



Funds under management continue to slide – waiting for strategy to deliver

Company/ASX Code	Perpetual Limited/PPT
AGM date	Thursday 17 October 2019
Time and location	10 am Perpetual, Level 18, Angel Place, 123 Pitt Street Sydney
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Richard Williams assisted by David Jackson
Pre-AGM Meeting?	Yes, with Chair Tony D’Aloisio

	To receive and consider the financial statements, the reports of the Directors and of the auditor for the financial year ended 30 June 2019.
ASA Vote	No vote required

Summary of ASA Position

This year the company launched its new brand positioning “Trust is Earned” as part of its strategy to be bolder but remain disciplined and maintain PPT’s “true to label” reputation.

Governance and culture

As advised last year in the wake of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry the board has examined all the recommendations and reviewed compliance activities. PPT’s brand and reputation remain strong. PPT performed the APRA self-assessment as mandated for some financial intuitions even though it was not a requirement.

In December 2018 PPT announced the appointment of a Chief Risk Officer to its executive ranks, reporting directly to the CEO. This appointment elevates the profile of risk management within the company.

The company has examined and continues to examine merger and acquisition (M&A) opportunities for each business unit in the wake of the Royal Commission. Acquisition targets need to be world class companies with strong businesses and global capabilities.

The board has an independent chairman and a majority of independent directors and one executive director. Currently the board has 28% female directors.

Financial performance

Compared to 2018 financial year (FY18), net profit after tax (NPAT) declined 17%. Costs again increased (4%) over the previous financial year (3% increase in FY18), largely as a result of a 23% increase in administrative and general expenses and despite a 3.8% decrease in staff related expenses.

The company is targeting overall cost savings of \$15-20m in FY20.

Perpetual Investments (PI) is PPT's major segment. PI continued to experience negative net funds under management flows (FUM) with a 72% increase in net fund outflows compared to FY18. This is the fourth consecutive year of net fund outflows. In FY19 FUM outflows were mainly as a result of larger superannuation funds shifting to managing investments internally and changing asset allocation by fund managers. PI's profit before tax (PBT) declined 29% from FY18 from \$112.5m to \$79.9m.

PPT's value style investing has been out of favour with the market in recent years, which has exacerbated the FUM outflows. The company is committed to retaining this investment style because of the risk of damaging its brand and good reputation for this investment style.

Perpetual Corporate Trust (PCT) continued to grow with PBT increasing 12% from \$42.6m to \$47.7m by leveraging its dominant market position.

Perpetual Private (PP) revenue remained steady compared with FY18 however PBT declined 11% from \$46.1m to \$41.2m. This was mainly due to increased investment in strategic initiatives including additional staff costs (five new advisors) to support future growth and one-off remediation costs. It is anticipated that a further six advisors will be hired in FY20.

Dividend – the dividend of 250 cps represents a 9% reduction from FY18 and breaks the trend of dividend increases since 2012. In contrast, earnings per share (EPS) for the year was 246.3 cps.

Total shareholder return (TSR) – Whilst one-year TSR stands at 8%, five-year TSR CAGR stands at 3%.

Key events

PPT's existing listed investment company (LIC) – Perpetual Equity Investment Company (PIC) conducted a capital raising in the first half of FY19 raising \$101.2 million in an offer which generated a 20% increase in shareholders over the financial year.

A new LIC – Perpetual Credit Income Trust (PCI) was successfully launched in May 2019. The IPO was fully subscribed with the maximum oversubscriptions accepted, raising the maximum \$440 m.

RFi Analytics – a leading analytics and benchmarking business was purchased in December 2018 to increase the capability of the Data and Analytics Solutions business within PCT.

Key Board or senior management changes

It was announced in the 2019 AGM Notice of Meeting that Ms Sylvia Falzon and Mr Philip Bullock would not be standing for re-election.

Mr Bullock has served a maximum term of nine years and is not eligible for re-appointment under PPT's constitution.

Ms Falzon has resigned for personal reasons after being a board member for seven years and is currently the Chair of the People and Remuneration Committee. A new chair of this committee will be announced at the AGM.

Mr Greg Cooper was appointed as a non-executive director on 11 September 2019.

Another non-executive director is expected to be appointed by the end of October 2019.

As reported last year Mr Chris Green was internally promoted to CFO (formerly Group Executive of PCT) in October 2018 and Mr Richard McCarthy was internally promoted to Group Executive of PCT (formerly PCT General Manager).

Ms Sam Mosse joined PPT as Chief Risk Officer in February 2019. Ms Mosse comes to PPT from Janus Henderson where she most recently held the positions of head of risk & compliance, Pan Asia and interim global head of enterprise risk.

A new position entitled “Head of Distribution” is due to commence work on 3 December 2019. The job entails searching for new opportunities for the group.

It was announced on 27 September 2019 that the Company Secretary had resigned as of that day.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	115.9	140.2	137.3	123.0	122.5
UPAT (\$m)	115.9	140.0	136.9	128.2	133.7
Share price (\$) as of 30 June	42.24	41.60	55.87	41.12	48.36
Dividend (cents)	250	275	265	255	240
TSR (%)	8	(21.0)	42.3	(9.7)	7.1
EPS (cents)	246	299	294	284	265
CEO total remuneration, actual (\$m)	1.03	3.26	3.57	3.67	2.89

For FY19, the CEO’s total actual remuneration was **11.7 times** (vs 38.01 times in FY18) the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 1	To adopt the remuneration report for the financial year ended 30 June 2019
ASA Vote	Against

Summary of ASA Position

This is the third year of operation of PPT's variable incentive plan, however the KMP's remuneration arrangements have been aligned with the new CEO's – which commenced as of 1 July 2019. 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.

While the ASA welcomes this alignment of KMP and CEO remuneration arrangements, the ASA considers 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).

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

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



CEO rem. framework	Component	Target* \$m	% of Total	Max. Opportunity \$m	% of Total	Vesting
Fixed Remuneration	Full time equiv.(FTE)	1,302,630				
	Pro-rata (9 mo)	980,799	36%	980,799	24%	
STI - Cash	FTE	100% of target 500,000		175% 875,000		
	Pro-rata	383,562	14%	671,234	17%	
	FY19 outcome	249,315	65% achvemnt	-	37% achievement	Paid in cash Sept 2019
STI – Equity (with time hurdle)	FTE	100% of target 888,943		175% 1,555,650		Vest after 2 yrs and restricted for additional 2 yrs (released 5 yrs frm start of performance period)
	Pro-rata	681,929	25%	1,193,376	30%	
	FY 19 outcome	443,254	65% achvmnt	-	37% achievement	
LTI – (equity with TSR hurdle)	FTE	100% of target 888,943		175% 1,555,650		Vest after 3 yrs (half of LTI) and 4 yrs (other half) subject to absolute TSR hurdle (3& 4 yr CAGR of 7-10%. All equity restricted for 4 yrs frm grant (released 5 yrs frm start of performance period)
	Pro-rata	681,929	25%	1,193,376	30%	
	FY19 outcome	443,254	65% achvmnt	-	37% achievement	
Total	Pro-rata	2,728,219		4,038,784		



In the above remuneration table, the pro-rata amounts relate to the approx. nine months of service from the new CEO who commenced on 24 September 2018.

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.

Group executives achieved an average of 56% of variable incentive target remuneration, reflecting under-performance against seven of the 11 key balanced scorecard metrics (weighted 60% financial and 40% non-financial).

The CEO achieved 65% of his variable incentive target, representing 37% of his maximum opportunity.

As result of company under-performance (and hence reduced performance remuneration) there has been a 3.8% decrease in staff related expenditure compared to last year.

Market value is used to calculate short-term and long-term incentives (STI and LTI) equity grants.

After nine months in the role the CEO has \$77,510 worth of PPT shares, representing 8% of his pro-rata fixed remuneration.

Employees whose fixed remuneration was above \$150,000 pa including the CEO and group executives did not receive a fixed remuneration increase. Employees receiving \$150,000 pa or less fixed remuneration received a 2.5% increase.

There were no increases in Board or committee fees.

At last year's AGM there was a high 9.12% vote against the adoption of the remuneration report.

Item 2	Re-appointment of Mr Greg Cooper as a Director
ASA Vote	For

Summary of ASA Position

Mr Cooper was appointed as a non-executive director on 11 September 2019 and this is his first appointment to the board of an ASX listed company. Both the board and ASA consider Mr Cooper to be an independent director.

Mr Cooper has a deep understanding of international funds management and brings a strong financial services and strategy expertise to the Perpetual board.

Mr Cooper has 26 years of global investment industry experience, predominantly gained from his executive career at Schroders where he was CEO from 2006 to 2018 with responsibility for Schroders' institutional business across Asia Pacific and then globally.

Mr Cooper currently serves on four other boards (five in total) which complies with ASA guidelines. As of the date of his appointment Mr Cooper did not hold any PPT shares.

The ASA will vote any undirected proxies for this resolution.

Item 3	Approval of the 2019 variable incentive equity grant for the Managing Director and CEO
ASA Vote	Against

Summary of ASA Position

This resolution is to seek the approval for a grant of 10,551 share rights and 10,551 performance rights to the CEO. This represents 78% (\$886,508) of the CEO's total variable incentive award. The share rights will vest on 1 September 2021 and will be released from restrictions on 1 September 2023.

Half the performance rights will vest on 1 September 2022 subject to a three-year compound annual growth rate (CAGR) TSR hurdle and convert to restricted shares (de-restricted on 1 September 2023) and the remaining half will vest on 1 September 2023, subject to a four-year CAGR TSR hurdle and convert to unrestricted shares.

While we are in favour of the CEO being able to participate in the award of share rights and performance rights, 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.

The individuals involved in the preparation of this voting intention have a shareholding in this company.

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