



<b>Company</b>	Perpetual Limited
<b>Code</b>	PPT
<b>Meeting</b>	AGM
<b>Date</b>	15 October 2020
<b>Venue</b>	Online A recording can be accessed here: <a href="https://webcast.openbriefing.com/6591/player/index.php?player_id=38969">https://webcast.openbriefing.com/6591/player/index.php?player_id=38969</a>
<b>Monitor</b>	Richard Williams assisted by Peter Gregory

<b>Number attendees at meeting</b> (as provided to PPT from Link Market Services)	Proxy holders: 2 Shareholders: 11 Non-voting shareholders: 3 Registered attendees: 194
<b>Number of holdings represented by ASA</b>	76
<b>Value of proxies</b>	\$3.8m
<b>Number of shares represented by ASA</b>	126.6k vs 227k last year (equivalent to between the 21 <sup>st</sup> and 26 <sup>th</sup> largest holder)
<b>Market capitalisation</b>	\$1,651m – on day of meeting
<b>Were proxies voted?</b>	Yes, on a poll
<b>Pre AGM Meeting?</b>	Yes, with Chair Tony D'Aloisio, Chair of People and Remuneration Committee Nancy Fox, Paul Chasemore, Executive General Manager People and Catherine Buckmaster, Senior Manager Investor Relations

### **FY20 disappointing, but optimism for future transformation**

The Chair and the CEO/MD's addresses along with the voting results can be accessed via the following link:  
<https://www.perpetual.com.au/about/shareholders/asx-announcements>

The chair opened with a comprehensive description of the online meeting stressing that every question asked by shareholders would be answered. He stated that feedback on this virtual meeting would be sought from shareholders for consideration in planning future meetings.

The meeting was again conducted in an orderly fashion and ran for one hour and 40 minutes.

## **FY20 results**

The chair acknowledged that FY20 had been a disappointing year for financial results with NPAT of \$82 million 38% lower than FY19. While first half NPAT result was \$51.6 million, the second half was just \$30.4 million.

Perpetual Investments (PI) revenue was impacted by COVID-19 induced poor performance of investment markets and net funds outflow. Perpetual Private (PP) also was impacted by investment performance but benefited from positive net flows. Perpetual Corporate Trust (PCT) saw strong growth.

The chair said that Perpetual (PPT) had a robust balance sheet, strong brand, and a well-diversified business in Australia - these continue to be key strengths for PPT.

The progress of the strategic direction of widening the geographic footprint of PPT was demonstrated in the acquisition of Trillium and the July announcement of the intended acquisition of Barrow Hanley which will triple funds under management.

In response to a question from another shareholder, the chair advised that NPAT and UPAT guidance for FY21 would be provided at the half year results announcement in February 2021.

## **Dividend policy**

PPT plans to change from using NPAT as the basis of dividends to UPAT, as a result of the international acquisitions. Future dividends may not be fully franked. When the Barrow Hanley acquisition is completed the board will publish details of the revised dividend plan, and the chair concluded this topic by saying that the acquisitions were expected to deliver double digit EPS and DPS accretion on an underlying basis.

## **Board composition**

In addition to recent board changes, the board is looking at adding an additional overseas based director and possibly, in time adding to the board's technology skills.

## **CEO/MD report**

The strategic work done in FY20 together with the completion of a difficult, but needed operating model review across the organisation helped to position PPT to respond well to the extraordinary events brought about by COVID-19.

Expenses were up 1% on the previous financial year demonstrating appropriate cost disciplines and savings arising from the implementation of the new operating model.

As a result of PPT's diversification, 40% of the group's revenue is not directly exposed to investment markets. This revenue is predominantly from PCT (39% of operating profit), as well as some areas of PP.

## **Refreshed strategy**

The CEO explained PPT's refreshed purpose of "Enduring Prosperity" through the focus on three strategic imperatives; Client First, Future fit and New horizons.

Progress in FY20 included a strong increase in customer satisfaction scores, the addition of 20 new advisors for PP as well as PI's Global Innovation Fund ranking third in Morningstar's top 20 global funds. In addition, the new operating model combines the IT, operations and product functions into a unified group.

The COVID-19 response utilised technology to digitize the mailroom and signatures as well as to improve customer communication through webinars and online content.

The company has an active pipeline of further inorganic growth opportunities.

## Receival of financial and statutory reports

At the commencement the chair gave an update on a number of matters raised at the last AGM.

Key points were: political donations on behalf of a PPT are banned; the Banking and Finance Oath has now been signed by all of the members of the board and the executive.; PPT is anticipating the release of the Finance Accountability Regime (FAR) and will work to comply with it and a model litigant statement has been published on the company's website.

A number of specific client issues were raised at that AGM and these have all either been resolved or are being actioned. PPT has established an independent Client Advocacy Team reporting to the chief risk officer to work directly with clients to investigate and resolve issues.

## ASA questions

ASA's questions (outlined below) provided added structure to the AGM, with PPT's responses providing helpful background to the information provided in the Annual Report.

### Perpetual Investments:

Since 2018 PI revenue has fallen 25% and net profit before tax is down 50%. The dollar shortfall in Perpetual's PBT and revenue since 2018 can be attributed almost entirely to PI. While there have been some bright spots (fixed interest and the global innovation fund) the underlying business is not travelling well.

- Can you please reassure shareholders that with the new acquisitions will not result in loss of focus on this core business and that shareholders will still have visibility of its separate performance?
  - *The chair replied that PPT would continue to report Australia as at present and add the international report.*
- With the CEO also being the responsible executive for PI does the board have a higher level of oversight of PI?
  - *The chair replied that indeed the CEO is responsible for PI, however that may change depending on how the operating model evolves with the acquisition of Trillium and Barrow Hanley. The board's strategic oversight of all these businesses will continue.*
- Given the long term under performance of PI is the board still confident that the Perpetual definition of value investing is still appropriate and that it is not Perpetual's Kodak (Digital photography) moment?
  - *The chair reaffirmed that PPT's fundamental approach as a value manager for the investment business has not changed and remains fully committed to its highly regarded active value investment approach and remains "true to label". In acknowledging that growth stocks have had a sustained period of outperforming value stocks, the chair does not think that PPT is looking at any sort of Kodak moment.*

The above questions and responses from PPT were reported in *The Australian* newspaper on 16 October 2020 without acknowledgement of ASA – the article can be accessed here (paywall applies):

<https://www.theaustralian.com.au/business/wealth/perpetual-seeks-to-reassure-on-outlook-payoffs/news-story/27cbfe7075ae3012ae376d2c932d7d5b>

### Capital Raising:

- The ASA asked for the reasons for opting for an institutional placement and a SPP rather than a pro-rata accelerated institutional tradeable rights entitlement offer (PAITREO)?

- *The chair replied that the board considered that this was the least risky way to obtain the best price and provide fairness to all shareholders. Shareholders either received their full entitlement or prorata entitlement that they would have received if there was a renounceable entitlement offer at the same price as institutional investors. This was the first capital raising that PPT has undertaken.*
- The acquisition of Barrow Hanley is a bold step and we note the increase in debt to fund it. Given the stated expectation that its funding debt will be paid back in 5 years can outline any additional risk associated with this achieving this?
  - *The chair replied that debt levels are within the PPT stated debt appetite. The debt will be paid back from the anticipated additional cash flows from the acquisition using conservative revenue projections. A very detailed risk assessment has been carried out as outlined in the investor presentation. The board is mindful of the risks, and in particular that it is an expanded geographic footprint and the board will manage these risks. This is a transformative and good deal for this company.*

#### **Remote working:**

- We congratulate Perpetual on its response to COVID-19 and in particular the seamless deployment of its people to work from home. Given the experience with this do you anticipate a permanent change in working arrangements available to staff?
  - *The chair replied that the majority of PPT's people have a preference for some sort of flexibility and it's almost certain there will be permanent learnings for us with the way we manage our people and the workplace environment in the future.*

#### **Resolution 1 - Remuneration report** (carried 97.91% for)

The ASA advised that it would be voting undirected proxies against the remuneration report for the reasons provided in the ASA voting intentions. The ASA affirmed that a LTI hurdle should be measured over a minimum of four years with at least two metrics taken into account (eg TSR and EPS growth), not just one – TSR as in the current scheme.

The ASA welcomes the Board using its discretion to award any cash and un-hurdled short-term incentives as hurdled equity and to make cuts to KMP and Board fixed remuneration in the first half of FY21.

In the light of:

- Perpetual experiencing the worst profit result since 2014
- The Board needing to use its discretion to award any cash and un-hurdled short-term incentives as hurdled equity
- An increase in non-financial KMP variable incentive metrics since FY18 while at the same time financial performance has deteriorated
- In a normal year only 25% the CEO/MD's target remuneration is subject to any form of long-term testing
- what factors will the Board consider in its scheduled FY21 review of KMP variable remuneration?
- can the Board reassure shareholders that the review will examine implementing a variable incentive scheme that more closely reflects company financial performance and shareholder experience?
  - *Nancy Fox replied that the board will review the effectiveness of the variable incentive scheme as it does in every year and that the board will strike the right balance for all stakeholders including those of our shareholders. Ms Fox also added that the achievement of non-financial metrics were leading indicators of future financial performance.*

**Note:** this response would appear to be inconsistent with the statement in the annual report that “a review of the current variable incentive plan for KMP will be undertaken during FY21”. Her response did not address PPT’s static or declining financial performance since FY14 despite her statement above, regarding non-financial metrics being leading indicators of future financial performance.

**Resolution 2 – Re-appointment of Tony D’Aloisio** (carried 99.64% for)

Mr D’Aloisio said he would not be adding to his work commitments and is happy to continue serving as chairman, working to deliver results on PPT’s strategy.

**Resolution 3 – Re-appointment of Fiona Trafford-Walker** (carried 99.86% for)

Ms Trafford-Walker briefly outlined her background and current commitments and stressed her commitment to the on-going success of PPT and her support of the company’s transformative strategy.

**Resolution 4 – Approval of the 2020 variable incentive equity grant for the MD/CEO** (carried 98.64% for)

The ASA voted against this resolution for the same reasons as resolution 1.

Full voting results can be found at:

<https://www.perpetual.com.au/about/shareholders/asx-announcements>