



Perpetual Limited
ABN 86 000 431 827

OPERATING AND FINANCIAL REVIEW

For the 6 months
ended 31 December 2015

Perpetual 

Disclaimer

The following information should be read in conjunction with the Group's unaudited consolidated financial statements and associated notes for the 6 months ended 31 December 2015 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 2015 (FY15). The Group's unaudited consolidated financial statements were subject to independent review 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 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 in this review:

- 1H15 refers to the financial reporting period for the six months ended 31 December 2014
- 2H15 refers to the financial reporting period for the six months ended 30 June 2015
- 1H16 refers to the financial reporting period for the six months ended 31 December 2015
- With similar abbreviations for previous and subsequent periods.

This is a review of Perpetual's operations for the 6 months ended 31 December 2015 (1H16). It also includes a review of its financial position as at 31 December 2015.

The following information should be read in conjunction with the Group's unaudited consolidated financial statements and associated notes for 6 months ended 31 December 2015.

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 6 months ended 31 December 2015

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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 expenses.

Factors that affect 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.

As previously reported, the end of FY15 marked the successful completion of Perpetual's Transformation 2015 (T15) strategy and the Group is now well placed for identifying and capturing growth opportunities.

Perpetual's Lead & Grow strategy builds on the foundation of the T15 strategy maintaining a focus on three core businesses forming a scalable business model, sharing central services and a strong brand.

Lead, Extend, Explore

The Lead & Grow strategy has three key objectives to capture sustainable growth: the primary objective is to 'Lead' in each of the Group's core businesses, to 'Extend' into nearby adjacencies and 'Explore' new markets and new ventures for the Group over the long term.

Perpetual Investments will seek to maintain its strong leadership position in Australian equities manufacturing and leverage its capabilities to move into logical, adjacent products and strategies. Two new initiatives have already been launched: a global equities fund and a listed investment company. In addition to these, the growth opportunities for Perpetual Investments are to lead in credit strategies and in the multi asset strategies; specifically with the Pure Credit Alpha product and the Diversified Real Return Fund.

Perpetual Private will maintain its strategic objective to lead in high net worth (HNW) advice to its key client segments of 'business owners', 'established wealthy' and 'professionals'. Perpetual Private has developed attractive value propositions for each of its three target client segments, will source new prospects through leading referral channels (including developing critical relationships with medical specialists), transform the client experience to improve client advocacy and deepen client relationships to maximise the opportunity to cross-sell products and services.

The primary opportunity for Perpetual Corporate Trust is to harness and reinforce the economics of its market leading businesses. Trust Services will enhance its market leading position in the provision of trust, custody and standby services to debt capital and securitisation markets through the provision of value added services via its Data Services capability. Fund Services will continue to leverage its scale in the market and expand 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 over the last three periods.

FINANCIAL SUMMARY

FOR THE PERIOD	1H16 \$M	2H15 \$M	1H15 \$M	1H16 v 2H15	1H16 v 1H15
Operating revenue	240.7	252.6	244.5	(5%)	(2%)
Total expenses	(152.7)	(156.2)	(156.6)	2%	2%
Underlying profit before tax (UPBT)	88.0	96.4	87.9	(9%)	-
Underlying profit after tax (UPAT)⁽¹⁾⁽²⁾	63.6	68.4	62.1	(7%)	2%
Significant items	0.8	(4.5)	(3.5)	118%	123%
Net profit after tax (NPAT)	64.4	63.9	58.6	1%	10%
UPBT Margin on revenue (%)	37	38	36	(1)	1
Diluted EPS ⁽³⁾ on UPAT (cps)	137.4	148.1	134.4	(7%)	2%
Diluted EPS on NPAT (cps)	139.1	138.5	126.8	-	10%
Dividends (cps)	125.0	125.0	115.0	-	9%
Return on Equity ⁽⁴⁾ on UPAT (%)	22	24	22	(2)	-

⁽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 for 1H16 is 28%.

⁽³⁾ Diluted EPS is calculated using the weighted average number of ordinary shares and potential ordinary shares on issue of 46,294,954 for 1H16 (1H15: 46,200,056 shares).

⁽⁴⁾ The return on equity (ROE) quoted in the above table are an annualised rate of return based on actual results for each period. ROE is calculated using the NPAT and 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 6 months to 31 December 2015, Perpetual's UPAT was \$63.6 million and NPAT was \$64.4 million. The result reflects the ability of the Group to maintain the profit margin despite a more volatile and lower average equity market compared to prior periods.

The 1H16 UPAT and NPAT results were 2% and 10% higher than 1H15 principally due to:

- underlying new business growth (positive flows and net new clients). This was despite average levels of equity markets being 3% lower which negatively impacted average funds under management and advice,
- remaining synergies from the acquisition of The Trust Company Limited (TrustCo) and
- cost discipline.

The 1H16 UPAT and NPAT results were 7% lower and 1% higher than 2H15 principally due to:

- average levels of equity markets being 7% lower which negatively impacted average funds under management and advice. This was despite underlying new business growth (positive flows and net new clients), partially offset by
- remaining synergies from the acquisition of TrustCo and
- cost discipline and seasonal impacts associated with variable remuneration.

The Perpetual Board determined a 1H16 fully franked interim dividend of 125 cents per share, up 10 cents per share or 9% on 1H15, and consistent with 2H15. The interim dividend is payable on 24 March 2016. 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.

The S&P/ASX All Ordinaries Price Index (All Ords) closed at 5,345 on 31 December 2015, down 1% on the closing level on 31 December 2014 and down 2% on the closing level on 30 June 2015. The average All Ords of 5,291 in 1H16 was down 3% on the average All Ords in 1H15 and down 7% on the average All Ords in 2H15. At the end of 1H16, Perpetual Investments' FUM and Perpetual Private's FUA were around 80% and 56% exposed to equity markets respectively.

In 1H16, Perpetual generated \$240.7 million of total operating revenue, which was \$3.8 million or 2% lower than 1H15, and \$11.9 million or 5% lower than 2H15. Revenue was negatively impacted by lower levels of FUM and FUA as a result of lower levels of equity markets and lower performance fees.

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 December 2015, a 1% movement impacts annualised revenue by approximately \$2.25 million to \$2.75 million. It is worth noting that this impact is not linear to the movement in 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 impact on revenue as FUM and FUA are comprised of both equity market and non-equity market-sensitive asset classes.

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 flows on FUM and FUA – inflows, outflows and distributions; and changes in pricing policy, channel and product mix.

1.2.2 Expenses

Total expenses in 1H16 were \$152.7 million, \$3.9 million or 2% lower than 1H15, comprising:

- TrustCo expense synergies of \$3.9 million and
- cost discipline and reduced variable remuneration.

Total expenses in 1H16 were \$3.5 million or 2% lower than 2H15, comprising:

- TrustCo expense synergies of \$2.2 million and
- cost discipline and reduced variable remuneration.

1.2.3 Significant Items

Significant items were lower in 1H16 primarily due to expenses no longer being incurred in respect of the TrustCo integration program.

SIGNIFICANT ITEMS FOR THE PERIOD	Profit/(Loss) After Tax		
	1H16	2H15	1H15
	\$M	\$M	\$M
Significant items:			
1. Recoveries	0.7	-	-
2. TrustCo integration costs	-	(4.4)	(6.9)
3. Gain on sale of business	0.2	-	0.1
4. Gain/(loss) on disposal/impairment of investments and associates	(0.1)	(0.1)	3.3
Total significant items	0.8	(4.5)	(3.5)

1.3 Shareholder returns and dividends

SHAREHOLDER RETURNS

FOR THE PERIOD		1H16	2H15	1H15	1H16 v 2H15	1H16 v 1H15
Diluted earnings per share (EPS) on UPAT ⁽¹⁾	cents	137.4	148.1	134.4	(7%)	2%
Diluted EPS on NPAT	cents	139.1	138.5	126.8	-	10%
Annualised return on average equity (ROE) on UPAT ⁽²⁾	%	21.6	24.0	22.3	(2)	(1)
Annualised ROE on NPAT ⁽²⁾	%	21.8	22.4	21.1	(1)	1

DIVIDENDS

FOR THE PERIOD		1H16	2H15	1H15	1H16 v 2H15	1H16 v 1H15
Fully franked dividends paid/payable	\$M	58.2	58.2	53.6	-	9%
Fully franked dividends per ordinary share	cents	125.0	125.0	115.0	-	9%
Dividend payout ratio ⁽³⁾	%	89.9	90.3	90.7	-	(1)
Dividends paid/payable as a proportion of NPAT ⁽⁴⁾	%	90.4	91.1	91.5	(1)	(1)

⁽¹⁾ Diluted EPS is calculated using the weighted average number of ordinary and potential ordinary shares on issue.

⁽²⁾ 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 to 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.

⁽³⁾ 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.

⁽⁴⁾ Based on ordinary fully paid shares at the end of each reporting period.

In 1H16, Perpetual's diluted EPS on a UPAT and NPAT basis increased by 2% and 10% respectively on 1H15 reflecting higher operating leverage and underlying profitability. ROE on a NPAT basis increased from 21.1% in 1H15 to 21.8% in 1H16 reflecting improved profitability.

Perpetual's dividend policy is to pay dividends within a range of 80% to 100% of statutory NPAT on an annualised basis, with a goal to maximise fully franked dividends to shareholders.

A fully franked interim dividend for 1H16 of 125 cents per share will be payable on 24 March 2016 which represents a dividend payout of 90.4% of 1H16 NPAT.

The Dividend Reinvestment Plan (DRP) will be operational for the interim dividend. No discount will apply and the DRP will be met by existing shares acquired on market. The 10 day Volume Weighted Average Price pricing period for the interim dividend commences on 7 March 2016 and ends on 18 March 2016. A broker will be appointed to acquire existing shares to satisfy the DRP.

The Group's franking credit balance at the end of 1H16 prior to the payment of the FY16 interim dividend was \$37.1 million. This will enable \$86.6 million of cash dividends or around 186 cents per share to be fully franked. After payment of the interim dividend for 1H16, the franking balance is capable of fully franking a further \$28.4 million of cash dividends, or around 61 cents per share.

As at 31 December 2015, Perpetual Limited, the Group's parent entity, had retained earnings of \$84.9 million (equivalent to around 182 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 and Funds Under Advice (FUA) for Perpetual Private and Funds Under Administration (FUA) for Perpetual Corporate Trust. As illustrated in section 2, Review of businesses, in 1H16 all businesses reported positive net flows, while maintaining revenue margins.

The key segment results for 1H16 are summarised in the table below.

SEGMENT RESULTS SUMMARY FOR THE PERIOD	OPERATING REVENUE			EBITDA ⁽¹⁾			PROFIT BEFORE/ AFTER TAX		
	1H16	2H15	1H15	1H16	2H15	1H15	1H16	2H15	1H15
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Perpetual Investments	110.0	120.7	119.3	61.0	69.0	66.1	57.2	65.3	60.3
Perpetual Private	82.3	84.0	82.3	23.8	24.8	24.8	17.2	18.6	18.9
Perpetual Corporate Trust	42.4	43.2	39.3	19.7	19.7	16.8	16.6	17.0	14.3
Group Support Services	6.0	4.7	3.6	(1.2)	(4.8)	(3.5)	(3.0)	(4.5)	(5.6)
Totals before tax and significant items	240.7	252.6	244.5	103.3	108.7	104.2	88.0	96.4	87.9
Income tax expense							(24.4)	(28.0)	(25.8)
UPAT before significant items							63.6	68.4	62.1
Significant items after tax:									
1. Recoveries							0.7	-	-
2. TrustCo integration costs							-	(4.4)	(6.9)
3. Gain on sale of business							0.2	-	0.1
4. Gain/(loss) on disposal/impairment of investments and associates							(0.1)	(0.1)	3.3
Statutory NPAT attributable to equity holders of Perpetual Limited							64.4	63.9	58.6

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

- In 1H16, Perpetual Investment's profit before tax was \$57.2 million, which was \$3.1 million or 5% lower than 1H15, and \$8.1 million or 12% lower than 2H15, driven by the decline in equity markets and lower performance fees earned, offsetting the positive net inflows in the period and out performance of the funds
- Perpetual Private's profit before tax was \$17.2 million, which was \$1.7 million or 9% lower than 1H15, and \$1.4 million or 8% lower than 2H15, due to the decline in equity markets and investment in Lead & Grow capabilities and initiatives, partially offset by the growth in new clients for the period and
- Perpetual Corporate Trust's profit before tax was \$16.6 million, which was \$2.3 million or 16% higher than 1H15 due to the expanded ABSPerpetual data services offering and growth in the underlying business and \$0.4 million or 2% lower than 2H15 primarily due to the non-recurrence of \$2.0 million revenue earned in 2H15 (as discussed in the last operating and financial review).

1.5 Group Initiatives

1.5.1 Integration of The Trust Company Limited

As previously indicated, the integration of TrustCo is complete and will deliver annualised synergy benefits of \$21 million per annum before tax by FY16. The cost of the integration program is unchanged at \$30 million.

INDICATIVE PRE-TAX IMPACT OF TRUSTCO SYNERGIES AND INTEGRATION COSTS, \$M

PRE-TAX SYNERGIES	1H15A	2H15A	1H16A
Indicative P&L impact	6	8	10
Annualised period end	14	17	21
PRE-TAX INTEGRATION COSTS	1H15A	2H15A	1H16A
Indicative P&L impact	(10)	(6)	-
Cumulative period end	(24)	(30)	(30)

Note: A = Actual

1.6 Group financial position

1.6.1 Summary consolidated balance sheet

AT END OF	1H16 ⁽¹⁾ \$M	2H15 ⁽¹⁾ \$M	1H15 ⁽¹⁾ \$M
Assets			
Cash and cash equivalents	240.2	289.4	265.8
Liquid investments	76.0	52.0	50.2
Structured products - PPI loans to clients	-	-	36.0
Goodwill and other intangibles	314.5	304.4	307.4
Software	28.6	28.4	22.3
Other assets	151.4	157.7	159.8
Total assets	810.7	831.9	841.5
Liabilities			
Corporate loan facility	87.0	87.0	87.0
Structured products - PPI finance facilities	-	-	37.0
Other liabilities	128.3	161.2	150.2
Total liabilities	215.3	248.2	274.2
Net assets	595.4	583.7	567.3
Shareholder funds			
Contributed equity	493.2	481.9	482.1
Reserves	17.2	23.5	19.2
Retained earnings	85.0	78.3	66.0
Total equity	595.4	583.7	567.3

⁽¹⁾ Note: excludes the asset and liability for the EMCF structured product

1.6.2 Balance sheet analysis

Key movements in Perpetual's consolidated Balance Sheet are described below.

Cash

Cash and cash equivalents decreased from \$289.4 million at the end of 2H15 to \$240.2 million at the end of 1H16, a decrease of \$49.2 million or 17%. The movement in the cash balance during 1H16 was primarily due to the following:

- net cash inflows from operations of \$41.5 million
- net cash used in investing activities of \$32.5 million primarily due to the purchase of property, plant, equipment and software, investments and acquisition
- cash dividends paid of \$58.2 million.

Further detail can be found in Section 1.7.2, 'Cash flow'.

Liquid investments

Liquid investments increased to \$76.0 million at the end of 1H16 from \$52.0 million at the end of 2H15. This increase was predominantly due to the investment of Perpetual Superannuation Limited's operational risk financial requirement in the Perpetual Wholesale Balanced Growth Fund which was previously held in a term deposit account as well as further investment in products to hedge against the future cost of certain deferred incentives of the asset managers that have been notionally invested in those products, offset by a depreciation in market valuations.

Goodwill and other intangibles

Goodwill and other intangibles increased by \$10.1 million to \$314.5 million at the end of 1H16.

Other assets & liabilities

'Other assets' decreased to \$151.4 million from \$157.7 million at the end of 2H15 and 'Other liabilities' decreased to \$128.3 million from \$161.2 million at the end of 2H15. The decrease in other assets is primarily attributable to a decrease in deferred tax assets of \$7.3 million. The decrease in other liabilities is predominantly due to the payment of short-term incentives to employees, the payment of provisions and an increase in tax instalments paid.

Loans

Movements in loans balances are described in Section 1.7.3, 'Debt'.

Contributed Equity

Contributed Equity increased by \$11.3 million since 2H15. This increase is primarily attributable to the vesting of shares under Employee Share Plans.

Reserves

Total reserves have decreased by \$6.3 million to \$17.2 million in 1H16 due primarily to a decrease in the Equity Compensation Reserve.

The decrease in the Equity Compensation Reserve has resulted from an \$11.8 million movement on employee shares, mainly due to the vesting of shares, offset by the 1H16 equity remuneration expense.

1.7 Capital management

1.7.1 Capital management approach

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

- i) Maximising returns to shareholders
- ii) Enabling strategy
- iii) Ensuring compliance with the Group's risk appetite statement and regulatory requirements
- 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 1H16, total base capital requirements were \$191 million (\$172 million for operational risk including regulatory capital requirements, \$13 million for credit risk and \$6 million for market risk), compared to \$302 million of available liquid funds.

During 1H16, the Group has continued to focus on a number of initiatives to strengthen its balance sheet, including:

- rationalising the number of licenses maintained and reducing the amount of capital required to be held by licensed entities within the Group
- continuing to improve the overall credit quality of the Group's risk assets and reduce exposure to structured products on the balance sheet
- maintaining committed debt facilities of \$130 million, drawn to \$87 million as at 31 December 2015 and
- focusing on ensuring strong discretionary expense discipline across each business unit and support group.

1.7.2 Cash flow

FOR THE PERIOD	1H16 \$M	2H15 \$M	1H15 \$M
Net cash from operating activities	41.5	83.5	45.7
Net cash used in investing activities	(32.5)	(6.4)	(12.4)
Net cash used in financing activities	(58.2)	(53.5)	(50.1)
Net (decrease)/increase in cash and cash equivalents	(49.2)	23.6	(16.8)

In 1H16, cash and cash equivalents decreased by \$49.2 million compared to a decrease of \$16.8 million in 1H15. This represented a net decrease in cash flow of \$32.4 million, principally due to:

- net cash provided by operating activities decreased by \$4.2 million in 1H16 compared with 1H15 primarily due to \$16.7 million increase in tax payments (timing differences) partially offset by a \$13.8 million increase in net operational cash flows
- net cash used in investing activities increased by \$20.1 million in 1H16 primarily due to the transfer of funds from short-term deposits to unlisted unit trusts
- net cash used in financing activities increased by \$8.1 million in 1H16 due to a \$14.0 million increase in dividend payments partially offset by a reduction in payments to non-controlling interests upon sale of seed funds.

1.7.3 Debt

AT END OF		1H16	2H15	1H15
Corporate debt	\$M	87.0	87.0	87.0
Corporate debt to capital ratio (corporate debt/(corporate debt + equity)) ⁽¹⁾	%	12.7	13.0	13.3
Interest coverage calculation for continuing operations (EBIT/interest expense)	times	64x	55x	48x
Net tangible assets per share	\$	5.39	5.16	4.88

(1) Excludes structured product debt, which is operational debt used to fund PPI loans.

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

Debt level: At the end of 1H16 Perpetual's gross corporate debt was \$87.0 million. The Group's gearing ratio at the end of 1H16 was 12.7%, compared to 13.0% at the end of 2H15. 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 1H16, the Group had a committed bank corporate debt facility of \$130.0 million and \$87.0 million was drawn. The facility has greater than 12 months to expiry. The next review date is 31 October 2017.

Covenants: Financial covenants related to the debt facility include minimum shareholders' funds, leverage, interest cover, capital adequacy ratios and limits on operational debt. At the end of 1H16, the Group was in compliance with all its debt covenants.

Hedging: 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.

1.8 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
Tax White Paper	The Tax White Paper launched a national dialogue on a better tax system. The Australian Government Department of Treasury will release a Green Paper in FY16.	We will continue to monitor for the release of the Green Paper to determine the potential impact to the Group.
Financial System Inquiry (FSI)	The Government's Response to the FSI Report was released on 9 October 2015 which outlined its strategic priorities for the next decade of reform.	We continue to monitor for changes as the Government introduces measures under each of its 5 strategic priorities. These have commenced with consultations being coordinated generally via Treasury.
The Future of Financial Advice (FOFA)	The FOFA legislation amended the Corporations Act and introduced key reforms from 1 July 2013 seeking to address conflicts of interest associated with the provision of personal financial advice. In 2014, the Minister for Finance announced a pause to the implementation of further amendments pending further consultation.	The FOFA reforms have been implemented by the Group, including the 'opt in' and fee disclosure statement requirements. We continue to monitor the FOFA legislation that remains before Parliament.
Foreign Account Tax Compliance Act (FATCA)	FATCA is a United States (US) law imposing obligations on financial institutions to identify and report on the holdings of US taxpayers. Australia and the US have signed an intergovernmental agreement to implement FATCA, and corresponding legislation has been introduced for Australian financial institutions.	The Group's FATCA compliance project will continue implementation activities throughout FY16. Impacted Perpetual entities have registered with the US Inland Revenue Service, the required customer on-boarding processes have been implemented, and preparation for initial reporting is well progressed.
ASIC Policy	ASIC continues to influence the regulatory landscape through the remaking of sunseting class orders, updates to various ASIC Regulatory Guides and the release of new regulatory instruments.	ASIC's proposed industry funding model will introduce new regulatory costs to the Group. The Group is monitoring for final detail noting the framework is proposed to commence in FY16/17. ASIC has also provided more certainty in the release of instruments clarifying the PDS fee and cost disclosure requirements and transitional arrangements. The Group has commenced its implementation response.
Treasury	Treasury continue to coordinate a number of Government agency consultations on prospective legislative change.	Various draft legislations and consultations have various impacts across the Group. We are monitoring Treasury releases closely to determine our regulatory response.
Over The Counter (OTC) Derivatives Reporting & Clearing	Regulatory requirements to report open positions on derivative trades and transactions and to clear interest derivatives via a mandated central clearing party.	The Group implemented the regulatory change in compliance with these requirements in time for the reporting period start date. The Group has facilities with eligible central counterparties where it is required to utilise interest rate derivatives.
Anti-Money Laundering/Counter-Terrorism Financing Customer Due Diligence Reforms	In May 2014, AUSTRAC made a range of changes to customer due diligence obligations, focusing on beneficial ownership. Subject to certain conditions, AUSTRAC will allow reporting entities to implement these changes by December 2015.	The project was completed successfully within the required timeframe.

1.9 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 management. The Board's Audit, Risk and Compliance Committee (ARCC) is responsible for overseeing Perpetual's risk management processes. Perpetual has a dedicated Risk Group function, led by a 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 defense model. This model sees the first line, being business unit management, accountable for the day to day identification and management of risks. The Risk Group represents the second line and is responsible for overseeing first line activities. Internal Audit provides independent assurance, representing the third line, and reports to the ARCC.

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

Risk	Risk Description/Impact	Risk Management
Market	Exposure to, or reliance on, revenue streams linked to equity markets resulting in potentially volatile returns	<ul style="list-style-type: none"> Diversification of revenue sources Disciplined and active management of the cost base
Integration/ Acquisition	Impact of not realising intended benefits or incurring unforeseen costs from acquisitions and subsequent business integration	<ul style="list-style-type: none"> Established due diligence and approval processes Strong planning, governance and project management processes
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
People	Exposure to changes in personnel, particularly in key investment management roles	<ul style="list-style-type: none"> Succession planning and talent identification programs, with oversight from the People and Remuneration Committee Alignment of remuneration with long-term investment performance. Remuneration benchmarking Engagement monitoring
Safety	Exposure of staff, customers and suppliers to work health and safety issues with potential detrimental impact	<ul style="list-style-type: none"> Well defined policies and procedures Work Health and Safety training Work Health and Safety Committee Incident and Injury management processes
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 market position	<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
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events	<ul style="list-style-type: none"> Clearly defined policies, procedures, roles and responsibilities Controls Testing in the form of Control Self-Assessment Independent Assurance
Financial	Risk of inappropriate use of funds, financial performance not 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

Risk	Risk Description/Impact	Risk Management
Compliance and legal	The risk that Perpetual breaches its compliance and legal obligations, leading to reputation damage, litigation, fines, breach of contract or regulatory intervention and sanctions	<ul style="list-style-type: none"> Independent Legal and Compliance team, and training across teams Compliance obligations are documented and monitored Independent issues assessment
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
Cyber	Risk of loss (both data and financial) resulting from unauthorised access to 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
Loss of major mandates	Impact upon the profitability and reputation of Perpetual in the event of the loss of key institutional clients	<ul style="list-style-type: none"> Constant focus on servicing clients to the highest standards Strong investment governance processes which support transparent and timely reporting to clients Adherence to long-standing and well defined investment selection processes and philosophy Culture of acting in the best interests of our clients
Conduct	Manifestation of behaviours and practices that are considered 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

1.10 Outlook

With the successful completion of the T15 strategy, the Group is on a sound footing and focused on executing the Lead & Grow strategy. This strategy builds on the strong fundamentals of the Group and is a natural evolution of the T15 strategy.

The market decline, increased volatility and economic uncertainty in the global economy, highlighted at the time of Perpetual's full year results, remain. While the long-term outlook for the Group is underpinned by a growing need for savings and income in retirement, the near-term outlook could be impacted by these factors. Perpetual will remain disciplined in executing its strategy and in its response to uncertainties.

Given the sensitivity of Perpetual's revenue to Australian equity markets, this outlook is subject to significant variability.

1.11 Events subsequent to balance date

At the time of publication of this report, the Directors were 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.

2 Review of Businesses

The results and drivers of financial performance in 1H16 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 fund managers, offering a broad range of products for personal investment, superannuation and retirement savings. The business covers a range of asset classes, including Australian and global equities, fixed income and multi-sector 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	1H16 \$M	2H15 \$M	1H15 \$M	1H16 v 2H15	1H16 v 1H15
Revenue	110.0	120.7	119.3	(9%)	(8%)
Operating expenses	(49.0)	(51.7)	(53.2)	5%	8%
EBITDA	61.0	69.0	66.1	(12%)	(8%)
Depreciation and amortisation	(0.9)	(0.9)	(0.6)	-	(50%)
Equity remuneration expense	(2.9)	(2.8)	(5.2)	(4%)	44%
Profit before tax	57.2	65.3	60.3	(12%)	(5%)
Average FUM revenue margin (revenues/average FUM)	73bps	72bps	76bps	1bps	(3)bps
Average FUM	\$30.1b	\$33.3b	\$31.2b	(10%)	(4%)

In 1H16, profit before tax for the Perpetual Investments was \$57.2 million, \$3.1 million or 5% lower than 1H15, and \$8.1 million or 12% lower than 2H15. The result was driven by lower average FUM and lower performance fees partially offset by fund outperformance and lower expenses. The cost-to-income ratio in 1H16 was 48%, 1% lower than 1H15 and 2% higher than 2H15.

2.1.3 Drivers of performance

Revenue

Perpetual Investments generated revenue of \$110.0 million in 1H16, \$9.3 million or 8% lower than 1H15, and \$10.7 million or 9% lower than 2H15. The key factors that negatively impacted revenue in 1H16 included:

- lower average FUM as a result of prior period distributions (30 June 2015) and lower average All Ords which decreased by 3% compared to 1H15 and 7% compared to 2H15 and
- lower equities performance related fees in 1H16 from negative absolute returns (despite relative outperformance of the funds).

Despite the positive net inflows and outperformance, the average FUM in 1H16 was \$30.1 billion, 4% lower than 1H15, and 10% lower than 2H15 due to lower average market levels and distributions in prior periods.

Average FUM revenue margins in 1H16 were 73 basis points (bps), 3bps lower than 1H15 but 1bps higher than 2H15. Movements in average margins are mainly brought about by 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 from performance related fees. Excluding lower performance fees in 1H16, underlying average margins were relatively stable.

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

REVENUE BY ASSET CLASS

FOR THE PERIOD	1H16 \$M	2H15 \$M	1H15 \$M	1H16 v 2H15	1H16 v 1H15
By asset class:					
> Equities	93.1	103.7	101.9	(10%)	(9%)
> Cash and fixed income	12.2	11.6	11.7	5%	4%
> Other FUM related	4.2	4.6	4.4	(9%)	(5%)
> Other non-FUM related	0.5	0.8	1.3	(38%)	(62%)
Revenues	110.0	120.7	119.3	(9%)	(8%)

PERFORMANCE FEES

FOR THE PERIOD	1H16 \$M	2H15 \$M	1H15 \$M	1H16 v 2H15	1H16 v 1H15
By asset class:					
> Equities	1.5	2.1	6.8	(29%)	(78%)
> Cash and fixed income	1.0	1.0	1.1	-	(9%)
Total performance fees	2.5	3.1	7.9	(19%)	(68%)

REVENUE MARGIN

FOR THE PERIOD	1H16 BPS	2H15 BPS	1H15 BPS	1H16 v 2H15	1H16 v 1H15
By asset class:					
> Equities	81	79	84	2	(3)
> Cash and fixed income	40	38	40	2	-
> Other FUM related	83	84	85	(1)	(2)
Average revenue margin	73	72	76	1	(3)

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

- **Equities:** Revenues represent fees earned on Australian and Global equities products. Revenue in 1H16 was \$93.1 million, a decrease of 9% on 1H15 and 10% on 2H15. The average margin in 1H16 was 81bps, 2bps higher than 2H15 and 3bps lower than 1H15. These differences were mainly driven by channel mix and lower performance fees received in 1H16.
- **Cash and fixed income:** Revenues are derived from cash and fixed income products. Revenue in 1H16 was \$12.2 million, \$0.5 million or 4% higher than 1H15 and \$0.6 million or 5% higher than 2H15. The increase on 2H15 was due to favourable product mix and flows from prior periods.
- **Other FUM related:** Revenue includes management fees for sub-advisory mandates and external funds on the WealthFocus platform. 1H16 revenue of \$4.2 million was \$0.2 million or 5% lower than 1H15 and \$0.4 million or 9% lower than 2H15, mainly due to lower average market levels.
- **Other non-FUM related:** Revenue includes the net interest margin on the structured products loan book and interest earned on operational bank accounts across the business. The revenue decrease in 1H16 on 1H15 and 2H15 was mainly due to lower fees earned from the PPI structured products, which have been in run off since 2009 (closed at 30 June 2015) and a lower interest rate environment.

Expenses

In 1H16 total expenses for Perpetual Investments, comprising operating expenses, depreciation, amortisation and equity remuneration, of \$52.8 million were \$6.2 million and \$2.6 million lower than 1H15 and 2H15 respectively. The decrease in expenses was primarily due to:

- savings associated with the 'in-house' manufacturing of the Global Equities fund launched in 1H15
- one-off launch costs for the IPO of PEIC and
- lower remuneration and incentives in line with the lower equity performance fee earned in the period.

2.1.4 Funds under management

FUM and flows

FUM SUMMARY

AT END OF	1H16 \$B	Net flows \$B	Other ⁽¹⁾ \$B	2H15 \$B	1H15 \$B
Institutional	9.9	(0.2)	0.1	10.0	11.0
Intermediary (master fund and wrap)	15.1	0.3	0.3	14.5	15.0
Retail	5.6	-	0.1	5.5	5.6
Listed Investment Company	0.3	-	0.1	0.2	0.2
All distribution channels	30.9	0.1	0.6	30.2	31.8
Australian equities	22.2	0.2	0.5	21.5	23.3
Global equities	1.3	-	(0.1)	1.4	1.3
Listed Investment Company	0.3	-	0.1	0.2	0.2
Equities	23.8	0.2	0.5	23.1	24.8
Cash and fixed income	6.1	(0.1)	0.1	6.1	5.9
Other	1.0	-	-	1.0	1.1
All asset classes	30.9	0.1	0.6	30.2	31.8

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

NET FLOWS

FOR THE PERIOD	1H16 \$B	2H15 \$B	1H15 \$B
Institutional	(0.2)	(1.4)	0.8
Intermediary (master fund and wrap)	0.3	0.1	0.7
Retail	-	-	(0.1)
Listed Investment Company	-	-	0.2
All distribution channels	0.1	(1.3)	1.6
Australian equities	0.2	(1.3)	0.8
Global equities	-	-	-
Listed Investment Company	-	-	0.2
Equities	0.2	(1.3)	1.0
Cash and fixed income	(0.1)	-	0.6
Other	-	-	-
All asset classes	0.1	(1.3)	1.6

Perpetual's FUM as at 31 December 2015 was \$30.9 billion, with net inflows of \$0.1 billion for the half year. Points of note in relation to the FUM and flows for 1H16:

- net inflows in the half were mainly from the intermediary channel and within Australian equities and
- outflows were primarily from the lower margin institutional channel.

Investment performance

Excess/(under) investment performance p.a. - gross as at end December 2015 ⁽¹⁾

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 ⁽²⁾
1 year	1.8%	(1.2)%	4.1%	2.1%	6.2%	14.5%	0.9%	0.3%	1.3%
3 year pa	2.1%	-	12.5%	3.4%	8.5%	9.1%	2.5%	0.8%	6.3%
5 year pa	3.0%	0.4%	12.1%	4.7%	8.7%	10.5%	2.8%	1.3%	3.7%
7 year pa	3.5%	1.0%	11.6%	4.5%	7.8%	11.8%	3.4%	1.5%	-
10 year pa	2.7%	1.3%	8.9%	3.9%	5.8%	7.4%	1.1%	0.8%	-

⁽¹⁾ Compared to relevant benchmarks. The table provides no allowance for management expenses, redemption fees, or taxation.

⁽²⁾ Includes performance in the incubation period.

As illustrated above, Perpetual Investments' main funds outperformed over the short, medium and long term time horizons. The majority of these funds were again represented in the first or second quartile of performance rankings over a five year period¹.

2.2 Perpetual Private

2.2.1 Business overview

Perpetual Private provides financial solutions for high net worth individuals in target segments of 'business owners', 'established wealthy' and 'professionals'. It had \$12.8 billion of FUA at the end of 1H16. Perpetual Private aims to be the leading provider of wealth advice 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 \$2.4 billion in FUA for charitable trusts and endowment funds as at the end of 1H16.

As noted previously, in December 2015, Perpetual Private completed the acquisition of Fintuition Group, a financial and business education provider which is focused on medical specialists. This is in alignment with Perpetual Private's strategy to extend its presence in this segment.

2.2.2 Financial performance

PERPETUAL PRIVATE FINANCIAL RESULTS

FOR THE PERIOD	1H16 \$M	2H15 \$M	1H15 \$M	1H16 v 2H15	1H16 v 1H15
Market related revenue	53.9	54.7	56.1	(1%)	(4%)
Non-market related revenue	28.4	29.3	26.2	(3%)	8%
Total revenues	82.3	84.0	82.3	(2%)	-
Operating expenses	(58.5)	(59.2)	(57.5)	1%	(2%)
EBITDA	23.8	24.8	24.8	(4%)	(4%)
Depreciation and amortisation	(4.7)	(4.5)	(4.5)	(4%)	(4%)
Equity remuneration expense	(1.9)	(1.7)	(1.4)	(12%)	(36%)
Profit before tax	17.2	18.6	18.9	(8%)	(9%)
Closing funds under advice (FUA)	\$12.8b	\$13.1b	\$12.6b	(2%)	2%
Average funds under advice (FUA)	\$12.8b	\$13.1b	\$12.8b	(2%)	-
Market related revenue margin	85bps	83bps	88bps	2bps	(3bps)

In 1H16, profit before tax was \$17.2 million, a decrease of \$1.7 million or 9% on 1H15, and \$1.4 million or 8% on 2H15 due to the decline in equity markets, investment in Lead & Grow strategy activities and other BAU costs. Perpetual Private's cost-to-income ratio in 1H16 was slightly above 1H15 and 2H15.

¹ Mercer wholesale surveys, quartile rankings, December 2015

2.2.3 Drivers of performance

Revenue

Perpetual Private generated revenue of \$82.3 million in 1H16, in line with 1H15, and \$1.7 million or 2% lower than 2H15. The main drivers of revenue in 1H16 were:

- lower market related revenue as a result of the decline in equity markets and performance fee income offset by
- increased new business revenue and
- higher non-market related tax and accounting business activity compared to 1H15.

Perpetual Private's market related revenue margin was 85bps in 1H16, a decline of 3bps compared to 1H15, but an increase of 2bps compared to 2H15.

Expenses

Total expenses, comprising operating expenses, depreciation, amortisation and equity remuneration, for Perpetual Private in 1H16 were \$65.1 million, \$1.7 million or 3% higher than 1H15, but \$0.3 million or 1% lower than 2H15. The increase in 1H16 was primarily due to investment in Lead & Grow strategy activities, inflation and other BAU costs, partially offset by TrustCo synergies.

2.2.4 Funds under advice

FUNDS UNDER ADVICE

AT END OF	1H16 \$B	Net flows \$B	Other ⁽¹⁾ \$B	2H15 \$B	1H15 \$B
Total funds under advice (FUA)	12.8	0.1	(0.4)	13.1	12.6

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

Perpetual Private's FUA at the end of 1H16 was \$12.8 billion, an increase of \$0.2 billion on 1H15, but a decrease of \$0.3 billion on 2H15, primarily due to the decline in equity markets, partially offset by client growth.

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:

- Trust services – provision of trustee, custody and standby servicing to the debt capital and securitisation markets, provision of specialised trust management and accounting services to the debt capital markets, and provision of data warehouse and investor reporting to the Australian securitisation market and
- Fund services – provision of outsourced responsible entity, trustee and custody services in 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	1H16 \$M	2H15 \$M	1H15 \$M	1H16 v 2H15	1H16 v 1H15
Trust services revenue	23.7	23.0	20.8	3%	14%
Fund services revenue	18.7	20.2	18.0	(7%)	4%
Total fiduciary services revenues	42.4	43.2	38.8	(2%)	9%
Sold business RSE ⁽¹⁾	-	-	0.5	-	(100%)
Total revenues	42.4	43.2	39.3	(2%)	8%
Operating expenses	(22.7)	(23.5)	(22.5)	3%	(1%)
EBITDA	19.7	19.7	16.8	-	17%
Depreciation and amortisation	(2.3)	(2.1)	(2.0)	(10%)	(15%)
Equity remuneration expense	(0.8)	(0.6)	(0.5)	(33%)	(60%)
Profit before tax	16.6	17.0	14.3	(2%)	16%
Funds under administration					
- Trust Services	\$413.6b	\$379.6b	\$359.5b	9%	15%
- Fund services	\$186.5b	\$178.6b	\$178.2b	4%	5%

⁽¹⁾ The Trust Company (Superannuation) Limited was sold on 1 July 2014.

Perpetual Corporate Trust's 1H16 profit before tax was \$16.6 million, an increase of \$2.3 million or 16% on 1H15, and \$0.4 million or 2% lower than 2H15. This increase on 1H15 reflected growth in both the underlying Trust and Fund Services businesses, with the decrease on 2H15 impacted by \$2.0 million of non-recurring revenue, offset by growth in the underlying businesses.

2.3.3 Drivers of performance

Revenue

Perpetual Corporate Trust generated revenue of \$42.4 million in 1H16, \$3.1 million or 8% higher than 1H15, and \$0.8 million or 2% lower than 2H15. The main driver of the movement compared to 1H15 revenue was growth in higher margin securitised assets and organic growth in Fund Services.

In 1H16 Trust Services revenue was \$23.7 million, \$2.9 million or 14% higher than 1H15 and \$0.7 million or 3% higher than 2H15. The primary driver for the increase on 1H15 was the growth in securitised assets within RMBS non-bank and asset-backed securities. In 1H16 a data services solution was launched in response to changes mandated by the Reserve Bank of Australia to standardise and enhance reportable data in the securitisation market which has seen a large take-up across the client base.

In 1H16 Fund Services revenue was \$18.7 million, \$0.7 million or 4% higher than 1H15 and \$1.5 million or 7% lower than 2H15. The improvement compared to 1H15 was primarily due to organic growth from inbound capital flows into property and infrastructure investment. However, the decline against 2H15 is due to the previously disclosed \$2.0 million of non-recurring revenue, and partially offset the growth in the underlying business.

Expenses

Perpetual Corporate Trust incurred total expenses of \$25.8 million in 1H16, comprising operating expenses, depreciation, amortisation and equity remuneration expenses. Total expenses were \$0.8 million or 3% higher than 1H15, and \$0.4 million or 2% lower than 2H15. The primary driver of the increase in expenses on 1H15 was investment in data services and inflation, partially offset by TrustCo synergies.

2.3.4 Funds under administration

FUNDS UNDER ADMINISTRATION (FUA)

AT END OF	1H16 \$B	2H15 \$B	1H15 \$B
Trust Services ⁽¹⁾			
CMBS and ABS	42.0	28.9	31.7
RMBS - non bank	49.2	47.8	45.5
RMBS - bank	50.7	52.9	51.0
RMBS - repos	203.7	183.2	168.9
Covered bonds	68.0	66.8	62.4
Total FUA – Trust Services	413.6	379.6	359.5
Fund Services	186.5	178.6	178.2
Total FUA	600.1	558.2	537.7

⁽¹⁾ Includes warehouse and liquidity finance facilities.

Trust Services

At the end of 1H16 FUA in Trust Services was \$413.6 billion, an increase of \$54.1 billion or 15% on 1H15, and \$34.0 billion or 9% on 2H15.

FUA increased across the majority of asset classes, with the most significant growth seen in RMBS – repos as the banks expanded their issuance following the introduction of the Basel III liquidity rules, up 21% and 11% respectively on 1H15 and 2H15. This had the effect of reducing average revenue margins, as this asset class earns lower fees relative to the other asset classes.

RMBS – non bank FUA in 1H16 was \$49.2 billion, \$3.7 billion or 8% higher than 1H15 and \$1.4 billion or 3% higher than 2H15. This asset class earns a higher margin and has been supported by growth in securitisation by the non-bank sector.

Run-off rates across existing RMBS have slightly increased during 1H16 compared to 1H15 and 2H15, reflecting continued de-leveraging by residential borrowers.

Fund Services

At the end of 1H16, Fund Services FUA was \$186.5 billion, an increase of \$8.3 billion or 5% on 1H15, and \$7.9 billion or 4% on 2H15.

1H15 and 2H15 FUA have been adjusted downwards by \$8 billion or 4% to reflect an error in calculating the FUA balance for one transaction in those periods which was identified during 1H16. There was no revenue impact associated with this FUA calculation error.

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 and People and Culture). 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	1H16 \$M	2H15 \$M	1H15 \$M	1H16 v 2H15	1H16 v 1H15
Revenue	6.0	4.7	3.6	28%	67%
Operating expenses	(7.2)	(9.5)	(7.1)	24%	(1%)
EBITDA	(1.2)	(4.8)	(3.5)	75%	66%
Depreciation and amortisation	(0.1)	(0.1)	(0.1)	-	-
Equity remuneration expense	(0.3)	2.1	(0.2)	(114%)	(50%)
Interest Expense	(1.4)	(1.7)	(1.8)	18%	22%
Profit before tax	(3.0)	(4.5)	(5.6)	33%	46%

1H16 revenue from the Group's cash and principal investments of \$6.0 million represented an increase of \$2.4 million and \$1.3 million on 1H15 and 2H15 respectively. The increase is due to higher investment income.

Total expenses in 1H16 of \$9.0 million were \$0.2 million lower than 1H15 and 2H15 primarily due to TrustCo synergies and lower finance costs associated with a lower interest rate environment, partially offset by variable remuneration.

3 Appendices

3.1 Appendix A: Segment results

PERIOD ENDING	1H16					2H15					1H15				
	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	110.0	82.3	42.4	6.0	240.7	120.7	84.0	43.2	4.7	252.6	119.3	82.3	39.3	3.6	244.5
Operating expenses	(49.0)	(58.5)	(22.7)	(7.2)	(137.4)	(51.7)	(59.2)	(23.5)	(9.5)	(143.9)	(53.2)	(57.5)	(22.5)	(7.1)	(140.3)
EBITDA	61.0	23.8	19.7	(1.2)	103.3	69.0	24.8	19.7	(4.8)	108.7	66.1	24.8	16.8	(3.5)	104.2
Depreciation and amortisation	(0.9)	(4.7)	(2.3)	(0.1)	(8.0)	(0.9)	(4.5)	(2.1)	(0.1)	(7.6)	(0.6)	(4.5)	(2.0)	(0.1)	(7.2)
Equity remuneration	(2.9)	(1.9)	(0.8)	(0.3)	(5.9)	(2.8)	(1.7)	(0.6)	2.1	(3.0)	(5.2)	(1.4)	(0.5)	(0.2)	(7.3)
EBIT	57.2	17.2	16.6	(1.6)	89.4	65.3	18.6	17.0	(2.8)	98.1	60.3	18.9	14.3	(3.8)	89.7
Interest expense	-	-	-	(1.4)	(1.4)	-	-	-	(1.7)	(1.7)	-	-	-	(1.8)	(1.8)
UPBT	57.2	17.2	16.6	(3.0)	88.0	65.3	18.6	17.0	(4.5)	96.4	60.3	18.9	14.3	(5.6)	87.9

3.2 Appendix B: Bridge for 1H16 Statutory accounts and OFR

	1H16 Stat Accounts	OFR UPAT Adjustments	1H16 OFR Presentation	EMCF	Gain on sale of business	Recoveries	Loss/(gain) on disposal/impair ment of investments	Total Adjustments
Revenue	244,008	(3,344)	240,664	(3,171)	(153)		(20)	(3,344)
Staff related expenses excluding equity remuneration expense	(82,367)	-	(82,367)	3,171		(682)		(682)
Occupancy expenses	(8,896)	-	(8,896)					
Administrative and general expenses	(45,388)	(682)	(46,070)					
Distributions and expenses relating to structured products	(3,171)	3,171	-					
Equity remuneration expense	(5,869)	-	(5,869)				111	111
Depreciation and amortisation expense	(8,066)	-	(8,066)					
Impairment of assets	(111)	111	-					
Financing costs	(1,409)	-	(1,409)					
Net profit before tax	88,731	(744)	87,987	-	(153)	(682)	91	(744)
Income tax expense	(24,345)	(37)	(24,382)				(37)	(37)
Net profit after tax	64,386	(781)	63,605	-	(153)	(682)	54	(781)
Net Profit After Tax consolidated entity	64,386	(781)	63,605	-	(153)	(682)	54	(781)
Net Profit After Tax attributable to equity holders of Perpetual Limited	64,386	(781)	63,605	-	(153)	(682)	54	(781)
Recoveries			682					
Gain on sale of business			153					
Loss/(gain) on disposal/impairment of investments			(54)					
Net profit after tax attributable to equity holders			64,386					

3.3 Appendix C: Average funds under management

AVERAGE FUM BY ASSET CLASS

FOR THE PERIOD	1H16 \$B	2H15 \$B	1H15 \$B	1H16 v 2H15	1H16 v 1H15
Australian equities	21.3	24.4	22.9	(13%)	(7%)
Global equities	1.4	1.5	1.3	(7%)	8%
Listed Investment Company	0.3	0.2	-	50%	-
Total equities	23.0	26.1	24.2	(12%)	(5%)
Cash and fixed income	6.1	6.1	5.9	-	3%
Other	1.0	1.1	1.1	(9%)	(9%)
Total average FUM	30.1	33.3	31.2	(10%)	(4%)

3.4 Appendix D: Full time equivalent employees (FTE's)

TOTAL FTE EMPLOYEES

AT END OF	1H16	2H15	1H15
Perpetual Investments	170	168	163
Perpetual Private	377	369	373
Perpetual Corporate Trust	162	163	156
Group Support Services	157	166	194
Total operations	866	866	886
Permanent	845	837	857
Contractors	21	29	29
Total operations	866	866	886

3.5 Appendix E: Dividend history

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
FY16	Interim	24 Mar 2016	125 cents	100%	30%	Not determined at time of publication
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
AICD	Australian Institute of Company Directors
All Ords	All Ordinaries Price Index
ARCC	Audit, Risk and Compliance Committee
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
AUSTRAC	Australian Transaction Reports and Analysis Centre
B	Billion
BAU	Business as usual
bps	Basis point (0.01 of 1%)
CMBS	Commercial mortgage backed securities
cps	Cents 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
FATCA	Foreign Account Tax Compliance Act
Finsia	Financial Services Institute of Australasia
FOFA	The Future of Financial Advice
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
IPO	Initial Public Offering
M	Million
NPAT	Net profit after tax
OTC	Over The Counter
PDS	Product Disclosure Statement
PEIC	Perpetual Equity Investment Company
PPA	Purchase Price Allocation
PPI	Perpetual Protected Investments

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