ASX Announcement

AGM 2011

- FY11 underlying profit unchanged in difficult conditions
- Leadership renewal, and enhanced discipline and focus
- 1H FY12 financial performance to be impacted by markets

3 November 2011

Perpetual Limited (Perpetual) shareholders attending the company's 48th Annual General Meeting in Sydney today will be provided with further detail on the company's performance in the 2011 financial year, as well as its response to the challenging operational environment faced by the financial services industry.

Perpetual's Chairman, Mr Peter Scott, will remind attendants that 2011 also marks the 125th anniversary of the founding of the company and that Perpetual has demonstrated its capacity to adapt to and thrive on change numerous times since then.

Difficult market conditions continued in 2011

In introducing the AGM presentations, Mr Scott noted that with approximately 75% of the company's revenue closely tied to the direction of financial markets, the after-effects of the global financial crisis were still having an impact on Perpetual's financial performance.

"General uncertainty and market volatility negatively influenced net fund flows across the industry during the year. Weak consumer sentiment also depressed the housing finance volumes that drive activity levels in our Corporate Trust business," Mr Scott said.

The Chairman acknowledged that the underlying financial performance of the company in FY11, which was broadly unchanged on the previous corresponding period, needed to improve. He did however indicate that Perpetual was approaching the future with enhanced confidence as the company was actively responding to the changes taking place in its operational environment.

"The industry in which we operate continues to have a strong fundamental and structural appeal and is supported by a well-established superannuation system, demographic trends and a strong desire for home ownership. Within this positive longer term outlook, our three core business units – funds management, wealth advice and corporate trustee services – position us well to generate good quality earnings for shareholders.

"Ultimately, Australians must continue to take charge of their own financial wellbeing and they will continue to invest and seek advice from companies such as Perpetual. While we cannot control financial markets, investor sentiment or the regulatory environment, we can control how we manage our businesses. Over the past year, we have sought to do just that," Mr Scott noted.

A year of change and renewal

2011 was a year of change for Perpetual, with the appointment of a new chairman and CEO. In the first half of the financial year, it was also approached by private equity firm KKR with an incomplete proposal to buy the company.

Mr Scott emphasised the approach was not a formal offer for the company that could be put to shareholders for acceptance. “It was indicative, incomplete, highly conditional and non-binding. It was essentially an expression of interest to engage in discussions with us, not a complete bid,” he said.

Talks with KKR ended after both parties were unable to develop mutually acceptable terms.

New Managing Director and CEO Chris Ryan joined Perpetual in February 2011. He outlined the key principles by which his team intends to run the company in a market briefing in May 2011.

Results overview

Perpetual Limited recorded a full year underlying profit after tax of $72.9 million and a net profit after tax of $62.0 million. While net profit after tax was down on the prior year, underlying profit after tax was broadly unchanged.

Mr Scott said: “The result is not unexpected in the context of subdued equity markets and continued volatility. We take some comfort from the fact that we have been able to maintain underlying profit levels in what has been an exceptionally tough year for the industry and global markets overall. It also reflects the investments we are making to further improve our ability to weather external influences by reconfiguring our portfolio of businesses, and by becoming more efficient in the way we operate these businesses.”

The company strengthened its financial position during the 2011 financial year, providing it with the flexibility to pay dividends in excess of its dividend policy. The financial strength also allowed the company to undertake a share buy-back in the 2012 financial year while maintaining a conservative gearing ratio.

Perpetual’s Board decided to pay a dividend of 185 cents per share fully franked for the 2011 financial year. The payment effectively amounted to the distribution of $19.7 million of surplus capital to all shareholders, in addition to the $70 million of capital returned via the off-market buy-back.

“This buy-back was in line with our more active approach to the management of capital to ensure it is used efficiently to create value for shareholders. It is not expected to affect our flexibility to deploy capital for other shareholder value creating purposes,” Mr Scott noted.

Perpetual strengths

Perpetual Managing Director and CEO, Chris Ryan, in addressing his first Annual General Meeting, will be reiterating the views he expressed at the time of his appointment.

“Perpetual is an exceptional brand. The company has a unique scale and independence, significant depth of talent, quality earnings streams, and the financial strength required to protect and grow its businesses, and create returns for shareholders,” Mr Ryan said. “Although these five qualities provide Perpetual with a strong platform, it is important that we reflect on our performance and look at how we meet challenges and take advantage of opportunities.

“When I started in my new role, my first priority was to review Perpetual’s portfolio of businesses, our strategy, and our capabilities. This review confirmed Perpetual’s strengths but also highlighted areas in which we needed immediate improvement.

“We have to be more rigorous in how we manage our portfolio of businesses and focus our energy and resources on the things we do best and can add the most value for clients and shareholders. A more flexible cost base will also improve our ability to respond to changing conditions and opportunities,” Mr Ryan noted.

Sharper focus

At the meeting, Mr Ryan will provide a snapshot of some of the company’s actions in response to the challenging environment over the last six months.

“In Perpetual Investments, we closed our Dublin-based investment operation and appointed Wellington Management to manage our international share funds. We developed the Secured Private Debt Fund series, a new generation mortgage product that caters to the growing need for retirement income products, and we sold the smartsuper self-managed superannuation fund administration business.

“In Private Wealth, our objective to provide a wider range of solutions to our existing clients and attract new clients led us to outsource our portfolio administration system for Private Wealth clients. The ongoing implementation of this project will provide us with a SuperWrap, an important solution for our target High Net Worth segment.

“In Corporate Trust, we are adding additional asset classes to our client offer, such as covered bonds, now that legislation authorising the issuance of such bonds by financial institutions has been passed.

“These are just a few practical examples of how we are developing better solutions for clients and improving our competitive position. We are confident this will help create value for our shareholders now and in the long term,” Mr Ryan noted.

During the year, Mr Ryan also added expertise to his executive team, with two new group executives for the key functions of operations and marketing.

Richard Vahtrick joined from IBM in June to lead Perpetual’s operations and IT teams and Brian Henderson was appointed Group Executive Marketing and Communications.

Earnings outlook

Mr Ryan indicated that, based on markets at the end of October 2011, Perpetual expects its underlying profit after tax for the six month period ending 31 December 2011 to be in the range of $26 to $31 million.

The above profit outlook includes around $1 million after tax of costs in relation to the outsourcing of the portfolio administration system for Private Wealth clients, announced on 5 October 2011. It excludes the $10 million after tax restructuring charge announced on 15 August 2011 in relation to the closure of the company’s Dublin-based in-house international share fund manufacturing capability.

“This outlook reflects, in the main, the decline in equity markets experienced since 1 July 2011. Markets have not shown any positive momentum since the start of the current financial year. Based on the All Ordinaries Index at the end of October 2011, a 1% movement in the market changes our annualised revenue by approximately $1.5 to $2.0 million.

“The guidance assumes no other impairments and is subject to there being no material deterioration in financial markets and business conditions over the remainder of calendar 2011,” Mr Ryan noted.

Renewed confidence

Summarising his concluding statements, Chairman Peter Scott reiterated that Perpetual, in its 125-year history, had consistently demonstrated its resilience and adaptability.

“The changes we are now making will make us fitter, more efficient and more focussed on those things that we can control and in which we excel. We look forward to the future knowing that the multiple initiatives we are implementing will improve our ability to navigate the challenges of volatile financial markets. We now have a clear plan for growth, and are focussed on providing excellent service to our clients and strong returns for our shareholders,” Mr Scott said.

Mr Ryan echoed his Chairman’s comments, saying that Perpetual remained a company with talented people, a great brand, and considerable strengths in the markets in which it chooses to compete, all of which are supported by a promising long-term outlook.

“The current environment is challenging, but it also creates significant opportunities, and the strong platform we have allows us to pursue these opportunities and create value from them for our shareholders. We are now exercising greater discipline and focus in that pursuit, and we look forward to the next year with confidence and enthusiasm," Mr Ryan concluded.

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About Perpetual
Perpetual is an independent financial services group operating in funds management, financial advisory and trustee services. Our origin as a trustee company, coupled with our strong track record of investment performance, has created our reputation as one of the strongest brands in financial services in Australia. For further information, go to www.perpetual.com.au