

## Perhaps not so Perpetual in the future

<b>Company/ASX Code</b>	Perpetual/PPT
<b>AGM time and date</b>	10am AEDT Thursday, 17 October 2024
<b>Location</b>	Blaxland Ballroom, Swissôtel Sydney, Level 8, 68 Market Street
<b>Registry</b>	Link Market Services
<b>Type of meeting</b>	Hybrid
<b>Monitor</b>	Fiona Balzer & Richard Goldman
<b>Pre-AGM Meeting</b>	Yes, with NEDs Nancy Fox and Fiona Trafford-Walker, Chair and Chair-elect of People and Remuneration Committee respectively. Also, Shannon Dooley Global Head of Performance and Reward, Ivor Gibbons Head of Sustainability.

Monitor Shareholding: The individuals involved in the preparation of this voting intention have no shareholding in this company.

### 1. How we intend to vote

No.	Resolution description	
1	Adoption of the Remuneration Report	For
2	Re-appointment of Ms Mona Aboelnaga Kanaan	For
3	Re-appointment of Mr Philip Wagstaff	For
4	Re-appointment of Mr Paul Ruiz	Undecided
5	Election Mr Rodney Forrest	Against
6	Approval of the hurdled equity grant to the new CEO and Managing Director	For
7	Renewal of Proportional Takeover Provisions	For

### 2. Summary of Issues and Voting Intentions for AGM

- Last year, there was a 18.89% vote against the remuneration report.
- Impending scheme meeting expected to be held early in 2025 to vote on separating (and selling) the corporate trust and wealth management businesses, leaving PPT shareholders with the asset management business. Scheme documents are expected to be published in late November and completion of the scheme is anticipated to occur in

February 2025, subject to satisfaction of a Perpetual shareholder vote, regulatory approvals, and other customary conditions.

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

### 3. Matters Considered

#### About Perpetual

Perpetual is a diversified financial services company with a long history dating back to the 1800s and listing on the ASX in 1988, comprising of the corporate trust, wealth management and asset management businesses. Share price performance has been disappointing over the past 3 years, though shareholders have benefited from the fully franked dividends, which have been paid each year through the past 10 years, period peaking at 275cps in 2018.

Oct 03, 2014 - Oct 03, 2024 ● PPT



Source: Morningstar

#### Accounts and reports

##### Financial performance summary

(As at FYE)	2024	2023	2022	2021	2020
NPAT (\$m)	(472.2)	59	101.2	74.9	82.0
UPAT (\$m)	206.1	163.2	148.2	124.1	93.5
Share price (\$)	21.31	25.88	28.88	40.05	29.67
Dividend (cents)	118	120	209	180	155
Simple TSR (%)	(13)	(5)	(23)	40	(26)
EPS (cents)	(421)	73	177	133	173
CEO total remuneration, actual (\$m)	2.2	2.1	2.267	1.494*	1.603

\* CEO's fixed remuneration reduced by 20% 1 July to 31 December 2020, as COVID-19 austerity measure, and STI that would have been made in cash and un-hurdled equity were converted to hurdled equity with 100% of STI awards being performance rights subject to absolute total shareholder return equally over three and four years.

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

In FY24, net profit after tax (NPAT) was a loss of \$472.2m, impacted by a number of significant items including a non-cash impairment related to the carrying value of goodwill and other intangibles for the J O Hambro and TSW boutiques (acquired in the Pental transaction), amounting to A\$547.4m, as well as items associated with the Board's Strategic Review and resulting separation. Underlying profit after tax of \$206.1m, was 7% below plan. Corporate Trust continued to perform strongly in FY24, Target: A\$19.3m Actual: A\$25.8m

### **Key events**

The big events for the year were the integration of the Pental Group and the Board Strategic Review, which resulted in the proposed scheme of arrangement to sell the Wealth Management and Corporate Trust businesses to KKR for \$2.175b. Perpetual continues to manage through a period of significant organisational transformation and change.

The Board assessed the integration program related to the Pental Group acquisition as being essentially completed as at 30 June 2024, achieving the stated goal of A\$80m in run rate synergies earlier than the original target date of end of January 2025.

If the shareholders approve the scheme of arrangement, they will continue to own shares in Perpetual Limited, which will be licensed to use the Perpetual name for a period. It will be a debt free, multi-boutique Asset Manager with "scale, high-quality investment teams, well-diversified investment capabilities, capacity for future growth, global distribution reaching across key geographies and channels and managing over A\$215 billion in AUM at 30 June 2024." At the time of the release of the FY24 results, the shareholders are expected to receive estimated cash returns in a range between \$8.38 and \$9.82 per share. The Scheme deed includes a \$21.5m reimbursement fee (break fee) if the board changes its mind.

Also, during the FY24 year, Soul Pattinson (ASX:SOL) announced that on 21 November 2023, it submitted a non-binding, indicative offer to acquire PPT shares already owned via a scheme of arrangement. Under the Indicative Proposal, shareholders would receive SOL shares for Wealth Management and Corporate Trust businesses and an in-specie distribution of Perpetual Asset Management business. SOL increased its substantial shareholding in PPT from 6.66% to 11.66% in December 2023 and at the 2024 Macquarie Australia Conference said:

"to support above market returns and dividend growth over the long term we will.... target outsized returns with an increasing appetite for active investing (e.g. Perpetual)."

While not a 25% blocking stake for the scheme, their support for the scheme will be important for its successful approval by shareholders.

### **Key board or senior management changes**

Bernard Reilly commenced as the new MD/CEO on 2 September 2024. Outgoing MD/CEO, Rob Adams, will go on gardening leave from 1 October but remain available. Adams' awards remain on foot which ASA supports as the ongoing performance of the company after a CEO departs is as important as the time in the role. Bernard is the former CEO of Australian Retirement Trust

responsible for executing the merger and integration of Sunsuper and QSuper to form the A\$300 billion super fund from February 2022. His prior role was CEO Sunsuper.

Changes to the non-executive directors (NEDs) since the 2023 AGM include the addition of Philip Wagstaff and Paul Ruiz. Kathryn Matthews, a Pandal director based in the UK, retired early in FY24. Ian Hammond and Nancy Fox AM have reached 9 years tenure and will be retiring at the 2024 AGM.

Perpetual Chair Tony D'Aloisio AM intends to retire from the Perpetual Board following the implementation of the Scheme of Arrangement in early 2025, bringing the board size to 8, including the MD. Mr Gregory Cooper, Deputy Chair in May 2024, will assume the role of Chair at that time. Fiona Trafford-Walker will chair the People And Remuneration Committee (PARC) and Paul Ruiz will chair the Audit, Risk And Compliance Committee (ARCC).

With only 2 female directors remaining on the board after the AGM, gender balance will be 22% females lifting to 25% on retirement of Tony D'Aloisio, way below ASA guidelines for 40%. This is disappointing in such a large ASX listed company, which is struggling with the lack of progress on the women in Asset Management. The target of 25% was not met in Australia (19%) or globally (21%). The company speculates in the 2024 annual report that, in Australia, voluntary turnover rates among women are proportionally higher than men, which research indicates may be due to 'talent poaching' due to strong demand for women. The sustainability report notes a new strategy to counter this.

### **Sustainability/ESG**

The sustainability report was published subsequent to the profit release, on 13 September 2024.

It is easy to read and clear about what is being achieved and what is not. As to be expected of an entity with \$16.9 billion of sustainability or impact related assets under management (AUM), operational GHG emissions include Scope 3 and there is solid preparation for the commencement of mandatory climate disclosure. The Board engaged KPMG to provide independent, limited assurance for financed GHG emissions relating to the Scope 1 and 2 emissions for equity investments.

Also noted is the prolonged period of organisational change and the impact on employees and the new Gender Equality Strategy, which prioritises retaining, promoting and hiring women in leadership roles and sets clear divisional targets with bi-monthly reporting to drive accountability for delivering the targets.

## **4. Rationale for Voting Intentions**

### **Resolution 1. Adoption of the Remuneration Report (For)**

The remuneration report complies with many ASA guidelines. Actual remuneration is included, though it includes the STI cash payments for the prior year due to payment being made in September once the financial results are released. For Rob Adams, the cash STI for FY23 was \$356,200, while the FY24 cash STI is \$520,000. The table outlining the difference in the incoming and outgoing CEO remuneration is useful. The new CEO remuneration is lower than

that of the outgoing CEO and there is no sign on bonus, hurdled or otherwise. The amounts are laid out in Appendix 1. The current remuneration looks appropriate for the coming year as the new CEO works through the business separation, subject to shareholder approval.

For FY24, the KMP (excluding the CEO and Managing Director, Rob Adams) were paid one-off cash retention awards and agreed minimum incentives for the additional workload, challenge and uncertainty resulting from the Board Strategic Review. While ASA guidelines require hurdles and genuine variability in incentive awards, we see the company-inflicted need for stability in the leadership team through the process which led to this temporary increase in fixed award. The exclusion of the then CEO from this adjustment is crucial to our support due to his role in the decision making to acquire Pental and restructure the business.

The departing CEO Rob Adams assumed the role in September 2018, and his actual remuneration is shown in the financial summary table on page 2 of this report. His agreed retirement terms include entitlements, which are set out in the annual report at 1.4 on page 34, and not the notice of meeting where the text from the annual report is copied.

In FY25, Mr Adams will receive a redundancy payment due to his group position ceasing to exist should shareholders approve the scheme. It is expected to be \$471,230. He will be on gardening leave from 1 October to the end of 2024 with the potential for that to be extended to mid-2025 if required. The FY24 incentive payments were a cash STI of \$520,000 and deferred STI of \$880,000 being equal to 80% of target or 46% of maximum. There will be no FY24 LTI. There will be no incentive awards for FY25.

ASA supports the unvested equity remaining on foot to vest, subject to meeting any hurdles, in accordance with the terms of those grants under their relevant plans.

Weighing up all the attributes of the remuneration framework and application, we will vote undirected proxies in favour of the resolution.

### **Director Elections**

The board skills matrix, disappointingly, fails to meet ASA's Focus Issue of disclosing the individual expertise the directors are expected to bring to the collective board. It allocates the number of directors with each required skill. There are 8 directors with Technology skills, defined as having knowledge and experience in the application and development within enterprises of major technology, data, technology related innovation or digital infrastructure or applications. We assume the members of the Tech and Cyber Committee have greater expertise in this area, while acknowledging the **board as a whole** is responsible for oversight and making the best decisions relating to Tech and Cyber matters. The committee is chaired by Ms M Aboelnaga Kanaan, and ongoing members are Ms Fiona Trafford-Walker and Mr Christopher Jones.

The board held 11 scheduled meetings and 20 unscheduled meetings during the year in addition to 6 ARCC and 9 PARC meetings and 20 other committee meetings. The NED Fee Cap of \$3.5m was approved in 2022 to allow for a period with more directors. Total fees paid to NEDs in FY24 of \$2.3m. It is expected that Board composition and associated fee levels will be

reviewed prior to the intended completion of the separation of Perpetual's Corporate Trust and Wealth Management businesses.

### **Resolution 2. Re-appointment of Ms Mona Aboelnaga Kanaan (For)**

Appointed 2021, her total board fee for FY24 was \$349,495, equivalent to 18,200 shares at share price of \$19.20. A marked contrast to the 1,011 held, which we accept complies with the company's laughable minimum shareholding requirement (MSR) of 1,000 shares. Unlike directors Fox, Trafford-Walker and Cooper, she is not partaking in the DRP.

With a private equity and fintech background, she is a Director of Webster Financial Corporation (NYSE: WBS) where she is: the Chair of the Technology Committee and a Member of the Executive and Enterprise Risk Committees; a Lead Director of Mondee Holdings (Nasdaq: MOND) and is Chair of the Nominations and Governance Committee and member of the Audit Committee. She attended 31 board meetings, 20 unscheduled, and 18 committee meetings as a member of those committees in FY24.

While urging an increase in her shareholding to a level in line with her fees which is our guidelines for director holding within 3 years of joining the board, we consider her skills contribute to the board and ASA will support her re-election.

### **Resolution 3. Re-appointment of Mr Philip Wagstaff (For)**

Mr Wagstaff has over 35 years' experience in asset management and is said to bring strong expertise in sales, marketing, brand and product development together with experience of mergers, acquisitions and integrations across the asset management sector. He is based in the UK.

Mr Wagstaff is Chair of You Investments Limited in the UK and was previously Chair of Jupiter Unit Trust Managers Limited and Henderson Investment Funds Limited.

He was appointed to the Perpetual board in November 2023, his FY24 board fee was \$204,642. He holds no PPT shares, which is said to be due to Mr Wagstaff's involvement in the company's strategic review since joining the board. We respect the importance of directors not trading in the company's shares while in possession of market sensitive information but think the MSR is so low the company should have been able to automate a complying purchase with some little foresight. We expect him to lift his shareholding to the equivalent of his fees by 2026.

### **Resolution 4. Re-appointment of Mr Paul Ruiz (Undecided)**

Mr Ruiz was an audit partner with KPMG until 2016 and specialised in the audit of financial services businesses and led the delivery of assurance services to several major financial services groups in Australia and internationally. Mr Ruiz currently serves as a NED of TAL Dai-ichi Life Australia. We consider it is likely that enough time has elapsed since Mr Ruiz left Perpetual's rusted on auditor, KPMG, for him to be considered independent. KPMG has been the auditor

since at least 1991 and was successful in a retendering process in 2006. We will ask Mr Ruiz for his thoughts on audit tenders at the AGM and will decide how we vote open proxies on this resolution based on his answer.

Appointed to the PPT board in September 2024, Mr Ruiz already has a MSR complying holding of 1,500 shares. We encourage him to participate in the DRP and for the board to rethink the MSR in 2025.

#### **Resolution 5. Election of non-Board endorsed Director candidate, Mr Rodney Forrest (Against)**

Mr Forrest's limited experience as a listed company director and lack of board support is considered to likely be more disruptive than helpful to the company at a time when it navigates the scheme of arrangement with KKR – however it plays out. Mr Forrest proposes to be a dissenting director in relation to the scheme, and to attain his goal will need to convince the board, shareholders and KKR within a very short timeframe that his alternative is better for all.

#### **Resolution 6. Approval of the hurdled equity grant to the new CEO and Managing Director (For)**

See Appendix for the remuneration detail. In short, the new CEO's remuneration is less than that of the prior CEO, other than an equal allocation of \$1m to LTI hurdled equity which increases the emphasis on the longer term. The hurdle is compound average growth rate (CAGR) in absolute total shareholder return (TSR) of over 7%, with full vesting if TSR is 100% or more. 50% is tested at three years, and 50% at 4 years. We would prefer a longer time frame and a second performance measure but at this time of change, consider it appropriate to support the grant.

#### **Resolution 7. Renewal of Proportional Takeover Provisions (For)**

We consider this is a non-controversial special resolution, renewing the constitutional provisions, which require shareholders to vote on whether a proportional bid is allowed to proceed. We prefer full takeover offers, and this provision allows shareholders a say on any controlling shareholder who only bids for a proportion of each shareholder's interest.

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## Appendix 1 - Remuneration framework detail

### Remuneration framework detail – Brendan Reilly CEO

Variable Incentive targets (“at risk” subject to performance against the scorecard for the year ended 30 June 2025)			
Fixed Remuneration (incl. superannuation)	Variable Incentive Cash (STI)	Unhurdled Equity Variable Incentive (Deferred Short Term Incentive)	Hurdled Equity Variable Incentive (Long Term Incentive)
A\$1,000,000	A\$500,000 at target and \$875,000 at maximum for stretch performance (pro-rated for FY25)	A\$500,000 at target and \$875,000 at maximum for stretch performance (pro-rated for FY25)  <i>Allocated as Unhurdled Share Rights, vesting after two years and converting into Restricted Shares for an additional two-year period.</i>	Face Value – A\$1,000,000  <i>The initial hurdle applicable to the vesting of Hurdled Equity Variable incentives will be CAGR Absolute TSR – 50% tested after 3 years and 50% tested after 4 years.</i>  <i>Subject to requisite hurdles being met, Rights will vest into Shares. Any Rights that vest after three years will be restricted from sale for a further year.</i>  <i>An initial Long Term Incentive award of Hurdled Equity with a face value of \$1,000,000 will be made on or around 1 April 2025 and post completion of the transaction to separate Perpetual’s Corporate Trust and Wealth Management businesses. In the event of the transaction not completing or being materially delayed, the grant will be made before 30 June 2025. Shareholders will be asked to approve the allocation at this year’s Annual General Meeting and further details will be available in the Notice of Meeting.</i>

Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. Some remuneration frameworks set a maximum opportunity amount, but not all.

The new CEO’s remuneration framework results in target remuneration of \$3m and maximum opportunity of \$3.75m and no sign on amount. This compares to \$4.15m and \$5.5m, respectively, for the prior CEO.