Perpetual

# ASX Announcement

## Perpetual Reports 13% Increase in Underlying Profit After Tax
## Chris Ryan takes over from David Deverall as CEO & MD

- Group's core investment revenues benefit from stronger markets during the period
- Private Wealth acquisitions contribute via market and non-market related revenue
- Mortgage processing business performance improves

**23 February 2011**

**Perpetual Limited (Perpetual) today announced a Net Profit After Tax (NPAT) attributable to Perpetual shareholders of $35.0 million for the six months to 31 December 2010 (1H11) after incurring $3.0 million after tax expenses relating to the response to the Kohlberg Kravis Roberts private equity takeover proposal (which did not proceed) and recognising a $10.6 million after tax non-cash goodwill impairment charge relating to the smartsuper business.**

The period result also reflects the expected lower recoveries of prior period losses in relation to the Exact Market Cash Fund (EMCF), from an $11.1 million after tax gain in 1H10 to a $6.0 million after tax gain in 1H11. NPAT for the six months ended 31 December 2009 (1H10) and the six months ended 30 June 2010 (2H10) were $49.2 and $41.3 million respectively.

The Board of Perpetual has declared a FY11 interim fully franked dividend of 95 cents per share, payable on 30 March 2011, compared to 105 cents per share fully franked declared in both 1H10 and 2H10. The reduction in the FY11 interim dividend largely reflects the anticipated reduction in the recovery of EMCF losses noted above.

As previously advised, the Board excluded the impact of the smartsuper goodwill impairment charge on NPAT in determining the dividend, taking into account Underlying Profit After Tax (UPAT), the non-cash nature of the goodwill impairment charge and the Group's strong financial profile. The dividend equates to a 92% pay-out on NPAT excluding goodwill impairment charge.

The Group's UPAT for 1H11, which excludes the above significant items and more accurately reflects its ongoing performance, was $41.0 million, up 13% or $4.6 million compared to the $36.4 million in both 1H10 and 2H10.

The improvement in UPAT reflected the strong alignment between investment market performance and the Group's core investment revenues, the contribution from recently acquired businesses in Private Wealth and the improved financial performance of the Group's mortgage processing business. UPAT also reflected lower equity-based remuneration expense and a lower effective tax rate.

Financial strength improved further in 1H11, with net tangible assets per share increasing by 15% to $4.56, compared to $3.95 at the end of FY10. At the end of 1H11, the Group's holdings of cash, cash equivalents and liquid investments totalled $232.1 million, compared to $237.5 million at the end of FY10.

In commenting on the result, Perpetual Chairman Peter Scott noted that the recovery of investment markets during the period had a positive impact on the Group's market-linked revenues, but that investor sentiment remained fragile. "Although the All Ords ran up considerably during 1H11, its average level was actually lower than in 2H10. In line with this, industry flows remained subdued and stayed well below historic levels during the period," he said.

"In this challenging environment, the Group has remained focused on the investment performance of its funds, which overall continue to exceed their benchmarks and were recognised by the Money Magazine Fund Manager of the Year Award. At the same time, we have succeeded in growing market and non-market related revenue in our Private Wealth business and responded to the increased demand for our mortgage processing services. We also actively took advantage of market opportunities by launching new investment products such as the Secured Private Debt Fund for institutional investors and high net worth clients.

"Our new CEO, Chris Ryan, was appointed shortly after the end of the reported period, and we are now looking forward to a new stage in the Group's development under his leadership," Mr Scott concluded.

David Deverall, who handed over the CEO role to Mr Ryan on 14 February 2011 and stepped down from the Group's Board today, said: "While some of the major market concerns, such as the European debt problems, subsided during 1H11, investors' willingness to commit funds remains hampered by an uncertain outlook and this has been reflected in flows across the industry.

"Perpetual Investments' average funds under management for the period was lower than in the previous period, but a change in the mix between lower margin cash, credit and quant funds, and higher margin equity funds in favour of the latter pushed up the business' average revenue margin from 75 bps in 1H10 to 79 bps in 1H11. The Perpetual Investments business also reported a healthy increase in profit before tax to $42.9 million, up 5 and 11% on 1H10 and 2H10 respectively," he said.

Private Wealth, under the leadership of Geoff Lloyd, who joined Perpetual as the business' Group Executive early on in 1H11, increased its profit after tax for the period by 8% over the previous corresponding period, to $11.6 million. Adjusted for changes in Group cost allocations and acquisition costs, the profit before tax improvement on 1H10 is closer to 17%, reflecting the benefits of recent acquisitions.

"The Fordham and Grosvenor acquisitions made a strong contribution to the 36% increase in Private Wealth revenues in 1H11, to $56.9 million. Importantly, the majority of this increase came from non-market related revenue, in the form of tax and accounting service fees. While these fees typically peak in the second half of the fiscal year, their 1H11 contribution demonstrate the Group has made headway with efforts to improve its earnings profile," Mr Deverall said.

In Corporate Trust, continued progress in the Mortgage Services business, combined with a small decrease in Trust and Fund services revenue, helped the business to a 30% improvement in profit before tax compared to the previous period, to $18.9 million. Compared to 1H10, profit before tax was up 6%.

"We indicated last August that we would focus on improving profitability in our mortgage services business, and while we have continued to invest in line with the business' improving run rate, the full contribution obtained from prior period growth demonstrates we are making good on that objective.

"While it is too early to call a full recovery in securitisation activity, issuers continue to return to the market and our Trust and Fund Services' funds under administration are starting to stabilise," Mr Deverall said.

In concluding the review of his final reporting period, Mr Deverall voiced his confidence in Perpetual's future, saying: "Our underlying performance has made good progress. Although it is impossible to determine whether investor confidence will continue to improve, Perpetual has demonstrated in this period that it can move forward in a tough environment and that is a good sign in terms of its ability to extract the full benefit of a continued market recovery, should it materialise.

"With Chris now leading an experienced management team, the Group is well placed to enter a new phase of progress," Mr Deverall concluded.

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Chris Ryan, who formally became a member of the Board today, indicated he was pleased to have joined forces with the Group's executives in taking Perpetual forward. "Together, we will build on the achievements of recent years, strengthen our market position, and look for opportunities to grow in areas that can deliver clear returns for our shareholders," Mr Ryan said.

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**About Perpetual**
Perpetual is an independent financial services group operating in funds management, financial advisory and trustee services. Our origin as a trustee company, coupled with our strong track record of investment performance, has created our reputation as one of the strongest brands in financial services in Australia. For further information, go to www.perpetual.com.au.

# FACT SHEET

## Half Year to 31 December 2010

### Summary Group results

| Period ended | 1H10 | 2H10 | 1H11 | 1H10-1H11 change | 2H10-1H11 change |
|---|---|---|---|---|---|
| Operating revenue ($m) | 200.1 | 226.2 | 227.1 | +13% | 0% |
| Underlying Profit After Tax ($m) | 36.4 | 36.4 | 41.0 | +13% | +13% |
| Significant Items After Tax ($m) | 12.8 | 4.9 | -6.0 | -18.8 | -10.9 |
| Net Profit After Tax[1] ($m) | 49.2 | 41.3 | 35.0 | -29% | -15% |
| Diluted Earnings Per Share on UPAT (cents) | 85.1 | 84.1 | 93.9 | +10% | +12% |
| Annualised Return on Equity (%, based on UPAT) | 22.9 | 20.6 | 22.6 | -0.3 | +2.0 |

- Continued momentum in underlying profit - UPAT driven by rebounding asset markets, Private Wealth acquisitions, improved performance Mortgage Services and lower equity remuneration expense
- NPAT reflects reducing recovery of EMCF losses, KKR takeover response costs and smartsuper impairment

### Movement in funds

| At end of | 1H10 | 2H10 | 1H11 | 1H10-1H11 change | 2H10-1H11 change |
|---|---|---|---|---|---|
| Perpetual Investments Funds under Management ($b) | 29.3 | 26.9 | 27.5 | -6% | +2% |
| Private Wealth Funds under Advice ($b) | 8.1 | 8.3 | 8.8 | +9% | +6% |
| Corporate Trust Funds under Administration ($b) | 222.4 | 210.5 | 209.4 | -6% | -1% |

- Perpetual Investments / Private Wealth: positive impact from improved equity markets during the period, but industry fund flows yet to recover
- Corporate Trust: securitisation issuance in slow recovery

### Business unit performance
### Perpetual Investments financial summary

| Period ended | 1H10 | 2H10 | 1H11 | 1H10-1H11 change | 2H10-1H11 change |
|---|---|---|---|---|---|
| Revenues ($m) | 111.5 | 116.2 | 112.8 | +1% | -3% |
| Average revenue margin on FUM (bps) | 75 | 78 | 79 | +4bps | +1bps |
| Profit Before Tax ($m) | 40.7 | 38.8 | 42.9 | +5% | +11% |

- Revenue margin improves further
- Outperformance maintained - Money Magazine 'Fund Manager of the Year'
- Launch of Secured Private Debt Fund for institutions and high net worth clients

| Excess investment performance p.a. – gross as at end December 2010 | | | | | | |
|---|---|---|---|---|---|---|
| Period | Industrial Share Fund | Australian Share Fund | Small Companies Fund | Concentrated Equity Fund | International Share Fund | Diversified Income Fund |
| 1 year | +0.94% | +4.61% | +13.30% | +2.08% | -3.88% | +5.73% |
| 3 years | +3.34% | +4.30% | +7.95% | +5.18% | +1.71% | -0.53% |
| 5 years | +2.14% | +2. 29% | +5.60% | +3.09% | +0.67% | -0.68% |
| 7 years | +1.84% | +2.45% | +3.80% | +2.03% | N/A | N/A |
| 10 years | +3.56% | +3.60% | +7.73% | +4.44% | N/A | N/A |

[1] Attributable to Perpetual Limited ordinary equity holders

## Private Wealth financial summary

| Period ended | 1H10 | 2H10 | 1H11 | 1H10-1H11 change | 2H10-1H11 change |
|---|---|---|---|---|---|
| Market related revenue ($m) | 33.5 | 40.0 | 39.4 | +18% | -2% |
| Non-market related revenue ($m) | 8.3 | 19 | 17.5 | +111% | -8% |
| Total revenues ($m) | 41.8 | 59 | 56.9 | +36% | -4% |
| Profit Before Tax ($m) | 10.7 | 14.5 | 11.6 | +8% | -20% |

- Profit Before Tax up 17% after adjusting for changes in Group cost allocations and acquisition costs on 1H10
- Seasonality holds back tax and accounting revenues
- Acquisitions boost revenue growth and diversification via non-market related services
- Fordham and Grosvenor integration on track

## Corporate Trust financial summary

| Period ended | 1H10 | 2H10 | 1H11 | 1H10-1H11 change | 2H10-1H11 change |
|---|---|---|---|---|---|
| Trust and Fund Services revenue ($m) | 27.9 | 27.7 | 26.9 | -4% | -3% |
| Mortgage Services revenue ($m) | 13.7 | 18.2 | 25.4 | +85% | +40% |
| Total revenues ($m) | 41.6 | 45.9 | 52.3 | +26% | +14% |
| Profit Before Tax ($m) | 17.8 | 14.5 | 18.9 | +6% | +30% |
| Mortgage matters ('000s) | 81 | 118 | 131 | +62% | +11% |

- Funds Under Administration run-off slows – market share maintained
- Revenues increase and financial performance improves for Mortgage Services – focus on profitability and process efficiencies continues

# Financial strength

| At end of | 1H10 | 2H10 | 1H11 | 1H10-1H11 change | 2H10-1H11 change |
|---|---|---|---|---|---|
| Total equity ($m) | 348 | 361 | 372 | +7% | +3% |
| Less: Intangibles ($m) | (184) | (190) | (171) | -7% | -10% |
| Net tangible assets ($m) | 164 | 171 | 201 | +23% | +18% |
| Corporate debt to capital ratio (%) | 11.5 | 11.1 | 10.8 | -0.7 | -0.3 |
| Cash and liquid investments ($m) | 227 | 237 | 232 | +2% | -2% |

- Increased financial strength
- Gross corporate debt maintained at $45.0 million - interest coverage well in excess of financial covenant requirements

# FY11 Interim Dividend details

- Interim dividend: 95 cents per share, fully franked
- Change in dividend level from previous periods in line with lower EMCF recoveries
- Ex-dividend date: 3 March 2011
- Record date: 9 March 2011
- Dividend payable: 30 March 2011
- DRP[2] operational for FY11 interim dividend, met by issuing new shares to participants
- Issue price: Average Market Price during pricing period less 2.5% discount
- Pricing period: Ten trading days commencing 10 March 2011 and ending 23 March 2011
- DRP application forms must be received by 5:00pm AEST 9 March 2011

[2] Further information is contained within the Group's financial statements for the six months ended 31 December 2010 and the Management's Discussion and Analysis (available at http://shareholders.perpetual.com.au).