



**Funds under management still sliding – high hopes for transformational acquisitions**

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| <b>Company/ASX Code</b>      | Perpetual Limited/PPT  |
| <b>AGM date</b>              | Thursday 15 October 2020   |
| <b>Time and location</b>     | 10.00 am AEDT online - go to: <a href="https://agmlive.link/PPT20">https://agmlive.link/PPT20</a> and select PPT AGM 2020 (please note only written questions will be accepted).                   |
| <b>Registry</b>              | Link Market Services   |
| <b>Webcast</b>               | Yes  |
| <b>Poll or show of hands</b> | Poll on all items  |
| <b>Monitor</b>               | Richard Williams assisted by Peter Gregory   |
| <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 |

**ASA WILL ATTEND THE VIRTUAL AGM, VOTE PROXIES AND ASK QUESTIONS AS NORMAL**

Please note: The individuals involved in the preparation of this voting intention have shareholdings in this company.

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|                 | <b>To receive and consider the financial statements, the reports of the Directors and of the auditor for the financial year end 30 June 2020</b> |
| <b>ASA Vote</b> | No vote required   |

**Summary of ASA Position**

This year the company embedded its new operating model which aims to deliver streamlined governance and decision-making processes, whilst aiming to deliver cost savings of \$18-23m over three years from 1 July 2019.

**Governance and culture**

PPT’s pandemic response plan was activated in January 2020 and enabled the company to comply with COVID-19 guidelines in Australia and Singapore. Ninety five percent of staff were successfully transitioned to remote working within two weeks, enabling client service to continue without disruption.

The annual report contains a section on sustainability for the first time, referring the reader to the separate Sustainability Report for more information.

The board has an independent chairman and a majority of independent directors and one executive director. The board continues to have 28% female directors.

PPT have been careful to ensure that directors are not overloaded with other responsibilities so that they can give PPT the focus it needs. During FY20 the Board met 21 times to monitor the

impact of COVID-19 and to consider possible inorganic growth opportunities including Trillium and Barrow Hanley.

Board skills capability relating to the acquisitions of Trillium and Barrow Hanley are adequate with the current directors.

In terms of considering competency levels of directors and rating this, the Chairman would prefer to look at the substantive skills of directors, rather than rating them via a skills matrix. The Corporate Governance statement lists the Board's required skills and the absence of a director with technology skills is noted. Although PPT's Chairman is also Chairman of technology company IRESS, he has advised that increasing Board experience in both international and technology as areas PPT are looking at adding over the next period.

### **Remuneration, culture and performance**

The company will conduct a review of KMP variable remuneration in FY21 and intends to conduct a market scan for suitable models. The board's overall aim is for the outcome to be fair and equitable to KMP. PPT advised that it will take on board ASA's position 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).

ASA asked why the Net Promoter Score (NPS) is used as a key client focussed non-financial remuneration metric and we were advised that PPT regarded client advocacy as an important measure and that NPS was a strong measure of this. The ASA is aware that some remuneration consultants question the validity of NPS as a non-financial metric for remuneration.

The ASA notes that non-financial metrics have increased in weighting in the variable incentive assessment from 20% in FY18 to 37.5% in FY20 at the same time as financial performance has deteriorated (see summary table below). PPT will continue to use non-financial measures but stated that these include the inclusion of strategy and project measures that will contribute to future earnings. PPT stated that regulators have encouraged less dependence on financial measures following the Royal Commission.

PPT's long-term intention is for KMP with a variable incentive, to receive a mix of  $\frac{1}{3}$  cash and  $\frac{2}{3}$  equity.

In recognition of the poor overall performance of the company and the impact of COVID-19, the Board decided that KMP incentive awards that would have been made in cash and un-hurdled equity would be converted to hurdled equity with 100% of STI awards being performance rights subject to absolute total shareholder return equally over three and four years.

In addition, the fixed remuneration of Chairman and CEO will reduce by 20% for the period 1 July to 31 December 2020 and for the Board members and Executive Committee the reduction will be 10% for the same period. This is in recognition of the continued COVID-19 uncertainty and impact into FY21.

### **Financial performance**

Compared to FY19 NPAT declined 29% to A\$82.0m. This is the lowest NPAT since FY14 (A\$81.6m). Costs again increased (1.4%) over the previous financial year (4% increase in FY19). This increase occurred despite a 55% decrease in occupancy expenses as a result of AASB-16 and a 1.9%

decrease in admin. and general expenses. Significant cost increases were as a result of operating review and transaction and integration costs relating to the acquisitions. There was also a 1.74% increase in staff related costs.

Perpetual Investments (PI) is PPT's major segment. PI continued to experience net funds under management (FUM) outflows (A\$2.6b) for the fifth consecutive year. Excluding Trillium, total FUM decreased 15.9%. PBT declined 15% compared to FY19.

PPT's acquisitions of Trillium and Barrow Hanley aim to increase the diversity of product range and geography – not a fundamental shift from PPT's value investment strategy.

Perpetual Corporate Trust (PCT) continued to grow with PBT increasing 16% from A\$47.7m to A\$55.2m as a result of growth both from existing clients and new client mandates.

Perpetual Private's (PP) PBT again declined, - by 26.9% (11% decline in FY19) as largely as a result of increased investment in supporting future business growth including the addition of 20 new advisors and the acquisition of Priority Life, a specialist risk advisory firm.

**Dividend** – the total dividend of 155cps is 38% less than FY19.

**Total shareholder return (TSR)** – one-year TSR stands at -26%, and the five-year TSR CAGR stands at -3%.

### **Key events**

The company's examination of merger and acquisition opportunities has borne fruit this year. PPT completed the A\$54m acquisition of Trillium Asset Management on 30 June 2020, a Boston-based specialist ESG investment firm with Funds Under Management (FUM) of A\$5.5b.

In July 2020 the company announced an equity raising comprising a fully underwritten A\$225m institutional placement and a non-underwritten Share Purchase Plan (SPP) to raise up to A\$40m in order to fund the transformational acquisition of 75% of Barrow, Hanley, Mawhinney & Strauss LLC (Barrow Hanley) a Dallas based funds manager. The funds will also be used to increase financial flexibility for other growth opportunities.

### **Key Board or senior management changes**

At last year's AGM, Philip Bullock and Sylvia Falzon resigned and were replaced by the appointment of Greg Cooper in September 2019 and Fiona Trafford Walker in December 2019.

In April 2020 PPT announced the creation of the new position of Chief Operating Officer to the Executive Committee. Other senior appointments occurred in Perpetual Investments (PI) – the "Head of Global Distribution" in December 2019 and the "Head of Distribution and Strategy – Americas" in March 2020.

### **Shareholder participation**

The above-mentioned SPP was oversubscribed by 71% and was increased by A\$10m to A\$50m, resulting in a pro-rata scale-back of A\$18.6m. Of the 4,159 valid SPP applications received 58% received what they requested without scale back. This reflected a participation rate of approximately 18% of eligible shareholders and an average application amount of approximately A\$16,400.

PPT advised that it was a judgement call as to how much was sought from institutions vs the SSP, but there was serious consideration given to the needs of all shareholders – particularly retail. They didn't see a need for additional capital so did not extend the SPP beyond \$50m despite total liabilities/total tangible assets being forecast to increase from 42% to 121%. It was considered by the Board that the SPP was as fair to retail shareholders as a PAITREO.

### **Risk management**

As previously mentioned, PPT's pandemic response plan was activated in January 2020 and has been enhanced as the COVID-19 pandemic worsened. Key measures include:

Multiple teams established to monitor all aspects of the response; remote working from home implemented and critical teams working on a rotation basis; travel restrictions; enhanced hygiene and cleaning in offices; heightened monitoring of material service providers and enhanced monitoring and oversight by the Executive Committee and Board to identify, monitor and manage key business risks posed by COVID-19.

PPT continues to operate at full capacity and the crisis response teams continue to meet regularly to review the pandemic situation and to respond as necessary.

### **Summary**

| <b>(As at FYE)</b>                   | <b>2020</b> | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| NPAT (\$m)                           | 82.0        | 115.9       | 140.2       | 137.3       | 123.0       |
| UPAT (\$m)                           | 93.5        | 115.9       | 140.0       | 136.9       | 128.2       |
| Share price (\$) as of 30 June       | 29.67       | 42.24       | 41.60       | 55.87       | 41.12       |
| Dividend (cents)                     | 155         | 250         | 275         | 265         | 255         |
| TSR (%)                              | (26)        | 8           | (21.0)      | 42.3        | (9.7)       |
| EPS – NPAT (cents)                   | 173         | 246         | 299         | 294         | 284         |
| CEO total remuneration, actual (\$m) | 1.603       | 1.03        | 3.26        | 3.57        | 3.67        |

For FY20, the CEO's total actual remuneration was **17.4 times** (vs 11.7 times in FY19) the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Note - For May 2020, the Full-time adult average weekly total earnings (annualised) was \$91,983.

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| <b>Item 1</b>   | <b>Adoption of Remuneration Report</b> |
| <b>ASA Vote</b> | <b>Against</b>                         |

## Summary of ASA Position

This is the fourth year of operation of PPT's variable incentive plan, and the first full year of alignment of KMP remuneration arrangements to the CEO's. This alignment involves an additional longer-term (three and four year) absolute TSR performance hurdle that applies to half of any allocated equity under the variable incentive plan.

The ASA welcomes the Board judgement that there should be no awards made in the cash and un-hurdled equity components of the KMP variable incentive. However, the ASA considers that CEO and KMP LTI remuneration arrangements should be measured over a minimum of four years with at least two metrics taken into account (eg TSR and EPS growth).

Hence the ASA will vote any undirected proxies against this resolution.

The following table outlines the CEO/MD's statutory remuneration structure as provided by PPT.

| CEO rem. framework           | Actual \$ outcome FY20                         | % of FY20 total rem. mix | Target \$ (normal year) | % of Total  | Max. Opportunity \$ | % of Total of max. opportunity | Vesting (normal year)  |
|------------------------------|--|--------------------------|-------------------------|-------------|---------------------|--------------------------------|--|
| Fixed Remuneration           | 1,302,776                                      | 49%                      | 1,302,776               | 36%         | 1,302,776           | 25%                            |  |
| STI - Cash                   | 0  | 0%                       | 500,000                 | 14%         | 875,000             | 17%                            | Paid in Sept   |
| STI – Unhurdled equity*      | 0  | 0%                       | 888,943                 | 25%         | 1,555,650           | 29%                            | Vest after 2yrs and restricted for 2 more yrs (released 5yrs frm start of perf. period)  |
| LTI – Equity with TSR hurdle | 1,366,732<br>(60% of overall incentive target) | 51%                      | 888,943                 | 25%         | 1,555,650           | 29%                            | Vest after 3 years (half) and 4 year (half) subject to Absolute TSR hurdle (3 and 4 year CGR of 7-10%). All equity restricted for 4 years from grant |
| <b>Total</b>                 | <b>2,669,508</b>                               | <b>100%</b>              | <b>3,580,662</b>        | <b>100%</b> | <b>5,289,076</b>    | <b>100%</b>                    |  |

\* Last year referred to as time-hurdled equity

The Annual Report contains a clear table outlining the actual total remuneration of the CEO and each KMP and the contribution of each of the various components making up the total.

Overall, the remuneration report is comprehensive and contains a detailed explanation of the complex variable remuneration structure. PPT did not receive any Job Keeper payments.

Eligible group executives achieved an average of 53% (FY19 56%) of variable incentive target remuneration, reflecting under-performance against five (FY19 seven) of the 11 key balanced scorecard metrics (weighted 55% financial and 45% non-financial vs 60/40 in FY19).

The ASA notes that the weighting to financial metrics in the balanced scorecard has declined from 80% in FY18 to the current 55% as financial performance has measured by NPAT has declined 41.5%.

The CEO/MD achieved 60% of his variable incentive target, representing 34% of his maximum opportunity.

The abovementioned awards were made despite TSR being -26% for the year. In the case of the CEO/MD this was through an assessment of the performance criteria set for the CEO/MD which includes the Company scorecard and individual goals.

Despite company under-performance and employees receiving over \$150,000 PA not receiving a fixed remuneration increase, there has been a 1.7% increase in staff related expenditure (including equity remuneration) compared to last year.

Market value is used to calculate STI and LTI equity grants.

After 21 months in the role the CEO has \$262,134 worth of PPT shares, representing 20% of his fixed remuneration.

There were no increases in Board or committee fees.

At last year's AGM there was a 6.59% (vs 9.12% in FY18) vote against the adoption of the remuneration report.

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| <b>Item 2</b>   | <b>Re-appointment of Mr Tony D'Aloisio as a Director</b> |
| <b>ASA Vote</b> | <b>For</b>   |

### Summary of ASA Position

Mr D'Aloisio joined the Board in December 2016, and is best known as a previous chair of ASIC. Full details of his current and past appointments are advised in the Notice of Meeting. He is well qualified and does not appear to be over committed. Both the board and ASA consider Mr D'Aloisio to be an independent director. As at 30 June 2020 he holds shares equivalent in value to 80% of his base fee.

Mr D'Aloisio became chairman in May 2017 and is also chairman of PPT's nominations committee.

The ASA will be voting any undirected proxies in favour of his re-appointment.

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| <b>Item 3</b>   | <b>Re-appointment of Ms Fiona Trafford-Walker</b> |
| <b>ASA Vote</b> | <b>For</b>  |

### Summary of ASA Position

Ms Trafford-Walker joined the board in December 2019. She brings extensive knowledge of investment management and a strong institutional and international perspective to the PPT Board. Ms Trafford-Walker began her career in institutional investment consulting in 1992, and until December 2019 was an Investment Director at Frontier Advisors.

Ms Trafford-Walker currently holds two other listed company directorships – Prospa Group Ltd and Link Administration Holdings. PPT's share registry is Link Market Services and the Board has

determined that there is no conflict of interest in this position. As of 30 June 2020, she did not hold any PPT shares.

The ASA will be voting any undirected proxies in favour of her re-appointment.

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| <b>Item 4</b>   | <b>Approval of the 2020 LTI variable incentive grant to the CEO/Managing Director Rob Adams</b> |
| <b>ASA Vote</b> | <b>Against</b>  |

### Summary of ASA Position

This resolution is to seek the approval for a grant of 43,875 performance rights to the CEO/MD. This represents 60% (\$1,366,732) of target variable incentive for FY20. This will be awarded in hurdled equity only (ie performance rights) and no awards will be made under the cash or unhurdled equity components of the variable incentive plan. The Board points out that the fair value of this award is significantly lower this year because the outcome is not delivered across all three elements (ie cash, unhurdled and unhurdled equity).

It should be noted that in a normal year only 25% of the CEO/MD's total target remuneration is subject to any form of long-term testing.

Half the performance rights will vest on 1 September 2023 subject to a three-year CAGR TSR hurdle and convert to restricted shares (de-restricted on 1 September 2024) and the remaining half will vest on 1 September 2024, subject to a four-year CAGR TSR hurdle and convert to unrestricted shares.

The ASA is in favour of the CEO being able to participate in the award of share rights and performance rights and applauds the Board in using its discretion to award only the hurdled equity component of the variable incentive plan.

However, because ASA considers that a LTI hurdle should be measured over a minimum of four years with at least two metrics taken into account, the ASA will vote undirected proxies against this resolution.

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