Perpetual

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

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(Note: all figures are expressed in AUD)

The following discussion and analysis is based on the Group’s audited Consolidated Financial Statements for the 12 months ended 30 June 2009 and should be read in conjunction with those financial statements and associated notes. Additional information is available on the Group’s website www.perpetual.com.au

Perpetual is a diversified financial services company operating in three main markets: funds management, financial advisory and trustee services. The Group operates primarily in Australia. Market factors influencing the performance of these sectors include global economic performance, stability of financial markets and government policy.

Overview

The year ended 30 June 2009 has witnessed turbulent global equity and debt markets, leading to extensive government intervention both in Australia and overseas via macro-economic stimulus through fiscal and monetary policy easings throughout the major economies.

Given these difficult market conditions, underlying profit after tax (UPAT) declined by 51% to $65.7 million for the 2009 financial year, driven mainly by a reduction in operating revenue.

The key driver of the fall in revenue was the significant decline in equity markets. This adversely impacted the market value of the assets under our management from which the majority of our revenue is earned. The fall in revenue was offset by a decrease in expenses, both variable expenses in line with the fall in revenue, and fixed costs due to a restructure across the businesses in response to market conditions.

Segment results summary

	Operating Revenue		EBITDA [1]		Profit Before Tax	
For the 12 months ended 30 June	2009 $m	2008 $m	2009 $m	2008 $m	2009 $m	2008 $m
Perpetual Investments	203.0	294.5	84.9	167.9	59.0	147.0
Private Wealth	85.7	104.9	33.5	49.6	29.1	46.4
Corporate Trust	80.3	84.2	39.6	32.5	36.1	29.5
Group and Support Services	6.1	12.1	(22.3)	(22.9)	(26.0)	(29.3)
Total underlying result before significant items	375.1	495.7	135.7	227.1	98.2	193.6
Income tax expense					(32.5)	(60.1)
Underlying profit after tax before significant items					65.7	133.5
Significant items:						
– EMCF losses					(13.8)	(25.8)
– Gain/(loss) on sale of investments					(6.1)	21.1
– Restructuring costs					(8.1)	-
Total statutory net profit after tax (NPAT)					37.7	128.8

[1] EBITDA represents earnings before interest, taxation, depreciation, amortisation of intangible assets, equity remuneration amortisation and significant items

The key components of underlying profitability were:

- Perpetual Investments profit before tax down 60% to $59.0 million
- Private Wealth profit before tax down 37% to $29.1 million
- Corporate Trust profit before tax up 22% to $36.1 million
- Group and Support Services net overheads down 11% to $26.0 million before tax.

The profitability of each business unit is heavily influenced by its key revenue drivers:

– funds under management (FUM) for Perpetual Investments
– funds under advice (FUA) for Private Wealth
– funds under administration (FUA) for Corporate Trust.

The Group earns the majority of its revenue based on a percentage of total assets under management, advice or administration. Only a small proportion is charged on a per transaction basis. The following table summarises the movements in each business unit's key revenue driver across the year. More detailed analysis is contained within the 'Review of Businesses' section.

Movements in key revenue drivers

As at 30 June	2007 $b	2008 $b	Net flows $b	Other $b	2009 $b	2009/2008 change %
Perpetual Investments FUM	39.1	30.3	(0.7)	(3.4)	26.2	(13.5)
Private Wealth FUA	8.4	7.7	(0.2)	(0.7)	6.8	(11.7)
Corporate Trust FUA	210.1	222.9	18.5	-	241.4	8.3

Perpetual Investments FUM fell by 13.5% over the year due to declines in domestic and global debt and equity markets. This decline was mitigated by the strong investment performance relative to benchmark of the Perpetual Investments business.

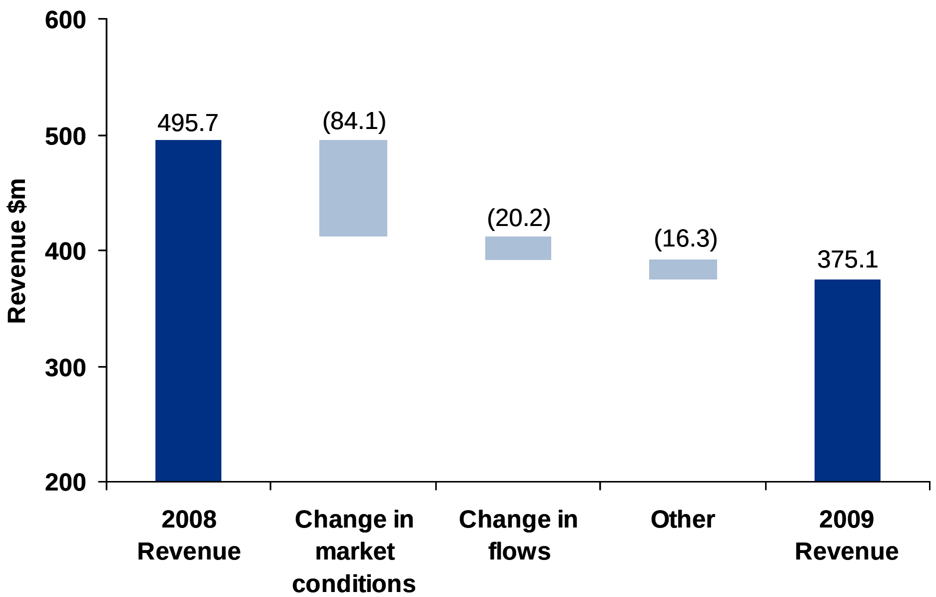
Private Wealth FUA fell by 11.7% over the year, which reflected the lower debt and equity markets.

Corporate Trust FUA increased by 8.3% over the year. This was mainly due to the growth in repo-eligible securitisation of residential mortgage backed securities (RMBS) by approved deposit-taking institutions (ADI) to access additional liquidity from the Reserve Bank of Australia (RBA).

The largest drivers of total revenue are the value of FUM within Perpetual Investments and FUA within Private Wealth, which are mainly influenced by the level of the Australian equity market. Private Wealth's FUA is approximately 50% exposed to the level of the equity markets.

Management calculates the expected impact on total revenue for each 1% movement in the ASX All Ordinaries Index (All Ords). At the level of the All Ords at the end of June 2009, a 1% movement in the market changes annualised revenue by approximately $1.2 million to $1.7 million. It is worth noting this movement is not linear to the overall value of the market. This means that as the market reaches higher or lower levels, a 1% movement may have a larger or smaller effect on revenue as FUM and FUA are comprised of both equity market and non-equity market-sensitive asset classes.

Major influences on revenue during the 2009 financial year



Market movements, particularly in equity markets, reduced revenue by $84.1 million in the financial year. Net outflows, both current year and the annualised effect of net outflows in the prior year, have reduced revenue by an additional $20.2 million.

Other influences on revenue include reduced investment income from the combination of lower Group cash balances and the decline in interest rates over the course of the financial year.

Underlying profit after tax reconciliation

Underlying profit after tax (UPAT) excludes certain items that are either significant by virtue of their size and impact on net profit after tax, or are 'one-off' in nature. These adjustments are set out in the following table. UPAT has been calculated in accordance with the guidelines issued by the AICD and Finsia.

UPAT – adjustments for significant items

For the 12 months ended 30 June	2009 $m	2008 $m	Increase/(decrease) %
NPAT	37.7	128.8	(71)
Adjustments (after tax):			
– EMCF losses	13.8	25.8	~
– (Gains)/losses on sale of investments	6.1	(21.1)	~
– Restructuring costs	8.1	-	~
UPAT	65.7	133.5	(51)

Further analysis on the significant items is set out on page 15.

Operating environment

In the 12 months to 30 June 2009, global financial markets have been significantly impacted by the depth and severity of the global financial crisis. The crisis began in July 2007 as the poor lending standards of many US lenders came to light. The subsequent decline in the US housing market had a severe impact on the perceived risk of US financial services companies, and access to short-term debt finance (or liquidity) rapidly contracted. This contraction in the US mortgage market and the manner in which securitisation underpinned its access to funding liquidity, or the 'credit crisis', led to a re-rating of risk in debt securities globally, the focal point initially being RMBS issued on US home loans. The effect spilled over to global RMBS, including RMBS in Australia, and credit markets generally.

The combination of illiquid debt markets and risk re-pricing, as market participants became increasingly more risk averse and started to guard liquidity reserves, led to the following major events in financial markets:

- a significant decline in confidence leading to risk aversion and reductions in lending, investing and spending
- large falls in global equity markets, led by the financial services sector
- re-pricing of debt securities (or 'spread widening')
- the failure of global financial services companies such as Lehman Brothers
- substantial concerted global government intervention to restore growth and to improve the functioning of financial systems.

The rapid decline of the global financial services sector, particularly in the US, ultimately led to a decline in the real economy as the banking sector rationed credit, and households cut discretionary spending and increased precautionary savings. As a result, most major economies in the world have fallen into recession.

To address illiquid debt markets and prevent the failure of financial services companies such as AIG, Northern Rock and Fannie Mae, governments across the globe have provided substantial capital injections and other support facilities for such companies. In addition, the imposition of short selling restrictions was introduced for a period in an effort to reduce volatility and stabilise markets.

In Australia, we have to date been more fortunate as our banking system was not heavily exposed to these problematic offshore assets as Australian banks were focused on funding domestic activities. The Australian Government used similar measures, including the guaranteeing of bank deposits ('government guarantee'), to maintain the financial stability of the Australian banking sector. To ensure Australian banks had continued access to global credit markets to provide adequate funding for the Australian economy, the Australian Government introduced the wholesale funding guarantee, allowing Australian banks to issue debt securities guaranteed by the Australian Government.

Governments around the world, including Australia's, have used a variety of fiscal stimuli measures to promote growth within their economies. Central banks also rapidly adopted expansionary monetary policy. In Australia, the RBA cut the official cash rate by 4.25% between September 2008 and April 2009, reducing the rate from 7.25% to 3.00%.

The Australian equity market declined further over the 2009 financial year. The All Ords started the financial year at 5333, fell to a low of 3111 on 6 March 2009 (decline of 42%) and closed the year at 3948 (down 26% for the year and down 42% from the market peak of 6854 in November 2007). By 30 June 2009 the market was up 27% from the March 2009 low as early signs of confidence started to return across much of the world.

Perpetual's financial performance has been greatly influenced by these market forces and by the impact of government intervention on both our key revenue drivers and the behaviour of our customers.

Shareholder returns

For the 12 months ended 30 June [1] [2]		2009	2008
Earnings per share (EPS) on UPAT	cents	156	321
EPS on NPAT	cents	89	309
Return on equity (ROE) on UPAT	%	22.8	40.7
ROE on NPAT	%	13.0	39.3

(1) EPS is calculated using the weighted average number of ordinary shares and potential ordinary shares on issue
(2) ROE is calculated using average equity

EPS and ROE have both declined in line with reduced profitability. The number of shares on issue increased slightly during the financial year due to employee share plan related issues. Average shareholders' equity declined over the financial year due to the combination of the final dividend of the 2008 financial year (paid September 2008) and the interim dividend for the 2009 financial year (paid March 2009) exceeding full year NPAT. This reduced retained earnings.

Dividends

Perpetual revised its dividend policy during the financial year to pay dividends within a range of 80%-100% of NPAT, with a goal to maximise fully franked dividends to shareholders. The dividend policy is designed to be sustainable over the long term while providing the company an appropriate degree of financial flexibility. The previous dividend policy, which was based on a 90% payout of cash earnings, had the unintended consequence of paying dividends in excess of actual profits generated by the Group. We do not believe paying dividends in excess of actual profits is sustainable in the long term.

At the time of announcing the change in dividend policy, it was noted that there would be a transition to the new policy. As such, the February 2009 interim dividend was struck at a 120% payout ratio of NPAT.

A final fully franked dividend of 60 cents per share will be paid on 30 September 2009 (record date 2 September 2009) (June 2008 final dividend: 141 cents per share fully franked). In respect of the 2009 financial year, total dividends will be 100 cents per share, fully franked (2008 total dividends: 330 cents per share fully franked).

The final dividend of 60 cents per share represents a payout ratio of 108% of second half NPAT and is a continuation of the transition to the new dividend policy.

The Group's franking credit balance as at 30 June 2009 was $44.9 million, which will enable it to fully frank $104.8 million of dividends. After payment of the final dividend for 2009, the franking balance is capable of fully franking a further $79.3 million of dividends.

Financial strength

As at 30 June		2009	2008
Cash	$m	146.1	183.1
Corporate debt	$m	(45.0)	(45.0)
Net cash	$m	101.1	138.1
Debt to equity (debt/debt + equity) (1)	%	13.4	12.5
Interest coverage (EBITDA/corporate debt facility interest expense) (2)	times	54	69

(1) Excludes structured product loan funding which is operational debt used to fund a portfolio of secured loans

(2) EBITDA excludes significant items

The Group's gearing remained low throughout the year and interest coverage of 54 times is significantly above the Group's internal targets.

Net cash declined by 27% to $101.1 million at June 2009. In May 2009, the Group announced the establishment of a dividend reinvestment plan (DRP) that will provide a flexible capital management tool in the event that we wish to raise equity capital.

In early July 2009, the Group increased its committed corporate borrowing facility by $25 million to $70 million. The $25 million remains undrawn at 19 August 2009.

Cash flow

For the 12 months ended 30 June	2009 $m	2008 $m
Net cash provided by operating activities	62.7	109.1
Net cash provided by/(used in) investing activities	(24.2)	10.8
Net cash used in financing activities	(75.5)	(151.3)
Net increase/(decrease) in cash and cash equivalents	(37.0)	(31.4)

Operating cash flows of $62.7 million represent the underlying cash flows from the operating businesses. Operating cash flows have declined in line with the overall reduction in profitability of the Group.

Cash flows used in investing activities ($24.2 million) represent investments and sales of seed funds, capital expenditure within the Group, mainly on software and acquisitions of new businesses, namely Financial Pursuit Pty Limited and smartsuper Pty Limited.

Cash used in financing activities relates primarily to the payment of dividends of $76.2 million, notably the final dividend of the 2008 financial year ($59.2 million) and the interim dividend for the 2009 financial year ($17.0 million).

Review of Businesses

Perpetual Investments

Perpetual Investments is one of Australia's most highly regarded investment fund managers offering a broad range of products for personal investment, superannuation and retirement.

We offer investors strong investment capabilities across a range of asset classes including Australian and international equities, property securities, multi-manager, mortgages, fixed interest and cash.

Financial summary

Profit before tax reduced by 60% to $59.0 million for the 30 June 2009 financial year. This was principally due to a 31% fall in revenue. Perpetual Investments' revenue is highly correlated to equity markets so this decline in revenue compares to the fall in the average All Ords, which was 34% lower in 2009 compared to 2008.

For the 12 months ended 30 June	2009 $m	2008 $m	Variance $m
Revenues	203.0	294.5	(91.5)
Operating expenses	(118.1)	(126.6)	8.5
EBITDA	84.9	167.9	(83.0)
Depreciation and amortisation	(5.4)	(3.4)	(2.0)
Equity remuneration amortisation	(20.5)	(17.5)	(3.0)
Profit before tax	59.0	147.0	(88.0)
Average margin (1)	81 bps	84 bps	

(1) Average margin = revenue / average FUM

In response to the fall in equity markets, a cost reduction program was introduced. This led to a 7% reduction in operating expenses achieved from a strong focus on discretionary spend and a reduction in headcount. Asset managers' short-term incentives for the year were in line with the previous year.

The $2.0 million increase in depreciation and amortisation expenses to $5.4 million was due to the amortisation of intangible assets related to the acquisition of smartsuper ($0.6 million) and the recent investment in systems such as the unit registry system commissioned in February 2008.

The $3.0 million increase in equity remuneration amortisation (long term incentives) to $20.5 million relates primarily to asset manager remuneration.

During 2009, the challenging and difficult operating environment caused a rapid diminution of investor confidence, particularly retail investors and independent financial advisers. Investors through these channels directed their investments into cash-based products, particularly deposits with banks following the introduction of the government guarantee. This 'flight to cash' led to significant outflows across the industry. For example, in the nine months to March 2009, net industry[1] outflows totalled $22.0 billion compared to the prior corresponding period to March 2008, which saw net inflows of $12.6 billion. The government bank deposit guarantee also favoured the destination of investor cash to the banking system (particularly the four main Australian banks) compared to other traditional income products, such as cash management and mortgage funds, which were not covered by the guarantee.

The government guarantee had an adverse impact on the mortgage fund industry, including Perpetual's mortgage funds. Following large redemption requests immediately after the announcement of the government guarantee in October 2008, we closed our funds to protect the interests of all unitholders. Our funds subsequently re-opened and moved to a quarterly redemption process. Outflows of approximately $0.4 billion occurred for this asset class during 2009.

[1] Source: Plan for Life

The global equities funds had positive flows of $0.1 billion for the second half of the year as investors responded to improved investment performance in this asset class. These positive flows were in the institutional and intermediary channels.

Funds under management (FUM)

As at 30 June	2007 $b	2008 $b	Net flows $b	Other [(1)] $b	2009 $b
Institutional	11.6	8.3	1.0	(0.8)	8.5
Intermediary (master fund and wrap)	18.0	14.8	(1.1)	(1.8)	11.9
Retail	9.5	7.2	(0.6)	(0.8)	5.8
All channels	39.1	30.3	(0.7)	(3.4)	26.2
Australian equities	25.5	19.7	(0.7)	(3.0)	16.0
Global equities	2.1	1.5	-	(0.1)	1.4
Equities	27.6	21.2	(0.7)	(3.1)	17.4
Cash and fixed interest	9.7	7.5	0.1	(0.1)	7.5
Other	1.8	1.6	(0.1)	(0.2)	1.3
All asset classes	39.1	30.3	(0.7)	(3.4)	26.2

(1) Includes reinvestments, distributions, income and asset growth

Revenue generally increases or decreases as FUM increases or decreases. Increases in FUM result from market appreciation, positive investment performance for our customers or asset inflows from new and existing customers. Decreases in FUM result from market depreciation, negative investment performance or asset outflows due to redemptions by our customers. Performance fees will fluctuate from period to period and may not correlate with general market changes, since these fees are driven by relative performance to the respective benchmark rather than absolute performance.

Perpetual's investment style has generated strong relative performance (known as alpha) in virtually all of our funds against their respective benchmark. Positive alpha benefits the Group in three primary ways:

1. It demonstrates our expertise in actively managing our customers' funds and we expect that it will be a factor in retaining funds and attracting future inflows as investor confidence returns.
2. It keeps FUM higher as the broader equity market falls. We estimate FUM was enhanced by $0.8 billion due to alpha.
3. A number of institutional client mandates include performance fee incentives based upon the level of alpha generated.

The Group sources FUM from three primary distribution channels:

Institutional – industry funds and clients who invest large sums. We earn our lowest tier of fees from this channel. However, institutional FUM does not require complex technology and service structures, such as call centres and dedicated sales and distribution support, so the servicing cost is lower.

Institutional net inflows of $1.0 billion comprised $0.1 billion of net inflows into global equities and $0.9 billion into cash and fixed interest. This represented approximately 12% growth in institutional FUM.

In response to demand from existing institutional clients, management re-opened applications for these clients in the Australian equities funds. While this has the potential to reduce average margin across the Group's FUM, it does increase the absolute value of FUM and revenue.

Intermediary – this channel includes FUM from financial advisers invested with Perpetual via external platform providers. This is our largest source of FUM.

Intermediary flows were negative $1.1 billion due to the difficult economic environment where many investors moved to defensive assets such as bank term deposits. Our mortgage fund had outflows of $0.4 billion, our diversified funds lost $0.2 billion and our Australian equities suite of products experienced outflows of $0.5 billion. The majority of these flows were experienced in the December 2008 and March 2009 quarters. As previously mentioned, this was consistent with the industry which, as a whole, experienced outflows of $13.5 billion in the December quarter and $4.7 billion in the March quarter.

Retail – this channel sources FUM from customers directly, advisers who invest with Perpetual directly and investors who come through our own WealthFocus platform where some FUM flows into third party products. This FUM earns the highest gross margin. However, it requires significant infrastructure to support these clients, which makes the cost to service this channel the highest.

Consistent with our intermediary experience, our retail channel experienced net outflows of $0.6 billion across most asset classes.

Net flows for 2009 financial year	1H flows 2009 $b	2H flows 2009 $b	Full year flows 2009 $b
Institutional	0.5	0.5	1.0
Intermediary	(0.9)	(0.2)	(1.1)
Retail	(0.4)	(0.2)	(0.6)
All channels	(0.8)	0.1	(0.7)
Australian equities	(0.4)	(0.3)	(0.7)
Global equities	(0.1)	0.1	-
Equities	(0.5)	(0.2)	(0.7)
Cash and fixed interest	(0.2)	0.3	0.1
Other	(0.1)	-	(0.1)
All asset classes	(0.8)	0.1	(0.7)
All WealthFocus flows (1)	(0.3)	(0.1)	(0.4)

(1) Included within net flows above

The above table demonstrates the majority of net outflows occurred in the first half of the financial year. As mentioned, this was consistent with the broader industry experience. The second half of the financial year saw a reduction in net outflows within our equities asset class, particularly from the intermediary and retail channels. The change in momentum of net flows in the second half was consistent with the early signs of confidence that returned to the market in the second half of the financial year.

Perpetual Investments' revenue margin by channel has remained relatively constant over the financial year. The overall revenue margin for the business in the financial year has declined marginally due to the following factors:

- Change in FUM channel mix – with an increase in FUM sourced from institutional clients which earns a lower margin, and a decrease in FUM from retail and intermediary clients via net outflows during the year
- Change in FUM asset category mix – with the greater decline in the value of equities relative to other asset classes over the year. FUM relating to equities earns the highest fee.
- The impact of non-recurring $5.1 million operational errors resulting from inter-funding fee rebate errors within the unit trusts managed by Perpetual. Fee rebates are required when one Perpetual unit trust invests in another. The errors were discovered and immediately addressed during the financial year. There were a small number of errors, however, they related to several years of fees in some cases.

Operating revenue

Perpetual Investments manages investments across a number of asset classes, including equities, fixed interest and cash. It also manages a number of administrative businesses performing custodian services, self managed superannuation fund (SMSF) administration and a platform business administering funds managed by us and other fund managers. Perpetual Investments' asset classes are categorised across a number of functional units as follows:

Asset class	Functional units Australian Equities	 Global Equities	 Income and Multi-Sector	 Superannuation and Investment Solutions
Equities	✓	✓	✓	✓
Cash and fixed interest	X	X	✓	✓
Other FUM related	X	X	X	✓
Other non-FUM related	✓	✓	✓	✓

Revenue from equities is earned across each functional unit of Perpetual Investments including multi-manager and multi-sector funds within Income and Multi-Sector, and from Perpetual funds offered via the WealthFocus platform within Superannuation and Investment Solutions.

Other FUM includes revenue earned on external funds hosted on the WealthFocus platform and custody fees.

Revenue on other non-FUM includes net interest margin on the structured products' loan book, smartsuper revenue and interest revenue earned on operational bank accounts across all the functional units.

Revenue for the 12 months ended 30 June	2009 $m	2008 $m	Variance $m
By asset class:			
– Equities	155.5	241.2	(85.7)
– Cash and fixed interest	22.0	31.0	(9.0)
– Other FUM related	12.1	14.8	(2.7)
– Other non-FUM related	13.4	7.5	5.9
Perpetual Investments total	203.0	294.5	(91.5)

The equities asset class (comprising Australian and global equities) revenue declined by $85.7 million to $155.5 million for the year due to:

– a $3.1 billion decline in FUM due to equity market movements which reduced revenue by $68.5 million – this reduction is less than the overall market movement due to the strong investment outperformance generated by the asset management team, which mitigated the decline in revenue by $3.3 million
– a change in FUM mix by channel (discussed above) reduced revenue by $4.7 million
– net outflows of FUM of $0.7 billion reduced revenue by $7.0 million
– a $4.9 million reduction in performance fees in the 2009 financial year mainly as a result of the impact of the short-selling ban on the quantitative investment funds
– the impact of inter-funding fee rebate errors reduced revenue by $0.6 million in the year.

The cash and fixed interest asset class revenue declined by $9.0 million to $22.0 million for the year predominantly due to:

– a $0.4 billion decrease in FUM for mortgage funds due to outflows in 2009, coupled with the annualised impact of outflows during the 2008 financial year, reduced revenue by $6.1 million
– the impact of inter-funding fee rebate errors reduced revenue by $4.5 million in the year.

The other FUM related revenue includes management fees for external funds on our WealthFocus platform and structuring fees on the Perpetual Protected Investments (PPI) structured products. Other FUM related revenue declined by $2.7 million to $12.1 million for the year due to the equity market related decline in FUM on WealthFocus, partially offset by an increase in fees on PPI structured products related to a $0.1 billion increase in FUM. The exit from the infrastructure business in July 2008 reduced revenue by $0.6 million.

The other non-FUM related revenue increased by $5.9 million to $13.4 million for the year mainly due to:

– a $123.3 million increase in the loan book to $319.6 million for structured products which increased the net interest margin by $3.7 million

– the acquisition of smartsuper on 24 September 2008 which increased revenue by $3.3 million.

In September 2008, Perpetual Investments acquired smartsuper, which is a leading provider of administrative services to self managed superannuation funds (SMSF), one of the fastest growing sectors within superannuation. The acquisition supports our strategy of providing leading products to independent financial planners. The acquisition of smartsuper did not have a material impact on the financial result for the year.

Perpetual Investments also manages the structured products loan book, where investors have borrowed funds to invest in a capital protected range of investments offered within the PPI product range. During the year structured product lending was suspended as the Group has decided it will no longer use its balance sheet to finance this activity. The loan book was $319.6 million at the end of June 2009.

The capital protection provided to investors is based on the constant proportion portfolio insurance (CPPI) technology, which involves rebalancing the customer's portfolio of investments during the term of the product between equity style investments and less volatile assets. Due to the sharp declines in equity markets during the financial year, all of the investors in Series 1 and 2 and some of the investors in Series 3 are now entirely invested in less volatile assets and no longer have any exposure to equity markets, up or down. Accordingly, many investors have chosen to terminate their investment in this product as it no longer meets their investment objectives. During June 2009 we received loan repayment and product redemption notifications from clients to the value of $107.7 million. These have been settled subsequent to June 2009, bringing the current value of the book post repayments to around $212 million.

Perpetual has adopted a conservative approach to doubtful debts provisioning. Loans in arrears are actively managed and the total of the doubtful debts reserve at 30 June 2009 is $1.0 million (2008: nil), which represents approximately 48 bps of the total loan portfolio (following the loan repayments since June 2009). This level of reserving is broadly in line with the product's expected losses.

The Group's credit exposure is limited to a maximum loss of 6% of the loan book for Series 1 and 2 and 7% for the Series 3 loan book, given the limited recourse term of the borrowings used to fund these portfolios. Following the recent loan book repayments, the Group's total maximum exposure to the portfolios was around $13.6 million.

Private Wealth

Private Wealth is a specialist financial services business providing financial solutions for high net worth individuals. It aims to be the pre-eminent provider of tailored wealth management services. Private Wealth also services retail customers who invest directly within Perpetual Investments' products.

Financial solutions range from strategic advice, ongoing investment advice and management, DIY Super services, custodial solutions, estate planning, estate administration, executorial services and trustee services including charitable trusts. Each client receives highly individualised attention, customised to their needs based on a long-term plan focused on wealth creation and protection.

Private Wealth manages financial assets for over 6,200 private clients, estates, trusts and charitable trusts, with funds under advice of $6.8 billion at 30 June 2009 ($7.7 billion at 30 June 2008).

Financial summary

Private Wealth's profit before tax decreased by 37% to $29.1 million for the year to June 2009.

For the 12 months ended 30 June	2009 $m	2008 $m	Variance $m
Revenues	85.7	104.9	(19.2)
Operating expenses	(52.2)	(55.3)	3.1
EBITDA	33.5	49.6	(16.1)
Depreciation and amortisation	(2.4)	(1.9)	(0.5)
Equity remuneration amortisation	(2.0)	(1.3)	(0.7)
Profit before tax	29.1	46.4	(17.3)

Revenue decreased by $19.2 million, or 18%, from $104.9 million to $85.7 million. The main revenue driver for Private Wealth is FUA which affects approximately 75% of revenue. The average FUA balance for 2009 was 17% lower than the average balance for 2008, largely explaining the 18% decrease in revenue.

The $19.2 million reduction in revenue included:

- $15.3 million due to market related decline in FUA and $1.5 million due to reduced gross inflows
- a $2.4 million decrease in non-FUA related revenues such as 'time in attendance' fees which were impacted by a reduction in activity stemming from investor nervousness following the sharp declines in global equity and debt markets.

Operating expenses declined by $3.1 million, or 6%, to $52.2 million. Expense reductions during the course of the year were partially offset by reinvestment in the Private Wealth business, largely to accelerate growth through inorganic and organic initiatives, implementation of a new client management system and improvements to processes to support our overall service offering.

Depreciation and amortisation has increased by $0.5 million, or 26%, from $1.9 million to $2.4 million. This increase mainly relates to the amortisation of the purchase price allocated to client contracts acquired as part of recent acquisitions, namely a full year of amortisation of Argosy (acquired March 2008) and the part year amortisation of Financial Pursuit (acquired April 2009). The $7.0 million investment in a new client management system (myClient) will increase the depreciation and amortisation expense in future years. However, we expect the system, which was implemented in July 2009, to provide operating efficiencies and potentially enhance revenues.

The $0.7 million increase in equity remuneration amortisation related to the investment in management talent for the business.

Funds under advice (FUA)

As at 30 June	2007 $b	2008 $b	Net flows $b	Acquired [1] $b	Other [2 $b	2009 $b
Financial advisory:						
– superannuation	3.0	2.7	(0.1)	0.2	(0.4)	2.4
– non-superannuation	2.2	2.0	(0.1)	-	(0.1)	1.8
	5.2	4.7	(0.2)	0.2	(0.5)	4.2
Fiduciary services:						
– philanthropic	1.2	1.1	-	-	(0.1)	1.0
– trust and estates	2.0	1.9	-	-	(0.3)	1.6
	3.2	3.0	-	-	(0.4)	2.6
Total funds under advice	8.4	7.7	(0.2)	0.2	(0.9)	6.8

(1) Includes FUA acquired through the purchase of Financial Pursuit in April 2009
(2) Includes reinvestments, distributions, income and asset growth

Private Wealth's FUA was also impacted by the fall in global equity markets, although not to the same extent as Perpetual Investments' FUM, as approximately 50% of Private Wealth's FUA is exposed to equities.

The fall in investor confidence as a result of market volatility reduced inflows compared to prior years. Inflows reduced from $1 billion in 2008 to $0.5 billion in 2009. Outflows increased slightly from $0.6 billion in 2008 to $0.7 billion in 2009, most of which is non-controllable, such as pension payments.

Private Wealth has continued to focus on executing initiatives which are consistent with its strategic objective of being the adviser of choice for high net worth clients. These initiatives relate to increasing our capacity through inorganic and organic initiatives, dramatically improving the quality of service to clients and ongoing improvements to our processes and systems to increase efficiency levels and scalability. The current operating environment is presenting good opportunities to expand into new client categories and increase market share. We are currently engaged with other potential acquisitions at different stages of execution.

Corporate Trust

Corporate Trust is a leading provider of corporate trustee, mortgage and transaction support services to the financial services industry. Products and services include trustee services for mortgage-backed and other securitisation programs for major banks and non-bank organisations; regulatory compliance services for fund managers; custody, unit registry and accounting services for property and mortgage funds; trusteeships for corporate debt issues, infrastructure projects and other structures.

Financial summary

Corporate Trust's profit before tax increased 22% to $36.1 million for the year to 30 June 2009. The significant increase in profit was the result of a number of cost saving initiatives implemented over the year in response to the decline in securitisation revenue and run-off in funds under administration.

For the 12 months ended 30 June	2009 $m	2008 $m	Variance $m
Revenues	80.3	84.2	(3.9)
Operating expenses	(40.7)	(51.7)	11.0
EBITDA	39.6	32.5	7.1
Depreciation and amortisation	(3.3)	(2.6)	(0.7)
Equity remuneration amortisation	(0.2)	(0.4)	0.2
Profit before tax	36.1	29.5	6.6

Revenue declined 5% to $80.3 million for the 2009 financial year from $84.2 million for the year to 30 June 2008, largely due to the decline in funds under administration (excluding RMBS – repos). Mortgage Services revenues (and volumes) remained relatively stable at $21.9 million as bank volumes made up for a decline in volume from our non-bank customers.

Revenue for the 12 months ended 30 June	2009 $m	2008 $m	Variance $m
Trust and Fund Services	58.4	62.2	(3.8)
Mortgage Services	21.9	22.0	(0.1)
Revenue	80.3	84.2	(3.9)

Operating expenses declined 21% to $40.7 million in 2009 from $51.7 million for 2008, largely due to a strong expense management discipline maintained over the last 18 months. During the year we restructured our Trust and Fund Services business to focus on business development, client services and risk management activities. The Mortgage Services mortgage processing business continues to drive cost savings and economies of scale, becoming EBITDA positive during the year. The two acquired businesses of National Lending Solutions and Wignalls were fully integrated during the financial year. Since the onset of the global financial crisis, the full year impact of these and previous cost saving initiatives have allowed Corporate Trust to realise approximately $6 million in annualised cost savings.

Funds under administration (FUA)

As at 30 June	2007 $b	2008 $b	2009 $b	2009/2008 change %
CMBS and ABS	43.6	52.2	42.3	(19)
RMBS – non-bank	71.3	71.5	62.8	(12)
RMBS – repos	-	28.7	76.8	168
RMBS – bank	95.2	70.5	59.5	(16)
Total funds under administration	210.1	222.9	241.4	

Corporate Trust's FUA increased during 2009 by 8% to $241.4 billion at 30 June 2009. The majority of this increase was sourced from bank repo-eligible RMBS securitisation deals that attract a lower margin. RMBS repo-eligible deals are residential mortgages that have been securitised by ADIs; however, the securities have not been sold to investors. Rather, these internal securitisations provide ADIs with another means to access liquidity from the RBA. Adjusting for these repo-eligible issuances, underlying FUA declined 15% to $164.6 billion.

The year-on-year 15% decline in underlying FUA caused a reduction in Trust and Fund Services revenues, which was partially offset with revenue from the significant increase in the lower margin (and lower cost to service) RMBS – repos based FUA. The net result was a 6% year-on-year reduction in Trust and Fund Services revenue to $58.4 million for the financial year.

There was limited new issuance of RMBS in 2009 as securitisation markets remained effectively closed. Banks were not using securitisation as a source of debt capital throughout 2009 to fund their balance sheet commitments as it remained an expensive source of finance for the banking sector relative to deposits. Banks have sourced funding from the increase in cash deposits into the banking sector and utilising the government 'AAA' funding guarantee to raise capital in the domestic and international credit markets.

The majority of new issuances during the year have largely been purchased by the Australian Government's Australian Office of Financial Management (AOFM) as part of its $8 billion 'cornerstone investment' program. Regional bank and non-bank institutions have been among the main benefactors of this program.

Run-off rates across existing RMBS remained high during the year as the number of borrowers switched their loans from non-bank lenders to the security of the major banks during the first half, while in the second half significant reductions in interest rates by the RBA to historical lows allowed borrowers to pay down more of their mortgages. The combination of these two factors has resulted in run-off rates remaining high compared to historical levels, but similar to the prior year.

Mortgage Services includes two primary product offerings: Loan Servicing and Perpetual Lenders Mortgage Services (PLMS). The revenue of Loan Servicing increased by $1.1 million during 2009, with the business winning a number of mandates. PLMS revenue fell by $1.2 million, while its volumes increased slightly.

No. of matters	2009	2008	Variance
PLMS volumes	95,687	94,897	790

Up to 2008 PLMS was focusing on supporting the non-bank sector. Since then, this sector has been challenged by funding difficulties, given its reliance on the securitisation market. As a result, home loan volumes from this sector have decreased. To address falling volumes, PLMS has started to focus its growth strategy on the much higher volume, but lower margin banking sector.

PLMS revenue split by customer	2009 %	2008 %
Bank	59	43
Non-bank	41	57

Banks have significantly improved their market share of the home loan market with their competitive advantage on pricing and, more importantly, capacity given their funding advantage. This shift in strategy for PLMS commenced in 2009 and has already secured one major bank client, with goals to secure more into 2010 and beyond. The business continues to support the non-bank sector.

Group and Support Services

Group and Support Services includes the CEO and Board and covers functions which provide support to the broader Group, including Group Finance, Strategy, Operations, Risk, People and Culture, Group Marketing, Media and Investor Relations, and Company Secretariat.

Financial summary

For the 12 months ended 30 June	2009 $m	2008 $m	Variance $m
Revenues	6.1	12.1	(6.0)
Operating expenses	(28.4)	(35.0)	6.6
EBITDA	(22.3)	(22.9)	0.6
Depreciation and amortisation	(2.1)	(1.9)	(0.2)
Equity remuneration amortisation	0.9	(1.2)	2.1
Interest expense on corporate debt	(2.5)	(3.3)	0.8
Profit/(loss) before tax	(26.0)	(29.3)	3.3

Revenue from the Group's cash and principal investments declined over the year, predominantly due to the reduction in interest rates over the financial year and lower average cash balances.

Expenses declined due to the restructure across the business in the first half of the year, primarily through reducing discretionary spend and workforce. This resulted in a 19% reduction in operating expenses to $28.4 million for the year.

The $2.1 million reduction in equity remuneration expense mainly related to the write-back of previously expensed options that will not satisfy vesting criteria.

The $0.8 million reduction in interest expense on corporate debt related to the reduction in interest rates during the year. The level of corporate debt was unchanged at $45.0 million.

Corporate

Group expenses

Total Group expenses reduced by 8% to $276.9 million for the year.

Total Group expenses for the 12 months ended 30 June	2009 $m	2008 $m	Variance $m
Operating expenses (cash)	239.4	268.6	(29.2)
Depreciation and amortisation	13.2	9.8	3.4
Equity remuneration amortisation	21.8	20.4	1.4
Interest expense on corporate debt	2.5	3.3	(0.8)
Total expenses	276.9	302.1	(25.2)

To address falling revenues management actively reduced fixed expenses by reducing the workforce and minimising discretionary expenditure. The one-off cost of restructuring ($11.6 million before tax) has been disclosed as a significant item outside UPAT. Variable expenses, mainly performance related remuneration to staff, reduced in line with revenue.

Cash operating expenses reduced by 11%, or $29.2 million, to $239.4 million for the year. The reduction was net of $6.5 million of rectification costs for operational errors identified in relation to unit pricing and expenses growth through the acquisition of smartsuper and Financial Pursuit of $4.0 million.

Movement in operating expenses

	$m
Operating expenses – year ended 30 June 2008	268.6
Operating expenses on acquired businesses	4.0
Rectification costs for operational errors	6.5
Cost savings achieved during year	(39.7)
Operating expenses – year ended 30 June 2009	239.4

The above table demonstrates the level of cost savings achieved at $39.7 million, or 15%, of which approximately 30% relates to variable costs.

The run-rate benefit from the fixed cost reductions will continue into future years as these savings were made by reducing staff numbers (including contractors), consolidating premises, reducing technology licenses and reducing consulting costs. Year-on year staff numbers, excluding acquisitions, have fallen by 9%. The majority of these cost savings are expected to flow into the 2010 financial year. The Group is planning to reinvest a small proportion of the savings into growth initiatives, including a brand marketing campaign. In addition, operating expenses associated with new technology systems are expected to increase in 2010.

Reductions in variable costs mainly relate to lower variable remuneration payments to staff and also include reductions in marketing spend. These expenses generally move in accordance with revenue. As revenue increases in future years, so will these expense categories.

Increased depreciation and amortisation of $3.4 million in the 2009 financial year have resulted from capital expenditure investments made in the prior year and current year for key technology applications within Private Wealth (such as myClient), new software for anti-money laundering/counter-terrorism financing (AML/CTF) monitoring and amortisation of identifiable intangibles from recent acquisitions. As we continue to invest in key technology applications and acquire businesses, depreciation and amortisation expenses will increase in future years.

Equity remuneration amortisation expense increased by $1.4 million to $21.8 million for the year. The increase was net of $2.7 million in write-backs of previous years' expenses relating to long-term incentives that had a low probability of vesting. These write-backs are unlikely to be repeated in future years.

Equity remuneration amortisation expense has an element of variability, although not directly in line with revenue. The $21.8 million expense for the year was at the lower end of the range of potential outcomes. This is due to the EPS growth based long term incentives (LTIs) issued in 2006, 2007 and 2008 being rated at a zero percent probability of vesting. This resulted in those issues having a nil expense in 2009 and, as noted above, in some cases a negative expense. The expense for those issues will increase in future years if their vesting probability increases. In addition, future EPS growth based LTI issues may have a higher than zero percent probability of vesting, which will also increase the equity remuneration amortisation expense.

Tax expense

Perpetual's average tax rate was 33% (2008: 31%) calculated from UPAT. The average tax rate is higher than the Australian corporate tax rate of 30% mainly due to the non-deductibility of the amortisation expense of acquired intangible assets in the Australian operations and the impact of losses from overseas operations not being recognised as deferred tax assets. The unrecognised tax benefit of foreign tax losses for the year was $1.4 million (2008: $0.5 million).

Significant Items

The Group separately discloses items that were material to the financial performance of the Group, but are considered to be either non-recurring or not part of the operating result as a significant item. Significant items are excluded from UPAT.

For the 12 months ended 30 June	Profit Before Tax $m		Profit After Tax $m	
	2009	2008	2009	2008
Significant items:				
1. EMCF losses	(19.7)	(36.9)	(13.8)	(25.8)
2. Gain/(loss) on sale of investments	(7.7)	31.3	(6.1)	21.1
3. Restructuring costs	(11.6)	-	(8.1)	-
Total significant items	(39.0)	(5.6)	(28.0)	(4.7)

1. Perpetual Exact Market Cash Fund

The EMCF is an investment fund managed by the Group that invests in a diversified portfolio of cash and credit securities which offers investors a guaranteed return equivalent to the UBS Bank Bill Index. The Group delivers the guaranteed return to investors via a total return swap.

For the 12 months ended 30 June	2009 $m	2008 $m
EMCF impact on financial performance:		
– realised losses	(4.0)	(5.7)
– hedging gains/(losses)	4.0	(3.3)
– mark-to-market losses versus benchmark	(27.4)	(27.9)
– hold to maturity gains versus benchmark	7.7	-
Profit/(loss) before tax [(1)]	(19.7)	(36.9)
Tax benefit	5.9	11.1
Profit/(loss) after tax	(13.8)	(25.8)

(1) Under the total return swap, over and underperformance against the index is cash settled on a monthly basis between the Group and the EMCF

As the above table shows, in the 2009 financial year the EMCF incurred predominantly unrealised losses as its underlying credit investments experienced reductions in fair value as spreads widened throughout the first half of 2009, particularly within investments in credit securities issued by global financial services companies. The underperformance by the EMCF against the index was compensated to the EMCF under the total return swap.

In March 2009, we announced a change to the total return swap valuation methodology between the EMCF and Perpetual. The underlying investments are now valued on a hold-to-maturity basis for unit pricing purposes, which is consistent with the way in which Perpetual now manages the portfolio. The underlying assets were valued at their fair value at the date of change, which for many assets was at a discount to their maturity value. The discount to maturity value will be amortised over the remaining term of the assets. The change in valuation methodology will not affect the investment returns to investors in the EMCF.

The EMCF no longer actively trades its portfolio and as investments mature, proceeds are reinvested in higher quality credit assets such as bank bills or cash, in line with the Group's decision to reduce risk on its balance sheet. Management believes the majority of the unrealised mark-to-market losses in the portfolio will be recovered as the portfolio matures, particularly in 2010 and 2011, as the average maturity of the portfolio is less than two years.

2. Gain/(loss) on sale of investments

For the 12 months ended 30 June	2009 $m	2008 $m
Profit/(loss) on sale of part of investment portfolio/seed funds	(6.6)	34.3
Impairment of available for sale securities	(1.1)	(3.0)
Total profit/(loss) before tax on sale of investments	(7.7)	31.3
Income tax benefit/(expense)	1.6	(10.2)
Total profit/(loss) after tax on sale of investments	(6.1)	21.1

Loss on sale of investments in 2009 ($6.6 million before tax) relates to losses on redemptions of investments in managed funds. These funds relate to the seeding of new investment strategies.

The unrealised impairment loss of $1.1 million before tax for 2009 relates to a reduction in the market value of seed fund investments.

By comparison, in the 2008 financial year, the Group sold its entire portfolio of direct equity securities. The investment portfolio was sold in November 2007 and generated a $34.3 million gain before tax.

3. Restructuring costs

During 2009 each of the business and support areas were restructured in response to declining profitability and to better position the Group for the future. Costs totalling $11.6 million before tax associated with the restructure, predominantly severance costs to staff made redundant, have been disclosed outside UPAT as a significant item as they are non-recurring.

The $11.6 million before tax costs comprised the following:

	$m
Cash expenses paid or payable	7.5
Equity remuneration amortisation	4.1
	11.6
Tax benefit	(3.5)
Restructuring after tax	8.1

Equity remuneration amortisation relates to long-term incentive compensation plans granted to staff in the current and prior years. These costs would ordinarily have been amortised over the vesting period, but were accelerated upon staff being made redundant.

Capital Management

The Group manages its capital and liquidity to sustain a strong and flexible balance sheet. We have adopted this conservative and prudent policy to ensure we can:

– efficiently support all of our businesses, particularly through turbulent financial markets as we have experienced throughout the 2009 financial year
– provide sufficient surplus capital to provide for uncertainty and operational risk that resides within our businesses
– maintain adequate liquidity to ensure financial flexibility such as not being reliant and restricted by capital supplied by debt financiers
– have sufficient capital resources to take advantage of inorganic opportunities as they arise.

During the 2009 financial year we experienced a difficult trading environment that adversely affected our flows of capital generated internally. We have always maintained a conservative balance sheet which has proven to serve our shareholders well through these turbulent times when financial stress has seen many companies go to the market to raise capital to repair their balance sheets. To further monitor and strengthen our capital framework, we have refined our capital management methodology with the introduction of a risk-based capital model based on the Basel II framework to assess our capital requirements. The model requires capital to be set aside for both operational, credit and market risk and any known capital commitments. The amount of economic capital required under the model exceeds the Group's regulatory capital needs by more than 2 times. At 30 June 2009, total capital requirements were $151 million, which compared to $165 million of available liquid funds.

Over the course of 2009 we have undertaken a number of initiatives to further strengthen our capital position, including:

– Initiated cost savings to better position the Group.
– Revised our dividend policy in February 2009 to be calculated within a range of 80%-100% of NPAT to ensure dividends do not exceed current year earnings (subject to a transition period).
– Announced the implementation of a DRP in our Chairman's Letter in May 2009. The DRP has been designed to be flexible as it allows for a discretionary discount (set at 2.5% initially) and existing shares can be sourced on market to satisfy the DRP when the company has no need to raise capital. The Group will satisfy DRP demand for the final dividend for the 2009 financial year by issuing new shares to participants.
– Increased the committed debt facility from our long-term banking partner from $45 million to $70 million in July 2009. The additional $25 million remains undrawn as at 19 August 2009.
– Improved the overall credit quality of the Group's risk assets and reduced exposure to structured products.

Interest rate risk

Perpetual's balance sheet is subject to interest rate risk.

The Group generates positive cash flows from operations from a relatively light capital structure. Cash balances are held in high quality credit and highly liquid investment funds managed by the Group. These investments generally invest in short-term assets and earn a variable interest rate.

Perpetual has both corporate and operational debt facilities. The corporate facility has a variable interest rate. There are no current interest rate hedges for this facility.

Operational debt facilities are used to finance customers into capital protected investment products. The facilities are a combination of fixed and variable rate borrowings used to finance a combination of variable and fixed structured product loans. To minimise interest rate risk between these fixed rate assets and variable rate liabilities, management uses interest rate swaps to broadly match fixed rate assets to floating rate liabilities.

Under AIFRS, all interest rate swaps are required to be marked-to-market (MTM). In 2009, the interest rate swaps qualified as effective hedges with the MTM recorded within shareholders' equity. During the first half of the 2009 financial year, the rapid fall in interest rates led to a large negative MTM on these interest rate swaps at 31 December 2008 with no accounting offset for the increase in the economic value of the loan book. In June 2009 we negotiated with the funding bank for PPI Series 1 and 2 to convert the interest rate swaps and variable rate loans to fixed interest rate loans. This significantly reduced the number of interest rate swaps outstanding as at 30 June 2009 and resulted in an increase in shareholders' equity of approximately $10 million. This action has reduced the impact that the movement in interest rates can have on the MTM of interest rate swaps on equity going forward.

Credit risk

Credit risk is the risk of default and change in the credit quality of issuers of securities, counterparties and intermediaries to whom the Group has exposure.

The Group is subject to credit risk in the following areas of our business:

– All cash and cash equivalent balances are subject to credit risk as they represent deposits made by the Group with external banks and other institutions. We primarily invest our cash balances in our own cash funds which are rated at least 'Af' by Standard & Poor's.
– The Group is exposed to the performance of assets held in the EMCF products through a total return swap, where the Group pays a return based on the UBS Bank Bill Index and receives the return on the underlying portfolio which contains credit and market risks.
– The Group is exposed to credit risk on its loan assets to PPI customers. This risk is limited to 6% of the loan book for Series 1 and 2, and 7% of the loan book for Series 3 as the borrowings used to fund these loans are limited recourse. The total maximum risk exposure on these loans at 30 June 2009 is $20.3 million. The total maximum risk fell to $13.6 million following the repayment of PPI loans during July and August of 2009.

The Group limits the number of counterparties upon which we are willing to take credit risk. This can lead to concentrations of credit risk. We do not expect any counterparties to fail to meet their obligations beyond what has been provided for in the carrying value of those assets.

Equity risk

Equity risk is the risk of change in value of an issued equity security to which the Group has an exposure.

The Group is subject to equity risk from our investments in managed funds. These investments 'seed' new investment funds for the Group to develop a track record and examine the viability of the fund to the investment community. If the investment fund is successful, the fund is opened to third party investors. A recent example is the Pure Value Fund.

Operational risk

Operational risk is the risk arising from the daily functioning of the Group's business functions. Operational risk is mitigated through internal controls, active management overview and regular reviews by our independent Risk Group function.

Each business and support head is responsible for identifying risks within their businesses and ensuring they are appropriately managed. The Risk Group assists the business by providing the framework, tools, advice and assistance to enable the business to effectively identify, assess and manage risk.

The Board of Directors oversees the risk management within the business, ensuring it is within an accepted risk tolerance range, and that all organic and inorganic business initiatives are consistent with the Group's strategy and conducted ethically, responsibly and with the highest degree of integrity. The Board's oversight of risk management is assisted by the Audit Risk and Compliance Committee (ARCC).

ARCC's main responsibilities are to oversee Group accounting policies and practices; the integrity of financial statements and reports; the scope, quality and independence of external audit arrangements; the monitoring of the internal audit function; the effectiveness of risk management policies and the adequacy of insurance.

During the financial year the risk framework identified a number of inter-fund rebate and unit pricing errors. Inter-fund rebate errors relate to fees that needed to be reimbursed to a fund managed by the Group if that fund invested into another related Perpetual fund. The financial impact of these errors has been taken as a reduction in revenue. The majority of this reduction related to the reversal of revenues recorded in previous periods.

The unit pricing errors related to fund accounting errors that led to an incorrect buy and sell unit price being used for investors when they invested into and redeemed from the affected Group investment products. Errors of this nature have been accounted for as expenses in the 2009 financial year. These errors related to several years of operations, and none are individually material to be disclosed as a significant item.

Investors in affected funds have been or will be compensated for these errors.

Errors accounted for during the 2009 financial year are summarised in the table below:

Before tax ($m)	Perpetual Investments	Private Wealth	Group and Support Services	Total
Error type:				
Revenue (rebate)	5.1	1.2	-	6.3
Expense (unit pricing)	3.3	1.2	2.0	6.5
Total	8.4	2.4	2.0	12.8

Appropriate process improvement and remedial action has been undertaken or is in progress in respect of the issues that caused the errors. As a result, Perpetual's material risks are being managed effectively.

Group debt

As at 30 June		2009	2008
Corporate debt (drawn)	$m	45.0	45.0
Debt to equity (debt/debt + equity) (1)	%	13.4	12.5
Interest coverage	times	54	69

(1) Excludes structured product loans which are operational debt

At 30 June 2009, Perpetual's gross corporate debt was $45.0 million. The Group's gearing ratio remains low at 13% and is well within its stated risk appetite limit of 30%. Interest coverage at 54 times was also well in excess of financial covenant requirements. Financial covenants under the debt facilities include minimum shareholder funds, leverage ratios and interest coverage ratios and caps on operational debt. At 30 June 2009, we were in compliance with all of our debt covenants.

Corporate debt of $45.0 million is currently sourced solely from domestic banks and is presently limited to one provider, a long-term banking relationship. The current facility has greater than 12 months to expiry.

The Group actively manages liquidity risk by preparing cash flow forecasts for future periods, reviewing them regularly with senior management, maintaining a committed credit facility and engaging regularly with its debt providers.

The Group increased its existing committed bank corporate debt facility during July 2009 to $70.0 million from $45.0 million to further strengthen its liquidity position. At 19 August 2009 $25 million remains undrawn.

Summary Consolidated Balance Sheet

	June 2009 (1) $m	Dec 2008 (1) $m	June 2008 (1) $m
Assets			
Cash and cash equivalents	146.1	107.7	183.1
Liquid investments	36.7	60.5	77.0
Structured products – PPI loans to customers	319.6	340.6	343.6
Goodwill and other intangibles	86.1	81.3	66.4
Software intangibles	26.6	23.2	21.6
Other assets	159.5	153.2	171.1
Total assets	774.6	766.5	862.8
Liabilities			
Corporate loan facility	45.0	45.0	45.0
Structured products – PPI finance facilities	318.7	330.7	338.3
Other liabilities	120.9	129.8	165.1
Total liabilities	484.6	505.5	548.4
Net assets	290.0	261.0	314.4
Shareholder funds			
Contributed equity	174.2	168.8	163.8
Reserves	43.3	24.6	44.3
Retained earnings	72.4	64.6	105.6
Total shareholder funds	289.9	258.0	313.7
Minority interest	0.1	3.0	0.7
Total equity	290.0	261.0	314.4

(1) Note: excludes the offsetting asset and liability for the EMCF structured product which were $1,507.3 million at June 2008 and $2,091.9 million at December 2008. At June 2009 the EMCF asset was $1,495.8 million, with the liability being $1,498.3 million. The net liability of $2.5 million at June 2009 has been included above within other liabilities.

Cash balances declined during 2009 with the payment of the final 2008 dividend, lower cash flows from operations, the acquisition of smartsuper and Financial Pursuit and payments via the total return swap to EMCF. Liquid investments have declined due to the combination of a fall in equity markets and the redemption of seed fund investments.

PPI loans to customers have declined over the year with loan repayments from customers. The loan book was reduced by around $109 million during August 2009 with the repayment of loans by customers. This, in turn, has reduced the PPI finance facility liability by a similar amount.

Goodwill and other intangibles has increased during the year with the acquisitions of Financial Pursuit and smartsuper. Other intangibles are amortised over their useful life.

The expected amortisation over the next three financial years of existing identifiable intangible assets that have arisen in recent acquisitions is as follows:

	2009 $m	2010 $m	2011 $m	2012 $m
Amortisation of identifiable intangibles [1]	1.6	1.9	1.8	1.6

[1] Based on $12.5 million at cost of identifiable intangible assets at 30 June 2009

As the Group continues to acquire businesses that are in line with our strategic goals, identifiable intangible assets will likely increase, which in turn will increase the amortisation of identifiable intangible assets.

Cash Flow

For the 12 months ended 30 June	2009 $m	2008 $m
Cash flows from operations		
UPAT	65.7	133.5
Add: Non-cash items		
– Equity remuneration amortisation	21.8	20.4
– Depreciation and amortisation	13.2	9.8
	100.7	163.7
Cash flows applicable to significant items	(18.5)	(25.8)
Net movement in working capital and other items	(19.5)	(28.8)
Net operating cash flows	62.7	109.1
Dividend paid	(76.2)	(156.5)
Operating cash flows net of dividends	(13.5)	(47.4)
Acquisitions	(19.2)	(5.4)
Net other investing cash flows	(5.0)	16.2
Total cash (used)/generated	(37.7)	(36.6)
Financed by:		
Net proceeds from share issues	0.7	5.1
Reduction/(increase) in cash balances	37.0	31.5
Total financing	37.7	36.6

The Group's cash balance at 30 June 2009 remained strong at $146.1 million. The decline in net operating cash flows from $109.1 million in the year ended 30 June 2008 to $62.7 million in the year ended 30 June 2009 was consistent with the decline in operating profits.

Dividends paid during the 2009 financial year exceeded net operating cash flows by $13.5 million, compared to $47.4 million in the previous year. This reflected both the timing of dividend payments and the previous dividend policy.

Management expects net operating cash flows to exceed dividend payments in future years. This is due to the revised dividend policy which effectively allows the retention of operating cash flows to the extent of the non-cash items, which will be utilised to fund business growth initiatives such as systems development and acquisitions. In the short term, it will also allow the rebuilding of cash levels.

Glossary

ABS	Asset backed securities
ADI	Approved deposit-taking institution
AICD	Australian Institute of Company Directors
AIFRS	Australian International Financial Reporting Standards
AML/CTF	Anti-money laundering/counter-terrorism funding
AOFM	Australian Office of Financial Management
APRA	Australian Prudential Regulatory Authority
ARCC	Audit Risk and Compliance Committee
ASX	Australian Securities Exchange
AUD	Australian dollar
bps	Basis points
CMBS	Commercial mortgage backed securities
CPPI	Constant proportion portfolio insurance
DIY	Do it yourself
DPS	Dividend(s) per share
DRP	Dividend Reinvestment Plan
EBITDA	Earnings before tax, depreciation and amortisation of intangible assets, equity remuneration amortisation and significant items
EMCF	Perpetual Exact Market Cash Fund
EPS	Earnings per share
Finsia	Financial Services Institute of Australasia
FUA	Funds under advice or funds under administration
FUM	Funds under management
LTI	Long term incentive
MD&A	Management's discussion and analysis of financial condition and results of operations
MTM	Mark-to-market
NPAT	Net profit after tax
PLMS	Perpetual Lenders Mortgage Services
PPI	Perpetual Protected Investments
RBA	Reserve Bank of Australia
RMBS	Residential mortgage backed securities
ROE	Return on equity
SAF	Small APRA fund
SMSF	Self managed superannuation fund
TSR	Total shareholder return
UPAT	Underlying profit after tax
US	United States of America