

PI Investment Management Limited

Pillar 3 Disclosures

31 January 2011

1.1 Background

The 2006 Capital Requirements Directive (CRD) of the European Union (EU) created a revised regulatory capital framework in the EU based on the provisions of the Basel 2 Capital Accord.

The CRD comprises 3 Pillars which together form a prudential capital framework for credit institutions and investment firms.

Pillar 1: Minimum capital requirements

Pillar 1 minimum capital requirement addresses credit risk and market risk.

Pillar 2: Internal capital adequacy assessment

Under CRD, the firm's regulatory capital requirement is no longer the minimum capital requirement (Pillar 1). Firms must now consider all its risks over and above those addressed in Pillar 1 and assess the requirement for any additional capital. This assessment process is termed the "Internal Capital Adequacy Assessment Process" or ICAAP. PIIML was required to have an ICAAP in place by 1 January 2008. Pillar 2 also encompasses supervisory review of the firm's risks, risk management and capital adequacy.

Pillar 3: Disclosure

Pillar 3 requires firms to publicly disclose information specified in the Directive subject to certain provisions. The objective of Pillar 3 is to improve market discipline through effective public disclosure to complement requirements under Pillars 1 and 2. To that end, Pillar 3 introduces substantial new public disclosure requirements, and represents a significant increase in the amount of information made publicly available by banks and investment firms around capital structure, capital adequacy, risk management and risk measurement.

Firms are required to adopt a formal policy to comply with the disclosure requirements laid down in the directive and have policies for assessing the appropriateness of their disclosures, including their verification and frequency.

Pillar 3 disclosures are required reviewed and updated annually at a minimum.

1.2 Scope of Pillar 3 Application

The disclosures in this document are made in respect of PI Investment Management Limited (PIIML). PIIML is an investment management firm based in Dublin, was established in September 2004, received its authorisation from the Central Bank of Ireland in February 2005 and began managing client portfolios in March 2005. PIIML manages institutional funds by investing in global equities through a model portfolio.

PIIML is a wholly owned subsidiary of Perpetual Limited (Perpetual) an independent diversified financial services group established in Australia over 120 years ago. Perpetual operates businesses in the funds management, financial advisory, fiduciary services and corporate trust markets.

1.3 Basis and Frequency of Disclosures

This disclosure document has been prepared by PIIML management in accordance with the requirements of Pillar 3. All figures included in the disclosures are as at 30 June 2010, the financial year end.

Future disclosures will be issued on an annual basis.

1.4 Location and Verification

These disclosures have been reviewed by the Perpetual Group Risk & Compliance team and approved by the PIIML Board of Directors. These disclosures have not been subject to **external audit** and are published on the company website (www.piiml.com).

2. Risk Management Objectives and Policies

PIIML's Risk Management Framework

PIIML's RMF provides the approach, tools and processes for risk management. The RMF is dynamic and evolves with the business environment, thereby allowing management to manage its risks effectively and efficiently, enabling both short and long term strategic and business objectives to be met.

At PIIML, all risks and types of risks are managed through the same process:

- risks are identified through a number of mechanisms, including the key elements described below which form part of the RMF;
- identified risks are then analysed, including their inherent risk rating, current controls and residual risk rating;
- the manner in which the risk is to be managed and controlled is then determined and agreed;
- risks are then appropriately monitored through a number of mechanisms, forums and at various intervals; and
- detailed reporting occurs to ensure risks are appropriately reported to relevant employees, committees, boards and stakeholders.

Underlying components of the RMF

PIIML's RMF is underpinned by 3 key components including:

- Governance Structure;
- Assurance; and
- People and Culture.

The following section details the 3 components of the RMF:

1. Governance Structure

PIIML's RMF is supported by the PIIML Board and the Audit & Risk Committee, the Perpetual Group Executive and Perpetual's independent Risk Group.

a. PIIML Board

The Board meets as required and contains appropriately qualified and experienced members. The Board is responsible, amongst other things, for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk, so that the strategic and business objectives of PIIML can be met. The Managing Director of Perpetual is a member of the Board.

The Board has the ultimate responsibility for overseeing the business policies of PIIML. The Board, which is comprised of three executive directors (one employed by Perpetual, and two by PIIML) and one independent non-executive director, meets at least four times a year to discuss matters pertinent to PIIML's operations.

b. Audit & Risk Committee (ARC)

The ARC is a committee of the Board, with written terms of reference and delegated responsibilities in relation to risk management and the financial reporting process at PIIML.

The ARC is comprised of the Perpetual Group Chief Financial Officer and Chief Risk Officer and is chaired by the independent PIIML director. It is responsible for overseeing the integrity of the company's statutory financial reports and statements, the implementation and maintenance of the company's risk management program, and compliance with relevant legislation. Specifically, the ARC is responsible for the following functions:

- Monitoring the implementation and maintenance of PIIML's risk management framework;
- Monitoring continuing compliance with any conditions of regulatory licenses and other statutory approvals held by PIIML;
- Reviewing policies on significant compliance issues;
- Reviewing PIIML's statutory financial reports and other financial information;
- Dealing with any other matter referred to the ARC by the Board of PIIML; and
- Direct interaction with the internal and external auditors on matters within the control of the ARC.

The committee meets formally at least four times a year and reports to the PIIML Board and the Perpetual Audit, Risk & Compliance Committee.

c. Management

The key points to note on the Company structure are:

- Investment research and decisions are the responsibility of the portfolio management team. The Asset Management team have a direct reporting line to the PIIML Managing Director and a dotted reporting line to the Equities Group Executive in Perpetual, Sydney.
- Trade generation is the responsibility of the Investment Operations team which has a separate reporting line from the Asset Management team. The Investment Operations manager reports directly to the PIIML General Manager with a dotted reporting line to the Investment Operations Manager in Perpetual.
- The Risk and Compliance department exists as a separate function within the operations team. It is responsible for monitoring and enforcing client, firm and regulatory guidelines. The Risk and Compliance manager reports directly to the General Manager who also performs the role of the Chief Compliance Officer. The General Manager is a director on the PIIML Board and reports directly to the PIIML Audit & Risk Committee. In addition, the General Manager has a direct reporting line to the PIIML Managing Director and a dotted reporting line to the Equities Group Executive of Perpetual in Sydney.

2. Assurance – support, monitor and report

The PIIML Risk and Compliance function provides the framework, tools, advice and assistance that enables business functions and management to effectively identify, assess and manage risk and, through monitoring, provides the Board, ARC, senior management and the parent company with assurance of the effectiveness and efficiency of risk management.

At the business unit level, management is responsible for identifying, analysing, managing, controlling, monitoring and reporting risks. To give the Board and ARC comfort that management is responding to and managing their risks effectively, established issue identification, escalation and reporting mechanisms are in place within the firm.

Assurance is also provided through the monitoring and review of risk matters by internal and external audit, who independently monitor and report any risk and compliance matters to the Board and ARC. Both internal and external audits and reviews provide objective assurances and PIIML engage specialist consulting firms to conduct various reviews and assessments which also improve PIIML's operations.

PIIML, as a wholly owned subsidiary of Perpetual, is subject to review by the Group Internal Audit function. Internal Audit is an integral part of Perpetual's governance and risk management culture and aims to protect Perpetual's earnings, reputation and customers by:

- Providing independent and objective assurance designed to add value and improve Perpetual's operations;
- Bringing a systematic, disciplined approach to the evaluation and improvement of risk management, control and governance processes;
- Delivering high quality audit findings through execution of the Internal Audit plan; and
- Monitoring and reporting on how the business is responding to identified gaps and recommendations for improvement.

3. People & Culture

PIIML relies on and expects all people supporting its business to participate and assist in risk management at the Company. PIIML is committed to recruiting, training and retaining the best people and to promoting a culture of risk awareness and responsiveness, more specifically:

- Clear accountabilities;
- Timely identification and management of issues;
- A willingness to learn from mistakes; and
- An encouraging and open environment.

Ensuring that an effective structure exists in relation to competency, quality, training, reward and recognition is a fundamental component of the risk management process at PIIML. The recruitment and selection policies and procedures are designed to consistently identify candidates with the most suitable knowledge, skills, experience and personal values whose talents will ensure that we maintain the company's strengths and are well placed to meet future business needs.

Risk Infrastructure / Assessment Process within PIIML's RMF

PIIML's RMF provides the infrastructure and processes for risk management including:

1. Key Risk Assessment

The key risk assessment process is a top-down approach to risk management to identify the key risks faced by Perpetual. It is facilitated by workshops coordinated by the Risk and Compliance function, which promote open discussion between management and the risk team to highlight key risks, controls and any weaknesses or gaps.

The results of these workshops are assessed by management and appropriate action taken to implement necessary tools, controls, policies and procedures to mitigate or reduce the effect of

the identified risks. Risks are assessed continuously throughout the business and corresponding mitigating tools are amended to account for the changing environment in which PIIML operates.

2. Control Self Assessment

The Control Self Assessment (CSA) process is a bottom-up approach to risk management, designed to identify risks and their associated controls in every business function within the Company. Once risks and controls are identified they are recorded in a CSA profile. The effectiveness of controls is tested annually or bi-annually and results are reported to the PIIML ARC and Board as well as to the Perpetual Group Risk & Compliance unit. This program provides management with assurance that the business activity is being tested for compliance with PIIML's legal and regulatory obligations and internal policies and procedures.

The program involves the identification and quantification of risks and their associated mitigating controls in each business unit within PIIML. The risks and controls for each business unit are ranked through an assessment of the likelihood and consequence of each risk occurring.

The profiles are reviewed and updated on an ongoing basis by the relevant business units. Formal annual reviews are also undertaken to ensure the profile reflects changes in the underlying policies, procedures and controls within the business unit.

3. Policies and Procedures

Policies and procedures are one of the means to clearly articulate PIIML's position and expectations on particular risk matters and to communicate these requirements to directors and staff. Written Company policies and procedures covering the operational, legal and regulatory aspects of the Company's activities exist and are updated at least on an annual basis. These reviews are conducted not only from an Irish perspective but also from an SEC, UK and European regulatory perspective. Annual reviews of policies incorporate input from the external counsel in each of the relevant jurisdictions where necessary.

Policies and procedures are documented in the Operating Manual, Compliance Manual and Risk Manual and made available on the PIIML intranet which is accessible by all employees.

4. Audits and Reviews

Both internal and external audits and reviews provide objective assurances and PIIML engage consulting firms to conduct various reviews and assessments which also improve PIIML's operations. The following audits and reviews are performed regularly to help the firm accomplish its goals by using a disciplined approach to evaluate and improve the effectiveness of its risk management processes.

1.	SAS 70	SAS 70 audits are detailed examinations of the internal controls over the policies and procedures of service organisations. The examination typically covers both operating
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		<p>and information technology controls. There are two types of Service Auditor's Reports: Type I and Type II.</p> <ul style="list-style-type: none"> ➤ A Type I SAS 70 audit of PIIML's control environment, reporting on the internal controls operating in the business was carried out in 2006. ➤ Type II SAS 70 audits have been carried out in 2007, 2008, 2009 and 2010. Type II audits report on the internal controls operating in the business and express an opinion on the operating effectiveness of those controls for the period under review.
2.	Annual Monitoring Review	<p>Perpetual Investment Management Limited (PIML) conducts an "Annual Monitoring Review" (AMR) of the funds that PIIML currently manages on PIML's behalf. PIML appoints an external audit firm, based in Dublin, to perform this review annually. The AMR encompasses a review of:</p> <p>(i) general control environment including:</p> <ul style="list-style-type: none"> (a) governance and human resources; (b) technology resources and insurance; (c) compliance measures and systems; and <p>(ii) investment management:</p> <ul style="list-style-type: none"> (a) investment management; (b) dealing, transaction allocation and transaction instruction practices; (c) transaction volumes and soft dollar dealings; (d) personal securities trading; (e) reporting, reconciliations and record keeping; and (f) proxy voting and corporate actions.
3.	Annual Review	<p>Management conducts a review of the operating effectiveness of specific controls and policies as part of its "Annual Review" for compliance with SEC regulations. This review is performed in January each year.</p>
4.	Annual Statutory Financial Audit	<p>The annual statutory audit is performed by KPMG Ireland. The auditors opine on the:</p> <ul style="list-style-type: none"> ➤ true and fair view of the financial statements; ➤ that the financial statements have been prepared in accordance with the Companies Acts; ➤ that they have obtained all the information and explanations they require for the purposes of the audit; ➤ that proper books of account have been kept; ➤ that the financial statements are in agreement with the books of account; ➤ that the Directors report is consistent with the financial statements; and ➤ whether the net assets of the Company are more than half of the called up share capital. <p>The auditors present their findings to the PIIML Board and ARC annually.</p> <p>In addition KPMG Ireland audits the management accounting figures prepared for consolidation to the Perpetual Group.</p>
5.	Review of Interim Financial Results	<p>KPMG Ireland performs a high level review of the interim results of the company at half year. A formal presentation of their audit review and findings is made to the PIIML Board and ARC.</p>

Ad hoc reviews and consultant engagements are also undertaken as needed.

5. Reporting and Certification

Established issue identification, escalation and reporting mechanisms at PIIML are facilitated by a Group wide centralised workflow based register (Arrows) which contains and tracks material issues as well as CSA test results and management action plans to deal with exceptions.

A series of quarterly and six monthly certifications and reports are required from management to the PIIML ARC and Board. Risk issues are also reviewed and reported to the ARC and Board. A quarterly risk and compliance report is presented to the ARC and Board. CSA test results are reported to the ARC and Board every six months.

6. Business Continuity Planning (BCP)

Our business demands that we provide efficient recovery of key services in the event of business interruptions. As part of BCP planning, PIIML has engaged Network Recovery to provide an offsite business continuity facility which has a fully replicated IT infrastructure. PIIML's business continuity procedures are tested annually.

3. Capital

3.1 Capital Resources

PIIML's Financial Resources are calculated below based on PIIML's 30 June 2010 audited financial statements. PIIML's "Financial Resources" must be positive (i.e. must cover accumulated losses) and greater than a calculated minimum level.

Financial Resources Calculation	€000
Paid up ordinary share capital	19,130
Capital contribution	36,393
Revenue reserves	(42,175)
Other reserves *	1,853
FINANCIAL RESOURCES	15,201

*Other reserves include mark to market revaluation of an Available for Sale financial asset.

3.2 Capital Planning & Monitoring

PIIML management continuously monitor the firm's regulatory capital requirements, its Financial Resources available to meet these requirements and also the level of regulatory cash held on deposit to cover the regulatory capital requirement. At each month end the PIIML finance team prepares actual and forecast regulatory capital positions which are presented to management and signed-off prior to each month end close. Quarterly management reports to the PIIML ARC and Board on current and forecast regulatory capital requirements. In addition, the firm completes quarterly regulatory capital requirements and submits on-line to the Central Bank of Ireland.

3.3 Regulatory Capital Requirements

PIIML uses the Standardised Approach prescribed by the Central Bank to calculate its Pillar 1 capital requirements.

In assessing Pillar 2 capital requirements, PIIML management identified risks not addressed in the Pillar 1 regulatory calculations, identified exceptional but plausible events that may potentially crystallise these risks and finally calculated the potential impact of such events on the firm's financial results. The capital adequacy was then stress tested by incorporating the earnings impact of the Pillar 2 risks into the regulatory capital calculations. The stress testing was conducted using sensitivity analyses applied to each risk category identified by management.

At 30 June 2010 the firm's regulatory capital requirements were:

Regulatory capital requirement	€000	€000
CRD Pillar 1 capital requirement is the higher of:		
(i) minimum capital requirement	125	
(ii) Fixed overhead requirement	1,369	
(iii) 8% of the risk weighted credit exposures and foreign currency exposures (calculated in accordance with the Central Bank's guidance)	<u>1,750</u>	
Pillar 1 capital requirement		1,750
Pillar 2 internal capital requirement		<u>246</u>
PIIML's regulatory capital requirements		1,996