

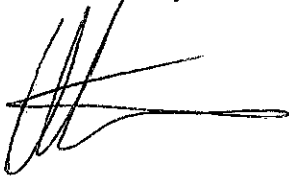
19 April 2013

The Manager
Company Announcements Office
ASX Limited

**THE TRUST COMPANY LIMITED – TAKEOVER BID BY EQUITY
TRUSTEES LIMITED – TARGET'S STATEMENT**

We attach, by way of service pursuant to item 14 of section 633(1) of the Corporations Act 2001 (Cwlth), a copy of the Target's Statement of the Trust Company Limited in response to the off-market takeover bid by Equity Trustees Limited.

Yours faithfully



Geoffrey Stirton
Group Company Secretary and Risk Officer

ENDS

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ASX RELEASE



**THE
TRUST
COMPANY**



THE
TRUST
COMPANY

REJECT

EQUITY TRUSTEES LIMITED'S OFFER

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION
If you are in doubt as to its contents, please contact your professional adviser.

TARGET'S STATEMENT

This Target's Statement has been issued by The Trust Company Limited (ABN 59 004 027 749) in response to the takeover bid made by Equity Trustees Limited (ABN 46 004 031 298).

REJECT the Offer

Your Directors recommend that you **REJECT** the Offer and **DO NOTHING** in relation to any documents received from Equity Trustees Limited.

Financial adviser

FLAGSTAFF

Legal adviser

**KING & WOOD
MALLESONS**

IMPORTANT NOTICES

This target's statement ("Target's Statement") dated 19 April 2013 is given by The Trust Company under Part 6.5 of the Corporations Act in response to the offer ("Offer") made pursuant to the replacement bidder's statement dated 27 March 2013 ("Bidder's Statement") which was served on The Trust Company by Equity Trustees on 27 March 2013.

Defined terms

A number of defined terms are used in this Target's Statement. These terms are explained in the glossary in section 8 of this Target's Statement. In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in the Target's Statement have the same meaning and interpretation as in the Corporations Act.

No account of personal circumstances

This Target's Statement does not take into account the individual investment objectives, financial or tax situation or particular needs of each Shareholder in The Trust Company. Your Directors encourage you to seek independent financial and taxation advice before making a decision whether or not to accept the Offer for your Shares in The Trust Company.

Disclaimer regarding forward looking statements

This Target's Statement contains forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industry in which The Trust Company operates as well as general economic conditions and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are both normal and to be expected. None of The Trust

Company, The Trust Company Group, any of its officers or employees, or any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statements.

The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

ASIC and ASX disclaimer

A copy of this Target's Statement has been lodged with ASIC and sent to the ASX. None of ASIC, ASX or any of their respective officers takes any responsibility for the content of this Target's Statement.

The Trust Company Shareholder Information Line

The Trust Company has established a Shareholder Information Line which Shareholders in The Trust Company should call if they have any queries in relation to the Offer. The telephone number for the Shareholder Information Line is:

- 1800 505 206 (Toll Free)
- +612 8256 3354 (Outside Australia)

which is available Monday to Friday between 9am and 5pm (Sydney time).

Further information relating to the Offer can be obtained from The Trust Company's website at www.thetrustcompany.com.au

KEY DATES

Date of Offer	5 April 2013
Date of this Target's Statement	19 April 2013
Close of Offer Period (unless withdrawn or extended)	7pm Melbourne time on 6 May 2013

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CHAIRMAN'S LETTER 19 April 2013

Dear Fellow Shareholder in The Trust Company,

REJECT EQUITY TRUSTEES' MATERIALLY UNDERVALUED AND OPPORTUNISTIC OFFER IGNORE ANY DOCUMENTS SENT TO YOU BY EQUITY TRUSTEES

You should have recently received a Bidder's Statement from Equity Trustees Limited ("Equity Trustees") outlining its takeover offer for your shares in The Trust Company (the "Offer"). Under the Offer, 33 Equity Trustees Shares are offered for every 100 Shares in The Trust Company ("Offer Consideration").

Your Board has consistently acknowledged the strategic merits of consolidation in the trustee industry. Your Board recognises that combining The Trust Company and Equity Trustees could create significant value for shareholders of both companies, and Directors would be supportive of a combination of the two companies, provided it was done on appropriate terms.

However, your Directors believe the Offer would not give you your fair share of the combined companies – the Offer ratio does not appropriately reflect the value contributed by The Trust Company to the merged entity and favours Equity Trustees Shareholders to the detriment of Shareholders in The Trust Company. This view is shared by the Independent Expert, Lonergan Edwards.

As such, your Board unanimously recommend that shareholders REJECT the Offer and take no action. This Target's Statement is your Directors' formal response to the Offer by Equity Trustees and sets out the reasons for your Directors' unanimous recommendation.

There are other potential opportunities for consolidation in the trustee industry. Your Board will consider all alternative initiatives or proposals that may become available which would maximise value for our shareholders. We have been approached by a number of parties, in addition to Equity Trustees, expressing interest in The Trust Company. However, any such proposals are not currently sufficiently advanced or certain to warrant disclosure, and there is no assurance that any binding proposal will eventuate.

The Offer is currently scheduled to close at 7pm Melbourne time on 6 May 2013 (unless withdrawn or extended). To **REJECT THE OFFER, DO NOT RESPOND** and **DO NOTHING** in relation to all documents sent to you by Equity Trustees.

Reasons for the Directors' Recommendation

Your Directors believe the key reasons you should REJECT the Equity Trustees Offer are:

- The Offer ratio of 33 Equity Trustees Shares for every 100 Shares in The Trust Company is too low and does not give you a fair share in the Combined Group
- The value of the Offer Consideration is too low
- The Offer has been opportunistically timed to exploit the recent weakness in The Trust Company's share price and does not reflect the longer-term trading price relativities of the two companies
- The value of the Offer Consideration is uncertain and there are a number of risks associated with owning Equity Trustees Shares
- The Independent Expert has concluded that the Offer should be improved for the benefit of Shareholders in The Trust Company to better reflect the relative value contribution of both companies to any combination of the businesses

You should read this Target's Statement in full, including the detailed reasons for reaching our conclusions in section 1 of this document.

Each of your Directors individually concluded to recommend that you REJECT this inadequate and opportunistic offer. Each of your Directors intends to REJECT Equity Trustees' Offer in respect of any Shares in The Trust Company they own.



The outlook for The Trust Company is favourable, with positive momentum having been recently demonstrated in the 2H13 operating results. FY14 performance will benefit from a higher FUM balance at the beginning of the year, any further improvement in equity markets during the year and the full year effect of new business growth in FY13. Further upside to FY14 is expected to also be realised through the implementation of initiatives identified from the profitability review. Profit growth will be skewed towards the second half due to the seasonality of the business, timing of initiatives and defence costs relating to the Offer.

Independent Expert's Conclusion

This Target's Statement includes an Independent Expert's Report from Lonergan Edwards. The Independent Expert has concluded the following:

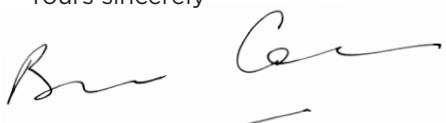
- that the Offer is not fair but is reasonable (based on ASIC guidelines);
- as the Offer comprises scrip consideration only, a key consideration for Shareholders in The Trust Company should be whether the Offer ratio appropriately reflects the value contributed by both companies to the merged entity;
- the Offer ratio favours Equity Trustees Shareholders to the detriment of Shareholders in The Trust Company; and
- the Offer ratio should be improved for the benefit of Shareholders in The Trust Company to better reflect the relative value contribution of both companies to any combination of the businesses.

Your Directors recommend that shareholders consider the matters raised by the Independent Expert in considering the Offer.

Ultimately, your decision with respect to the Offer will depend on your financial investment profile, circumstances and risk profile. Accordingly, your Board encourages you to read this Target's Statement having regard to your own circumstances. You should consider the Board's reasons for their recommendation, and the risk factors which are set out in this Target's Statement. If you are in any doubt as to the action that you should take in relation to the Offer, you should consult a professional adviser.

Your Board will continue to keep you updated on developments as they occur. In the meantime, if you have any queries in relation to the Equity Trustees Offer, please contact The Trust Company's Shareholder Information Line on **1800 505 206** (Toll Free) or **+612 8256 3354** (Outside Australia).

Yours sincerely



Bruce Corlett AM
Chairman
The Trust Company

HOW TO REJECT THE OFFER

HOW TO REJECT THE OFFER

1. To REJECT Equity Trustees' Offer, DO NOTHING. Ignore all documents sent to you by Equity Trustees.
2. You should read this Target's Statement which contains your Board's recommendation to REJECT Equity Trustees' Offer and the reasons for this recommendation.
3. If you have any queries in relation to the Equity Trustees Offer, please contact The Trust Company Shareholder Information Line on **1800 505 206** (Toll Free) or **+612 8256 3354** (Outside Australia) which is available Monday to Friday between 9am and 5pm (Sydney time).

To REJECT Equity Trustees' Offer, DO NOTHING and ignore all documents sent to you by Equity Trustees.

KEY REASONS TO REJECT THE OFFER

1. The offer ratio of 33 Equity Trustees Shares for every 100 Shares in The Trust Company is too low and does not give you a fair share in the Combined Group.
2. The value of the Offer Consideration is too low.
3. The Offer has been opportunistically timed to exploit the recent weakness in The Trust Company's share price and does not reflect the longer-term trading price relativities of the two companies.
4. The value of the Offer Consideration is uncertain and there are a number of risks associated with owning Equity Trustees Shares.
5. The Board has commenced discussions with parties interested in presenting alternative proposals regarding a possible change of control, and if you accept the Offer you may not be in a position to participate in any superior alternative proposal that may eventuate.
6. The Offer is highly conditional and some conditions will not be able to be satisfied.
7. The Independent Expert has concluded that the Offer should be improved for the benefit of Shareholders in The Trust Company to better reflect the relative value contribution of both companies to any combination of the businesses.
8. If you accept Equity Trustees' Offer, you may incur a significant tax liability.

DIRECTORS' RECOMMENDATION AND INTENTION TO REJECT THE OFFER

Directors of The Trust Company

The Directors of The Trust Company as at the date of this Target's Statement are:

- Bruce Corlett AM, Chairman and Non-Executive Director
- John Macarthur-Stanham, Vice Chairman and Non-Executive Director
- Roger Davis, Non-Executive Director
- James King, Non-Executive Director
- Catherine McDowell, Non-Executive Director
- Warren McLeland, Non-Executive Director
- Josephine Sukkar, Non-Executive Director

Recommendation and intentions

In assessing the Offer, your Directors have had regard to a number of considerations, including the information set out in the Bidder's Statement.

Based on this assessment and for the reasons set out in this Target's Statement (in particular those set out in section 1), the Directors believe that the Offer is inadequate and does not reflect fair value for your Shares in The Trust Company.

Each of your Directors recommends that you REJECT the Offer

Those Directors who hold Shares in The Trust Company intend to **REJECT** the Offer in respect of their personal shareholdings in The Trust Company. Those Directors (and their associates) collectively hold 3.3% of the total number of issued Shares in The Trust Company as at the last Business Day before this Target's Statement was printed (refer to section 7.1 for more information on the respective shareholdings of the Directors).

To **REJECT** the Offer you should **DO NOTHING** and take **NO ACTION** in relation to all documents sent to you by Equity Trustees.

1. REASONS TO REJECT THE OFFER

1 THE OFFER RATIO OF 33 EQUITY TRUSTEES SHARES FOR EVERY 100 SHARES IN THE TRUST COMPANY IS TOO LOW AND DOES NOT GIVE YOU A FAIR SHARE IN THE COMBINED GROUP

Under the terms of the Offer, Shareholders in The Trust Company would, together, hold approximately 59% of the Combined Group.

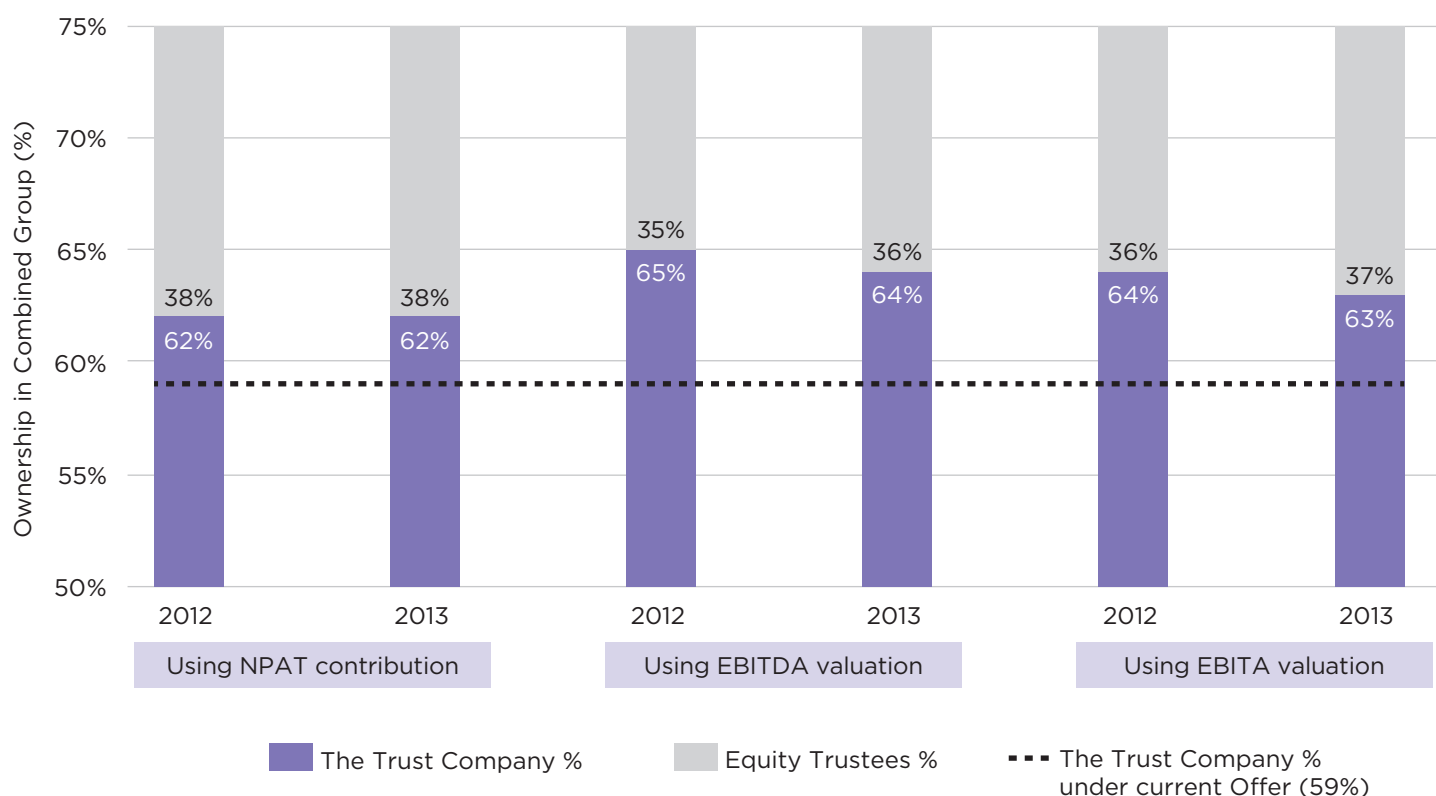
For the reasons set out below, the Directors consider that the offer ratio is too low and does not represent a fair share in the Combined Group for Shareholders in The Trust Company.

(a) The Equity Trustees Offer does not reflect the relative earnings contribution of the two companies

- Under the Offer, Shareholders in The Trust Company would obtain 59% of the Combined Group. This is well below the ownership interest implied by the contribution that The Trust Company would bring to the Combined Group, based on the most recent full year earnings of the two companies¹



Implied ownership based on relative earnings contribution²



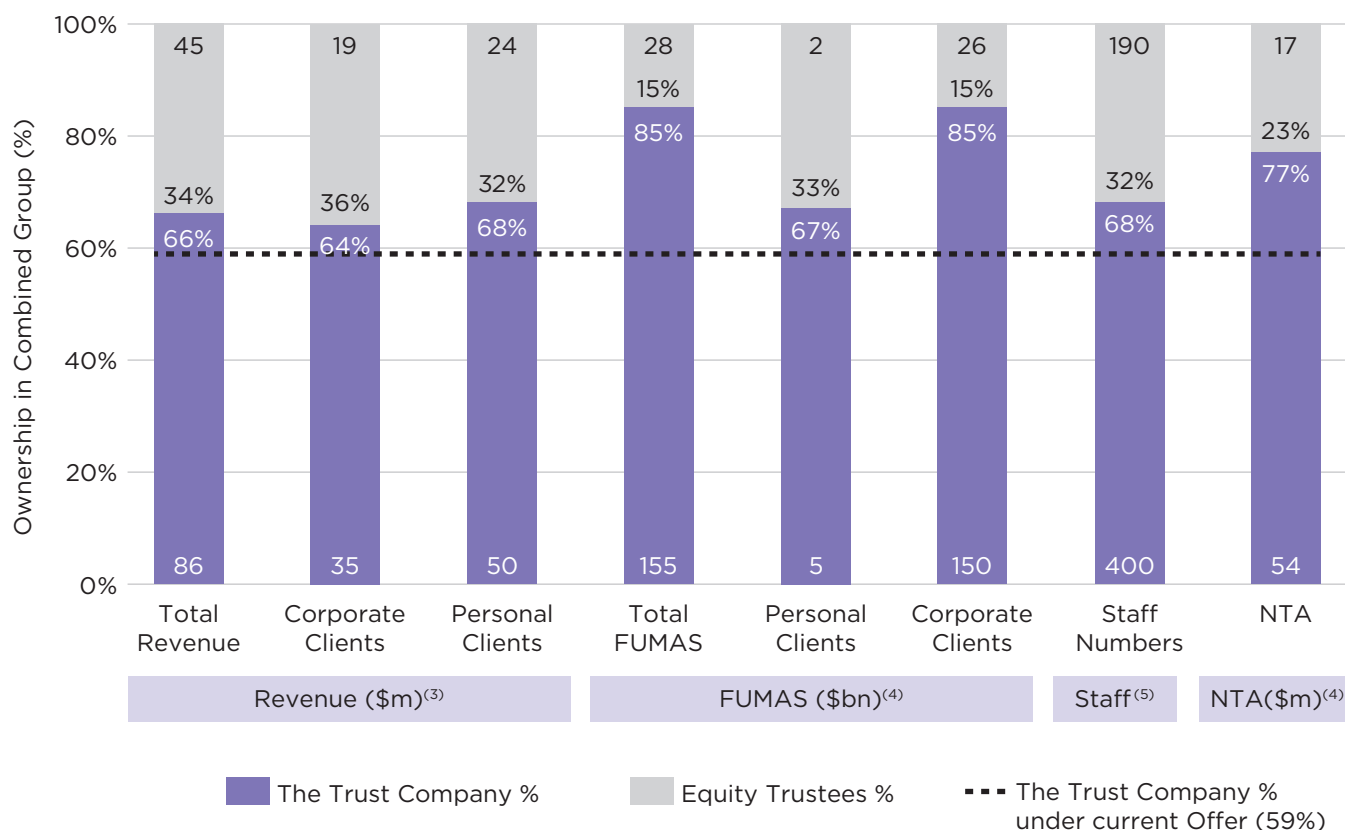
(b) Based on the key operating metrics such as Funds Under Management, Administration and Supervision and revenue, Shareholders in The Trust Company are not receiving a fair share of the Combined Group

- Of the Combined Group, The Trust Company would contribute substantially more than 59% of the FUMAS, revenue, staff and net tangible assets. In other words, The Trust Company has potentially greater scale and growth opportunities, compared to Equity Trustees, both at the business division and group level
- This further supports your Directors' view that the Offer does not adequately compensate you for your Shares in The Trust Company and that you are not being offered a fair share of the Combined Group

¹ For the purposes of this comparison, the 12 month periods ended 31 December 2011 and 31 December 2012 have been used for Equity Trustees and the 12 month periods ended 29 February 2012 and 28 February 2013 for The Trust Company. That is, no adjustments have been made to allow for the differences in financial year end or, in relation to the most recent 12 month period, to allow for subsequent events. This is consistent with the approach taken by Equity Trustees in its Bidder's Statement, updated for the most recently disclosed financials by both companies

² NPAT contribution based on normalised financials, adjusted for The Trust Company's shareholding in Equity Trustees (13.3% of current shares outstanding). EBITDA and EBITA contribution based on relative valuations for The Trust Company and Equity Trustees assuming an EBITDA multiple of 10.0x and EBITA multiple of 11.0x for both companies with allowance made for net cash positions and investments

Relative operational contribution



(c) The Equity Trustees Offer is based on earlier guidance for FY13 earnings. It does not adequately take into account the strength of The Trust Company's actual FY13 results

- At the time the Offer was announced on 21 February 2013, the guidance that had been given to the market by The Trust Company and market consensus for EBITDA for the half year ended 28 February 2013 was \$9.0m
- The Offer makes specific reference to this \$9.0m, with one of the Defeating Conditions to the Offer being an Earnings Confirmation that the EBITDA for the half year ended 28 February 2013 will be no less than \$9.0m
- Following the announcement of the Offer, The Trust Company has released its final results and reported 2H13 EBITDA of \$10.1m, which exceeded earlier guidance by 12%
- Accordingly, your Directors consider that Equity Trustees' Offer does not appropriately reflect The Trust Company's above previous guidance result in respect of its 2H13 financial performance

(d) Under the Offer, Equity Trustees Shareholders will realise significantly greater earnings per share accretion than Shareholders in The Trust Company

- Given the significant synergies that may be realised, the transaction has the potential to be earnings accretive to both Shareholders in The Trust Company and Equity Trustees Shareholders
- However, under the Offer, Equity Trustees Shareholders would see a 37% uplift in pro-forma 2013³ EPS whereas Shareholders in The Trust Company would only realise a 21% uplift in pro-forma 2013³ EPS, assuming annual pre-tax synergies of \$8.0m (which is the estimated quantum of cost savings for the Combined Group identified by Equity Trustees' management, as disclosed on page 24 of the Bidder's Statement)
- Equity Trustees could improve the Offer and still realise EPS accretion equal to that which is realised by The Trust Company

³ Based on the 12 month period ended 31 December 2012 for Equity Trustees and the 12 month period ended 28 February 2013 for The Trust Company

⁴ FUMAS and NTA as at 31 December 2012 for Equity Trustees and as at 28 February 2013 for The Trust Company. FUMAS for The Trust Company excludes any duplicated FUMAS that earns more than one fee

⁵ Excludes contractors and temporary employees

Pro-forma EPS accretion⁶

	The Trust Company (year ended 28 February 2013)	Equity Trustees (year ended 31 December 2012)	Acquisition adjustments	Synergy adjustments	Combined Group
Reported NPAT (\$m)	11.7	8.9			
Normalisations/ significant items (\$m)	0.3	(0.2)			
Normalised NPAT (\$m)	12.0	8.7	(1.0)	5.6	25.3
Shares outstanding (m)	33.5	9.0	(1.2)	-	19.1
EPS pre transaction (\$)	0.36	0.97			na
Equivalent EPS under Combined Group (\$)	0.44	1.32			1.32
% increase in EPS	21.4%	36.7%			

**Approximately 70% higher
earnings uplift for Equity Trustees**

- These figures are different from the EPS accretion figures calculated by Equity Trustees on page 51 of its Bidder's Statement of 31.9% for The Trust Company and 25.3% for Equity Trustees. This is primarily because the analysis in Equity Trustees' Bidder's Statement is based on the 12 months to 31 August 2012 and does not capture The Trust Company's most recent 6 months of trading to 28 February 2013⁷
- At a group level, The Trust Company reported 2H13 EBITDA of \$10.1m, which exceeded earlier guidance of \$9.0m by 12%
- This also highlights Equity Trustees' opportunistic timing. It has sought to take advantage of The Trust Company's decline in earnings in the 6 months to 31 August 2012 and associated short-term weakness in the share price of Shares in The Trust Company without recognising the strong recovery in performance by The Trust Company in the second six months of FY13

(e) The Independent Expert has stated that the Offer ratio is too low and should be improved

The Independent Expert makes the following comments in relation to the Offer ratio:

- *"...as the Offer comprises scrip consideration only, in our view, a key consideration for Trust Company shareholders should be whether the Offer ratio (i.e. 0.33 shares in Equity Trustees for every share in Trust Company) appropriately reflects the value contributed by both companies to the merged entity."* (paragraph 9 of the Independent Expert's Report)
- *"This recognises that in scrip based offers arguably the relative value of each company is more relevant than each company's absolute value."* (paragraph 9 of the Independent Expert's Report)
- ***"...Trust Company shareholders should be aware that, in our view, the Offer ratio of 0.33 shares in Equity Trustees for every share in Trust Company favours Equity Trustees shareholders to the detriment of Trust Company shareholders."*** (paragraph 10 of the Independent Expert's Report)
- *"Accordingly, in our opinion, the Offer ratio should be improved for the benefit of Trust Company shareholders to better reflect the relative value contribution of both companies to any combination of the businesses."* (paragraph 10 of the Independent Expert's Report)

⁶ Based on the 12 month period ended 31 December 2012 for Equity Trustees and the 12 month period ended 28 February 2013 for The Trust Company

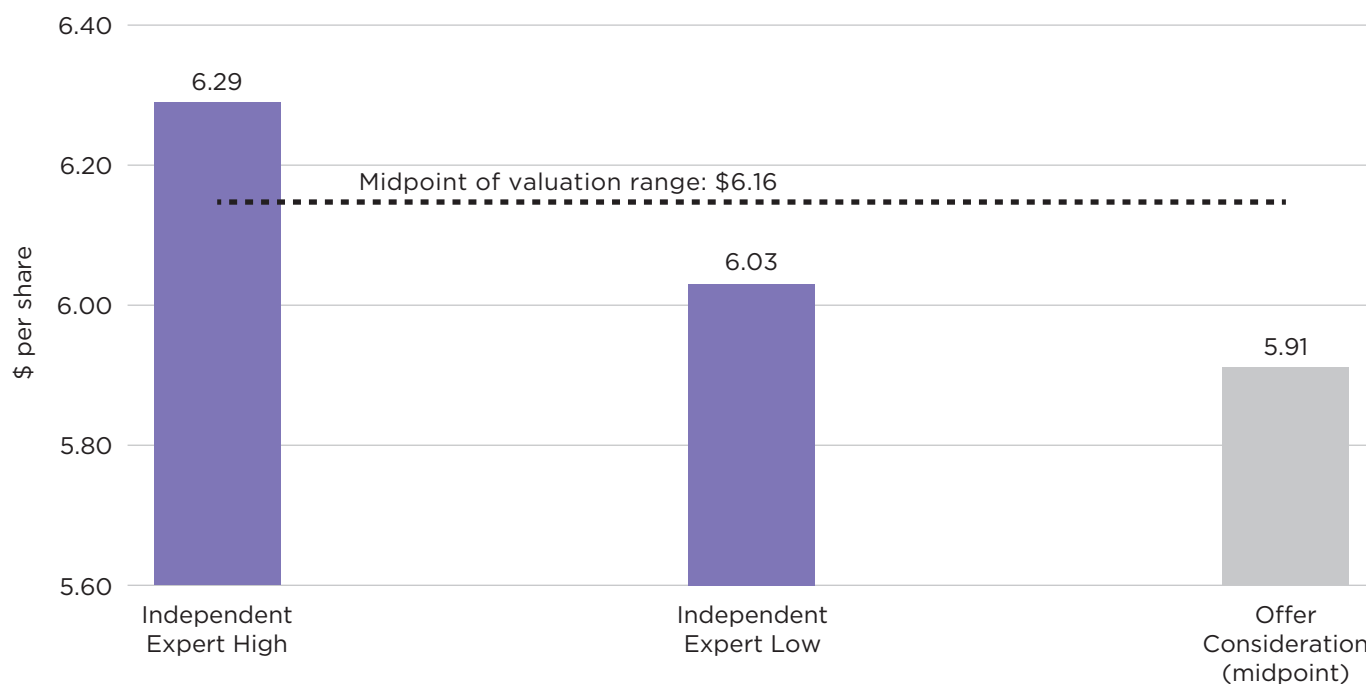
⁷ Other differences in Equity Trustees' methodology on page 51 of the Bidder's Statement are (a) rounding - the figures in the Bidder's Statement appear to be truncated (i.e. calculations are based on rounded numbers as presented in the Bidder's Statement); (b) performance rights - actual performance rights in The Trust Company outstanding of 865,656 versus assumption of 885,315 in the Bidder's Statement; and (c) underlying earnings - the analysis in the Bidder's Statement does not normalise the earnings for non-recurring items

2 THE VALUE OF THE OFFER CONSIDERATION IS TOO LOW

The Independent Expert has stated that the range of values for the Offer Consideration is consistently lower than its assessed value of 100% of the Shares in The Trust Company

- The Independent Expert has assessed the control value of your Shares in The Trust Company to be between \$6.03 and \$6.29 per Share in The Trust Company
- The Independent Expert has assessed the value of Equity Trustees' Offer Consideration to be between \$5.81 and \$6.01 per Share in The Trust Company
- The mid-point of the Independent Expert's assessed value of Equity Trustees' Offer Consideration is \$5.91 per Share in The Trust Company and its assessed mid-point value of The Trust Company on a 100% controlling interest basis is \$6.16 per Share in The Trust Company
- The Independent Expert comments that "When assessing the "fairness" of scrip takeovers under RG 111, in our opinion, it is appropriate to have regard to the overall range of values (particularly as the scrip consideration is subject to daily fluctuation)." (paragraph 20 of the Independent Expert's Report)

The Offer is below the Independent Expert's valuation range

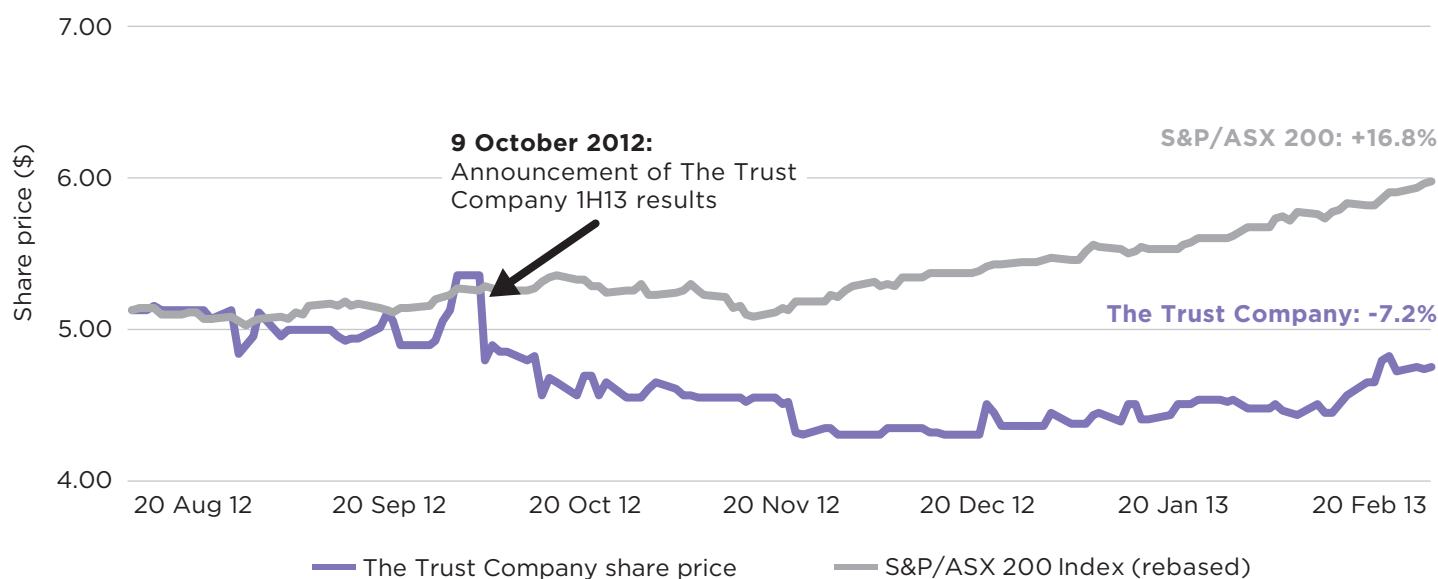


3 THE OFFER HAS BEEN OPPORTUNISTICALLY TIMED TO EXPLOIT THE RECENT WEAKNESS IN THE TRUST COMPANY'S SHARE PRICE AND DOES NOT REFLECT THE LONGER-TERM TRADING PRICE RELATIVITIES OF THE TWO COMPANIES

(a) The Equity Trustees Offer has been timed to take advantage of the recent weakness in The Trust Company's share price and was made before The Trust Company announced its FY13 results to the market, which exceeded earlier guidance

- On 9 October 2012, The Trust Company announced its operating results for the six months to 31 August 2012 and a reduction in the interim FY13 dividend, which had a negative impact on The Trust Company's share price
- The Offer was announced on 21 February 2013, approximately two months before The Trust Company announced its preliminary financial results for FY13 to the market, which exceeded earlier guidance and demonstrated the positive momentum in The Trust Company's business
- Accordingly, your Directors believe that Equity Trustees has timed its Offer to take advantage of short-term share price weakness in The Trust Company and does not reflect The Trust Company's strong FY13 financial performance and favourable outlook for FY14

The Trust Company share price performance (since 20 August 2012)

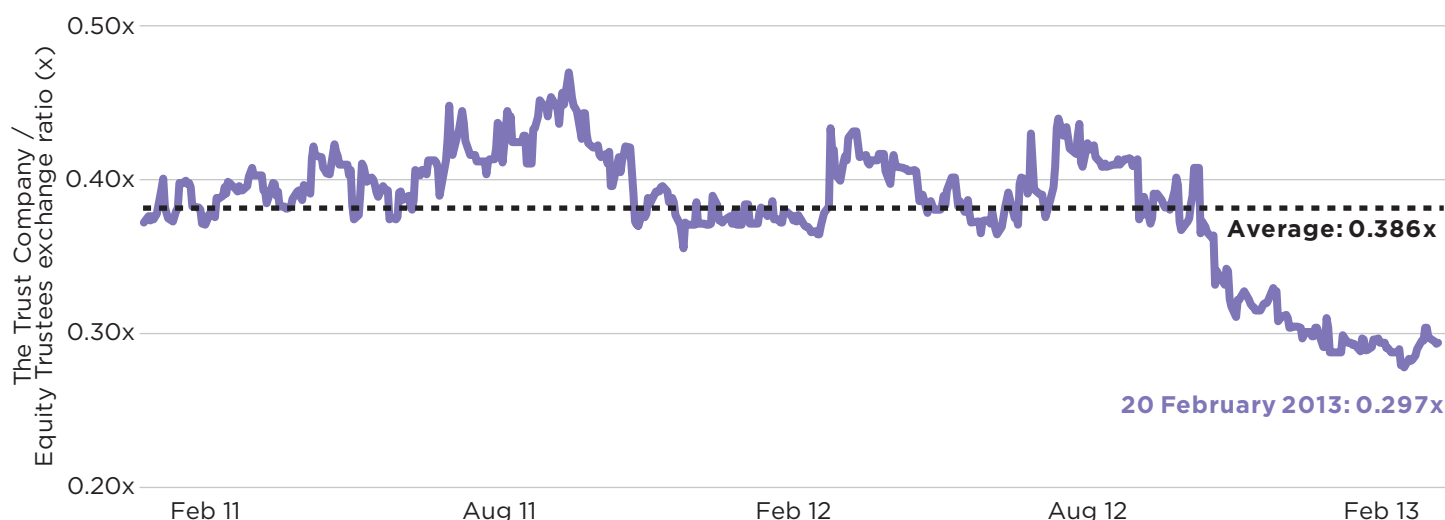


Source: IRESS. IRESS has not consented to the use of any trading data in this Target's Statement

(b) The Offer Consideration represents an exchange ratio which is well below the long-term trading price relativities of Equity Trustees Shares and Shares in The Trust Company

- Shares in both companies are relatively illiquid, making it more appropriate to consider long-term share price relativities than near-term pricing. For the 12 months ended 20 February 2013, average monthly turnover as a percentage of total shares outstanding was:
 - 0.7% for The Trust Company;
 - 0.5% for Equity Trustees; and
 - on average, approximately 9.0% for companies in the S&P/ASX 200.
- The long term share price relativities support a significantly higher exchange ratio than under the current Offer

The Trust Company / Equity Trustees exchange ratio (last 24 months)



Source: IRESS. IRESS has not consented to the use of any trading data in this Target's Statement

- This is also highlighted by the Independent Expert, which comments that:
 - "...prior to 17 October 2012 the listed market prices of each company's shares imply that the Offer ratio of 0.33 is too low ... We note that the average share price ratio over the period from 1 January 2010 to 16 October 2012 was 0.39." (paragraph 29 of the Independent Expert's Report)
 - "...we consider there are reasonable grounds for a view that the exchange ratio implied by the share market trading post the announcement of Trust Company's half year results on 9 October 2012 (to 20 February 2013) is likely to be less representative of the long-term underlying relative value of the two companies." (paragraph 31 of the Independent Expert's Report)
- The exchange ratio of 0.33 under the Offer represents a material discount to the implied exchange ratios based on the 12 month and 24 month VWAPs prior to the announcement of the Offer

	Exchange ratio	Comparison to Offer of 0.33
Based on 12 month VWAP	0.355x	-7.2%
Based on 24 month VWAP	0.380x	-13.1%

4 THE VALUE OF THE OFFER CONSIDERATION IS UNCERTAIN AND THERE ARE A NUMBER OF RISKS ASSOCIATED WITH OWNING EQUITY TRUSTEES SHARES

(a) There is no cash component to Equity Trustees' Offer

- Equity Trustees is offering you only Equity Trustees Shares for your Shares in The Trust Company
- The value of Equity Trustees Shares, and therefore the value of Equity Trustees' Offer to you depends on (amongst other matters) the future prospects of Equity Trustees' business and the extent to which it can realise synergies, through combining the businesses of Equity Trustees and The Trust Company

(b) Equity Trustees has not provided adequate guidance on its future earnings or prospects

- Equity Trustees has only provided limited information about the future prospects of its business and, in particular, has not provided any information about its expected forecast earnings in the Bidder's Statement
- Given that Equity Trustees' Offer Consideration for your Shares in The Trust Company is comprised entirely of Equity Trustees Shares, Shareholders in The Trust Company may end up owning a substantial portion of Equity Trustees. If the Offer is successful, your Board is concerned that Shareholders in The Trust Company have not been provided by Equity Trustees with sufficient information about Equity Trustees' expected earnings and prospects to make a fully informed decision about the Offer
- In addition, Equity Trustees have provided limited disclosure in relation to the potential impact that identifiable intangibles arising from the acquisition would have on the NPAT of Equity Trustees

(c) The price at which Equity Trustees Shares will trade will depend on the synergies realised

- Equity Trustees' Offer is conditional on achieving a relevant interest in at least 90% of The Trust Company
- In the event that Equity Trustees waives this condition and all other conditions are satisfied or waived, Equity Trustees could end up with less than 100% of The Trust Company
- If Equity Trustees is unable to acquire 100% ownership of The Trust Company, your Board expects that considerably lower synergies than the \$8.0m (which is the estimated quantum of cost savings for the Combined Group identified by Equity Trustees' management, as disclosed on page 24 of the Bidder's Statement) will be available and the strategic benefits of the Offer will not be fully realised
- In that case, the value of Equity Trustees' Offer Consideration may be materially less than if Equity Trustees acquired 100% of The Trust Company

(d) Equity Trustees' dividend policy has contributed to a much weaker net tangible asset position

- Equity Trustees states that it has, on average, paid out a higher proportion of its net profit after tax as dividends than The Trust Company since 2004⁸
- This is primarily because Equity Trustees has, for a number of years, paid out more than 100% of profits
- In your Board's opinion, we do not believe that this is a prudent approach to paying dividends and has resulted in Equity Trustees having a relatively weaker net tangible asset position to The Trust Company
 - Equity Trustees' NTA as at 31 December 2012 was \$16.6m
 - The Trust Company's NTA as at 28 February 2013 was \$54.2m
- This is particularly relevant in the context of potential changes to regulatory capital requirements (see sub-section (f) below)

(e) The degree of client concentration risk for Equity Trustees is uncertain

- The Trust Company Group has a diverse client base, with no single client accounting for more than 3% of the group's revenue and top 10 clients account for less than 12% of the group's revenue
- On page 10 of the Bidder's Statement, Equity Trustees has identified client concentration as a risk specific to Equity Trustees but does not quantify the level of concentration
- However, Equity Trustees does note that "*The loss of one or several of Equity Trustees' larger clients could have a disproportionately adverse impact on revenue. This could impact the profitability of Equity Trustees if the revenue associated with the lost larger clients is unable to be replaced through new client engagements.*"⁹
- Shareholders in The Trust Company should be aware of this concentration risk and the potential negative impact this may have on the value of Equity Trustees Shares which are being provided as consideration under the Offer

⁸ Refer to page 20 of the Bidder's Statement

⁹ Refer to page 10 of the Bidder's Statement

(f) It is uncertain as to whether Equity Trustees' capital position is sufficient to satisfy regulatory requirements

- The Trust Company understands that Equity Trustees is currently relying on its dual status as a responsible entity (regulated by ASIC) and RSE licensee (regulated by APRA), to avoid the need to comply with the regulatory capital requirements under ASIC Class Order 11/1140
- Regulatory changes have been flagged¹⁰ which will require entities that are both a responsible entity (regulated by ASIC) and an RSE licensee (regulated by APRA) to meet both APRA and ASIC's financial resource requirements, including ASIC Class Order 11/1140. The Trust Company already meets these requirements
- The Bidder's Statement does not provide adequate disclosure as to how Equity Trustees will deal with these proposed changes to the regulatory capital requirements, other than to say "*The Combined Group will need to comply with the capital requirements of the Class Order 11/1140 which may involve the need to raise additional liquid capital. This may impact the earnings of the Combined Group if it is unable to raise fee levels to compensate for earnings dilution as a result of holding a higher capital base.*"¹¹
- Further, in the current competitive landscape for responsible entity services, Equity Trustees may not be able to raise fee levels without losing clients. Given the uncertainty regarding the client concentration of Equity Trustees' business noted in section (e) above, this may have a significant adverse impact on the value of Equity Trustees Shares
- If Equity Trustees chooses to raise additional liquid capital to satisfy its regulatory requirements, Shareholders in The Trust Company may end up with less than 59% of the Combined Group

¹⁰ A draft of the Superannuation Legislation Amendment (Further Measures) Bill 2012 (the "Bill") was published on 18 October 2012. Under the Bill, RSE licensees that are also responsible entities for registered managed investment schemes must comply with Corporations Act requirements to have available adequate resources and have adequate systems for managing their risks, except for those risks that relate solely to the operation of an RSE by these entities. The draft Bill proposes a start date of 1 July 2014 to remove the exemption. That is, the Bill proposes that from 1 July 2014, entities which are both an RSE licensee (regulated by APRA) and a responsible entity (regulated by ASIC) would need to meet both APRA and ASIC's financial resource requirements

¹¹ Refer to page 9 of the Bidder's Statement

5 THE BOARD HAS COMMENCED DISCUSSIONS WITH PARTIES INTERESTED IN PRESENTING ALTERNATIVE PROPOSALS REGARDING A POSSIBLE CHANGE OF CONTROL, AND IF YOU ACCEPT THE OFFER YOU MAY NOT BE IN A POSITION TO PARTICIPATE IN ANY SUPERIOR ALTERNATIVE PROPOSAL THAT MAY EVENTUATE

- Your Board is seeking to test whether an alternative offer that recognises the full value of The Trust Company can be put to shareholders
- A number of parties are currently in discussions with the Board, which may result in an alternative offer being made for The Trust Company either during the course of the Equity Trustees Offer or at some time in the future
- Accepting Equity Trustees' Offer means you may not be in a position to participate in any possible alternative proposals. While your Board is seeking to progress these discussions, there is no assurance that a binding proposal will eventuate
- Your Board will continue to consider alternative proposals in order to maximise value for Shareholders in The Trust Company

6 THE OFFER IS HIGHLY CONDITIONAL AND SOME CONDITIONS WILL NOT BE ABLE TO BE SATISFIED

The Offer is highly conditional and some conditions will not be able to be satisfied. There is also a risk that other conditions relating to regulatory approvals may not be able to be satisfied before the currently scheduled closing date of the Offer.

Even if you accept the Offer, it will be of no effect unless all conditions to the Offer are either satisfied or waived by Equity Trustees. However, if you accept the Offer and the Offer does not become unconditional, you will not be able to accept any other offer for your Shares in The Trust Company that may be made, or sell your Shares in The Trust Company for the duration of the Offer Period, including any extension to the Offer Period (subject to limited withdrawal rights).

- Equity Trustees' Offer is subject to 20 Defeating Conditions (including several sub Defeating Conditions). This introduces uncertainty for Shareholders in The Trust Company as to whether the Offer will become unconditional
- As at 12 April 2013, being the last Business Day before this Target's Statement was printed, some of these Defeating Conditions had already become incapable of being satisfied. Accordingly, the Offer will not proceed and any acceptance by you will be of no effect, unless Equity Trustees waives these Defeating Conditions to the extent that they have become incapable of satisfaction
- The Trust Company considers that regulatory approvals in New Zealand and Singapore may be required to be obtained in order for the Defeating Conditions to be satisfied. These regulatory approvals were not expressly contemplated by the Bidder's Statement and it contained no information in respect of them. Based on the standard time taken to obtain such approvals, they may not be able to be obtained before the currently scheduled end of the Offer Period. Accordingly, Equity Trustees may be required to extend the Offer Period in order to allow time for the Defeating Conditions to be satisfied. See section 6.2(a)(iii) for further detail on these potential regulatory approvals
- If you accept the Offer and all of the Defeating Conditions of the Offer are not satisfied or waived, you will be unable to sell your Shares in The Trust Company for the duration of the Offer Period and any extension of the Offer Period (including if a superior offer emerges for The Trust Company), unless a withdrawal right exists under the terms of the Offer. See section 2.13 of this Target's Statement for further information on your withdrawal rights. Given the possibility of an extended Offer Period, Shareholders in The Trust Company should, prior to accepting the Offer, carefully consider the impact of a protracted Offer Period during which they may be unable to deal with their Shares in The Trust Company
- If you accept the Offer and the Offer Period is extended, resulting in you not becoming a registered holder of Equity Trustees Shares before the record date for Equity Trustees' final dividend for the year ending 30 June 2013, you will not receive that dividend
- The Trust Company considers that a number of the Defeating Conditions impose unreasonable restrictions on The Trust Company's ability to run its business in the ordinary course for the benefit of Shareholders in The Trust Company. Accordingly, the ordinary operation of the business by The Trust Company has resulted in some of the unreasonable and overly restrictive Defeating Conditions becoming incapable of satisfaction
- As at 12 April 2013, being the last Business Day before this Target's Statement was printed, these Defeating Conditions include:
 - **(No Appointment of Interim CEO)** On 2 April 2013, Shailendra Singh was appointed as interim CEO to replace John Atkin which means that the Defeating Condition in section 9.8(b) of the Bidder's Statement cannot be satisfied
 - **(No FY13 Final Dividend of greater than 17 cents)** The FY13 Final Dividend declared by the Board of The Trust Company was 18 cents which means that the Defeating Condition in section 9.8(l) of the Bidder's Statement cannot be satisfied
 - **(No amendments to employment agreements or issues of Performance Rights)** As part of the interim CEO arrangements, the Board increased Shailendra Singh's cash remuneration and the number of Performance Rights granted to him so that he receives a full year's entitlement of Performance Rights in his position of Chief Financial Officer. This means the Defeating Condition in section 9.8(o) of the Bidder's Statement cannot be satisfied
- In addition to the Defeating Conditions which have already become incapable of satisfaction or those which may require an extension to the Offer Period if they are to be satisfied, there are also a number of Defeating Conditions which may have become incapable of being satisfied or may become incapable of being satisfied during the Offer Period or which are wholly or partly out of The Trust Company's control (see section 6.2 of this Target's Statement for further detail on the Defeating Conditions of the Offer)

7 THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE OFFER SHOULD BE IMPROVED FOR THE BENEFIT OF SHAREHOLDERS OF THE TRUST COMPANY TO BETTER REFLECT THE RELATIVE VALUE CONTRIBUTION OF BOTH COMPANIES TO ANY COMBINATION OF THE BUSINESSES

- Your Board appointed an Independent Expert, Lonergan Edwards & Associates Limited, to prepare an independent assessment of the Offer
- The Independent Expert has concluded that the Offer is not fair but is reasonable (based on ASIC guidelines)
 - The Independent Expert has assessed the control value of your Shares in The Trust Company to be between \$6.03 and \$6.29 per Share in The Trust Company
 - The Independent Expert has assessed the value of Equity Trustees' Offer Consideration to be between \$5.81 and \$6.01 per Share in The Trust Company
 - The mid-point of the Independent Expert's assessed value of Equity Trustees' Offer Consideration is \$5.91 per Share in The Trust Company and its assessed mid-point value of The Trust Company on a 100% controlling interest basis is \$6.16 per Share in The Trust Company
- The Independent Expert's Report contains a number of important comments, including:
 - *"...as the Offer comprises scrip consideration only, in our view, a key consideration for Trust Company shareholders should be whether the Offer ratio (i.e. 0.33 shares in Equity Trustees for every share in Trust Company) appropriately reflects the value contributed by both companies to the merged entity."* (paragraph 9 of the Independent Expert's Report)
 - *"This recognises that in scrip based offers arguably the relative value of each company is more relevant than each company's absolute value"* (paragraph 9 of the Independent Expert's Report)
 - ***"...Trust Company shareholders should be aware that, in our view, the Offer ratio of 0.33 shares in Equity Trustees for every share in Trust Company favours Equity Trustees shareholders to the detriment of Trust Company shareholders."*** (paragraph 10 of the Independent Expert's Report)
 - *"Accordingly, in our opinion, the Offer ratio should be improved for the benefit of Trust Company shareholders to better reflect the relative value contribution of both companies to any combination of the businesses."* (paragraph 10 of the Independent Expert's Report)
- The Independent Expert's conclusion supports the Board's unanimous recommendation to reject Equity Trustees' Offer
- A full copy of the Independent Expert's Report is set out in Annexure A. You should read this report carefully before making a decision as to whether or not to accept this Offer

8 IF YOU ACCEPT EQUITY TRUSTEES' OFFER, YOU MAY INCUR A SIGNIFICANT TAX LIABILITY

- Unless Equity Trustees becomes the owner of at least 80% of the Shares in The Trust Company, Shareholders in The Trust Company will not be entitled to “scrip-for-scrip” CGT rollover relief
- Equity Trustees' Offer is conditional on achieving a relevant interest in at least 90% of The Trust Company. This condition may however be waived by Equity Trustees at its discretion
- In the event that Equity Trustees waives this condition and all other conditions are satisfied or waived, Equity Trustees could end up with less than 80% of The Trust Company
- Unless CGT rollover relief is available, Shareholders in The Trust Company who realise a capital gain as a result of accepting Equity Trustees' Offer may have a tax liability. There is no cash component in Equity Trustees' Offer to pay any such tax
- Shareholders in The Trust Company may not know at the time that they accept the Offer whether or not Equity Trustees will waive the relevant condition and, as such, whether or not scrip-for-scrip roll-over relief may be available

2. FREQUENTLY ASKED QUESTIONS

This section answers some commonly asked questions about Equity Trustees' Offer. It is not intended to address all relevant issues for Shareholders in The Trust Company. This section should be read together with the rest of this Target's Statement.

<p>2.1 What is the Offer for my shares?</p>	<p>Equity Trustees is offering Shareholders in The Trust Company 33 Equity Trustees Shares for every 100 Shares in The Trust Company. The Offer is for scrip only. There is no cash component.</p>
<p>2.2 What should I do?</p>	<p>To follow your Directors' recommendation to REJECT Equity Trustees' Offer, you should ignore all documents sent to you by Equity Trustees. If you are in any doubt as to what you should do, call The Trust Company Shareholder Information Line on the numbers shown in section 2.26 below, or consult your investment, financial, taxation or other professional adviser.</p>
<p>2.3 What choices do I have as a Shareholder in The Trust Company?</p>	<p>Your Directors unanimously recommend you REJECT Equity Trustees' Offer. However as a Shareholder in The Trust Company you have the choice to:</p> <ul style="list-style-type: none"> • REJECT the Offer, in which case you do not need to take any action; • sell your Shares in The Trust Company on the ASX, which may be at a higher or lower price than the implied value of your Shares in The Trust Company under the Offer; or • accept the Offer. <p>There are implications in relation to each of the above choices. A summary of these implications is set out in section 3 of this Target's Statement.</p>
<p>2.4 What do The Trust Company Directors recommend?</p>	<p>Your Directors unanimously recommend that you REJECT Equity Trustees' Offer. The key reasons the Directors unanimously recommend you REJECT Equity Trustees' Offer are:</p> <ul style="list-style-type: none"> • The Offer ratio of 33 Equity Trustees Shares for every 100 Shares in The Trust Company is too low and does not give you a fair share in the Combined Group • The value of the Offer Consideration is too low • The Offer has been opportunistically timed to exploit the recent weakness in The Trust Company's share price and does not reflect the longer-term trading price relativities of the two companies • The value of the Offer Consideration is uncertain and there are a number of risks associated with owning Equity Trustees Shares • The Board has commenced discussions with parties interested in presenting alternative proposals regarding a possible change of control, and if you accept the Offer you may not be in a position to participate in any superior alternative proposal that may eventuate • The Offer is highly conditional and some conditions will not be able to be satisfied • The Independent Expert has concluded that the Offer should be improved for the benefit of Shareholders in The Trust Company to better reflect the relative value contribution of both companies to any combination of the businesses • If you accept Equity Trustees' Offer, you may incur a significant tax liability <p>Further details of the reasons for the Directors' unanimous recommendation that you REJECT Equity Trustees' Offer are set out in section 1 of this Target's Statement.</p>
<p>2.5 What are your Directors doing in respect of their own Shares in The Trust Company?</p>	<p>Each director of The Trust Company who holds Shares in The Trust Company intends to REJECT the Offer in relation to those Shares in The Trust Company.</p> <p>The Directors have a relevant interest in approximately 3.3% of the total number of issued Shares in The Trust Company in aggregate as of 12 April 2013, the last Business Day before this Target's Statement was printed.</p>
<p>2.6 What is The Trust Company doing in respect of Shares in The Trust Company in which The Trust Company Group has an interest?</p>	<p>The Trust Company Group has interests in a number of Shares in The Trust Company, equal to a relevant interest in approximately 4.4% of the total number of issued Shares in The Trust Company, as responsible entity or trustee for managed investment schemes and common funds as well as in respect of individuals and estates for which it acts as trustee or estate manager. Further information about these holdings is included in section 7.8 of this Target's Statement.</p>

<p>2.6 What is The Trust Company doing in respect of Shares in The Trust Company in which The Trust Company Group has an interest? (cont'd)</p>	<p>Your Directors expect that any decision as to whether to accept the Offer in respect of Shares in The Trust Company in which The Trust Company Group has an interest in these capacities will be made by The Trust Company Group personnel who make such decisions in the ordinary course of management of these shareholdings, having regard to the applicable legal obligations governing these arrangements, any duties upon The Trust Company Group at law arising from these legal arrangements and internal The Trust Company Group policy, and will be free of any influence from the Board of The Trust Company.</p>
<p>2.7 What does the Independent Expert say?</p>	<p>The Independent Expert, Lonergan Edwards, has concluded the following:</p> <ul style="list-style-type: none"> • that the Offer is not fair but is reasonable (based on ASIC guidelines); • as the Offer comprises scrip consideration only, a key consideration for Shareholders in The Trust Company should be whether the Offer ratio appropriately reflects the value contributed by both companies to the merged entity; • the Offer ratio favours Equity Trustees Shareholders to the detriment of Shareholders in The Trust Company; and • the Offer ratio should be improved for the benefit of Shareholders in The Trust Company to better reflect the relative value contribution of both companies to any combination of the businesses. <p>The Independent Expert's Report accompanies this Target's Statement as Annexure A and a summary of the key findings of the Independent Expert's Report is included in section 1.</p>
<p>2.8 How do I REJECT the Offer?</p>	<p>To REJECT the Offer, you should DO NOTHING. You should take NO ACTION in relation to all correspondence from Equity Trustees in relation to the Offer for your Shares in The Trust Company.</p>
<p>2.9 When does the Offer close?</p>	<p>The Offer is presently scheduled to close at 7pm Melbourne time on 6 May 2013.</p> <p>Equity Trustees may choose to withdraw or extend the Offer Period in accordance with the Corporations Act. In addition, the Offer Period may be extended automatically in certain circumstances. Refer to section 9.3 of the Bidder's Statement for details of circumstances in which the Offer Period can be extended.</p>
<p>2.10 What happens if Equity Trustees raises its Offer Consideration?</p>	<p>If Equity Trustees increases the Offer Consideration, the Directors will carefully consider the revised offer and advise you accordingly.</p> <p>If you accept the Offer and the Offer Consideration is subsequently increased, you will be entitled to receive the increased consideration.</p> <p>If Equity Trustees improves the Offer Consideration within the last seven days of the Offer Period, then the Offer Period will be automatically extended so that the Offer Period ends 14 days after the announcement of the improved Offer Consideration.</p>
<p>2.11 Is the Offer conditional?</p>	<p>Yes. The Equity Trustees Offer is highly conditional. The Defeating Conditions to the Offer are set out in full in section 9.8 of the Bidder's Statement.</p> <p>The Defeating Conditions are discussed in more detail in section 6.2 of this Target's Statement.</p>
<p>2.12 What are the consequences of accepting the Offer now?</p>	<p>If you accept the Offer, you will, other than in the circumstances set out in section 2.13 of this Target's Statement, limit your right to:</p> <ul style="list-style-type: none"> • sell your Shares in The Trust Company on the ASX; or • otherwise deal with your Shares in The Trust Company while the Offer remains open. This would prevent you from accepting any superior proposal from another party that may emerge. <p>The effect of accepting the Offer is set out in sections 9.5, 9.7 and 9.9(a) of the Bidder's Statement. You should read those provisions in full to understand the effect that acceptance will have on your ability to exercise rights attaching to Shares in The Trust Company and the representations and warranties which you make if you accept the Offer.</p>

<p>2.12 What are the consequences of accepting the Offer now? (cont'd)</p>	<p>In the event that Equity Trustees waives the 90% minimum acceptance condition and all other conditions are satisfied or waived, Equity Trustees could end up with less than 90% of The Trust Company, potentially exposing accepting Shareholders in The Trust Company to:</p> <ul style="list-style-type: none"> • lower dividends (as outlined in section 4.4(f) of the Bidder's Statement); • no liquidity in their Shares in The Trust Company, where Equity Trustees seeks to delist The Trust Company from the ASX (as outlined in section 4.4(a) of the Bidder's Statement); • minimal synergies being realised; and • potential CGT liability, where Equity Trustees becomes the owner of less than 80% of Shares in The Trust Company.
<p>2.13 Can acceptances be withdrawn?</p>	<p>You only have limited rights to withdraw your acceptance of the Offer.</p> <p>Other than where the condition set out in section 9.8(e) (Ministerial Approval) of the Bidder's Statement remains unsatisfied or has not been waived, you may only withdraw your acceptance if Equity Trustees varies the Offer in a way that postpones the time when Equity Trustees is required to satisfy its obligations by more than one month. This will occur if Equity Trustees extends the Offer Period by more than one month and the Offer is still subject to conditions.</p> <p>Where the condition set out in section 9.8(e) (Ministerial Approval) has not been satisfied or waived, accepting Shareholders in The Trust Company will be entitled to withdraw their acceptance of the Offer in accordance with the procedure set out in section 9.9(a)(i)(C) and 9.9(a)(i)(D) of the Bidder's Statement prior to that Defeating Condition being satisfied or waived.</p> <p>If the Offer becomes unconditional, you will be unable to withdraw your acceptance and therefore unable to accept any superior offer by a third party that may emerge.</p> <p>You should refer to sections 9.5 and 9.9(a) of the Bidder's Statement in respect of your ability to withdraw your acceptance.</p>
<p>2.14 What happens if I accept the Offer and the Defeating Conditions are not satisfied or waived?</p>	<p>If the Defeating Conditions are not satisfied or waived before the end of the Offer Period and the Offer Period has not been extended, the Offer will lapse. Acceptances will be cancelled, consideration payable to you for your Shares in The Trust Company will not be paid to you and you will continue to own your Shares in The Trust Company.</p>
<p>2.15 What happens if the conditions are satisfied or waived?</p>	<p>If you have accepted the Equity Trustees Offer and each of the Defeating Conditions are satisfied or waived, then Equity Trustees Offer will become unconditional, you will receive the Offer Consideration from Equity Trustees in accordance with section 9.10 of the Bidder's Statement.</p>
<p>2.16 Can Equity Trustees vary the Offer?</p>	<p>Yes. Equity Trustees can vary the Offer by extending the Offer Period, increasing the Offer Consideration or waiving the Defeating Conditions.</p>
<p>2.17 When will I receive the Offer Consideration if I accept the Offer?</p>	<p>If you accept the Offer, Equity Trustees has until the earlier of:</p> <ul style="list-style-type: none"> • if the Offer is unconditional, one month after you have accepted the Offer; • if the Offer is conditional when you accepted the Offer, within one month after the Offer becomes unconditional; and • 21 days after the end of the Offer period, <p>before ensuring that you receive the Offer Consideration.</p> <p>Ineligible Foreign Shareholders will be provided with the cash proceeds of sale to which they are entitled at a different time in accordance with section 9.10(e) of the Bidder's Statement.</p>
<p>2.18 What happens if I do nothing?</p>	<p>You will remain a Shareholder in The Trust Company.</p> <p>If Equity Trustees acquires 90% or more of the total issued Shares in The Trust Company and the Offer becomes unconditional, Equity Trustees intends to compulsorily acquire your Shares in The Trust Company.</p> <p>See section 6.5 of this Target's Statement for more details.</p> <p>If Equity Trustees acquires between 50% and 90% of total issued Shares in The Trust Company and the Offer becomes unconditional, you will be a minority Shareholder in The Trust Company. The implications of this are described in section 6.3 of this Target's Statement.</p>

<p>2.19 Can I be forced to sell my Shares in The Trust Company?</p>	<p>You cannot be forced to sell your Shares in The Trust Company unless Equity Trustees proceeds to the compulsory acquisition of Shares in The Trust Company. Equity Trustees will need to acquire at least 90% of the total issued Shares in The Trust Company (under the Offer or otherwise) in order to exercise compulsory acquisition rights. If Equity Trustees proceeds to compulsory acquisition, then you will receive the same Offer Consideration as is payable by Equity Trustees under the Offer.</p>
<p>2.20 Can I sell my Shares in The Trust Company on market?</p>	<p>You can sell your Shares in The Trust Company on market unless you have accepted the Offer in respect of your Shares in The Trust Company (and have not validly withdrawn your acceptance). If you sell your Shares in The Trust Company on market you will not benefit from any future increase in the Offer Consideration that may be provided by Equity Trustees and will not be able to participate in any alternative proposals if any emerge.</p>
<p>2.21 What is the effect of the Offer on any dividends The Trust Company may determine to pay before the end of the Offer Period?</p>	<p>Under the terms of the Offer, you will be entitled to any final dividend The Trust Company determines to pay on Shares in The Trust Company for the year ended 28 February 2013 during the Offer Period if you are a Shareholder in The Trust Company on the record date for that dividend.</p> <p>Under the terms of the Offer, you will be entitled to The Trust Company FY13 Final Dividend even if you accept the Offer prior to the record date for that dividend.</p>
<p>2.22 Will anyone else make an offer for The Trust Company?</p>	<p>Your Board is seeking to test whether an alternative proposal that provides a fair value for The Trust Company can be put to Shareholders in The Trust Company. A number of parties are currently in discussions with the Board, which may result in an alternative proposal being made for The Trust Company either during the course of Equity Trustees' Offer or at some time in the future.</p> <p>The Trust Company cannot, however, give any guarantee or assurance that anyone else will make an offer or other proposal for The Trust Company.</p> <p>Acceptance of Equity Trustees' Offer may prevent you from participating in the benefit of any alternative proposals if any emerge.</p>
<p>2.23 What are the tax implications of accepting the Offer?</p>	<p>A general outline of the tax implications of accepting the Offer is set out in section 6.8 of this Target's Statement and section 6 of the Bidder's Statement.</p> <p>As the outline is general in nature only, you are encouraged to seek your own specific professional advice as to the taxation implications applicable to your circumstances.</p> <p>Equity Trustees refers to the CGT roll-over relief which may be available to you in respect of Equity Trustees Shares if you accept the Offer (see section 6 of the Bidder's Statement). Equity Trustees must acquire 80% or more of the total issued Shares in The Trust Company under the Offer in order for you to claim CGT scrip-for-scrip roll-over relief.</p>
<p>2.24 What can I do with my Performance Rights?</p>	<p>The Offer extends to Shares in The Trust Company issued between the Register Date and the end of the Offer Period on the exercise of Performance Rights. If you hold Performance Rights which have vested and are able to be exercised and wish to accept the Offer, you must ensure that your Performance Rights are exercised in sufficient time to allow you to be issued with Shares in The Trust Company before the end of the Offer Period.</p> <p>Other than in respect of Performance Rights granted to Shailendra Singh as described in section 6.2(b)(i)(B), the Board of The Trust Company is currently considering whether it will accelerate the vesting of any or all unvested Performance Rights currently on issue before the end of the Offer Period. Should the Board of The Trust Company reach a decision in respect of this issue, The Trust Company will issue a supplementary target's statement to Shareholders in The Trust Company.</p> <p>You should obtain your own taxation advice before taking any action in regard to your Performance Rights.</p>
<p>2.25 I am an overseas shareholder. How does the Equity Trustees Offer affect me?</p>	<p>If you are an Ineligible Foreign Shareholder and accept the Offer, you will not receive any Equity Trustees Shares. Instead, you will be paid the net proceeds of sale by the Sale Nominee of the Equity Trustee Shares you would have been entitled to. Section 9.10(e) of the Bidder's Statement sets out further information on the consideration available to Ineligible Foreign Shareholders.</p>

2.26 What if I have other questions in relation to Equity Trustees' Offer?

The Trust Company has established The Trust Company Shareholder Information Line for Shareholders in The Trust Company in relation to the Offer. The Trust Company Shareholder Information Line is **1800 505 206** (Toll Free) or **+612 8256 3354** (Outside Australia) and is available Monday to Friday between 9am and 5pm (Sydney time).

Announcements made to the ASX by The Trust Company and other information relating to the Offer can be obtained from the ASX website at **www.asx.com.au** or The Trust Company's website at **www.thetrustcompany.com.au**.

3. YOUR CHOICE AS A SHAREHOLDER IN THE TRUST COMPANY

THE DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU REJECT THE OFFER

As a Shareholder in The Trust Company you have three choices currently available to you:

(a) REJECT the Offer

- If you do not wish to accept the Offer or sell your Shares in The Trust Company on market you should **DO NOTHING**.
- If you do not wish to accept the Offer, do not take any action in relation to documents sent to you by Equity Trustees.

(b) Sell your Shares in The Trust Company on market

You can still sell your Shares in The Trust Company on market for cash if you have not already accepted the Offer.

On 12 April 2013 (being the last Business Day before this Target's Statement was printed), the price of Shares in The Trust Company closed at \$5.73, a 0.8% discount to the implied value of the Offer Consideration of \$5.78 per Share in The Trust Company. The latest price of Shares in The Trust Company may be obtained from the ASX website.

If you sell your Shares in The Trust Company on market, you:

- may be liable for CGT or income tax on the sale (including under the CGT rules);
- may incur a brokerage charge;
- may be liable for goods and services tax on incidental costs associated with the sale (such as the brokerage charge); and
- will not receive the benefits of any potential higher offer from Equity Trustees or any potential higher competing offer for Shares in The Trust Company if one was to be made.

If you wish to sell your Shares in The Trust Company on market, you should contact your broker.

(c) Accept the Offer

If you accept the Offer, you:

- will not receive the Offer Consideration unless and until each of the 20 Defeating Conditions (including several sub conditions) of the Offer are satisfied or waived. You should be aware that some of the Defeating Conditions have become incapable of being satisfied and there is a material risk that other Defeating Conditions may not be satisfied (refer to section 6.2 of this Target's Statement for further details);
- will not be able to withdraw your acceptance and sell your Shares in The Trust Company, meaning that you would not be able to accept a higher price from a competing bidder if a bid eventuates, except in certain limited circumstances (refer to section 2.13 of this Target's Statement); and
- may be liable to pay CGT, income tax and goods and services tax on the disposal of your Shares in The Trust Company which may have financial consequences for you (refer to section 6.8 of this Target's Statement and section 6 of the Bidder's Statement for further details of the tax consequences of the Offer).

If you wish to accept the Offer you should refer to the Bidder's Statement for instructions on how to do so.

Your Directors encourage you to seek independent financial and taxation advice before making a decision whether or not to accept the Offer for your Shares in The Trust Company.

4. THE TRUST COMPANY PROFILE

4.1 Background information on The Trust Company

The Trust Company is a public company listed on the ASX (ASX code: TRU). The Trust Company is one of the region's foremost trustee companies, providing services for individuals, companies and charitable trusts.

The Trust Company has approximately 400 employees working in Australia, New Zealand and Singapore.

4.2 Business Activities

The Trust Company operates in two primary areas:

- Personal Client Services; and
- Corporate Client Services.

Personal Client Services

FY13 revenue ¹² (\$m)	50.4
FY13 operating EBITDA ¹³ (\$m)	5.2

The Trust Company provides wide-ranging advice and expertise in Personal Client Services in Australia and New Zealand, through the wholly-owned subsidiary New Zealand Guardian Trust, including Estate Planning and Administration, Lifestyle Assist, Financial Planning, Executor Assist, Personal Trusts, Charitable Trusts, Wealth Management and Health and Personal Injury services.

Corporate Client Services

FY13 revenue ¹² (\$m)	34.6
FY13 operating EBITDA ¹³ (\$m)	16.2

The Trust Company's Corporate Client Services business in Australia and Singapore includes Corporate Trustee, Debt Capital Markets Trustee, Property and Infrastructure Custody, Superannuation Compliance and Trustee. In New Zealand, through the wholly-owned subsidiary New Zealand Guardian Trust, The Trust Company offers trustee services for Debt Securities, Securitisation, Unit Trust, Superannuation and KiwiSaver.

4.3 What are the key risks of an investment in The Trust Company

There are risks which are specific to The Trust Company and other risks which apply to investments generally which may materially and adversely affect the future operating and financial performance of The Trust Company and the value of Shares in The Trust Company.

This section describes the material risks. The risks described in this section are not the only risks that The Trust Company faces. Other risks may not be known to The Trust Company and some that the Directors currently believe to be immaterial may subsequently turn out to be material. One or more or a combination of these risks could materially impact The Trust Company's businesses, its operating and financial performance, the price of Shares in The Trust Company or the dividends paid in respect of Shares in The Trust Company.

¹² Excludes \$0.5m of other revenue

¹³ Pre \$4.8m of unallocated support services costs

(a) Fluctuations in financial markets and equity market conditions

The Trust Company's earnings are closely linked to the performance of financial markets overall and, in particular, the underlying asset value of client portfolios. There is a risk that negative movements in financial markets and asset classes will have a material adverse effect on the business, financial position or financial performance of The Trust Company.

The market price of Shares in The Trust Company is affected by the financial performance of The Trust Company as well as varied and often unpredictable factors influencing the stock market generally. These factors include international share markets, interest rates, domestic and international economic conditions, domestic and international political stability (particularly in the jurisdictions in which The Trust Company operates), investor sentiment, and the demand for equities generally.

There is no guarantee that Shares in The Trust Company will trade at or above the Offer Consideration. Investors should note that the past performance of Shares in The Trust Company on the ASX provides no guidance as to the future performance of Shares in The Trust Company.

(b) Reliance on key personnel

The Trust Company has benefited from having available a high quality operationally focussed management team. While The Trust Company makes every effort to retain key employees and recruit new personnel as the need arises, loss of a number of key personnel may adversely affect The Trust Company's earnings or growth prospects. The Trust Company has retention mechanisms in place through its Performance Rights plans, but has not implemented specific retention arrangements in respect of the Offer.

(c) Interest rate risk

The financial performance of The Trust Company is affected by fluctuations in interest rates. Failure to manage interest rate risk and fluctuations in interest rates may have a material adverse effect on the business, financial position or financial performance of The Trust Company.

(d) Reduction in corporate activity

The Trust Company provides transactional services in the financial markets, notably by acting as responsible entity, debt trustee, superannuation trustee, bare trustee, security trustee and providing escrow and agency services. Any reduction in the number or scale of transactions in the financial markets may adversely affect The Trust Company's business.

(e) Policy and regulatory changes

The Trust Company currently operates under regulatory regimes in Australia, New Zealand and Singapore. If there is a change in the regulatory regimes governing The Trust Company's business, this may impact adversely on the performance of its business, and could negatively impact The Trust Company's future revenue and profitability.

In addition, The Trust Company currently derives a significant proportion of its revenue from providing services to Managed Investment Trusts and other clients which are highly regulated. Changes to the taxation or regulatory treatment of Managed Investment Trusts or any other category of fund to which The Trust Company provides services may adversely affect The Trust Company's business.

Current material regulatory risks to The Trust Company include the Future of Financial Advice reforms, Stronger Super reforms and the Corporations and Markets Advisory Committee review of philanthropic fees. In addition, ASIC is currently consulting the market in relation to some proposed regulatory reforms that, if adopted, could have a material impact on The Trust Company's business. These relate to financial requirements for custodial or depository service providers, the holding of scheme property and other assets, and reforms designed to strengthen regulation of the debenture market. The Stronger Super reforms also include requirements for an RSE licensee to maintain adequate financial resources to address losses arising from operational risks.

(f) Financing and capital

The Trust Company's continued ability to effectively implement its business plan over time may depend in part on its ability to raise additional funds. There can be no assurance that any equity or debt funding will be available to The Trust Company on favourable terms or at all. If adequate funds are not available on acceptable terms, The Trust Company may not be able to take advantage of opportunities, develop new ideas or otherwise respond to competitive pressures.

In addition, ASIC Class Order 11/1140 requires responsible entities to hold minimum capital levels based on a calculation of notional revenue. The Trust Company (including subsidiaries that hold an AFSL authorising them to act as responsible entities of registered managed investment schemes) is subject to the Class Order. Complying with the Class Order may require The Trust Company to raise additional liquid capital. This may impact the earnings of The Trust Company if it is unable to raise fee levels to compensate for earnings dilution as a result of holding a higher capital base to meet these requirements.

It is noted that an issue may arise in respect of compliance of the Combined Group with the capital requirements described above if the Offer is successful. This issue is discussed further in section 7.9 of this Target's Statement.

(g) Reliance on licences

In order to provide the majority of its services in Australia, New Zealand and Singapore, The Trust Company is required to hold a number of licences.

If The Trust Company fails to comply with the general obligations of financial services licensees or the specific conditions of its licences, this could result in the suspension or cancellation of a licence which enables it to operate key parts of its business. Any breach or loss of licence could have a material adverse effect on The Trust Company's business and financial performance.

(h) Operational risks and Information technology

The Trust Company has made investments in information systems designed to assist The Trust Company in managing the business and its business systems. Failures in these systems may negatively impact on The Trust Company's performance and its earnings.

Operational risk relates to the risk of loss or increased costs resulting from inadequate or failed internal processes, outsourcing arrangements, people management and systems, or from external events which impact on The Trust Company's operations.

(i) Competition

The Trust Company presently operates businesses which have relatively strong market positions in their particular markets. Increased competition could result in pressure to reduce prices, under-utilisation of employees, reduced operating margins and loss of market share. Any of these occurrences could adversely affect The Trust Company's business, operating performance and financial position. There can be no assurance that the level of competition in the markets in which The Trust Company operates will not change in the future.

(j) Demand for products and services

Demand for The Trust Company's products and services will be affected by changes in investment markets, investor sentiment, economic conditions, demographics, legislation and regulatory obligations, competition and The Trust Company's past performance.

If The Trust Company provides inadequate advice to its clients, fails to achieve its clients' objectives, and/or underperforms in relation to its existing client, peers or market returns generally for a prolonged period, the demand for The Trust Company's products and services may be adversely affected. This may result in declining revenues to The Trust Company and have a material adverse impact on the financial performance and position of The Trust Company.

(k) Foreign exchange risk

The Trust Company earns revenue from its operations in New Zealand and Singapore but reports its earnings in Australian dollars. Accordingly, it is exposed to risk as a result of foreign exchange rate fluctuations. In particular, The Trust Company's earnings in Australian dollars may be negatively affected if the Australian dollar appreciates relative to the New Zealand dollar or the Singapore dollar.

(l) Litigation

Litigation risks relating to The Trust Company include, but are not limited to, contractual claims, employee claims, trust beneficiary claims, regulatory disputes and the costs associated with such claims and disputes. There is a risk that material or costly disputes could arise which may have a material adverse effect on the financial performance and position of The Trust Company.

Other than the claim by the debenture holders of Banksia (described further in section 7.6 of this Target's Statement), as at 12 April 2013, being the last Business Day before this Target's Statement was

printed, there was no known material litigation, actual or threatened.

(m) Funds under Management, Administration, Advice and Supervision

The Trust Company will derive a significant proportion of its earnings from fees and charges based on the levels of funds under management, administration, advice and supervision. The levels of funds under management, administration, advice and supervision (in addition to other factors noted below, such as the amount of funds flowing into and out of funds under management, administration, advice and supervision) will reflect the investment performance of those funds. Changes in the performance of those funds and changes in domestic and/or global market conditions could lead to a decline in The Trust Company's funds under management, administration, advice and supervision, adversely impacting the amount it earns in fees and charges. This may in turn impact the future profitability and financial position of The Trust Company.

(n) Liquidity Risk

Liquidity risk is the potential inability to meet The Trust Company's payment obligations, which could potentially arise as a result of a mismatch between those obligations and access to liquid assets, funding on acceptable terms or cash flows generated by the business.

A failure to meet The Trust Company's payment obligations may result in client complaints and client losses, and could damage the reputation of The Trust Company.

4.4 Directors and management

(a) Board of Directors

Bruce Corlett AM
BA, LLB

**Chairman of The Trust Company Limited,
Independent Non-Executive Director**

**Member of the Audit Risk and Compliance
Committee, Group Investment Committee and
Philanthropy and Community Committee**

Bruce Corlett was appointed to the Board of The Trust Company in 2000 and appointed as Chairman on 17 July 2003. He has had extensive experience as a public company director over many years. He is also Chairman of Servcorp Limited. Although he trained as a solicitor, Bruce has spent much of his life involved in the Australian finance, property, securities and maritime industries.

He has had a lifetime involvement in the community and Not-For-Profit sector including Chairman - Microsearch Foundation of Australia, Senate Fellow - University of Sydney, Chairman - Advisory Board - Faculty of Economics and Business - University of Sydney. Current roles include Ambassador - Australian Indigenous Education Foundation, Chairman - Lifestart, Chairman - Mark Tonga Relief Foundation.

Listed company directorships held during the past three financial years:

- Servcorp Limited from October 1999 to date

John Macarthur-Stanham
BEC, MBA

**Vice Chairman of The Trust Company Limited,
Independent Non-Executive Director**

**Chairman of the People and Remuneration
Committee, Member of the Audit, Risk and
Compliance Committee**

John Macarthur-Stanham was appointed as a Director of The Trust Company on 29 October 1991. He is a director of Dairy Farmers Milk Co-operative Limited and on the Board of The Sydney Catchment Authority. He has had extensive experience as a director on a number of CSR subsidiaries and related companies, and of Gosford Quarry Holdings Limited. John also looks after his family's farming and investment interests.

Roger Davis
BEC (Hons), MPhil (Oxon)

Independent Non-Executive Director

**Chairman of the Audit, Risk and Compliance
Committee**

Roger Davis was appointed as a Director of The Trust Company on 23 June 2006. He is an experienced senior executive in the financial services industry, a professional company director and is currently a consulting director at Rothschild Australia Limited.

Roger's career spans more than 30 years in financial services. He has held senior positions in Australia, the USA and Japan, including the positions of Managing Director, Citigroup Inc. New York and Group Managing Director, ANZ Banking Group Limited. He is also a director of Argo Investments Limited, Bank of Queensland Limited, AIG Australia Ltd, Ardent Leisure Limited, Aristocrat Leisure Limited, and Territory Insurance Office (a Northern Territory statutory body corporate).

Listed company directorships held during the past three financial years:

- Argo Investments Limited from June 2012 to date
- Bank of Queensland Limited from August 2008 to date
- Aristocrat Leisure Limited from June 2005 to date
- Ardent Leisure Limited (a stapled entity within the Ardent Leisure Group) from May 2008 to date

James King
B.Comm, FAICD

Independent Non-Executive Director

Member of the People and Remuneration Committee

James King was appointed as a Director of The Trust Company on 1 February 2007. He is a professional company director with experience in leading major multinational corporations in Australia and Asia Pacific markets. He was previously with Foster's Group Limited as Managing Director of Carlton & United Breweries, Managing Director of Foster's Asia and Senior Vice President Strategy and Business Development.

Prior to joining Foster's, James spent six years in Hong Kong as President of Kraft Food (Asia Pacific). James is also past Chairman of the Juvenile Diabetes Research Foundation (Victoria) and on the Council of Xavier College.

Listed company directorships held during the past three financial years:

- JB Hi-Fi Limited from May 2004 to date
- Navitas Limited from November 2004 to date
- Pacific Brands Limited from September 2009 to date

Catherine McDowell
BA (Hons) History

Independent Non-Executive Director

Chair and Independent Non-Executive Director of the New Zealand Guardian Trust Company Limited

Catherine McDowell was appointed as a Director of The Trust Company on 2 April 2013.

Born in the UK, Catherine started her career with Barclays Bank. She undertook a number of senior roles in the UK and US including Head of Investor Relations and Managing Director International Banking. She went on to work for ANZ and until recently was the Managing Director of ANZ Private Wealth.

Catherine has over 20 years experience in the investment and financial services industry in senior executive and advisory roles, working with Executive Management and Boards.

Warren McLeland
BSc (Hons), FFin, MSI, MBA

Independent Non-Executive Director

Chairman of the Group Investment Committee

Warren McLeland was appointed as a Director of The Trust Company on 3 May 2005. Before his appointment, he acted as a standing Alternate Director from 28 August 2003 until his appointment as a Director.

Previously, he served as a member of the Board from August 1997 to July 2003. Warren was previously a stockbroker and member of the Sydney Stock Exchange and a senior managing director with Chase Manhattan Bank, with more than 30 years experience in domestic and international financial services business.

He is a director of, and adviser to, a number of public companies, including Utilico Limited, a UK listed investment trust, Bermuda National Limited listed on the Bermuda Stock Exchange, Bermuda Commercial Bank and managing director of Resimac Limited. Warren is also a director of the Pain Management Research Institute Limited.

Listed company directorships held during the past three financial years:

- Bermuda National Limited from August 2012
- Ellect Holdings Limited (formerly Intellect Holdings Limited) from April 2005 to 2012
- Wilson HTM Investment Group Limited from March 2007 to date

Josephine Sukkar
BSc (Hons), Grad Dip. Ed.

Independent Non-Executive Director

Chairman of the Philanthropy and Community Committee, Member of the People and Remuneration Committee

Josephine Sukkar was appointed as a Director of The Trust Company on 26 March 2010. She is co-owner of Buildcorp, a construction company employing over 200 staff, operating across the eastern seaboard of Australia.

Josephine is actively involved in the Not-For-Profit sector, as Vice-President of YWCA NSW, a Director of Opera Australia, The Centenary Institute and the Sydney University Football Club Foundation. She is also on working committees for the Property Council of Australia, the Australian Rugby Union, the Museum of Contemporary Art and the General Sir John Monash Scholarship Foundation.

(b) Key Management

Shailendra Singh

Interim CEO and CFO

Shailendra Singh was appointed as the Interim Chief Executive Officer of The Trust Company in April 2013.

Shailendra joined The Trust Company as the Chief Financial Officer in August 2012 and has been responsible for Group Finance, Strategy, Legal, Risk and Compliance, Company Secretary and Investor Relations functions.

Shailendra has 23 years experience in the financial services industry having worked in funds management, high net worth advice, platform and superannuation, insurance and property asset management businesses. Prior to joining The Trust Company he worked at Perpetual Limited for six years having held the roles of CFO – Private Wealth, Acting Group Executive – Private Wealth and CFO – Corporate Trust.

Prior to Perpetual, Shailendra was Head of Finance at Colonial First State. He has also held a number of senior finance executive roles in Commonwealth Bank's wealth management businesses.

Shailendra has a Bachelor of Business (Accounting) from Charles Sturt University and is an Associate Member of Australian Society of Certified Practising Accountants.

David Grbin

Group Executive General Manager, Corporate Client Services

David Grbin joined The Trust Company as a consultant in February 2008 before being appointed Chief Financial Officer in July 2008.

Following a period as CFO and Executive General Manager of Corporate Client Services (Australia and Singapore), in July 2012 David was appointed to Group Executive General Manager, Corporate Client Services to focus solely on The Trust Company's corporate trustee service offering across Australia, New Zealand and Singapore.

David is a Director of the Responsible Entity and Superannuation Trustee licenced subsidiaries and has more than 15 years experience as CFO for listed companies.

David holds a Bachelor of Economics with Honours from the University of Adelaide and has been a member of the Institute of Chartered Accountants since 1989.

Cathy Stephenson

Executive General Manager, Group Operations and Information Systems

Cathy Stephenson has developed an executive career spanning ten years in strategic business and operational management, specialising particularly in change management and organisational transformation.

Cathy has taken on a variety of roles in and around the Guardian Trust business since 2008 when she was employed as a Project and Change Consultant and involved in the redesign of the strategic and operational structure of the company. She has also held project, operational and change management roles at NZ Post, Datamail, ECN Group and Planwell Technology.

Ray Gould

Executive General Manager Personal Client Services

Ray Gould joined The Trust Company in April 2011 as Executive General Manager, Personal Client Services.

Ray has over 25 years experience in the financial services industry, developing strategic direction and driving growth.

Ray holds a Master of Commerce in Taxation from the University of New South Wales, is a qualified Chartered Accountant and has a Diploma of Financial Services in Financial Planning. He is currently a part-time lecturer at the College of Law where he lectures to new partners in small and major practices.

Simon Lewis

Head of Philanthropy and Community

Simon Lewis joined The Trust Company in 2006 as Corporate Strategy Manager and was subsequently appointed to the role of Head of Strategy and Communications in 2008. He has been a member of the Executive Team since 2009.

Appointed Head of Philanthropy and Community in early 2012, Simon is now responsible for developing the Company's philanthropy proposition and overseeing its responsibilities for a sizeable charitable trust portfolio. He also oversees corporate events, marketing and communications including public and investor relations.

Simon holds a Bachelor of Business Science (Actuarial Honours) from the University of Cape Town and a Master of Arts (Politics, Philosophy and Economics) from Oxford University, where he attended as a Rhodes Scholar representing his country of birth Zimbabwe.

Andrea Free

Head of People and Development

Andrea Free joined The Trust Company in 2006 as People and Development Manager, and was subsequently appointed to the role of Head of People and Development in March 2009. In this role, Andrea is responsible for developing, implementing and managing human resources strategies, policies and initiatives across the business to support The Trust Company team in achieving strategic business objectives.

Andrea has a Bachelor of Business from the Elton Mayo School of Management at the University of South Australia, where she majored in Human Resources and Marketing.

5. THE TRUST COMPANY FINANCIAL INFORMATION AND RELATED MATTERS

5.1 Introduction

This section provides relevant financial information for Shareholders in The Trust Company to consider when assessing their response to Equity Trustees' Offer:

- historical income statements for the years ended 28 February 2011, 29 February 2012 and 28 February 2013; and
- historical balance sheet as at 31 August 2012 and 28 February 2013

(Collectively, the "Financial Information")

The Financial Information in this section should be read in conjunction with the risks described in section 4.3 and other information contained in this Target's Statement.

The Financial Information in this section is presented in an abbreviated form and does not contain all of the disclosures that would be required to be presented in an annual report in accordance with the Corporations Act.

Basis of FY14 outlook

The Directors' FY14 outlook should be read in conjunction with the risks surrounding forward looking statements (set out on the inside cover of this Target's Statement).

5.2 The Trust Company Financial Information

(a) Basis of preparation of this Financial Information

The accounting policies adopted by The Trust Company in preparation of the Financial Information for the years ended 28 February 2011, 29 February 2012 and 28 February 2013 are consistent with those set out in The Trust Company's preliminary financial report for the year ended 28 February 2013.

(b) The Trust Company summary income statements

The historical income statements and divisional financial performance are summarised in Table 1 and Table 2 below.

Table 1: Historical The Trust Company income statements

Year ended February (\$m)	FY11A	FY12A	FY13A
Operating revenue	57.1	82.8	85.5
Operating expenses	(40.9)	(64.4)	(68.9)
Operating EBITDA	16.2	18.5	16.7
Depreciation & amortisation	(1.1)	(2.6)	(3.1)
Operating EBIT	15.1	15.9	13.6
Net interest	1.9	(0.1)	(0.2)
Dividend income	1.3	1.1	1.0
Profit before tax	18.3	16.8	14.4
Tax expense	(6.2)	(4.9)	(4.2)
Net profit after tax (pre significant items)	12.1	11.9	10.2
Significant items (after tax)	(0.8)	0.6	1.6
Net profit after tax (post significant items)	11.3	12.6	11.7
Normalised earnings			
Reported EBITDA	16.2	18.5	16.7
Capital commissions	(2.3)	-	-
Rental sublease income	(0.7)	(0.2)	-
STI/LTI true up	-	(0.9)	-
Client claims	-	-	1.4
Redundancy	-	0.5	1.2
Normalisation adjustments	(3.0)	(0.6)	2.6
Normalised EBITDA	13.2	17.9	19.3
Reported NPAT	11.3	12.6	11.7
Normalised EBITDA adjustments (after tax)	(2.1)	(0.4)	1.8
Significant items (after tax)	0.8	(0.6)	(1.6)
Normalised NPAT	10.0	11.6	12.0

Table 2: Divisional financial performance

Year ended February (\$m)	FY11A	FY12A	FY13A
Personal Client Services			
Revenue	32.2	49.7	50.4
EBITDA	9.9	8.5	5.2
Corporate Client Services			
Revenue	24.0	32.3	34.6
EBITDA	9.6	14.2	16.2
Support Services			
Revenue	0.8	0.8	0.5
EBITDA	(3.3)	(4.3)	(4.8)

(c) FY11 financial performance

- 13% increase in EBITDA due to strong growth in the Responsible Entity Services business, market growth and net capital commission revaluation
- This was partially offset by higher salary expense

(Personal Client Services)

- Performance was impacted by outflow of FUM and higher salary costs, resulting in lower EBITDA

(Corporate Client Services)

- Strong performance in Responsible Entity Services was driven by additional transactional and annuity revenue from new mandates and Managed Investment Trusts and the impact of higher equity markets
- This was partially offset by lower recurrent revenues from Estates and Trusts and FUM outflow from the Cash Management Fund

(d) FY12 financial performance

- Full year contribution of Guardian Trust added \$6.2m EBITDA to group result
- Australian contribution was \$3.9m lower from FY11 largely due to Personal Clients, partially offset by growth in Corporate Clients

(Personal Client Services)

- Revenue lower due to non-recurring capital commission of \$2.3m in FY11 and poor equity market performance

(Corporate Client Services)

- Growth driven by transactional deals in Debt Capital Markets

(e) FY13 financial performance

- Reported net profit after tax of \$11.7m down 7% on prior year impacted by non-recurring items in the first half
- Normalised net profit after tax up 3% from \$11.6m to \$12.0m

- Revenue growth driven by Responsible Entity and Managed Investment Trusts within Corporate business and Private Clients within Personal business
- Significant items in FY13 include settlement of issues from Guardian Trust acquisition
- Increase in depreciation relates to capital expenditure from Suncorp separation

(Personal Client Services)

- The performance of the Personal Clients business is showing improvement with both Australia and New Zealand experiencing stronger second half revenue growth
- Stronger 2H13 performance due to FUM growth of 10% in 2H13 assisted by stronger markets in both Australia and New Zealand, and revenue growth in 2H13 of 10%
- Tighter management of expenses in 2H13 has also contributed to EBITDA

(Corporate Client Services)

- The Corporate business is continuing to perform strongly as a result of growth in new business across Responsible Entity and Managed Investment Trusts
- Strong year for new business with 96 mandates closed, an increase of 40% from FY12
- Transactional revenue was lower in 2H13

(f) Technology

- In October 2011 The Trust Company announced a systems upgrade based on an integrated technology solution strategy across all aspects of the business with an estimated spend in the order of \$10m
- Spend related to this project in FY13 was \$1.9m, of which \$0.2m was capitalised
- After extensive analysis, Management and the Board determined that the quantum of this investment was not appropriate for a company of the size of The Trust Company

- The profitability and broader strategic review completed in 2H13 has better informed The Trust Company's approach to technology needs and investments
- A revised approach to technology expenditure has now been adopted that:
 - Focuses on enhancing growth and the client experience
 - Manages the system upgrade spend as a proportional cost of the operating cost base
 - Reduces total spend through the selective use of outsourcing, partnering and enhancing with key service providers
- Planned expenditure on technology initiatives in FY14 is \$1.2m, of which \$0.4m will be capitalised

(g) FY14 Outlook

- The outlook for The Trust Company is favourable, with positive momentum having been recently demonstrated in the 2H13 operating results
- FY14 performance will benefit from higher FUM balance at the beginning of the year, any further improvement in equity markets during the year and full year effect of new business growth in FY13
- Further upside to FY14 is expected to also be realised through the implementation of initiatives identified as part of the profitability review
- Profit growth will be skewed towards the second half due to the seasonality of the business, timing of initiatives and defence costs relating to the Offer
- Consumer sentiment remains cautious from the Global Financial Crisis experience and uncertain political environment in Australia
- The current level of regulatory change and activity is expected to continue.

5.3 The Trust Company summary balance sheet

The consolidated balance sheets of The Trust Company Group as at 31 August 2012 and 28 February 2013 are presented in Table 3.

Table 3: Consolidated balance sheets as at 31 August 2012 and 28 February 2013

	31 August 2012 \$m	28 February 2013 \$m
Current assets		
Cash and cash equivalents	15.3	19.5
Trade and other receivables	19.9	23.4
Current tax assets	-	0.3
Assets classified as held for sale	2.8	-
Total current assets	37.9	43.2
Non-current assets		
Trade and other receivables	0.5	0.5
Other non-current financial assets	14.6	20.3
Other non-current assets	-	0.6
Indemnities receivable	4.5	4.5
Property, plant and equipment	12.2	10.3
Goodwill	59.0	59.8
Intangible assets	9.1	9.4
Deferred tax assets	3.4	2.6
Total non-current assets	103.4	108.0
Total assets	141.4	151.2
Current liabilities		
Trade and other payables	4.6	5.0
Provisions	4.7	3.4
Current tax liabilities	0.1	-
Total current liabilities	9.4	8.4
Non-current liabilities		
Borrowings	9.9	9.9
Provisions	2.4	2.3
Indemnities payable	4.5	4.5
Total non-current liabilities	16.8	16.8
Total liabilities	26.2	25.2
Net assets	115.1	126.0
Equity		
Issued capital	108.8	108.8
Investment revaluation reserve	(5.2)	(0.3)
Share-based payments reserve	1.7	1.9
Asset revaluation reserve	0.7	-
Foreign currency translation reserve	1.0	2.6
Retained earnings	8.2	13.0
Total equity	115.1	126.0

6. INFORMATION ABOUT THE OFFER AND OTHER IMPORTANT ISSUES

6.1 Summary of the Offer

Equity Trustees is offering 33 Equity Trustees Shares for every 100 Shares in The Trust Company. This will only be payable if all the Defeating Conditions of the Offer are satisfied or waived. Equity Trustees has not declared its Offer Consideration to be final, so it may increase the Offer Consideration, including upon further negotiations with the Board or in the event of an alternative proposal being announced. The Offer is made to each person registered as a holder of Shares in The Trust Company on the share register of The Trust Company as at the Register Date and extends to:

- Performance Rights Holders whose Performance Rights vest and become Shares in The Trust Company during the period from the Register Date to the end of the Offer Period due to the conversion of, or exercise of rights conferred by, such Performance Rights and which are on issue as at the Register Date;
- any person who becomes registered as the holder of Shares in The Trust Company during the Offer Period; and
- subject to Equity Trustees obtaining relief from ASIC in a form acceptable to Equity Trustees in the circumstances contemplated by section 8.13(b) of the Bidder's Statement, any Shares in The Trust Company that are issued before the end of the Offer Period pursuant to The Trust Company Dividend Reinvestment Plan.

You may only accept the Offer in respect of **all** of your Shares in The Trust Company.

6.2 Defeating Conditions of the Offer

The Offer is subject to a number of Defeating Conditions which are set out in section 9.8 of the Bidder's Statement.

If all of these Defeating Conditions are not satisfied, or waived by Equity Trustees, before the end of the Offer Period (including any extended Offer Period), then the Offer will lapse and no consideration will be received by Shareholders in The Trust Company who have accepted the Offer. Furthermore, Shareholders in The Trust Company who accept the Offer will, in the meantime, lose their ability to deal with their Shares in The Trust Company (i.e. sell them on market) or accept any potential higher competing offer, except in certain limited circumstances, as described in section 9.5 and 9.9(a) of the Bidder's Statement.

When considering how these Defeating Conditions may affect the prospects of success of the Offer, you should be aware of the following information:

(a) Defeating Conditions wholly or partly outside of The Trust Company's control

Many of the Defeating Conditions are wholly or partly outside of The Trust Company's control. These Defeating Conditions include those set out in the table below.

Name of Defeating Condition	Summary of Defeating Condition	Section of Bidder's Statement
Minimum Acceptance	90% minimum acceptance	9.8(a)
Index Out	Decline of the S&P/ASX All Ordinaries Index to below 4,500 for 3 consecutive trading days	9.8(d)
Ministerial Approval and other regulatory approvals	Ministerial approval being obtained to the Offer in accordance with the Corporations Act and all other regulatory approvals being obtained. See section 6.2(a)(iii) below for further regulatory approvals which may be required	9.8(e) and 9.8(f)
No regulatory actions	No restraining or divestiture orders in connection with the Offer issued by a government agency	9.8(g)
No material adverse change	No material adverse events taking place	9.8(h)
No litigation on foot or pending	No litigation against The Trust Company of more than \$1 million individually or \$1 million in aggregate	9.8(p)

There can be no certainty that these Defeating Conditions will be satisfied. However, in respect of these Defeating Conditions, The Trust Company notes:

- (i) the Defeating Condition in section 9.8(h) (**No material adverse change**) includes a requirement that counterparties to any agreement, arrangement or understanding, do not exercise certain rights they might have as a result of the Offer or otherwise where such rights might accelerate or adversely modify The Trust Company's terms of performance under those arrangements. The Trust Company is not aware of any material contracts, other than those described in section 7.5, where counterparties may have rights arising as a result of the Offer or otherwise which may result in this Defeating Condition not being satisfied
- (ii) The Trust Company has been notified by the Minister responsible for making the decision in respect of the approval required by the Defeating Condition in section 9.8(e) of the Bidder's Statement (**Ministerial Approval**), that the period for considering that application has been extended to 60 days from the date of receipt of the final relevant application by the Minister on 27 March 2013. Accordingly, this approval may not be obtained before the end of the Offer Period, in which case Equity Trustees will be required to extend the Offer Period in order for this Defeating Condition to be satisfied.
- (iii) the Defeating Condition in section 9.8(f) of the Bidder's Statement (**Other regulatory approvals**) includes a requirement that,

before the end of Offer Period, all approvals are obtained that are necessary to permit the Offer to be lawfully made to, and accepted by, Shareholders in The Trust Company. The Trust Company considers that the following additional regulatory approvals which were not specified in the Bidder's Statement may be required by Equity Trustees in order to satisfy this Defeating Condition:

- (A) approval of the Monetary Authority of Singapore in respect of a change of control of not less than 20% of the voting power or issued shares in the licensee, The Trust Company (Asia) Ltd, a subsidiary of The Trust Company; and
- (B) approval of the Office of Overseas Investment of New Zealand in respect of overseas investment by Equity Trustees in New Zealand sensitive land held by The Trust Company's subsidiary, The New Zealand Guardian Trust Company Limited.

Given the standard time period required for processing and obtaining these approvals, such approvals may not be obtained before the end of the Offer Period. Therefore, the Offer Period may need to be extended by Equity Trustees if this Defeating Condition is to be satisfied.

- (iv) other than the litigation involving debenture holders of Banksia as discussed in section 7.6, The Trust Company is not currently aware of any litigation which it considers would be likely to result in any Defeating Conditions not being satisfied.

(b) Defeating Conditions which may require The Trust Company to take or refrain from taking actions where this may not be in interests of Shareholders in The Trust Company

Many of the Defeating Conditions require The Trust Company to take (or refrain from taking) various actions, where satisfying those Defeating Conditions may not be in the interests of Shareholders in The Trust Company. These Defeating Conditions include those set out in the table below.

Name of Defeating Condition	Summary of Defeating Condition	Section of Bidder's Statement
No appointment of a new CEO or Managing Director	Not appointing an interim or replacement CEO to replace John Atkin	9.8(b)
IT Contractual Commitments	No expenditure on information technology systems upgrades other than as budgeted and no greater than \$800,000 since 9 October 2012	9.8(c)
No other outstanding securities	No securities in The Trust Company being on issue other than Shares in The Trust Company at the end of the Offer Period	9.8(k)
No dividend or distributions above market guidance	The Trust Company not determining or declaring a final dividend for the year ending 28 February 2013 of greater than 17 cents	9.8(l)
No prescribed occurrences	"No prescribed occurrences" taking place between 21 February 2013 and the end of the Offer Period	9.8(m) and 9.8(n)
Conduct of The Trust Company business	Compliance with restrictions on conduct of business including: <ul style="list-style-type: none">• no entry into or amendments to material contracts (section 9.8(o)(i) of the Bidder's Statement); and• not entering into any revised arrangements regarding remuneration or retirement benefits (section 9.8(o)(iv) and (v) of the Bidder's Statement).	9.8(o)
No additional capex, opex, material acquisitions or disposals	Restrictions on capex and opex spending including entering into any material transactions (such as acquisitions or disposals of greater than \$1 million each in aggregate or new capital expenditure in excess of \$1 million which is not in the ordinary course of business of The Trust Company and its subsidiaries)	9.8(q)
Equal access and no break fees	Restrictions on the approach that may be taken with respect to potential rival bidders for The Trust Company	9.8(s) and 9.8(t)

As at 12 April 2013, being the date before this Target's Statement was printed, The Trust Company was aware of the following Defeating Conditions which have not or may not be satisfied:

- (i) As previously announced to the ASX on 3 December 2012, John Atkin formally retired as Managing Director and CEO of The Trust Company on 15 April 2013. Shailendra Singh, formerly Chief Financial Officer of The Trust Company, was appointed as interim CEO on 2 April 2013. This appointment results in the Defeating Condition in section 9.8(b) of the Bidder's Statement, which prescribes the appointment of a new or interim CEO, becoming incapable of satisfaction. Further, as part of the interim CEO arrangements, Mr Singh:
 - (A) will receive an additional retainer of \$10,000 per month (subject to a minimum total payment of \$50,000) in addition to his remuneration as CFO which results in the Defeating Condition in section 9.8(o)(iv) of the Bidder's Statement (which prescribes amendments to employment terms in respect of employees earning in excess of \$150,000) becoming incapable of being satisfied; and
 - (B) was, at the time of his appointment, granted 10,394 Performance Rights on a pro rata basis. The Directors have since increased the number of Performance Rights granted to Shailendra Singh so that he will receive a full year's entitlement of 34,000 Performance Rights in his position of Chief Financial Officer. The vesting of these Performance Rights will also be accelerated upon a change of control. This means that Defeating Condition in section 9.8(o) of the Bidder's Statement cannot be satisfied.
- (ii) The Trust Company has determined an FY13 Final Dividend of 18 cents for the financial year ended 28 February 2013. This is above the maximum final dividend per share estimated in previous guidance by The Trust Company and, accordingly, results in the Defeating Condition in section 9.8(l) of the Bidder's Statement, which requires that no dividend be determined in excess of 17 cents per Share in The Trust Company, becoming incapable of satisfaction. Notwithstanding that the declaration of this dividend results in this Defeating Condition not being satisfied, the Board of The Trust Company has determined that the quantum of the FY13 Final Dividend is appropriate and in the best interests of Shareholders in The Trust Company. This decision was made having regard to the final financial position of The Trust Company for FY13 as set out in the final accounts and reflected in section 5 of this Target's Statement.
- (iii) Other than as described in section 6.2(b)(i)(B) above, the Board of The Trust Company continues to consider whether it will accelerate the vesting of any or all unvested Performance Rights currently on issue before the end of the Offer Period. If the decision is taken not to accelerate vesting in respect of all Performance Rights then the Defeating Condition in section 9.8(k) of the Bidder's Statement (which requires that no securities of The Trust Company be on issue at the end of the Offer Period other than Shares in The Trust Company) will not be satisfied. Should the Board of The Trust Company reach a decision in respect of this issue, The Trust Company will disclose this information in a supplementary target's statement.
- (iv) During the ordinary course of its business, The Trust Company has incurred or committed to expenditure in connection with the Systems Upgrades or as otherwise described in the Defeating Condition in section 9.8(c) which has resulted in this Defeating Condition becoming incapable of being satisfied.
- (v) The Trust Company has entered into or changed the employment terms of certain employees, directors or officers in the ordinary course of its business including the appointment of Catherine McDowell as non-executive Director to the Board of The Trust Company and an interim CFO (on a fixed term contract for three months, with the option to extend this with one month's notice) to replace Mr Singh. Equity Trustees may form the view that some or all of these changes results in one or more of the Defeating Conditions in sections 9.8(o)(iv) or (v) of the Bidder's Statement becoming incapable of satisfaction (Conduct of The Trust Company business).
- (vi) The Trust Company has entered into a lease in respect of an office premises in Brisbane for an eight year term with initial annual gross rent of \$292,675 plus GST (subject to an annual increase of approximately 4%). Under the terms of the lease, however, The Trust Company may terminate the lease in July 2018 upon meeting various conditions, including the payment of a termination fee and providing the lessor at least 12 months written notice. The Trust Company was required to enter into this lease to allow the continuance of its ordinary course of business activities following the sale of The Trust Company's previous office premises in Brisbane in late 2012 (which had been announced to the market prior to the Offer being announced). However, Equity Trustees may form the view that entry into this lease results in the Defeating Condition in section 9.8(o)(i) of the Bidder's Statement (which requires that The Trust Company does not enter into any Material Contract (as that term is defined in the Bidder's Statement)) becoming incapable of satisfaction. This is on the basis that the definition of "Material Contract" includes a catch all for any contract "otherwise material to the business or operations of any member of The Trust Company Group". Equity Trustees may take the view that the Brisbane office premises lease is a Material Contract within this definition.
- (vii) During the ordinary course of its business activities, The Trust Company regularly acquires and disposes of assets (including securities in companies, businesses and physical assets) as custodian, trustee, nominee or otherwise on behalf of third parties. Equity Trustees may

take the view that this results in the Defeating Conditions in section 9.8(q)(v) and 9.8(q)(vi), which prevent any member of The Trust Company Group from making acquisitions or disposals of in aggregate greater than \$1 million and which provide no exception for acquisitions or disposals made in the name of The Trust Company on behalf of others, becoming incapable of satisfaction.

- (viii) The Trust Company is in discussions with other parties which may involve the provision of information on The Trust Company which is not generally available and which may result in the execution of transaction documentation which includes deal protection mechanisms. The Trust Company considers that the Defeating Conditions in sections 9.8(s) and 9.8(t) seek to impose an unreasonable constraint on the Board's ability to pursue the best outcome for Shareholders in The Trust Company, and it does not intend to comply with these Defeating Conditions. Equity Trustees may take the view that this results in the Defeating Conditions becoming incapable of being satisfied at some point during the Offer Period.

Given the extent to which the Defeating Conditions discussed in this section 6.2(b) unduly restrict The Trust Company's activities over a potentially lengthy period, it is possible that by pursuing opportunities in the interests of Shareholders in The Trust Company, one or more of these Defeating Conditions could become incapable of satisfaction in the future. There may be other opportunities or capital expenditure which The Trust Company wishes to pursue during the Offer Period. The Trust Company would make a decision to pursue any such opportunity, or take any other action, having regard to the best interests of The Trust Company and Shareholders in The Trust Company and the fiduciary duties of The Trust Company's Directors.

(c) Earnings and Liabilities confirmations

It is a Defeating Condition that confirmations are given by the Board in relation to the earnings (section 9.8(i) of the Bidder's Statement) and certain liabilities (section 9.8(j) of the Bidder's Statement) of The Trust Company. Whilst the confirmations required by this Defeating Condition have not been given, relevant information on earnings and liabilities is set out in section 5 and 7.4 of this Target's Statement so that Equity Trustees can make its own assessment of the information required by the Defeating Conditions.

Other than as set out above or elsewhere in this Target's Statement, as at 12 April 2013, being the last Business Day before this Target's Statement was printed, The Trust Company was not aware of any other Defeating Conditions becoming incapable of satisfaction.

6.3 Consequences of Equity Trustees acquiring less than 90% of The Trust Company

The Offer is presently subject to a 90% minimum acceptance Defeating Condition which, if satisfied (and all the other Defeating Conditions are satisfied or waived), will entitle Equity Trustees to compulsorily acquire all outstanding Shares in The Trust Company. Equity Trustees has the right to free the Offer from the 90% minimum acceptance Defeating Condition, although it has indicated

in section 7.5(f) of the Bidder's Statement that it does not have a present intention to do so.

If Equity Trustees frees the Offer from the 90% minimum acceptance Defeating Condition and acquires more than 50% but less than 90% of Shares in The Trust Company then, assuming all other Defeating Conditions to the Offer are satisfied or waived, Equity Trustees will acquire a majority shareholding in The Trust Company. In those circumstances, Shareholders in The Trust Company who do not accept the Offer will be minority shareholders in The Trust Company. This has a number of possible implications, including:

- Equity Trustees will be in a position to cast the majority of votes at a general meeting of The Trust Company. This will enable Equity Trustees to control the appointment of the Directors of The Trust Company. Any Equity Trustees nominee director would continue to be subject to a duty to act in the best interests of the Company as a whole;
- Equity Trustees may pursue the intentions which it has set out in section 4.4 of the Bidder's Statement;
- those potential implications for financing arrangements and material contracts described in section 7.5 of this Target's Statement; and
- the liquidity of Shares in The Trust Company may be lower than at present, and there is a risk that The Trust Company could be fully or partially removed from certain S&P/ASX market indices due to a lack of free float and/or liquidity.

In addition, if Equity Trustees acquires 75% or more of Shares in The Trust Company it will be able to pass a special resolution of The Trust Company. This will enable Equity Trustees, among other things, to change The Trust Company constitution.

If the Offer lapses, or if Equity Trustees acquires less than 50% of Shares in The Trust Company and waives the 90% minimum acceptance Defeating Condition, the trading price of Shares in The Trust Company may be higher or lower than the Offer Consideration. If you remain a Shareholder in The Trust Company in this circumstance, you will continue to enjoy the rewards, and be subject to the risks, of being a Shareholder in The Trust Company.

6.4 Superior offer

If you accept the Offer, you may forfeit the opportunity to benefit from any superior offer made by another bidder for your Shares in The Trust Company, if such an offer eventuates.

Should another proposal be announced during the Offer Period, The Trust Company will issue a supplementary target's statement.

6.5 Compulsory acquisition

Equity Trustees will be able to compulsorily acquire any outstanding Shares in The Trust Company for which it has not received acceptances on the same terms as the Offer described in section 6.1 of this Target's Statement if during, or at the end of, the Offer Period Equity Trustees (taken together with its associates):

- has a relevant interest in at least 90% (by number) of Shares in The Trust Company; and
- has acquired at least 75% (by number) of Shares in The Trust Company for which it has made an Offer.

If these thresholds are met, Equity Trustees will have one month from the end of the Offer Period within which to give compulsory acquisition notices to Shareholders in The Trust Company who have not accepted the Offer. The consideration payable by Equity Trustees will be the Offer Consideration last offered under the Offer.

If Equity Trustees does not become entitled to compulsorily acquire Shares in The Trust Company in accordance with the above procedures, it may nevertheless become entitled to exercise general compulsory acquisition rights under Part 6A.2 Division 1 of the Corporations Act.

Shareholders in The Trust Company may challenge any compulsory acquisition, but this would require the relevant Shareholders in The Trust Company to establish to the satisfaction of a court that the terms of the Offer do not represent fair value for Shares in The Trust Company. If Shares in The Trust Company are compulsorily acquired, Shareholders in The Trust Company are not likely to receive any payment until at least one month after the compulsory acquisition notices are sent and after having completed the necessary documentation.

Equity Trustees has indicated in its Bidder's Statement that if it becomes entitled to proceed to compulsorily acquire outstanding Shares in The Trust Company, it intends to do so.

6.6 Market trading

Shareholders in The Trust Company who accept the Offer (even while the Offer is conditional) will be giving up their rights to sell or otherwise deal with their Shares in The Trust Company, subject to withdrawal rights as discussed at sections 9.5 and 9.9(a) of the Bidder's Statement.

6.7 Offer Consideration

No Offer Consideration for Shares in The Trust Company accepted into the Offer will be provided until after the Offer becomes unconditional. If the Offer becomes unconditional, unless you are an Ineligible Foreign Shareholder, you will be provided with the Offer Consideration by the earlier of:

- one month after the date of your acceptance of the Offer or, if the Offer is subject to a Defeating Condition when you accept the Offer, within one month after the contract resulting from your acceptance of the Offer becomes unconditional; and
- 21 days after the end of the Offer Period.

Ineligible Foreign Shareholders will be provided with the cash proceeds of sale to which they are entitled under the Offer at a different time.

See section 9.10 of the Bidder's Statement for further details on when you will be provided with your Offer Consideration from Equity Trustees.

6.8 Taxation

Depending on their individual circumstances, Shareholders in The Trust Company who are Australian residents and hold their Shares in The Trust Company on capital account may realise a gain or a loss, and may incur a liability for taxation, by accepting the Offer and selling their Shares in The Trust Company to Equity Trustees. The extent of any tax liability will depend on the individual circumstances of each Shareholder in The Trust Company (refer to section 6 of the Bidder's Statement).

Shareholders in The Trust Company who are individuals, certain trusts or complying superannuation funds may be eligible to claim a capital gains tax discount on any net capital gains arising on Shares in The Trust Company acquired at least 12 months before disposal. The discount rate is 50% for individuals and trusts, and 33¹/₃% for complying superannuation funds. Shareholders in The Trust Company should also be aware that they will not be eligible for discount capital gains tax treatment on any capital gain that they may make by accepting the Offer if that acceptance is made within 12 months of the date of acquisition of those Shares in The Trust Company. Discount capital gains treatment is also not available to Shareholders in The Trust Company that are companies or to Shareholders in The Trust Company who acquired their Shares in The Trust Company before 21 September 1999 and choose to include indexation when calculating the cost base of the shares.

Equity Trustees refers to the CGT roll-over relief which may be available to Shareholders in The Trust Company in respect of Equity Trustees' Shares if they accept the Offer (see section 6 of the Bidder's Statement). It is important to bear in mind that Equity Trustees must acquire 80% or more of the voting shares in Shares in The Trust Company under the Offer in order for Shareholders in The Trust Company to claim CGT scrip-for-scrip roll-over relief. It is possible that the transaction may proceed and Equity Trustees does not become the owner of 80% or more of Shares in The Trust Company as a result of the Offer. Accordingly, Shareholders in The Trust Company who accept the Offer and receive Equity Trustees Shares for a disposal of their Shares in The Trust Company should be aware of the risk that scrip-for-scrip roll-over relief may not be available and they may not know at the time that they accept the Offer whether or not scrip-for-scrip roll-over relief will be available. Further, roll-over relief will only be available to Shareholders in The Trust Company who are Australian residents for income tax purposes.

Shareholders in The Trust Company should seek their own taxation advice, having regard to their own circumstances.

6.9 How to accept the Offer

Instructions on how to accept the Offer are set out in section 9.4 of the Bidder's Statement.

7. ADDITIONAL INFORMATION

7.1 Interests of Directors

(a) Interests of Directors in securities in The Trust Company

The number and description of securities in The Trust Company (or in registered scheme units) in which each of the Directors has a relevant interest is set out in the table below.

Director	Number of shares beneficially held	Number of shares Non-beneficially held	Registered Scheme units directly held	Registered Scheme units indirectly held
Bruce Corlett		218,875		
John Macarthur-Stanham	379,490	441,905	175,911	524,898
Roger Davis		8,000		
James King	30,000*			
Catherine McDowell				
Warren McLeland	1,520	17,995		
Josephine Sukkar	4,700			

* Includes all Shares in The Trust Company acquired by James King in the four months ending on the day preceding the date of the Offer, as disclosed in section 7.1(b) below.

As at the date of this Target's Statement, each Director intends to REJECT the Offer in respect of their Shares in The Trust Company.

(b) Dealings by Directors in Shares in The Trust Company

Except as set out in the table below, there have been no acquisitions or disposals of Shares in The Trust Company by any Director in the four months ending on the day preceding the date of the Offer.

Director	Transaction type and date	Number and type of securities	Price per security	Name of purchaser/seller
James King	17 December 2012	17,005	\$4.30	Purchased On market

(c) Interests and dealings in Equity Trustees

No Director has a relevant interest in securities of Equity Trustees or any Related Body Corporate of Equity Trustees.

(d) Benefits to Directors

As a result of the Offer, no benefit (other than a benefit permitted by section 200F or 200G and compulsory superannuation entitlements) has been paid or will be paid to any Director or secretary in connection with the loss of, or their resignation from, their office.

(e) Conditional agreements

No agreement has been made between any of the Directors and any other person in connection with or conditional upon the outcome of the Offer.

(f) Interests in contracts with Equity Trustees

No Director has any interest in any contract entered into by Equity Trustees.

7.2 Other material information

The Target's Statement is required to include all the information that Shareholders in The Trust Company and their professional advisers would reasonably require to make an informed assessment whether or not to accept the Offer, but:

- only to the extent to which it is reasonable for Shareholders in The Trust Company and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any Director.

The Directors are of the opinion that the information that Shareholders in The Trust Company and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- the information contained in the Bidder's Statement;
- the information contained in The Trust Company's releases to the ASX prior to the date of this Target's Statement; and
- the information contained in this Target's Statement (including the information contained in the Independent Expert's Report).

The Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken to be endorsing, in any way, any or all of the statements contained in it.

In deciding what information should be included in this Target's Statement, the Directors have had regard to:

- the nature of Shares in The Trust Company;
- the matters that Shareholders in The Trust Company may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to professional advisers of Shareholders in The Trust Company; and
- the time available to The Trust Company to prepare this Target's Statement.

7.3 Issued securities

The total number of Shares in The Trust Company on 12 April 2013 (being the last Business Day before this Target's Statement was printed) was 33,538,449.

The aggregate number of Performance Rights issued or to be issued under the LTI Plan and the STI Plan on 12 April 2013 (being the last Business Day before this Target's Statement was printed) was 865,656 Performance Rights (which includes 73,546 Performance Rights to be issued after this date pursuant to grants under the STI Plan for FY13).

7.4 Latest financial results and change of financial position

The Trust Company's last published financial statements are for the half-year ended 31 August 2012 as lodged with the ASX on 9 October 2012. The Trust Company lodged its preliminary final report for the full year ended 28 February 2013 with the ASX on 15 April 2013.

Except as disclosed in this Target's Statement and in the preliminary final report, the Directors are not aware of any material change to The Trust Company's financial position as disclosed in The Trust Company's financial statements for the half year ended 31 August 2012 lodged with the ASX on 9 October 2012.

7.5 Potential impact of Offer on financing arrangements and material contracts

The information below has been included in this Target's Statement because:

- it may impact the future prospects of The Trust Company Group, which would be relevant to those Shareholders in The Trust Company who may remain as Shareholders in The Trust Company; and
- it may be relevant in assessing the likelihood of the Defeating Conditions set out in sections 9.8(h) or 9.8(o) (i) of the Bidder's Statement being satisfied.

(a) Financing arrangements

The Trust Company's term debt facilities contain an event of default that will be triggered if the Offer is successful and Equity Trustees proceeds to remove The Trust Company from the official list of the ASX in accordance with its intentions stated in section 4.3(a) of the Bidder's Statement. The delisting of The Trust Company in accordance with expressed Equity Trustees intentions could result in The Trust Company's financier cancelling its commitments.

The A\$55,800,000 Facility Agreement between, amongst others, The Trust Company and National Australia Bank Limited ("**NAB**"), as amended and restated by the Deed of Release and Amendment and Restatement dated October 2012 (together, "**Facility Agreement**") provides for a number of facilities to be drawn down by members of The Trust Company Group, by which a total commitment of \$55,800,000 is made available to The Trust Company Group.

Under the Facility Agreement, an "Event of Default" occurs where Shares in The Trust Company cease to be listed or that listing is suspended for five or more Business Days. Accordingly, should the Offer be successful and Equity Trustees proceeds with its intention to remove The Trust Company from the official list of the ASX, an Event of Default will occur under the Facility Agreement.

Upon the occurrence of an Event of Default under the Facility Agreement, NAB may:

- cancel the facilities whereupon they will be immediately cancelled;
- declare that all or part of the outstanding principal amounts, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreement or any other instrument associated with the provision of the facilities (each a "**Finance Document**") be immediately due and payable, whereupon

they shall become immediately due and payable; and/or

- (iii) declare that all or part of the outstanding principal amounts be payable on demand.

If NAB declares amounts outstanding under the Finance Documents immediately due and payable, any prepayment made as a consequence of such declaration will attract “Break Costs” (unless such prepayment is made on the last day of an interest period), being the amount of interest that would have been received by NAB on the prepaid amount had the prepayment not occurred less the amount NAB would be able to receive if it placed the prepaid amount on deposit.

In addition to the “Event of Default” resulting from the removal of The Trust Company from the official list of the ASX, there are other “Events of Default” under the Facility Agreement which may be triggered as a result of the Offer:

- (i) If the Offer proceeds, the representations and warranties relating to the accuracy of the group structure chart which has been annexed to the Facility Agreement will be incorrect when repeated on any subsequent utilisation date of the facilities. As this misrepresentation will be incorrect and be incapable of remedy if Equity Trustees obtains greater than 90% of Shares in The Trust Company and proceeds to compulsory acquisition and to delist The Trust Company, such misrepresentation will be an Event of Default under the Facility Agreement; and
- (ii) The Trust Company has given a number of undertakings in the Facility Agreement with respect to notifying NAB of any changes to the group structure chart and if a majority of the issued Shares in The Trust Company become held by a person who did not hold a majority of those shares as at the date of the Facility Agreement. Failure to comply with such undertakings will, unless remedied within 14 Business Days of The Trust Company becoming aware of the failure to comply (or receiving notice from NAB of such failure, whichever is earlier), result in an Event of Default under the Facility Agreement. This would be triggered if Equity Trustees were to obtain greater than 50% of the total issued Shares in The Trust Company and declared the Offer unconditional.

As at 12 April 2013, being the last Business Day before this Target’s Statement was printed, an “Event of Default” had not occurred under the Facility Agreement. Further, no member of The Trust Company Group has received any written notice from NAB that it intends to cancel commitments if an “Event of Default” were to occur or that NAB believes that an “Event of Default” has occurred.

(b) Material contracts – change of control

The Trust Company has identified contracts to which The Trust Company Group is a party which The Trust Company considers to be material in the context of The Trust Company Group taken as a whole and which also contain change of control provisions or other similar provisions that may be triggered as a result of Equity Trustees acquiring control of The Trust Company.

(Leasing Arrangements)

The leases under which The Trust Company Group occupies its Sydney and Singapore premises contain lessor consent to change of control provisions which, if not complied with, result in a breach of the relevant lease and allow the lessor to terminate the lease. These provisions will be triggered if Equity Trustees obtains more than 50% of the shares in The Trust Company and declares the Offer unconditional. In the case of the Sydney lease, such consent cannot be unreasonably withheld, while the Singapore lessor can withhold consent in its absolute discretion. The Trust Company further notes that prior to providing any consent under these provisions, the terms of the leases provide that the lessors may require a number of conditions to be met, including providing sufficient evidence of financial standing of the new controlling entity. As at 12 April 2013, being the last Business Day before this Target’s Statement was printed, the Board was not aware of any member of The Trust Company Group receiving written notice from a lessor to any of these arrangements seeking to exercise rights under these provisions as a result of the Offer or indicating that they would not consent to any change of control resulting from the Offer.

(Corporate Client Services)

A number of the custodian agreements under which The Trust Company Group provides corporate custodian services contain change of control provisions which allow the counterparty to terminate the relevant custodian agreement and which will be triggered if Equity Trustees obtains more than 50% of the shares in The Trust Company and declares the Offer unconditional.

Further, a number of the trust deeds in respect of the New Zealand securitisation operations of The Trust Company Group contain consent to change of control provisions which, if not complied with, will allow the counterparty to terminate the relevant securitisation agreement and which will be triggered if Equity Trustees obtains more than 50% of the shares in The Trust Company and declares the Offer unconditional.

As at 12 April 2013, being the last Business Day before this Target’s Statement was printed, the Board was not aware of any member of The Trust Company Group receiving written notice from a counterparty to these custodian or securitisation agreements seeking to exercise rights under these provisions as a result of the Offer or indicating that consent would be withheld in relation to, or that rights would be exercised as a result of, any change of control resulting from the Offer.

(NZ suppliers)

Two material supply contracts for information technology goods and services in respect of the New Zealand operations of The Trust Company Group contain consent to change of control provisions which, if not complied with will result in a breach of these agreements and give rise to a right to terminate in the counterparties. The obligation to seek consent will be triggered if Equity Trustees obtains more than 50% of the shares in The Trust Company and declares the Offer unconditional.

As at 12 April 2013, being the last Business Day before this Target’s Statement was printed, the

Board was not aware of any member of The Trust Company Group receiving written notice from the counterparties to any of these arrangements seeking to exercise rights under these provisions as a result of the Offer or indicating that they would not consent to any change of control resulting from the Offer.

(c) Material contracts – termination for convenience or removal as trustee or responsible entity

In the ordinary course of business, members of The Trust Company Group enter into contracts with suppliers and clients which contain termination for convenience clauses (that is, the right to terminate for any reason on providing a period of notice), some of which may be material in the context of The Trust Company Group taken as a whole. Among these are the custodian agreements referred to in section 7.5(b) above. As at 12 April 2013, being the last Business Day before this Target's Statement was printed, the Board was not aware of any member of The Trust Company Group receiving written notice from a counterparty seeking to exercise its right under these provisions as a result of the Offer.

The trust deeds pursuant to which The Trust Company Group acts as trustee or responsible entity in its corporate client business allow for the removal of the trustee or responsible entity for any reason upon a unitholder resolution. As at 12 April 2013, being the last Business Day before this Target's Statement was printed, the Board was not aware of any member of The Trust Company Group receiving written notice from any unitholders that they intend to seek removal of any members of The Trust Company Group as responsible entity or trustee as a result of the Offer.

7.6 Material litigation

As at 12 April 2013, being the last Business Day before this Target's Statement was printed, except for the matter in respect of the debenture holders of Banksia set out below (details of which are in the public domain), there was no current litigation of a material nature against any member of The Trust Company Group and the Board had no knowledge of any potential material litigation.

(Banksia)

In January 2013 a claim for unspecified damages was lodged against The Trust Company (Nominees) Limited in its capacity as trustee for the debentures issued by Banksia Securities Limited and other defendants including Banksia Securities Limited, Cherry Fund Limited, RSD Chartered Accountants and the directors of both Banksia Securities Limited and Cherry Fund Limited. The claim was lodged by a debenture holder of Banksia and alleges breaches of the Corporations Act and general law trustee duties. The Trust Company will be strongly defending the action. The Trust Company also has a right of indemnity from the assets of the trust (subject to certain conditions). As at 12 April 2013, being the last Business Day before this Target's Statement was printed, it was not possible to estimate the potential size of this claim. Like all major financial institutions The Trust Company carries insurance for these types of circumstances. The Trust Company is keeping its insurers fully informed of the claim.

(Other)

As described in section 4.3(l) of this Target's Statement, The Trust Company, given the nature of its business, can receive claims for breach of duty from time to time. The Trust Company is not currently engaged in any litigation

or claim in its personal capacity which is likely to have a materially adverse effect on the business, financial condition or operating results of The Trust Company which has not been provided for in the financial statements. Where some loss in The Trust Company's personal capacity is probable and can be reliably estimated an appropriate provision has been made of the likely amount of each claim on an individual basis. The amount provided for each claim is reviewed by management regularly.

The Trust Company has provided indemnities to a number of related parties in respect of mortgage funds that it managed in New Zealand. All of the mortgage indemnities have back to back arrangements in place under which the The Trust Company Group is to recover certain losses from Suncorp Mortgage Company NZ Limited.

The Trust Company has also entered into an agreement with Suncorp Group New Zealand Limited whereby The Trust Company Group is indemnified in respect of certain client provisions.

7.7 Impact of the Offer on employee arrangements

(a) General

In section 4.3(e) of the Bidder's Statement, Equity Trustees has set out its intention to, if the Offer is successful and it obtains 100% of Shares in The Trust Company, conduct a review of employment requirements of the Combined Group as part of determining its proposed operating model. Equity Trustees expects that as a result of combining the businesses, there will be duplication in employee roles and has indicated that it will manage the removal of such duplication through re-assignment or natural turnover where possible and otherwise through merit based selection to fill roles. The Trust Company anticipates that this process may involve the redundancy of some existing employees of The Trust Company. For further information on Equity Trustees' intentions in this respect please see section 4.3(e) of the Bidder's Statement.

Other than those employees employed under fixed term contracts (including senior executives as described in the proceeding paragraph below), the current redundancy entitlements of employees of The Trust Company are contained in the terms of The Trust Company's enterprise agreement or the current policies of The Trust Company. Severance entitlements are dependent on the position of the employee and the period of continuous service and the notice period is as per individual employment agreements.

The Trust Company also has fixed term employment contracts with certain senior executives. These contracts will require termination payments to be made by The Trust Company if the employment agreements are terminated prior to the expiry of the respective terms, but no other termination payments.

(b) Performance Rights

In section 8.3 of the Bidder's Statement, Equity Trustees has indicated that it expects that The Trust Company Board will exercise its discretion to accelerate the vesting of any unvested Performance Rights before the end of the Offer Period.

Other than as described in section 6.2(b)(i)(B), as at 12 April 2013, being the last Business Day before this Target's Statement was printed, The Trust Company Board continues to consider whether it will accelerate

the vesting of any or all unvested Performance Rights currently on issue before the end of the Offer Period. Should the Board of The Trust Company reach a decision in respect of this issue, The Trust Company will issue a supplementary target's statement to Shareholders in The Trust Company.

7.8 Interests of The Trust Company Group in Shares in The Trust Company

Due to the nature of its business, The Trust Company has interests in a number of Shares in The Trust Company as

a responsible entity or trustee for managed investment schemes and common funds as well as in respect of individuals and estates for which it acts as trustee or estate manager.

As a result of these arrangements, The Trust Company Group is a trustee or registered holder in and/or has a relevant interest in 1,464,142 Shares in The Trust Company, equal to 4.4% of Shares in The Trust Company on issue as at 12 April 2013 being the last Business Day before this Target's Statement was printed. These shares are held by The Trust Company Group as set out in the table below.

Nature of interest	Number of Shares in The Trust Company
The Trust Company Imputation Fund	511,293
Equity Common Fund QE1	86,108
Estates & Trusts	854,551
Superannuation	12,190
Total	1,464,142 equal to 4.37% of the total shares on issue (33,538,449)

The Shares in The Trust Company have been held by these funds for over 15 years, and in the last 12 months, the Equity Common Fund QE1 reduced its holding by 50,000 shares.

Further detail about the arrangements under which The Trust Company Group is a trustee or registered holder of and/or has a relevant interest in Shares in The Trust Company is set out below.

(a) The Trust Company Imputation Fund and Equity Common Fund QE1

The Trust Company Group is the trustee or responsible entity in respect of Shares in The Trust Company as a result of:

- (i) The Trust Company (RE Services) Limited, a wholly owned subsidiary of The Trust Company acting as responsible entity for The Trust Company Imputation Fund ("**TCIF**"), a managed investment scheme which holds 511,293 Shares in The Trust Company; and
- (ii) The Trust Company acting as trustee for the Equity Common Fund QE1 ("**ECF**") which holds 86,108 Shares in The Trust Company.

The constitutions of TCIF and ECF provide that the responsible entity or trustee, as applicable, has discretion as to how assets of the funds, including Shares in The Trust Company are to be dealt with, subject to any fiduciary duties of trustees or responsible entities arising at law.

Notwithstanding the discretion provided to the responsible entity or trustee under the relevant constitutions, certain managed investment schemes and trusts for which a member of The Trust Company Group is the responsible entity or trustee, including TCIF, are subject to The Trust Company's funds equity risk management guidelines ("**Investment Policy**"). While the Investment Policy is not expressed on its terms to apply to the management of ECF, the General Manager Group Investment Management does in practice have regard to the Investment Policy in respect of the investments of ECF.

The Investment Policy provides that funds to which it applies should focus on investments in companies within the S&P/ASX200 Index. As at 12 April 2013, the last Business Day before this Target's Statement was printed, The Trust Company was not a member of the S&P/ASX200 Index.

The Trust Company anticipates that any decision in relation to whether to accept the Offer in respect of Shares in The Trust Company held by TCIF and ECF will be made by the General Manager Group Investment Management. In making this decision, the General Manager Group Investment Management will have regard to, amongst other factors, the constitutions of those funds, the duties of the responsible entity and trustee (as applicable) and the Investment Policy, and will be free of any influence from the Board of The Trust Company.

(b) Estates and Trusts

Both The Trust Company (in respect of 768,943 Shares in The Trust Company) and The Trust Company (Australia) Limited, a wholly owned subsidiary of The Trust Company, (“**TCA**”) (in respect of 85,608 Shares in The Trust Company) manage a material number of Shares in The Trust Company as executor, trustee or manager of various deceased estates.

The terms upon which The Trust Company or TCA may deal with Shares in The Trust Company on behalf of these estates are bespoke, though all require The Trust Company or TCA to consult or seek instructions or recommendations from either the beneficiaries of the estates, co-executors or co-trustees or the General Manager Group Investment Management.

Approximately 477,000 of Shares in The Trust Company managed by The Trust Company in its capacity as estate manager are held for the benefit of two beneficiaries of one estate. The terms on which these Shares in The Trust Company are held for this estate require the approval of each beneficiary prior to the disposal of any of these Shares in The Trust Company.

Many estates are managed by The Trust Company or TCA as a co-investor or co-trustee, in which case consultation with the co-investors or co-trustees will be required prior to any decision to dispose of Shares in The Trust Company pursuant to the Offer.

In respect of the remainder of the estates, any decision to dispose of Shares in The Trust Company pursuant to the Offer will be made following a recommendation by the General Manager Group Investment Management.

In all cases, The Trust Company anticipates that any decision in relation to whether to accept the Offer in respect of Shares in The Trust Company they manage for the benefit of estates and trusts will be made by the estate and trust managers, having regard to the specific terms of engagement of The Trust Company or TCA as estate or trust manager, the procedures set out above in respect of particular estates and any duties arising at law, and will be free of any influence from the Board of The Trust Company.

7.9 Equity Trustees Shares held by The Trust Company

The Trust Company currently holds 1,193,942 Equity Trustees Shares. These Equity Trustees Shares are currently being held by The Trust Company in satisfaction of its capital requirements under the conditions of the ASIC Class Order 11/1140 described in further detail at section 4.3(f) of this Target’s Statement.

Equity Trustees has indicated in section 8.14 of the Bidder’s Statement that if it acquires relevant interests in 90% or more of Shares in The Trust Company and it is entitled, under the Corporations Act, to proceed to compulsory acquisition of the remaining Shares in The Trust Company its current intention is that the Equity Trustees Shares held by The Trust Company will be cancelled in accordance with section 259D of the Corporations Act. If the value of these Equity Trustees Shares is not replaced by Equity Trustees upon cancellation of these Equity Trustees Shares, then The Trust Company may fall short of its capital requirements in breach of the ASIC Class Order 11/1140 and its AFSL. If this were to occur, there would be

real possibility of regulatory action (including cancellation or modification of The Trust Company’s AFSL) against the Combined Group.

As at 12 April 2013, being the last Business Day before this Target’s Statement was printed, it is uncertain how Equity Trustees proposes to meet the capital requirements of the Combined Group, including in respect of the specific issue raised by the intended cancellation of the Equity Trustees Shares currently held by The Trust Company.

7.10 Consents

(a) Consents to inclusion of a statement

Each of the persons listed below has given and has not, before the lodgement of this Target’s Statement with ASIC, withdrawn its written consent to the inclusion of the statements in this Target’s Statement that are specified below in the form and context in which the statements are included and to all references in this Target’s Statement to those statements in the form and context in which they are included:

- Lonergan Edwards & Associates Limited – to be named as Independent Expert, and to inclusion of the Independent Expert’s Report and statements said to be based on statement made in the Independent Expert’s Report
- Each Director specified in section 4.4 of this Target’s Statement to be named in this Target’s Statement and to the inclusion of statements made by them

(b) Consents to be named

King & Wood Mallesons has given and has not, before the date of this Target’s Statement, withdrawn its consent to the inclusion of its name in this Target’s Statement as legal adviser to The Trust Company.

Flagstaff Partners has given and has not, before the date of this Target’s Statement, withdrawn its consent to the inclusion of its name in this Target’s Statement as financial adviser to The Trust Company.

(c) Disclaimer regarding statements made and responsibility

Each person named above as having given its consent to the inclusion of a statement or to being named in this Target’s Statement:

- does not make, or purport to make, any statement in this Target’s Statement or any statement on which a statement in this Target’s Statement is based other than, in the case of a person referred to above as having given their consent to the inclusion of a statement, a statement included in this Target’s Statement with the consent of that person; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target’s Statement, other than a reference to its name and, in the case of a person referred to above as having given their consent to the inclusion of a statement, any statement or report which has been included in this Target’s Statement with the consent of that party.

7.11 Miscellaneous and Publicly available information

Shareholders in The Trust Company should have regard to material announcements that have been lodged with the ASX since The Trust Company's last published financial statements for the half year ended 31 August 2012 which were lodged with the ASX on 9 October 2012. A list of material announcements released by The Trust Company in the period 9 October 2012 to 12 April 2013, the last Business Day before the date this Target's Statement was printed, is set out in Annexure B.

This Target's Statement also contains statements which are made in, or based on statements made in, documents lodged with ASIC or given to the ASX by Equity Trustees or The Trust Company.

Any Shareholder in The Trust Company who would like to receive a copy of those documents may obtain a copy free of charge during the Offer Period by calling The Trust Company Shareholder Information Line on **1800 505 206** (Toll Free) or **+612 8256 3354** (Outside Australia) which is available Monday to Friday between 9am and 5pm (Sydney time). Copies of announcements by The Trust Company may also be obtained from its website **www.thetrustcompany.com.au**.

7.12 Date of Target's Statement

This Target's Statement is dated 19 April 2013, which is the date on which it was lodged with ASIC.

7.13 Approval of Target's Statement

This Target's Statement has been approved by a resolution passed by the Directors on 12 April 2013.



Bruce Corlett AM

Chairman

The Trust Company

8. GLOSSARY

8.1 Definitions

Term	Meaning
1H13	In relation to The Trust Company, this relates to the 6 months ended 31 August 2012
2H13	In relation to The Trust Company, this relates to the 6 months ended 28 February 2013
2H13 Additional Operating Expense	The anticipated \$800,000 of additional operating expense to be incurred by The Trust Company Group in connection with the Systems Upgrade as identified in slide six of The Trust Company's results presentation for the half year ending 31 August 2012
AFSL	Australian Financial Services Licence
AIFRS	The Australian equivalent to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASIC	The Australian Securities and Investments Commission
ASX	ASX Limited (ABN 98 008 624 691) or Australian Securities Exchange, as applicable
Bidder's Statement	The supplementary bidder's statement in relation to the Offer, prepared by Equity Trustees and dated 27 March 2013
Board	The Board of Directors of The Trust Company
Business Day	A day that is not a Saturday, Sunday or public holiday in Sydney
CGT	Capital gains tax
Combined Group	The Equity Trustees Group following the acquisition of at least 50.1% of The Trust Company under the Offer, on the assumption that at this level of ownership Equity Trustees will have the capacity to control The Trust Company
Corporations Act	The Corporations Act 2001 (Cwlth)
Defeating Condition	A defeating condition of the Offer set out in section 9.8 of the Bidder's Statement
Directors	The current directors of The Trust Company
EBITA	Earnings before interest, tax and amortisation of acquired intangibles
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
Equity Trustees	Equity Trustees Limited
Equity Trustees Group	Equity Trustees and its Related Bodies Corporate
Equity Trustees Shareholder	A registered holder of Equity Trustees Shares
Equity Trustees Shares	Ordinary shares in Equity Trustees Limited
FUM	Funds under management
FUMAS	Funds under management, administration, advice and supervision
FY13	In relation to The Trust Company, this relates to the 12 months ended 28 February 2013
FY14	In relation to The Trust Company, this relates to the 12 months ended 28 February 2014

Term	Meaning
FY13 Final Dividend	The Trust Company's final dividend for FY13
Independent Expert	Lonergan Edwards & Associates Limited
Independent Expert's Report	The report prepared by the Independent Expert as to whether or not the Offer is fair and reasonable
Ineligible Foreign Shareholder	A Shareholder in The Trust Company whose address as shown in the register of members of The Trust Company is in a jurisdiction other than Australia and its external territories or New Zealand unless Equity Trustees is satisfied that it is not precluded from lawfully issuing Equity Trustees Shares either unconditionally or after compliance with conditions that Equity Trustees regards as acceptable and not unduly onerous
LTI Plan	The Trust Company Long Term Incentive Plan dated 30 June 2010
NPAT	Net profit after tax
NTA	Net tangible assets
Offer	The takeover offer by Equity Trustees for Shares in The Trust Company under Chapter 6 of the Corporations Act as described in the Bidder's Statement
Offer Consideration	The consideration offered under the Offer. As at the date of this Target's Statement, it is 33 Equity Trustees Shares for every 100 Shares in The Trust Company
Offer Period	The period during which the Offer will remain open for acceptance in accordance with section 9.3 of the Bidder's Statement
Performance Rights	The performance rights issued under either the LTI Plan or the STI Plan
Performance Rights Holder	A registered holder of the Performance Rights
Register Date	The date set by Equity Trustees under section 633(2) of the Corporations Act
Related Bodies Corporate	The same meaning as in the Corporations Act
Relevant interest	The same meaning as in the Corporations Act
RSE	Registrable Superannuation Entity
Sale Nominee	The meaning given in section 9.10(e)(i) of the Bidder's Statement
Shares in The Trust Company	Ordinary shares in The Trust Company
Shareholder in The Trust Company	A registered holder of Shares in The Trust Company
STI Plan	The Trust Company Short Term Incentive Plan dated August 2012
Systems Upgrade	The upgrade of The Trust Company Group's business information technology systems most recently referred to in slide six of The Trust Company's results presentation for the half year ending 31 August 2012
The Trust Company	The Trust Company Limited
The Trust Company Dividend Reinvestment Plan	The dividend reinvestment plan of The Trust Company dated October 2011
The Trust Company Group	The Trust Company and its Related Bodies Corporate
Target's Statement	This document
VWAP	Volume weighted average price

8.2 Interpretation

Unless the context otherwise requires:

- headings used in this Target's Statement are inserted for convenience and do not affect the interpretation of this Target's Statement;
- words or phrases defined in the Corporations Act have the same meaning in this Target's Statement;
- a reference to a section is a reference to a section of this Target's Statement;
- a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- the singular includes the plural and vice versa;
- the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any government agency;
- Australian dollars, dollars, A\$ or \$ is a reference to the lawful currency of Australia.

ANNEXURE A

Independent Expert's Report

LONERGAN EDWARDS & ASSOCIATES LIMITED

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The Directors
The Trust Company Limited
Level 15
20 Bond Street
Sydney NSW 2000

12 April 2013

Subject: Takeover offer for The Trust Company Limited

Dear Directors

Introduction

- 1 On 21 February 2013 Equity Trustees Limited (Equity Trustees) announced an intention to make a takeover offer for all the ordinary shares in The Trust Company Limited (Trust Company). The consideration under the offer is 0.33 Equity Trustees shares for each Trust Company share (the Offer). The Bidder's Statement in respect of the Offer was subsequently lodged on 18 March 2013.
- 2 The Offer values the total equity in Trust Company at approximately \$177 million¹ and is subject to a number of conditions which are outlined in Section I.
- 3 Trust Company is an Australian trustee company offering a range of financial services to individuals, companies and charitable trusts. The company offers responsible entity, custody and trustee services, as well as advice in estate planning and administration, financial planning and wealth management.
- 4 Equity Trustees is an Australian financial services provider specialising in estates and trusts, philanthropy, wealth management, superannuation, managed funds and corporate trustee services.
- 5 While there is no statutory requirement for Trust Company to obtain an independent expert's report (IER), the Directors of Trust Company have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER stating whether, in LEA's opinion, the Offer is fair and reasonable.
- 6 LEA is independent of Trust Company and Equity Trustees and has no other involvement or interest in the outcome of the Offer, other than the preparation of this report.

¹ Based on the closing price of Equity Trustees shares on the day before the announcement of the Offer.

Summary of opinion

- 7 LEA has concluded that the Offer is not fair but is reasonable based on the guidelines set out in Australian Securities & Investments Commission (ASIC) Regulatory Guideline 111 – *Content of expert reports* (RG 111).
- 8 While we believe that the Offer undervalues Trust Company shares (and is therefore not fair based on the guidelines set out in RG 111), in our opinion, the Offer is reasonable as both Trust Company and Equity Trustees shareholders are likely to be able to realise a significantly greater value for their shares if the businesses are combined. This is principally because the incremental earnings expected to be generated from the identified synergies are large in comparison to the standalone earnings of both companies.
- 9 However, as the Offer comprises scrip consideration only, in our view, a key consideration for Trust Company shareholders should be whether the Offer ratio (i.e. 0.33 shares in Equity Trustees for every share in Trust Company) appropriately reflects the value contributed by both companies to the merged entity. This recognises that in scrip based offers arguably the relative value of each company is more relevant than each company's absolute value.
- 10 In this regard, Trust Company shareholders should be aware that, in our view, the Offer ratio of 0.33 shares in Equity Trustees for every share in Trust Company favours Equity Trustees shareholders to the detriment of Trust Company shareholders. Accordingly, in our opinion, the Offer ratio should be improved for the benefit of Trust Company shareholders to better reflect the relative value contribution of both companies to any combination of the businesses.
- 11 Further information on the reasons for our opinion are discussed below.

Value of Trust Company shares

- 12 Our assessed value of Trust Company shares is set out below:

Trust Company – valuation summary	Low \$m	High \$m
EBIT adopted for valuation purposes	16.5	16.5
EBIT multiple	10.5	11.0
Enterprise value	173.3	181.5
Investment in Equity Trustees	19.4	20.0
Surplus assets	3.0	3.0
Net cash	11.9	11.9
Value of equity	207.6	216.4
Fully diluted shares on issue	34.4	34.4
Value per share	\$6.03	\$6.29

Value of consideration

- 13 In assessing the value of the Equity Trustees shares offered as consideration we have had regard to:
- (a) the recent trading range of Equity Trustees shares
 - (b) the number of shares to be issued by Equity Trustees under the Offer compared to the enlarged number of Equity Trustees shares on issue post completion of the Offer

- (c) the likely level of on-market trading in Equity Trustees shares subsequent to completion of the Offer, having regard to factors including:
- (i) any potential oversupply of Equity Trustees shares from those shareholders in Trust Company not wishing to retain the Equity Trustees shares received as consideration
 - (ii) the dilution effect implicit in any control premium being paid by Equity Trustees
 - (iii) the re-rating of Equity Trustees shares subsequent to the announcement of the Offer due to the level of synergies expected to arise on a combination of the businesses
- (d) recent stock market conditions; and
- (e) the earnings multiples implied by our adopted range.
- 14 Since the announcement of the Offer up until 9 April 2013 the volume weighted average market price (VWAP) of Equity Trustees shares was \$17.42². Consistent with historical liquidity in Equity Trustees shares we note less than 2% of the shares on issue traded during this period.
- 15 Based on the above we have assessed the realisable value of the Equity Trustees shares offered as consideration at between \$17.10 and \$17.70 per share. This assessment is on an “ex-dividend” basis and therefore excludes the interim dividend of 42 cents per share payable by Equity Trustees³ which Trust Company shareholders who accept the Offer will not receive.
- 16 Under the terms of the Offer, Trust Company shareholders who accept the Offer will be entitled to receive Trust Company’s final dividend for the year ended 28 February 2013 of up to 17 cents per share⁴.
- 17 We have therefore assessed the value of the consideration under the Offer at the amounts below:

Value of consideration per Trust Company share	Low \$ per share	High \$ per share
Assessed realisable value of Equity Trustees shares	17.10	17.70
Offer ratio	0.33	0.33
Assessed value of scrip consideration	5.64	5.84
Maximum dividend to be paid by Trust Company under the Offer	0.17	0.17
Total consideration (including dividend)	5.81	6.01

Assessment of fairness

- 18 Pursuant to RG 111 an offer is “fair” if:

² On an ex-dividend basis.

³ The record date for this dividend was 19 March 2013.

⁴ Trust Company has advised us that they intend to declare an 18 cent per share final dividend for FY13.

“The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”

- 19 This comparison is shown below:

Comparison of Offer consideration and Trust Company share value			
	Low	High	Mid-point
	\$ per share	\$ per share	\$ per share
Value of Offer consideration	5.81	6.01	5.91
Value of 100% of ordinary shares in Trust Company	6.03	6.29	6.16
Extent to which the Offer consideration exceeds (or is less than) the value of the ordinary shares in Trust Company	(0.22)	(0.28)	(0.25)

- 20 When assessing the “fairness” of scrip takeovers under RG 111, in our opinion, it is appropriate to have regard to the overall range of values (particularly as the scrip consideration is subject to daily fluctuation). As indicated above the range of values for the Offer consideration is consistently lower than our assessed value of 100% of the ordinary shares in Trust Company. Accordingly, in our opinion, the Offer is not fair based on the guidelines set out in RG 111.

Assessment of reasonableness

- 21 Pursuant to RG 111, an offer may be reasonable if, despite not being fair but after considering other significant factors, the expert is of the view that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.
- 22 We note that the mid-point of our assessed value of the Offer consideration (\$5.91 per share) represents a significant premium to the market prices of Trust Company shares prior to the announcement of the Offer, as shown below:

Implied offer premium relative to recent share prices		
	Trust Company share price	Implied control premium
	\$	%
Closing share price on 20 February 2013 ⁽¹⁾	4.75	24.4
1 month VWAP ⁽²⁾ to 20 February 2013	4.55	29.9
3 months VWAP to 20 February 2013	4.46	32.5

Note:

- 1 Being the closing price on the last day of trading prior to the announcement of the intention to make the Offer.
- 2 Volume weighted average price.

- 23 The above premiums largely arise because the market price of Equity Trustees shares has risen appreciably subsequent to the announcement of the Offer. Prima facie, this appears to reflect market recognition of the commercial logic of combining the two businesses and the associated inherent significant synergy benefits.

- 24 Given the size of the above implied premiums, in our opinion, the Offer is reasonable when assessed under RG 111.

Relative value contribution

- 25 Whilst the basis upon which we have assessed the “fairness” of the Offer is consistent with the requirements of RG 111 for “change of control” transactions, it should be noted that:

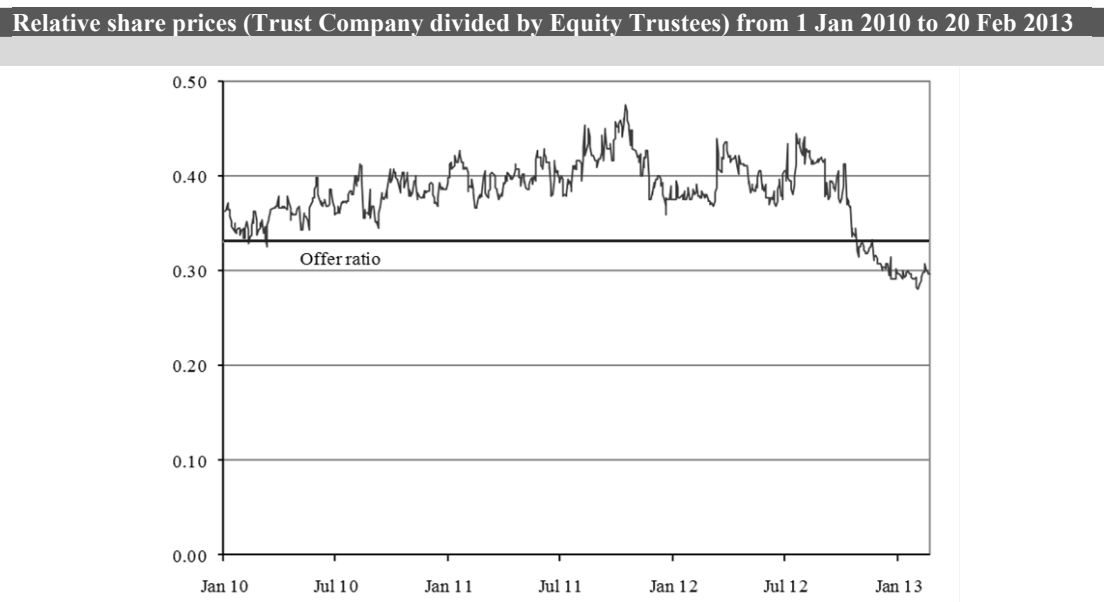
- (a) the consideration under the Offer comprises scrip only
- (b) both Trust Company and Equity Trustees are of a broadly similar size
- (c) due to the size of expected synergies, the value of the merged company is likely to exceed the combined value of both companies on a standalone basis⁵.

- 26 Given the above, in our view, a key consideration for Trust Company shareholders should be whether the Offer ratio (i.e. 0.33 shares in Equity Trustees for every share in Trust Company) appropriately reflects the value contributed by both companies to the merged entity. As stated above, this recognises that in scrip based offers arguably the relative value of each company is more relevant than each company’s absolute value.

- 27 Accordingly, we have considered the relative value of both companies based on share market trading and the capitalisation of earnings before interest and tax (EBIT) approach.

Share market trading

- 28 The relative value of both company’s shares based on share market trading from 1 January 2010 to 20 February 2013 (being the last trading day prior to the announcement of the Offer) in comparison with the Offer ratio of 0.33 is shown below:



Source: Bloomberg and LEA analysis.

⁵ We note that since the date of the announcement of the intention to make the Offer (up to 9 April 2013) the combined market capitalisation of the two companies has increased by around 16%.

- 29 As indicated above, prior to 17 October 2012 the listed market prices of each company's shares imply that the Offer ratio of 0.33 is too low. This is because over the period to 16 October 2012 the ratio reflected by the closing price of Trust Company shares divided by the closing price of Equity Trustees shares generally significantly exceeded the Offer ratio. We note that the average share price ratio over the period from 1 January 2010 to 16 October 2012 was 0.39.
- 30 While the subsequent share trading from 17 October 2012 up to 20 February 2013 implies an exchange ratio of less than 0.33, this would appear to be due to the significant negative market reaction to the announcement by Trust Company of its results for the six months ended 31 August 2012, which were below market expectations and included one-off charges for redundancies and a large client claim.
- 31 Since the announcement of the Offer, Trust Company has announced that its second half results for the six months ended 28 February 2013 were significantly above the expectations provided to the market in October 2012. However, due to the prior announcement of the Offer, we are unable to observe an unbiased share market response to this improved operating performance. Notwithstanding, in our opinion, we consider there are reasonable grounds for a view that the exchange ratio implied by the share market trading post the announcement of Trust Company's half year results on 9 October 2012 (to 20 February 2013) is likely to be less representative of the long-term underlying relative value of the two companies.
- 32 In our opinion therefore, it is appropriate to conclude that based on the relative share market trading in both company's shares over a longer time period the Offer ratio of 0.33 is too low.

Capitalisation of EBIT approach

- 33 We have also considered the relative underlying earnings of each company. However, due to the different level of other assets in each company (e.g. investments and cash balances), in our opinion it is necessary to undertake this comparison by valuing each company on a consistent basis.
- 34 Accordingly, we have undertaken a relative valuation of each company⁶ assuming that:
- (a) the same EBIT multiple of 10.5 to 11.0 is applied to the normalised EBIT for the last 12 months for both Trust Company and Equity Trustees
 - (b) the shares in Equity Trustees held by Trust Company are valued at the underlying value derived from the relative value calculations. In our opinion, this is appropriate given the current stated intention of Equity Trustees to cancel these shares should the Offer be successful.
- 35 Based on this analysis, the relative values imply an exchange ratio of 0.39 Equity Trustees shares for every Trust Company share. We note this implied ratio is broadly consistent with the ratio implied by longer term share market trading in the two companies (as discussed above).

⁶ Our calculations and related analysis are set out in Section IX of our report.

- 36 We have also considered the EBIT multiple that would need to be applied to Equity Trustees earnings (on a standalone basis) in order to support the Offer ratio of 0.33 (refer Section IX of our report). The EBIT multiple applied to the normalised EBIT of Equity Trustees for the 12 months ended 31 December 2012 would need to be some 22% higher than the EBIT multiple applied to Trust Company's normalised EBIT in order to derive an exchange ratio equal to the Offer ratio.
- 37 Whilst Equity Trustees was trading at a higher implied EBIT multiple than Trust Company immediately prior to the announcement of the Offer, in our opinion, the 22% premium implied by the Offer ratio is higher than could reasonably be supported having regard to the medium to longer term prospects of both companies.
- 38 Accordingly, in our opinion, an assessment of the Offer based on the relative value contributions of the two companies implies that the Offer ratio of 0.33 Equity Trustees shares for every Trust Company share is too low.

General

- 39 In preparing this report we have considered the interests of Trust Company shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 40 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Bidder's Statement and Target's Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.
- 41 The ultimate decision whether to accept the Offer should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice.
- 42 For our full opinion on the Offer, and the reasoning behind our opinion, we recommend that Trust Company shareholders read the remainder of our report.

Yours faithfully



Craig Edwards
Authorised Representative



Martin Holt
Authorised Representative

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- B Qualifications, declarations and consents**
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- E Glossary**

I Outline of the Offer

- 43 On 21 February 2013 Equity Trustees Limited (Equity Trustees) announced an intention to make a takeover offer for all the ordinary shares in The Trust Company Limited (Trust Company). The consideration under the offer is 0.33 Equity Trustees shares for each Trust Company share (the Offer). The Bidder's Statement in respect of the Offer was subsequently lodged on 18 March 2013.

Conditions

- 44 The Offer is subject to a number of conditions, which are summarised below:
- (a) achieving a level of acceptances sufficient to give Equity Trustees a relevant interest of at least 90% in Trust Company (during or by the end of the Offer period)
 - (b) between 21 February 2013 and the close of the Offer period, Trust Company does not appoint a new CEO or Managing Director following the resignation of Mr John Atkin
 - (c) between 21 February 2013 and the close of the Offer period, Trust Company does not incur or commit to any expenditure, or entering into any agreement which requires any expenditure, which is in connection with the systems upgrade or relates to any material upgrading of, investment in or outsourcing of information technology or business information systems or services beyond the expenditure already announced (provided such expenditure does not exceed \$800,000)
 - (d) between 21 February 2013 and the end of the Offer period, the S&P / ASX All Ordinaries Index does not close below 4,500 on each of three consecutive ASX trading days
 - (e) Equity Trustees receiving all required ministerial and other regulatory approvals in relation to the Offer and the transactions contemplated by the Bidder's Statement
 - (f) there is no preliminary, or final order, or other action, investigation or application which either:
 - (i) prohibits, impedes or otherwise materially adversely impacts on the making of the Offer or the rights of Equity Trustees; or
 - (ii) requires divestiture by Equity Trustees of any Trust Company shares or assets (other than orders by ASIC or the Takeovers Panel)
 - (g) no "Material Adverse Change" in respect of Trust Company (as defined in the Bidder's Statement)
 - (h) confirmation in the Target's Statement as to the earnings performance of Trust Company for the year ended 28 February 2013, in particular whether Trust Company's consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) (before significant items) for the six months ended 28 February 2013 will be no less than \$9.0 million
 - (i) confirmation in the Target's Statement in relation to certain liabilities of Trust Company (as specified in the Bidder's Statement). This includes confirmation that:

- (i) Trust Company has no undisclosed liability or contingent liability either in isolation or in aggregate with a value greater than \$1.0 million, or which had previously been disclosed and has increased in value by more than \$1.0 million
- (ii) the net cash of Trust Company as at 28 February 2013 was no less than \$5.0 million
- (j) at the end of the Offer period, there are no Trust Company securities on issue other than Trust Company ordinary shares (and there are no outstanding agreements to issue any Trust Company securities)
- (k) between 21 February 2013 and the end of the Offer period no dividends or distributions (of any kind) in excess of \$0.17 per share are made or declared by Trust Company
- (l) no “prescribed occurrence”, being an occurrence listed at Section 9.8(m) of the Bidder’s Statement
- (m) between 21 February 2013 and the end of the Offer period, Trust Company does not contravene the matters listed at Section 9.8(o) of the Bidder’s Statement in relation to the conduct of its business
- (n) other than that already in the public domain, no litigation (within defined financial parameters) is on foot, or commenced, threatened or announced against Trust Company
- (o) other than previously announced (or within the parameters specified in the Bidder’s Statement), no major capital or operating expenditure or major acquisitions or disposals are announced or committed by Trust Company
- (p) no materially incorrect or misleading statements are contained in, or material omissions are made from, any documents filed by Trust Company with the ASX or ASIC or elsewhere in the public domain
- (q) Trust Company provides Equity Trustees with equal access to any information not generally available that is provided to a third-party to solicit, encourage or facilitate a potential transaction that could be considered a competing proposal to the Offer
- (r) between 21 February 2013 and the end of the Offer period, Trust Company does not agree to make a payment by way of a break fee, cost reimbursement or otherwise to a third-party in connection with a potential competing proposal to the Offer.

45 More detail on the above conditions is set out in the Bidder’s Statement dated 18 March 2013.

II Scope of our report

Purpose

- 46 While there is no statutory requirement for Trust Company to obtain an IER, the Directors of Trust Company have requested that LEA prepare an IER stating whether, in LEA's opinion, the Offer is fair and reasonable.
- 47 This report has been prepared to assist the Directors of Trust Company in making their recommendation to Trust Company shareholders in relation to the Offer and to assist the shareholders of Trust Company assess the merits of the Offer. The sole purpose of this report is to set out LEA's opinion as to whether the Offer is fair and reasonable. This report should not be used for any other purpose.
- 48 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

- 49 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC, particularly RG 111.
- 50 RG 111 distinguishes "fair" from "reasonable" and considers:
- (a) an offer to be "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. A comparison must be made assuming 100% ownership of the target company
 - (b) an offer to be "reasonable" if it is fair. An offer may also be "reasonable" if, despite not being "fair", the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.
- 51 Our report has therefore considered:

Fairness

- (a) the market value of 100% of the shares in Trust Company (including its 13.3% interest in Equity Trustees)
- (b) the value of the consideration offered i.e. 0.33 Equity Trustees shares for each Trust Company share (taking into account the cross-shareholding⁷)
- (c) the extent to which (a) and (b) differ (in order to assess whether the Offer is fair under RG 111)

⁷ That is, Trust Company's 13.3% interest in Equity Trustees.

Reasonableness

- (d) the relative value of each company based on share market trading and a capitalisation of EBIT approach
- (e) the extent to which a control premium is being paid to Trust Company shareholders
- (f) the extent to which a share of the synergies identified by Equity Trustees as likely to arise upon an acquisition of Trust Company by Equity Trustees (being \$8.0 million per annum) is being shared with Trust Company shareholders
- (g) the listed market price of Trust Company shares:
 - (i) prior to the announcement of the Offer
 - (ii) subsequent to the announcement of the Offer
 - (iii) if the Offer is not successful
- (h) the value of Trust Company to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or sometime in the future
- (i) other qualitative and strategic issues, risks, advantages and disadvantages associated with the Offer.

Limitations and reliance on information

- 52 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 53 Our report is also based upon financial and other information provided by Trust Company and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS). We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 54 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Offer from the perspective of Trust Company shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 55 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.

- 56 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 57 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

III Profile of Trust Company

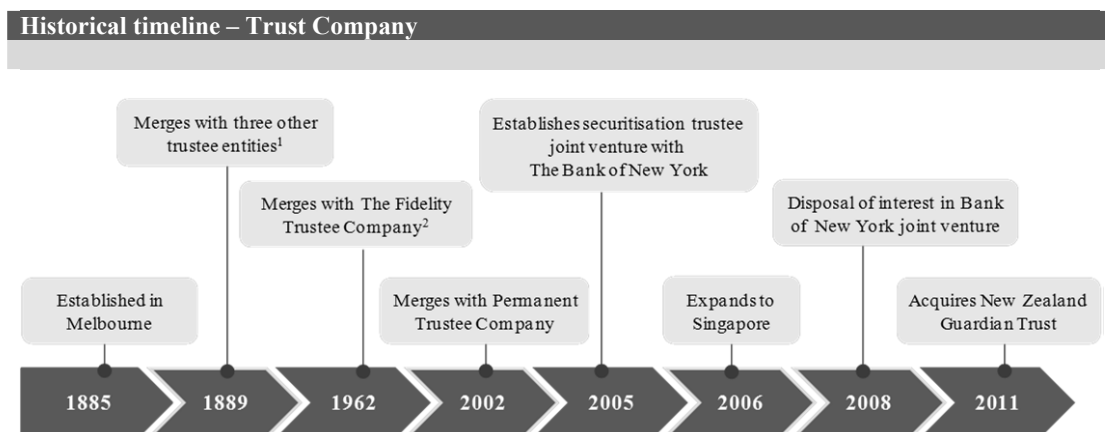
Overview

58 The Trust Company Limited (Trust Company) is an Australian trustee company offering a range of financial services to individuals, companies and charitable trusts. The company has two main operating divisions:

- (a) **Personal Client Services** – which offers advice and expertise in estate planning and administration, lifestyle and executor assistance, financial planning, personal trusts, charitable trusts, wealth management and health and personal injury services; and
- (b) **Corporate Client Services** – which offers responsible entity, property and infrastructure custody, superannuation compliance and trustee, debt capital market trustee services and Real Estate Investment Trust (REIT) trustee services in Australia and Singapore, and trustee services for debt securities, securitisation, unit trusts, superannuation and KiwiSaver⁸ in New Zealand.

History

59 Trust Company (known as The Union Trustees, Executors and Administrators Company Limited at the time) was established in 1885 in Melbourne during the Victorian gold rush. Since then the company has grown organically and merged with and acquired several entities. It has also expanded its operations into New Zealand and Singapore. A brief summary of these events is set out below:



Note:

- 1 The entities being The Australian Natives Trustees Executors and Agency Company Limited, The Colonial Permanent Trustee Executor and Agency Company Limited and Guardian Trustees Executors and Agency Company Limited.
- 2 To become the Union-Fidelity Trustee Company of Australia Limited.

⁸ The KiwiSaver scheme is a New Zealand voluntary long-term savings scheme which came into operation from 2 July 2007. The main purpose of the KiwiSaver fund is investment of retirement savings.

- 60 Major acquisition and merger activity by Trust Company since 2000 is shown below:
- (a) **Merger with Permanent Trustee Company** – in December 2002 Trust Company acquired Permanent Trustee Company (Permanent) via a Scheme of Arrangement. Under the terms of the scheme Permanent shareholders received 1.1856 Trust Company shares for each Permanent share held. As at 30 June 2002 Permanent had \$550 million of funds under management (FUM), \$1.9 billion of funds under trusteeship and around \$69.3 billion of assets under custody⁹
- (b) **Acquisition of New Zealand Guardian Trust** – in March 2011 Trust Company acquired New Zealand Guardian Trust Company Limited (Guardian) for NZ\$42 million (approximately \$31.6 million). At the time of the acquisition Guardian held \$43.0 billion of assets under supervision and \$4.8 billion of assets under administration (including over \$370 million in charitable funds).

Current operations

- 61 Trust Company has offices in Sydney, Melbourne, Brisbane, Townsville and Perth, as well as in New Zealand and Singapore. It currently employs approximately 400 people. Trust Company's funds under supervision, advice and management (by division) as at 28 February 2013 are set out below:

Funds under supervision, advice and management – 28 February 2013				
	Australia \$b	NZ \$b	Singapore \$b	Total \$b
Personal Client Services				
Funds under administration ⁽¹⁾ / management ⁽²⁾	3.6	2.8	-	6.4
Total	<u>3.6</u>	<u>2.8</u>	<u>-</u>	<u>6.4</u>
Corporate Client Services				
Funds under supervision ⁽³⁾	23.7	56.6	8.0	88.3
Funds under administration ⁽¹⁾	70.1	-	-	70.1
Total	<u>93.8</u>	<u>56.6</u>	<u>8.0</u>	<u>158.4</u>

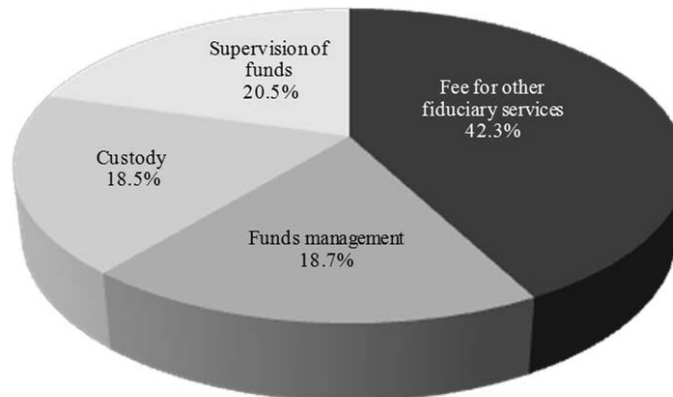
Note:

- 1 Funds under administration – means that Trust Company has a custodial responsibility only.
- 2 Funds under management – means that Trust Company is responsible for the management of the client portfolio (for which it uses external fund managers).
- 3 Funds under supervision – means that Trust Company has an active role as trustee / responsible entity.

- 62 A breakdown of revenue by products and services for Trust Company is shown below. Revenue of the Personal Client Services division represents funds management revenue and fees for other fiduciary services. Corporate Client Services revenue represents custody and supervision of funds revenues.

⁹ Source: Permanent Trustee Company, Information Memorandum dated 25 September 2002

FY12 revenue breakdown by products and services



Personal Client Services division

63 The Personal Client Service division provides the following services:

- (a) **Estate planning and estate administration** – estate planning assists individuals with the drafting of wills and planning of estates. Estate administration ensures that an individual’s assets are distributed according to their will
- (b) **Lifestyle care and executor assist** – Lifestyle care provides financial and property management services. Executor assist provides estate management as well as offering services such as paying debts, lodging tax returns, trust formation, defending any claims against wills and distributing estates according to wills
- (c) **Funds management and product development** – Trust Company offers a range of externally managed schemes and common funds for its clients to choose from
- (d) **Financial advice** – Trust Company provides financial advice to individuals to assist them in managing their finances and planning their estates, asset management and various other types of financial planning services
- (e) **Health and personal injury services** – Trust Company acts as financial manager or administrator in the provision of strategic financial advice and governance of financial disability settlements relating to catastrophically injured individuals
- (f) **Native Title** – Trust Company currently acts as either trustee or custodian trustee to four native title agreements in Australia and to 22 Maori trust agreements in New Zealand

- (g) **Philanthropy** – the philanthropy business unit designs and establishes specialised trusts for philanthropists and philanthropic organisations, acts as an independent professional trustee for such charitable trusts and ensures the investments and administration are optimised for both the charity’s requirements and the tax exemptions afforded to registered charities. Trust Company is an established service provider in the sector and in FY12 was responsible for over \$40 million of philanthropic distributions to the non-profit sector. It acts as trustee for over \$900 million in charitable funds across Australia and New Zealand. In addition, Trust Company runs its own foundation which now has a corpus of over \$30 million.

Corporate Client Services division

64 The Corporate Client Services division provides the following services:

- (a) **Property and infrastructure custody** – Trust Company carries out the role of custodian for large commercial and industrial property and infrastructure assets such as roads and airports, which it effectively holds the title to. It is the largest provider of these custodian services, with a significant market share. The division also carries out transaction execution and reporting in relation to the assets held
- (b) **Responsible entity services** – Trust Company offers trustee and responsible entity services for wholesale and retail managed investment schemes including the compliance and best-practice governance of those schemes
- (c) **Debt capital markets** – Trust Company provides trustee and escrow services to issuers of debentures, notes, bonds, as well as for issuers of hybrid securities; and
- (d) **Superannuation trustee services** – Trust Company provides trustee services for corporate superannuation schemes, including responsibility for all trustee governance compliance matters.

International operations

65 In addition to its Australian operations, Trust Company also has offices in New Zealand and Singapore:

- (a) Trust Company significantly expanded its New Zealand business in 2011 when it acquired Guardian. Guardian is long established and is the largest specialised trustee in New Zealand and operated 14 offices across New Zealand at the date of acquisition. In FY12 the New Zealand operations contributed around 33% of group revenue
- (b) Trust Company has been operating in Singapore since 2006 and offers a range of trustee services for REITs and unit trusts, mortgages or title documents and debentures and bonds. It also acts as custodian or cash administration agent for wholesale, private and exempt property funds.

IT systems upgrade

- 66 In October 2011 Trust Company announced an IT systems upgrade covering its client relationship management system, investment management platforms and personal trust account administration system. At the time Trust Company estimated that the cost of this upgrade would be around \$10 million. The company has subsequently indicated a cheaper option proposed to be implemented over a number of years.
- 67 Trust Company management expect that the IT systems upgrade will lower operating costs and improve client service levels, particularly in the Personal Client Services business.

Financial performance

- 68 We set out below a summary of the reported financial performance of Trust Company for the three years ended 28 February 2013:

Trust Company – statement of financial performance			
	FY11	FY12	FY13
	\$m	\$m	\$m
Fee and commission income	57.1	82.8	85.5
Operating expenses	(40.9)	(64.4)	(68.9)
Operating EBITDA	16.2	18.5	16.7
Depreciation and amortisation	(1.1)	(2.6)	(3.1)
Operating EBIT	15.1	15.9	13.6
Significant items ⁽¹⁾	(1.2)	1.0	1.5
EBIT	14.0	16.9	15.1
Dividend income from Equity Trustees	1.3	1.1	1.0
Net interest income (expense)	1.9	(0.1)	(0.2)
Profit before tax	17.2	17.8	15.9
Income tax expense	(5.9)	(5.2)	(4.2)
Profit attributable to members of the parent entity	11.3	12.6	11.7

Note:

- 1 Significant items (before tax) comprise:

Guardian acquisition costs	(1.5)	-	(0.1)
Suncorp recovery related to Guardian	-	-	1.6
Impairment of fixed assets	(0.5)	-	-
Claim recoveries – FAI General Insurance Company ⁽²⁾	0.8	1.0	-
Total significant items	(1.2)	1.0	1.5

- 2 Trust Company has an admitted claim against FAI General Insurance Company Limited (in liquidation) of \$17.0 million. To date 51.1 cents in the dollar has been received (\$8.7 million) since FY07. As the scheme administrator has indicated that the total percentage payout will range between 50 and 60 cents in the dollar we have assumed for valuation purposes that no further amounts will be received.

Rounding differences exist.

69 A further summary of these results by segment is set out below:

The Trust Company – results by segment			
	FY11	FY12	FY13
	\$m	\$m	\$m
Funds under management, administration or supervision:			
Corporate Client Services	117.1	147.5	158.4
Personal Client Services	3.4	5.8	6.4
Fee and commission income:			
Corporate Client Services	24.0	32.3	34.6
Personal Client Services	32.2	49.7	50.4
Unallocated fee revenue	0.8	0.8	0.5
Total fee and commission income	57.1	82.8	85.5
Operating EBITDA:			
Corporate Client Services	9.6	14.2	16.2
Personal Client Services	9.9	8.5	5.2
Unallocated executive and legal expenses	(3.3)	(4.2)	(4.8)
Total Operating EBITDA	16.2	18.5	16.7

Note:

Rounding differences may exist.

70 Key matters impacting on the reported profitability over recent periods are discussed below.

Year ended 28 February 2011

- 71 Fee and commission income increased 4% in FY11 reflecting growth in Responsible Entity and Managed Investment Trust (MIT) mandates and higher equity markets, offset by lower recurrent revenue from the administration of estates and trusts and reductions in FUM from a cash management product.
- 72 Operating EBITDA in FY11 was impacted by a number of one off items which were not treated as significant items for reporting purposes, including:
- (a) non-recurring capital commission income of \$2.3 million
 - (b) rental sublease income of \$0.7 million, which was only expected to be received for a few months into FY12.
- 73 After adjusting for the above items, normalised EBITDA (which is summarised in Section VII) was down slightly in FY11 compared with FY10. In part, this reflected a 4.5% increase in average salaries following a general pay freeze in FY10 and the employment of additional staff in the Business Development and Responsible Entity teams to capitalise on growth opportunities. In FY11 costs of \$1.5 million associated with the acquisition of Guardian were also expensed.

Year ended 29 February 2012

- 74 Total fee and commission income increased around 45% (or \$25.7 million) to \$82.8 million in FY12. The main contributor to this increase was the 12 month contribution (revenue of \$27.9 million¹⁰) from the Guardian business which was acquired with effect from 1 March 2011.
- 75 The Guardian business contributed EBITDA of \$6.2 million in FY12, reflecting a full 12 months contribution. At the date of acquisition, Guardian had assets under administration of approximately \$4.8 billion and assets under supervision of over \$43 billion.
- 76 Operating EBITDA excluding the Guardian contribution fell in FY12 reflecting:
- (a) lower revenue in the personal clients business, reflecting the non-recurring capital commission in FY11 of \$2.3 million and the negative equity market performance¹¹
 - (b) higher revenue from corporate clients due to higher activity levels and growth in MIT¹² and custody mandates, offset by a number of expiring mandates and an increase in doubtful debts
 - (c) average salary increases in Australia of 4.5% per annum over the year
 - (d) redundancy costs of approximately \$0.5 million.
- 77 Interest income was lower in FY12 as surplus cash was used to fund the Guardian acquisition. The average tax rate fell following this acquisition due to New Zealand's lower company tax rate of 28%.

Year ended 28 February 2013

- 78 Total fee and commission income increased around 3.3%. This increase reflected a 7.1% increase in revenue from the corporate business due to higher transactional revenue and some high profile client wins (e.g. ING Direct and Fonterra), and lower revenue growth of 1.4% in the personal client services business.
- 79 Operating expenses increased 7.0% (\$4.5 million), largely due to a \$1.4 million long standing client claim and \$1.2 million in redundancy costs following an operational review. These items largely related to the personal business.
- 80 Further, the Guardian (Personal) business in New Zealand underperformed reflecting, inter alia, the impact of regulatory changes and separation costs from Suncorp.
- 81 As a result of the above the operating EBITDA of the personal business fell from \$8.5 million to \$5.5 million. However, on a normalised basis the EBITDA of the group increased from \$15.2 million to \$16.5 million (as shown in Section VII).

¹⁰ At an exchange rate of A\$1.00 = NZ\$1.30.

¹¹ Trust Company has advised that every 1% movement in the S&P / ASX 200 index impacts revenue by approximately \$100,000 (although the changing mix of equity, cash and property assets under supervision means this relationship is non-linear).

¹² At the end of FY12 Trust Company was trustee to 30 MITs which held over \$5.2 billion in assets. In comparison at the end of FY11 only 13 MIT mandates were held. Many of these appointments were sourced out of Trust Company's Singapore office.

Financial position

82 Trust Company's financial position as at 28 February 2013 is shown below:

Trust Company – statement of financial position	
	28 Feb 13
	\$m
Cash and cash equivalents	19.5
Trade and other receivables	23.4
Current tax asset	0.3
Total current assets	<u>43.2</u>
Trade and other receivables	0.5
Other non-current financial assets	20.3
Indemnities receivable	4.5
Property, plant and equipment	10.3
Goodwill	59.8
Intangible assets	9.4
Deferred tax assets	2.6
Other non-current assets	0.6
Total non-current assets	<u>108.0</u>
Total assets	<u>151.2</u>
Trade and other payables	5.0
Provisions	3.4
Total current liabilities	<u>8.4</u>
Long-term borrowings	10.0
Provisions	2.3
Indemnities payable	4.5
Total non-current liabilities	<u>16.8</u>
Total liabilities	<u>25.2</u>
Net assets	<u>126.0</u>

Note:

Rounding differences may exist.

83 In relation to the above we note that:

- (a) Trust Company had net cash¹³ of \$9.5 million as at 28 February 2013
- (b) trade and other receivables include \$3.0 million owing to Trust Company in connection with the sale of a property in Brisbane, which is due to be settled in July 2013¹⁴
- (c) non-current financial assets of \$20.3 million represent the listed market value on 28 February 2013 of Trust Company's shareholding in Equity Trustees¹⁵

¹³ Being cash less long-term borrowings.

¹⁴ Unconditional contracts in relation to the sale have been exchanged.

¹⁵ Being 1,193,942 shares at the last traded market price on 28 February 2013 of \$17.10 per share.

- (d) indemnity receivables were offset by indemnity payables and related to certain indemnity arrangements that had been agreed between Trust Company and Suncorp as part of the acquisition of Guardian. In summary, the indemnity liabilities recognised were recoverable from Suncorp pursuant to the terms of the acquisition
- (e) goodwill included \$20.6 million recognised as a result of the acquisition of Guardian effective 1 March 2011
- (f) intangible assets of \$9.4 million represented the book value attributable to “professional fiduciary relationships” acquired as part of the acquisition of Guardian. As this acquisition accounting (and related amortisation charges) have no impact on the underlying earnings / cash flow generation of Trust Company we have added back the related amortisation charges when assessing EBIT for valuation purposes.

Share capital and performance

- 84 Trust Company currently has 33,538,449 shares on issue. In addition, there are 792,110 performance share rights on issue (which will result in the issue of 792,110 new shares if the respective performance hurdles are achieved) and a further 73,546 performance share rights are expected to be issued shortly. In the event of a takeover or other control event, Trust Company’s Board can waive the performance hurdles. Accordingly, when valuing 100% of the shares in Trust Company, in our opinion, it is appropriate to assume that these additional shares will be issued.

Significant shareholders

- 85 As at 28 March 2013 substantial shareholders in Trust Company were Milton Corporation Limited with 3,544,807 (10.6%) of Trust Company shares on issue, Australian Foundation Investment Company Limited with 2,286,726 (6.8%) of the shares on issue and The Trust Company Limited (as trustee / custodian for clients) with 1,464,142 (4.4%) of the shares on issue.

Share price performance

- 86 The price of Trust Company shares from 1 January 2010 to 20 February 2013 (being the last trading day prior to the announcement of the Offer) is summarised below:

Trust Company – share price performance				
	High \$	Low \$	Close \$	Monthly volume ⁽¹⁾ 000
Quarter ended				
March 2010	6.70	6.00	6.40	727
June 2010	6.52	5.50	5.52	142
September 2010	6.20	5.41	5.81	119
December 2010	6.33	5.75	6.30	144
March 2011	6.85	5.92	6.17	168
June 2011	6.73	5.17	5.50	112
September 2011	5.75	4.90	5.30	169
December 2011	5.70	4.91	5.01	194
March 2012	5.34	5.00	5.20	105
June 2012	5.30	4.40	4.42	300

Trust Company – share price performance				
	High \$	Low \$	Close \$	Monthly volume ⁽¹⁾ 000
Month ended				
July 2012	5.29	4.41	5.29	187
August 2012	5.29	5.05	5.07	116
September 2012	5.12	4.80	4.90	119
October 2012	5.36	4.50	4.55	243
November 2012	4.69	4.30	4.31	188
December 2012	4.50	4.22	4.38	183
January 2013	4.54	4.39	4.45	262
February 2013 ⁽²⁾	4.85	4.42	4.75	156

Note:

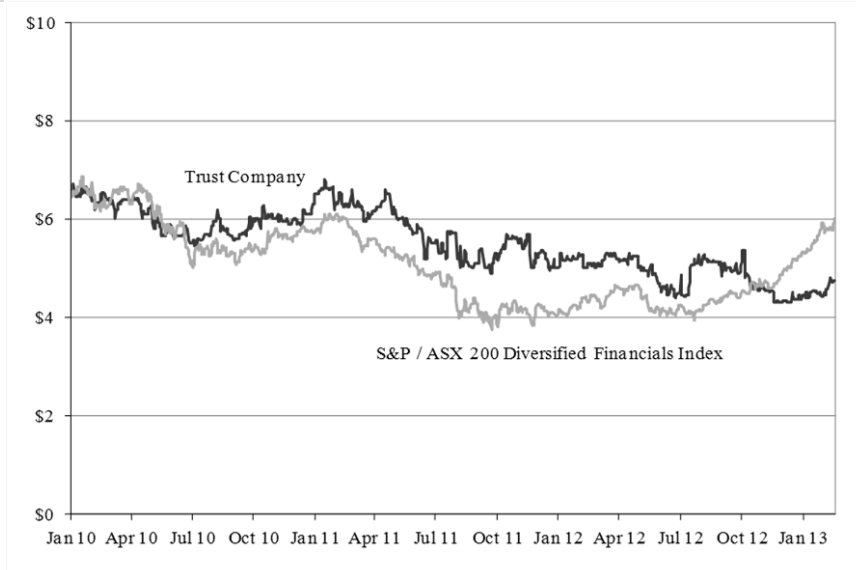
1 Monthly volumes for the quarter ended represent average monthly volumes.

2 Up to and including 20 February 2013.

Source: Bloomberg.

- 87 The following chart illustrates the movement in the share price of Trust Company compared to the S&P / ASX 200 Diversified Financials Index from 1 January 2010 to 20 February 2013 (being the last trading day prior to the announcement of the Offer):

**Trust Company – share price history⁽¹⁾
1 January 2010 to 20 February 2013**



Note:

1 Based on closing prices. The S&P / ASX 200 Diversified Financials Index has been rebased to Trust Company's last traded price on 4 January 2010.

Source: Bloomberg and LEA analysis.

88 Trust Company's share price has broadly tracked the S&P / ASX 200 Diversified Financials Index over the above period, having outperformed the index until October 2012. The subsequent relative underperformance of Trust Company shares is likely to be attributable to the announcement of its half year results on 9 October 2012, which were below market expectations at the time.

Liquidity in Trust Company shares

89 The liquidity in Trust Company shares based on trading on the ASX over the 12 month period prior to 20 February 2013 is set out below:

Trust Company – liquidity in shares					
	Start date	End date	Value \$000	Volume 000	As a % of issued capital
3 months	21 Nov 12	20 Feb 13	3,203	719	2.14
6 months	21 Aug 12	20 Feb 13	5,535	1,200	3.58
12 months	21 Feb 12	20 Feb 13	12,549	2,599	7.76

Source: Bloomberg, LEA analysis.

90 While the volume of shares traded in Trust Company as a proportion of the total number of shares on issue is relatively low compared to ASX companies generally, we note that:

- (a) in the 12 months prior to the announcement of the Offer the total value of Trust Company shares traded was approximately \$12.5 million
- (b) Trust Company appears to have a fairly stable shareholder base, with approximately 38% of the shares held by the top 20 shareholders (including Milton Corporation Limited and Australian Foundation Investment Company Limited with interests of 10.6% and 6.8% respectively)^{16 17}
- (c) as stated above, since January 2010 there has been a reasonable degree of correlation between the Trust Company share price and the S&P / ASX 200 Diversified Financials Index, which, prima facie, indicates that the lower level of share trading in Trust Company shares has not materially impacted the listed market price of its shares.

¹⁶ As at 28 March 2013.

¹⁷ Milton Corporation Limited and Australian Foundation Investment Company Limited are ASX listed investment companies, both of which have a long-term investment focus.

IV Profile of Equity Trustees¹⁸ (prior to Offer)

Overview

91 Equity Trustees is an Australian financial services provider specialising in estates and trusts, philanthropy, wealth management, superannuation, managed funds and corporate trustee services. Its services include responsible entity services for external fund managers, distribution of managed funds and private wealth services comprising estate management, trustee services, legal, financial and taxation advice, personal investment advice, superannuation, aged care financial planning, placement advice and training services. It was established in 1888 by an Act of the Victorian Parliament to provide trustee and executor services and now has approximately 190 employees.

Current operations

92 Equity Trustees two primary business divisions are:

- (a) **Private Wealth Services** – provides personal financial and superannuation services including wealth management, trust management, estate planning, executorial, taxation, philanthropic services, and superannuation trustee and administration services via a “fund of funds” Master Trust; and
- (b) **Corporate Fiduciary & Financial Services** – provides a range of services to Australian managed investment schemes and corporate trusts including management, facilitation of distribution, responsible entity and trustee roles, compliance and risk management.

93 In the year ended 30 June 2012 (FY12) the Private Wealth Services and Corporate Fiduciary & Financial Services divisions generated revenues of \$23.5 million and \$18.3 million respectively. Total funds under management and administration as at 31 December 2012 were approximately \$28 billion, some 30% higher than 12 months earlier.

Private Wealth Services

94 The Private Wealth Services division provides a comprehensive range of services designed to help clients grow, manage and protect wealth, supported by an in-house asset management team that provides investment advice. A summary of these services is set out below:

- (a) **Trusts and estates** – services to assist clients in establishing a trust for family or charitable purposes and advice on implementing and executing a plan to transfer wealth to the next generation
- (b) **Wealth management** – a complete investment advisory and administration product assisting clients with managing assets and offering investment advice. Taxation services in relation to trust and estate taxation administration, compliance and planning are also offered
- (c) **Asset management** – comprehensive professional executor services to ensure that the terms of a will and/or estate are managed

¹⁸ This profile is based on publicly available information in respect of Equity Trustees.

- (d) **Portfolio services** – flexible superannuation solutions for both employers and personal clients; and
- (e) **Philanthropic services** – advice on establishing and administering charitable trusts and foundations and managing investment portfolios held within the trusts, together with grant making.

Corporate Fiduciary & Financial Services

95 The Corporate Fiduciary & Financial Services division provides the following services:

- (a) **Corporate Fiduciary Services** – in addition to providing specialised trustee services to private clients, the company acts as a responsible entity / trustee for over 50 leading Australian and international fund managers and also provides custody and asset administration services. The business has a long history as an established statutory trustee, with in excess of \$20 billion under trusteeship and administration; and
- (b) **Financial Services** – Equity Trustees has formed alliances with external specialist investment managers to provide a wide range of managed funds covering all major asset categories (e.g. Australian and international shares, property trusts, fixed interest and cash).

Strategic developments

96 During FY12 Equity Trustees initiated a long-term strategic review, which included:

- (a) the reorganisation of the business from an accumulation of separate product or service based activities (each with its own support lines) to an integrated business with centralised support units. This resulted in the combination of the Private Clients and Superannuation business units to create the Private Wealth Services business unit; and
- (b) the launch of Project Foundation, a company-wide review to remove overlap and duplication in operating systems and processes, increase the automation of transactional processes and enhance company efficiency and controls¹⁹.

Recent acquisitions

97 Recent acquisitions made by Equity Trustees were as follows:

- (a) on 1 November 2010 the group acquired OAMPS Superannuation Management Pty Limited and OAMPS Superannuation Ltd for approximately \$10.8 million. These acquisitions added approximately \$265 million in FUM and were expected to be earnings per share accretive in the first full year of integration²⁰

¹⁹ Source: 2012 AGM Chairman and Managing Director presentations.

²⁰ Source: ASX announcement dated 27 September 2010.

- (b) on 14 June 2011 Equity Trustees announced the purchase of two specialised aged care advisory businesses from Paragon Care (Lifetime Planning and Tender Living Care) for around \$1.5 million. The businesses complemented Equity Trustees existing services and enabled expansion into the provision of services for clients considering moving into aged care accommodation.

Financial performance

- 98 We set out below a summary of the reported financial performance of Equity Trustees for the three years ended 30 June 2012, and for the six months ended 31 December 2011 and 2012:

Equity Trustees – summary of financial performance					
	FY10	FY11	FY12	6 mths to 31 Dec 11	6 mths to 31 Dec 12
	\$m	\$m	\$m	\$m	\$m
Revenue from service activities	33.6	38.6	42.6	20.5	22.2
EBITDA before non-operating items ⁽¹⁾	11.4	11.7	12.1	5.6	6.4
Depreciation and amortisation ⁽²⁾	(1.1)	(1.1)	(1.3)	(0.7)	(0.7)
EBIT before non-operating items ⁽¹⁾	10.3	10.6	10.8	4.9	5.7
Non-operating items ⁽³⁾	0.6	0.6	0.7	0.4	0.4
EBIT ⁽¹⁾	10.9	11.2	11.5	5.3	6.1
Net interest income	0.5	0.3	0.2	0.1	0.1
Profit before tax	11.5	11.5	11.7	5.4	6.2
Income tax expense	(3.4)	(3.3)	(3.3)	(1.5)	(1.8)
Profit after tax	8.0	8.2	8.4	3.9	4.4

Note:

- 1 Includes dividend income from investments.
2 Principally amortisation of computer software.
3 Principally gain on sale of investments.
Rounding differences may exist.

- 99 Key matters impacting on the reported profitability over recent periods are discussed below.

Year ended 30 June 2010

- 100 In FY10 operating revenue (excluding investment income and profits on the sale of investments) increased approximately 2.8%. However operating profit including interest income fell approximately 1.8%. While volatile equity markets continued to have an adverse impact on financial performance, second half operating profit exceeded the first half by approximately 20%²¹. Further, funds under management and/or administration increased significantly by year end, as shown below:

Business unit	2010 growth in funds under management / administration
Private Clients	Assets under management up 13.4% to \$1,261 million
Funds Management	Funds under management up 12.3% to \$2,176 million
Fund Services	Funds under administration up 28.9% to \$14,450 million
Superannuation	Funds under management up 10.4% to \$624 million

²¹ Source: ASX announcement dated 26 August 2010.

Year ended 30 June 2011

- 101 In FY11 equity market volatility continued to adversely affect business performance. While revenue from service activities increased approximately 14.9%, some margin pressure was experienced as a result of which operating profit (including interest income) was up only 1%.
- 102 The result in FY11 was also impacted by certain one-off and non-recurring acquisition-related expenses, together with duplicated staff costs during the implementation of a new investment management system. However significant growth in funds under management and/or administration was achieved during the year:

Business unit	2011 growth in funds under management / administration
Private Clients	Assets under management increased 4.0% to \$1,312 million
Corporate Fiduciary & Financial Services ⁽¹⁾	Funds under management / administration increased by 20.5% to \$19,485 million
Superannuation	Funds under management increased 56.9% to \$979 million

Note:

- 1 During FY11 the Funds Management and Fund Services business units were combined to become Corporate Fiduciary & Financial Services.

- 103 As stated above, Equity Trustees also acquired OAMPS Superannuation Management Pty Limited and OAMPS Superannuation Ltd in FY11, which added approximately \$265 million in FUM.

Year ended 30 June 2012

- 104 Total revenue increased approximately 10% in FY12, of which 3% was from organic growth and 7% was from acquisitions. Equity markets remained volatile and closed 11% lower by year end. Operating profit before tax and significant items increased approximately 2% in FY12. This reflected lower profit margins due to competitive activity and expenses associated with investment in the business.
- 105 The growth in funds / assets under management and/or administration in FY12 is shown below:

Business unit	2012 growth in funds under management / administration
Private Wealth Services ⁽¹⁾	Funds / assets under management up 0.3% to \$2,415 million
Corporate Fiduciary & Financial Services	Funds under management / administration up 9.9% to \$21,415 million

Note:

- 1 During FY12 the Private Clients and Superannuation business units (including the aged care advisory business acquired in August 2011) were combined to create the Private Wealth Services business unit.

Six months to 31 December 2012

- 106 Operating revenue in the six months ended 31 December 2012 increased approximately 8.3% on the prior corresponding period. In part, this performance reflected significantly improved equity markets since July 2012²².
- 107 In the same period operating profit before tax increased 15.3% due to the higher revenue and improved profit margins. The margin improvement reflected cost control and the implementation benefits of past projects to achieve system and process efficiencies.

Normalised EBIT

- 108 The reported EBIT of Equity Trustees (shown above) includes dividend income on its investment portfolio. As these investments should be valued separately from the core services business we have excluded this dividend income when setting out the normalised profitability of the core services business below. In addition, when setting out normalised EBIT we have added back the amortisation charges relating to management rights recognised as a result of various acquisitions (on the basis that they arise solely due to acquisition accounting entries and do not impact future underlying earnings / cash flows) and have added back various non-recurring expenses identified by Equity Trustees in their investor presentations:

Equity Trustees – normalised EBIT					
	FY10⁽¹⁾	FY11⁽¹⁾	FY12	6 mths to	6 mths to
	\$m	\$m	\$m	31 Dec 11	31 Dec 12
	\$m	\$m	\$m	\$m	\$m
EBIT before non-operating items	10.3	10.6	10.8	4.9	5.7
Less dividend income on investments	(0.4)	(0.3)	(0.1)	-	-
Add back non-recurring expenses ⁽²⁾	0.4	0.7	0.6	0.2	-
Add back amortisation of management rights	0.2	0.2	0.2	0.1	0.1
Normalised EBIT	10.5	11.2	11.5	5.2	5.8

Note:

- 1 Due to insufficient information on the profitability of the businesses acquired in November 2010 and June 2011, the above results for FY10 and FY11 have not been normalised to reflect the full year impact of these acquisitions.
- 2 Source: Page 6 of Equity Trustees investor presentations dated 30 August 2012 and 25 August 2011, and page 9 of Equity Trustees investor presentation dated 27 February 2012.
Rounding differences may exist.

FY13 outlook

- 109 In terms of the outlook for the remainder of FY13 Equity Trustees has stated²³ that:

- (a) *“...the restructuring of the business into two focused units – Private Wealth Services and Corporate & Financial Services – is now complete and we expect the implementation of a new strategic growth project in Private Wealth Services will begin to deliver further improvement in performance over the coming periods”*

²² From 1 July 2012 to 31 December 2012 the S&P ASX 200 index increased 13.5%.

²³ Source: ASX announcement dated 27 February 2013.

- (b) *“We have started the second half on a positive note, underpinned by strong growth in Funds Under Management and Administration (FUMA) in the first half. Over the last 12 months FUMA has grown in excess of 30% to \$28 bil”.*

110 However, no specific profit guidance for FY13 has been given by the company.

Financial position

111 We set out below the financial position of Equity Trustees as at 30 June 2012 and 31 December 2012:

Equity Trustees – statement of financial position		
	30 Jun 12	31 Dec 12
	\$m	\$m
Cash and cash equivalents	9.9	7.8
Trade and other receivables	4.9	5.3
Other current assets	2.7	3.5
Total current assets	17.5	16.6
Trade and other receivables	0.1	0.1
Other financial assets	2.9	3.8
Property, plant and equipment	0.9	1.0
Intangible assets	33.1	33.2
Deferred tax assets	1.6	1.5
Goodwill	9.4	9.4
Total non-current assets	48.0	49.1
Total assets	65.5	65.7
Trade and other payables	0.6	0.5
Provisions	2.7	2.2
Other current liabilities	0.1	0.1
Current tax payable	0.5	0.3
Total current liabilities	4.0	3.0
Provisions	1.4	1.4
Other non-current liabilities	0.4	0.4
Deferred tax liabilities – investment revaluation	0.2	0.2
Total non-current liabilities	2.0	1.9
Total liabilities	6.0	4.9
Net assets	59.5	60.8

Note:

Rounding differences may exist.

112 In relation to the above we note that:

- (a) Equity Trustees had cash of \$7.8 million as at 31 December 2012 and no interest bearing debt
- (b) other current assets (\$3.5 million as at 31 December 2012) represent prepayments and accrued income

- (c) other financial assets (\$3.8 million as at 31 December 2012) represent the fair value of investments in Australian equities and managed investment schemes
- (d) intangible assets largely comprise the values attributed to management rights acquired pursuant to a number of business acquisitions. As the recognition (and subsequent amortisation) of these management rights arises solely due to acquisition accounting entries (and has no impact on the future underlying earnings or cash flow of the business) we have ignored these amortisation charges²⁴ when considering the underlying profitability of Equity Trustees. Other intangible assets include computer software and leasehold make-good
- (e) current and non-current provisions principally relate to employee entitlements (e.g. annual and long service leave)
- (f) deferred tax liabilities – investment revaluation represents the taxation liability which would have been crystallised if Equity Trustees had sold its investments for their stated fair values at the reporting dates.

Shares capital and performance

113 As at 15 March 2013 Equity Trustees had 8,973,198 fully paid ordinary shares on issue. In addition, eligible executives under the Equity Trustees Limited Executive Performance Share Plan 1999 had share entitlements exercisable over 163,280 ordinary shares. Unvested share entitlements are subject to various performance criteria, and are exercisable for nil consideration once vesting has occurred.

Share price

114 The price of Equity Trustees shares from 1 January 2010 to 20 February 2013²⁵ is summarised below:

Equity Trustees – share price performance				
	High	Low	Close	Monthly volume ⁽¹⁾
	\$	\$	\$	
March 2010	19.30	16.91	16.91	46,191
June 2010	17.50	14.71	15.20	41,584
September 2010	16.50	14.65	14.76	81,177
December 2010	16.00	14.74	15.80	37,513
March 2011	17.30	15.40	15.71	42,074
June 2011	16.00	13.56	13.90	41,772
September 2011	14.00	11.60	11.60	70,818
December 2011	13.80	11.50	13.35	33,669
March 2012	13.95	12.00	12.40	38,217
June 2012	12.95	11.00	11.06	33,616
Month ended				
July 2012	12.20	11.10	12.20	26,627
August 2012	12.50	12.00	12.25	27,734
September 2012	13.20	12.50	13.20	26,992
October 2012	14.50	12.99	14.00	38,164
November 2012	14.35	13.66	14.01	34,253

²⁴ Amortisation charges in relation to management rights have historically been around \$0.2 million per annum.

²⁵ Being the last day of trading prior to the announcement of the Offer.

Equity Trustees – share price performance	High \$	Low \$	Close \$	Monthly volume ⁽¹⁾
December 2012	15.05	14.00	14.75	95,110
January 2013	15.79	14.90	15.73	38,489
February 2013 ⁽²⁾	16.00	15.05	16.00	49,989

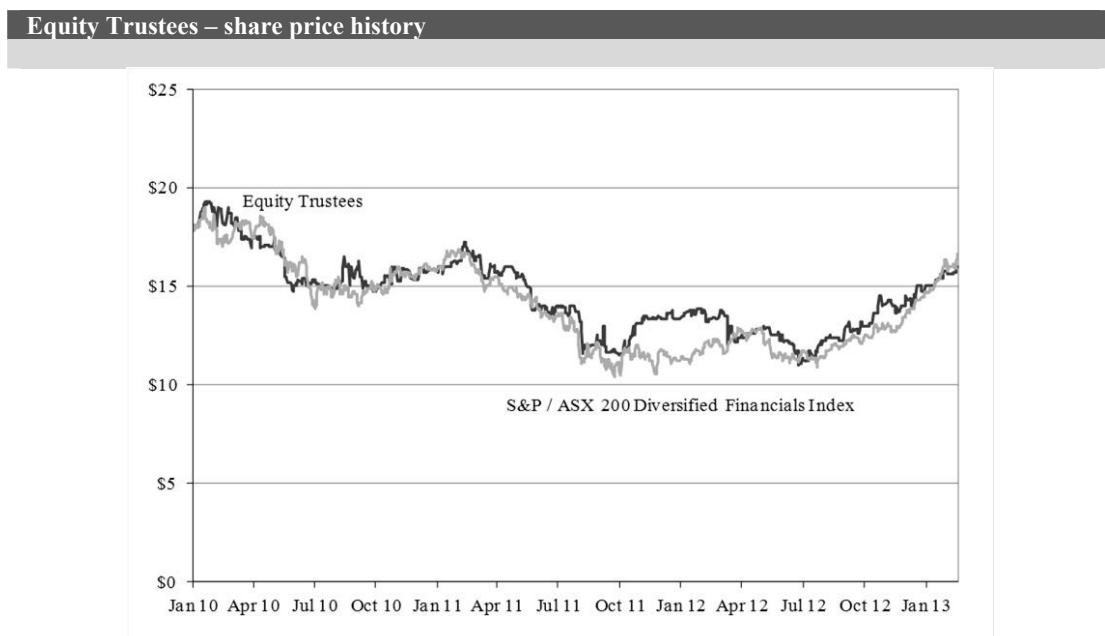
Note:

1 Monthly volumes for the quarter ended represent average monthly volumes.

2 Up to and including 20 February 2013.

Source: Bloomberg.

- 115 The following chart illustrates the movement in the share price of Equity Trustees compared to the S&P / ASX 200 Diversified Financials Index from 1 January 2010 to 20 February 2013²⁶.



Note:

1 Based upon closing prices. The S&P / ASX Diversified Financials Index has been rebased to Equity Trustees last traded price on 1 January 2010 (\$17.80 per share).

Source: Bloomberg.

- 116 As shown above there has been a high degree of correlation between the share price of Equity Trustees and the S&P / ASX 200 Diversified Financials Index over the above period.

²⁶ Being the last day of trading prior to the announcement of the Offer.

Liquidity in Equity Trustees shares

117 The liquidity in Equity Trustees shares based on trading on the ASX over the 12 month period prior to 20 February 2013 is set out below:

Equity Trustees – liquidity in shares						
	Start date	End date	Value \$000	Volume	As a % of issued capital	WANOS ⁽¹⁾ 000
1 month	21 Jan 13	20 Feb 13	1,136	72,687	0.81	8,973
3 months	21 Nov 12	20 Feb 13	2,968	199,687	2.23	8,972
6 months	21 Aug 12	20 Feb 13	4,285	298,840	3.34	8,955
12 months	21 Feb 12	20 Feb 13	6,871	504,990	5.68	8,885

Note:

1 WANOS – weighted average number of outstanding shares.

Source: Bloomberg and LEA analysis.

118 While the volume of shares traded in Equity Trustees as a proportion of the total number of shares on issue is relatively low compared to ASX companies generally, we note that:

- (a) in the 12 months prior to the announcement of the Offer the total value of Equity Trustee shares traded was approximately \$6.9 million
- (b) Equity Trustees appears to have a fairly stable shareholder base, with approximately 48% of the shares held by the top 20 shareholders²⁷ (including Trust Company with a 13.3% interest)
- (c) as stated above, since January 2010 there has been a high correlation between the Equity Trustees share price and the S&P / ASX 200 Diversified Financials Index, which, prima facie, indicates that the lower level of share trading in Equity Trustees shares has not materially impacted the listed market price of its shares.

²⁷ As at 31 August 2012 (as disclosed in the 2012 annual report).

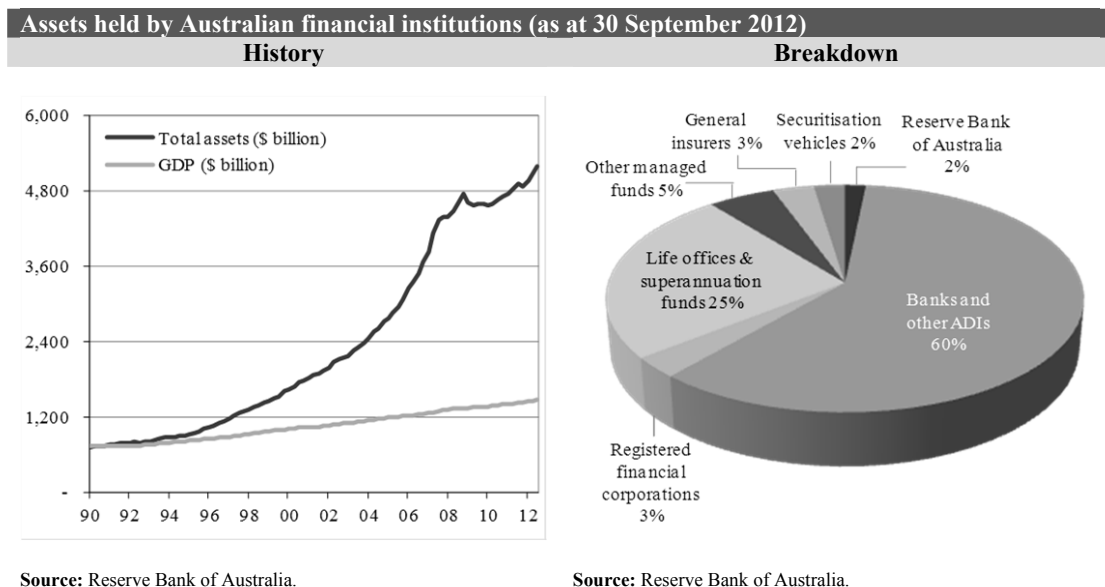
V Industry overview

Overview

119 Trust Company and Equity Trustees were both established in the 1880s as trustee corporations providing traditional trustee services, including the establishment and administration of personal and charitable trusts and acting as the executor of deceased estates. In response to client demands, both companies subsequently expanded their operations across the broader financial services industry, with particular emphasis on the Australian investment and wealth management sectors.

Australian financial institutions

120 In aggregate, Australian financial institutions held assets of around \$5.2 trillion as at 30 September 2012. Growth in assets has significantly outpaced economic growth (compared to nominal gross domestic product (GDP)) as shown below. A breakdown of the assets held by Australian financial institutions as at 30 September 2012 is also set out below:



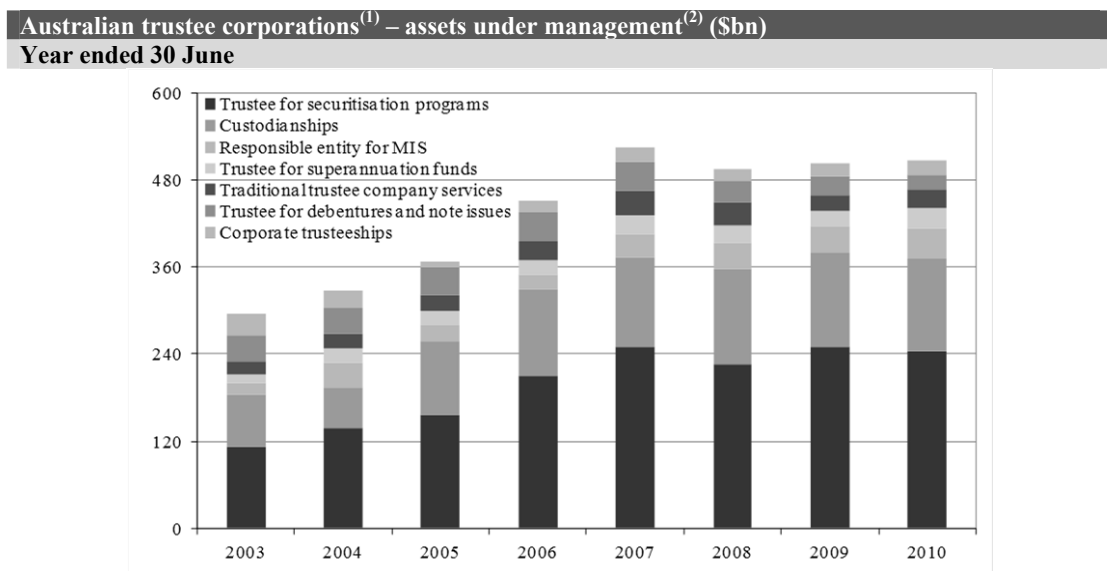
Australian trustee corporations

History

121 Traditionally only an individual could act as a trustee to take on the role of executor or administrator of an estate. In the 1870s legislation was first enacted to extend this function to licensed trustee corporations. In doing so clients were thereby granted access to greater expertise and resources than may have otherwise been available from an individual, whilst also allowing for perpetual succession for long-term trusts. In the decade that followed the majority of the trustee corporations now authorised by law were established.

Key statistics

- 122 There are currently eight public trust offices²⁸ and 11 private trustee corporations in operation across Australia, with aggregate assets under management²⁹ of over \$500 billion. A summary of the movement in assets under management for the eight years to 30 June 2010³⁰ is set out below:



Note:

- 1 Includes all public and private Australian trustee corporations except for Mutual Trust Pty Limited and The Myer Family Company Limited.
2 Includes assets under management, assets under advice and assets under administration.

Source: Financial Services Council Australia.

- 123 Trustee corporations' assets under management grew significantly in the lead up to the global financial crisis (GFC) (2007 / 2008), a period underpinned by the rapid development of the securitised residential mortgages market and the expansion of managed investment schemes and superannuation funds. The onset of the GFC significantly impacted industry growth, particularly within securitisation markets, and as a result assets under management of trustee corporations declined some 3% from the 2007 peak.

Australian wealth industry

- 124 In recent years the Australian wealth management sector has undergone significant structural change as the value chain has essentially unbundled into its component segments. Revenue generation varies across the value chain and is generally based upon a percentage of funds under management, as shown below:

²⁸ One public trust office exists in each state and territory across Australia.

²⁹ Includes assets under management, assets under advice and assets under administration.

³⁰ Latest available data.

Wealth management value chain



Source: Tria Investment Partners, Challenger Financial Services Group, MMC Contrarian and LEA analysis.

- 125 Since expanding their operations beyond traditional service offerings trustee corporations now participate across all segments of the wealth management value chain, as discussed in further detail below.

Custodial services

- 126 Custodial services relate to the safekeeping of assets, transaction support through the settlement cycle, income collection and the provision of a range of reporting solutions. Custodians are generally considered to be a “bare trustee”, being the legal owners of the assets³¹ but acting on behalf of either the responsible entities or trustees that remain responsible for the investment management of the assets. In order to perform these functions, custodians are generally required to be major participants with clearing houses and depositories in supported traded markets.
- 127 The *Superannuation Industry (Supervision) Act 1993 (Cth)* requires that a custodian is appointed by the trustee of a regulated superannuation entity to hold the relevant assets. The responsible entity of a registered managed investment scheme may also be required by the Australian Securities and Investments Commission (ASIC) to appoint a third-party custodian to hold the scheme assets in circumstances where it does not have sufficient net tangible assets or meet certain operational requirements.
- 128 As at 31 December 2012 custodians held some \$2 trillion in assets under custody for Australian investors³². Whilst there are around 680³³ custodial service providers the market is highly concentrated, with the five largest custodians (National Australia Bank, JP Morgan, BNP Paribas, Citigroup and State Street) responsible for around 78% of total assets under custody.

Asset management

- 129 Asset management refers to the process of physically managing fund assets in accordance with the investment mandate. The industry is characterised by several large institutional fund managers and not for profit organisations (public and corporate fund managers) and a growing number of smaller boutique fund managers. The Australian funds management industry is discussed in further detail below.

³¹ These assets are generally held through nominee structures.

³² Source: Australian Custodial Services Association. Figures reflect only assets attributable to members of the Australian Custodial Services Association.

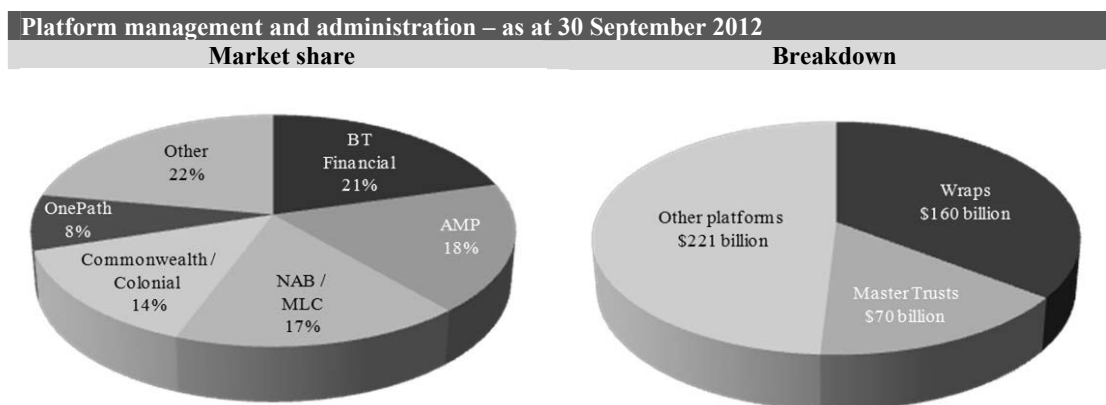
³³ Source: ASIC.

Responsible entity

- 130 Following the introduction of the *Managed Investment Act 1998 (Cth)* in 1998, the roles of manager and trustee for registered managed funds were merged into the one role of “single responsible entity”. The responsible entity holds scheme property on trust for scheme members. Despite being able to appoint an agent to carry out certain functions, the responsible entity retains ultimate liability in law for the exercise of those functions.
- 131 There are around 600 Australian Financial Services (AFS) licence holders that are authorised to act as responsible entities. In aggregate responsible entities manage around 4,300 registered schemes, with around 50 of these holding assets under management of \$5 billion or more³⁴.

Platform management and administration

- 132 Platforms such as Wraps and Master Trusts are an administrative service that assemble and administer a suite of investment options and other services. They allow retail investors to gain access to a broader range of investment products previously only available to wholesale investors at a lower cost.
- 133 The use of platforms has grown rapidly since their introduction to Australia in the late 1980s. As at 30 September 2012 platforms held around \$450 billion in funds under management, with the market largely represented by domestic financial institutions. A summary of the platforms market is set out below:



Source: Plan for Life.

Distribution (dealer groups and independent financial planners)

- 134 Distribution of fund managers’ products typically occurs through dealer groups, being financial advisers affiliated with, or in partnership with, a larger financial organisation, or through independent financial advisers.

³⁴ Source: ASIC.

135 IBISWorld estimates that there are around 17,000 financial advisers in Australia, with the majority forming part of a dealer group. Concentration within the industry has been increasing, primarily as a result of mergers and acquisitions, with the top four operators now holding a market share of around 40%³⁵.

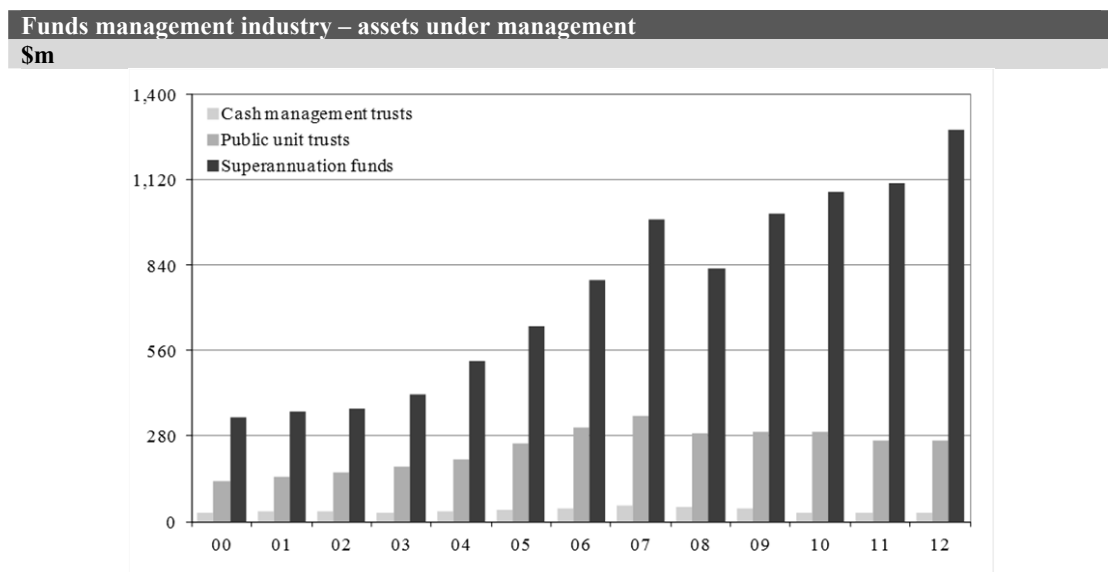
Key drivers

136 Given their broad scope of operations, trustee corporations are driven by the performance of several related industries within the broader financial industry, including:

- (a) funds management
- (b) debt capital markets; and
- (c) securitisation markets.

Funds management industry

137 Australia’s funds management industry currently manages funds of approximately \$1.6 trillion. It is the largest funds management industry in the Asia-Pacific region and the fourth largest in the world³⁶. In the 20 years since the introduction of Australia’s superannuation guarantee system in 1992 funds under management have grown at a compound annual growth rate (CAGR) of around 13%. A breakdown of funds management industry assets since 2000 is set out below:



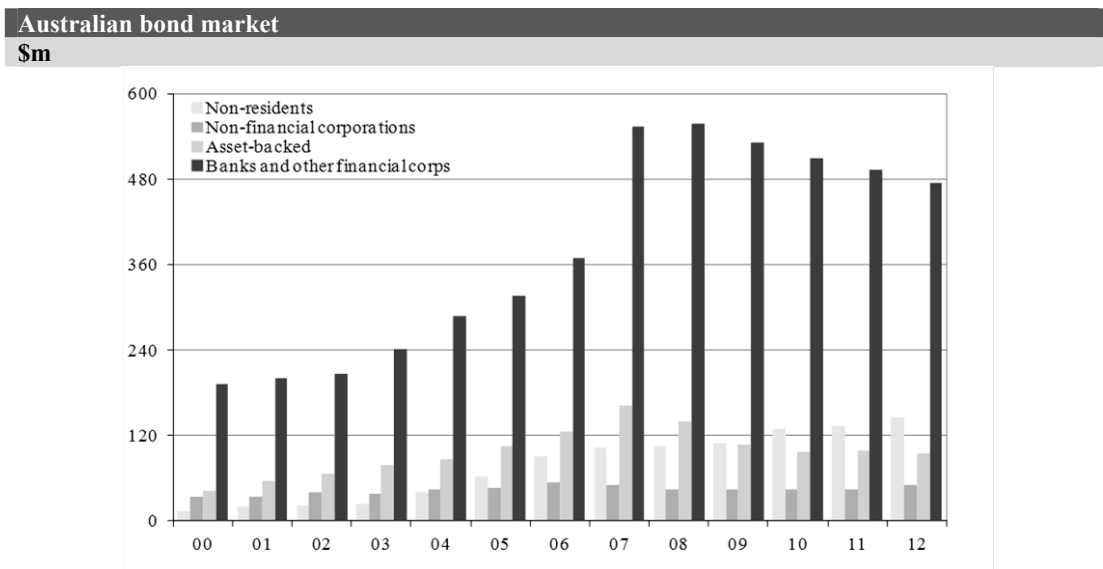
³⁵ Source: IBISWorld.

³⁶ Source: AusTrade.

- 138 As illustrated above growth in the industry is attributable to the significant increase in superannuation funds (largely due to increased contribution rates³⁷), and now represents some 81% of total assets under management (as compared to some 66% a decade earlier). A study by Towers Watson³⁸ in 2013 revealed that Australia has the fourth largest retirement assets market in the world, with only the United States (US), United Kingdom (UK) and Japan with larger markets.
- 139 The superannuation contribution guarantee is proposed to increase incrementally on 1 July 2013 from the current 9.0% to 12.0% by 1 July 2019. This increase is projected to add around \$500 billion to superannuation assets by 2035³⁹.

Debt capital markets

- 140 The Australian bond market grew significantly in the decade leading up to the GFC, underpinned by an increasing number of companies accessing capital market funding and increasing levels of unsecured bond issuance by financial institutions, as set out below:



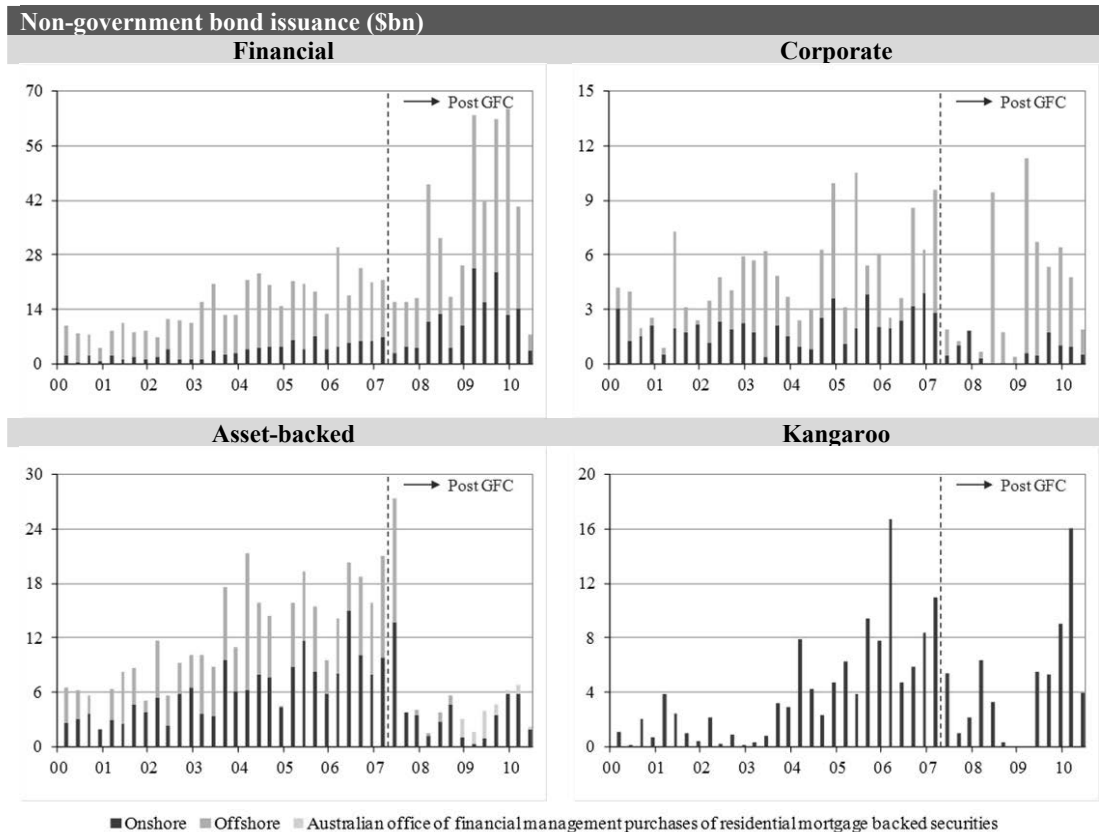
- 141 The onset of the GFC led to a general reappraisal of the risks involved with all structured credit markets and a widespread increase in risk aversion. While these events had an impact on the entire Australian bond market, the securitisation market was most affected as debt issuance in this sector decreased significantly. The dislocation of the securitisation market resulted in the growth of banks balance sheets, which were supported by the introduction of the Government's Guarantee Scheme. As a result the banks gained market share through continued access to bond markets (particularly the major banks).

³⁷ Contribution rates commenced in 1992 at 3% of employees remuneration and have since increased to 9%.

³⁸ Towers Watson, 'Global Pension Assets Study', January 2013.

³⁹ Australian Government, 'Superannuation – Increasing the superannuation guarantee rate to 12 per cent'.

142 This rise in risk aversion also raised the cost of corporate bonds issuance, particularly lower-rated corporate bonds and for a period some companies had difficulty accessing the bond market. This is apparent in the charts below, which shows bond issuances prior to and post the onset of the GFC (up to 30 June 2010⁴⁰):



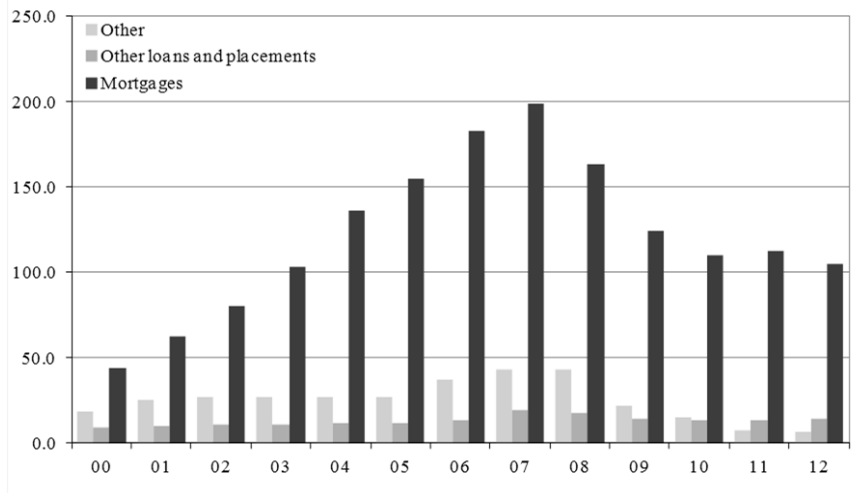
Source: Reserve Bank of Australia.

Securitisation markets

143 As discussed above, the Australian securitisation market expanded rapidly in the decade leading up to the GFC, underpinned by significant growth in residential mortgage-backed securities which now represent around 80% of total securitisation assets. A summary of the Australian securitisation market is set out below:

⁴⁰ Latest available data.

Australian securitisation market
\$m



Source: Reserve Bank of Australia.

- 144 Total securitisation assets increased to around \$274 billion in the 10 years to 2007, representing a CAGR of some 34%⁴¹. Whilst this growth can partly be attributed to the strong demand for housing finance, the proportion of housing lending financed through securitisation also increased significantly over this period, from around 5% of housing finance in the mid 1990s to over 20% in 2007⁴².
- 145 As illustrated above, the securitisation market dropped off sharply subsequent to the GFC, primarily due to increased investor aversion to securitisation as well as slower demand for housing finance.

Regulatory environment

Australian Financial Services Licence

- 146 Trustee corporations were originally authorised under individual State or Territory legislation to carry out their traditional business, with ownership restrictions existing in each State or Territory to varying degrees.
- 147 On 6 May 2010 the Commonwealth Government assumed responsibility for the regulation of the traditional activities of private trustee companies under the *Financial Services Modernisation Act 2009*, with public trustees given the option to ‘opt in’ to the new regime with the consent of their respective State or Territory Government. This legislation is administered by ASIC, with previous ownership restrictions replaced by a national 15% limit on voting power.

⁴¹ Source: Reserve Bank of Australia.

⁴² Source: Guy Debelle, *The state of play in the securitisation market*, 2010.

- 148 Under the new legislation, trustee companies providing traditional services are required to hold an Australian Financial Services Licence. In addition to solvency, cash needs and audit requirements, trustees are generally required to hold net tangible assets (NTA) of greater than \$5 million⁴³ at all times, with at least 50% of this to be held as cash or cash equivalents.

Superannuation Industry (Supervision) Act 1993

- 149 Trustee companies that act as registered superannuation entity licensees for superannuation funds must also comply with the *Superannuation Industry (Supervision) Act 1993*, governed by the Australian Prudential Regulation Authority (APRA).

Managed Investment Act 1998 (Cth)

- 150 Trustee companies that act as responsible entities for managed investment schemes must also comply with the *Managed Investment Act 1998 (Cth)*, governed by ASIC.

Regulatory reform

Future of Financial Advice reforms (FOFA)

- 151 In response to the Parliamentary Joint Committee on Corporations and Financial Services' Inquiry into financial products and services in Australia, the Federal Government enacted the FOFA reforms. The FOFA legislation commenced on 1 July 2012, with compliance mandatory from 1 July 2013, and includes the following reforms:
- (a) a prospective ban on conflicted remuneration structures including commissions and volume-based payments, in relation to the distribution of and advice about a range of retail investment products
 - (b) a duty for financial advisers to act in the best interests of their clients, subject to a "reasonable steps" qualification, and place the best interests of their clients ahead of their own when providing personal advice to retail clients; and
 - (c) an opt-in obligation that requires advice providers to renew their clients' agreement to ongoing fees every two years.
- 152 Rice Warner⁴⁴ estimates that these regulatory reforms will result in a 47% decline in total adviser remuneration by 2024⁴⁵, with revenue expected to flow directly into increased superannuation and other savings by individuals. As a result Rice Warner expects these regulatory reforms to bring about a more efficient adviser delivery model.

Superannuation

- 153 The Federal Government's Stronger Super package, announced in December 2010, introduced superannuation reform legislation including MySuper and SuperStream:
- (a) **MySuper** – from 1 July 2013 funds will be able to offer a simple, low-cost default superannuation product. This aims to improve the simplicity, transparency and comparability of default superannuation products

⁴³ In circumstances where the responsible entity of a managed investment scheme has an NTA of less than \$5 million, ASIC requires that the responsible entity appoint a third-party custodian that has NTA of at least \$5 million.

⁴⁴ Rice Warner, 'Transformation of the Financial Advice Industry', 2010.

⁴⁵ Compared to total projected adviser remuneration before allowing for the regulatory change.

- (b) **SuperStream** – on 1 July 2011 the Government commenced the implementation of SuperStream, a package of measures designed to enhance the back office management of superannuation and improve the productivity of the superannuation system.

154 On 16 February 2012 the Commonwealth Government introduced the *Superannuation Legislation Amendment (Trustee Obligations and Prudential Standards) Bill 2012*, enabling APRA to set prudential standards in relation to superannuation under the *Superannuation Industry (Supervision) Act 1993*. These new prudential and reporting standards will become effective on 1 July 2013.

Trustees

155 On 14 November 2012 ASIC released CP 194 – *Financial requirements for custodial depository service providers*, setting out proposed changes that will increase the NTA requirements of trustees to \$10 million. These proposed changes are expected to be finalised in April 2013, with effect from 1 July 2013.

Philanthropic fees

156 In September 2012 the Corporations and Markets Advisory Committee was asked by the Federal Government to review the fees charged in the philanthropic sector by trustee corporations, and to consider if laws should be changed to allow co-trustees and beneficiaries of charitable trusts to remove and replace a professional trustee for reasons other than a breach of trust. Should such laws be enacted the risk of trustee corporations being dismissed as trustee for trusts they currently administer would increase.

Outlook

157 The near-term outlook for markets that Australian trustee corporations operate in is relatively uncertain, given the volatility of global markets and the potential negative impacts of regulatory reforms. Over the longer term however, the following forecasts should underpin industry growth:

- (a) Rice Warner is projecting that assets under custody will grow to \$6.4 trillion by 2025, representing a CAGR of some 9%⁴⁶
- (b) Australian Treasury is forecasting that superannuation assets will grow to \$3.2 billion by 2025 (representing CAGR of some 7%), underpinned by an ageing population and an increasing superannuation contribution guarantee.

⁴⁶ Rice Warner, *Investment Custody in Australia*, 2011.

VI Valuation approach

- 158 ASIC Regulatory Guideline 111 – *Content of expert reports* (RG 111) outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 159 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 160 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 161 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

- 162 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodology selected

- 163 The market value of Trust Company has been assessed by aggregating the market value of the business operations, together with the realisable value of any surplus assets and net cash balances.
- 164 The value of the business has been made on the basis of market value as a going concern. The primary valuation methodology used is the capitalisation of future maintainable earnings approach (using EBIT). Under this methodology, the value of the business is represented by its (normalised) underlying EBIT capitalised at a rate (or EBIT multiple) reflecting the risk inherent in those earnings.
- 165 In our opinion, the capitalisation of EBIT method is the most appropriate methodology for valuing Trust Company's business. This is because:
- (a) Trust Company operates in a relatively mature industry, has well established market positions and has a demonstrated history of profitability, which is expected to continue
 - (b) we do not have long-term cash flow projections which we regard as sufficiently robust to enable a DCF valuation to be undertaken⁴⁷
 - (c) the EBIT multiples for listed companies providing financial services (excluding banks) can be derived from publicly available information
 - (d) transaction evidence in the financial services sector (excluding banks) is generally expressed in terms of EBIT multiples
 - (e) given the nature of Trust Company's activities, in our view, a capitalisation of EBIT approach (which capitalises operating profit after depreciation expenses) is more appropriate than a capitalisation of EBITDA approach.
- 166 We have also cross-checked our valuation of Trust Company by considering the pre-bid market price of Trust Company shares adjusted for a premium for control.
- 167 For the purposes of assessing the value of the consideration we have had primary regard to the recent listed market prices of Equity Trustees shares. This is principally because the listed market prices of Equity Trustees shares are likely to represent a reasonable proxy for the amount that Trust Company shareholders could expect to realise if they sold any Equity Trustees shares received as consideration either immediately or in the short-term.
- 168 We have also cross-checked the reasonableness of our assessed value of Equity Trustees shares being offered as consideration by reference to implied earnings multiples.

⁴⁷ We note that Trust Company has prepared cash flow projections for financial reporting / impairment testing purposes. However, the objective of impairment tests is to opine on whether the carrying values of assets are appropriate rather than to assess market value of 100% of the equity of the entity.

VII Valuation of Trust Company

Valuation methodology

- 169 As stated in Section VI we have adopted the capitalisation of EBIT method as our primary valuation method. Under this method the EBIT (before non-recurring items and the amortisation of acquisition intangibles) is capitalised at an appropriate EBIT multiple.
- 170 The value of the shares in Trust Company is then derived by adding the net realisable value of investments and other surplus assets, and adding net cash balances⁴⁸.
- 171 The resulting values have also been cross-checked by reference to the pre-bid market price of Trust Company shares adjusted for an appropriate premium for control.

Assessment of EBIT

- 172 In order to assess the appropriate level of EBIT for valuation purposes we have had regard to the historical and forecast results of the business, and have discussed the financial performance, operating environment and prospects with Trust Company management.

Normalised EBIT

- 173 A summary of Trust Company's reported and normalised EBIT for the three years ended 28 February 2013 is summarised below:

Normalised EBIT			
	FY11	FY12	FY13
	\$m	\$m	\$m
Operating EBIT (as reported)	15.1	15.9	13.6
Normalisation adjustments:			
Non-recurring client claim	-	-	1.4
Redundancy costs	0.1	0.5	1.2
STI / LTI adjustment	-	(0.9)	-
Rent recovery ceasing	(0.7)	(0.2)	-
Additional rent costs	(0.3)	(0.3)	(0.3)
Non-recurring capital commissions	(2.3)	-	-
Adjustment to IT expenditure	-	-	0.4
Amortisation of acquired intangibles	0.1	0.2	0.2
Normalised EBIT	12.0	15.2	16.5
By segment:			
Corporate Client Services – normalised EBITDA	9.6	14.3	16.6
Personal Client Services – normalised EBITDA	7.6	8.0	7.3
Unallocated head office and other costs	(4.2)	(4.7)	(4.5)
Normalised EBITDA	13.0	17.6	19.4
Depreciation and amortisation	(1.0)	(2.4)	(2.9)
Normalised EBIT	12.0	15.2	16.5

⁴⁸ Net of interest bearing debt.

174 The adjustments made to derive normalised EBIT in the above table are explained below:

- (a) **non-recurring client claim** – this relates to a long standing client claim which was settled in the six months ended 31 August 2012. Due its size it has been treated as a normalisation adjustment
- (b) **redundancy costs** – significant redundancy costs have been incurred in recent years due to ongoing business rationalisation
- (c) **STI / LTI adjustment** – from FY12 the amortisation period in respect of the costs of Trust Company’s short-term incentive (STI) and long-term incentive (LTI) plans was changed to better align with the period over which the STI / LTI benefits vest. This change resulted in a one-off accounting gain in FY12 which has been reversed in the above table
- (d) **rent recovery ceasing** – represents rental sublease income which is no longer being received
- (e) **additional rent costs** – in January 2013 Trust Company entered into an unconditional contract to sell a building in Brisbane. As a result of the sale Trust Company has rented other premises at a cost of approximately \$0.3 million per annum
- (f) **non-recurring capital commissions** – arriving from revaluation of continuing estates which had not been revalued for many years prior (hence non-recurring in nature)
- (g) **adjustment to IT expenditure** – this adjustment reflects the high level of IT costs incurred in FY13 (as discussed below)
- (h) **amortisation of acquired intangibles** – as these charges arise solely due to acquisition accounting entries and do not impact future underlying earnings / cash flows they have been added back when deriving normalised EBIT⁴⁹.

Guardian Trust impact

175 It should be noted that the reported and normalised EBIT for FY11 does not include any contribution from the acquisition of Guardian Trust (Guardian), which was acquired for NZ\$42 million with effect from 1 March 2011. In the first full year following the acquisition (FY12), Guardian contributed EBIT of approximately \$5.7 million. Normalised EBIT excluding the Guardian contribution therefore fell in FY12 reflecting:

- (a) lower revenue in the personal clients business, in part due to falls in equity markets⁵⁰
- (b) higher revenue from corporate clients due to higher activity levels and growth in MIT⁵¹, offset by a number of expiring mandates and an increase in doubtful debts
- (c) average salary increases in Australia of 4.5% per annum during the year.

⁴⁹ This is consistent with the approach adopted when setting out the normalised EBIT for Equity Trustees in Section IV.

⁵⁰ Trust Company has advised that every 1% movement in the S&P ASX 200 index impacts revenue by approximately \$100,000 (although the changing mix of equity, cash and property assets under supervision means this relationship is non-linear).

⁵¹ At the end of FY12 Trust Company was trustee to 30 MITs which held over \$5.2 billion in assets. In comparison at the end of FY11 only 13 MIT mandates were held.

IT system upgrade

- 176 Total IT expenses (including depreciation) increased from approximately \$7.3 million in FY12 to approximately \$9.0 million in FY13. The large majority of this increase was due to expenses relating to an IT system upgrade of Trust Company's client relationship management system, investment management platforms and personal trust account administration system (which is being undertaken over a number of years).
- 177 Given the increase in IT costs, we have compared the level of IT expenses in FY13 with the total IT cash spend (i.e. operating costs and capital expenditure) in FY12 and FY13 and management's anticipated IT cash spend in FY14 and FY15. Based on this review we have concluded that for valuation purposes it is appropriate to adjust the higher IT expense incurred in FY13 by \$0.4 million (which is arguably conservative).

Client claims

- 178 When assessing the level of EBIT adopted for valuation purposes we have also taken into account the fact that some of the adjustments (whilst significant in a particular year) are also of an operating nature and can be expected to re-occur from time to time given the nature of the company's activities. Thus, whilst the large client claim of \$1.4 million has been added back in FY13, our assessment of maintainable EBIT recognises that such claims (while infrequent) do occur from time to time.

Outlook

- 179 Whilst Trust Company has not provided any forecast for FY14 in its Target Statement or in other ASX announcements, the company has stated that FY14 will benefit from both higher FUM balances at the beginning of the year, together with the full year effect of new business growth achieved in FY13.

EBIT adopted for valuation purposes

- 180 Having regard to the above we have adopted EBIT for valuation purposes of \$16.5 million. This is consistent with the level of normalised EBIT achieved in FY13.

EBIT multiple

- 181 The selection of the appropriate EBIT multiple to apply is a matter of judgment but normally involves consideration of a number of factors including, but not limited to:

- | | |
|---|---|
| <ul style="list-style-type: none"> • The stability and quality of earnings • The quality of the management and the likely continuity of management • The nature and size of the business • The spread and financial standing of customers • The financial structure of the company and gearing level | <ul style="list-style-type: none"> • The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc • The cyclical nature of the industry • Expected changes in interest rates • The asset backing of the underlying business of the company and the quality of the assets |
|---|---|

- | | |
|--|---|
| <ul style="list-style-type: none"> • The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors • The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors | <ul style="list-style-type: none"> • The extent to which a premium for control is appropriate • Whether the assessment is consistent with historical and prospective earnings |
|--|---|

182 We discuss below specific factors taken into consideration when assessing the appropriate EBIT multiple range for Trust Company.

Listed company multiples

183 The EBIT multiples for listed companies operating in the financial services sector (excluding banks and fund managers) which are of a similar size to Trust Company are set out below:

EBIT multiples	Enterprise value \$m	Multiple based on last 12 months EBIT
Trust Company ⁽¹⁾	129	7.8
Equity Trustees ⁽¹⁾	121	10.0
Other companies ⁽²⁾⁽³⁾ :		
SFG Australia	441	10.2
WHK Group	339	11.5
Countplus	197	10.0
Euroz	136	6.3

Note:

- 1 Based on the three month VWAP of each company's shares prior to the announcement of the Offer.
- 2 As at 13 March 2013.
- 3 A brief description of each company's activities is set out in Appendix C.

184 In relation to the above multiples we note that:

- (a) Trust Company and Equity Trustees are the only listed companies shown above which provide significant trustee services. In contrast, the other listed companies predominately provide accounting, financial planning or wealth management services and are therefore considered less comparable to Trust Company
- (b) the above multiples are based on the listed market price of each company's shares (and therefore exclude a premium for control). Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBIT multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company

- (c) WHK Group and SFG Australia have announced that they are in discussions regarding a possible merger of the two companies.

Trust Company and Equity Trustees multiples over time

- 185 Due to the trustee focussed nature of the core operations of Trust Company and Equity Trustees, we have also considered the historical EBIT multiples for these companies over recent years, based on the three month volume weighted average price (VWAP) of each company's shares following the announcement of their respective profit results.
- 186 As Trust Company and Equity Trustees have different financial year ends⁵², it should be noted that the multiples in the table below for each company are calculated over different time periods and are therefore not directly comparable. However, the table does provide an indication of the historical EBIT multiples at which each company's shares have traded over recent years:

EBIT multiples over time based on three month VWAP				
	Post FY10 result⁽¹⁾	Post FY11 result⁽¹⁾	Post FY112 result⁽¹⁾	Pre Offer⁽²⁾
	x	x	x	x
Trust Company	9.1	8.7	9.0	7.8
Equity Trustees	10.5	8.5	9.3	10.0

Note:

- 1 EBIT multiples based on the three month VWAP following the announcement of the company's results. Multiple based on last 12 months normalised EBIT.
- 2 EBIT multiple based on the three month VWAP prior to the announcement of the Offer. Multiple based on last 12 months normalised EBIT.

- 187 The historical EBIT multiple for Trust Company reduced following the announcement of the company's half year result on 9 October 2012. This reduction appears to have been largely due to falls in the Trust Company share price following the announcement of the results, which were below market expectations and included one-off charges for redundancies and a large client claim. Further, the interim dividend was reduced from 17 cents per share to 12 cents per share.
- 188 However, we note that on 13 March 2013 (i.e. subsequent to the announcement of the Offer), Trust Company announced that the second half result to 28 February 2013 had exceeded the guidance provided on 9 October 2012:

“However at this stage The Trust Company Board is able to confirm that, as a result of solid operating performance, tight cost management and improved equity market conditions, operating earnings before interest, tax, depreciation and amortisation ('EBITDA') for the six months ended 28 February 2013 is likely to be around \$10.0m, exceeding previous guidance of \$9.0m.”

⁵² Trust Company's financial year is to the end of February whereas Equity Trustees' financial year is to 30 June.

189 Due to the prior announcement of the Offer, we are unable to observe an unbiased share market response to this improved second half operating performance. However, given the above circumstances, in our view, the EBIT multiple implied by the share market trading post the announcement of Trust Company's half year results on 9 October 2012 (to 20 February 2013) is likely to be less representative as a basis for determination of the appropriate earnings multiple for Trust Company in the context of a change in control transaction.

Transaction evidence

190 There have been a number of transactions in the financial services sector in recent years, including MyState's acquisition of Tasmanian Perpetual Trustees Limited in 2009⁵³ (which, at the time, was the only private trustee company authorised to operate in Tasmania). A summary of the EBIT multiples implied by these transactions (which reflected the acquisitions of controlling interests) is shown below:

Transaction multiples				
Announcement date	Target ⁽¹⁾	Acquirer	Enterprise Value 100% \$m	EBIT multiple x
October 2008	Tasmanian Perpetual Trustees	MyState	67.2	10.5 ⁽²⁾
February 2013	TOWER Investments	Fisher Funds	63.0	8.9 ⁽³⁾
July 2012	Plan B Group	IOOF	42.9	8.8 ⁽³⁾
August 2011	Count Financial	Commonwealth Bank of Australia	289.6	11.0 ⁽³⁾
June 2011	DKN Financial Group	IOOF	116.0	10.8 ⁽³⁾
May 2011	Shadforth Financial Group	Snowball Group	186.5	7.6 ⁽⁴⁾

Note:

- 1 A brief description of each target company's activities is set out in Appendix D.
- 2 Based on the maintainable EBIT adopted by the independent expert appointed to opine on the transaction (which reflected a fall in FUM due to the GFC).
- 3 Based on historical EBIT.
- 4 Based on forecast EBIT.

Potential synergies

191 In its Bidder's Statement, Equity Trustees has indicated that it expects to generate significant synergies from the acquisition of Trust Company, as follows:

"Equity Trustees' management have identified synergies that it estimates will generate ongoing cost savings for the Combined Group of up to \$8.0m per annum (pre-tax, excluding one-off integration costs) and expect to realise these benefits by no later than the end of the second year following the implementation of the Offer, on the basis that transition to Equity Trustees' administration and IT systems can be achieved in a suitable timeframe. The synergies identifiable by Equity Trustees' management are primarily driven by cost savings and the rationalisation of operating expenses within the Combined Group."

⁵³ Completion date.

Other opportunities that may be available to the Combined Group to enhance the performance currently generated individually by the two companies are as follows:

- *Distributing a broader range of services and products to a larger private client base*
- *The complementary strengths of the two corporate trustee services businesses can be marketed across a larger, regional corporate client base*
- *Increased depth and expertise of resources which can be applied to the critical areas of risk management, compliance and regulatory monitoring*
- *Increased resources available for marketing, advertising and business development support*
- *Increased purchasing power with external managers, suppliers, administrators and custodians*
- *The costs of future development and maintenance of IT systems and supporting processes can be absorbed over a larger client and shareholder base than each company can reach individually*
- *Increased resources for future strategic business acquisitions.”*

- 192 As set out in RG 111, synergies that are not available to other potential bidders should not be taken into account in the valuation of the target company when assessing whether an offer is fair. While some of the synergies identified by Equity Trustees are likely to be unique to a Trust Company / Equity Trustees business combination, in our view, a large proportion of the annual synergies of \$8 million could be generated by other financial services companies (particularly those with an existing trustee business). In this regard we note that Trust Company’s head office and public company costs total approximately \$6 million per annum.
- 193 Whilst the identified synergy benefits are very large relative to the standalone earnings of both Trust Company and Equity Trustees, we also note that significant synergies were also expected to be generated from some of the financial services sector transactions set out above. In particular, we note that MyState expected to realise cost savings of \$3.5 million to \$4.5 million per annum (before tax) from its acquisition of Tasmanian Perpetual Trustees Limited. These expected synergies were high relative to the standalone earnings of Tasmanian Perpetual Trustees Limited of some \$4.5 million per annum (after tax), as assessed by the independent expert appointed to opine on the transaction.
- 194 Further, the existence of such synergies from business combinations is one of the key reasons why bidders pay a control premium to acquire a company.
- 195 Consequently, in our opinion, it is inappropriate (in the circumstances of Trust Company) to incorporate a separate value for synergies over and above that already implicitly reflected in the controlling interest multiple applied. Nonetheless, given the level of synergies likely to be available to potential acquirers generally, in our view, an EBIT multiple at the high end of the range indicated by recent controlling interest transaction evidence is appropriate.

Conclusion on appropriate EBIT multiple

196 Based on the above, in our opinion, an EBIT multiple range of 10.5 to 11.0 is appropriate when applied to the level of operating EBIT adopted for valuation purposes. This EBIT multiple range is broadly consistent with the EBIT multiples implied by trading in Trust Company and Equity Trustees shares, after adjusting for an appropriate premium for control.

Value of core business

197 On this basis the value of Trust Company’s core operating business (before debt) is as follows:

	Low \$m	High \$m
EBIT adopted for valuation purposes	16.5	16.5
EBIT multiple	10.5	11.0
Enterprise value	173.3	181.5

Shares in Equity Trustees

198 As set out in Section III Trust Company holds 1,193,942 Equity Trustees shares (representing some 13.3% of the total number of Equity Trustees shares on issue).

199 For the purpose of our report we have valued these shares at the prevailing market price (as adopted in Section VIII in our assessment of the value of the consideration), less a 5% placement discount (representing our estimate of the discount which Trust Company would need to offer in order to sell the shares in a block trade). Accordingly, we have adopted the following values for the Equity Trustees shares held by Trust Company.

Value of Trust Company shareholding in Equity Trustees		
	Low	High
Shares held (million)	1.194	1.194
Share price range (ex-dividend) (\$)	\$17.10	\$17.70
Listed market value (\$m)	20.4	21.1
Less 5% placement discount (\$m)	(1.0)	(1.1)
Value of Equity Trustees shareholding (\$m)	19.4	20.0

200 As the tax cost base of the Equity Trustees shares exceeds the above amount, no capital gains tax (CGT) liability would be payable based on our assessed valuation.

Surplus assets

201 In January 2013 Trust Company entered into an unconditional contract to sell a surplus property in Brisbane for \$3.0 million. The proceeds are due to be received in July 2013. No CGT liability will be payable on any profit arising on the sale due to the existence of available capital tax losses.

Net cash

- 202 As at 28 February 2013 Trust Company had cash (net of interest bearing liabilities) of \$9.5 million.
- 203 Subsequent to this date⁵⁴, Trust Company and Suncorp resolved a number of outstanding matters and warranty claims relating to Trust Company's acquisition of Guardian in New Zealand. This resulted in Trust Company receiving a further NZ\$2.4 million (approximately \$1.9 million) net of outstanding claims.
- 204 Trust Company is also due to receive a (fully franked) dividend of approximately \$0.5 million on 17 April 2013 in respect of its shareholding in Equity Trustees.
- 205 Accordingly, we have adopted net cash for Trust Company (prior to the payment of any final dividend by Trust Company) of \$11.9 million for valuation purposes.

Fully diluted shares on issue

- 206 Trust Company currently has 33,538,449 shares on issue. In addition, there are 792,110 performance share rights on issue (which will result in the issue of 792,110 new shares if the respective performance hurdles are achieved) and a further 73,546 performance share rights are expected to be issued shortly. In the event of a takeover or other change of control transaction the Trust Company Board can waive the performance hurdles. Accordingly, when valuing 100% of the shares in Trust Company, in our opinion, it is appropriate to assume that these additional shares will be issued.
- 207 For valuation purposes we have therefore assumed 34.4 million fully diluted shares on issue.

Value of Trust Company

- 208 On this basis, the value of 100% of Trust Company on a controlling interest basis is as follows:

Trust Company – valuation summary		
	Low \$m	High \$m
EBIT adopted for valuation purposes	16.5	16.5
EBIT multiple	10.5	11.0
Enterprise value	173.3	181.5
Investment in Equity Trustees	19.4	20.0
Surplus assets	3.0	3.0
Net cash	11.9	11.9
Value of equity	207.6	216.4
Fully diluted – shares on issue	34.4	34.4
Value per share	\$6.03	\$6.29

⁵⁴ Refer ASX announcement dated 6 March 2013.

Comparison with listed market price

- 209 Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover).
- 210 In the one month and three months prior to the announcement of the Offer, the VWAP of Trust Company shares was \$4.55 and \$4.46 respectively. Adjusting these share prices for a 30% to 35% control premium would therefore result in a “theoretical” control value of \$5.80 to \$6.14 per share.
- 211 Whilst the mid-point of our assessed valuation range is at the upper end of this range, we note that it is not uncommon for higher takeover premiums (above the pre-bid listed market price) to be paid⁵⁵, particularly where the target company is not widely researched by investment analysts⁵⁶ or where the level of synergies available to potential acquirers is high relative to the standalone earnings of the target company.
- 212 Further, as stated above, we note that subsequent to the announcement of the Offer, Trust Company announced that its second half result to 28 February 2013 had exceeded its previous profit guidance to the market. Whilst we are unable to observe an unbiased market response to this announcement due to the prior announcement of the Offer, in our view, it is reasonable to expect that (other things being equal) the Trust Company share price would have reacted positively to this announcement.
- 213 Having regard to the above, we consider that our valuation range and the premium implied by our valuation range above the one and three month VWAP of Trust Company shares is reasonable and appropriate.

⁵⁵ The mid-point of our valuation range represents a 38.1% premium above the three month VWAP of Trust Company shares prior to the announcement of the Offer.

⁵⁶ Trust Company is researched by only three brokers based on data provided by Bloomberg.

VIII Valuation of consideration offered

Approach

- 214 As set out in Section I, if Trust Company shareholders accept the Offer and all conditions are satisfied, then Trust Company shareholders will receive 0.33 shares in Equity Trustees for each Trust Company share held. In addition, under the terms of the Offer, Trust Company shareholders will be entitled to receive a final dividend for the year ended 28 February 2013 of up to 17 cents per share.
- 215 As stated in Section VI it is customary in scrip-for-scrip transactions to rely upon the listed market price of the bidder (in this case Equity Trustees) as the reference point for estimating the realisable value of the consideration offered. This is principally because:
- (a) the listed market prices of Equity Trustees shares are likely to represent a reasonable proxy for the amount that Trust Company shareholders could expect to realise if they sold any Equity Trustees shares received as consideration either immediately, or in the short-term
 - (b) any decision to continue to hold Equity Trustees shares beyond the immediate to short-term is a separate investment decision which should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. It is also not possible to accurately predict future share price movements
 - (c) whilst there may be a future opportunity for Trust Company shareholders to share in a control premium in the event Equity Trustees was acquired, this is not a scenario that we consider likely in the short-term.
- 216 Accordingly, in our opinion, the recent market prices of Equity Trustees shares are the appropriate reference point for estimating the realisable value of the consideration offered. However, in doing so, we have also considered the depth of the market for those securities and the volatility of the share price.
- 217 We have also cross-checked the reasonableness of our assessed value of Equity Trustees shares being offered as consideration by reference to implied earnings multiples.

Recent share prices

Recent share trading history (pre and post announcement)

- 218 The historical share prices for Equity Trustees are set out in Section IV. More recent trading in Equity Trustees shares prior to the announcement of the intention to make the Offer is shown below:

Equity Trustees – share price history (pre announcement)				
Time periods up to and including 20 Feb 13⁽¹⁾	Low \$	High \$	VWAP \$	Number traded (000s)
1 month	15.05	16.45	15.63	73
3 months	13.69	16.45	14.89	200
6 months	12.25	16.45	14.34	300

Note:

- 1 Equity Trustees shares traded excluding an entitlement to the interim dividend of 42 cents per share on 13 March 2013. As Trust Company shareholders who accept the Offer will not receive this dividend it is appropriate to adjust the above share prices to reflect this when assessing the value of the share consideration.

- 219 Due to the rise in the Australian stock market over recent months the trading range in the one month period prior to the announcement of the Offer is higher than that over a longer time frame.
- 220 For the purpose of assessing the value of the Equity Trustees shares offered as consideration we believe more regard should be given to the price of Equity Trustees shares since the Offer was announced on 21 February 2013. This is because we consider the Equity Trustees share price subsequent to and including 21 February 2013 to be more representative of the share price assuming the Offer is successful than the prices before 21 February 2013.
- 221 The following table sets out the prices at which Equity Trustees shares have traded in the period subsequent to the announcement of the Offer up to 9 April 2013:

Equity Trustees – share price history (post announcement)⁽¹⁾				
Time periods	Low \$	High \$	VWAP \$	Number traded (000s)
21 February 2013 ⁽¹⁾ to 9 April 2013 ⁽²⁾	16.03	18.00	17.42	166

Note:

- 1 Being the first day of trading subsequent to the announcement of the Offer.
- 2 As Equity Trustees shares traded excluding an entitlement to the interim dividend of 42 cents per share on 13 March 2013, and Trust Company shareholders who accept the Offer will not receive this dividend, we have deducted the 42 cents per share dividend from the share prices from 21 February 2013 to 12 March 2013 for the purposes of the above table.

- 222 We note that the shares in Equity Trustees have traded in a higher (and narrower) range post the announcement of the Offer compared to the range observed in the six months prior to the announcement. As discussed further below, we believe this reflects, inter-alia, the significant synergy benefits expected to be realised from combining the Trust Company and Equity Trustees businesses.

Share trading restrictions and liquidity

- 223 Aside from the shareholding restrictions placed upon Australian trustee companies⁵⁷ there are no other significant restrictions on trading in Equity Trustees which would prevent sufficient trading (on a day-to-day basis) to produce an unbiased share price.
- 224 While the volume of shares traded in Equity Trustees as a proportion of the total number of shares on issue is relatively low compared to ASX companies generally (the implied levels of liquidity prior to the announcement of the Offer are set out in Section IV), we note that:
- (a) in the 12 months prior to the announcement of the Offer the total value of Equity Trustee shares traded was approximately \$6.9 million
 - (b) Equity Trustees appears to have a fairly stable shareholder base, with approximately 48% of the shares held by the top 20 shareholders⁵⁸ (including Trust Company with a 13.3% interest)
 - (c) as set out in Section IV, since January 2010 there has been a high correlation between the Equity Trustees share price and the S&P / ASX 200 Diversified Financials Index, which, prima facie, indicates that the lower level of share trading in Equity Trustees shares has not materially impacted the listed market price of its shares.

Information disclosures

- 225 As Equity Trustees is considerably smaller than other listed financial institutions, it is not well researched and analysed by share broking firms and institutional investors.
- 226 However, significant information has been disclosed in relation to Equity Trustees' operations in its financial reports and ASX announcements. Further, Equity Trustees has an obligation under the ASX Listing Rules (subject to certain exemptions) to notify the ASX immediately of any information that it becomes aware of concerning Equity Trustees which a reasonable person would expect to have a material effect on the price or value of Equity Trustees shares.

Number of Equity Trustees shares to be issued as consideration

- 227 As at 15 March 2013 Equity Trustees had 8.97 million ordinary shares on issue⁵⁹. Of these 1.194 million shares (13.3%) are held by Trust Company. If the Offer is successful the combined group will have 12 months to either cancel or dispose of these shares. In its Offer announcement Equity Trustees stated that in such circumstances its current intention is to cancel the shares held by Trust Company.
- 228 The number of shares to be issued by Equity Trustees as consideration will therefore represent approximately 59% of the enlarged capital base of Equity Trustees, as follows:

⁵⁷ Shareholders are prevented from acquiring an interest in more than 15% of the issued capital without prior approval.

⁵⁸ As at 31 August 2012 (as disclosed in the 2012 Annual Report).

⁵⁹ In addition Equity Trustees had 163,306 performance share awards on issue.

Consideration as a % of existing and enlarged capital base		Million
Number of existing Equity Trustees shares on issue ⁽¹⁾		9.0
Number of shares assumed to be cancelled		(1.2)
Number of Equity Trustees shares held by existing shareholders		7.8
Number of shares to be issued pursuant to the Offer ⁽²⁾	(A)	11.1
Enlarged capital base ⁽¹⁾	(B)	18.9
Trust Company shareholders' interest ⁽³⁾ in the enlarged Equity Trustees	(A) / (B)	59%

Note:

- 1 Ignoring performance share rights / awards.
- 2 Being 33.5 million shares in Trust Company converted to Equity Trustees shares at the exchange ratio of 0.33 Equity Trustees shares for every one share in Trust Company.
- 3 Representing the collective interest of Trust Company shareholders.

229 Given the large number of new Equity Trustees shares to be issued under the Offer, if a significant number of Trust Company shareholders elect not to retain the shares in Equity Trustees received as consideration there may be an oversupply of Equity Trustees shares, which may have an adverse impact on the Equity Trustees share price in the short-term.

230 However, we note that there are a number of large shareholders in Trust Company that are also shareholders in Equity Trustees (e.g. Milton Corporation Limited and Australian Foundation Investment Company Limited). In our view, it is likely that these shareholders will retain the Equity Trustees shares received as consideration, at least in the short-term.

Dilution and synergies

231 To the extent that Equity Trustees is paying a control premium (above the listed market price) for Trust Company there will be a dilution effect on the value of Equity Trustees shares subsequent to any successful conclusion of the Offer. This is because the listed market price of Equity Trustees shares will reflect a portfolio rather than a controlling interest in the enlarged group. In the absence of synergies this dilution often results in a fall in the share price of the bidder.

232 However, both Trust Company and Equity Trustees have indicated that large synergies (relative to the size of both company's standalone earnings) are likely to be realised from combining the two businesses. In particular, Equity Trustees has stated the following in its ASX release dated 21 February 2013:

"EQT and TRU are complementary businesses that provide the opportunity to realise savings through the rationalisation of duplicated administrative, business and corporate costs. Integration of the EQT and TRU operations is estimated to be capable of delivering synergies of \$8m p.a.⁶⁰

⁶⁰ Equity Trustees stated that this was their best estimate of the annual synergies available, without the benefit of due diligence. It also stated that its estimate was consistent with the quantum of synergies last indicated by Trust Company to Equity Trustees in earlier incomplete discussions.

The complementary strengths in the personal client and corporate service offerings mean the Combined Group will be well positioned for future growth opportunities. Cross-selling existing and new products to a larger customer base is anticipated to increase revenue, particularly through a stronger integrated private wealth management business in Australia. This potential is in addition to the synergies referred to above.

A significant element of the synergy benefits are anticipated through:

- *EQT's existing business improvement initiatives being applied across a larger platform; and*
- *Utilising EQT's existing IT platform across combined operations.*

Operational integration is expected to result in the run-rate of the synergies referred to above being realised by the end of 2014. The costs to implement the synergies are anticipated to be incurred in the first 12-18 months following completion of the Offer.”

- 233 Further information on the synergies expected to be generated by Equity Trustees is set out in Equity Trustees Bidder's Statement.
- 234 Given the size of expected synergies relative to the standalone earnings of both Trust Company and Equity Trustees, in our opinion, it is reasonable to conclude that the value of expected synergies would exceed the dilutionary effect discussed above. This view appears consistent with the market reaction to the Offer announcement, as the market price of the shares in Equity Trustees has increased since the announcement of the Offer⁶¹.

Conclusion

- 235 In summary, in assessing the value of the Equity Trustees shares offered as consideration we have had regard to:
- (a) the recent trading range of Equity Trustees shares
 - (b) the number of shares to be issued by Equity Trustees under the Offer compared to the enlarged number of Equity Trustees shares on issue post completion of the Offer
 - (c) the likely level of on-market trading in Equity Trustees shares subsequent to completion of the Offer, having regard to factors including:
 - (i) any potential oversupply of Equity Trustees shares from those shareholders in Trust Company not wishing to retain the Equity Trustees shares received as consideration
 - (ii) the dilution effect implicit in any control premium being paid by Equity Trustees
 - (iii) the re-rating of Equity Trustees shares subsequent to the announcement of the Offer due to the level of synergies expected to arise on a combination of the businesses

⁶¹ As would be expected of a target company, the market price of Trust Company shares has also risen subsequent to the announcement of the Offer.

- (d) recent stock market conditions; and
- (e) the earnings multiples implied by our adopted range.

236 Based on the above we have assessed the realisable value of the Equity Trustees shares offered as consideration at between \$17.10 and \$17.70 per share⁶². This assessment is on an “ex-dividend” basis and therefore excludes the interim dividend of 42 cents per share payable by Equity Trustees⁶³ which Trust Company shareholders who accept the Offer will not receive.

Implied EBIT multiple

237 As stated above, we have also cross-checked our assessment of the realisable value of Equity Trustees shares by considering the EBIT multiple implied for the core business of the enlarged entity (post completion of the Offer).

Market capitalisation

238 The market capitalisation of Equity Trustees based on our assessed value of Equity Trustees shares post completion of the Offer is shown below:

Equity Trustees – estimated market capitalisation based on assessed share value post completion of the Offer		
	Low	High
Shares on issue post completion of Offer (million) ⁽¹⁾	18.9	18.9
Adopted share price (trading range)	\$17.10	\$17.70
Market capitalisation post completion of Offer (\$m)	<u>323.2</u>	<u>334.5</u>

Note:

1 Ignoring performance share rights / awards.

Net cash and investments

239 Based upon the latest reported balance sheets for Equity Trustees and Trust Company, we estimate that the enlarged entity (post completion of the Offer) will have the following net cash balances and investments:

Equity Trustees – estimated net cash and investments post completion of the Offer			
	Trust Company⁽¹⁾	Equity Trustees⁽²⁾	Combined Entity
	\$m	\$m	\$m
Net cash ⁽³⁾	11.9	7.8	19.7
Investments	-	3.8	3.8
Less tax on investment gain	-	(0.2)	(0.2)
Assets held for sale (surplus property)	3.0	-	3.0
Net cash and investments	<u>14.9</u>	<u>11.4</u>	<u>26.3</u>

⁶² The mid-point of this range is consistent with the VWAP of Equity Trustees shares (on an ex-dividend basis) post the announcement of the Offer up to 9 April 2013.

⁶³ The record date for this dividend was 19 March 2013.

Note:

- 1 As at 28 February 2013 adjusted to include dividend receivable from Equity Trustees and Suncorp settlement announced on 6 March 2013.
- 2 As at 31 December 2012 (prior to the announcement of the Offer).
- 3 Net of borrowings in the case of Trust Company.

Enterprise value

240 On this basis the enterprise value of Equity Trustees (post completion of the Offer) is as follows:

Equity Trustees – estimated enterprise value post completion of the Offer		
	Low \$m	High \$m
Market capitalisation post completion of Offer	323.2	334.5
Less net cash and investments	(26.3)	(26.3)
Enterprise value (post completion of Offer)	296.9	308.2

Implied EBIT multiple

241 For the purpose of calculating the EBIT multiple implied by the above enterprise value we have adopted normalised EBIT of \$36.6 million. This reflects:

- (a) the level of EBIT for Trust Company adopted for valuation purposes in Section VII of \$16.5 million; plus
- (b) normalised EBIT of \$12.1 million for Equity Trustees on a standalone basis (based on the normalised EBIT figures set out in Section IV for the 12 months ended 31 December 2012); plus
- (c) \$8 million being the level of annual cost synergies identified by Equity Trustees (as discussed above)⁶⁴.

242 On this basis, the EBIT multiple incorporating the benefit of expected synergies (which are not expected by Equity Trustees to be achieved in full until the end of 2014) is as follows:

Equity Trustees – implied EBIT multiple post completion of the Offer		
	Low \$m	High \$m
Enterprise value (post completion of Offer)	296.9	308.2
Normalised EBIT (including expected synergies)	36.6	36.6
Implied EBIT multiple (post completion of Offer)	8.1	8.4

⁶⁴ As stated above revenue synergies over and above this estimate are anticipated by Equity Trustees.

243 Based on the trading multiples set out in Section VII, in our opinion, the above multiple range for Equity Trustees (post completion of the Offer) is reasonable having regard to the inherent risks associated with realisation of the synergy benefits. We therefore consider our assessed realisable range of values for Equity Trustees shares to be reasonable and appropriate.

Assessed value of consideration

244 Under the terms of the Offer, Trust Company shareholders who accept the Offer will be entitled to receive Trust Company’s final dividend for the year ended 28 February 2013 of up to 17 cents per share⁶⁵.

245 We have therefore assessed the value of the consideration under the Offer at the amounts below:

Value of consideration per Trust Company share	Low \$ per share	High \$ per share
Assessed realisable value of Equity Trustee shares	17.10	17.70
Offer ratio	0.33	0.33
Assessed value of scrip consideration	5.64	5.84
Maximum dividend to be paid by Trust Company under the Offer	0.17	0.17
Total consideration (including dividend)	<u>\$5.81</u>	<u>\$6.01</u>

Other considerations

246 Trust Company shareholders should note that the listed market price of Equity Trustees shares is subject to daily fluctuation. The price at which Equity Trustees shares may be sold may therefore be greater or less than our assessed realisable value of Equity Trustees shares of \$17.10 to \$17.70 per share.

247 Trust Company shareholders should also note that any decision to hold Equity Trustees shares beyond the short-term is a separate investment decision. As it is not possible to accurately predict future share price movements, any decision to hold Equity Trustees shares should be made by shareholders having regard to their risk profile, liquidity preference, tax position and expectations as to value and future market conditions.

⁶⁵ Trust Company has advised us that they intend to declare an 18 cent per share final dividend for FY13.

IX Evaluation of the Offer

Summary of opinion

- 248 LEA has concluded that the Offer is not fair but is reasonable based on the guidelines set out in RG 111.
- 249 While we believe that the Offer undervalues Trust Company shares (and is therefore not fair based on the guidelines set out in RG 111), in our opinion, the Offer is reasonable as both Trust Company and Equity Trustees shareholders are likely to be able to realise a significantly greater value for their shares if the businesses are combined. This is principally because the incremental earnings expected to be generated from the identified synergies are large in comparison to the standalone earnings of both companies.
- 250 However, as the Offer comprises scrip consideration only, in our view, a key consideration for Trust Company shareholders should be whether the Offer ratio (i.e. 0.33 shares in Equity Trustees for every share in Trust Company) appropriately reflects the value contributed by both companies to the merged entity. This recognises that in scrip based offers arguably the relative value of each company is more relevant than each company's absolute value.
- 251 In this regard, Trust Company shareholders should be aware that, in our view, the Offer ratio of 0.33 shares in Equity Trustees for every share in Trust Company favours Equity Trustees shareholders to the detriment of Trust Company shareholders. Accordingly, in our opinion, the Offer ratio should be improved for the benefit of Trust Company shareholders to better reflect the relative value contribution of both companies to any combination of the businesses.
- 252 Further information on the reasons for our opinion are discussed below.

Assessment of fairness

- 253 Pursuant to RG 111 an offer is "fair" if:

"The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer."

- 254 This comparison is shown below:

Comparison of Offer consideration and Trust Company share value			
	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Offer consideration	5.81	6.01	5.91
Value of 100% of ordinary shares in Trust Company	6.03	6.29	6.16
Extent to which the Offer consideration exceeds (or is less than) the value of the ordinary shares in Trust Company	(0.22)	(0.28)	(0.25)

- 255 When assessing the "fairness" of scrip takeovers under RG 111, in our opinion, it is appropriate to have regard to the overall range of values (particularly as the scrip consideration is subject to daily fluctuation). As indicated above our assessed range of values for the Offer consideration is consistently lower than our assessed value of 100% of the ordinary shares in Trust Company. Accordingly, in our opinion, the Offer is not fair based on the guidelines set out in RG 111.

Assessment of reasonableness

- 256 Pursuant to RG 111, an offer may be reasonable if, despite not being fair but after considering other significant factors, the expert is of the view that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.
- 257 In assessing whether the Offer is reasonable LEA has also considered:
- (a) the relative value of each company based on share market trading and a capitalisation of EBIT approach
 - (b) the extent to which a control premium is being paid to Trust Company shareholders
 - (c) the extent to which a share of the synergies identified by Equity Trustees as likely to arise upon an acquisition of Trust Company by Equity Trustees (being \$8.0 million per annum) is being shared with Trust Company shareholders
 - (d) the listed market price of Trust Company shares:
 - (i) prior to the announcement of the Offer
 - (ii) subsequent to the announcement of the Offer
 - (iii) if the Offer is not successful
 - (e) the value of Trust Company to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or sometime in the future
 - (f) other qualitative and strategic issues, risks, advantages and disadvantages associated with the Offer.
- 258 These issues are discussed in detail below.

Relative value contribution

- 259 Whilst the basis upon which we have assessed the “fairness” of the Offer is consistent with the requirements of RG 111 for “change of control” transactions, it should be noted that:
- (a) the consideration under the Offer comprises scrip only
 - (b) both Trust Company and Equity Trustees are of a broadly similar size
 - (c) due to the size of expected synergies, the value of the merged company is likely to exceed the combined value of both companies on a standalone basis⁶⁶.
- 260 Given the above, in our view, a key consideration for Trust Company shareholders should be whether the Offer ratio (i.e. 0.33 shares in Equity Trustees for every share in Trust Company) appropriately reflects the value contributed by both companies to the merged entity. This recognises that arguably the relative value of each company is more relevant than each company’s absolute value.

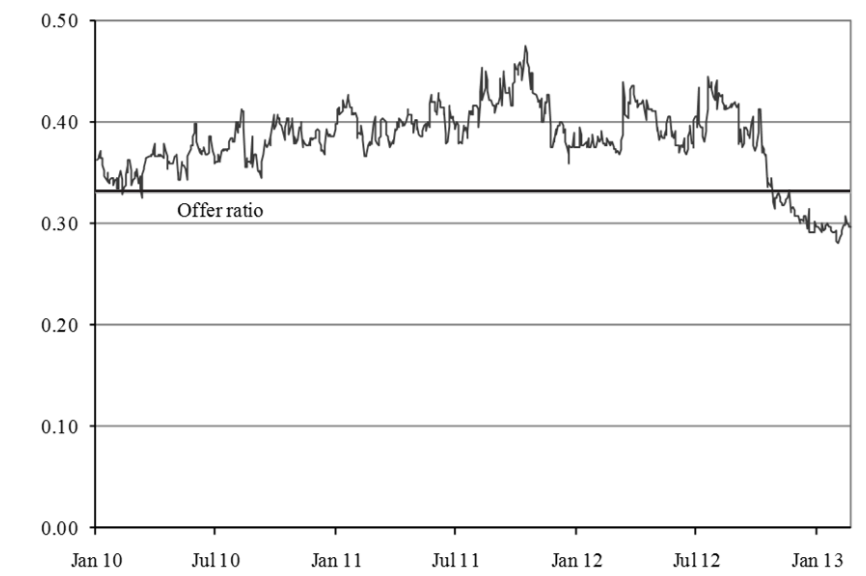
⁶⁶ We note that since the date of the announcement of the intention to make the Offer (up to 9 April 2013) the combined market capitalisation of the two companies has increased by around 16%.

261 Accordingly, we have considered the relative value of both companies based on share market trading and the capitalisation of EBIT approach.

Share market trading

262 The relative value of both company's shares based on share market trading from 1 January 2010 to 20 February 2013 (being the last trading day prior to the announcement of the Offer) in comparison with the Offer ratio of 0.33 is shown below:

Relative share prices (Trust Company divided by Equity Trustees) from 1 Jan 2010 to 20 Feb 2013



Source: Bloomberg and LEA analysis.

263 As indicated above, prior to 17 October 2012 the listed market prices of each company's shares imply that the Offer ratio of 0.33 is too low. This is because over the period to 16 October 2012 the ratio reflected by the closing price of Trust Company shares divided by the closing price of Equity Trustees shares generally significantly exceeded the Offer ratio. We note that the average share price ratio over the period from 1 January 2010 to 16 October 2012 was 0.39.

264 While the subsequent share trading from 17 October 2012 up to 20 February 2013 implies an exchange ratio of less than 0.33, this would appear to be due to the significant negative market reaction to the announcement by Trust Company of its results for the six months ended 31 August 2012, which were below market expectations and included one-off charges for redundancies and a large client claim.

- 265 Since the announcement of the Offer, Trust Company has announced that its second half results for the six months ended 28 February 2013 were significantly above the expectations provided to the market in October 2012. However, due to the prior announcement of the Offer, we are unable to observe an unbiased share market response to this improved operating performance. Notwithstanding, in our opinion, we consider there are reasonable grounds for a view that the exchange ratio implied by the share market trading post the announcement of Trust Company's half year results on 9 October 2012 (to 20 February 2013) is likely to be less representative of the long-term underlying relative value of the two companies.
- 266 In our opinion therefore, it is appropriate to conclude that based on the relative share market trading in both company's shares over a longer time period the Offer ratio of 0.33 is too low.

Capitalisation of EBIT approach

- 267 We have also considered the relative underlying earnings of each company. However, due to the different level of other assets in each company (e.g. investments and cash balances), in our opinion it is necessary to undertake this comparison by valuing each company on a consistent basis.
- 268 Accordingly, we set out below a relative valuation of each company assuming that:
- (a) the same EBIT multiple of 10.5 to 11.0 is applied to the normalised EBIT for the last 12 months for both Trust Company and Equity Trustees
 - (b) the shares in Equity Trustees held by Trust Company are valued at the underlying value derived from the relative value calculations. In our opinion, this is appropriate given the current stated intention of Equity Trustees to cancel these shares should the Offer be successful.

Exchange ratio if same EBIT multiple applied to both companies				
	Trust Company		Equity Trustees	
	Low \$m	High \$m	Low \$m	High \$m
Normalised EBIT – last 12 months	16.5	16.5	12.1	12.1
EBIT multiple	10.5	11.0	10.5	11.0
Business value	173.3	181.5	127.1	133.1
Investments				
Shares in Equity Trustees ⁽¹⁾	17.7	18.5	-	-
Other financial assets (investments)	-	-	3.8	3.8
Tax on investment gain	-	-	(0.2)	(0.2)
Net cash ⁽²⁾	11.9	11.9	7.8	7.8
Assets held for sale ⁽³⁾	3.0	3.0	-	-
Total equity value	205.8	214.9	138.5	144.5
Shares on issue (fully diluted) ⁽⁴⁾	34.4	34.4	9.1	9.1
Value of shares – cum dividend	\$5.98	\$6.25	\$15.22	\$15.88
Less dividends payable / paid ⁽⁵⁾⁽⁶⁾	(\$0.17)	(\$0.17)	(\$0.42)	(\$0.42)
Value of shares – ex dividend	\$5.81	\$6.08	\$14.80	\$15.46
Exchange ratio			0.393	0.393

Note:

- 1 Being 1,193,942 shares at the ex-dividend value assessed above. As the tax cost base is \$22.4 million no capital gains tax is payable.
- 2 For Trust Company this comprises net cash as at 28 February 2013 (\$9.5 million), the amount received from Suncorp in relation to Guardian (net of claims) of \$1.9 million and the dividend from Equity Trustees of \$0.5 million. For Equity Trustees the cash balance is at 31 December 2012.
- 3 Expected proceeds from unconditional sale of Brisbane property. No capital gains tax liability will be crystallised due to carried forward capital losses.
- 4 Includes performance share rights.
- 5 Equity Trustees shares traded ex-dividend on 13 March 2013.
- 6 Under the Offer the maximum final dividend payable by Trust Company is 17 cents per share. Rounding differences may exist.

- 269 Based on the above analysis, the relative values imply an exchange ratio of 0.39 Equity Trustees shares for every Trust Company share. We note this implied ratio is broadly consistent with the ratio implied by longer term share market trading in the two companies (as discussed above).
- 270 We have also considered the EBIT multiple that would need to be applied to Equity Trustees earnings (on a standalone basis) in order to support the Offer ratio of 0.33. As shown below, the EBIT multiple applied to the normalised EBIT of Equity Trustees for the 12 months ended 31 December 2012 would need to be some 22% higher than the EBIT multiple applied to Trust Company's normalised EBIT in order to derive an exchange ratio equal to the Offer ratio:

Equity Trustees EBIT multiple premium implied by Offer ratio				
	Trust Company		Equity Trustees	
	Low	High	Low	High
	\$m	\$m	\$m	\$m
Normalised EBIT – last 12 months	16.5	16.5	12.1	12.1
EBIT multiple	10.5	11.0	12.87	13.48
Business value	173.3	181.5	155.8	163.1
Investments				
Shares in Equity Trustees ⁽¹⁾	21.4	22.4	-	-
Other financial assets (investments)	-	-	3.8	3.8
Tax on investments	-	-	(0.2)	(0.2)
Net cash ⁽²⁾	11.9	11.9	7.8	7.8
Assets held for sale ⁽³⁾	3.0	3.0	-	-
Total equity value	209.6	218.8	167.2	174.5
Shares on issue (fully diluted) ⁽⁴⁾	34.4	34.4	9.1	9.1
Value of shares – cum dividend	\$6.09	\$6.36	\$18.37	\$19.17
Less dividends payable / paid ⁽⁵⁾⁽⁶⁾	(\$0.17)	(\$0.17)	(\$0.42)	(\$0.42)
Value of shares – ex dividend	\$5.92	\$6.19	\$17.95	\$18.75
Exchange ratio			0.33	0.33

Note:

- 1 Being 1,193,942 shares at the ex-dividend value assessed above. As the tax cost base is \$22.4 million no capital gains tax is payable.
 - 2 For Trust Company this comprises net cash as at 28 February 2013 (\$9.5 million), the amount received from Suncorp in relation to Guardian (net of claims) of \$1.9 million and the dividend from Equity Trustees of \$0.5 million. For Equity Trustees the cash balance is at 31 December 2012.
 - 3 Expected proceeds from unconditional sale of Brisbane property. No capital gains tax liability will be crystallised due to carried forward capital losses.
 - 4 Includes performance share rights.
 - 5 Equity Trustees shares traded ex-dividend on 13 March 2013.
 - 6 Under the Offer the maximum final dividend payable by Trust Company is 17 cents per share. Rounding differences may exist.
-

- 271 Whilst Equity Trustees was trading at a higher implied EBIT multiple than Trust Company immediately prior to the announcement of the Offer, in our opinion, the 22% premium implied by the Offer ratio is higher than could reasonably be supported having regard to the medium to longer term prospects of both companies.
- 272 Accordingly, in our opinion, an assessment of the Offer based on the relative value contributions of the two companies implies that the Offer ratio of 0.33 Equity Trustees shares for every Trust Company share is too low.

Extent to which a control premium is being paid

- 273 Empirical evidence indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium reflects the fact that:
- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder
 - (b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds
 - (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company
 - (d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.
- 274 We have calculated the premium implied by the Offer consideration by reference to the market prices of Trust Company shares prior to the announcement on 21 February 2013 of the intention to make the Offer. For the purpose of calculating the implied offer premium we have adopted the mid-point of \$5.91 per share of our assessed value of the consideration, as set out in Section VIII of our report.

Implied offer premium relative to recent share prices	Trust Company share price \$	Implied control premium %
Closing share price on 20 February 2013 ⁽¹⁾	4.75	24.4
1 month VWAP ⁽²⁾ to 20 February 2013	4.55	29.9
3 months VWAP to 20 February 2013	4.46	32.5

Note:

- 1 Being the closing price on the last day of trading prior to the announcement of the intention to make the Offer.
 - 2 Volume weighted average price.
- Rounding differences may exist.

-
- 275 As indicated above, the Offer consideration represents a significant premium to the market price of Trust Company shares prior to the announcement of the intention to make the Offer.
- 276 The implied premium has been calculated adopting the mid-point of our assessed value of the consideration, which in turn reflects trading in Equity Trustees shares subsequent to the announcement of the intention to make the Offer. In contrast the Trust Company share prices adopted reflect share market trading prior to this announcement.
- 277 The market price of Equity Trustees shares rose appreciably subsequent to the announcement of the intention to make the Offer, prima facie, reflecting market recognition of the commercial logic of combining the two businesses and the associated inherent significant synergy benefits. In the circumstances we would conclude that the implied premium reflects the extent to which a portion of these synergy benefits are being shared with Trust Company shareholders.

Extent to which Trust Company shareholders are being paid a share of synergies

- 278 Equity Trustees have estimated the synergies arising on an acquisition of Trust Company at around \$8.0 million per annum, as discussed in Sections VII and VIII of this report and in the Bidder's Statement.
- 279 However, as the Offer is below our assessed valuation range of Trust Company shares, in our opinion, Trust Company shareholders are not being offered an appropriate share of the expected synergies. In addition, as noted above, in our view the Offer ratio (and implied sharing of the synergy benefits associated with the transaction) also favours Equity Trustees shareholders to the detriment of Trust Company shareholders.

Recent share prices subsequent to the Offer

- 280 Since the announcement of the Offer, we note that the VWAP of Trust Company shares has been slightly below the value of the consideration implied by the Offer ratio based on the VWAP of Equity Trustees shares over the same period.

281 This discount may reflect, inter-alia:

- (a) market uncertainty regarding the likelihood of the Offer succeeding (particularly given that Trust Company's directors in their initial response to the Offer have stated that, in their view, the Offer undervalues Trust Company shares)
- (b) recognition that should the Offer be successful, the realisable value of Equity Trustees shares received as consideration could be lower than the recent VWAP due to the historic relatively low level of trading in Equity Trustees shares.

Likely price of Trust Company shares if the Offer lapses

282 In our opinion, if the Offer lapses and no higher offer or alternative proposal emerges, it is likely (at least in the short-term) that Trust Company shares will trade at a discount to:

- (a) our valuation, consistent with the difference between the value of Trust Company on a portfolio basis and the value on a 100% controlling interest basis; and
- (b) the prices at which Trust Company shares have traded subsequent to the announcement of the intention to make the Offer, which, prima facie, reflect a positive market response to the potential merger / combination of the two companies.

Likelihood of an alternative offer

283 We have been advised by the Directors of Trust Company that no formal alternative offers have been received subsequent to the announcement of the intention to make the Offer on 21 February 2013.

284 Furthermore, in our opinion, it is uncertain as to whether any alternative offer is likely to be made for Trust Company prior to the close of the Offer.

Conclusion

285 Based upon the above we have concluded that the Offer is not fair but is reasonable. However, as stated above, we believe the Offer ratio favours Equity Trustees shareholders to the detriment of Trust Company shareholders and should be improved for the benefit of Trust Company shareholders to better reflect the relative value contribution of both companies to any combination of the businesses.

Other matters

286 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Bidder's Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.

287 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target Statement to be sent to Trust Company shareholders in connection with the Offer.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$160,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared many hundred independent expert's reports.
- 2 This report was prepared by Mr Edwards and Mr Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 19 years and 27 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Directors of Trust Company to accompany the Target Statement to be sent to Trust Company shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable to the shareholders of Trust Company.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Offer. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with Trust Company or Equity Trustees prior to the preparation of this report. However, LEA prepared the IER for Permanent Trust Company in connection with the acquisition of Permanent Trust Company by Trust Company in 2002.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Trust Company agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Trust Company which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in Trust Company's Target Statement.

Listed company descriptions

SFG Limited

- 1 SFG (formerly known as Snowball Group) is a financial services firm which offers wealth management and advisory services in Australia. The range of services provided by SFG includes financial advice, retirement planning, client administration, stockbroking, general insurance, life insurance and lending. As at 31 December 2012, SFG had \$11.6 billion of funds under advice, \$10 billion of funds under administration and \$4.7 billion of funds under management.

WHK Group Limited

- 2 WHK Group is the fifth largest accounting firm in Australasia and the seventeenth largest provider of financial planning advice in Australia. The company has an extended distribution network of over 100 offices, employing some 3,000 staff and servicing over 200,000 clients. The business services division provides accounting, audit and assurance, taxation and corporate and business advisory. The financial services division provides wealth management, financial planning, superannuation advice and finance broking services.

Countplus Limited

- 3 Countplus comprises of 21 businesses that operate as a professional services network. The company operates 37 offices, located in 18 towns across Australia and employs around 600 people. The services provided by Countplus include accounting, audit and assurance, business and corporate advisory, corporate recovery and insolvency, financial planning, taxation services, human resource solutions, lending services and taxation services.

Euroz Limited

- 4 Euroz is a specialist financial services company, based in Perth. The company's operations are split into two businesses, namely, Euroz Securities (being the stockbroking business which provides specialised research, dealing and corporate finance services) and Westoz Funds Management (being the funds management business). As at 30 June 2012, Westoz Funds Management had \$257 million of funds under management.

Target company descriptions – transaction evidence

Tasmanian Perpetual Trustees

- 1 Tasmanian Perpetual Trustees provided wealth management services in Tasmania and was the only private trustee company authorised to operate in that State.
- 2 At the date of acquisition, Tasmanian Perpetual Trustees employed approximately 100 staff from nine branches in Burnie, Devonport, Glenorchy, Hobart, Kingston, Kings Meadows, Launceston, Rosny and Ulverstone.
- 3 Revenues was derived from the following principal activities:
 - (a) **trustee services** – estate planning, wills, power of attorney and estate management and trust administration services. Tasmanian Perpetual Trustees also offered funeral bond facilities and administration under guardianship services
 - (b) **funds management** – Tasmanian Perpetual Trustees was the responsible entity for a number of managed investment schemes. As at 31 December 2008, the Company managed approximately \$1.0 billion in FUM. Management fees (charged as a percentage of FUM) derived from these services represented over 50% of the revenue earned by Tasmanian Perpetual Trustees in its 2008 financial year
 - (c) **mortgage financing** – first mortgage finance for rural, commercial and business purposes
 - (d) **Tasmanian Banking Services (TBS)** – a 50/50 joint venture with Bendigo and Adelaide Bank to provide banking services in Tasmania predominantly via the branch network of Tasmanian Perpetual Trustees. At the date of acquisition Tasmanian Perpetual Trustees was in negotiations to sell its interest in TBS⁶⁷.
- 4 Significant synergies were expected to be realised by MyState following the acquisition, with cost savings estimated by the MyState directors at \$3.5 million to \$4.5 million (before tax) per annum by the end of the third year following the acquisition. These synergies were high relative to the maintainable earnings of Tasmanian Perpetual Trustees on a standalone basis of \$4.5 million (after tax), as assessed by independent expert appointed to opine on the merits of the transaction.
- 5 The level of maintainable earnings adopted by the independent expert (and used to calculate the implied EBIT multiple) reflected the impact of large falls in FUM following the GFC.

⁶⁷ As a result we have treated the investment in TBS as a surplus asset when calculating the EBIT multiple implied from the takeover.

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TOWER Investments

- 6 TOWER Investments provided wealth management services in New Zealand. The business was a significant KiwiSaver provider, managing NZ\$863 million in FUM on behalf of 105,000 investors as at 30 September 2012. While KiwiSaver FUM increased 28% over the year ended 30 September 2012, profit before tax fell marginally in that year due to:
 - (a) the run-off of higher margin legacy products (partly offset by growth in the lower margin KiwiSaver and wholesale businesses)
 - (b) upward pressure on costs due to changes to the regulatory environment (partly offset by savings of NZ\$2.2 million from the insourcing of investment management).
- 7 The purchaser (Fisher Funds) was also a New Zealand fund manager and KiwiSaver provider, managing over \$1.4 billion on behalf of more than 130,000 investors. As a result economies of scale benefits were expected to be realised by the acquirer.
- 8 The sale allowed TOWER Limited to focus on its core insurance businesses.

Plan B Group Holdings Limited

- 9 At the date of acquisition, Plan B Group Holdings Limited was a boutique wealth management company with operations in Australia and New Zealand. It offered wealth management and administration services to clients, as well as trustee and estate planning, mortgage broking and insurance services. As at 30 June 2012 the company had \$2.06 billion in FUMA.

Count Financial Limited

- 10 At the date of acquisition, Count Financial was one of Australia's largest independently-owned network of financial planning advisers. Founded in 1980, Count Financial was established to provide financial planning services (typically) through a network of accounting practices. These practices operate their normal professional services practice while offering financial planning advice under the Count Wealth Accountants banner. Whilst the majority of its network consisted of accountants providing financial advice, Count also assisted a network of financial advisers under the Count Financial Advisers banner.
- 11 Count Financial acted as a buying group using its scale to negotiate a range of financial products and services that advisers need to manage and run successful financial planning businesses. It did not provide any investment products in its own right or administer any investment platforms.
- 12 Revenue were derived from three key sources:
 - (a) **rebates from platform providers** – Count Financial received a share of the fees charged by platform providers in the form of rebates (based on a percentage of FUA)

Appendix D

- (b) **fees and commissions** – each Count Financial franchisee entered into an agreement with Count Financial to share fees and commissions based on an agreed split. Fees and commissions were generated from non-platform investments, loans, insurance as well as other financial services
- (c) **annual franchise fees and service fees** – most franchisees paid a flat annual fee. Other fees were also charged for additional services.

DKN Financial Group

13 At the date of acquisition, DKN was a provider of financial services solutions to financial planning practices. Key services provided were as follows:

- (a) **platform solutions** – the provision of platforms (also known as Master Funds and Wrap Accounts) to financial planning practices to provide consistent, stream-lined, efficient client set up, reporting, transacting and adviser fee collection.

Platform Solutions was DKN's core business, contributing 64% of total revenue and 89% of total EBITDA (excluding corporate cost allocation) in FY10.

DKN provided dedicated support to its client practices using the DKN platforms, including platform training, issues management and FUA transition support.

As at 31 December 2010, Platform Solutions had \$6.7 billion in FUA

- (b) **product solutions** – the distribution of asset management solutions, estate planning, risk solutions, self-managed super fund administration, broking solutions and lending solutions (through Lonsdale Finance Choice) to its client practices
- (c) **Lonsdale (licensee solutions)** – provision of the requisite operational framework to enable individual financial planning practices to conduct their business in a compliant and efficient manner. As an AFSL holder, Lonsdale provided a licence solution to practices within its network
- (d) **Equity Partners (acquisition and succession solutions)** – DKN offered a solution to financial planning practices wishing to undertake a partial sale of their business or implement an internal succession arrangement. At the date of acquisition DKN held minority equity investments in seven financial planning practices.

Shadforth Financial Group

14 At the date of acquisition, Shadforth was a provider of financial advice, portfolio and investment management, life insurance, general insurance, mortgage broking and lending services, corporate superannuation and stockbroking. At the date of acquisition the firm had approximately 141 salaried financial advisers, professional staff and general insurance specialists in 13 offices.

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- 15 The core services offered by Shadforth included:
- (a) personal strategic advice, including advice relating to superannuation and wealth creation strategies
 - (b) investment portfolio construction and management
 - (c) investment registry, custody, reporting, transactions and administration
 - (d) personal stock broking
 - (e) corporate services including corporate superannuation
 - (f) personal insurance broking
 - (g) general insurance broking and agency
 - (h) mortgage broking and lending services.
- 16 In the half-year to 31 December 2010, Shadforth generated approximately 58% of its revenues from financial planning fees and approximately 28% of revenue from wrap rebates.

Glossary

Term	Meaning
AFS	Australian Financial Services
AIFRS	Australian equivalent to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
bps	Basis points
CAGR	Compound annual growth rate
CGT	Capital gains tax
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
Equity Trustees	Equity Trustees Limited
FOFA	Future of Financial Advice reforms
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FUM	Funds under management
FUMA	Funds under management and administration
FY	The respective financial years for Trust Company and Equity Trustees differ. Trust Company is to the end of February and Equity Trustees is to 30 June
GDP	Gross domestic product
GFC	Global financial crisis
Guardian	Guardian Trust
IER	Independent expert's report
LEA	LonerGAN Edwards & Associates Limited
MIT	Managed Investment Trust
NPV	Net present value
Offer	The consideration under the offer is 0.33 Equity Trustees shares for each Trust Company share
PE	Price earnings
Permanent	Permanent Trustee Company
REIT	Real Estate Investment Trust
RG 111	ASIC Regulatory Guideline 111 – <i>Content of expert reports</i>
STI / LTI	Short-term and long-term incentive
TBS	Tasmanian Banking Services
Trust Company	The Trust Company Limited
UK	United Kingdom
US	United States
VWAP	Volume weighted average price
WANOS	Weighted average number of outstanding shares

ANNEXURE B

Key Announcements

The table below contains a list of all material announcements released by The Trust Company in the period between 9 October 2012 and 12 April 2013.

No.	Description of Announcement	Date of Announcement
1	TRU - ASX Appendix 3X - Catherine McDowell	08/04/2013
2	TRU - Shareholder Correspondence	08/04/2013
3	EQT: Replacement Bidder's Statement - T/O of Trust Company	05/04/2013
4	Ceasing to be a substantial holder for NWR	04/04/2013
5	TRU announces two new senior appointments	02/04/2013
6	EQT: T/O of Trust Company - Replacement Bidder's Statement	27/03/2013
7	EQT: Takeover of TRU - Supplementary Bidder's Statement	27/03/2013
8	EQT: T/O Trust Company - Date of Shareholder List	19/03/2013
9	T/O The Trust Company - Substantial S/holder Notice from EQT	19/03/2013
10	EQT: Bidder's Statement	18/03/2013
11	Bidder's Statement - Takeover Offer for Trust Company (TRU)	18/03/2013
12	TRU Correspondence to all shareholders	14/03/2013
13	Updated FY13 Guidance and EQT Offer	13/03/2013
14	EQT: Letter to Trust Company Shareholders	08/03/2013
15	TRU announces Suncorp Settlement	06/03/2013
16	EQT: Letter To EQT Shareholders re Takeover of Trust Company	22/02/2013
17	Investor Presentation - Takeover Offer For Trust Company	21/02/2013
18	TRU - EQUITY TRUSTEES LIMITED OFF MARKET TAKEOVER OFFER	21/02/2013
19	EQT: Equity Trustees Takeover Offer For Trust Company	21/02/2013
20	TRU - Appointment of Company Secretary	31/01/2013
21	TRU - The Trust Company and Banksia	10/01/2013
22	TRU - ASX Appendix 3Y - James King	18/12/2012
23	CEO Notice of Resignation	03/12/2012
24	TRU - Payment of Interim Dividend	09/11/2012
25	TRU - Half Year Results Investor Presentation	09/10/2012
26	TRU - Interim Dividend Details	09/10/2012
27	TRU - Half Year Results Announcement	09/10/2012
28	TRU - Half Year Report and ASX Appendix 4D	09/10/2012

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