

Perpetual Protected Investments - Series 3

ARSN 130 261 255

Annual Financial Report

For the period 28 March 2008 to 30 June 2009

Perpetual Protected Investments - Series 3
ARSN 130 261 255

Annual Financial Report

For the period 28 March 2008 to 30 June 2009

Contents	Page
Directors' report	1
Lead auditor's independence declaration	4
Income statement	5
Statement of recognised income and expense	5
Balance sheet	6
Cash flow statement	7
Notes to the financial statements	8
Directors' declaration	19
Independent auditor's report to the investors	20

Perpetual Protected Investments - Series 3

Directors' report For the period 28 March 2008 to 30 June 2009

Directors' report

The directors of Perpetual Investment Management Limited (a wholly owned subsidiary of Perpetual Limited), the Responsible Entity of Perpetual Protected Investments - Series 3, present their report together with the annual financial report of Perpetual Protected Investments - Series 3 ("the Scheme") for the period 28 March 2008 to 30 June 2009 and the auditor's report thereon.

Responsible Entity

The Responsible Entity of Perpetual Protected Investments - Series 3 is Perpetual Investment Management Limited (ABN 18 000 866 535). The Responsible Entity's registered office and principal place of business is Level 12, 123 Pitt Street, Sydney, NSW, 2000.

Directors

The following persons held office as directors of Perpetual Investment Management Limited during the year or since the end of the year and up to the date of this report:

R Burrows (Appointed 2 April 2008)
I D Holyman (Appointed 4 April 2005)
E Wang (Appointed 14 September 2007)
J Hawkins (Appointed 2 April 2008, Alternate for R Burrows)
I Pendleton (Appointed 20 December 2007, resigned 25 August 2008, Alternate for I D Holyman)
A Dodwell (Appointed 25 August 2008, Alternate for I D Holyman)
M Miller (Appointed 2 October 2007, Alternate for E Wang)

Principal activities

The Scheme offers gearing with capital protection which aims to accelerate investor's wealth potential in positive markets while safeguarding investor's capital in any downturns. The Scheme aims to deliver investment returns from investments in managed funds, whilst also protecting against losses by employing a capital management technique referred to as Dynamic Management for those investors who remain invested within the Scheme until its termination on 31 May 2015.

The Scheme did not have any employees during the period.

There were no significant changes in the nature of the Scheme's activities during the period.

Review and results of operations

The return of investors in the Scheme is based on the performance of investments in the investors' respective accounts. The Scheme invests according to investment strategies selected by investors.

Interests in the Scheme

The movement in net assets of the Scheme during the year is disclosed in Note 4 of the annual financial report.

The value of the Scheme's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in note 2 of the annual financial report.

Perpetual Protected Investments - Series 3

Directors' report For the period 28 March 2008 to 30 June 2009 (continued)

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Scheme that occurred during the financial year under review.

Likely developments and expected results of operations

The Scheme will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

Matters subsequent to the end of financial year

No matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

- (i) the operations of the Scheme in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Scheme in future financial years.

Environmental regulation

The operations of the Schemes are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Fees paid to and interests held in the Scheme by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its related parties out of the Scheme property during the period are disclosed in note 6 of the annual financial report.

No fees were paid out of Scheme property to the directors of the Responsible Entity during the period.

There were no interests in the Scheme held by the Responsible Entity or its associates as at the end of the financial year.

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Perpetual Investment Management Limited or the auditors of the Scheme. So long as the officers of Perpetual Investment Management Limited act in accordance with the Scheme's Constitution and the Law, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Perpetual Protected Investments - Series 3

Directors' report
For the period 28 March 2008 to 30 June 2009 (continued)

Lead auditor's independence declaration

A copy of the lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of the directors.



R. Burrows
Director

Sydney, 23 September 2009




Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Perpetual Investment Management Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.


KPMG


Robert Warren
Partner

Sydney

23 September 2009

Perpetual Protected Investments - Series 3

Income statement

For the period 28 March 2008 to 30 June 2009

		For the period 28 March 2009 to 30 June 2009 \$'000
Investment income	Notes	
Distribution income		1,412
Net losses on financial instruments held at fair value through profit or loss	3	(21,986)
Total net investment loss		<u>(20,574)</u>
Expenses		
Responsible Entity's fees	6	728
Dynamic management fees		448
Total operating expenses		<u>1,176</u>
Operating profit		(21,750)
Change in net assets attributable to investors	4	<u>(21,750)</u>

The above income statement should be read in conjunction with the accompanying notes.

Perpetual Protected Investments - Series 3
Statement of recognised income and expense
For the period 28 March 2008 to 30 June 2009

As the Scheme has no equity, the Scheme has not included any items of recognised income and expense for the current or comparative period.

Perpetual Protected Investments - Series 3

Balance sheet As at 30 June 2009

		30 June 2009 \$'000
Assets	Notes	
Cash and cash equivalents		31
Financial assets held at fair value through profit or loss	5	69,788
Due from brokers - receivable for securities sold		28,283
Loans and receivables:		
Distributions receivable		1,121
Total assets		<u>99,223</u>
Liabilities		
Responsible Entity's fees payable		171
Dynamic management fees payable		65
Redemptions payable		28,123
Total liabilities (excluding net assets attributable to investors)		<u>28,359</u>
Net assets attributable to investors - liability	4	<u><u>70,864</u></u>

The above condensed interim balance sheet should be read in conjunction with the accompanying notes.

Perpetual Protected Investments - Series 3
Cash flow statement
For the period 28 March 2008 to 30 June 2009

		For the period 28 March 2009 to 30 June 2009 \$'000
Cash flows from operating activities	Notes	<u>\$'000</u>
Distribution received		291
Responsible Entity's fees paid		(557)
Dynamic management fees paid		(383)
Net cash outflow from operating activities	8(a)	<u>(649)</u>
Cash flows from investing activities		
Proceeds from sale of investments		117,018
Payments for purchase of investments		(237,075)
Net cash outflow from investing activities		<u>(120,057)</u>
Cash flows from financing activities		
Proceeds from applications by investors		121,232
Payments for redemptions by investors		(495)
Net cash inflow from financing activities		<u>120,737</u>
Net increase in cash and cash equivalents held		31
Cash and cash equivalents at the beginning of the financial period		-
Cash and cash equivalents at the end of the financial period	8(b)	<u><u>31</u></u>

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the financial statements
For the period 28 March 2008 to 30 June 2009

1 General information

This annual financial report covers Perpetual Protected Investments - Series 3 ("the Scheme") as an individual entity. The Scheme was constituted on 14 March 2008. The Scheme will terminate on 31 May 2015 unless terminated earlier in accordance with the provisions of the Scheme Constitution. The Scheme is domiciled in Australia.

The Responsible Entity of the Scheme is Perpetual Investment Management Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 12, 123 Pitt Street, Sydney, NSW, 2000.

The annual financial report was authorised for issue by the directors on 23 September 2009. The directors of the Responsible Entity have the power to amend and reissue the annual financial report.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the periods presented, unless otherwise stated in the following text.

(a) Basis of preparation

This general purpose annual financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* in Australia.

The annual financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated. The annual financial report is presented in Australian dollars.

Compliance with International Financial Reporting Standards

The annual financial report of the Scheme also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The following standards and amendments were available for early adoption but have not been applied in the annual financial report:

- AASB 8 *Operating Segments* removing the disclosure requirements of AASB 114 *Segment Reporting*, applicable for annual financial reporting periods beginning on or after 1 January 2009.
- AASB 2008 - 2 *Amendments to Australian Accounting Standards - Puttable Instruments and Obligations arising on Liquidation* setting out conditions under which puttable instruments should be classified as equity, applicable for annual financial reporting periods beginning on or after 1 January 2009.
- Revised AASB 101 *Presentation of Financial Statements (2007)* introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Scheme's 30 June 2010 financial statements, is expected to have a significant impact on the presentation of the financial statements.
- AASB 2008 - 5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Process* and 2008 - 6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Scheme's 30 June 2010 financial statements, are not expected to have any impact on the financial statements.

The Scheme plans to adopt these standards during the financial year ending 30 June 2010. The initial application of these standards is not expected to have an impact on the financial results of the Scheme as the standards are concerned only with disclosure.

Perpetual Protected Investments - Series 3

Notes to the financial statements For the period 28 March 2008 to 30 June 2009 (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The preparation of an annual financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(b) Financial instruments

(i) Classification

The Scheme's investments are classified at fair value through profit or loss. They comprise:

- Financial instruments held for trading

Derivative financial instruments such as futures, forward contracts, options and interest rate swaps are included under this classification. All derivatives in a net receivable or payable position are shown gross and reported as either derivative financial assets or derivative financial liabilities. The Scheme does not designate any derivatives as hedges in a hedging relationship.

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets and liabilities that are not held for trading purposes and which may be sold.

These are investments in managed investment schemes and structured notes.

Financial assets and liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

- Loans and receivables comprise amounts due to the Scheme and include distributions receivable.
- Other financial liabilities include Responsible Entity's fees payable, dynamic management fees payable and redemptions payable.

(ii) Recognition

The Scheme recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

(iii) Measurement

Financial assets and liabilities held at fair value through profit or loss

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the income statement.

Notes to the financial statements
For the period 28 March 2008 to 30 June 2009 (continued)

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

- Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices as the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

- Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reasonable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms or conditions.

For other pricing models, inputs are based on market data at the balance sheet date. Fair values for unquoted equity investments are estimated, if possible, using applicable pricing/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Scheme would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as the net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the Black-Scholes option valuation model.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such trusts.

Loans and receivables

Loans and receivables are measured initially at fair value plus transaction costs and subsequently at amortised cost using the effective interest rate method, less impairment losses if any. Such assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

For the purpose of AASB 7, management considers that the carrying amount of cash and cash equivalents, other receivables, amounts due from brokers and other financial liabilities approximate fair value.

Other financial liabilities

Other financial liabilities are initially measured at fair value and subsequently at amortised cost.

Notes to the financial statements
For the period 28 March 2008 to 30 June 2009 (continued)

2 Summary of significant accounting policies (continued)

(c) Net assets attributable to investors

Investments are redeemable at the investors' option and are therefore classified as financial liabilities.

The fair value of investments (net of fees and charges) are attributable to investors.

(d) Investment income

Interest income is recognised in the income statement for all interest bearing financial instruments using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b)

Trust distributions are recognised on a present entitlements basis as the Scheme is presently entitled to the distributable income of its investee trusts.

Other income is brought to account on an accrual basis.

Realised gains or losses are calculated as the difference between proceeds received from the sale of investments during the year (net of transaction costs) and their respective original costs. Unrealised gains or losses include all unrealised gains or losses recognised during the year on investments held at year end, adjusted for the reversal of previously recognised unrealised gains or losses on investments sold.

(e) Expenses

All expenses, including Responsible Entity's fees and dynamic management fees are recognised in the income statement on an accruals basis.

(f) Income tax

Under current legislation, the Scheme is not subject to income tax. For income tax purposes, the investors in the Scheme derive the income and incur the capital gains or capital losses.

(h) Change in net assets attributable to investors

Income not distributed is included in net assets attributable to investors. Movements in net assets attributable to investors are recognised in the income statement.

(i) Goods and Services Tax (GST)

GST is incurred on the costs of various services provided to the Scheme by third parties such as administration fees. As these fees are incurred by the investor and charged to the investors individual account the Scheme is not entitled to Reduced Tax Input Credits (RITC).

Receivables and payables are stated with the amount of GST included.

Cash flows are included in the cash flow statement on a gross basis.

(j) Impairment

If an indication of impairment exists, an impairment loss is recognised in the income statement as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.

Perpetual Protected Investments - Series 3

Notes to the financial statements
For the period 28 March 2008 to 30 June 2009 (continued)

2 Summary of significant accounting policies (continued)

(k) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown as a liability on the balance sheet.

3 Net gains/(losses) on financial instruments held at fair value through profit or loss

	30 June 2009 \$'000
Net unrealised gains on financial instruments designated at fair value through profit or loss	2,529
Net realised losses on financial instruments designated at fair value through profit or loss	(24,515)
Net losses on financial instruments held at fair value through profit or loss	<u>(21,986)</u>

4 Net assets attributable to investors

Movements in net assets attributable to investors during the year were as follows:

	30 June 2009 \$'000
Net assets attributable to investors	
Opening balance	-
Applications	121,232
Redemptions	(28,618)
Change in net assets attributable to Investors	(21,750)
Closing balance	<u>70,864</u>

5 Financial assets held at fair value through profit or loss

	Fair Value 30 June 2009 \$'000
Designated as fair value through profit or loss	
Managed investment schemes	17,348
Structured notes	52,440
Total	<u>69,788</u>

Perpetual Protected Investments - Series 3

Notes to the financial statements For the period 28 March 2008 to 30 June 2009 (continued)

6 Related party transactions

Responsible Entity

The Responsible Entity of the Perpetual Protected Investments - Series 3 is Perpetual Investment Management Limited (ACN 000 866 535), a wholly owned subsidiary of Perpetual Limited (ACN 000 431 827).

The Scheme does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Scheme and this is considered the key management personnel.

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Perpetual Investment Management Limited at any time during the financial period as follows:

R Burrows (Appointed 2 April 2008)
I D Holyman (Appointed 4 April 2005)
E Wang (Appointed 14 September 2007)
J Hawkins (Appointed 2 April 2008, Alternate for R Burrows)
I Pendleton (Appointed 20 December 2007, resigned 25 August 2008, Alternate for I D Holyman)
A Dodwell (Appointed 25 August 2008, Alternate for ID Holyman)
M Miller (Appointed 2 October 2007, Alternate for E Wang)

(b) Other key management personnel

There were no other persons with the responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly during or since the end of the financial period.

Loans to Key Management Personnel

The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

Other transactions within the Scheme

From time to time the directors of the Scheme, or their director related entities, may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme investors.

Apart from the details disclosed in this note, no key management personnel have entered into a contract with the Scheme since the end of the previous financial year and there were no contracts involving director's interests subsisting at year end.

The Scheme held investments in the following schemes which are also managed by Perpetual Investment Management Limited or its related parties:

Key management personnel Scheme investments

At 30 June 2009 no key management personnel held investments in the Scheme (2008:nil).

Notes to the financial statements
For the period 28 March 2008 to 30 June 2009 (continued)

6 Related party transactions (continued)**Responsible Entity's fees and other transactions**

The Responsible Entity's fees are calculated in accordance with the Scheme's Constitution (as amended). The Responsible Entity's fee is 0.75% p.a. calculated daily on the value of the investors' portfolio and deducted from it quarterly in arrears, on withdrawal from the product and on the protection end date and is disclosed in the income statement.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Scheme and the Responsible Entity were as follows:

	30 June 2009 \$
Responsible Entity's fees paid and payable directly by the Scheme	727,568
Fees payable to the Responsible Entity as at reporting date	170,834

7 Auditor's remuneration

During the period the following fees were paid or payable by the Responsible Entity for services provided by the auditor of the Scheme:

	30 June 2009 \$
Audit and audit related services	
KPMG	
Total remuneration for audit and audit related services	<u>20,724</u>

8 Reconciliation of operating loss to net cash outflow from operating activities

	30 June 2009 \$'000
(a) Reconciliation of operating loss to net cash outflow from operating activities	
Operating loss	(21,750)
Increase in Distributions receivable	(1,121)
Increase in Responsible Entity's fees payables	171
Increase in Dynamic management fees payables	65
Net losses on financial instruments held at fair value through profit or loss	21,986
Net cash outflow from operating activities	<u>(649)</u>

(b) Components of cash and cash equivalents

	30 June 2009 \$'000
Cash at the end of the financial period as shown in the cash flow statement is reconciled to the balance sheet as follows:	
Cash and cash equivalents	31
Total cash and cash equivalents	<u>31</u>

Notes to the financial statements
For the period 28 March 2008 to 30 June 2009 (continued)

9 Segment information

The business segment is the primary basis of segment reporting. The Scheme operates solely in the managed investment scheme industry.

10 Financial risk management

(a) Overview

The allocation of assets between the various types of financial instruments is determined by the Scheme's asset manager who manages the Scheme's assets to achieve the Scheme's investment objectives.

Divergence from target asset allocations and the composition of the assets is monitored by the Scheme's asset manager on at least a daily basis.

Perpetual Investment Management Limited (PIML), as responsible entity of the Scheme, is aware of the risks associated with the business of investment management. A financial risk management framework has been established within PIML which incorporates a regular assessment process to ensure that procedures and controls adequately manage the risks arising from current business activities. Central controls include (but are not limited to):

- integrated computer systems and processes with checks and balances;
- clear policies and procedures covering operations;
- post-trade investment compliance monitoring by outsourced arrangement;
- segregation of the dealing and investment management function from the administration and settlement function;
- an independent service provider for the valuation of securities;
- a compliance function within PIML with a separate reporting line from the Asset Management team;
- a half-yearly self-assessment process.

The Scheme's investing activities expose it to the following risks from its use of financial instruments:

- market risk
- credit risk
- liquidity risk

The nature and extent of the financial instruments employed by the Scheme are discussed below. This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risk.

The Board of Directors of PIML has overall responsibility for the establishment and oversight of the Scheme's financial risk management framework.

A risk management framework is in operation in PIML. As part of this framework, PIML is subject to regular reporting and committee meetings regarding risk and compliance issues. The purpose is to facilitate a flow of information between the business and the PIML Board and Committees. Any material matters identified are promptly investigated and reported as outlined in the procedures.

The Board of Directors oversees how management monitors compliance with the Scheme's financial risk management policies and procedures. The Board of Directors ensures the continued adequacy of the financial risk management framework.

Notes to the financial statements
For the period 28 March 2008 to 30 June 2009 (continued)

10 Financial risk management (continued)

(a) Overview (continued)

The use of derivatives is considered to be part of the investment and asset management processes and is not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- Hedging to protect an asset of the Scheme against a fluctuation in market value or to reduce volatility;
- As a substitute for physical securities until the physical position can be established;
- Adjusting asset exposures within the parameters set in the investment strategy; and
- Adjusting the duration of fixed interest assets or the weighted average maturity of cash assets.
- Creating a short exposure to a stock or market for Scheme authorised to take net negative positions.

Derivatives are not used to gear (leverage) an asset. Gearing an asset would occur if the level of exposure to the markets exceeds the underlying value of the Scheme.

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Scheme's income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Scheme is exposed to market risk influencing investment valuations. At 30 June 2009 the Scheme uses structured notes to manage this risk.

(i) Currency risk

Schemes that invest in international assets are exposed to currency risk. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Asset Managers may enter into derivative contracts (such as forwards, swaps, options and futures) through approved foreign exchange dealers to minimise risk. However, the use of these contracts must be consistent with the investment strategy and restrictions of each Scheme, and agreed acceptable level of currency risk.

The Scheme may enter into transactions denominated in currencies other than Australian dollars. The Scheme is therefore exposed to risks that the exchange rate of the Australian dollar relative to other foreign currencies may change and have an adverse effect on the Scheme's assets and liabilities denominated in currencies other than the Australian dollar.

As per the Product Disclosure Statement the Scheme can invest in funds which have international asset exposure. As of balance sheet date, the Scheme holds no significant investment in international assets.

Notes to the financial statements
For the period 28 March 2008 to 30 June 2009 (continued)

10 Financial risk management (continued)

(ii) Interest rate risk

The Scheme is exposed to interest rate risk on its structured notes investments. The valuation is determined by reference to the relevant market interest rate that is applicable for the remaining term to maturity of the structured notes investments (ie the time from the valuation date to the protection end date). The relevant market interest rate is the Bank Bill Swap Rate (BBSW) that is applicable for the remaining term to maturity of the structured notes investments. This rate fluctuates on a daily basis. Accordingly, the value of the structured notes fluctuates on a daily basis throughout the term to finally be equal to \$1 at the protection end date being 31 May 2015.

An increase in 1% in interest rates applicable at reporting date would have increased loss from operating activities by \$2,985,127. A decrease in 1% in interest rates applicable at reporting date would have decreased loss from operating activities by \$3,041,294.

Other market price risk

Other market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Scheme's investments are carried at fair value with fair value changes recognised in the income statement, all changes in market conditions will directly affect net investment income.

Risk management techniques are used in the selection of investments. Securities/investments (including derivatives) are only purchased that meet investment criteria.

Daily monitoring of trade restrictions and derivative exposure against limits is undertaken with any breach of these limit restrictions reported.

Sensitivity analysis

An increase of 15% at the reporting date of the underlying investments' prices would have decreased loss from operating activities by \$2,602,108. This analysis assumes that all other variables remain constant.

A decrease of 15% would have the equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

• Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme. PIML has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

With respect to credit risk arising from the financial assets of the Scheme, other than derivatives, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed on the balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Investment management processes include the consideration of counterparty risk. Securities/investments (including derivatives) are only purchased that meet the investment criteria.

Consideration is given (among other things) to branding, stability and security marketability of counterparties and PIML consistently monitors exposure through electronic systems.

Credit risk is not considered to be significant to the Scheme except in relation to investments in structured notes.

Perpetual Protected Investments - Series 3

Notes to the financial statements For the period 28 March 2008 to 30 June 2009 (continued)

10 Financial risk management (continued)

• Liquidity risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due.

The Scheme's financial instruments include unlisted investments which are not traded in an organised public market and which generally may be illiquid. As a result, the Scheme may not be able to liquidate quickly some of its investments in these instruments at an amount close to their fair value in order to meet liquidity requirements.

The investment management process includes the consideration of liquidity, both in terms of market quality and cash flow. In asset construction, securities/investments (including derivatives) are only purchased that meet investment criteria and this includes the assessment of saleability in different market conditions. Before entering into a transaction, consideration is given to (among others):

- whether the purpose of the investment is consistent with the investment strategy of the Scheme;
- the ease of selling the security should market conditions change unfavourably;
- whether there are sufficient assets to cover the underlying liabilities of that transaction, and;
- the overall liquidity level for the Scheme.

The investment strategies define a wide range of liquidity levels for the Scheme. PIML has systems in place capable of monitoring and reporting on guidelines and limits.

The following table represents the contractual maturities of financial liabilities:

30 June 2009	Carrying amount \$'000	Contractual cash flow \$'000	At call \$'000 or less	6 months or less \$'000
Responsible Entity's fees payable	171	171	-	171
Dynamic management fees payable	65	65	-	65
Redemptions payable	28,123	28,123	-	28,123
Net assets attributable to investors	70,864	70,864	70,864	-
	99,223	99,223	70,864	28,359

11 Events occurring after the balance sheet date

No significant events have occurred since balance date which would impact on the financial position of the Scheme disclosed in the balance sheet as at 30 June 2009 or on the results and cash flows of the Scheme for the period ended on that date.

12 Contingent assets, liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2009.

Perpetual Protected Investments - Series 3

Directors' declaration

In the opinion of the directors of Perpetual Investment Management Limited, the Responsible Entity of Perpetual Protected Investments - Series 3:

- (a) the annual financial statements and notes set out on pages 5 to 18, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2009 and of its performance for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



R Burrows
Director

Sydney, 23 September 2009

Independent auditor's report to the investors of Perpetual Protected Investments – Series 3

Report on the financial report

We have audited the accompanying financial report of Perpetual Protected Investments – Series 3 (“the Scheme”), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 12 and the directors' declaration set out on pages 5 to 19.

Directors' responsibility for the financial report

The directors of Perpetual Investment Management Limited (“the Responsible Entity”) are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2, the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Responsible Entity, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australia Accounting Interpretations), a view which is consistent with our understanding of the Scheme's financial position, and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Perpetual Protected Investments – Series 3 is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the Scheme's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.



KPMG



Robert Warren
Partner

Sydney

23 September 2009

This page intentionally left blank

Perpetual 