)	(6,966)
Profit after income tax	<b>17,598</b>	<b>15,920</b>

**(e) Summary of entities under joint control**

	2017 \$'000	2016 \$'000
Current assets	27,540	18,398
Non-current assets	4,354	3,255
<b>Total assets</b>	<b>31,894</b>	<b>21,653</b>
Current liabilities	12,557	9,057
Non-current liabilities	176	576
<b>Total liabilities</b>	<b>12,733</b>	<b>9,633</b>
<b>Net assets</b>	<b>19,161</b>	<b>12,020</b>

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 22 Parent Entity financial information

#### (a) Summary financial information

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

	2017 \$'000	2016 \$'000
<b>Statement of financial position</b>		
Current assets	54,286	36,559
Non-current assets	14,353	13,777
<b>Total assets</b>	<b>68,639</b>	<b>50,336</b>
Current liabilities	28,174	25,768
Non-current liabilities	-	1
<b>Total liabilities</b>	<b>28,174</b>	<b>25,769</b>
<b>Net assets</b>	<b>40,465</b>	<b>24,567</b>
<b>Shareholders' equity</b>		
Contributed equity	148,834	61,946
Reserves	(64,570)	1,417
Accumulated losses	(43,799)	(38,796)
<b>Total equity</b>	<b>40,465</b>	<b>24,567</b>
<b>Profit/(loss) for the year</b>	<b>6,904</b>	<b>12,794</b>
<b>Total comprehensive income/(loss)</b>	<b>6,409</b>	<b>13,737</b>

#### (b) Guarantees entered into by the Parent Entity

Details of guarantees entered into by the Group are provided at note 19.

### 23 Discontinued Operations

#### (a) Description

On 15 May 2015 the Company entered into transaction documents with Craigs Investment Partners, Deutsche Australia and staff representatives of the Securities business for the purchase of 100% of the issued shares of entities comprising the Securities business. On 26 June 2015 shareholders approved the sale, with completion of the transaction occurring on 1 July 2015.

Under the terms of the sale agreement the Company:

- transferred its shareholdings in the subsidiaries comprising its Securities business to the purchasers;
- received cash consideration of \$4,000,000, and provided vendor finance with a fair value of \$868,000;
- may receive a future profit share for the first two years post completion (i.e. to 30 June 2017) of 50% of the profit before tax of the Securities business exceeding \$3,000,000, but capped at \$1,000,000 each year\*;
- may receive additional value for deferred tax assets if the amount utilised by the Securities business exceeds \$350,000 during the first three years post completion;
- has contingent liabilities relating to its historical ownership of the business which will run off over time;
- committed to pay certain staff related costs, run-off insurances and other items.

\*This was not achieved in either FY16 or FY17.

**07** > **Notes to the consolidated financial statements**

30 June 2017 (continued)

**23 Discontinued Operations (continued)****(a) Description (continued)**

Following completion of the transaction, the Company and the purchasers further agreed to provide various services to each other to ensure a smooth transition of the ownership of business.

Further detail of the transaction was provided in the notice of meeting provided for the extraordinary general meeting dated 20 May 2015.

**(b) Financial performance and cash flows**

The profit/(loss) for the current and prior corresponding period related to the discontinued operations were as follows:

	2017 \$'000	2016 \$'000
Other income*	1,590	-
Expenses	(508)	(1,134)
<b>Results from operating activities</b>	<b>1,082</b>	<b>(1,134)</b>
Loss on disposal of discontinued operation	-	(38)
<b>Profit/(loss) before tax from discontinued operations</b>	<b>1,082</b>	<b>(1,172)</b>
Income tax expense	-	(76)
<b>Profit/(loss) from discontinued operation attributable to owners of Pinnacle Investment Management Group Limited</b>	<b>1,082</b>	<b>(1,248)</b>
Changes in fair value of contingent consideration	(495)	943
<b>Total comprehensive income/(loss) attributable to discontinued operation</b>	<b>587</b>	<b>(305)</b>

\* Other income includes contingent consideration received during the year of \$1,284,000 (2016 - \$nil) - refer note 23(c).

The cash-flows for the current and prior corresponding period related to the discontinued operations were as follows:

	2017 \$'000	2016 \$'000
Net cash (outflow) from operating activities	(140)	(161)
Net cash inflow from investing activities	975	4,000
Net cash inflow from financing activities	-	-
<b>Net cash flow for the year</b>	<b>835</b>	<b>3,839</b>

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 23 Discontinued Operations (continued)

#### (c) Details of the disposal

The carrying amounts of assets and liabilities as at the date of disposal (1 July 2016) were:

	\$'000
<b>Current Assets</b>	
Cash	10,246
Trade and other receivables	2,987
Other current assets	1,634
	14,867
<b>Non-Current Assets</b>	
Deferred tax Assets	2,715
<b>Total Assets</b>	<b>17,582</b>
<b>Current Liabilities</b>	
Trade and other payables	(5,299)
Provisions	(3,563)
Other current liabilities	(104)
	(8,966)
<b>Non-Current Liabilities</b>	
Provisions	(605)
Other non-current liabilities	(1,868)
<b>Total Liabilities</b>	<b>11,439</b>
<b>Net assets</b>	<b>6,143</b>

	2017 \$'000	2016 \$'000
Consideration received / receivable in cash and cash equivalents	1,284	5,237
Contingent consideration	-	943
Other consideration	-	868
<b>Disposal consideration</b>	<b>1,284</b>	<b>7,048</b>
Carrying value of net assets disposed of	-	(6,143)
Gain on disposal before changes in fair value of contingent consideration	1,284	905
Changes in fair value of contingent consideration recognised in other comprehensive income	(495)	(943)
<b>Gain/(loss) on disposal</b>	<b>789</b>	<b>(38)</b>

The agreement for the disposal included items of contingent consideration relating to a profit-share over the first two years post disposal, and utilisation of deferred tax assets in the first 3 years following disposal. During the year ended 30 June 2017 \$1,284,000 was received from the purchaser in relation to the contingent consideration. At 30 June 2017 the fair value of remaining contingent consideration has been assessed at \$448,000 (2016: \$943,000). This carrying value has been included in available-for-sale financial assets in the statement of financial position.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### Other information

This section contains information on other items that require disclosure under Australian Accounting Standards or other regulatory pronouncements, and includes details of the critical accounting estimates and judgements and significant accounting policies adopted by the Group.

### 24 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:

	2017 \$'000	2016 \$'000
Cash and cash equivalents	10,945	13,544
<b>Balances per statement of cash flows</b>	<b>10,945</b>	<b>13,544</b>

#### (b) Reconciliation of net cash flow from operating activities to profit

	2017 \$'000	2016 \$'000
<b>Profit for the year</b>	<b>13,257</b>	<b>7,192</b>
Depreciation and amortisation	212	195
Impairment	-	360
Equity settled share-based payments	574	531
Net losses/(gains) on financial assets at fair value through profit or loss	372	(343)
Discontinued operations	(851)	-
Change in operating assets and liabilities, net of effects from acquisition and disposal of businesses:		
Trade and other receivables	(685)	(1,446)
Investments accounted for using the equity method	(7,557)	(2,795)
Financial assets	(21,025)	(4,291)
Trade and other payables	(1,734)	418
Provisions	19	4
<b>Net cash (outflow) from operating activities</b>	<b>(17,418)</b>	<b>(175)</b>

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



## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 25 Related party transactions

#### (a) Parent Entity

The Parent Entity of the Group is Pinnacle Investment Management Group Limited (refer note 22).

#### (b) Subsidiaries and jointly controlled entities

Interests in subsidiaries are set out in note 20.

Interests in jointly controlled entities are set out in note 21.

Details of the disposal of a controlled entity 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 21.

#### (c) Key Management Personnel

Disclosure relating to Key Management Personnel is set out in note 26.

Disclosure relating to share-based payments is set out in note 27.

#### (d) Transactions with other related parties

The following transactions occurred with related parties:

##### (i) Issue of new loans approved at extraordinary general meeting on 16 August 2016

As a result of negotiations concluded in May 2016 and approved by shareholders at an extraordinary general meeting held on 16 August 2016, on 25 August 2016 the Company provided senior executives of its subsidiary Pinnacle Investment Management Limited (PIML) 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:

- (a) The loans have a five year term, are limited recourse and are interest bearing;
- (b) They are secured by way of a share mortgage (see further detail below);
- (c) 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;
- (d) 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.

The balance of each loan at 30 June 2017 including capitalised interest was \$510,658.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 25 Related party transactions (continued)

#### (d) Transactions with other related parties (continued)

##### (ii) Re-issue of existing loans approved at extraordinary general meeting on 16 August 2016

As a consequence of the transaction to acquire non-controlling interests of PIML, and as approved by shareholders at an extraordinary general meeting held on 16 August 2016, existing loans amounting to \$4,303,485 issued by PIML in prior years to its senior executives were re-issued by the Company on 25 August 2016 (refer note 15(c)). 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	Value of re-issued loans \$	Repayments made \$	30 June 2017 Loan balance \$
Ian Macoun	547,293	(23,620)	523,673
Alex Ihlenfeldt	725,622	(13,360)	712,262
Adrian Whittingham	781,547	(23,620)	757,927
Andrew Chambers	781,547	(23,620)	757,927

##### (iii) Repayment of Ian Macoun loan approved at extraordinary general meeting on 16 August 2016

In 2006, and as part of the arms' length commercial negotiations in relation to the establishment of PIML, the WIG Group advanced Mr Ian Macoun a loan of \$1,119,000 to acquire shares in PIML and agreed to pay, at the time of repayment of the loan (being the time of sale of the PIML Shares by Mr Macoun) a bonus to Mr Macoun with a net value equal to the outstanding balance of the loan. The loan was unsecured and interest free.

##### (iv) Funds managed by subsidiaries

	2017 \$	2016 \$
Management fees and performance fees received from investments in unlisted unit trusts managed by subsidiaries	-	2,018,969

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

A subsidiary of the Company, Priority Investment Management Pty Ltd ceased to be the investment manager of the Wilson Group Priority Funds on 1 July 2016 and was replaced by Spheria Asset Management Pty Limited, an entity under joint control. As a result, the group earned no management fees or performance fees in relation to managed funds managed by subsidiaries during the current year.

At 30 June 2017 management fees of \$nil (30 June 2016: \$84,685) and performance fees of \$nil (30 June 2016: \$1,104,778) were included in trade and other receivables.

**07** > **Notes to the consolidated financial statements**

30 June 2017 (continued)

**25 Related party transactions (continued)****(d) Transactions with other related parties (continued)****(v) Deutsche Australia**

Deutsche Australia was a substantial shareholder of the Company until 25 August 2016. Part of its shareholding was sold to the vendors of the non-controlling interests of Pinnacle Investment Management Limited at the time of completion of the transaction (refer note 15(c) and 25(d)(i)).

Mr Steven Skala AO was a non-executive director of the Company until his resignation on 26 August 2016 and is a director of Deutsche Australia Limited and Vice Chairman Australia and New Zealand of Deutsche Bank AG.

Deutsche Australia participated in the purchase of the Wilsons Advisory business from the Company on 1 July 2015 (refer note 23(a)).

**(e) Loans to/from related parties**

	2017 \$	2016 \$
<b>Loans with entities under joint control</b>		
Balance at 1 July	1,766,002	4,148,478
Loans advanced	751,010	300,000
Loans repaid	(1,500,000)	(3,000,000)
Impairment	(84,746)	317,524
<b>Balance at 30 June</b>	<b>932,266</b>	<b>1,766,002</b>

**(f) Investments in funds managed by subsidiaries**

	2017 \$	2016 \$
Balance at 1 July	7,420,971	4,769,470
Additions	-	2,000,000
Revaluation	-	651,501
Other changes*	(7,420,971)	-
<b>Balance at 30 June</b>	<b>-</b>	<b>7,420,971</b>

\* Includes changes resulting from subsidiaries ceasing to be the investment manager of managed funds – refer note 25(d)(iv)

**(g) Guarantees**

The Group has provided guarantees to subsidiaries as described in note 19.

**07** > **Notes to the consolidated financial statements**

30 June 2017 (continued)

**26 Key Management Personnel****(a) Key Management Personnel compensation**

	2017 \$	2016 \$
Short-term employee benefits	3,200,273	2,377,657
Post-employment benefits	117,901	122,358
Long-term benefits	24,680	4,420
Termination benefits	-	85,000
Share-based payments	342,841	89,661
	<b>3,685,695</b>	<b>2,679,096</b>

\* The increase in KMP compensation arises due to the increase in the number of individuals defined as Key Management Personnel by virtue of Board appointments made during the year.

Certain Key Management Personnel are party to the long-term employee incentive arrangement described in note 31(r)(vii). During the year, loans provided under the arrangement were re-issued as a result of the acquisition of the non-controlling interest in Pinnacle Investment Management Limited (PIML) from executives (refer note 15(c)). At 30 June 2017, the balance of loans issued to Key Management Personnel was \$2,751,790 (2016: \$1,272,917) relating to 2,985,272 shares issued in the Company (2016: 5,160 shares in PIML).

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
2017	2,391,917	42,632	2,000,000	(1,203,220)	1,563,096	4,794,426	166,670	4
2016	2,391,917	-	-	-	-	2,391,917	135,144	2

\*includes changes due to commencing or ceasing to be Key Management Personnel during the year.

The amounts shown for interest not charged in the table above 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.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 27 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
<b>2017</b>								
1 July 2016 (A)	30 June 2018	\$0.986	2,125,000	-	-	-	2,125,000	-
1 July 2016 (B)	30 June 2020	\$0.986	2,125,000	-	-	-	2,125,000	-
			<b>4,250,000</b>	-	-	-	<b>4,250,000</b>	-
Weighted average exercise price			\$0.99	-	-	-	\$0.99	-

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
<b>2016</b>								
26 Nov 2014	30 June 2016	\$0.595	600,000	-	600,000	-	-	-
1 July 2016 (A)	30 June 2018	\$0.986	-	2,125,000	-	-	2,125,000	-
1 July 2016 (B)	30 June 2020	\$0.986	-	2,125,000	-	-	2,125,000	-
			<b>600,000</b>	<b>4,250,000</b>	<b>600,000</b>	-	<b>4,250,000</b>	-
Weighted average exercise price			\$0.60	\$0.99	\$0.60	-	\$0.99	-

No options were exercised during the current year. In the prior year, the weighted average share price at the date of exercise of options exercised during the year was \$1.47. The weighted average remaining contractual life of share options outstanding at the end of the year was 2.0 years (2016: 2.6 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 31(b)(ii).

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 27 Share-based payments (continued)

#### (a) Pinnacle Investment Management Group Employee Option Share Plan (continued)

##### Fair value of interests granted – 1 July 2016 (A)

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 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: \$0.30 per option
- Exercise price: \$0.986
- Grant date: 1 July 2016
- Vesting date: 1 January 2018
- 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: 2.03%

##### 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 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: \$0.32 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 31(r)(vii) and 26(a).

#### (c) Expenses arising from share-based payment transactions

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

	2017 \$'000	2016 \$'000
Pinnacle Investment Management Group Employee Option Share Plan	403	468
Pinnacle Long-term Employee Incentive Plan	172	63
	<b>575</b>	<b>531</b>

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 28 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:

	2017 \$	2016 \$
<b>(i) Audit and other assurance services</b>		
Audit and review of financial statements	212,491	364,115
Other assurance services:		
Audit of regulatory returns	20,085	26,000
Audit of compliance plan – Responsible entity *	52,178	26,395
Other assurance services	-	59,765
<b>Total remuneration for audit and other assurance services</b>	<b>284,754</b>	<b>476,275</b>
<b>(ii) Taxation services</b>		
Tax services	42,968	128,588
<b>Total remuneration for taxation services</b>	<b>42,968</b>	<b>128,588</b>
<b>(iii) Other services</b>		
Other services	-	-
<b>Total remuneration of PricewaterhouseCoopers Australia</b>	<b>327,722</b>	<b>604,863</b>
<b>Total remuneration of auditors</b>	<b>327,722</b>	<b>604,863</b>

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

### 29 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 or economic entity in subsequent financial years.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 30 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 assets

The Group tests at least annually whether assets have suffered any impairment, in accordance with the accounting policy stated in note 31(i). Where required, the recoverable amounts of assets have been determined based on value-in-use calculations. These calculations require the use of assumptions.

##### (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 18(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 31(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 31(r)(iv) and 27 for further details).

##### (iv) Contingencies

The Group has made certain judgements and estimates relating to the contingent assets and liabilities outlined in note 19(a). These assumptions are based on all existing information available at the signing date of the Financial Report.



## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 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 20.

#### (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

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

##### (iii) 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 2016.

##### (iv) 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.

##### (v) Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates. It also requires management to exercise its judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 30.

##### (vi) Adjustment of prior period balances

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

#### (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 2017 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.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 Summary of significant accounting policies (continued)

#### (b) Principles of consolidation (continued)

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 31(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 14 and note 27(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 21).

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 31(i).

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 Summary of significant accounting policies (continued)

#### (b) Principles of consolidation (continued)

##### (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 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 net of the amount of Goods and Services Tax (GST).

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 Summary of significant accounting policies (continued)

#### (e) Revenue recognition (continued)

Revenue is recognised for the major business activities as follows:

##### (i) Management fees

Management fee income is recognised when the Group has performed the related service and the amount of revenue can be reliably measured.

##### (ii) Performance fees

Performance fee income is recognised when the Group has met the relevant performance benchmarks and the performance fees have crystallised.

##### (iii) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the loan, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

##### (iv) Dividends

Dividends 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 31(l)).

##### (v) Service charges to entities under joint control

Service charges to entities under joint control are recognised when the relevant services are performed.

#### (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.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 Summary of significant accounting policies (continued)

#### (f) Income tax (continued)

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 31(z)(ii).

#### (g) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 19). Payments made under operating leases (net of any incentives received from the lessor) are 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.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 Summary of significant accounting policies (continued)

#### (h) Business combinations (continued)

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 assets

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 provision for impairment. Trade receivables are generally due 30 days from the date of recognition. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 Summary of significant accounting policies (continued)

#### (k) Trade receivables (continued)

The amount of the impairment loss is recognised in the consolidated statement of comprehensive income within other expenses. When a trade 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 consolidated statement of comprehensive income.

#### (l) Investments and other financial assets

##### *Classification*

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. The classification of investments is determined at initial recognition.

##### (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 classified as held for trading unless they are designated as hedges. 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 and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period, which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 7) and other current assets (note 9).

##### (iii) Available-for-sale financial assets

Financial assets that are not classified into any of the other categories are included in the available-for-sale category.

##### *Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on trade-date, being the date on which the Group commits to purchase or sell the asset. At initial recognition financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

##### *Measurement*

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available for sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognised as follows:

- > For financial assets at fair value through profit and loss – in fair value gains/(losses) on financial assets at fair value through profit and loss;
- > For other monetary and non-monetary securities classified as available for sale – in other comprehensive income.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 Summary of significant accounting policies (continued)

#### (l) Investments and other financial assets (continued)

##### *Fair value*

The fair values of quoted investments are based on current bid prices. Units in managed funds are valued at the pre-distribution exit price at year end. If the market for a financial asset is not active (and for unlisted securities) the Group establishes fair value by using valuation techniques. These include reference to recent arm's length transactions or to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

##### *Impairment*

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

##### > Assets carried at amortised cost

If there is objective evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss recognised in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

##### > Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

#### (m) Derivative financial instruments – futures and options

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 at each reporting date. Derivative instruments include equity futures, interest rate futures and equity options.



## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 Summary of significant accounting policies (continued)

#### (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 31(i)).

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.

#### (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 from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 Summary of significant accounting policies (continued)

#### (q) 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 each 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.

#### (r) 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.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 Summary of significant accounting policies (continued)

#### (r) Employee benefits (continued)

##### (iv) Share-based payments

Share-based compensation benefits are provided to certain employees via the Pinnacle Investment Management Group Employee Option Share Plan and where applicable, WHIG long-term incentive share plan and Pinnacle long-term employee incentive agreements. Information relating to these schemes is set out in note 27.

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 31(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) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

##### (vi) Termination benefits

Termination benefits may be payable when employment is terminated otherwise than in accordance with the employment contract, 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.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 Summary of significant accounting policies (continued)

#### (r) Employee benefits (continued)

##### (vii) Long-term employee incentive agreements

The Group has a long-term employee incentive scheme which enables certain employees of the Group, under full recourse and limited recourse loan arrangements, to acquire PNI shares. The scheme is 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 scheme is 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 which 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.

#### (s) Contributed equity

Ordinary shares are classified as equity (note 14). 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.

#### (t) 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.

#### (u) 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.

##### (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.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 Summary of significant accounting policies (continued)

#### (v) 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.

#### (w) Disposal group held for sale and discontinued operations

The assets and liabilities of the disposal group are classified as held-for-sale and stated at the lower of carrying amount and fair value less costs of disposal if their carrying amount is to be recovered principally through a sale transaction rather than continuing use.

Assets of the disposal group classified as held-for-sale are presented separately from other assets in the consolidated statement of financial position. The liabilities of the disposal group classified as held-for-sale are presented separately from other liabilities in the consolidated statement of financial position.

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.

#### (x) 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.

#### (y) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published which are not mandatory for 30 June 2017 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.

#### (i) AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2015, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. The standard is not applicable until 1 January 2018 but is available for early adoption.

## 07 > Notes to the consolidated financial statements

30 June 2017 (continued)

### 31 Summary of significant accounting policies (continued)

#### (y) New accounting standards and interpretations not yet adopted (continued)

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The new hedging rules will also have no impact as the Group does not undertake hedge accounting. The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of credit losses. The Group does not expect its impairment provisions to be significantly impacted by the new rules. The Group may, however, be required to make additional disclosures in the financial statements. The Group does not intend to adopt the standard ahead of the mandatory date.

#### (ii) AASB 15 Revenue from Contracts with Customers (effective from 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principal that revenue is recognised when control of a good or services transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 January 2018), i.e. without re-stating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

Management does not anticipate the new rules having a material impact on when its revenues are recognised, however, further disclosure may be required. The Group does not intend to adopt the standard before its effective date.

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

#### (z) Parent Entity financial information

The financial information for the Parent Entity, Pinnacle Investment Management Group Limited, disclosed in note 22 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 31(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.

## 08 > Directors' Declaration

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In the directors' opinion:

- (a) the financial statements and notes set out on pages 42 to 99 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 2017 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 1(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.



A Watson  
Chairman

Sydney  
29 August 2017

# 09 > Independent Auditor's Report

30 June 2017



## *Independent auditor's report*

To the shareholders of Pinnacle Investment Management Group Limited

### *Report on the audit of the financial report*

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#### *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 2017 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 2017
- 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

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#### *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* (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.



## 09 > Independent Auditor's Report

30 June 2017 (continued)

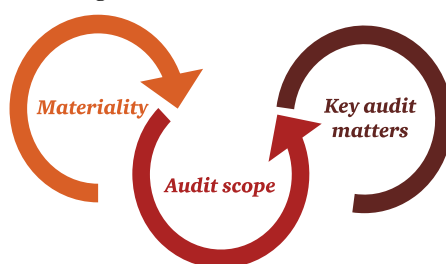
### *Our audit approach*

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.

The Group's operations include eight boutique fund managers ("the Pinnacle Affiliates") with differing investment styles and offerings. The Group also provides distribution services, business support and responsible entity services to the boutique fund managers 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 consolidate the subsidiaries and apply equity accounting to the Pinnacle Affiliates.



### **Materiality**

- For the purpose of our audit we used overall Group materiality of \$608,700, which represents 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 from continuing operations because, in our view, it is the metric against which the performance of the Group is most commonly measured. We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable profit related thresholds.

### **Audit scope**

- Our audit focused on where the Group has 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 performed an audit of each of the eight Pinnacle Affiliates on a stand-alone basis.
- 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.
- Our team included relevant valuation experts to assist us to evaluate the key assumptions and methodology used by management.

## 09 > Independent Auditor's Report

30 June 2017 (continued)

### 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 period. 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	How our audit addressed the key audit matter
<p><b>Performance fee revenue</b> <i>(Refer to note 31(e) Summary of significant accounting policies)</i></p> <p>Performance fee arrangements require the assessment of the performance of the relevant investments in comparison to a specific benchmark. These benchmarks are agreed between Affiliates and their clients, and set out in relevant Product Disclosure Statements.</p> <p>This was a key audit matter because the performance fee revenues recognised by Pinnacle Affiliates was material in nature and the variability of returns which impacted the Group's share of net profit of jointly controlled entities accounted for using the equity method.</p>	<p>Our testing involved assessing a sample of calculated performance fees by:</p> <ul style="list-style-type: none"><li>• Verifying that the calculation methodologies utilised by management were in accordance with contractual arrangements</li><li>• Ensuring the hurdle rates and accumulated deficiency clauses were appropriately considered</li><li>• Validating key inputs (for e.g. net asset values and fund returns) to relevant external sources</li><li>• Recalculating the performance fees and tracing them to subsequent cash receipts.</li></ul>
<p><b>Acquisition of non-controlling interest</b> <i>(Refer to note 15(c))</i></p> <p>Following approval by the shareholders at an extraordinary general meeting held on 16 August 2016, on 25 August 2016 the Group acquired the remaining 24.99% interest in its subsidiary, Pinnacle Investment Management Limited, that it did not already own from Executive Shareholders.</p> <p>This was a key audit matter given the significance of the transaction.</p>	<p>In evaluating the accounting for the acquisition of the non-controlling interest, we:</p> <ul style="list-style-type: none"><li>• Read the relevant contracts and agreements.</li><li>• Evaluated the accounting treatment of the transaction with reference to the requirements of Australian Accounting Standards, including the following:<ul style="list-style-type: none"><li>• the consideration paid by the Group in the scrip-for-scrip offer</li><li>• the classification of the transaction costs incurred.</li></ul></li><li>• We also assessed the adequacy of the related disclosures in Note 15(c) to the consolidated financial statements in light of the requirements of Australian Accounting Standards.</li></ul>

## 09 > Independent Auditor's Report

30 June 2017 (continued)

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### *Other information*

The directors are responsible for the other information. The other information includes the Overview, Operating and Financial Review, Shareholder information, Corporate Governance, Directors' Report and Remuneration Report included in the Group's annual report for the year ended 30 June 2017 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *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.

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### *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: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

## 09 > Independent Auditor's Report

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30 June 2017 (continued)

### *Report on the remuneration report*

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#### *Our opinion on the remuneration report*

We have audited the remuneration report included in the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Pinnacle Investment Management Group Limited, for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

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#### *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.

PricewaterhouseCoopers

PricewaterhouseCoopers



Craig Thomason  
Partner

Sydney, 29 August 2017

## 10 > Shareholder Information

The shareholder information set out below is correct as at 25 August 2017.

### Shares on issue

#### Distribution of securities

Range	No. of shareholders	No. of shares	% of issued shares
1 - 1,000	403	256,030	0.16
1,001 - 5,000	495	1,500,997	0.93
5,001 - 10,000	214	1,679,856	1.05
10,001 - 100,000	377	12,780,620	7.95
100,001 - 9,999,999,999	122	144,458,166	89.91
Rounding			0.00
<b>Total</b>	<b>1,611</b>	<b>160,675,669</b>	<b>100.00</b>

#### Unmarketable parcels

	Minimum parcel size	No. of shareholders	No. of shares
Minimum \$500 parcel at \$3.28 per unit	153	62	1,116

#### Twenty largest shareholders (as at 25 August 2017)

Rank	Name	No. of shares	% of issued shares
1	Macoun Generation Z Pty Ltd	20,243,592	12.60
2	J P Morgan Nominees Australia Limited	11,320,191	7.05
3	Warragai Investments Pty Ltd	10,050,000	6.25
4	HSBC Custody Nominees (Australia) Limited	8,745,746	5.44
5	RBC Investor Services Australia Nominees Pty Ltd	8,217,436	5.11
6	Macoun Superannuation Pty Ltd	5,640,004	3.51
7	Kinauld Pty Ltd	4,750,000	2.96
8	Mr Alexander William Macdonald Grant	4,670,090	2.91
9	Andrew Chambers & Fleur Chambers	4,647,214	2.89
10	National Nominees Limited	4,507,870	2.81
11	Mr Adrian Whittingham	4,447,214	2.77
12	AJF Squared Pty Ltd	4,232,214	2.63
13	Usinoz Pty Ltd	4,021,610	2.50
14	Earlston Nominees Pty Ltd	3,120,000	1.94
15	Mr David Francis Cleary	2,905,925	1.81
16	Mr David Noel Groth	2,875,000	1.79
17	BNP Paribas Noms Pty Ltd	1,610,561	1.00
18	Mark Cormack + Melanie Cormack	1,585,435	0.99
19	Mr Robert James Wilson	1,551,000	0.97
20	Cibaw Pty Ltd	1,496,337	0.93

## 10 > Shareholder Information

### Substantial shareholdings

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	25,983,596	16.17%
Steve Wilson and associates	20,020,000	12.46%
Wilson Asset Management Group <sup>1</sup>	8,071,439	5.02%

<sup>1</sup> Date of last substantial holder notice lodged on 27 June 2017.

### Voting rights

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

## Options and performance rights on issue

### Distribution of securities

There are 4,250,000 options on issue as at 25 August 2017.

The options are held by A&T Structured Finance Services Pty Ltd as trustee for the Pinnacle Investment Management Group Employee Option Share Plan. The options are not listed.

### Voting rights

There are no voting rights attaching to the options.

## 11 > Corporate Directory

### **Pinnacle Investment Management Group Limited**

Incorporated in Queensland on 23 April 2002

#### **ABN**

22 100 325 184

#### **Directors**

Alan Watson, Chairman

Ian Macoun, Managing Director (from 17 August 2016;  
executive director from 25 August 2016)

Deborah Beale

Gerard Bradley

Andrew Chambers

Adrian Whittingham

Steven Wilson AM

#### **Company Secretary**

Eleanor Padman (until 22 June 2017)

Calvin Kwok (from 22 June 2017)

#### **Chief Financial Officer and Chief Operating Officer**

Alex Ihlenfeldt

#### **Share Registry**

Computershare Investor Services Pty Limited

117 Victoria Street

West End QLD 4101

Telephone 1300 552 270

#### **ASX Code**

#### **PNI**

Shares are listed on the Australian Securities Exchange

#### **Bankers**

Commonwealth Bank of Australia

#### **Auditor**

PricewaterhouseCoopers

### **Queensland**

#### **Brisbane**

Registered Office

Level 19, 307 Queen Street

Brisbane QLD 4000

Telephone 1300 651 577

### **New South Wales**

#### **Sydney**

Level 35, 60 Margaret Street

Sydney NSW 2000

Telephone 1300 651 577

### **Victoria**

#### **Melbourne**

Level 26, 140 William Street

Melbourne VIC 3000

#### **Website address**

[www.pinnacleinvestment.com](http://www.pinnacleinvestment.com)



[pinnacleinvestment.com](http://pinnacleinvestment.com)