

Perpetual Limited
ABN 86 000 431 827

OPERATING AND FINANCIAL REVIEW

For the 12 months
ended 30 June 2017

Perpetual 

Disclaimer

The following information should be read in conjunction with the Group's audited consolidated financial statements and associated notes for the 12 months ended 30 June 2017 and should also be read in conjunction with the audited financial statements and notes thereto contained in the Annual Report for the financial year ended 30 June 2017 (FY17). The Group's audited consolidated financial statements were subject to independent audit by KPMG.

No representation or warranty is made as to the accuracy, adequacy or reliability of any statements, estimates, opinions or other information contained in this review (any of which may change without notice). To the maximum extent permitted by law, the Perpetual Group, its Directors, officers, employees, agents and contractors and any other person disclaim all liability and responsibility (including without limitation any liability arising from fault or negligence) for any direct or indirect loss or damage which may be suffered through use of or reliance on anything contained in or omitted from this review.

This review contains forward looking statements. These forward looking statements should not be relied upon as a representation or warranty, express or implied, as to future matters. Prospective financial information has been based on current expectations about future events but is, however, subject to risks, uncertainties, contingencies and assumptions that could cause actual results to differ materially from the expectations described in such prospective financial information. The Perpetual Group undertakes no obligation to update any forward looking statement to reflect events or circumstances after the date of this review, subject to disclosure requirements applicable to the Group.

Notes

Note that in this review:

- 1H17 refers to the financial reporting period for the 6 months ended 31 December 2016
- 2H17 refers to the financial reporting period for the 6 months ended 30 June 2017
- FY17 refers to the financial reporting period for the 12 months ended 30 June 2017
- with similar abbreviations for previous and subsequent periods.

This is a review of Perpetual's operations for the 12 months ended 30 June 2017 (FY17). It also includes a review of its financial position as at 30 June 2017.

The following information should be read in conjunction with the Group's audited consolidated financial statements and associated notes for FY17.

All amounts shown are stated in Australian dollars unless otherwise noted, and are subject to rounding.

Additional information is available on the Group's website www.perpetual.com.au.

A glossary of frequently used terms and abbreviations can be found at the end of the review.

OPERATING AND FINANCIAL REVIEW

FOR THE 12 MONTHS ENDED 30 JUNE 2017

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SECTION 1 REVIEW OF GROUP

1 REVIEW OF GROUP

Perpetual Limited (Perpetual or the Group) is an Australian independent wealth manager operating in Australia and Singapore and provides asset management, financial advice and trustee services. In each of these businesses, Perpetual earns the majority of its revenue from fees charged on assets under either management, advice or administration. Revenue is influenced by movement in the underlying asset values, margin on assets and net client flows. The business model provides Perpetual with recurring revenue streams and leverage to movement in asset values. As a provider of high quality financial services, employment costs comprise the largest component of the Group's expenses.

Factors that influence the performance of the business include, amongst others, the performance of the global and Australian economies and financial markets, consumer and investor confidence and government policy.

1.1 STRATEGY

Perpetual's vision is to be Australia's largest and most trusted independent wealth manager.

Perpetual's Lead & Grow strategy seeks to build on the foundation of three core businesses, forming a scalable business model supported by shared central services and a strong brand.

Lead & Grow

Under the Lead & Grow strategy, Perpetual seeks to 'Lead' in each of the Group's core businesses, 'Extend' into adjacent segments, products and markets where the Group has natural, sustainable competitive advantage, and 'Explore' new markets and new opportunities for the Group to capture sustainable growth over the long term.

Perpetual Investments seeks to maintain its strong leadership position in Australian equities and leverage its capabilities to move into logical, adjacent products and strategies. The growth opportunities for Perpetual Investments, in addition to global equities, are in credit strategies and multi asset strategies.

Perpetual Private seeks to maintain its strategic objective to lead in high net worth (HNW) advice and wealth management to its target client segments of 'business owners', 'established wealthy' and 'professionals'. These segments play to our existing strengths across holistic advice, research, investments, fiduciary and philanthropy. Perpetual Private will source new prospects through targeted referral channels and deepen existing client relationships to maximise the opportunity to cross-sell products and services whilst continuing to transform the client experience to improve client advocacy.

Perpetual Corporate Trust seeks to build on its market-leading businesses in debt market services and managed fund services. Debt Markets Services seeks to maintain its market-leading position in the provision of trustee, custody and standby services to debt capital and securitisation markets and enhance its position through the provision of value-added services via its data services capability. Managed Funds Services will continue to leverage its scale in the market and further extend into adjacencies such as providing responsible entity and investment management services to managed investment schemes.

1.2 GROUP FINANCIAL PERFORMANCE

The following table summarises the Group's performance in FY16 and FY17.

Financial Summary

FOR THE PERIOD	FY17 \$M	FY16 \$M	FY17 v FY16	FY17 v FY16
Operating revenue	515.4	494.2	21.2	4%
Total expenses	(326.4)	(316.3)	(10.1)	(3%)
Underlying profit before tax (UPBT)	189.0	177.9	11.1	6%
Underlying profit after tax (UPAT)^{1,2}	136.9	128.2	8.7	7%
Significant items	0.4	3.8	(3.4)	(90%)
Net profit after tax (NPAT)	137.3	132.0	5.3	4%
UPBT margin on revenue (%)	37	36	1	1
Diluted earnings per share (EPS) ³ on UPAT (cps)	293.2	276.1	17.1	6%
Diluted EPS on NPAT (cps)	293.9	284.3	9.6	3%
Dividends (cps)	265.0	255.0	10.0	4%
Return on Equity (ROE) ⁴ on UPAT (%)	22	22	-	-

1. UPAT attributable to equity holders of Perpetual Limited reflects an assessment of the result for the ongoing business of the Group as determined by the Board and management. UPAT has been calculated in accordance with the AICD/Finsia principles for reporting underlying profit and ASIC's Regulatory Guide 230 - Disclosing non-IFRS financial information. UPAT attributable to equity holders of Perpetual Limited has not been audited by the Group's external auditors, however, the adjustments to NPAT attributable to equity holders of Perpetual Limited have been extracted from the books and records that have been audited.

2. Effective tax rate is 27.5%.

3. Diluted EPS is calculated using the weighted average number of ordinary shares and potential ordinary shares on issue of 46,706,627 for FY17 (FY16: 46,431,736 shares).

4. The return on equity (ROE) quoted in the above table is an annualised rate of return based on actual results for each period. ROE is calculated using the UPAT attributable to equity holders of Perpetual Limited for the period, divided by average equity attributable to equity holders of Perpetual Limited, multiplied by the number of such periods in a calendar year in order to arrive at an annualised ROE.

For the 12 months to 30 June 2017, Perpetual's UPAT was \$136.9 million and NPAT was \$137.3 million.

FY17 UPAT was 7% higher than FY16 principally due to:

- higher average funds under management and advice supported by higher equity markets partially offset by lower performance fees earned, prior period distributions and net outflows in Perpetual Investments
- strong growth in non-market revenues within Perpetual Private and across Managed Fund Services within Perpetual Corporate Trust, reinforcing the benefits of diversification of revenue streams across the Group
- gains on the disposal of seed fund investments and investment income within Group Support Services, and
- cost discipline while continuing to invest in Lead & Grow initiatives.

The FY17 NPAT was 4% higher than FY16 due to the UPAT result as discussed above partially offset by non-recurrence of significant items from one-off recoveries in FY16.

The Perpetual Board determined a FY17 fully franked final dividend of 135 cents per share, up 5 cents per share or 4% on FY16. The final dividend is payable on 29 September 2017. Refer to Section 1.3 for details.

The key drivers of revenue and expenses at a Group level are summarised below. Analysis of performance for each of Perpetual's business units is provided in Section 2.

1.2.1 REVENUE

The main drivers of total revenue are the value of Funds Under Management (FUM) in Perpetual Investments and Funds Under Advice (FUA) in Perpetual Private, which are primarily influenced by the level of the Australian equity market. At the end of FY17, Perpetual Investments' FUM and Perpetual Private's FUA were around 78% and 57% exposed to equity markets respectively.

The S&P/ASX All Ordinaries Price Index (All Ords) closed at 5,764 on 30 June 2017, up 9% on the closing level on 30 June 2016 of 5,310. The average All Ords in FY17 was 5,660, up 8% on the average All Ords in FY16 of 5,238.

In FY17, Perpetual generated \$515.4 million of total operating revenue, which was \$21.2 million or 4% higher than FY16. Revenue was positively impacted by higher levels of FUM and FUA as a result of higher levels of equity markets. Performance fees earned in FY17 were \$6.7 million which is \$7.5 million lower than FY16.

Management has calculated the expected impact on revenue, across the business, for a 1% movement in the All Ords. Based on the level of the All Ords at the end of June 2017, a 1% movement impacts annualised revenue by approximately \$2.25 million to \$2.75 million.

Note that the above revenue sensitivity is a guide only and may vary due to a number of factors, including but not limited to: the performance of funds under the Group's management and advice; the impact and timing of inflows, outflows and distributions on FUM and FUA and changes in pricing policy, channel and product mix.

1.2.2 EXPENSES

Total expenses in FY17 were \$326.4 million, \$10.1 million or 3% higher than FY16, comprising:

- continued investment in revenue generating activities, including Lead & Grow initiatives,
- an increase in depreciation and amortisation expenses resulting from investments made in the prior year,
- growth in variable remuneration expenses, partially offset by
- ongoing cost discipline.

1.2.3 SIGNIFICANT ITEMS

Significant items were lower in FY17 primarily due to lower net recoveries. The gain on sale of business reported during FY17 pertains to the previously announced sale of a business in 2014.

Significant items FOR THE PERIOD	PROFIT/(LOSS) AFTER TAX					
	FY17	FY16	2H17	1H17	2H16	1H16
	\$M	\$M	\$M	\$M	\$M	\$M
Net recoveries ¹	-	3.6	-	-	2.9	0.7
Gain on sale of business	0.4	0.2	-	0.4	-	0.2
Total significant items	0.4	3.8	-	0.4	2.9	0.9

¹ Relates to the Trust Company Limited (TrustCo).

1.3 SHAREHOLDER RETURNS AND DIVIDENDS

Shareholder returns

FOR THE PERIOD		FY17	FY16	FY17 v FY16	2H17	1H17	2H16	1H16
Diluted EPS on UPAT ¹	cents	293.2	276.1	6%	152.6	140.7	139.2	137.3
Diluted EPS on NPAT	cents	293.9	284.3	3%	152.6	141.5	145.6	139.1
Annualised ROE on UPAT ²	%	22.1	21.6	-	22.9	21.5	21.6	21.6
Annualised ROE on NPAT	%	22.1	22.2	-	22.9	21.6	22.6	21.8

Dividends

FOR THE PERIOD		FY17	FY16	FY17 v FY16	2H17	1H17	2H16	1H16
Fully franked dividends paid/payable	\$M	123.4	118.8	4%	62.9	60.5	60.5	58.2
Fully franked dividends per ordinary share	cents	265.0	255.0	4%	135.0	130.0	130.0	125.0
Dividend payout ratio ³	%	90.2	89.7	-	88.5	91.9	89.3	89.9
Dividends paid/payable as a proportion of NPAT ⁴	%	89.9	90.0	-	88.2	91.7	89.5	90.4

- Diluted EPS is calculated using the weighted average number of ordinary and potential ordinary shares on issue.
- The returns on equity quoted in the above table are an annualised rate of return based on actual results for each period. ROE is calculated using the NPAT or UPAT attributable to Perpetual Limited equity holders for the period divided by average equity attributable to the equity holders of Perpetual Limited, multiplied by the number of such periods in a calendar year in order to arrive at an annualised ROE.
- Dividend payout ratio is calculated using dividend(s) paid or resolved to be paid for the relevant period divided by the diluted earnings per share.
- Based on ordinary fully paid shares at the end of each reporting period.

Perpetual's dividend policy is to pay dividends within a range of 80% to 100% of statutory NPAT on an annualised basis.

A fully franked final dividend for FY17 of 135 cents per share will be payable on 29 September 2017, and represents a dividend payout of 88% of 2H17 NPAT. This takes the full year dividends paid and payable to 265 cents per share which represents a dividend payout of 90% of FY17 NPAT.

The Dividend Reinvestment Plan (DRP) will be operational for the final dividend. No discount will apply and the DRP will be met by acquiring existing shares on-market. The ten day volume weighted average price (VWAP) pricing period for the final dividend commences on 11 September 2017 and ends on 22 September 2017. A broker will be appointed to acquire existing shares to satisfy the DRP.

The Group's franking credit balance at the end of FY17, prior to the payment of the FY17 final dividend, was \$55.3 million. This will enable \$129.1 million of cash dividends, or around 277 cents per share, to be fully franked. After payment of the final dividend for FY17, the franking balance is capable of fully franking a further \$66.2 million of cash dividends, or around 142 cents per share.

As at 30 June 2017, Perpetual Limited, the Group's parent entity, had retained earnings of \$171.7 million (equivalent to around 369 cents per share).

1.4 SEGMENT RESULTS SUMMARY

Perpetual has three business units: Perpetual Investments, Perpetual Private and Perpetual Corporate Trust. 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 Perpetual Private and Funds Under Administration (FUA) for Perpetual Corporate Trust.

The key segment results for FY17 are summarised in the table below.

Segment results summary FOR THE PERIOD	OPERATING REVENUE		EBITDA ¹		PROFIT BEFORE/ AFTER TAX	
	FY17	FY16	FY17	FY16	FY17	FY16
	\$M	\$M	\$M	\$M	\$M	\$M
Perpetual Investments	228.1	227.9	125.1	124.9	116.5	118.1
Perpetual Private	178.4	167.6	54.4	47.1	40.5	34.2
Perpetual Corporate Trust	92.7	87.3	44.4	40.6	36.7	34.1
Group Support Services	16.2	11.4	(1.0)	(4.2)	(4.7)	(8.5)
Totals before tax and significant items	515.4	494.2	223.0	208.4	189.0	177.9
Income tax expense					(52.0)	(49.7)
UPAT before significant items					136.9	128.2
Significant items after tax:						
1. Net recoveries ²					-	3.6
2. Gain on sale of business					0.4	0.2
Statutory NPAT attributable to equity holders of Perpetual Limited					137.3	132.0

¹ EBITDA represents earnings before interest costs, taxation, depreciation, amortisation of intangible assets, equity remuneration expense, and significant items.

² Relates to TrustCo.

Perpetual Investments reported profit before tax in FY17 of \$116.5 million, \$1.6 million or 1% lower than in FY16. The result was driven by lower performance fees earned and higher variable remuneration, partially offset by higher average FUM as a result of higher equity markets.

Perpetual Private reported profit before tax in FY17 of \$40.5 million, \$6.3 million or 18% higher than in FY16. This increase was due to higher market related revenue as a result of higher equity markets, new client growth across target high net worth segments, and higher non-market related revenues, partially offset by continued investments in Fordham, Perpetual's specialist accounting, business and financial advice offering for private business owners.

Perpetual Corporate Trust reported profit before tax in FY17 of \$36.7 million, \$2.6 million or 8% higher than in FY16. This increase on FY16 primarily reflected growth in the Managed Fund Services business.

1.5 GROUP FINANCIAL POSITION

1.5.1 SUMMARY CONSOLIDATED BALANCE SHEET

AT END OF	2H17 ¹ \$M	1H17 ¹ \$M	2H16 ¹ \$M	1H16 ¹ \$M
Assets				
Cash and cash equivalents	323.5	256.5	278.2	240.2
Liquid investments	63.1	76.1	75.5	76.0
Goodwill and other intangibles	304.4	307.5	310.6	314.5
Software	26.8	27.0	28.7	28.6
Other assets	176.8	172.7	160.3	151.4
Total assets	894.6	839.8	853.3	810.7
Liabilities				
Corporate loan facility	87.0	87.0	87.0	87.0
Other liabilities	173.2	134.5	160.8	128.3
Total liabilities	260.2	221.5	247.8	215.3
Net assets	634.4	618.3	605.5	595.4
Shareholder funds				
Contributed equity	501.8	501.2	493.5	493.2
Reserves	20.2	15.9	17.2	17.2
Retained earnings	112.4	101.2	94.8	85.0
Total equity	634.4	618.3	605.5	595.4

¹ Excludes the asset and liability for the Perpetual Exact Market Cash Fund (EMCF) structured product.

1.5.2 BALANCE SHEET ANALYSIS

Key movements in Perpetual's consolidated balance sheet are described below.

Cash

Cash and cash equivalents increased from \$278.2 million at the end of FY16 to \$323.5 million at the end of FY17, an increase of \$45.3 million or 16%.

Further detail can be found in section 1.6.1, 'Cash flow'.

Liquid investments

Liquid investments decreased to \$63.1 million at the end of FY17 from \$75.5 million at the end of FY16. The decrease was predominantly due to the redemption of some of the Group's seed investments, offset by additional investment in new incubation funds.

Goodwill and other intangibles

Goodwill and other intangibles decreased by \$6.2 million to \$304.4 million at the end of FY17.

Other assets and liabilities

'Other assets' increased to \$176.8 million from \$160.3 million at the end of FY16 and 'Other liabilities' increased to \$173.2 million from \$160.8 million at the end of FY16. The increase in other assets of \$16.5 million is primarily attributable to an increase in receivables and prepayments of \$8.2 million and \$5.6 million respectively and an increase in deferred tax assets of \$2.9 million, offset by a decrease in property, plant and equipment of \$1.2 million. The increase in other liabilities of \$12.4 million is predominantly attributable to an increase in payables of \$11.6 million, an increase in provisions of \$6.0 million and an increase in current tax liabilities of \$0.8 million offset by a decrease in deferred tax liabilities of \$6.0 million.

Loans

Movements in loans balances are described in section 1.6.2, 'Debt'.

Contributed equity

Contributed equity has increased by \$8.3 million since FY16. This increase is primarily attributable to the vesting of shares under employee share plans.

Reserves

Total reserves have increased by \$3.0 million to \$20.2 million in FY17 due primarily to a net increase in the Equity Compensation Reserve.

1.6 CAPITAL MANAGEMENT

Perpetual's principles for its capital management are as follows:

- i) maximising returns to shareholders
- ii) enabling the Group's strategy
- iii) ensuring compliance with the Group's risk appetite statement and regulatory requirements, and
- iv) withstanding shocks to the market.

Perpetual maintains a conservative balance sheet with low gearing levels. As part of its capital management strategy, the Group continually reviews options to ensure that it is optimising its use of capital and maximising returns to shareholders.

The Group uses a risk-based capital model based on the Basel II framework to assess its capital requirements. The model requires capital to be set aside for operational, credit and market risk and any known capital commitments.

At the end of FY17, total base capital requirements were \$168 million compared to \$374 million of available liquid funds.

During FY17, the Group has continued to focus on a number of initiatives to strengthen its balance sheet, including:

- continuing to maintain the overall credit quality of the Group's risk assets
- maintaining committed debt facilities of \$130 million, drawn to \$87 million as at 30 June 2017, and
- focusing on ensuring strong discretionary expense discipline across each business unit and support group.

1.6.1 CASH FLOW

FOR THE PERIOD	FY17 \$M	FY16 \$M	2H17 \$M	1H17 \$M	2H16 \$M	1H16 \$M
Net cash from operating activities	158.4	149.8	116.1	42.3	108.3	41.5
Net cash provided by/(used in) investing activities	8.0	(44.5)	11.4	(3.5)	(12.0)	(32.5)
Net cash (used in)/provided by financing activities	(121.1)	(116.4)	(60.5)	(60.5)	(58.2)	(58.2)
Net increase/(decrease) in cash and cash equivalents	45.3	(11.1)	67.0	(21.7)	38.1	(49.2)

In FY17, cash and cash equivalents increased by \$45.3 million compared to a decrease of \$11.1 million in FY16. This represents a net increase in cash flow of \$56.4 million, principally because:

- net cash provided by operating activities increased by \$8.6 million on FY16, primarily due to an increase in net cash payments/receipts in the course of operations of \$14.6 million offset by a decrease in interest received of \$0.8 million and an increase in income taxes paid of \$5.2 million
- net cash from investing activities increased by \$52.5 million on FY16, primarily due to an increase in net proceeds from the sale of investments of \$42.7 million, and
- net cash used in financing activities increased by \$4.7 million on FY16, due to an increase in dividend payments.

1.6.2 DEBT

AT END OF		FY17	FY16	2H17	1H17	2H16	1H16
Corporate debt	\$M	87.0	87.0	87.0	87.0	87.0	87.0
Corporate debt to capital ratio ¹	%	12.1	12.6	12.1	12.3	12.6	12.7
Interest coverage calculation for continuing operations ²	times	68x	66x	77x	61x	69x	64x
Net tangible assets per share	\$	6.10	5.50	6.10	5.95	5.50	5.39

¹ corporate debt / (corporate debt + equity)

² EBIT / interest expense

Perpetual's key debt metrics shown in the table above are described as follows.

Debt level: At the end of FY17, Perpetual's gross corporate debt was \$87 million. The Group's gearing ratio at the end of FY17 was 12.1%, compared to 12.6% at the end of FY16. The gearing ratio remains well within Perpetual's stated risk appetite limit of 30%.

Lenders and debt maturity: Perpetual's corporate debt is currently sourced solely from a long-term banking relationship with National Australia Bank. At the end of FY17, the Group had a committed bank corporate debt facility of \$130 million of which \$87 million was drawn. The facility has greater than 12 months to its expiry date of 31 October 2018.

Covenants: At the end of FY17, the Group was in compliance with all its debt covenants.

Liquidity: 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.

1.7 REGULATORY ENVIRONMENT

The financial services industry continues to be subject to legislative and regulatory reform which affects or could affect the Group's operations. The table below provides an overview of key regulatory reforms and their impact on the Group.





Regulation	Overview	Impact/Management
The Common Reporting Standard (CRS)	The CRS is a global tax reporting regime that requires financial institutions to identify and report foreign resident account holder information to tax authorities (the ATO in Australia). Australian legislation introducing the CRS has been passed and CRS became effective on 1 July 2017.	The Group implemented new CRS compliant account opening processes by 30 June 2017 and is developing the required pre-existing client review and ATO reporting processes (due by 31 July 2018).
ASIC policy	ASIC continues to influence the regulatory landscape through the remaking of sun-setting class orders, updates to various ASIC Regulatory Guides and the release of new regulatory instruments.	The Group is continuing to progress its implementation response to satisfy the fee and cost disclosure requirements and will be compliant by the required dates. In addition, ASIC's industry levies will introduce new regulatory costs to the Group. The Group has built the ASIC Industry levies into its business planning, noting the commencement of the funding model is from 1 July 2017 and the first invoice will only be issued in January 2019.
Superannuation reforms	Budget measures for fairer and sustainable super.	The Group implemented these changes by 30 June 2017.
Mandatory data breach reporting	Legislation commences on 22 February 2018 which establishes a mandatory data breach notification scheme in Australia. This will require government agencies and businesses covered by the Privacy Act to notify any individuals affected by a data breach that is likely to result in serious harm.	The Group will be compliant by the required date.
Professional standards for financial advisers	Introduction of compulsory education requirements for both new and existing financial advisers, supervision requirements for new advisers and a code of ethics for the industry. Legislation also mandates that an exam that will represent a common benchmark across the industry and an ongoing professional development component. The new professional standards regime comes into effect on 1 January 2019, with transitional arrangements for existing advisers allowing them until 1 January 2021.	Impacts all advisers or those who provide personal advice to clients. While more detail is needed, we expect ASIC will consult with the industry on the form of the exam and other standards.





1.8 BUSINESS RISKS

Perpetual's approach to risk management is based on a risk appetite statement set by the Perpetual Board, which outlines the risk boundaries and minimum expectations of Perpetual's management. The Board's Audit, Risk and Compliance Committee (ARCC) is responsible for overseeing Perpetual's risk management processes. Perpetual has a dedicated Group Risk function, led by the General Manager, Risk and Internal Audit, which has day-to-day responsibility for the design, implementation and maintenance of Perpetual's risk management framework, and an independent Internal Audit department.

The risk management framework is underpinned by the 'Three Lines of Defence' model. Under this model, the first line of defence, being business unit management, is accountable for the day-to-day identification and management of risks. Perpetual's Group Risk and Group Compliance functions represent the second line and are responsible for overseeing first line activities. Internal Audit provides independent assurance, representing the third line, and reports to the ARCC.

The table on the following page outlines the key business risks currently faced by Perpetual and the primary mitigants in place to manage those risks.

Risk Category	Risk Description/Impact	Risk Mitigants
Compliance, Legal & Conduct 	The risk that Perpetual breaches its compliance and legal obligations, leading to reputation damage, litigation, fines, breach of contract or adverse regulatory outcomes.	<ul style="list-style-type: none"> Independent legal and compliance team, and training across teams Compliance obligations are documented and monitored Independent issues assessment
	Manifestation of behaviours and practices (conduct) that are considered unethical or unacceptable, including actions that compromise the best interests of Perpetual's clients and the integrity of the market place.	<ul style="list-style-type: none"> Clearly defined expected behaviours of all individuals that form part of the performance assessment process Implementation of the Three Lines of Defence risk practices Whistleblowing arrangements managed by an independent vendor Enterprise people, risk and compliance training arrangements
Investment 	The risk of loss resulting from ineffective investment strategies, management or structures resulting in sustained underperformance relative to peers and benchmarks.	<ul style="list-style-type: none"> Well defined and disciplined investment processes and philosophy for selection. Established investment governance structure in place Independent mandate monitoring and reporting
Financial 	Risk of inappropriate use of Perpetual's financial resources, drivers of financial performance are not well understood or managed to expectations, or financial results inappropriately accounted for or disclosed.	<ul style="list-style-type: none"> Budget planning process Reconciliation and review processes Regular income and expense reviews Internal and external auditors
	Exposure to, or reliance on, revenue streams linked to equity markets resulting in potentially volatile earnings (revenue diversity and asset pricing market risk).	<ul style="list-style-type: none"> Diversification of revenue sources Disciplined and active management of the cost base
	Impact upon profitability due to the loss of key clients.	<ul style="list-style-type: none"> Constant focus on servicing clients to the highest standards and acting in clients' best interests Strong investment governance processes which support transparent and timely reporting to clients
Operational 	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes (but is not limited to) process, fraud and business continuity risks.	<ul style="list-style-type: none"> Clearly defined policies, procedures, roles and responsibilities Controls testing in the form of control self-assessment Business continuity planning program Independent assurance
	Cyber risk, including the risk of loss (both data and financial) resulting from unauthorised access to and/or tampering with Perpetual's IT systems or data.	<ul style="list-style-type: none"> Defined information security program and IT security policies Implementation of operational security technology (including firewalls and antivirus) Security (penetration) testing of key systems

Risk Category	Risk Description/Impact	Risk Mitigants
Outsourcing 	The risk that services performed by external service providers are not managed in line with the servicing contract or the operational standards required, resulting in potential negative impacts to shareholders and/or customers.	<ul style="list-style-type: none"> Partnered with well-regarded and proven strategic partners Outsourced relationships are managed at a senior level Outsourcing and vendor management framework, with legal contracts Service level standards monitored
People 	Exposure to changes in personnel, particularly in key investment management roles.	<ul style="list-style-type: none"> Succession planning, talent identification programs, reporting to the People and Remuneration Committee Remuneration benchmarking and alignment of variable remuneration with performance outcomes Employee engagement monitoring
	Exposure of staff, customers and suppliers to work health and safety (WH&S) issues with potential detrimental impact.	<ul style="list-style-type: none"> Well defined WH&S policies, procedures and training WH&S Committee Incident and Injury management processes
Reputation 	The risk arising from negative perception on the part of both existing and prospective clients, employees, counterparties, shareholders, investors, regulators or other stakeholders that can adversely affect Perpetual's ability to maintain existing, or establish new client relationships and business operations.	<ul style="list-style-type: none"> Application of risk appetite statement Effective risk management framework that sets out how risk is managed Effective issues management processes to respond to events that may arise Media monitoring Net Promoter Score measurement and reporting
Strategic 	Adverse strategic decisions, ineffective implementation of strategic decisions, a lack of responsiveness to industry changes or exposure to economic, market or demographic considerations that affect Perpetual's market position and client value proposition.	<ul style="list-style-type: none"> Considered strategic and business planning processes Strategic measures cascaded through performance management Application of Risk Appetite Statement in strategic decision-making

1.9 OUTLOOK

The Group is focused on executing its Lead & Grow strategy.

The long-term outlook for the Group is bolstered by the growing need for savings, advice and income in retirement underpinned by the compulsory superannuation regime and demographic changes. At the same time, external environmental factors, such as regulatory and political uncertainty, and market volatility can pose near-term challenges facing not just Perpetual but also the broader financial services industry.

Given the sensitivity of Perpetual's revenue and profitability to movements in Australian equity markets, net flows, and investment performance, near-term results are subject to significant variability, particularly during periods of high market volatility.

The Group remains confident that with continued investment in its core businesses and extensions into adjacent areas and new markets, it can continue to grow over time.

1.10 EVENTS SUBSEQUENT TO BALANCE DATE

On 10 July 2017, the cross shareholding claim brought by Perpetual Investment Management Limited (PIML) against Brickworks and Washington H. Soul Pattinson (WHSP) was dismissed by the Federal Court. This was the last in a series of actions taken by PIML as responsible entity on behalf of unitholders.

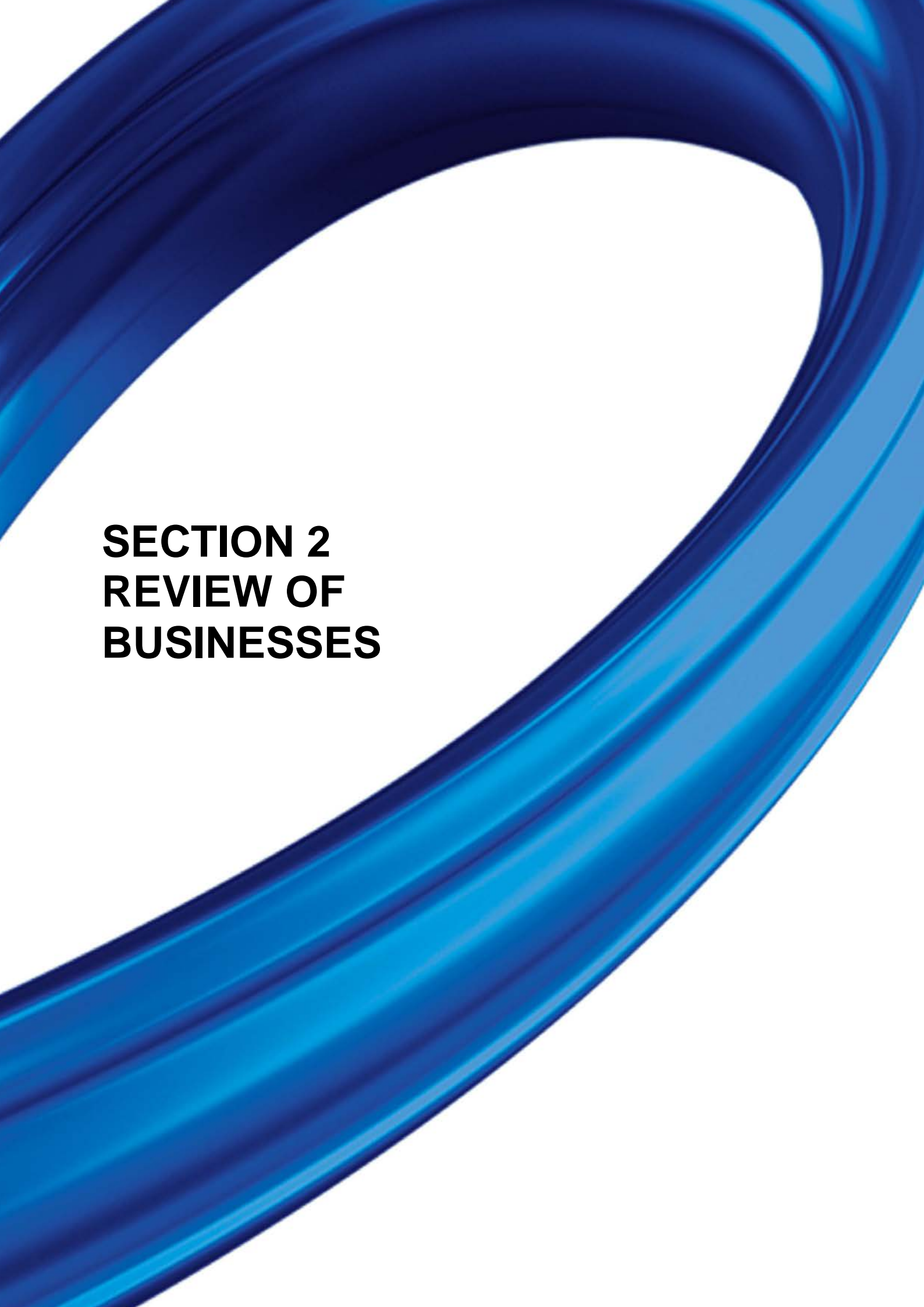
Judgment included an order for PIML to cover Brickworks and WHSP litigation costs. Since 10 July 2017 these have been negotiated and agreed and the combined total was \$5 million.

PIML's legal costs have been progressively recharged to relevant funds, in accordance with judicial advice from the Supreme Court.

On 10 August 2017, the Perpetual Limited Board decided to align client interests and Perpetual interests by sharing the costs of litigation and absorbing all of the Brickworks and WHSP costs. The litigation costs will be recognised as a one-off non-recurring item in the financial year ending 30 June 2018. The impact on net profit after tax will be \$3.5 million.

A final dividend of 135 cents per share fully franked was declared on 24 August 2017 and is to be paid on 29 September 2017.

Other than the matters noted above, the Directors are not aware of any other event or circumstance since the end of the financial year not otherwise dealt with in this report that has affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

An abstract graphic featuring a thick, glossy blue ribbon that flows from the top left, curves around the right side, and extends towards the bottom left. The ribbon has a smooth, liquid-like texture with highlights and shadows, creating a sense of movement. The background is a solid, bright blue.

SECTION 2 REVIEW OF BUSINESSES

2 REVIEW OF BUSINESSES

The results and drivers of financial performance in FY17 for the three Perpetual business units are described in the following sections. A description of revenues and expenses at the Group Support Services level is also provided.

2.1 PERPETUAL INVESTMENTS

2.1.1 BUSINESS OVERVIEW

Perpetual Investments is one of Australia's most highly regarded investment managers, offering a broad range of investment, superannuation and retirement savings products. The business covers a range of asset classes, including Australian and global equities, fixed income and multi asset strategies. It services a diverse range of client types, from large institutional investors through to smaller retail investors.

2.1.2 FINANCIAL PERFORMANCE

Perpetual Investments financial results

FOR THE PERIOD	FY17 \$M	FY16 \$M	FY17 v FY16	2H17 \$M	1H17 \$M	2H16 \$M	1H16 \$M
Revenue	228.1	227.9	-	114.2	113.8	117.9	110.0
Operating expenses	(103.0)	(103.0)	-	(52.1)	(50.9)	(54.0)	(49.0)
EBITDA	125.1	124.9	-	62.1	63.0	63.9	61.0
Depreciation and amortisation	(2.6)	(2.0)	(30%)	(1.3)	(1.3)	(1.1)	(0.9)
Equity remuneration expense	(6.0)	(4.8)	(25%)	(3.2)	(2.8)	(1.9)	(2.9)
Profit before tax	116.5	118.1	(1%)	57.7	58.8	60.9	57.2
Average FUM revenue margin ¹	72bps	75bps	(3bps)	71bps	74bps	78bps	73bps
Average FUM	\$31.5B	\$30.0B	5%	\$32.2B	\$30.7B	\$29.9B	\$30.1B

¹ revenue / average FUM

In FY17, Perpetual Investments reported profit before tax of \$116.5 million, \$1.6 million or 1% lower than FY16. The result was driven by lower performance fees earned and higher equity remuneration expense, partially offset by higher average FUM due to higher equity markets. The cost to income ratio in FY17 was 49%, slightly higher than FY16.

2.1.3 DRIVERS OF PERFORMANCE

Revenue

Perpetual Investments generated revenue of \$228.1 million in FY17, \$0.2 million higher than in FY16. The key factors that impacted revenue in FY17 included:

- lower equities performance fees earned in FY17 compared to FY16, and
- higher average FUM as a result of higher average All Ords, which increased by 8% compared to FY16, partially offset by prior period distributions (30 June 2016) and net outflows.

Average FUM revenue margins in FY17 were 72 basis points (bps), 3 bps lower than in FY16. Excluding performance fees earned the underlying average margins were 70 bps in FY17 compared to 71bps in FY16.

Movements in average margins usually result from changes in the mix of FUM between lower-margin institutional and higher-margin retail investors, as well as changes in the mix of asset classes such as

cash (generally lower margin) and equities (generally higher margin) and the contribution of performance fees earned.

Revenues and margins across the mix of asset classes within Perpetual Investments, as well as performance fees earned, are provided in the tables below.

Revenue by asset class

FOR THE PERIOD	FY17 \$M	FY16 \$M	FY17 v FY16	2H17 \$M	1H17 \$M	2H16 \$M	1H16 \$M
By asset class:							
> Equities	195.4	192.3	2%	97.8	97.6	99.2	93.1
> Cash and fixed income	24.5	26.5	(7%)	12.5	12.0	14.3	12.2
> Other FUM related	7.6	8.2	(7%)	3.8	3.9	4.0	4.2
> Other non-FUM related	0.6	0.9	(37%)	0.2	0.3	0.4	0.5
Revenues	228.1	227.9	0%	114.2	113.8	117.9	110.0

Performance fees

FOR THE PERIOD	FY17 \$M	FY16 \$M	FY17 v FY16	2H17 \$M	1H17 \$M	2H16 \$M	1H16 \$M
By asset class:							
> Equities	4.0	9.7	(59%)	1.3	2.7	8.2	1.5
> Cash and fixed income	2.7	4.5	(40%)	1.5	1.2	3.5	1.0
Total performance fees	6.7	14.2	(53%)	2.8	3.9	11.7	2.5

Revenue margin

FOR THE PERIOD	FY17 bps	FY16 bps	FY17 v FY16	2H17 bps	1H17 bps	2H16 bps	1H16 bps
By asset class:							
> Equities	80	83	(3)	79	82	85	81
> Cash and fixed income	39	44	(5)	37	41	48	40
> Other FUM related	79	80	(1)	79	78	78	83
Average revenue margin	72	75	(3)	71	74	78	73

The drivers of revenue margins by asset class are described below:

Equities: Revenues represent fees earned on Australian and global equities products. Revenue in FY17 was \$195.4 million, an increase of 2% on FY16. Revenue was positively impacted by higher average FUM, from higher market levels, partially offset by prior year distributions and net outflows primarily in 2H17. The average margin in FY17 was 80 bps, 3 bps lower than FY16. These differences were due to higher performance fees earned in FY16 and channel mix.

Cash and fixed income: Revenues are derived from the management of cash and fixed income products. Revenue in FY17 was \$24.5 million, a decrease of 7% on FY16. The decrease in revenue margin compared to FY16 was primarily due to one-off revenue in FY16 of \$2.5 million from the closure of an internal fund to improve efficiency (which positively impacted FY16 margin by 4 bps), and product mix.

Other FUM related: Revenue includes management fees for sub-advisory mandates and external funds on the WealthFocus platform. Revenue in FY17 was \$7.6 million, a decrease of 7% on FY16, impacted by the re-allocation of a smart beta mandate, as previously announced.

Other non-FUM related: Revenue includes the interest earned on operational bank accounts across the business.

Expenses

Total expenses, comprising operating expenses, depreciation, amortisation and equity remuneration, for Perpetual Investments in FY17 were \$111.6 million, \$1.8 million or 2% higher than in FY16.

The increase in expenses on FY16 was mainly due to higher variable remuneration expenses in the period.

2.1.4 FUNDS UNDER MANAGEMENT

FUM and flows

FUM summary

AT END OF	FY17 \$B	Net flows \$B	Other ¹ \$B	FY16 \$B
Institutional	10.8	(0.1)	1.3	9.6
Intermediary (master fund and wrap)	15.1	(0.4)	1.2	14.3
Retail	5.2	(0.4)	0.4	5.2
Listed investment company	0.3	-	-	0.3
All distribution channels	31.4	(0.9)	2.9	29.4
Australian equities	22.3	(1.4)	2.5	21.2
Global equities	1.2	(0.3)	0.2	1.3
Listed investment company	0.3	-	-	0.3
Equities	23.8	(1.7)	2.7	22.8
Cash and fixed income	6.7	0.9	0.2	5.6
Other	0.9	(0.1)	-	1.0
All asset classes	31.4	(0.9)	2.9	29.4

¹ Includes changes in asset value, income, reinvestments, distributions, and asset class rebalancing within the Group's diversified funds.

Net flows

FOR THE PERIOD	FY17 \$B	FY16 \$B	2H17 \$B	1H17 \$B	2H16 \$B	1H16 \$B
Institutional	(0.1)	(0.3)	(0.4)	0.3	(0.1)	(0.2)
Intermediary (master fund and wrap)	(0.4)	0.2	(0.3)	(0.1)	(0.1)	0.3
Retail	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)	-
Listed investment company	-	-	-	-	-	-
All distribution channels	(0.9)	(0.3)	(0.9)	-	(0.4)	0.1
Australian equities	(1.4)	0.4	(1.3)	(0.1)	0.2	0.2
Global equities	(0.3)	-	-	(0.3)	-	-
Listed investment company	-	-	-	-	-	-
Equities	(1.7)	0.4	(1.3)	(0.4)	0.2	0.2
Cash and fixed income	0.9	(0.6)	0.5	0.4	(0.5)	(0.1)
Other	(0.1)	(0.1)	(0.1)	-	(0.1)	-
All asset classes	(0.9)	(0.3)	(0.9)	-	(0.4)	0.1

Perpetual's FUM as at 30 June 2017 was \$31.4 billion, with net outflows of \$0.9 billion for the year. Points of note in relation to the FUM and flows data for FY17:

- outflows in Australian Equities were primarily in the institutional channel
- outflows in Global Equities was mainly due to the reallocation of a smart beta mandate within the multi asset strategies, as previously announced, partially offset by
- inflows within cash and fixed income across both institutional and intermediary channels through enhanced cash mandates and Pure Credit Alpha.

Excess/(under) investment performance per annum - gross as at end June 2017^a

Period	Australian Share Fund	Industrial Share Fund	Smaller Companies Fund	Concentrated Equity Fund	Share Plus Fund	Ethical Share Fund	Diversified Income Fund	Perpetual Active Fixed Interest Fund	Perpetual Global Share Fund ^b
1 year	(2.0)%	2.2%	9.2%	2.2%	2.8%	1.3%	4.2%	1.8%	6.3%
3 year pa	(1.5)%	(1.6)%	4.6%	0.1%	2.4%	4.6%	2.3%	1.1%	1.7%
5 year pa	0.5%	(0.6)%	10.7%	2.3%	5.7%	6.1%	3.2%	1.5%	5.2%
7 year pa	1.4%	(0.3)%	10.3%	2.7%	6.0%	6.5%	3.0%	1.5%	-
10 year pa	2.3%	1.2%	8.9%	3.7%	5.8%	5.9%	1.3%	1.0%	-

^a Compared to relevant benchmarks. The table provides no allowance for management expenses, redemption fees or taxation.

^b Includes performance in the incubation period.

Further to the above, the majority of Perpetual Investments' main funds outperformed over the medium and long-term time horizons and were represented in the first or second quartile of performance rankings over a five, seven and ten-year period¹.

¹. Mercer wholesale surveys, quartile rankings, June 2017.

2.2 PERPETUAL PRIVATE

2.2.1 BUSINESS OVERVIEW

Perpetual Private provides a range of advice and trustee services for high net worth individuals in the target segments of 'business owners', 'established wealthy' and 'professionals'. It had \$13.5 billion of FUA at the end of FY17.

Perpetual Private aims to be the leading provider of advice and wealth management for high net worth individuals, families, businesses and not-for-profit organisations. A key part of Perpetual Private is its philanthropic business and Perpetual is one of Australia's largest managers of philanthropic funds, with \$2.6 billion in FUA for charitable trusts and endowment funds as at the end of FY17.

2.2.2 FINANCIAL PERFORMANCE

Perpetual Private financial results

FOR THE PERIOD	FY17 \$M	FY16 \$M	FY17 v FY16	2H17 \$M	1H17 \$M	2H16 \$M	1H16 \$M
Market related revenue	113.6	107.8	5%	57.9	55.7	53.9	53.9
Non-market related revenue	64.8	59.8	8%	34.0	30.9	31.4	28.4
Total revenues	178.4	167.6	6%	91.8	86.6	85.3	82.3
Operating expenses	(124.0)	(120.5)	(3%)	(62.9)	(61.1)	(62.0)	(58.5)
EBITDA	54.4	47.1	16%	29.0	25.5	23.3	23.8
Depreciation and amortisation	(10.1)	(9.6)	(5%)	(5.0)	(5.0)	(4.9)	(4.7)
Equity remuneration expense	(3.9)	(3.3)	(17%)	(2.1)	(1.7)	(1.4)	(1.9)
Profit before tax	40.5	34.2	18%	21.8	18.7	17.0	17.2
Closing FUA	\$13.5B	\$12.7B	6%	\$13.5B	\$13.3B	\$12.7B	\$12.8B
Average FUA	\$13.3B	\$12.7B	4%	\$13.5B	\$13.0B	\$12.7B	\$12.8B
Market related revenue margin	86bps	85bps	1bps	86bps	85bps	85bps	85bps

In FY17, Perpetual Private reported profit before tax of \$40.5 million, \$6.3 million or 18% higher than in FY16. This increase was due to higher market related revenue as a result of higher equity markets, new client growth across target high net worth segments, and higher non-market related revenues, partially offset by continued investments in Fordham. The cost to income ratio in FY17 was 77% compared to 80% in FY16.

2.2.3 DRIVERS OF PERFORMANCE

Revenue

Perpetual Private generated revenue of \$178.4 million in FY17, \$10.8 million or 6% higher than in FY16. The main drivers of revenue in FY17 compared to FY16 were:

- higher non-market related activity, primarily Fordham (tax and accounting) and property services
- higher average FUA due to equity market increases and positive net flows, and
- higher funds management activity.

Perpetual Private's market related revenue margin was slightly higher in FY17 at 86 bps, compared to 85 bps in FY16.

Expenses

Total expenses, comprising operating expenses, depreciation, amortisation and equity remuneration, for Perpetual Private in FY17 were \$137.9 million, \$4.5 million or 3% higher than in FY16.

The increase compared to FY16 was primarily due to continued investment into the expansion of Fordham.

2.2.4 FUNDS UNDER ADVICE

Funds under advice

AT END OF	FY17 \$B	Net flows \$B	Other ¹ \$B	FY16 \$B
Total FUA	13.5	0.3	0.4	12.7

¹ Includes reinvestments, distributions, income, and asset growth.

Perpetual Private's FUA at the end of FY17 was \$13.5 billion, \$0.8 billion higher than in FY16, primarily due to higher equity markets and positive net flows.

2.3 PERPETUAL CORPORATE TRUST

2.3.1 BUSINESS OVERVIEW

Perpetual Corporate Trust is a leading provider of corporate trustee services. The business comprises the following:

Debt Markets Services – provides trustee, custody and standby services to the debt capital and securitisation markets, specialised trust management and accounting services to the debt capital markets, and data warehouse and investor reporting to the Australian securitisation market and

Managed Funds Services – operates in Australia and Singapore, providing outsourced responsible entity, trustee and custody services across a variety of asset classes including property, infrastructure, private equity, emerging markets and hedge funds.

2.3.2 FINANCIAL PERFORMANCE

Perpetual Corporate Trust financial results

FOR THE PERIOD	FY17 \$M	FY16 \$M	FY17 v FY16	2H17 \$M	1H17 \$M	2H16 \$M	1H16 \$M
Debt Markets Services	52.1	50.9	2%	26.6	25.5	26.0	24.9
Managed Funds Services	40.6	36.4	12%	21.6	19.1	18.8	17.6
Total revenues	92.7	87.3	6%	48.2	44.5	44.9	42.4
Operating expenses	(48.3)	(46.7)	(3%)	(24.2)	(24.1)	(24.0)	(22.7)
EBITDA	44.4	40.6	9%	24.0	20.5	20.9	19.7
Depreciation and amortisation	(6.2)	(5.1)	(22%)	(3.2)	(3.0)	(2.8)	(2.3)
Equity remuneration expense	(1.6)	(1.4)	(11%)	(0.9)	(0.6)	(0.6)	(0.8)
Profit before tax	36.7	34.1	8%	19.9	16.8	17.5	16.6
Funds under administration							
- Debt Markets Services securitisation	\$436.1B	\$427.5B	2%	\$436.1B	\$430.5B	\$427.5B	\$413.6B
- Managed Funds Services and other	\$221.8B	\$193.0B	15%	\$221.8B	\$213.6B	\$193.0B	\$186.5B

In FY17, Perpetual Corporate Trust reported profit before tax of \$36.7 million, \$2.6 million or 8% higher than in FY16. This increase is driven by sustained revenue growth across both the businesses, with continued investment in Lead & Grow initiatives. The cost to income ratio has improved to 60%, 1% lower than in FY16.

2.3.3 DRIVERS OF PERFORMANCE

Revenue

Perpetual Corporate Trust generated total revenues of \$92.7 million in FY17, \$5.4 million or 6% higher than in FY16. The main drivers of the improvement compared to FY16 were:

- continued market activity within property and infrastructure investments particularly from inbound capital flows, along with higher commercial asset prices, and
- sustained growth in the securitisation markets in Australia and product extensions (for example, document custody, trust management, data services).

In FY17, Debt Markets Services revenue was \$52.1 million, \$1.2 million or 2% higher than in FY16. The primary driver for the increase on FY16 was the full period benefit of the growth in the auto finance and consumer finance asset-backed securities asset class late in FY16, higher levels of activity in the mortgage market and growth in the syndicated debt market.

In FY17, Managed Fund Services revenue was \$40.6 million, \$4.2 million or 12% higher than FY16. The increase compared to FY16 was primarily due to sustained inbound capital flows into Australian property and infrastructure investments and resultant higher commercial asset prices due to competition for quality assets.

Expenses

Total expenses, comprising operating expenses, depreciation, amortisation and equity remuneration, for Perpetual Corporate Trust in FY17 were \$56.0 million, \$2.8 million or 5% higher than in FY16.

The primary driver of the increase in expenses on FY16 was the continued investment in revenue generating initiatives, including expanding data services capability.

2.3.4 FUNDS UNDER ADMINISTRATION

Funds under administration

AT END OF	2H17 \$B	1H17 \$B	2H16 \$B	1H16 \$B
Market Securitisation				
RMBS - bank	58.2	48.9	49.9	50.7
RMBS - non bank	50.9	49.5	48.7	49.2
CMBS and ABS	45.1	43.0	44.9	42.0
Balance Sheet Securitisation				
RMBS - repos	206.0	212.1	212.0	203.7
Covered bonds	76.0	77.0	72.0	68.0
Total FUA – Debt Markets Services securitisation¹	436.1	430.5	427.5	413.6
Managed Fund Services	203.8	199.1	177.1	170.5
Other Debt Market Services	18.0	14.5	15.9	16.0
Total FUA	657.9	644.1	620.5	600.1

^{1.} Includes warehouse and liquidity finance facilities.

At the end of FY17, Securitisation FUA in the Debt Markets Services business was \$436.1 billion, an increase of \$8.6 billion or 2% on FY16.

Market Securitisation FUA increased 7% over the year resulting from significant issuance (particularly in bank RMBS) late in FY17 as a result of tightening credit spreads together with elevated capital relief being sought by ADIs. This follows a period of volatile market conditions, including widening of credit spreads, and use of alternative funding options early in the year.

Runoff rates within RMBS have been largely consistent with FY16 levels.

At the end of FY17, Managed Fund Services FUA and Other Debt Market Services FUA totalled \$221.8 billion, an increase of \$28.8 billion or 15% on FY16, driven by growth in the Managed Funds Services business.

2.4 GROUP SUPPORT SERVICES

2.4.1 OVERVIEW

Costs that have been retained by Group Support Services reflect costs that management deems to be associated with corporate functions rather than reportable business segment activity. These include costs associated with the Board of Directors and 50% of the costs associated with the Group Executives of each of the Group Support Services business units (CEO, Corporate Services, People and Culture and Marketing and Communications). Costs and revenues associated with the capital structure of the Group, including interest income, financing costs and ASX listing fees are also retained within Group Support Services.

2.4.2 FINANCIAL PERFORMANCE

Group Support Services financial results

FOR THE PERIOD	FY17 \$M	FY16 \$M	FY17 v FY16	2H17 \$M	1H17 \$M	2H16 \$M	1H16 \$M
Revenue	16.2	11.4	42%	8.8	7.5	5.4	6.0
Operating expenses	(17.2)	(15.6)	(10%)	(9.4)	(7.8)	(8.3)	(7.3)
EBITDA	(1.0)	(4.2)	77%	(0.6)	(0.3)	(2.9)	(1.3)
Depreciation and amortisation	(0.3)	(0.2)	(60%)	(0.2)	(0.2)	(0.1)	(0.1)
Equity remuneration expense	(0.6)	(1.3)	53%	-	(0.6)	(1.0)	(0.3)
Interest expense	(2.8)	(2.8)	(1%)	(1.3)	(1.5)	(1.4)	(1.4)
Profit before tax	(4.7)	(8.5)	45%	(2.1)	(2.6)	(5.4)	(3.1)

In FY17, revenue from the Group's cash holdings and principal investments was \$16.2 million, \$4.8 million or 42% higher than in FY16 due to gains from the disposal of Perpetual's seed fund investments and higher investment income.

In FY17, Group Support Services expenses were \$20.9 million, \$1.0 million or 5% higher than in FY16, primarily due to higher variable remuneration.



SECTION 3

APPENDICES

3 APPENDICES

3.1 APPENDIX A: SEGMENT RESULTS

PERIOD ENDING	FY17					2H17					1H17				
	Perpetual Investments	Perpetual Private	Perpetual Corporate Trust	Group Support Services	Total	Perpetual Investments	Perpetual Private	Perpetual Corporate Trust	Group Support Services	Total	Perpetual Investments	Perpetual Private	Perpetual Corporate Trust	Group Support Services	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Operating revenue	228.1	178.4	92.7	16.2	515.4	114.2	91.8	48.2	8.8	263.0	113.8	86.6	44.5	7.5	252.4
Operating expenses	(103.0)	(124.0)	(48.3)	(17.2)	(292.4)	(52.1)	(62.9)	(24.2)	(9.4)	(148.6)	(50.9)	(61.1)	(24.1)	(7.8)	(143.8)
EBITDA	125.1	54.4	44.4	(1.0)	223.0	62.1	29.0	24.0	(0.6)	114.4	63.0	25.5	20.5	(0.3)	108.6
Depreciation and amortisation	(2.6)	(10.1)	(6.2)	(0.3)	(19.2)	(1.3)	(5.0)	(3.2)	(0.2)	(9.6)	(1.3)	(5.0)	(3.0)	(0.2)	(9.6)
Equity remuneration	(6.0)	(3.9)	(1.6)	(0.6)	(12.0)	(3.2)	(2.1)	(0.9)	-	(6.3)	(2.8)	(1.7)	(0.6)	(0.6)	(5.7)
EBIT	116.5	40.5	36.7	(1.9)	191.8	57.7	21.8	19.9	(0.8)	98.5	58.8	18.7	16.8	(1.1)	93.3
Interest expense	-	-	-	(2.8)	(2.8)	-	-	-	(1.3)	(1.3)	-	-	-	(1.5)	(1.5)
UPBT	116.5	40.5	36.7	(4.7)	189.0	57.7	21.8	19.9	(2.1)	97.3	58.8	18.7	16.8	(2.6)	91.7

PERIOD ENDING	FY16					2H16					1H16				
	Perpetual Investments	Perpetual Private	Perpetual Corporate Trust	Group Support Services	Total	Perpetual Investments	Perpetual Private	Perpetual Corporate Trust	Group Support Services	Total	Perpetual Investments	Perpetual Private	Perpetual Corporate Trust	Group Support Services	Total
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Operating revenue	227.9	167.6	87.3	11.4	494.2	117.9	85.3	44.9	5.4	253.5	110.0	82.3	42.4	6.0	240.7
Operating expenses	(103.0)	(120.5)	(46.7)	(15.6)	(285.8)	(54.0)	(62.0)	(24.0)	(8.3)	(148.3)	(49.0)	(58.5)	(22.7)	(7.3)	(137.5)
EBITDA	124.9	47.1	40.6	(4.2)	208.4	63.9	23.3	20.9	(2.9)	105.2	61.0	23.8	19.7	(1.3)	103.2
Depreciation and amortisation	(2.0)	(9.6)	(5.1)	(0.2)	(16.9)	(1.1)	(4.9)	(2.8)	(0.1)	(8.9)	(0.9)	(4.7)	(2.3)	(0.1)	(8.0)
Equity remuneration	(4.8)	(3.3)	(1.4)	(1.3)	(10.8)	(1.9)	(1.4)	(0.6)	(1.0)	(4.9)	(2.9)	(1.9)	(0.8)	(0.3)	(5.9)
EBIT	118.1	34.2	34.1	(5.7)	180.7	60.9	17.0	17.5	(4.0)	91.4	57.2	17.2	16.6	(1.7)	89.3
Interest expense	-	-	-	(2.8)	(2.8)	-	-	-	(1.4)	(1.4)	-	-	-	(1.4)	(1.4)
UPBT	118.1	34.2	34.1	(8.5)	177.9	60.9	17.0	17.5	(5.4)	90.0	57.2	17.2	16.6	(3.1)	87.9

3.2 APPENDIX B: BRIDGE FOR FY17 STATUTORY ACCOUNTS AND OFR

	FY17 Statutory Accounts \$'000	OFR UPAT adjustments \$'000	FY17 OFR \$'000	EMCF \$'000	Gain on sale of businesses \$'000	Total adjustments \$'000
Revenue	520,881	(5,482)	515,399	(5,111)	(371)	(5,482)
Staff related expenses excluding equity remuneration expense	(182,554)	-	(182,554)	-	-	-
Occupancy expenses	(18,418)	-	(18,418)	-	-	-
Administrative and general expenses	(91,373)	-	(91,373)	-	-	-
Distributions and expenses relating to structured products	(5,111)	5,111	-	5,111	-	5,111
Equity remuneration expense	(12,027)	-	(12,027)	-	-	-
Depreciation and amortisation expense	(19,210)	-	(19,210)	-	-	-
Impairment of assets	(12)	-	(12)	-	-	-
Financing costs	(2,834)	-	(2,834)	-	-	-
Net profit before tax	189,342	(371)	188,971	-	(371)	(371)
Income tax expense	(52,049)	-	(52,049)	-	-	-
Net profit after tax	137,293	(371)	136,922	-	(371)	(371)
Net profit after tax consolidated entity	137,293	(371)	136,922	-	(371)	(371)
Net profit after tax attributable to equity holders of Perpetual Limited	137,293	(371)	136,922	-	(371)	(371)
Gain on sale of businesses			371			
Net profit after tax attributable to equity holders			137,293			

3.3 APPENDIX C: AVERAGE FUNDS UNDER MANAGEMENT

Average FUM by asset class

FOR THE PERIOD	FY17 \$B	FY16 \$B	FY17 v FY16	2H17 \$B	1H17 \$B	2H16 \$B	1H16 \$B
Australian equities	22.8	21.4	(10%)	23.1	22.5	21.5	21.3
Global equities	1.1	1.3	(7%)	1.2	1.1	1.3	1.4
Listed Investment Company	0.3	0.3	200%	0.3	0.3	0.3	0.3
Total equities	24.2	23.0	(9%)	24.6	23.9	23.1	23.0
Cash and fixed income	6.3	6.0	-	6.7	5.8	5.8	6.1
Other	1.0	1.0	(9%)	0.9	1.0	1.0	1.0
Total average FUM	31.5	30.0	(7%)	32.2	30.7	29.9	30.1

3.4 APPENDIX D: FULL TIME EQUIVALENT EMPLOYEES (FTE)

Total FTE employees

AT END OF	2H17	1H17	2H16	1H16
Perpetual Investments	156	155	171	170
Perpetual Private	391	387	378	377
Perpetual Corporate Trust	177	168	158	162
Group Support Services	167	158	176	157
Total operations	891	868	883	866
Permanent	874	856	849	845
Contractors	17	12	34	21
Total operations	891	868	883	866

3.5 APPENDIX E: DIVIDEND HISTORY

Perpetual has consistently paid a dividend each year since its listing on 24 June 1964 on what was then the Australian Associated Stock Exchange.

In February 2009 Perpetual announced that it had revised its dividend policy to a payout ratio range of between 80-100 per cent of net profit after tax on an annualised basis.

Year	Dividend	Date paid	Dividend per share	Franking rate	Company tax rate	DRP price
FY17	Final	29 Sep 2017	135 cents	100%	30%	Not determined at time of publication
FY17	Interim	24 Mar 2017	130 cents	100%	30%	\$51.86
FY16	Final	28 Sep 2016	130 cents	100%	30%	\$45.93
FY16	Interim	24 Mar 2016	125 cents	100%	30%	\$42.93
FY15	Final	25 Sep 2015	125 cents	100%	30%	\$40.61
FY15	Interim	27 Mar 2015	115 cents	100%	30%	\$54.20
FY14	Final	3 Oct 2014	95 cents	100%	30%	\$45.54
FY14	Interim	4 Apr 2014	80 cents	100%	30%	\$50.32
FY13	Final	4 Oct 2013	80 cents	100%	30%	\$38.66
FY13	Interim	5 Apr 2013	50 cents	100%	30%	\$40.71
FY12	Final	5 Oct 2012	40 cents	100%	30%	\$27.00
FY12	Interim	29 Mar 2012	50 cents	100%	30%	\$24.34
FY11	Final	27 Sep 2011	90 cents	100%	30%	\$22.40
FY11	Interim	30 Mar 2011	95 cents	100%	30%	\$28.44
FY10	Final	28 Sep 2010	105 cents	100%	30%	\$29.60
FY10	Interim	1 Apr 2010	105 cents	100%	30%	\$35.21
FY09	Final	30 Sep 2009	60 cents	100%	30%	\$37.78
FY09	Interim	13 Mar 2009	40 cents	100%	30%	N/A
FY08	Final	12 Sep 2008	141 cents	100%	30%	N/A
FY08	Interim	14 Mar 2008	189 cents	100%	30%	N/A
FY07	Final	14 Sep 2007	187 cents	100%	30%	N/A
FY07	Interim	16 Mar 2007	173 cents	100%	30%	N/A
FY06	Special	12 Sep 2006	100 cents	100%	30%	N/A
FY06	Final	12 Sep 2006	164 cents	100%	30%	N/A
FY06	Interim	17 Mar 2006	162 cents	100%	30%	N/A
FY05	Special	12 Sep 2005	100 cents	100%	30%	N/A
FY05	Final	12 Sep 2005	130 cents	100%	30%	N/A
FY05	Interim	18 Mar 2005	130 cents	100%	30%	N/A
FY04	Special	17 Sep 2004	200 cents	100%	30%	N/A
FY04	Final	17 Sep 2004	80 cents	100%	30%	N/A
FY04	Special	23 Jun 2004	50 cents	100%	30%	N/A
FY04	Interim	19 Mar 2004	70 cents	100%	30%	N/A
FY03	Final	3 Sep 2003	70 cents	100%	30%	N/A
FY03	Special	25 Jun 2003	50 cents	100%	30%	N/A
FY03	Interim	21 Mar 2003	60 cents	100%	30%	N/A

3.6 GLOSSARY

ABS	Asset backed securities
ADI	Authorised Deposit-taking Institution
AICD	Australian Institute of Company Directors
AFSL	Australian Financial Services Licence
All Ords	All Ordinaries Price Index
ANR	Annualised net revenue
ARCC	Audit, Risk and Compliance Committee
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
B	Billion
bps	Basis point (0.01 of 1%)
CMBS	Commercial mortgage backed securities
cps	Cents per share
CRS	Common Reporting Standard
DMS	Debt Markets Services
DPS	Dividend(s) per share
DRP	Dividend Reinvestment Plan
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation of intangible assets, equity remuneration expense, and significant items
EMCF	Perpetual Exact Market Cash Fund
EPS	Earnings per share
Finsia	Financial Services Institute of Australasia
FTE	Full time equivalent employee
FUA	Funds under advice or funds under administration
FUM	Funds under management
Group	Perpetual Limited and its controlled entities (the consolidated entity) and the consolidated entity's interests in associates
HNW	High net worth
M	Million

MFS	Managed Funds Services
NPAT	Net profit after tax
OFR	Operating and Financial Review
PCT	Perpetual Corporate Trust
PDS	Product Disclosure Statement
PI	Perpetual Investments
PP	Perpetual Private
RBA	Reserve Bank of Australia
RMBS	Residential mortgage-backed securities
ROE	Return on equity
S&P	Standard & Poor's
T15	Transformation 2015
TrustCo	The Trust Company Limited
UPAT	Underlying profit after tax
UPBT	Underlying profit before tax
VWAP	Volume weighted average price

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