

Perpetual continues its growth journey

Company/ASX Code	Perpetual Limited (PPT)
AGM date	Thursday 20 October 2022
Time and location	10.00 am Level 18, Angel Place, 123 Pitt St., Sydney NSW 2000
Registry	Link Market Services
Type of meeting	Hybrid Online: https://meetings.linkgroup.com/PPT22
Poll or show of hands	Poll on all items
Monitor	Richard Williams
Pre AGM Meeting?	Yes with Chair, Tony D'Aloisio and executives Shannon Dooley GM of Performance, Reward and Analytics & Ivor Gibbons – Head of Sustainability

Monitor Shareholding: The individual involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting

The overriding issue that overshadowed the annual results announcement and presentation on 25 August 2022 is the acquisition of Pandal Group which was also announced the same day.

Proposed Voting Summary

No.	Resolution description	
1	Adoption of the remuneration report	For
2	Re-appointment of Mr Greg Cooper	For
3	Increase in non-executive director remuneration pool	For
4a	Approval of the FY22 variable incentive equity grants to the CEO and Managing Director: Grant of share rights to the CEO and Managing Director	For
4b	Approval of the FY22 variable incentive equity grants to the CEO and Managing Director: Grant of performance rights to the CEO and Managing Director	For
4c	Approval of a grant of KMP Growth Long-Term Incentive Performance Rights to the CEO and Managing Director	For

Summary of ASA Position

Consideration of accounts and reports - No vote required

Governance and culture

Perpetual has announced its new sustainability strategy “Perpetual’s Prosperity Plan”. The plan is contained in PPT’s FY22 Sustainability Report and outlines priorities across four pillars: the planet, people, communities and governance. There is an emphasis on embedding ESG behaviours into the organisation and its investing principles. It is backed by a set of Key Performance Indicators (KPIs) to monitor progress in implementing the plan.

Performance against KPIs is externally assured and this performance feeds into executive remuneration.

In addition, PPT has refreshed the values it expects from staff in order to promote a more innovative and adaptive culture; “stretch”, “own it” and “make an impact”.

A significant amount of work has been put into PPT’s ESG efforts including the appointment of an Environment and Sustainability manager.

Financial performance

Whilst on the surface company had a good year with net profit after tax (NPAT) up 39% and earning per share (EPS) on NPAT up 36% on the prior year, Total Shareholder Return (TSR) was down 23% and has averaged -22% over the last five years.

NPAT is down 28% from FY18 with underlying profit after tax (UPAT) only up 6% from the same date, despite the company being significantly larger than five years ago.

Whilst the dividend has recovered 16% from last year, it is down 24% from five years ago.

The business divisions not subject to market variability, Perpetual Private (PP) and Perpetual Corporate Trust (PCT) currently provide 30% of group revenue and continued to perform strongly.

Total expenses in FY22 rose 20% to \$566.5m, up from \$471.2m in FY21, impacted by:

- The operating expenses of the acquisitions of Barrow Hanley, Jacaranda Financial Planning and Laminar Capital, as well as expenses related to the distributions on employee owned units in Barrow Hanley
- Higher variable remuneration driven by group-wide short-term incentive schemes
- Continued investment into technology and headcount to support business growth.

Key events

As mentioned earlier, the acquisition of Pental Group under a binding “Scheme Implementation Deed” was announced at the same time as the FY22 annual results and is expected to be completed in mid FY23. It will more than double PPT’s assets under management to A\$201m and aims to realise A\$60m of annual pre-tax synergies within the first two years. Synergies will not directly impact key investment brands and teams and include a reduction in administrative costs such as only one executive team being required.

A new debt facility totalling approx. A\$1.164b will cover the A\$757m cash component of the Pental offer as well a refinancing the existing debt facility and includes undrawn headroom for liquidity management purposes. The total of the new debt facility is not explained clearly in the annual report.

The company's gross debt/earnings before interest, tax, depreciation and amortisation will rise from the current 1.05x to approx. 1.7x at implementation and is forecast to decrease to 1.2x three years post implementation.

The share market has taken a dim view of the proposed acquisition with PPT's share price down 22% in the four weeks since the announcement.

Acquisitions during FY22 were Jacaranda Financial Planning (Aug 2021) under PP and Laminar Capital (Oct 2021 - now Perpetual Digital) under PCT.

Key Board or senior management changes

There were no Board changes, however PPT has stated that up to three Pental Group board members will be invited onto the board once the acquisition has been completed.

A Chief Technology Officer was appointed for the first time in March 2022 with the aim of enhancing PPT's "technology maturity".

A new position of Sustainability and Environment manager has also been created in order to drive the reduction in PPT's operational environmental footprint.

ASA focus issues (not discussed under remuneration report or re-election of directors)

Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT (\$m)	101.2	74.9	82.0	115.9	140.2
UPAT (\$m)	148.2	124.1	93.5	115.9	140.0
Share price (\$) as of 30 June	28.88	40.05	29.67	42.24	41.60
Dividend (cents)	209	180	155	250	275
TSR (%)	(23)	40	(26)	8	(21.0)
EPS – NPAT (cents)	177	133	173	246	299
CEO total remuneration, actual (\$m)	2.267	1.494*	1.603	1.03	3.26

* As a result of COVID-19 austerity measures, the CEO's fixed remuneration was reduced by 20% for the period 1 July to 31 December 2020. Also, incentive awards that would have been made in cash and un-hurdled equity were converted to hurdled equity with 100% of STI awards being performance rights subject to absolute total shareholder return equally over three and four years.

For FY21, the CEO's total actual remuneration was **23.7 times** (vs 16 times in FY21) the Australian Full time Adult Average Weekly Total Earnings (based on May 2022 data from the Australian Bureau of Statistics).

Note - For May 2022, the Full-time adult average weekly total earnings (annualised) was \$95,030.00

Election or re-election of directors

There are eight board members (seven independent, one executive – CEO/MD), three of whom are women (38%) which aligns with PPT's aim of having 40% of women in leadership positions by FY24.

Perpetual's board skills matrix (BSM) outlines nine areas of skills and experience that board members are annually reviewed against to ensure that there is an appropriate balance of skills,

diversity, experience and independence on the board. Perpetual prefers this “skill set” approach over that outlined by the ASA.

The potential Pental board members to be appointed the PPT board will be assessed against this BSM as well as considering amongst other things, opportunities to complement existing board skills and experience.

Resolution 2: Mr Greg Cooper (age 51) is standing for re-election, three years since his initial appointment in September 2019. Mr Cooper has seven other directorships, with one being chairman of Colonial First State Investments and Avanteos Investments (collectively CFS Group).

In answer to a question regarding the number of Mr Cooper’s directorships and the consequent demands on his time, the Chairman indicated that Mr Cooper is a first-rate director, has the advantage of being younger than other members and noted that there were many out-of-session board meetings during the year (23 meetings in total), none of which Mr Cooper missed.

The Chairman is conscious of the issue of “over boarding” and has pointed out that the seven other directorships are of private organisations, the demands of which are less onerous than being a director of a public company – hence the Chairman is confident that Mr Cooper has more than adequate time to devote to PPT’s business.

Mr Cooper has significant financial services and strategy expertise both in Australia and internationally, gained over more than 26 years in the financial services industry – highly relevant to PPT’s business.

Mr Cooper has accumulated PPT shares slightly higher in value (as at 30 June 2022) than his base director’s fee of A\$165,000 in line with PPT and ASA guidelines.

The ASA intends to vote undirected proxies in favour of this resolution.

Resolution 3: Increase in the Non-Executive Director Remuneration Pool

The ASA intends to vote undirected proxies in favour of this resolution to increase the NED remuneration pool from \$2,250,000 to \$3,500,000. The resolution is reasonable considering:

- The pool has not increased since 2006
- The potential for the appointment of additional NEDs as the company grows (eg Pental Group appointees)
- The need to maintain competitive NED fees into the future

Cybersecurity

Perpetual manages its cybersecurity via its risk management framework which includes an Information Security Framework which set out a number of controls such as a Technology Leadership team and a Technology Steering Committee that manages overall technology strategy and risk and a 24x7 security operations centre.

Perpetual engenders a cybersecurity culture via initiatives such as enhanced IT security standards to better align with ISO27001 and new Australian compliance standards and additional security roles to enhance PPT’s internal team capability.

The Chairman advises that PPT has a good cybersecurity team and processes and after reviewing PPT’s detailed response to ASA’s questions regarding cybersecurity, the company’s risk management and controls in this area appear to be sound.

Permanent operational changes as a result of the pandemic response

At a Board level, PPT’s pandemic response plan has delivered an opportunity to more efficiently meet without requiring travel and/or requiring longer lead-times to schedule meetings factoring in

travel. Perpetual's hybrid board meeting model using video conferencing facilitated every NED being able to attend all 23 board meetings during the year, including US based NED Ms Aboelnaga Kanaan.

For staff, hybrid working is now an established option and for clients, a range of technology platforms has changed the way PPT interacts with clients including the option for people to attend events in person or on-line.

Adoption of Remuneration Report and approval of equity grants to CEO / Managing Director

The adoption of the remuneration report this year needs to be viewed in the context of an increasingly competitive marketplace for key talent – hence remuneration increases or potential increases need to be viewed in the context of retaining and attracting this talent.

Perpetual has flagged that from 1 September 2022 the hurdled awards will no longer be subject to the group scorecard prior to allocation. This change has the effect of the awards being more consistent from year to year and hence potentially more favourable to executives.

The balanced scorecard used as an input into executives' variable incentive performance has been modified to align more closely with the company's five-year strategy. The strategic measures are nominally split 60% financial/40% non-financial measures, however on examination the split is **closer to 80/20**. Perpetual acknowledge this apparent anomaly, however say that some measures that appear to be financial may have broader considerations that guide the final assessment.

This is the sixth year of operation of PPT's variable incentive plan, and the third full year of alignment of KMP remuneration arrangements with the CEO's.

The board has awarded the CEO/MD an overall incentive outcome of 106% of target or 61% of the maximum in respect of FY22 (last year 100/57) in recognition of his progress against key strategic and individual priorities. Executive KMP average 103% of target (59% of max. opportunity) and received a 3.2% increase in fixed pay during FY22 as foreshadowed last year.

The CEO/MD's fixed remuneration has remained unchanged since his appointment in 2018 (apart from the voluntary reduction of 20% from 1 July – 31 December 2020).

The CEO/MD has been awarded:

- 34,243 share rights (unhurdled) with a face value of \$942,280, which will vest on 1 September 2024 and convert to restricted shares for a further two years.
- 19,819 performance rights (hurdled) with a face value of \$545,340 which will vest on 1 September 2025 subject to a three-year CAGR TSR hurdle and convert to restricted shares for another 12 months.
- 19,819 performance rights (hurdled) with a face value of \$545,340 which will vest on 1 September 2026 subject to a four-year CAGR TSR hurdle and convert to restricted shares.

The CEO/MD's FY22 remuneration is summarised in **Appendix 1**

Resolution 1: Adoption of the remuneration report and

Resolutions 4(a) and 4(b): Approval of the FY22 variable incentive equity grants to the CEO/MD

The ASA intends to vote undirected proxies in favour of these resolutions because:

- There is no increase in fixed remuneration for the CEO
- The grants are in line with the established remuneration arrangements voted in favour of last year
- The overall improved financial performance of the company over the last two years.
- The company has successfully integrated Trillium and Barrow Hanley into the organisation

Resolution 4(c): Approval of a KMP growth long-term incentive performance rights grant to the CEO/MD

A “one off” Growth long-term Incentive Award to vest over five years is sought to provide a “stretch” hurdled award over and above the current awards to incentivise growth in the strategic investments and acquisitions that have occurred over the last two years as well as in the pending acquisition of Pental Group. The awards are:

- 52,434 performance rights with a face value of \$1,442,984 will vest on 1 September 2025 and convert to restricted shares for a further 24 months, subject to the three-year CAGR TSR hurdle set out below
- 56,565 performance rights with a face value of \$1,556,669 will vest on 1 September 2026 and convert to restricted shares for a further 12 months, subject to the four year CAGR TSR hurdle set out below
- 61,162 performance rights with a face value of \$1,683,178 will vest on 1 September 2027 and convert to unrestricted shares, subject to the five-year CAGR TSR hurdle set out below.

COMPOUND ANNUAL GROWTH IN TSR	PERCENTAGE OF RELEVANT TRANCHE OF PERFORMANCE RIGHTS THAT VEST
Less than 10% per annum	0%
10% to 15% per annum	Straight-line vesting from 0% to 100%
15% or above per annum	100%

Performance rights not vested are forfeited and not re-tested.

The ASA intends to vote undirected proxies in favour of this resolution because of the significantly high hurdles that need to be reached in order for the performance rights to vest. It is in the interests of shareholders that these hurdles are met.

Appendix 1

Remuneration framework detail (as confirmed by Perpetual)

CEO rem. framework	Actual \$ outcome FY22	% of FY22 total rem. mix	Target \$	% of Total	Max. Opportunity \$	% of Total of max. opportunity	Vesting
Fixed Remuneration	1,302,776	34%	1,302,776	35%	1,302,776	24%	
STVI Cash	530,000	14%	500,000	13%	875,000	15%	Paid in Sept
STVI Unhurdled equity	942,280	24%	888,943	24%	1,555,650	28%	Vest after 2yrs and restricted for 2 more yrs (released 5yrs from start of perf. period)
LTVI Equity with TSR hurdle	1,090,680	28%	1,028,943	28%	1,800,650	33%	Vest after 3 years (half) and 4 year (half) subject to Absolute TSR hurdle (3 and 4 year CGR of 7-10%). All equity restricted for 4 years from grant
Total	3,865,736	100%	3,720,662	100%	5,534,076	100%	

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Perpetual provides a table of actual Executive remuneration in the Annual Report.

After four years the CEO has a shareholding valued at \$767,712 (as at 30 June 2022) being 59% of his fixed remuneration. PPT expects the CEO to accumulate shares to the value of 150% of fixed remuneration after five years.

The remuneration report is comprehensive and relatively understandable.

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