

Check against delivery

**2007 PERPETUAL LEADERSHIP FORUM
Business Leaders Survey results**

Grand Hyatt Hotel
Melbourne
5 June 2007

David Deverall

Managing Director and Chief Executive Officer – Perpetual Limited

Introduction

Good evening ladies and gentleman and welcome to 2007 Perpetual's Leadership Forum.

Together with our partners from the Institute of Chartered Accountants it is a pleasure to be with you tonight.

With the calibre of leaders assembled this evening, I am sure the panel discussion will certainly be thought provoking and entertaining.

Leadership

Leadership is probably one of the most overused words and a concept that has been with us since time began – it is an inherent human trait which is in all of us to varying degrees.

What is amazing is that despite the fact that humans have had the benefit of centuries of history and experience to study and learn aspects of successful leadership, it continues to this day as one of the most studied and talked about topics.

Over Perpetual's 121 years we have had a long association with leaders.

Not many people are aware that some of our earliest board members were founding families in the Australian community.

From Edmund Barton, Australia's first Prime Minister and Sir James Reading Fairfax, of The Sydney Morning Herald fame, Perpetual's board has benefited from having strong leaders who fostered the culture of sustainability and long-term thinking.

As a significant and successful investor we recognise the importance that leadership plays in shaping a company's future and prospects.

Good companies with great leaders can make extraordinary investments.

Good companies with average leadership can make poor investments.

For fund managers, often the decision to invest in a company can come down to an assessment of the strength of the leadership of an organization.

2007 Perpetual Business Leaders Survey

To better understand the needs and issues faced by Australian business leaders, Perpetual conducts an annual survey of senior business executives from leading Australian companies.

This year's survey saw more than 500 senior executives express their views on the business outlook, leadership traits, emerging issues and trends, and philanthropy.

Check against delivery

So this is what you and your peers had to say!

Business leaders are optimistic about the outlook for their business next year.

Most leaders – 62 per cent – expect their business to perform better next year. A quarter expects their performance to be ‘much better’.

What are the issues keeping business leaders awake at night?

With unemployment at a 32-year low of 4.4 per cent¹, it is no surprise that the ‘war for talent’ continues to rage unabated as the key issue facing business leaders over the next 12 months.

77 per cent of respondents ranked hiring and retaining the right staff in the top three biggest challenges.

The other two biggest issues were seen to be ‘meeting customer’s expectations’ (51 per cent) and ‘managing the balance between family and business’ (42 per cent).

Respondents were asked about the most important hallmarks of leadership and the most important measures of a leader success.

While the respondents identified strongly with a number of the hallmarks, leaders nominated ‘developing a vision for the business beyond existing practices’ as the most important hallmark of leadership.

59 per cent nominated it as one of their top three hallmarks.

In terms of importance, developing a vision for the business is followed by ‘inspiring others to support the business strategy’.

Interestingly, a cluster analysis indicates that these two hallmarks of leadership are regarded as quite distinct issues. It also gives us an insight into the personal leadership styles of Australia’s senior executives.

‘Innovators’

The respondents who mentioned developing a vision, usually also mentioned innovation as a key hallmark of leadership.

The ‘innovators’ were also:

- more likely to be optimistic about the business outlook
- feel business has major responsibilities for charity
- make large business donations

‘Humanists’

A second cluster of leaders emphasised the needs for customers, staff and the community as the important hallmarks of leadership.

The ‘humanists’:

- often work in small businesses

¹ Australian Bureau of Statistics, 6202.0 - Labour Force, Australia, Apr 2007

Check against delivery

- personally donate more to charity each year

'Generals'

Those who mentioned inspiring others to support the business strategy also tend to regard making difficult decisions a key hallmark of leadership.

The 'generals' were also:

- more pessimistic about the business outlook
- inclined to donate less each year
- often work in large corporations
- believe their financial reporting is too short-term focussed

This last finding leads me to an issue which Perpetual is raising as being one of the key threats to growing investor wealth – that of short-termism.

Short-termism

As a fund manager managing an increasing proportion of Australia's retirement savings, our relentless focus is on creating wealth over the longer-term for our clients.

We are conscious of the threat posed by the rise of short-termism within corporate Australia.

By short-termism, we mean the excessive focus on short-term earnings and other metrics at the expense of attention being given to the strategy and long-term value creation.

From a public company perspective, the obsession with short-term results by investors, asset management firms, and corporate managers collectively can lead to the unintended consequences of:

1. destroying long-term value
2. decreasing market efficiency
3. reducing investment returns and
4. impeding efforts to strengthen corporate governance

One of the indicators of short-termism is the balance achieved in reporting to shareholders and the market, and specifically the frequency of this reporting.

In Australia, while the frequency of guidance and reporting is less of an issue than in the US, the 2007 Perpetual Business Leaders survey revealed some interesting insights in to the views of business on short-termism.

The business leaders surveyed believed their investors and shareholders were more focussed on the longer term strategy than the short-term earnings (33 per cent compared with 13 per cent).

However, a significant proportion of the same leaders surveyed (39 per cent) believed their current financial reporting was too focussed on the short-term.

In summary, business leaders believe their investors/shareholders are more interested in the longer term performance and strategy of their company.

Check against delivery

However, they concede their current reporting focus is too short. What is alarming is the fact that some plan to increase the frequency of earnings guidance in the year ahead – essentially perpetuating the short-term cycle.

In other words, we are our own worst enemies when it comes to the rise and rise of short-termism!

The purpose of the Business Leader's survey was to also gain a better understanding of some emerging business trends and issues.

For some time, the United States has been leader in corporate philanthropy and this is now on the rise amongst Australian businesses and individuals.

Perpetual Private Clients' charitable trust book now exceeds \$1 billion in funds under management – making Perpetual not only one of the oldest but now also the largest charitable trust book in Australia.

Last year Perpetual distributed over \$40 million from approximately 450 trusts.

These funds were distributed to a multitude of causes across the country – from biomedical research, to music, literary and arts awards, to surf life saving.

In the vast majority of cases, they bring to life and perpetuate the philanthropic desires of previous generations of Australians.

Philanthropy

Encouragingly, there is a clear trend among Australia's business elite towards giving more to charities, both personally and in business.

Nearly a quarter – 23 per cent – made a larger personal donation last year than the year before.

The trend appears to be continuing with 17 per cent planning to give even more next year.

Not surprisingly, the source and driver of this increased generosity is an increase in personal wealth and business earnings.

Most of those who are planning to give more personally next year say they will do so because they have a greater financial capacity through increased earnings (55 per cent).

Other reasons for increased personal donations include extended involvement with charities (19 per cent) and a sense of obligation to the needy (17 per cent).

I am fascinated by the opportunities and challenges posed by these results.

Intuitively, we all know the demand for assistance by the most vulnerable and needy members of our society, increases sharply during times of economic downturn.

Check against delivery

However, we also know that the inverse consequences of these findings are that our 'generosity' will waiver at times of a perceived decline in personal wealth – when our donations are required the most.

In a business context, we are all familiar with the difficulties associated with the variability of income when trying to allocate resources and make investments over the longer-term.

It is no different for charities. For them to be strategic and focussed on delivering benefit to the needy over the long-term, they need to be able to reduce the volatility of their incomes.

Currently, of the \$5.7 billion² made in donations each year in Australia, only \$200 million³ is coming from planned giving.

We believe this re-enforces the need for a more sustainable form of giving...

For a model of philanthropy that can 'weather' the economic downturns by providing a stable stream of financial support to those in most need.

I would like to share an example which demonstrates the power of this model of philanthropy.

Ramaciotti Foundation

Clive and Vera Ramaciotti were the children of Major General Gustavo Ramaciotti who arrived from Italy with his family in 1865.

Gustavo practised as a lawyer in Sydney and in 1908 purchased the Theatre Royal and adjacent shops in Castlereagh Street in Sydney.

Following the death of her father and brother some years prior, in 1970 Vera decided to sell the Theatre Royal and the adjacent properties.

Vera chose to give substantial support to biomedical research – an interest shared by both Vera and her brother.

The Foundation was established with \$6.7 million in 1970 and today total more than \$65 million.

In addition, since 1971 when the first grant was awarded, in excess of **\$45 million** has been distributed to medical research.

Each year the Ramaciotti Foundation distributes well over \$1 million in grants to individuals and research teams, as well as awarding the prestigious Ramaciotti Medal for biomedical research.

In addition, this year the Ramaciotti Foundation will award a single grant of \$1 million to an Australian biomedical research institute.

² QUT Centre for Philanthropy and Non-profit studies, *Current Issues Information Sheet 2007/2; Tax Deductible Giving in 2004-05*

³ Perpetual Philanthropic Services

Check against delivery

To me, the Ramaciotti Foundation is the perfect example of sustainable philanthropy.

The Foundation has weathered numerous economic cycles while still being able to fulfil the philanthropic aspirations of Clive and Vera Ramaciotti and delivering an invaluable benefit to generations of Australians.

It represents how to maximise the benefit of individual generosity, not only when we have the financial capacity to give, but also during those tougher periods.

When you mix the increasing charitable intent of the Australian community with a long-term investment philosophy and distribute the proceeds to the most effective charities you can end up delivering a powerful solution to some of society's key challenges.

A great example of an organisation which distributes proceeds to the most effective charities is Social Ventures Australia – who are taking an 'investment' discipline to charities throughout Australia.

I am pleased that we have Chris Cuffe from Social Ventures Australia (SVA) with us here this evening and it would be great to further explore philanthropic leadership in our panel discussion shortly.

Perpetual is pleased to have recently entered into a strategic partnership with SVA which will enable our two organisations to combine their strengths (ours as a source of funds, theirs as a use of funds) to start generating great philanthropic outcomes for Australian society.

Conclusion

In conclusion, the 2007 Perpetual Business Leaders Survey provides great insights into the issues facing Australian business leaders.

At Perpetual we would like to think that it builds on the existing bank of knowledge and contributes to better understanding what constitutes an effective business leader.

While our economy and business confidence is strong, the survey also reveals new challenges for Australia's business leaders:

- winning the 'war for talent' without exacerbating it
- striking the balance between hitting short-term targets and developing strategies that will build shareholder wealth; and
- looking to maximise the benefits of our charitable intentions throughout the economic cycle.