

PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

CORPORATE GOVERNANCE STATEMENT

Perpetual 

1. INTRODUCTION

Perpetual Equity Investment Company Limited (the **Company**) is a listed investment company. Its shares are quoted on the Australian Securities Exchange (**ASX**). The Company invests predominantly in Australian listed securities with typically a mid-cap bias and cash, deposit products and senior debt, together with opportunistic allocations to global listed securities.

The Board of the Company (**Board**) is committed to having an effective system of corporate governance that is appropriate for the Company, recognising that the day-to-day management of the Company is undertaken by Perpetual Investment Management Limited (the **Manager**) in accordance with the Management Agreement between the Company and the Manager. This Corporate Governance Statement (**CGS**) sets out the Company's approach to corporate governance in light of these governance arrangements.

The Company has maintained robust corporate governance arrangements over the financial year ended 30 June 2016 (**FY2016**). The Company is constantly looking at ways to strengthen and improve its corporate governance practices. At the end of the Company's first year as a listed entity, a thorough review of the Company's corporate governance policies and charters was conducted to further reflect in those policies and charters the Company's rigorous corporate governance arrangements. Over the year, the Board also considered succession planning for Mr Michael Gordon, who retired as an Executive Director on 12 May 2016 and was replaced by Mr David Kiddie on the same date.

ASX CORPORATE GOVERNANCE COUNCIL PRINCIPLES AND RECOMMENDATIONS

This CGS reports against the third edition of the ASX Corporate Governance Council Principles and Recommendations (**ASX Principles**). This CGS has been approved by the Board and is current to 30 June 2016.

FRAMEWORK

The workings of the Company, and the responsibilities and duties of its officers are regulated by the:

- Corporations Act;
- ASX Listing Rules;
- Company's Constitution;
- Board and Committee Charters and Company policies; and
- general law.

2. THE BOARD OF DIRECTORS

RELEVANT POLICIES AND CHARTERS:

Company Constitution

Board Charter

Audit and Risk Committee Charter

Nomination and Corporate Governance Committee Charter

Diversity Policy

Board Tenure and Performance Policy

ROLE OF THE BOARD

The Board has its own Board Charter which sets out the principles for the operation of the Board and describes the functions of the Board. The Board Charter is reviewed annually.

The role of the Board is to manage the Company in accordance with its legal duties. The Board's specific responsibilities include:

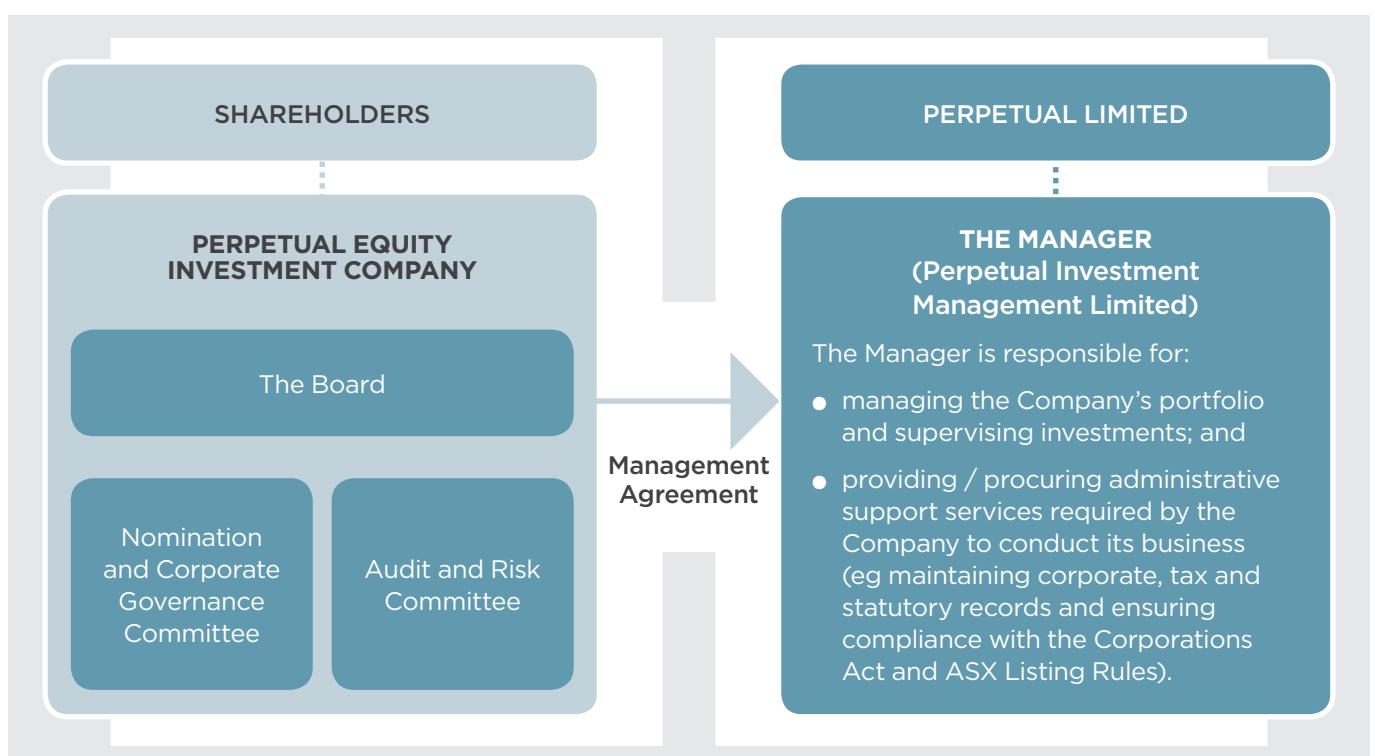
- guiding the Company's strategic direction;
- monitoring the performance of the Manager and its compliance with the terms of the management agreement executed between the Company and the Manager;

- monitoring that the Manager is performing its duties in a skilful and diligent manner and that it operates appropriate risk and compliance monitoring programs; and
- overseeing the operation of the Company.

The Board Charter contemplates that one or more Executive Directors and/or a Chief Executive Officer may be appointed to the Board. The current Executive Director is Perpetual Limited's Group Executive Perpetual Investments, Mr David Kiddie. Under the Board Charter, the Executive Director is responsible for the day to day management of the Company. The Company does not currently have a Chief Executive Officer.

Pursuant to the Management Agreement with the Manager, the Manager is responsible for managing the Company's portfolio in accordance with the objectives, strategy, guidelines, permitted investments and elements of investment as set out in the Company's Replacement Prospectus. The Manager's performance under the Investment Management Agreement is subject to ongoing monitoring by the Board.

The roles and responsibilities of the Company's Board and the Manager are established in accordance with ASX Principle 1 and are summarised in the diagram below.



COMPOSITION OF THE BOARD

The Board currently comprises four Non-Executive Directors and one Executive Director. Three of the four Non-Executive Directors have been assessed as independent in accordance with the ASX Principles and criteria set out in the Board Charter. Director independence is discussed further below.

Board composition is determined in accordance with the Company's Constitution and Board Charter, which together set out the following general principles:

- the Board must comprise a minimum of three Directors and a maximum of six;
- the Board should comprise a majority of independent Directors with a broad range of skills, expertise, and experience from a diverse range of backgrounds that is relevant to the Company and its strategy; and
- the Chairman will be a Non-Executive Director and will not be the same person as the Chief Executive Officer (if appointed).

In determining the composition of the Board, the Board and the Nomination and Corporate Governance Committee work together to achieve the optimal size and blend of skills, expertise and experience on the Board so as to support effective discussion and decision making. The Board is satisfied that the current Board is comprised of Directors representing a broad range of these attributes.

BOARD SKILLS MATRIX

The mix of skills and diversity currently represented on the Board at 30 June 2016 is as follows:

CATEGORY	SKILL / QUALITY	LEVEL
PROFESSIONAL SKILLS	Financial Services Industry	Strong
	Financial	Strong
	Operations and Outsourcing	Strong
	Product Knowledge (domestic and international)	Strong
	Investment Governance	Strong
	Corporate Governance	Well developed
	Audit, Risk and Compliance Management	Well developed
	Marketing and/or Investor Shareholder Relations	Well developed
	Strategy	Well developed
	Information Technology and/or Business Processing	Satisfactory
GENDER DIVERSITY	Female	40%
	Male	60%

COMPANY SECRETARIES

The Board has access to the services and advice of the Company Secretaries Joanne Hawkins and Sylvie Dimarco. The Company Secretaries are directly accountable to the Board through the Chairman and are responsible to the Board for governance matters and all matters to do with the proper functioning of the Board. All Directors have access to the advice and services of the Company Secretaries, whose appointment and removal are a matter for decision by the Board.

Details of the experience and qualifications of Joanne Hawkins and Sylvie Dimarco are set out in the 2016 Directors' Report on page 10.

INDEPENDENCE OF DIRECTORS

The majority of the Board is comprised of independent Directors, being Virginia Malley, John Edstein and Christine Feldmanis.

The Company's Chairman, Peter Scott is not an independent Director as required by ASX Recommendation 2.5. However notwithstanding that Peter Scott is not an independent Director, given his significant experience as a listed company Director and Chairman, particularly in the financial services sector, the Board has determined that he has the most appropriate mix of skills to act as Chairman of the Company.

Virginia Malley is a Non-Executive Director of Perpetual Superannuation Limited, a licensed superannuation entity within the Perpetual Group. She is also a member of managed investment Compliance Committees within the Perpetual Group. The Board does not consider that these roles materially impact Virginia Malley's ability to act in the best interests of the Company.

In assessing the independence of each Director, the Board considers the independence criteria set out in the Board Charter, which is based on Box 2.3 of the ASX Principles. The Board will generally determine a Non-Executive Director to be an independent Director if the Director:

- is not a substantial shareholder (as defined in the Corporations Act 2001 (Cth)) of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years, has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- is not in a material business relationship (eg. a material supplier or customer) with the Company or another group member, or an officer of or otherwise associated directly or indirectly with an entity which the Company is in a material business relationship with;
- has no material contractual relationship with the Company or another group member other than as a Director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

The independence of each Director is formally reviewed annually and at any time when a change occurs that may affect a Director's independence. Non-Executive Directors also formally advise the Chairman of any relevant information, and update the Chairman if their circumstances change at any time.

The Board Tenure and Performance Policy provides that in order to revitalise the Board, Directors should not seek re-election after three elected terms of three years (i.e. a total of 9 years on the Board) unless the Board (through the Nomination and Corporate Governance Committee) requests them to do so.

Details of the background, experience, professional skills and expertise and period in office of each Director are set out on pages 9 to 10 of the Company's 2016 Annual Report.

CHAIRMAN

The Chairman is responsible for leadership of the Board and for the efficient organisation and conduct of the Board's functions. He is also responsible for facilitating the effective contribution of all Directors and promoting constructive and respective relations between Directors and between the Board and management.

ACCESS TO INDEPENDENT ADVICE

Directors are able to obtain independent professional advice at the Company's expense on any matter connected with the discharge of their responsibilities. Directors must seek prior approval of the Chairman. The Chairman may set a reasonable limit on the amount that the Company will contribute towards the cost of obtaining the advice. The Chairman may determine that any advice received by an individual Director will be circulated to the remainder of the Board.

ACCESS TO BOARD MATERIALS AND INFORMATION

Under the Deed of Access, Indemnity and Insurance, Directors have access to inspect the Company's Board papers up to seven years after the date on which the Director ceases to be a director of the Company.

DIRECTOR SELECTION AND SUCCESSION PLANNING

The Board renewal process is overseen by the Nomination and Corporate Governance Committee and will involve the regular review of the composition of the Board to achieve an appropriate mix of skill, diversity, expertise and experience amongst the Directors that is relevant to the management of the Company.

Upon appointment, the current Directors received a detailed letter of appointment. As part of the process of appointing a Director to the Board, Directors are subject to appropriate and prudent background and screening checks. All material information about a candidate standing for election or re-election as a Director will be provided to shareholders to enable them to make an informed decision on whether or not to elect or re-elect the candidate.

DIRECTOR INDUCTION AND CONTINUING EDUCATION

New Directors participate in an induction process to familiarise themselves with the business of the Company and the senior management team of the Manager. Directors are encouraged to attend relevant conferences and seminars.

3. BOARD COMMITTEES

A key component of the Board's governance structure is its two Board committees. Each committee has a written charter.

The qualifications and skills of the members of each committee are set out on pages 9 to 10 of the 2016 Directors' Report.

The membership and key responsibilities of each of the Board committees (as at the date of this report) are set out below.

AUDIT AND RISK COMMITTEE

Members: Christine Feldmanis (Chairman), Virginia Malley and John Edstein

The purpose of the Audit and Risk Committee is to:

- assist the Board to fulfil its oversight responsibilities for the financial reporting process, the system of internal control relating to all matters affecting the Company's financial performance and the audit process;
- assist the Board in monitoring compliance with laws and regulations and the Company's Code of Conduct;
- assist the Board to adopt appropriate ethical standards in relation to the management of the Company and the conduct of its business;
- implement, review and supervise the Company's risk management framework; and
- review the adequacy of the Company's insurance policies.

All members of the Committee (of which there must be at least three) must be independent Non-Executive Directors and are required to be financially literate and have sufficient understanding of the industry in which the Company operates. At least one member must be a qualified accountant or other financial professional with experience of financial and accounting matters. The Chairman of the Committee cannot be the Chairman of the Board and must be independent. The composition of the Committee satisfied these requirements in FY2016.

Attendance of Directors at the Audit and Risk Committee meetings is set out on page 11 of the Company's 2016 Directors' Report.

NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

Members: John Edstein (Chairman), Virginia Malley and Christine Feldmanis

The Committee's functions are to support and advise the Board in fulfilling its responsibilities to shareholders and other stakeholders of the Company by:

- reviewing and advising the Board on the composition of the Board and its committees;
- reviewing the performance of the Board, the Chairman, the Executive and Non-Executive Directors and other individual members of the Board;
- developing proper succession plans for consideration by the Board;
- advising the Board on good governance standards and appropriate corporate governance policies for the Company; and
- critically reviewing the Company's performance against its corporate governance policies.

All members of the Nomination and Corporate Governance Committee (of which there must be at least three) must be independent Non-Executive Directors. The Chairman of the Committee must be an independent Non-Executive Director of the Company. The composition of the Committee satisfied these requirements in FY 2016.

Attendance of Directors at the Nomination and Corporate Governance Committee meetings is set out on page 11 of the Company's 2016 Directors' Report.

Currently, the Company has no paid employees and the Board has determined that it is therefore not necessary to establish a separate remuneration committee at this time. The Board is responsible for reviewing and approving the remuneration of the Non-Executive Directors. In setting this remuneration, the Board considers market rates commensurate with the responsibilities borne by the Non-Executive Directors so as to be satisfied that the level of remuneration set is appropriate and not excessive. From time to time the Board may engage independent remuneration consultants.

The services of the current Executive Director, David Kiddie are provided to the Company without additional charge as part of the arrangements with the Manager. If the Company employs a number of employees in the future, it will review the decision whether to establish a remuneration committee to perform the functions recommended in the ASX Principles.

4. PERFORMANCE EVALUATION AND REMUNERATION

RELEVANT POLICIES AND CHARTERS:

Board Charter

Nomination and Corporate Governance Committee Charter

Board Tenure and Performance Policy

DIRECTOR AND EXECUTIVE DIRECTOR REMUNERATION

Details about the remuneration paid to the Directors during the reporting period are set out on pages 13 to 16 of the 2016 Annual Report.

PERFORMANCE EVALUATION

Each year, with the advice and assistance of the Nomination and Corporate Governance Committee, performance evaluations of the Board, each Board committee, and each individual Director (including the Executive Director) against the Company's relevant charters, policies, goals and objectives are undertaken. Each Board committee also conducts an annual self-evaluation of its performance against its Charter and will recommend goals and objectives for the coming year.

The Board's annual review took place in accordance with these processes during FY2016. As part of the Board's annual review process:

- Directors and key management stakeholders completed questionnaires;
- individual meetings were conducted between the Chairman and Directors (and for the purposes of the Chairman's own review meeting, between the Chairman of the Nomination and Corporate Governance Committee, an additional nominated independent Director and the Chairman); and
- the Chairman presented the results of the questionnaires to the Board and the Board assessed the results and considered whether areas for further improvement were identified in the course of the performance evaluation process.

As the Company has no employees, there is no process for periodically reviewing the performance of senior executives or other employees in accordance with ASX Recommendation 1.7. Senior executives of Perpetual Limited who perform services for the Manager are subject to Perpetual Limited senior executive performance evaluation process.

5. RISK MANAGEMENT AND INTERNAL CONTROLS

RELEVANT POLICIES AND CHARTERS:

Board Charter

Audit and Risk Committee Charter

Risk Management Policy

RISK MANAGEMENT

The Board considers ongoing risk management to be a core component of the management of the Company. The Company's risk management framework comprises a series of processes, structures and guidelines which assist the Company to identify, assess, monitor and manage its business risk, including any material changes to its risk profile.

The Risk Management Policy outlines the program implemented by the Company to support appropriate risk management within its systems and culture. The Company's ability to identify risks and address risk is central to achieving its corporate objectives. In order to identify and assess material risks, the Company defines risks and prepares risk profiles in light of its business plans and strategies. The Company's Key Risk Profile which is designed to identify and assess material risks was reviewed and approved by the Board in June 2016.

The Company's Risk Appetite Statement, which seeks to define the amount of risk the Board is willing to take in the pursuit of its strategic vision and objectives, was reviewed to ensure that it remains appropriate and minor amendments were approved by the Board in June 2016.

The oversight of the Company's risk management program has been conferred upon the Audit and Risk Committee. The Manager is responsible for the design and implementation of the internal control systems which identify material risks for the Company.

The Audit and Risk Committee annually evaluates the effectiveness of its risk management program to test that its internal control systems and processes are updated. The Audit and Risk Committee has reviewed the risk management framework during FY2016 and is satisfied that it continues to be sound.

INTERNAL CONTROLS FRAMEWORK

The Audit and Risk Committee Charter refers to the option of appointing an internal auditor. The Audit and Risk Committee has determined that, as the Company outsources its business activities to the Manager, it is appropriate for the Company to receive relevant internal audit information on the Manager's operations from the internal audit program that is conducted within the Manager.

The Manager reports to the Audit and Risk Committee annually on internal audit matters that are pertinent and relevant to the Company.

MATERIAL RISKS

The Board considers that a number of identified risks, across various risk categories including economic sustainability risks have the potential to impact upon investment activities. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. Details of these types of risk and the way in which they are managed are set out in the Annual Report on pages 34 to 39. No material environmental or social sustainability risks were identified. However, environmental, social and corporate governance (ESG) matters are incorporated into the investment analysis and decision making practices of the Manager. This is described further below.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICY TO INVESTMENTS

The Manager incorporates ESG matters into its investment analysis and decision making practices. The Manager's approach is to seek the best risk-adjusted investment returns over specified time periods. This obligation is satisfied by focusing on both the quality and value of possible investments. This investment philosophy recognises that while traditional financial measures are an important consideration, extra-financial factors such as ESG matters can also influence investment performance. Consistent with this philosophy, it is the policy of the Manager that, to the extent that information is available, the Company's Portfolio Manager should take into account ESG issues into potential investment assessment.

6. GOVERNANCE DOCUMENTS

WRITTEN AFFIRMATIONS

- The Board receives from the Executive Director and the General Manager Operations and Business of the Manager, the following certifications in respect of each half year and full year financial period:
- that, in their opinion:
 - the financial records of the Company have been properly maintained;
 - the financial statements and notes for the reporting period comply with applicable Accounting Standards and the Corporations Regulations 2001;
 - the financial statements and notes give a true and fair view of the financial position and performance of the Company; and
- that the opinions above are based on a sound system of risk management and internal control which is operating effectively.

RELEVANT GOVERNANCE DOCUMENTS:

Code of Conduct

Diversity Policy

Continuous Disclosure Policy

Securities Trading Policy

Shareholder Communications Policy

ETHICS AND CONDUCT

The Company is committed to practising high standards of conduct and has adopted a Code of Conduct that identifies the standard of ethical conduct expected of all relevant personnel.

The Company is committed to complying with all applicable laws and to delivering strong returns and shareholder value while also promoting shareholder and general market confidence in the Company.

The objectives of the Code are to require that personnel observe high standards of corporate and individual behaviour and that they are aware of their responsibilities to the Company.

DIVERSITY

The Company has a Diversity Policy which reinforces the Company's commitment to diversity. The Policy requires the Board to adopt measureable objectives to assist the Company to achieve gender diversity, and to review the Company's progress in meeting these objectives and the effectiveness of these objectives each year.

In FY2016 the Company adopted a measureable objective of achieving a target of not less than 40% of either gender on the Board. As at 30 June 2016, 40% of the Company's Board are females. In addition, both Company Secretaries are female.

The Company does not currently employ any senior executives or any other employees and is unable to disclose any proportion of men and women in senior executive positions and across the Company.

CONTINUOUS DISCLOSURE AND COMMUNICATIONS WITH SHAREHOLDERS

The Company has a Continuous Disclosure Policy to support compliance with its continuous disclosure obligations under ASX Listing Rule 3.1 and the Corporations Act. The Board is responsible for overseeing and implementing this Policy. The Board considers its disclosure obligations at each scheduled Board meeting. The Company Secretary is the Company's ASX Liaison Officer. The Company's Continuous Disclosure Policy contains the matters recommended by ASX Principle 5.

The Company is committed to regularly communicating with shareholders in a timely, accessible and clear manner with respect to both procedural matters and major issues affecting the Company. Shareholders can send communications to, and elect to receive communications from, the Company and the Company's share registry, Link Market Services, electronically. The Company's Shareholder Communications Policy sets out the practices which the Company implements to support effective communication with its shareholders. The Company's website includes copies of announcements lodged with the ASX. In addition, advance notification of scheduled investor briefings and webinars are provided to shareholders.

The Company releases to the ASX a statement of the Net Tangible Asset Backing of its shares as at the end of each month within 14 days of the end of each month. The Company also releases to the ASX on a daily basis a statement of the Net Tangible Asset Backing of its shares as at the end of each business day within two business days. These reports are accessible on the Company's website.

The Company will hold its Annual General Meeting (**AGM**) in November and a copy of the notice of the AGM will be posted on the Company's website as well as being provided directly to shareholders via their nominated means of communication. The Board encourages shareholders to attend the AGM or to appoint a proxy to vote on their behalf if they are unable to attend. Shareholders are also encouraged to submit written questions in advance of the AGM, either by returning the question form provided with the notice of AGM or through an online facility that enables shareholders to submit questions via their investor centre log-in. The Chairman will seek to address as many of the more frequently raised topics as possible in his AGM address.

In accordance with the Corporations Act, a representative of the external auditor, KPMG, will attend the AGM for the purpose of answering shareholder questions about the audit report and audit process.

DEALING IN SHARES

The Board believes it is in the best interests of the Company and its shareholders for Directors to own shares in the Company, subject to strict controls and guidelines on share trading.

The Company has in place a Securities Trading Policy which applies to the Company's Directors, Company Secretaries and other personnel determined by the Board. The policy prohibits personnel from dealing in the Company's securities if they are in possession of price sensitive information that is not generally available to the public. Generally, dealings can occur during the following periods, after the relevant person has obtained prior written clearance to trade and waited at least two hours after the relevant release of results or information:

- within one month after the release of annual or half yearly results;
- within the period of one month after the issue of a prospectus; and
- any other period as the Board may decide.

Dealings are generally not permitted outside the above periods, unless exceptional circumstances exist and approval to deal in these circumstances has been given. Dealings in the Company's securities on a short term basis are also prohibited.



7. CORPORATE GOVERNANCE AND PROXY VOTING

PROXY VOTING PRACTICE

The Company recognises that the proxy voting rights that it has in respect of the companies that it invests in is a valuable asset of the Company. The Manager is responsible for proxy voting activities on behalf of the Company. The Manager monitors the corporate governance practices of companies through independent research, proxy voting advice and in-depth knowledge of the company.

The Manager generally invests in companies that meet the following four filters:

- strong balance sheet;
- recurring earnings;
- quality business; and
- sound management.

The quality of a company's corporate governance framework forms part of the consideration of 'sound management'. Where the Manager perceives that a company's corporate governance structure has some material deficiencies but that management quality overall passes the filter, it will seek to engage with the company through direct contact at senior levels.

Voting at Australian and international company meetings is carried out by the Manager on all resolutions that it has the voting authority and responsibility to do so. All company resolutions are considered on a case by case basis.

The Company endorses the Manager's proxy voting practices.

Further information about the Company and its governance practices are available on the Company's website.

DIRECTORY

COMPANY

Perpetual Equity Investment Company Limited
ACN 601 406 419

DIRECTORS

Peter Scott – Chairman
Virginia Malley
John Edstein
Christine Feldmanis
David Kiddie

COMPANY SECRETARIES

Sylvie Dimarco
Joanne Hawkins

MANAGER

Perpetual Investment Management Limited
Level 18, 123 Pitt Street
Sydney NSW 2000
(AFSL 234426)

REGISTERED OFFICE

Level 18, 123 Pitt Street
Sydney NSW 2000

AUDITOR

KPMG
International Towers Sydney 3
300 Barangaroo Avenue
Sydney NSW 2000

AUSTRALIAN SECURITIES EXCHANGE CODES

Shares: PIC
Options: PICO (to 10 June 2016)

REGISTRY

Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

WEBSITE

www.perpetualequity.com.au

Perpetual 