Perpetual

Market Briefing

Presented by:

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Disclaimer

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All references to dollars, cents or $ in this presentation are to Australian currency, unless otherwise stated. All references to UPAT, NPAT, Final Dividend etc. are in relation to Perpetual Limited ordinary shareholders.

Note:

FY10 refers to the financial reporting period for the twelve months ended 30 June 2010.

FY11 refers to the financial reporting period for the twelve months ending 30 June 2011.

1H11 refers to the financial reporting period for the six months ended 31 December 2010.

2H11 refers to the financial reporting period for the six months ending 30 June 2011.

FY12 refers to the financial reporting period for the twelve months ending 30 June 2012.

Approach to the Review

- Reviewed the businesses and capabilities
- Listened to clients/regulators/research houses/investors
- Business portfolio management approach:
  - **Manage for Growth** – invest sufficiently to ensure success, dynamic management, priority for resources, clear and focused communication
  - **Manage for Profit/Cash flow** – invest to ensure retention, strong teams, simplify product/capability, progressively reduce costs and risk
  - **Manage for Exit** – establish glide-path, reduce costs, optimise result for shareholders
- First in a series of dynamic reviews – regular updates this year

Review Outcomes

- Core structure and **competitive strengths** of Perpetual business model validated
  - Scale and independence
  - Brand strength and heritage
  - Strong balance sheet
  - Quality and diversity of earnings
  - Top performing asset managers
  - Experienced management team

- Moving to **international standards** with a greater focus on **execution**
  - More **discipline** in business portfolio management
  - Move towards a more **flexible cost base**
  - More **active capital management**

Cost & Efficiency

- Objective
  - Moving towards more **flexible cost base** operationally through greater emphasis on variable costs and away from fixed costs
- Appointment of **Group Executive Operations** to lead cost & efficiency drive
  - New leadership in Operations to provide greater impetus to move from fixed to variable costs: **Richard Vahtrick**
    - Formerly with IBM, substantial international experience in operational and IT transformations and proven track record in managing major change – starting mid-June
- Cost/expense and business focus initiatives
  - 128 positions made redundant
  - 26 roles created in growth areas
  - Cost savings of approximately $9m before tax on an annualised basis from FY12 onwards

Cost & Efficiency (ctd.)

- Continue to review whether we will perform all existing functions in-house
  - **Outsource mature processes** that provide commoditised services
    - Outsourcing platform administration services for HNW Private Wealth (PACT)
      - Responses to RFP received and short-listed vendors under review
    - Work progressing on first three group-wide processes considered for outsourcing

- **Allocation of Group and Support Services expenses** to business lines:
  - Costs are primarily business-related (Risk / Finance / People and Culture)
  - Will increase business units' transparency and accountability
  - Unallocated central costs lowered to approximately $10m from $37m in FY10

Distribution – Sales and Marketing

- Brand and product **strengths underexploited**
  - Distractions of the past year **now behind us**
  - Brand remains **amongst the strongest** in the market
  - **Stronger focus** on sales and marketing

- **New leadership in marketing and sales**, with company-wide mandate
  - Appointment of new Group Executive Marketing and Communications: **Brian Henderson**
    - Formerly with Fidelity International, extensive international experience in all aspects of marketing and communications, including brand management – starting late June
  - Appointment of new Group Executive Sales well advanced

- Moving to **new distribution** structure
  - **Greater discipline, focus and coordination**
  - Align Perpetual's strengths across each business
  - Strategic product and service development for emerging opportunities

New Management Structure

CHRIS RYAN
Managing Director &
Chief Executive Officer

ROGER BURROWS
Chief Financial Officer

GEOFF LLOYD
Group Executive
Private Wealth

IVAN HOLYMAN
Chief Risk Officer

CHRIS GREEN
Group Executive
Corporate Trust

RICHARD VAHTRICK
Group Executive
Operations

CATHY DOYLE
Group Executive
Equities

JANINE STEWART
Group Executive
People and Culture

RICHARD BRANDWEINER
Group Executive
Income and Multi Sector

BRIAN HENDERSON
Group Executive
Marketing

TO BE APPOINTED
Group Executive
Sales

Active Capital Management

- Reviewed Group's **capital requirements**, based on regulatory guidelines
  - Approximately $140m of risk based capital required
  - Methodology aligned with comparable regulatory guidelines, including APRA and Basel
  - Lower than previous levels as a result of continued reduction in risk assets and improved market conditions
  - Compares to $236m of cash and liquid investments as at 31 March 2011

- Reducing shareholder **capital invested in seed funds** by approximately $10m
  - More disciplined seed funding approach by applying capital charge

- Continuing to **reduce exposure to capital guaranteed products** (EMCF, PPI) – no new guaranteed product exposure to Perpetual's balance sheet while continuing to look after existing investors

- Looking to invest surplus capital in shareholder value adding opportunities or return capital to investors in an efficient and timely manner

Operational Environment

- **Short Term**:
  - Industry flows continue to be subdued
  - Substantial build-up of household assets in cash and deposits
  - Slowing redemption rate suggests possible turn in sentiment
  - Slowing mortgage volumes ahead of expected rates rises

- **Long term**:
  - Proposed increase in superannuation contributions will lead to increased demand for asset management services and advice
  - Growth in HNW segment drives demand for quality advice
  - Increased demand for new products and services due to increasing number of ageing Australians and their post-retirement needs
  - Non-super investing becoming increasingly important for HNW following lower contribution caps
  - Alternative sources of mortgage funding should recover, including NBFIs, as economy recovers

Regulatory Environment

- Perpetual benefits from efforts to enhance the **reputation, relevance and value of financial advice** through the Federal Government's Future of Financial Advice initiatives (FOFA)

- Perpetual already **well positioned**
  - Adhering to highest fiduciary standards
  - High quality advice model based on fee-for-service
  - Opt-in not an onerous obligation given ongoing regular client reviews
  - Focus on clients' best interests favours Perpetual's independent, high quality manufacturing capability
  - Potential for increased demand for third party fiduciary services

Business Overview: Perpetual Investments

- Equities
  - **Australian equities**
    - Recognised for outstanding long-term manufacturing performance
    - Incubating new strategies
  - **International equities**
    - Existing demand and opportunity for international equity asset class
    - Approach under review for all products managed in asset class

- **Income and Multi Sector**
  - Strong team, good track record
  - Strong improvement in growth areas
  - Developing new products in response to changing market conditions

Business Overview: Private Wealth

- **New team and growth strategy** under Geoff Lloyd since his arrival in August last year
  - Four **senior key appointments**
  - **More comprehensive services and advice**, including debt and insurance products
  - **Capturing cross-revenue opportunities** in advice, philanthropy and estate planning

- **Clear client segmentation** to drive better client experience and improved business outcomes
  - Business owners / Professionals / Established wealthy / Not-for-Profit

- **Building scale and capabilities**
  - Align and accelerate segmentation approach
  - Build national footprint in target segments
  - Investing in client facing staff, systems and processes

- **Disciplined execution** of inorganic growth strategy
  - Fordham and Grosvenor performing well - on target to deliver FY11 EBITDA of approximately $8m
  - Further opportunities available and under review

- Significant presence in HNW and **well positioned for further growth**

Business Overview: Corporate Trust

- **Key portfolio component**
  - Provides **diversification** from non-equity market linked revenues
  - Represented approximately **24% of FY10 Profit Before Tax**
  - Leveraging our heritage and values: **independence, trust and representing the best interests of investors**

- **Business activities**
  - **Securitisation Trustee** business:
    - Leading market position
    - Good margins
    - RMBS issuance up on same period last year
    - Opportunities in emerging asset classes
  - **Opportunity to grow** Fund Services business
    - Alternative and offshore manager focus
    - Good margins
  - Need to **improve margins** in Lenders Mortgage Services business

FY11 Financial Outlook

- **FY11 UPAT** expected to be broadly in line with previous year (FY10 UPAT $72.8m) – 2H11 impacted by:
  - Lower than expected inflows in all three business units
  - Significant reduction in mortgage processing volumes due to weaker demand for housing finance
  - Senior management transition costs of approximately $2m before tax
  - Outsourcing project evaluation costs of approximately $2m before tax

- **FY11 NPAT** impacted by a number of items
  - Restructuring provision of approximately $4.7m after tax will be recorded in 2H11 (1H11: nil)
  - EMCF recoveries expected to be approximately $9.5m after tax (1H11: $6.0m)
  - KKR takeover response costs of $3.0m after tax (recorded in 1H11)
  - smartsuper goodwill impairment of $10.6m after tax (recorded in 1H11)

- **FY11 Final Dividend** expected to be around 90cps fully franked
  - Surplus capital position and strong ability to generate cash from operations allows us to pay above dividend policy of 80-100% of NPAT on an annualised basis

NOTE: This guidance assumes no other impairments and is subject to there being no material deterioration in financial markets and business conditions over the remainder of FY11

Summary

- Perpetual's strengths confirmed, but standards can and must improve to support better execution
  - Benchmark to **international standards**
  - **Leverage** scale and independence

- Positioned to **build momentum** in the business **-** steps already taken:
  - **Strong team** in place, international specialist expertise and capability added
  - **Greater discipline** in business portfolio management (Manage for Growth, Manage for Profit/Cash flow, Manage for Exit)
  - **Improved cost management,** move towards more flexible cost base, with immediate cost savings of $9m in FY12
  - Enhanced **focus on sales and marketing**
  - Commitment to **more active capital management**

- **Structural environment positive, distractions reduced**
  - Internal and external concerns abate, **well positioned for change in investor sentiment** when it comes
  - Wealth business **already aligned with principles of FOFA**

- First stage of review outcomes – next update August
  - **Further steps** to improve business
  - **Next moves** towards flexible cost structure