



Perpetual Limited
ABN 86 000 431 827

OPERATING AND FINANCIAL REVIEW

For the 12 months
ended 30 June 2016

Perpetual 

Disclaimer

The following information should be read in conjunction with the Group's audited consolidated financial statements and associated notes for the 12 months ended 30 June 2016 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 2016 (FY16). The Group's audited consolidated financial statements were subject to independent audit by KPMG.

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

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

Notes

Note that in this review:

- 1H16 refers to the financial reporting period for the six months ended 31 December 2015
- 2H16 refers to the financial reporting period for the six months ended 30 June 2016
- FY16 refers to the financial reporting period for the 12 months ended 30 June 2016
- with similar abbreviations for previous and subsequent periods.

This is a review of Perpetual's operations for the 12 months ended 30 June 2016 (FY16). It also includes a review of its financial position as at 30 June 2016.

The following information should be read in conjunction with the Group's audited consolidated financial statements and associated notes for FY16.

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

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

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

OPERATING AND FINANCIAL REVIEW

FOR THE 12 MONTHS ENDED 30 JUNE 2016

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SECTION 1 REVIEW OF GROUP

1 REVIEW OF GROUP

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

Perpetual's Lead & Grow strategy builds on the foundation of its previous 3 years' transformation 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 seeks to 'Lead' in each of the Group's core businesses, 'Extend' into nearby adjacencies and 'Explore' new markets and new ventures for the Group over the long term to capture sustainable growth.

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. The growth opportunities for Perpetual Investments, in addition to global equities, are to lead in credit strategies and in 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 and wealth management to its key client segments of 'business owners', 'established wealthy' and 'professionals'. These segments play to our existing strengths across research, investments, advisory expertise, fiduciary and philanthropy. Perpetual Private will source new prospects through relevant referral channels (including continuing to develop critical relationships with medical specialists following the acquisition of Fintuition) and deepen existing client relationships to maximise the opportunity to cross-sell products and services whilst continuing to transform the client experience to improve client advocacy.

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 in FY15 (restated – see note A below) and FY16.

FINANCIAL SUMMARY				
FOR THE PERIOD	FY16	FY15	FY16 v	FY16 v
	\$M	\$M	FY15	FY15
Operating revenue	494.2	501.5	(7.3)	(1%)
Total expenses	(316.3)	(312.9)	(3.4)	(1%)
Underlying profit before tax (UPBT)	177.9	188.6	(10.7)	(6%)
Underlying profit after tax (UPAT)⁽¹⁾⁽²⁾	128.2	133.7	(5.5)	(4%)
Significant items	3.8	(11.2)	15.0	134%
Net profit after tax (NPAT)	132.0	122.5	9.5	8%
UPBT Margin on revenue (%)	36	38	(2)	(2)
Diluted earnings per share (EPS) ⁽³⁾ on UPAT (cps)	276.1	289.6	(13.5)	(5%)
Diluted EPS on NPAT (cps)	284.3	265.3	19.0	7%
Dividends (cps)	255.0	240.0	15.0	6%
Return on Equity (ROE) ⁽⁴⁾ on UPAT (%)	22	24	(2)	(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 is 28%.

(3) Diluted EPS is calculated using the weighted average number of ordinary shares and potential ordinary shares on issue of 46,431,736 for FY16 (FY15: 46,167,094 shares).

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

For the 12 months to 30 June 2016, Perpetual's UPAT was \$128.2 million and NPAT was \$132.0 million. The result reflects a more volatile investment environment and lower average equity markets compared to prior periods.

The FY16 UPAT was 4% lower than FY15 principally due to:

- average levels of the Australian equity market being 6% lower which negatively impacted average funds under management and advice, partially offset by
- underlying new business growth (positive flows and net new clients) and non-market related revenues
- remaining synergies from the acquisition of The Trust Company Limited (TrustCo), and
- cost discipline while continuing to invest in Lead & Grow initiatives.

Note A: During the year, a change in the classification of realised gains or losses resulting from the disposal of Perpetual's seed fund investments has been made. These activities form a part of the group's operating model and the disposal of investments occurs on a regular basis. As such, it was determined that it was more appropriate to reflect these gains (or losses) as a part of UPAT rather than as significant items. Refer to Section 3.3, Appendix C for further details on prior period adjustments to reflect this change.

The FY16 NPAT was 8% higher than FY15 mainly due to significant items from one-off recoveries and expenses no longer being incurred in respect of the TrustCo integration program.

The Perpetual Board determined a FY16 fully franked final dividend of 130 cents per share, up 5 cents per share or 4.0% on FY15. The final dividend is payable on 28 September 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. At the end of FY16, Perpetual Investments' FUM and Perpetual Private's FUA were around 80% and 56% exposed to equity markets respectively.

The S&P/ASX All Ordinaries Price Index (All Ords) closed at 5,310 on 30 June 2016, down 3% on the closing level of 5,451 on 30 June 2015. The average All Ords in FY16 (5,238) was down 6% on the average All Ords in FY15 (5,562).

In FY16, Perpetual generated \$494.2 million of total operating revenue, which was \$7.3 million or 1% lower than FY15. Revenue was negatively impacted by lower levels of FUM and FUA as a result of lower levels of equity markets.

Management has calculated the expected impact on revenue, across the business, for a 1% movement in the All Ords: based on the level of the All Ords at the end of June 2016, 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 FY16 were \$316.3 million, \$3.4 million or 1% higher than FY15, comprising:

- investments in Lead & Grow initiatives and an increase in depreciation and amortisation from prior year investments partially offset by
- TrustCo expense synergies of \$6.8 million, and
- ongoing cost discipline.

As previously indicated the integration of TrustCo is complete and is delivering annualised synergy benefits of \$21 million per annum before tax.

1.2.3 SIGNIFICANT ITEMS

Significant items in FY16 contributed an increase of \$15.0 million profit on FY15 primarily as a result of recoveries and expenses no longer being incurred in respect of the TrustCo integration program.

SIGNIFICANT ITEMS

FOR THE PERIOD	Profit/(Loss) After Tax					
	FY16	FY15	2H16	1H16	2H15	1H15
	\$M	\$M	\$M	\$M	\$M	\$M
Significant items:						
1. Net recoveries ⁽¹⁾	3.6	-	2.9	0.7	-	-
2. TrustCo integration costs	-	(11.3)	-	-	(4.4)	(6.9)
3. Gain on sale of business	0.2	0.1	-	0.2	-	0.1
Total significant items	3.8	(11.2)	2.9	0.9	(4.4)	(6.8)

⁽¹⁾ Relates to TrustCo.

Note the comments previously regarding the reclassification of gains or losses resulting from the disposal of Perpetual's seed fund investments. Refer to Section 3.3, Appendix C for further details.

1.3 SHAREHOLDER RETURNS AND DIVIDENDS

SHAREHOLDER RETURNS

FOR THE PERIOD		FY16	FY15	FY16 v FY15	2H16	1H16	2H15	1H15
Diluted EPS on UPAT ⁽¹⁾	cents	276.1	289.6	(5%)	139.2	137.3	148.1	141.4
Diluted EPS on NPAT	cents	284.3	265.3	7%	145.6	139.1	138.5	126.8
Annualised ROE on UPAT ⁽²⁾	%	21.6	23.7	(2)	21.6	21.6	24.0	23.5
Annualised ROE on NPAT	%	22.2	21.7	-	22.6	21.8	22.4	21.1

DIVIDENDS

FOR THE PERIOD		FY16	FY15	FY16 v FY15	2H16	1H16	2H15	1H15
Fully franked dividends paid/payable	\$M	118.8	111.8	6%	60.5	58.2	58.2	53.6
Fully franked dividends per ordinary share	cents	255.0	240.0	6%	130.0	125.0	125.0	115.0
Dividend payout ratio ⁽³⁾	%	89.7	90.5	(1)	89.3	89.9	90.3	90.7
Dividends paid/payable as a proportion of NPAT ⁽⁴⁾	%	90.0	91.3	(1)	89.5	90.4	91.1	91.5

⁽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.

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 final dividend for FY16 of 130 cents per share will be payable on 28 September 2016, which represents a dividend payout of 90% of 2H16 NPAT. This takes the full year dividends paid and payable to 255 cents per share which represents a dividend payout of 90% of FY16 NPAT.

The Dividend Reinvestment Plan (DRP) will be operational for the final dividend. No discount will apply and the DRP will be met by existing shares acquired on market. The ten-day volume weighted average price (VWAP) pricing period for the final dividend commences on 8 September 2016 and ends on 21 September 2016. A broker will be appointed to acquire existing shares to satisfy the DRP.

The Group's franking credit balance at the end of FY16, prior to the payment of the FY16 final dividend, was \$45.9 million. This will enable \$107.1 million of cash dividends or around 230 cents per share to be fully franked. After payment of the final dividend for FY16, the franking balance is capable of fully franking a further \$46.6 million of cash dividends, or around 100 cents per share.

As at 30 June 2016, Perpetual Limited, the Group's parent entity, had retained earnings of \$160.6 million (equivalent to around 345 cents per share).

1.4 SEGMENT RESULTS SUMMARY

Perpetual has three business units: Perpetual Investments, Perpetual Private and Perpetual Corporate Trust. The profitability of each business unit is heavily influenced by its key revenue drivers: Funds Under Management (FUM) for Perpetual Investments, Funds Under Advice (FUA) for Perpetual Private and Funds Under Administration (FUA) for Perpetual Corporate Trust.

The key segment results for FY16 are summarised in the table below.

SEGMENT RESULTS SUMMARY FOR THE PERIOD	OPERATING REVENUE		EBITDA ⁽¹⁾		PROFIT BEFORE/ AFTER TAX	
	FY16	FY15	FY16	FY15	FY16	FY15
	\$M	\$M	\$M	\$M	\$M	\$M
Perpetual Investments	227.9	240.0	124.9	135.1	118.1	125.6
Perpetual Private	167.6	166.3	47.1	49.6	34.2	37.5
Perpetual Corporate Trust	87.3	82.5	40.6	36.5	34.1	31.3
Group Support Services	11.4	12.7	(4.2)	(4.0)	(8.5)	(5.8)
Totals before tax and significant items	494.2	501.5	208.4	217.2	177.9	188.6
Income tax expense					(49.7)	(54.9)
UPAT before significant items					128.2	133.7
Significant items after tax:						
1. Net recoveries ⁽²⁾					3.6	-
2. TrustCo integration costs					-	(11.3)
3. Gain on sale of business					0.2	0.1
Statutory NPAT attributable to equity holders of Perpetual Limited					132.0	122.5

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

⁽²⁾ Relates to TrustCo.

- Perpetual Investment reported profit before tax in FY16 of \$118.1 million, \$7.5 million or 6% lower than FY15. The result was driven by lower average FUM, partially offset by higher performance fees and lower expenses.
- Perpetual Private reported profit before tax in FY16 of \$34.2 million, \$3.3 million or 9% lower than FY15. This decrease was due to lower equity markets and investments in Lead & Grow initiatives, partially offset by higher non-market related revenues. Perpetual Private experienced new client growth across the high net worth segments.
- Perpetual Corporate Trust reported profit before tax in FY16 of \$34.1 million, \$2.8 million or 9% higher than FY15. This increase reflected growth in the underlying Trust and Fund Services businesses.

1.5 GROUP FINANCIAL POSITION

1.5.1 SUMMARY CONSOLIDATED BALANCE SHEET

AT END OF	2H16 ⁽¹⁾ \$M	1H16 ⁽¹⁾ \$M	2H15 ⁽¹⁾ \$M	1H15 ⁽¹⁾ \$M
Assets				
Cash and cash equivalents	278.2	240.2	289.4	265.8
Liquid investments	75.5	76.0	52.0	50.2
Structured products - Perpetual Protected Investments (PPI) loans to clients	-	-	-	36.0
Goodwill and other intangibles	310.6	314.5	304.4	307.4
Software	28.7	28.6	28.4	22.3
Other assets	160.3	151.4	157.7	159.8
Total assets	853.3	810.7	831.9	841.5
Liabilities				
Corporate loan facility	87.0	87.0	87.0	87.0
Structured products - PPI finance facilities	-	-	-	37.0
Other liabilities	160.8	128.3	161.2	150.2
Total liabilities	247.8	215.3	248.2	274.2
Net assets	605.5	595.4	583.7	567.3
Shareholder funds				
Contributed equity	493.5	493.2	481.9	482.1
Reserves	17.2	17.2	23.5	19.2
Retained earnings	94.8	85.0	78.3	66.0
Total equity	605.5	595.4	583.7	567.3

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

1.5.2 BALANCE SHEET ANALYSIS

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

Cash

Cash and cash equivalents decreased from \$289.4 million at the end of FY15 to \$278.2 million at the end of FY16, a decrease of \$11.1 million or 4%.

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

Liquid investments

Liquid investments increased to \$75.5 million at the end of FY16 from \$52.0 million at the end of FY15. 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 as cash. In addition, further investments were made in seed funds and products to hedge against the future cost of certain deferred incentives of the asset managers that have been notionally invested in those products. These increases were offset by depreciation in market valuations.

Goodwill and other intangibles

Goodwill and other intangibles increased by \$6.2 million to \$310.6 million as at 30 June 2016.

Other assets and liabilities

'Other assets' increased to \$160.3 million from \$157.7 million at the end of FY15 and 'Other liabilities' decreased to \$160.8 million from \$161.2 million at the end of FY15. The increase in other assets is primarily attributable to an increase in property, plant and equipment of \$9.5 million. Other liabilities remained relatively flat.

Loans

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

Contributed equity

Contributed Equity has increased by \$11.6 million since 30 June 2015. 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 as at 30 June 2016 due primarily to a decrease in the Equity Compensation Reserve. The decrease in the Equity Compensation Reserve has resulted from a \$12.6 million movement on employee shares, mainly due to the vesting of shares, offset by the FY16 equity remuneration expense.

1.6 CAPITAL MANAGEMENT

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 FY16, total base capital requirements were \$179 million (\$160 million for operational risk including regulatory capital requirements, \$13 million for credit risk and \$6 million for market risk), compared to \$340 million of available liquid funds.

During FY16, 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 30 June 2016 and
- focusing on ensuring strong discretionary expense discipline across each business unit and support group.

1.6.1 CASH FLOW

CASHFLOW

FOR THE PERIOD

	FY16	FY15	2H16	1H16	2H15	1H15
	\$M	\$M	\$M	\$M	\$M	\$M
Net cash from operating activities	149.8	129.2	108.3	41.5	83.5	45.7
Net cash provided by/(used in) investing activities	(44.5)	(18.8)	(12.0)	(32.5)	(6.4)	(12.4)
Net cash (used in)/provided by financing activities	(116.4)	(103.6)	(58.2)	(58.2)	(53.5)	(50.1)
Net increase/(decrease) in cash and cash equivalents	(11.1)	6.8	38.1	(49.2)	23.6	(16.8)

In FY16, cash and cash equivalents decreased by \$11.1 million compared to an increase of \$6.8 million in FY15. This represented a net decrease in cash flow of \$17.9 million, principally due to:

- net cash provided by operating activities increased by \$20.5 million on FY15 primarily due to an increase in net operating cash flows of \$40.9 million offset by an increase in tax payments of \$18.6 million (timing differences)
- net cash used in investing activities increased by \$25.7 million on FY15 primarily due to an increase in net payments for investments of \$22.5 million
- net cash used in financing activities increased by \$12.8 million on FY15 due to an increase in dividend payments of \$18.6 million offset by a decrease in outflows to non-controlling interests of \$5.8 million.

1.6.2 DEBT

DEBT

AT END OF

		FY16	FY15	2H16	1H16	2H15	1H15
Corporate debt	\$M	87.0	87.0	87.0	87.0	87.0	87.0
Corporate debt to capital ratio	%	12.6	13.0	12.6	12.7	13.0	13.3
(corporate debt/(corporate debt + equity)) ⁽¹⁾							
Interest coverage calculation for continuing operations (EBIT/interest expense)	times	66x	51x	69x	64x	55x	48x
Net tangible assets per share	\$	5.50	5.16	5.50	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 FY16 Perpetual's gross corporate debt was \$87 million. The Group's gearing ratio at the end of FY16 was 12.6%, compared to 13.0% at the end of FY15. 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 FY16, the Group had a committed bank corporate debt facility of \$130 million and \$87 million was drawn. The facility has greater than 12 months to its expiry date of 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 FY16, the Group was in compliance with all its debt covenants.

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

1.7 REGULATORY ENVIRONMENT

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

Regulation	Overview	Impact/Management
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.	Perpetual entities that are financial institutions under FATCA have implemented the required processes to comply with their FATCA obligations, including ATO reporting. The Group's FATCA compliance project is now complete.
The Common Reporting Standard (CRS)	The CRS is a new global tax reporting regime, modelled on FATCA that requires financial institutions to identify and report foreign resident account holder information to tax authorities (the ATO in Australia). Australian legislation introducing the CRS has been passed and CRS becomes effective on 1 July 2017.	A Group Compliance project to implement the CRS has commenced.
ASIC Policy	ASIC continues to influence the regulatory landscape through the remaking of sun-setting class orders, updates to various ASIC Regulatory Guides and the release of new regulatory instruments.	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 the second half of 2017. 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 so will be compliant by the required date.
Superannuation reforms	Most changes identified in the budget will take effect 1 July 2017 subject to the passage of supporting legislation.	The Group maintains a watching brief.

1.8 BUSINESS RISKS

Perpetual's approach to risk management is based on a Risk Appetite Statement set by the Perpetual Board, which outlines the risk boundaries and minimum expectations of Perpetual 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
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, reporting to 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
Reputational	The loss of the organisation's reputational capital, arising from adverse events that impact the way Perpetual is perceived in the market. Losses could include destruction of shareholder value, loss of clients and revenue or increased operating, capital or regulatory costs	<ul style="list-style-type: none"> • Application of risk appetite statement • Effective Risk Management Framework that sets out how risk is managed • Effective issues management processes to respond to events that may arise
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 • Internal and external auditors
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

Risk	Risk description/Impact	Risk management
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

1.9 OUTLOOK

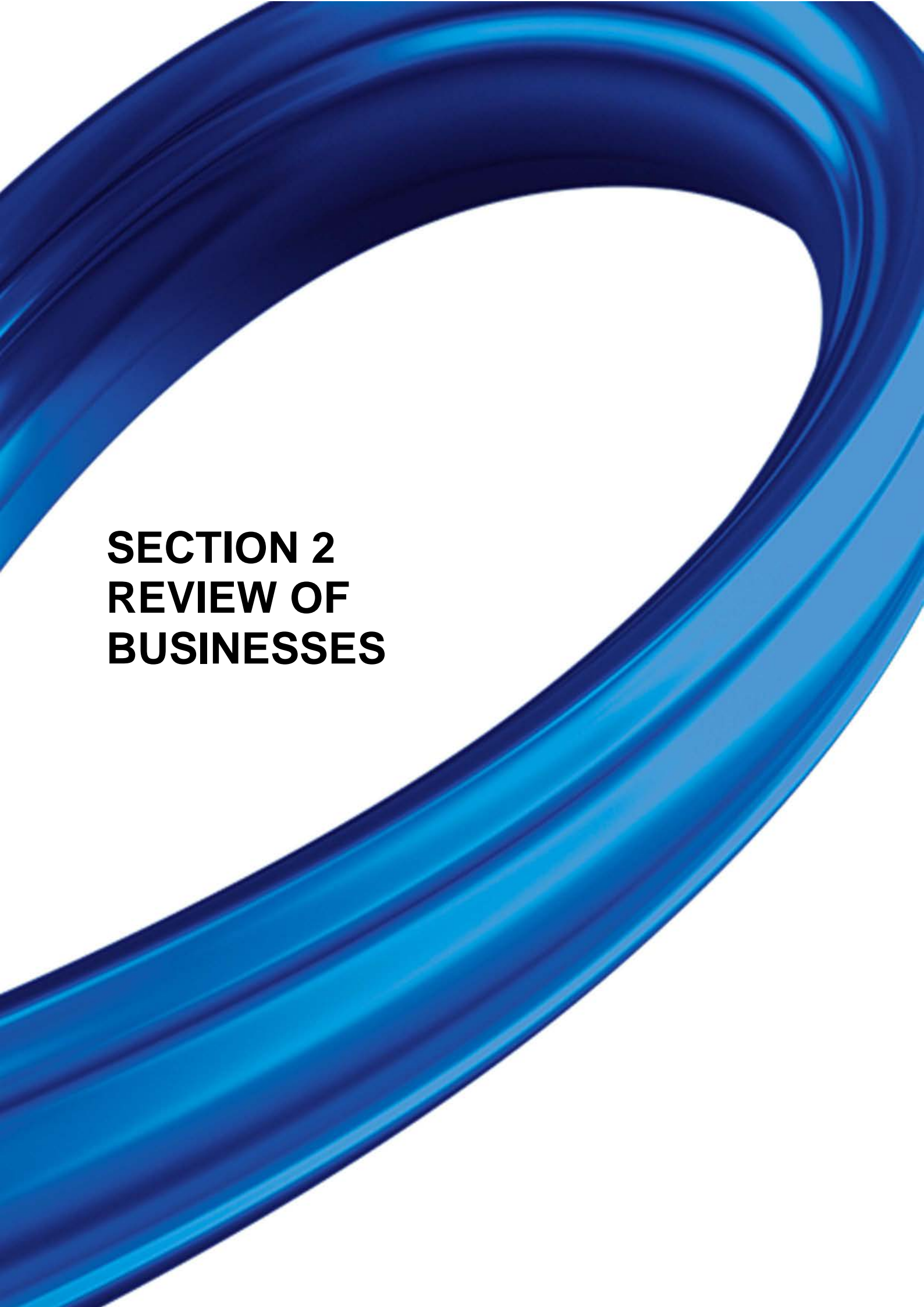
The Group is focused on executing the Lead & Grow strategy. This strategy builds on the strong fundamentals of the Group and is a natural evolution of the T15 strategy.

While the long-term outlook for the Group is underpinned by a growing need for savings, advice and income in retirement, the near-term outlook could be impacted by several factors, including investment volatility and economic and political uncertainty that can lower average equity market levels and consumer sentiment. 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.

1.10 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.



SECTION 2 REVIEW OF BUSINESSES

2 REVIEW OF BUSINESSES

The results and drivers of financial performance in FY16 for the three Perpetual business units are described in the following sections. A description of revenues and expenses at the Group Support Services level is also provided.

2.1 PERPETUAL INVESTMENTS

2.1.1 BUSINESS OVERVIEW

Perpetual Investments is one of Australia's most highly regarded investment managers, offering a broad range of 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 asset strategies. It services a diverse range of client types, from large institutional investors through to smaller retail investors.

2.1.2 FINANCIAL PERFORMANCE

PERPETUAL INVESTMENTS FINANCIAL RESULTS

FOR THE PERIOD	FY16 \$M	FY15 \$M	FY16 v FY15	2H16 \$M	1H16 \$M	2H15 \$M	1H15 \$M
Revenue	227.9	240.0	(5%)	117.9	110.0	120.7	119.3
Operating expenses	(103.0)	(104.9)	2%	(54.0)	(49.0)	(51.7)	(53.2)
EBITDA	124.9	135.1	(8%)	63.9	61.0	69.0	66.1
Depreciation and amortisation	(2.0)	(1.5)	(33%)	(1.1)	(0.9)	(0.9)	(0.6)
Equity remuneration expense	(4.8)	(8.0)	40%	(1.9)	(2.9)	(2.8)	(5.2)
Profit before tax	118.1	125.6	(6%)	60.9	57.2	65.3	60.3
Average FUM revenue margin (revenues/average FUM)	75bps	74bps	1bps	78bps	73bps	72bps	76bps
Average FUM	\$30.0B	\$32.3B	(7%)	\$29.9B	\$30.1B	\$33.3B	\$31.2B

In FY16, profit before tax for Perpetual Investments was \$118.1 million, \$7.5 million or 6% lower than FY15. The result was driven by lower average FUM, partially offset by higher performance fees and lower expenses. The cost to income ratio in FY16 was 48%, flat on FY15.

2.1.3 DRIVERS OF PERFORMANCE

Revenue

Perpetual Investments generated revenue of \$227.9 million in FY16, \$12.1 million or 5% lower than FY15. The key factor that negatively impacted revenue in FY16 was lower average FUM, as a result of prior period distributions (30 June 2015) and a lower average level of the All Ords which decreased by 6% on FY15. This was positively offset by higher performance-related fees in FY16.

The average FUM in FY16 was \$30.0 billion, 7% lower than FY15 due to lower average market levels and distributions in the prior period.

Average FUM revenue margins in FY16 were 75 basis points (bps), 1 bps higher than in FY15. 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 of performance related fees. Excluding higher performance fees in FY16, underlying average margins were relatively stable on FY15.

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	FY16 \$M	FY15 \$M	FY16 v FY15	2H16 \$M	1H16 \$M	2H15 \$M	1H15 \$M
By asset class:							
> Equities	192.3	205.6	(6%)	99.2	93.1	103.7	101.9
> Cash and fixed income	26.5	23.3	14%	14.3	12.2	11.6	11.7
> Other FUM related	8.2	9.0	(9%)	4.0	4.2	4.6	4.4
> Other non-FUM related	0.9	2.1	(57%)	0.4	0.5	0.8	1.3
Revenues	227.9	240.0	(5%)	117.9	110.0	120.7	119.3

PERFORMANCE FEES

FOR THE PERIOD	FY16 \$M	FY15 \$M	FY16 v FY15	2H16 \$M	1H16 \$M	2H15 \$M	1H15 \$M
By asset class:							
> Equities	9.7	8.9	9%	8.2	1.5	2.1	6.8
> Cash and fixed income	4.5	2.1	114%	3.5	1.0	1.0	1.1
Total performance fees	14.2	11.0	29%	11.7	2.5	3.1	7.9

REVENUE MARGIN

FOR THE PERIOD	FY16 bps	FY15 bps	FY16 v FY15	2H16 bps	1H16 bps	2H15 bps	1H15 bps
By asset class:							
> Equities	83	82	1	85	81	79	84
> Cash and fixed income	44	39	5	48	40	38	40
> Other FUM related	80	85	(5)	78	83	84	85
Average revenue margin	75	74	1	78	73	72	76

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

- **Equities:** Revenues represent fees earned on Australian and global equities products. Revenue in FY16 was \$192.3 million, a decrease of 6% on FY15. Revenue was mainly negatively impacted by lower average FUM, from lower market levels and the impact of prior year distributions. The average margin in FY16 was 83bps, 1 bps higher than in FY15. The difference was due to channel mix and higher performance fees received in FY16.
- **Cash and fixed income:** Revenues are derived from cash and fixed income products. Revenue in FY16 was \$26.5 million, \$3.2 million or 14% higher than in FY15. The increase in revenue was primarily due to one-off revenue of \$2.5 million from the closure of an internal fund to improve efficiency (which positively impacted margin by 4 bps), and 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. FY16 revenue of \$8.2 million was \$0.8 million or 9% lower than in FY15, 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 FY16 was mainly due to lower fees earned from the PPI structured products, which has been in run off since 2009 (closed at 30 June 2015) and a lower interest rate environment.

Expenses

In FY16 total expenses for Perpetual Investments, comprising operating expenses, depreciation, amortisation and equity remuneration, of \$109.8 million were \$4.6 million lower than in FY15. The decrease in expenses was primarily due to:

- lower variable remuneration
- savings associated with the in-house manufacturing of the global equities fund in FY15, and
- one-off launch costs for the initial public offering of Perpetual Equity Investment Company Limited incurred in FY15.

2.1.4 FUNDS UNDER MANAGEMENT

FUM and flows

FUM SUMMARY

AT END OF	FY16 \$B	Net flows \$B	Other ⁽¹⁾ \$B	FY15 \$B
Institutional	9.6	(0.3)	(0.1)	10.0
Intermediary (master fund and wrap)	14.3	0.2	(0.4)	14.5
Retail	5.2	(0.2)	(0.1)	5.5
Listed Investment Company	0.3	-	0.1	0.2
All distribution channels	29.4	(0.3)	(0.5)	30.2
Australian equities	21.2	0.4	(0.7)	21.5
Global equities	1.3	-	(0.1)	1.4
Listed Investment Company	0.3	-	0.1	0.2
Equities	22.8	0.4	(0.7)	23.1
Cash and fixed income	5.6	(0.6)	0.1	6.1
Other	1.0	(0.1)	0.1	1.0
All asset classes	29.4	(0.3)	(0.5)	30.2

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

NET FLOWS

FOR THE PERIOD	FY16 \$B	FY15 \$B	2H16 \$B	1H16 \$B	2H15 \$B	1H15 \$B
Institutional	(0.3)	(0.6)	(0.1)	(0.2)	(1.4)	0.8
Intermediary (master fund and wrap)	0.2	0.8	(0.1)	0.3	0.1	0.7
Retail	(0.2)	(0.1)	(0.2)	-	-	(0.1)
Listed Investment Company	-	0.2	-	-	-	0.2
All distribution channels	(0.3)	0.3	(0.4)	0.1	(1.3)	1.6
Australian equities	0.4	(0.5)	0.2	0.2	(1.3)	0.8
Global equities	-	-	-	-	-	-
Listed Investment Company	-	0.2	-	-	-	0.2
Equities	0.4	(0.3)	0.2	0.2	(1.3)	1.0
Cash and fixed income	(0.6)	0.6	(0.5)	(0.1)	-	0.6
Other	(0.1)	-	(0.1)	-	-	-
All asset classes	(0.3)	0.3	(0.4)	0.1	(1.3)	1.6

Perpetual's FUM as at 30 June 2016 was \$29.4 billion, with net outflows of \$0.3 billion for the full year.

Points of note in relation to the FUM and flows data for FY16:

- inflows were mainly from the intermediary channel, within Australian equities and
- outflows were primarily from the lower margin institutional channel and cash and fixed income asset classes.

Excess/(under) investment performance per annum - gross as at end June 2016 ^(a)

Period	Australian Share Fund	Industrial Share Fund	Smaller Companies Fund	Concentrated Equity Fund	Share Plus Fund	Ethical Share Fund	Diversified Income Fund	Perpetual Active Fixed Interest Fund	Perpetual Global Share Fund ^(b)
1 year	-	(3.7)%	(4.2)%	(1.9)%	0.5%	6.2%	1.1%	0.5%	(4.1)%
3 year pa	(0.2)%	(1.5)%	6.0%	0.4%	3.6%	5.0%	2.2%	0.9%	4.3%
5 year pa	1.8%	(0.8)%	9.8%	2.9%	6.8%	8.7%	2.6%	1.3%	3.5%
7 year pa	2.5%	(0.6)%	11.1%	2.8%	6.5%	9.6%	3.8%	1.4%	-
10 year pa	2.1%	1.0%	8.6%	3.3%	5.0%	6.7%	1.1%	0.9%	-

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

^(b) Includes performance in the incubation period.

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

¹ Mercer wholesale surveys, quartile rankings, June 2016.

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 \$12.7 billion of FUA at the end of FY16. Perpetual Private aims to be the leading provider of advice and wealth management for high net worth individuals, families, businesses and not-for-profit organisations. A key part of Perpetual Private is its philanthropic business, and Perpetual is one of Australia's largest managers of philanthropic funds, with \$2.4 billion in FUA for charitable trusts and endowment funds as at the end of FY16.

2.2.2 FINANCIAL PERFORMANCE

PERPETUAL PRIVATE FINANCIAL RESULTS

FOR THE PERIOD	FY16 \$M	FY15 \$M	FY16 v FY15	2H16 \$M	1H16 \$M	2H15 \$M	1H15 \$M
Market related revenue	107.8	110.8	(3%)	53.9	53.9	54.7	56.1
Non-market related revenue	59.8	55.5	8%	31.4	28.4	29.3	26.2
Total revenues	167.6	166.3	1%	85.3	82.3	84.0	82.3
Operating expenses	(120.5)	(116.7)	(3%)	(62.0)	(58.5)	(59.2)	(57.5)
EBITDA	47.1	49.6	(5%)	23.3	23.8	24.8	24.8
Depreciation and amortisation	(9.6)	(9.0)	(7%)	(4.9)	(4.7)	(4.5)	(4.5)
Equity remuneration expense	(3.3)	(3.1)	(6%)	(1.4)	(1.9)	(1.7)	(1.4)
Profit before tax	34.2	37.5	(9%)	17.0	17.2	18.6	18.9
Closing FUA	\$12.7B	\$13.1B	(3%)	\$12.7B	\$12.8B	\$13.1B	\$12.6B
Average FUA	\$12.7B	\$13.0B	(2%)	\$12.7B	\$12.8B	\$13.1B	\$12.8B
Market related revenue margin	85bps	85bps	-	85bps	85bps	83bps	88bps

Perpetual Private reported profit before tax of \$34.2 million, \$3.3 million or 9% lower than FY15. This decrease was due to lower market related revenue due to lower equity markets and continued investments in Lead & Grow initiatives, partially offset by higher non-market related revenues. Perpetual Private experienced new client growth across the high net worth segments. The cost to income ratio in FY16 was 80% compared to 77% in FY15.

2.2.3 DRIVERS OF PERFORMANCE

Revenue

Perpetual Private generated \$167.6 million of total revenue in FY16, \$1.3 million or 1% higher than FY15. The main drivers of revenue in FY16 were:

- higher non-market related activity (tax and accounting – Fordham and property)
- higher funds management activity, and
- lower average FUA due to equity market declines, which were partially offset by positive net inflows with 100 net new HNW clients during the year.

Perpetual Private's market related revenue margin was flat in FY16 compared to FY15.

Expenses

Total expenses, comprising operating expenses, depreciation, amortisation and equity remuneration, for Perpetual Private in FY16 were \$133.4 million, \$4.6 million or 4% higher than in FY15. The increase on FY15 was primarily due to:

- investments in Lead & Grow initiatives
- continued investment into Fordham, and
- integration costs associated with the Fintuition acquisition.

2.2.4 FUNDS UNDER ADVICE

FUNDS UNDER ADVICE

AT END OF	FY16 \$B	Net flows \$B	Other ⁽¹⁾ \$B	FY15 \$B
Total FUA	12.7	0.4	(0.8)	13.1

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

Perpetual Private's FUA at the end of FY16 was \$12.7 billion, \$0.4 billion lower than FY15 primarily due to lower equity markets, offset by positive net flows and net new clients.

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 services 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	FY16	FY15	FY16 v	2H16	1H16	2H15	1H15
	\$M	\$M	FY15	\$M	\$M	\$M	\$M
Trust Services revenue	48.3	43.8	10%	24.6	23.7	23.0	20.8
Fund Services revenue	39.0	38.2	2%	20.3	18.7	20.2	18.0
Total fiduciary services revenues	87.3	82.0	6%	44.9	42.4	43.2	38.8
Sold business RSE ⁽¹⁾	-	0.5	(100%)	-	-	-	0.5
Total revenues	87.3	82.5	6%	44.9	42.4	43.2	39.3
Operating expenses	(46.7)	(46.0)	(2%)	(24.0)	(22.7)	(23.5)	(22.5)
EBITDA	40.6	36.5	11%	20.9	19.7	19.7	16.8
Depreciation and amortisation	(5.1)	(4.1)	(24%)	(2.8)	(2.3)	(2.1)	(2.0)
Equity remuneration expense	(1.4)	(1.1)	(27%)	(0.6)	(0.8)	(0.6)	(0.5)
Profit before tax	34.1	31.3	9%	17.5	16.6	17.0	14.3
Funds under administration							
- Trust Services	\$427.5B	\$379.6B	13%	\$427.5B	\$413.6B	\$379.6B	\$359.5B
- Fund Services	\$193.0B	\$178.6B	8%	\$193.0B	\$186.5B	\$178.6B	\$178.2B

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

Perpetual Corporate Trust's FY16 profit before tax was \$34.1 million, \$2.8 million or 9% higher than FY15. This increase on FY15 reflected growth in the underlying Trust and Fund Services businesses. The cost to income ratio in FY16 was 61%, 1% lower than FY15.

2.3.3 DRIVERS OF PERFORMANCE

Revenue

Perpetual Corporate Trust generated total revenues of \$87.3 million in FY16, \$4.8 million or 6% higher than FY15. The main drivers of the improvement in revenue were the continued growth in the securitisation market in Australia and inbound capital flows into property and infrastructure investments.

In FY16 Trust Services revenue was \$48.3 million, \$4.5 million or 10% higher than FY15. The primary drivers for the increase on FY15 were:

- the improvement in the securitisation markets for asset-backed securities in Australia, in particular, auto finance and consumer finance markets and
- further uptake of the data services solution in response to changes mandated by the Reserve Bank of Australia to standardise and enhance reportable data in the securitisation market.

Revenue also benefited from higher average FUA levels of RMBS in FY16 compared to FY15.

In FY16 Fund Services revenue was \$39.0 million, \$0.8 million or 2% higher than FY15, driven primarily by continued inbound capital flows into property and infrastructure investments. Excluding the previously disclosed \$2.0 million of non-recurring revenue in FY15, the underlying Fund Services business grew by 8% in FY16.

Expenses

Perpetual Corporate Trust incurred total expenses of \$53.2 million in FY16, comprising operating expenses, depreciation, amortisation and equity remuneration expenses. Total expenses were \$2.0 million or 4% higher than in FY15.

2.3.4 FUNDS UNDER ADMINISTRATION

FUNDS UNDER ADMINISTRATION (FUA)

AT END OF	2H16 \$B	1H16 \$B	2H15 \$B	1H15 \$B
Market Securitisation				
RMBS - bank	49.9	50.7	52.9	51.0
RMBS - non bank	48.7	49.2	47.8	45.5
CMBS and ABS	44.9	42.0	28.9	31.7
Balance Sheet Securitisation				
RMBS - repos	212.0	203.7	183.2	168.9
Covered bonds	72.0	68.0	66.8	62.4
Total FUA – Trust Services¹	427.5	413.6	379.6	359.5
Fund Services	193.0	186.5	178.6	178.2
Total FUA	620.5	600.1	558.2	537.7

⁽¹⁾ Includes warehouse and liquidity finance facilities.

Trust Services

At the end of FY16, FUA in Trust Services was \$427.5 billion, an increase of \$47.9 billion or 13% on FY15.

FUA increased across the majority of asset classes, with significant growth seen in ABS, RMBS - repos and covered bonds, up 48%, 13% and 10% respectively on FY15. The increase in FUA in ABS is attributable to acquisition activity in the auto finance and consumer finance securitised asset portfolios.

The growth in repo and covered bonds FUA is due in part to the banks' response to increased liquidity targets required under Basel III. This growth had the effect of reducing average revenue margins as these asset classes earn lower fees relative to the other asset classes.

RMBS - non bank FUA in FY16 was \$48.7 billion, \$0.9 billion or 2% higher than FY15. RMBS - bank FUA in FY16 was \$49.9 billion, \$3.0 billion or 6% lower than FY15 with lower levels of issuance following widening credit spreads throughout FY16. RMBS runoff rates have been largely consistent to FY15 levels.

Fund Services

At the end of FY16, Fund Services FUA was \$193.0 billion, an increase of \$14.4 billion or 8% on FY15, driven by growth in the Fund Services business. As previously disclosed in 1H16, FY15 FUA was adjusted downwards by \$8 billion or 4%. This correction had no revenue impact.

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	FY16	FY15	FY16 v	2H16	1H16	2H15	1H15
	\$M	\$M	FY15	\$M	\$M	\$M	\$M
Revenue	11.4	12.7	(10%)	5.4	6.0	4.7	8.0
Operating expenses	(15.6)	(16.7)	7%	(8.3)	(7.3)	(9.5)	(7.2)
EBITDA	(4.2)	(4.0)	(5%)	(2.9)	(1.3)	(4.8)	0.8
Depreciation and amortisation	(0.2)	(0.2)	-	(0.1)	(0.1)	(0.1)	(0.1)
Equity remuneration expense	(1.3)	1.9	(168%)	(1.0)	(0.3)	2.1	(0.2)
Interest expense	(2.8)	(3.5)	20%	(1.4)	(1.4)	(1.7)	(1.8)
Profit before tax	(8.5)	(5.8)	(47%)	(5.4)	(3.1)	(4.5)	(1.3)

FY16 revenue from the Group's cash and principal investments of \$11.4 million, was \$1.3 million or 10% lower than FY15 mainly due to lower average cash balances and lower gains from the disposal of Perpetual's seed fund investments.

Operating expenses in FY16 of \$15.6 million were \$1.1 million lower than FY15. Savings were primarily due to premises costs being lower, with the movement in equity remuneration expense due to the write-back of some allocated equity in FY15.

Note the comments previously regarding the reclassification of gains or losses resulting from the disposal of Perpetual's seed fund investments. Refer to Section 3.3, Appendix C for further details.



SECTION 3

APPENDICES

3 APPENDICES

3.1 APPENDIX A: SEGMENT RESULTS

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

PERIOD ENDING	FY15					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	240.0	166.3	82.5	12.7	501.5	120.7	84.0	43.2	4.7	252.6	119.3	82.3	39.3	8.0	248.9
Operating expenses	(104.9)	(116.7)	(46.0)	(16.7)	(284.3)	(51.7)	(59.2)	(23.5)	(9.5)	(143.9)	(53.2)	(57.5)	(22.5)	(7.2)	(140.4)
EBITDA	135.1	49.6	36.5	(4.0)	217.2	69.0	24.8	19.7	(4.8)	108.7	66.1	24.8	16.8	0.8	108.5
Depreciation and amortisation	(1.5)	(9.0)	(4.1)	(0.2)	(14.8)	(0.9)	(4.5)	(2.1)	(0.1)	(7.6)	(0.6)	(4.5)	(2.0)	(0.1)	(7.2)
Equity remuneration	(8.0)	(3.1)	(1.1)	1.9	(10.3)	(2.8)	(1.7)	(0.6)	2.1	(3.0)	(5.2)	(1.4)	(0.5)	(0.2)	(7.3)
EBIT	125.6	37.5	31.3	(2.3)	192.1	65.3	18.6	17.0	(2.8)	98.1	60.3	18.9	14.3	0.5	94.0
Interest expense	-	-	-	(3.5)	(3.5)	-	-	-	(1.7)	(1.7)	-	-	-	(1.8)	(1.8)
UPBT	125.6	37.5	31.3	(5.8)	188.6	65.3	18.6	17.0	(4.5)	96.4	60.3	18.9	14.3	(1.3)	92.2

3.2 APPENDIX B: BRIDGE FOR FY16 STATUTORY ACCOUNTS AND OFR

Bridge for FY16 Statutory Accounts and OFR

	FY16 Statutory Accounts \$'000	OFR UPAT adjustments \$'000	FY16 OFR \$'000	EMCF \$'000	Gain on sale of businesses \$'000	Net recoveries \$'000	Total adjustments \$'000
Revenue	507,729	(13,529)	494,200	(6,496)	(153)	(6,880)	(13,529)
Staff related expenses excluding equity remuneration expense	(174,427)	-	(174,427)				
Occupancy expenses	(17,152)	-	(17,152)				
Administrative and general expenses	(95,706)	1,653	(94,053)			1,653	1,653
Distributions and expenses relating to structured products	(6,496)	6,496	-	6,496			6,496
Equity remuneration expense	(10,703)	-	(10,703)				
Depreciation and amortisation expense	(16,933)	-	(16,933)				
Impairment of assets	(191)	-	(191)				-
Financing costs	(2,809)	-	(2,809)				
Net profit before tax	183,312	(5,380)	177,932	-	(153)	(5,227)	(5,380)
Income tax expense	(51,307)	1,568	(49,739)			1,568	1,568
Net profit after tax	132,005	(3,812)	128,193	-	(153)	(3,659)	(3,812)
Net profit after tax consolidated entity	132,005	(3,812)	128,193	-	(153)	(3,659)	(3,812)
Net profit after tax attributable to equity holders of Perpetual Limited	132,005	(3,812)	128,193	-	(153)	(3,659)	(3,812)
Net recoveries			3,659				
Gain on sale of businesses			153				
Net profit after tax attributable to equity holders			132,005				

3.3 APPENDIX C: RECLASSIFICATION FROM SIGNIFICANT ITEMS TO UPAT

As previously mentioned, during the year a change in the classification of realised gains or losses resulting from the disposal of Perpetual's seed fund investments has been made. These activities form a part of the group's operating model and the disposal of investments, either those held directly or within the underlying investments of the seed funds themselves, occurs on a regular basis. As such, it was determined that it was more appropriate to reflect these gains (or losses) as a part of UPAT rather than as significant items. The Table below illustrates the movements.

UPAT MOVEMENT FY16 FOR THE PERIOD	Post adjustment of seed funds disposal			Pre adjustment of seed funds disposal			Movement in UPAT		
	FY16	2H16	1H16	FY16	2H16	1H16	FY16	2H16	1H16
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Operating revenue	494.2	253.5	240.7	492.1	251.4	240.7	2.1	2.1	-
Total expenses	(316.3)	(163.5)	(152.8)	(316.2)	(163.5)	(152.7)	(0.1)	-	(0.1)
Underlying profit before tax (UPBT)	177.9	90.0	87.9	175.9	87.9	88.0	2.0	2.1	(0.1)
Underlying profit after tax (UPAT)	128.2	64.7	63.5	125.9	62.3	63.6	2.3	2.4	(0.1)
Significant items	3.8	2.9	0.9	6.1	5.3	0.8	(2.3)	(2.4)	0.1
Net profit after tax (NPAT)	132.0	67.6	64.4	132.0	67.6	64.4	-	-	-

UPAT MOVEMENT FY15 FOR THE PERIOD	Post adjustment of seed funds disposal			Pre adjustment of seed funds disposal			Movement in UPAT		
	FY15	2H15	1H15	FY15	2H15	1H15	FY15	2H15	1H15
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Operating revenue	501.5	252.6	248.9	497.1	252.6	244.5	4.4	-	4.4
Total expenses	(312.9)	(156.2)	(156.7)	(312.8)	(156.2)	(156.6)	(0.1)	-	(0.1)
Underlying profit before tax (UPBT)	188.6	96.4	92.2	184.3	96.4	87.9	4.3	-	4.3
Underlying profit after tax (UPAT)	133.7	68.3	65.4	130.5	68.4	62.1	3.2	(0.1)	3.3
Significant items	(11.2)	(4.4)	(6.8)	(8.0)	(4.5)	(3.5)	(3.2)	0.1	(3.3)
Net profit after tax (NPAT)	122.5	63.9	58.6	122.5	63.9	58.6	-	-	-

3.4 APPENDIX D: AVERAGE FUNDS UNDER MANAGEMENT

AVERAGE FUM BY ASSET CLASS

FOR THE PERIOD	FY16	FY15	FY16 v	2H16	1H16	2H15	1H15
	\$B	\$B	FY15	\$B	\$B	\$B	\$B
Australian equities	21.4	23.7	(10%)	21.5	21.3	24.4	22.9
Global equities	1.3	1.4	(7%)	1.3	1.4	1.5	1.3
Listed Investment Company	0.3	0.1	200%	0.3	0.3	0.2	-
Total equities	23.0	25.2	(9%)	23.1	23.0	26.1	24.2
Cash and fixed income	6.0	6.0	-	5.8	6.1	6.1	5.9
Other	1.0	1.1	(9%)	1.0	1.0	1.1	1.1
Total average FUM	30.0	32.3	(7%)	29.9	30.1	33.3	31.2

3.5 APPENDIX E: FULL TIME EQUIVALENT EMPLOYEES (FTE)

TOTAL FTE EMPLOYEES

AT END OF	2H16	1H16	2H15	1H15
Perpetual Investments	171	170	168	163
Perpetual Private	378	377	369	373
Perpetual Corporate Trust	158	162	163	156
Group Support Services	176	157	166	194
Total operations	883	866	866	886
Permanent	849	845	837	857
Contractors	34	21	29	29
Total operations	883	866	866	886

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

3.7 GLOSSARY

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

NPAT	Net profit after tax
OFR	Operating and Financial Review
PCT	Perpetual Corporate Trust
PDS	Product Disclosure Statement
PI	Perpetual Investments
PP	Perpetual Private
PPA	Purchase price allocation
PPI	Perpetual Protected Investments
RBA	Reserve Bank of Australia
RSE	The Trust Company (Superannuation) Limited which was sold on 1 July 2014
RMBS	Residential mortgage backed securities
ROE	Return on equity
S&P	Standard & Poor's
T15	Transformation 2015
TrustCo	The Trust Company Limited
UPAT	Underlying profit after tax
UPBT	Underlying profit before tax
VWAP	Volume weighted average price

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