

Perpetual Limited  
ACN 000 431 827

# CORPORATE RESPONSIBILITY STATEMENT

Perpetual 

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# 1. INTRODUCTION

## **Purpose and document overview**

Perpetual's Board and management have a long-standing commitment to good corporate governance. Indeed success in Perpetual's core businesses, the management of other people's money and the safekeeping of assets and securities, relies on this commitment. Perpetual is also committed to transparent reporting on corporate responsibility risks and how the Executive Team and Board are mitigating these risks in pursuit of sustainable business performance.

The purpose of this document is to outline and promote Perpetual's approach to corporate governance and to meet ASX Corporate Governance reporting requirements, including disclosure of material environmental, social and governance (ESG) risks. This document includes:

- An overview of Perpetual's philosophy as it relates to corporate governance
- Perpetual's response to mitigating ESG risks identified as material within the Perpetual Risk Appetite Statement<sup>1</sup> (RAS), which is part of Perpetual's Risk Management Framework, and an overview of how Perpetual is addressing these risks. This includes social sustainability, human capital and community risks. A summary of governance structures at Perpetual including:
  - Information about the Board of Directors and its Committees (for example, composition, operating practices and performance evaluation)
  - A summary of Perpetual's key corporate governance policies, including in relation to market disclosure, shareholder engagement and diversity
  - An overview of risk management and internal controls employed by Perpetual

## **ASX Corporate Governance Council principles and recommendations**

At Perpetual, good corporate governance includes a genuine commitment to the ASX Corporate Governance Council Principles and Recommendations (ASX Principles). The Board considers that it complies with all ASX Principles, and has done so throughout the reporting period. This Corporate Responsibility Statement (CRS) has been approved by the Board and is current at 30 June 2016, except where otherwise indicated. Copies or summaries of the Company documents referred to in the appendix of this CRS can be found on Perpetual's website at [www.perpetual.com.au/About/Corporate-Governance](http://www.perpetual.com.au/About/Corporate-Governance)

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<sup>1</sup> Perpetual's approach to risk management is based on a Risk Appetite Statement set by the Perpetual Board, which outlines the risk boundaries and minimum expectations of Perpetual management.

## 2. CORPORATE RESPONSIBILITY: OUR PHILOSOPHY AND APPROACH

Perpetual is committed to ensuring its business practices have a positive effect on its people and society more broadly. We know that sustainable business success depends on the engagement of our people and with our community. Our approach is built on five focus areas.

FOCUS AREA	DESCRIPTION
1 Our people	Building an engaged and diverse workforce and supporting our people to thrive both personally and professionally
2 The community	Seeking to make a positive impact on local and broader communities through philanthropic activity, engagement with charity groups and strengthening relationships with Aboriginal and Torres Strait Islander peoples.
3 Responsible business practices	Investing responsibly and encouraging sustainable business practices
4 Strong corporate governance	Having the highest standards of corporate governance and business probity (refer to page 18)
5 The environment	Reducing the environmental impact of our operations

### 2.1 OUR PEOPLE

The Board recognises that our people are Perpetual’s greatest asset and strives to maintain an engaged, competent workforce. Our people (along with our clients and shareholders) are embedded in the strategic goals of our Lead & Grow Strategy.

Through its RAS the Board has expressed its desire to manage human capital risk. The RAS sets out a series of measures and expectations for managing the risks associated with human capital, including consideration of:

- Recruitment and retention practices
- Training and development
- Talent and succession planning.

The risk of poor management of our most important asset, our people, is potentially material to our business, and we have developed a number of strategies to address this (see page 8).

### 2.2 THE COMMUNITY

A widely recognised and respected financial services organisation, Perpetual is one of Australia’s largest independent wealth managers, an expert adviser to successful individuals, families and businesses, and a leading provider of corporate trustee services.

Founded as the Perpetual Trustee Company in 1886, this year marks Perpetual’s 51st year as an Australian listed company. Our vision is to be Australia’s largest and most trusted independent wealth manager. The strong reputation and position of trust we have built with our clients and the broader community is a key asset of Perpetual. Indeed, we believe the issue of trust will only increase in importance to our business over time.

In addition to delivering successful results for our clients in our three core businesses (Perpetual Investments, Perpetual Private and Perpetual Corporate Trust), we believe we can safeguard and grow our brand by fulfilling our broader obligations as a corporate citizen through a number of the initiatives outlined in section 3.

As a corporate leader, we recognise our social and economic responsibility to create opportunities for greater participation in the economy by all Australians. In 2016, Perpetual is focussed on strengthening its relationship with the Aboriginal and Torres Strait Islander peoples and increasing employee awareness of Indigenous culture and community. Perpetual is proud of its partnership with these communities. Through our Native Title business, we build capacity via the provision of trustee services, investment management and administration including sustainable distribution of income and community support.

Philanthropy is an intrinsic part of Perpetual’s heritage and creating real impact has long been the central theme in our approach to working with philanthropists and partnering with the not-for-profit (NFP) sector. See page 16 for more information.

## 2.3 RESPONSIBLE & SUSTAINABLE BUSINESS PRACTICES

The table below provides an overview of some of the approaches Perpetual adopts to ensure responsible and sustainable business practices particularly as it relates to investment practices:

**Table 2: Approaches to responsible and sustainable business practices**

STRATEGY	DESCRIPTION
Long-Term Investment Approach	<p>Perpetual’s asset managers are ‘value’ managers who focus on quality. Their initial investment criteria include:</p> <ul style="list-style-type: none"> <li>• The strength of the company’s balance sheet</li> <li>• Whether the company can demonstrate a recurring earnings stream</li> <li>• The quality of the business and</li> <li>• The soundness of management running the company.</li> </ul> <p>A structured approach to defining and aligning a company’s business practices against our investment criteria holds corporate Australia to high standards and encourages behaviour in the long term interests of shareholders.</p>
Perpetual Investment’s Responsible Investment (ESG) Policy	<p>Our duty to our clients requires us to seek the best risk-adjusted investment returns over specified time periods.</p> <p>We satisfy this obligation by focusing on both the quality and value of possible investments. This investment philosophy recognises that, while traditional financial measures are an important consideration, other factors can also influence investment performance. Consistent with this philosophy, it is the policy of Perpetual Investments that, to the extent that information is available, investment managers should incorporate ESG issues into investment analysis and decision making. This is also consistent with our commitments as a signatory to the United Nations-supported Principles for Responsible Investment (PRI) (see below).</p>
Perpetual Investment’s ESG Approach	<p>When deciding whether to buy, retain or sell an investment, Perpetual Investment’s investment managers consider those ESG risks that are relevant to the current or future value of the investment.</p> <p>As an active manager, we may choose to engage with the management and Board of the investment issuer to raise ESG and other concerns and encourage better management of these issues.</p> <p>More information can be found in the Perpetual Investment’s Responsible Investment Policy.</p>

**Table 2: Approaches to responsible and sustainable business practices (continued)**

STRATEGY	DESCRIPTION
Perpetual's Wholesale Ethical SRI Fund	<p>Perpetual's Wholesale Ethical SRI Fund aims to provide our investors with long term capital growth and income through investment in quality shares of ethical and socially responsible companies.</p> <p>Perpetual's investment approach seeks to identify those companies that represent the best investment quality and are appropriately priced. In Perpetual's Wholesale Ethical SRI Fund, additional screening applies to identify companies that satisfy our range of ethical and socially- responsible investment criteria. Our ethical screen excludes companies involved in alcohol, coal seam gas, gambling, nuclear, tobacco and weapons/armaments. The socially responsible screen eliminates companies that score negatively following an assessment on a range of criteria, including governance, the environment, health and safety, human and animal rights, labour standards and other stakeholder and community issues.</p> <p>Perpetual's Ethical SRI Fund was awarded the Money Management/Lonsec Fund Manager of the Year - Responsible Investments Category for 2013, 2014 and 2016.</p>
Signatory to the PRI	Perpetual is a signatory to the United Nations-supported PRI, representing a commitment to take ESG factors into account in our investment decision-making and ownership practices. PRI is about institutional investors encouraging sustainable business practices, which is aligned to Perpetual's long-term view.
Member of the Responsible Investment Association Australasia	The Responsible Investment Association Australasia is the industry body representing responsible investors throughout Australasia, with the aim of promoting responsible investment to accelerate its uptake and deepen its impact. The Responsible Investment Association's purpose is to provide training, professional development, events, research and policy initiatives that will promote stable markets, maximise financial returns and create positive ESG outcomes.
Member of the Investor Group on Climate Change	The Investor Group on Climate Change (IGCC) was established in 2005 and represents institutional investors with combined funds under management of over \$1 trillion, and others in the investment community interested in the impact of climate change on investments. The IGCC aims to ensure that the risks and opportunities associated with climate change are incorporated into investment decisions for the ultimate benefit of individual investors.
Political Donations	Perpetual does not make political donations.
Premiums4good initiative	Perpetual participates in the Premiums4Good (P4G) initiative organised by QBE Insurance, our providers of directors and officers liability, crime and professional indemnity insurance. Under P4G, 25% of our insurance premiums are invested in socially responsible investments, such as Social Impact Bonds, Green Bonds or investments into projects with social benefits.

## 2.4 STRONG CORPORATE GOVERNANCE

Strong corporate governance is central to sustained business performance and Perpetual is committed to ensuring continued improvement in corporate governance practices. See page 18 for more information.

## 2.5 REDUCING ENVIRONMENTAL IMPACT

### Carbon Disclosure Project

Perpetual has responded to the Carbon Disclosure Project (CDP) surveys on eight occasions and has been included in the Climate Disclosure Leadership Index (Australia and New Zealand) on three occasions.

Perpetual will continue to monitor its operating environment to identify environmental risks. In the future if material environmental risks are identified in line with Perpetual's Risk Management Framework, Perpetual will address these risks with appropriate management strategies.

Shareholders who wish to know more about Perpetual's corporate policies are invited and encouraged to review our website [www.perpetual.com.au](http://www.perpetual.com.au) or to contact us by email at [info@perpetual.com.au](mailto:info@perpetual.com.au). Comments and suggestions from shareholders are welcome.

### 3. SOCIAL SUSTAINABILITY RISKS & STRATEGIES

Perpetual’s Risk Management Framework has been used to identify the Corporate Responsibility/Sustainability risks outlined in the table below. Perpetual considers that the risks set out below are material, and if not managed effectively, have the potential to affect our ability to manage our human capital and/or community reputation and in turn diminish shareholder value.

This section includes each identified risk (indicating the relevant social sustainability risk area) and provides an overview of the strategies and controls developed and implemented to manage identified risks. Refer to section 3.2 for additional information on some of the risk strategies detailed below.

#### 3.1 SOCIAL SUSTAINABILITY RISKS

The following table outlines the material risks identified using Perpetual’s Risk Management Framework.

Table 3: Risks and strategies related to our people and community				
RISK	SOCIAL SUSTAINABILITY RISK AREA		RISK DESCRIPTION/ IMPACT	STRATEGIES AND CONTROLS TO MANAGE RISK
	People (internal)	Community (external)		
Employee Engagement	✓		Processes fail to adequately support the organisation’s engagement goals which in turn impacts upon successful execution of strategy	<ul style="list-style-type: none"> <li>Investment in people leader capability</li> <li>Employee engagement surveys, analysis and focussed, co-ordinated action planning to respond to identified drivers that will improve and sustain engagement</li> <li>Competitive remuneration and benefits arrangements; for example, wellbeing programs and the recent introduction of superannuation continuance on the unpaid portion of parental leave (up to a total of 12 months)</li> <li>Flexible working practices and culture (supported by formal Flexibility is Perpetual program of work).</li> <li>For more information see page 10.</li> </ul>
Diversity	✓	✓	<p>Failure to meet publicised diversity targets resulting in potential impacts to brand and strategic objectives</p> <p>Lack of genuine commitment to diversity</p>	<ul style="list-style-type: none"> <li>Diversity Policy</li> <li>CEO, Executive and broad business representation on the Diversity Council</li> <li>Flexible working practices and culture (recent engagement survey reported 81% of employees believe Perpetual cultivates a culture that embraces flexibility). See page 12 for more information</li> <li>Focus on gender equality (ongoing system reviews, culture and capability activities and awareness campaigns to support the increase in women in senior leadership)</li> <li>Diversity initiatives to support the development of female talent</li> <li>Cultural diversity programs as reflected in our “Stretch” Reconciliation Action Plan (2016 – 2019)</li> <li>See page 13 for more information</li> </ul>

**Table 3: Risks and strategies related to our people and community**

RISK	SOCIAL SUSTAINABILITY RISK AREA		RISK DESCRIPTION/ IMPACT	STRATEGIES AND CONTROLS TO MANAGE RISK
	People (internal)	Community (external)		
Succession Planning	✓		Lack of robust succession planning for critical roles Knowledge transfer Failure to identify and retain key talent	<ul style="list-style-type: none"> <li>Formal talent and succession planning programs in place</li> <li>Half yearly review of critical roles</li> <li>Talent planning reporting provided to Board &amp; People and Remuneration Committee (PARC)</li> <li>Retention arrangements in place for key personnel</li> </ul>
Attraction and retention of talent	✓	✓	Inability to attract and retain skilled and experienced employees	<ul style="list-style-type: none"> <li>Transparency of performance management</li> <li>Remuneration and employee benefits plan offerings</li> <li>Perpetual's employment brand in the market</li> <li>Focus on high performance</li> <li>Succession planning</li> <li>Talent identification and development programs, (i.e. Perpetual Talent Program) and retention strategies</li> </ul>
Workplace Health & Safety	✓	✓	WHS is not integrated into the business leading to unsafe work practices and risk to our employees Non-compliance with legislation	<ul style="list-style-type: none"> <li>Integrated WHS Governance Framework</li> <li>Oversight of WHS performance by PARC</li> <li>WHS Committee (employee representatives)</li> <li>Defined WHS Safety Strategy and Performance targets</li> <li>WHS Training Programs</li> <li>Focus on employee wellbeing through integrated health, wealth and lifestyle benefits. See page 11 for more information</li> <li>Emergency Planning Committee</li> <li>Best in class insurance and assistance packages</li> </ul>
Market Position/ Profile	✓	✓	Perpetual is perceived not to be a good corporate citizen by not engaging with community stakeholders or following accepted norms, leading to reputational, brand and market position damage	<ul style="list-style-type: none"> <li>Perpetual Staff Giving program. See page 16 for more information.</li> <li>Corporate support for other causes including funding and employee volunteering (for example, Wayside Chapel, Mirabel and Starlight Foundation)</li> <li>Perpetual's IMPACT Philanthropy model. See page 16 for more information</li> <li>Stretch Reconciliation Action Plan (2016 - 2019). See page 15 for more information.</li> </ul>

The Board wishes to provide further detail on the main strategies and approaches to the management of the material social sustainability risks highlighted in the above table. The strategies and approaches discussed below operate collectively to manage material social sustainability risks as defined by this disclosure.

## 3.2 SOCIAL SUSTAINABILITY STRATEGIES AND PERFORMANCE

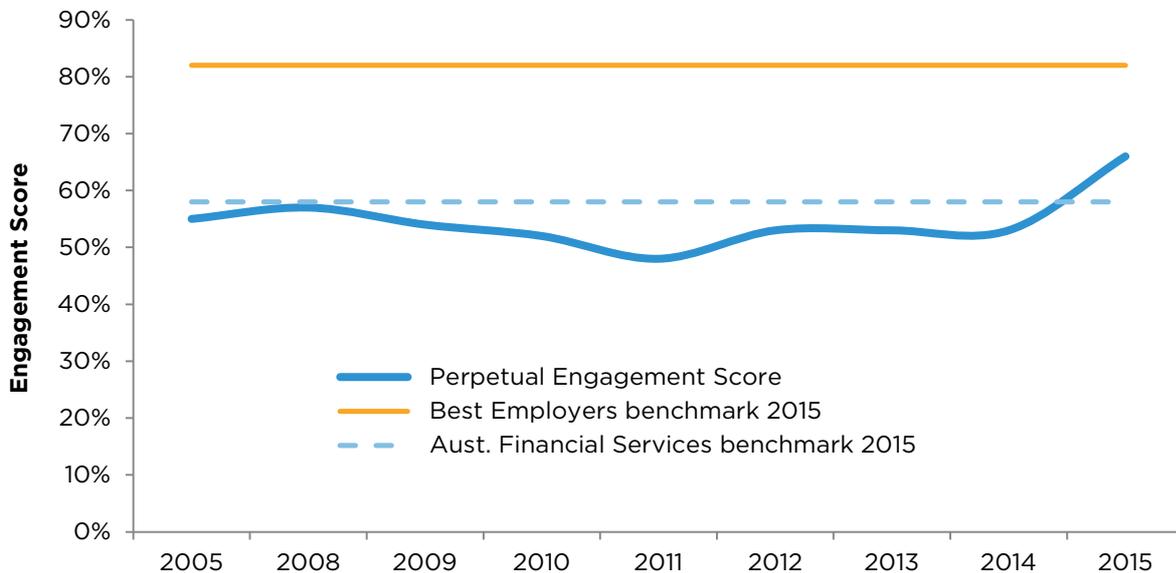
The following section provides further detail (including performance information) relating to some of the strategies in place to address and mitigate identified material risks.

### 3.2.1 EMPLOYEE ENGAGEMENT

We understand that an engaged workforce will help us to deliver sustainable business results. Employee engagement is assessed annually, with the results and insights used as an input into refining our people strategy and priority areas of focus. Achieving our employee engagement targets is a key performance indicator for senior management and an explicit strategic goal as reflected in company and divisional measures of success.

In 2016 we achieved an engagement result of 71%, placing us above the Australian Financial Services benchmark (61%) and in the top quartile of all Australian organisations according to Aon Hewitt research (see Chart 1). This five point improvement followed a significant increase from the prior year and positions us to achieve best employer outcomes.

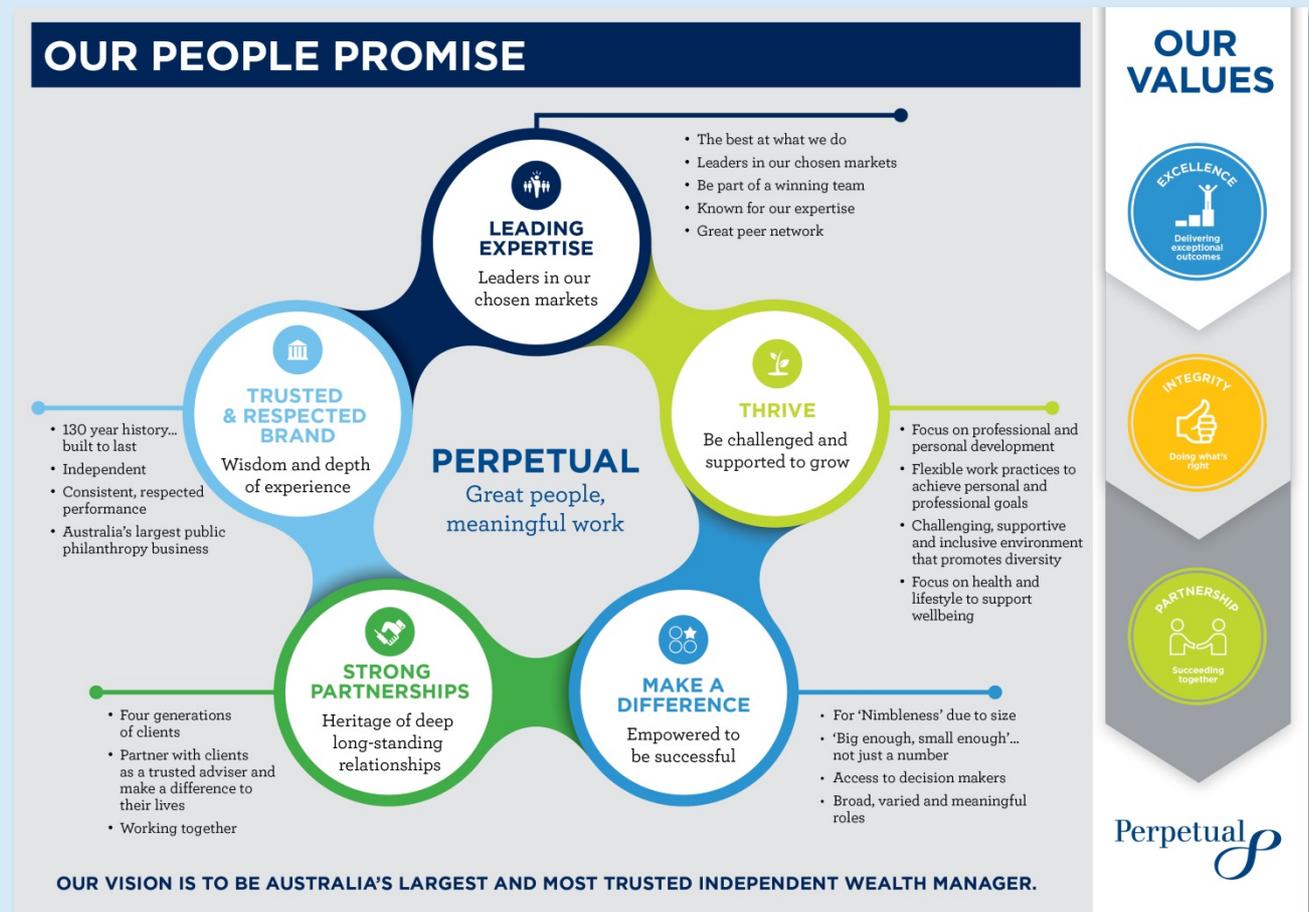
**Chart 1: Employee Engagement 2005-2016**



We recognise making Perpetual a great place to work forms part of our strategy in managing people risk. In 2016 we continued to embed our values to support the achievement of our people-led Lead & Grow strategy. We also worked to embed our People Promise to further enhance the employee experience at Perpetual. Our People Promise promotes Perpetual as offering “Great People, Meaningful Work”.

At Perpetual the leadership behaviours expected of all employees continue to underpin our performance management framework. At Perpetual we expect our people to:

- “Act like business owners and deliver results through executing commercial opportunities.”
- “Build trusting relationships with our clients through delivering sustainable value.”
- “Work together and all take accountability for our performance, capability and people.”



### Perpetual Employee Benefits

At Perpetual we are passionate about protecting and growing the wealth of all Australians and positioning them for financial security in retirement. With our strengthened business performance we are pleased to be able to extend improved benefits to our employees to help them reach this lifestyle goal.

A key part of the Company's superannuation policy is to increase employer contributions to 12% by 2020 (by 0.5% increments applied annually). Effective 1 September 2015, all employees received the first 0.5% increase in employer superannuation contributions (to 10%), with the next 0.5% increase to 10.5% to be effective 1 September 2016.

During FY16 we introduced superannuation benefits for employees on parental leave. All eligible employees returning to work from parental leave will now receive superannuation payments on the unpaid portion of their parental leave, up to a maximum of 40 weeks. These initiatives are about helping our employees to build stronger superannuation balances (especially providing greater support for women who have traditionally lower superannuation balances).

With the aim of increasing employee share ownership, in 2015 Perpetual introduced the One Perpetual employee share grant program with the first grant of \$1,000 being made to employees on 1 September 2015 following strong financial performance. A further \$1,000 will be granted to employees in September 2016.

Enhancing our employee benefits portfolio has been a priority over the past twelve months as we strive to improve the wellbeing of our employees through our range of Wealth, Health and Lifestyle benefits outlined as shown.

We are pleased to be able to share the Company's financial strength with employees by enhancing our existing employee wealth benefits and the entire employee benefits program. Furthermore the implementation of such initiatives assists Perpetual in attracting and retaining quality employees and as such helps to manage risk relating to loss of human capital.

<b>Wealth</b> 	\$1,000 share grant Superannuation to 12% by 2020 Superannuation on parental leave Free financial health check Discounted financial advice	Salary continuance insurance Death & TPD insurance Salary packaging Talent Referral Incentive Plan Investment employee offers
<b>Health</b> 	Employee health checks Flu vaccinations BUPA health plans Meditation and yoga sessions	Mental health program Employee assistance programs Healthy workplace snacks
<b>Lifestyle</b> 	Contribution leave Purchased leave Flexible working Shopping and lifestyle discounts	Education assistance Paid parental leave Parental return to work bonus Sabbatical leave

### 3.2.2 FLEXIBILITY

Perpetual continues to value flexibility as a lever of an inclusive and diverse high performance environment. At Perpetual, we empower our people with a measure of control over where, when and how they work. To support this, in 2016, *Flexibility is Perpetual* was launched - a program focussed on embedding flexible work practices (revised processes, tools, education and communications approaches).

Our commitment to workplace flexibility underpins both the cultural diversity and gender equality priorities of our Diversity Strategy; ensuring employees can successfully balance their life, social and family commitments to promote increased success at work. This means Perpetual can continue to attract and retain a diverse and inclusive workforce regardless of gender, cultural background, ethnicity, age and caring responsibilities.

Our increased focus on flexibility has been positive for our people, with 81% of our people strongly believing that Perpetual cultivates a culture that embraces flexibility and 76% of people reporting they use flexibility to balance their personal and work commitments (2016 Employee Engagement Survey). We are also proud to accept the 2016 HR Award for Best Workplace Flexibility Program in recognition of our achievements.

### 3.2.3 DIVERSITY AND INCLUSION

Perpetual has a long-standing commitment to diversity and inclusion and recognises the value of attracting and retaining employees with different backgrounds, knowledge, experiences and abilities. Perpetual strongly believes that promoting diversity amongst employees results in tangible improvements to the bottom line, better results for shareholders, enhanced corporate performance, reputation and shareholder value, access to differing perspectives and agility in decision making processes. All of which assists Perpetual in effectively preserving shareholder value and managing risk.

Perpetual's Diversity Strategy is driven by the Perpetual Diversity Council. The Council is chaired by the Managing Director with representation from each of the business units who serve as Council Members, encouraging shared accountability for Diversity and Inclusion. The Diversity Council identifies and agrees the initiatives that are aligned to the following diversity priorities:

- Flexibility (see above)
- Gender Equality
- Cultural Diversity

The Board reviews the Diversity Strategy at least annually, including the objectives set for achieving gender diversity and progress in achieving them.

#### Gender Equality

To encourage greater representation of women at senior levels of the organisation, Perpetual continues to develop initiatives targeting improved gender equality. These include the enhancement of our talent acquisition processes, our annual gender pay-gap analysis, leadership development, mentoring programs, networking and development forums and knowledge sharing opportunities available to female employees.

Perpetual has a Diversity Policy that discloses any measureable objectives established by the Board from time to time. The Policy requires that objectives are periodically reviewed to ensure they remain relevant to any future changes to the business. Perpetual's PARC oversees the Diversity Policy and reviews and reports to the Perpetual Board on progress made against the diversity related targets (such as proportion of women in senior leadership roles). The Committee also gives consideration to any gender diversity targets when reviewing both succession plans and career development requirements for key executive positions. The Board has responsibility for any amendments to the Diversity Policy.

**“As the chair of our Diversity Council, I am committed to driving change towards achieving gender equality and enabling diversity and inclusion. To make this happen we have a dedicated Diversity and Inclusion Strategy, which focuses investment in the areas of Flexibility, Gender Diversity and Cultural Diversity. One of the things I'm most proud of is the work we are doing to address the gender pay gap by ensuring we reward equal pay for equal work. Through ongoing reviews we have closed all like-for-like pay gaps and implemented a process of continual review. It's an ongoing challenge for the entire industry, but one I am committed to addressing for the long term.”**

CEO & Managing Director, Geoff Lloyd (May 2016)

In November, Perpetual’s Diversity Council and Inspiring Women’s Forum hosted four two-hour Mindfulness and Resilience workshops for Perpetual women in Sydney and Melbourne. Over 160 women enjoyed a highly practical and thought-provoking learning experience that equipped them with concepts and tools to support their resilience at work and in their personal lives.

**“In developing an inclusive and diverse work environment where all of our employees can reach their full potential, I am particularly proud of the great progress and success we have had in embedding flexible work at Perpetual as indicated by our employee engagement feedback indicating that 81% of our people believe we cultivate a culture that supports flexible working. This is an area we will continue to focus on to attract the best people to our organisation and to enable everyone to thrive at Perpetual personally and professionally, which in turn delivers better client outcomes.”**

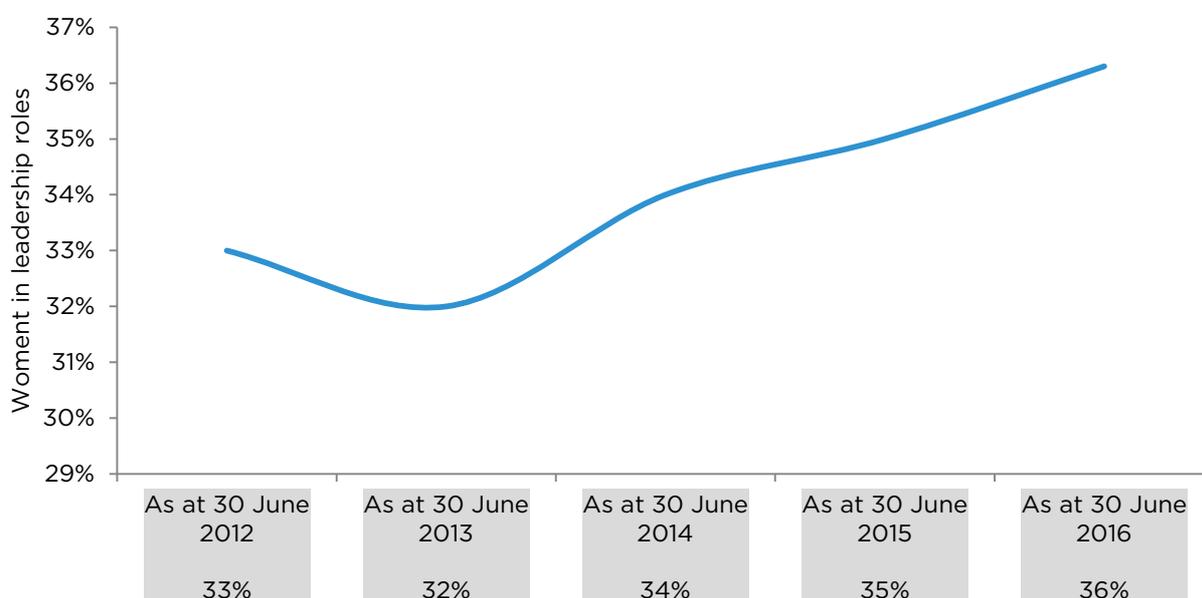
CEO & Managing Director, Geoff Lloyd

In 2016, Perpetual increased its representation of women in senior management roles by 1 percentage point to 36%. Perpetual has extended its goal (measurable objective) of 38% of women in senior leadership to be achieved by FY18. (see chart 2 and table 2 for additional information). In addition, as at 30 June 2016:

- 29% of the Perpetual Board members are female
- 50.4% of the Perpetual Group’s employee population is female

To support gender equality, we also monitor the gender pay gap periodically (and have closed all like-for-like pay gaps), and benchmark our performance against peer organisations.

**Chart 2: Percentage of women in leadership roles FY12 - FY16**



**Table 4: Workplace gender equality**

CATEGORY	NUMBER OF FEMALE EMPLOYEES
Chief Executive Officer (CEO)	0
Key Management Personnel (KMP – defined as one reporting level below CEO)	2
Other Executives / General Managers (generally, 1 to 2 reporting levels in management hierarchy below CEO)	7
Senior Managers (generally 2 to 3 reporting levels in management hierarchy below CEO)	28
Total	37

### Cultural Diversity

Through its Diversity & Inclusion Strategy, Perpetual is committed to creating a more culturally aware workplace - a culture that is open, accepting and inclusive of individual differences. Perpetual will continue to further understand its current cultural profile and explore opportunities to advance cultural awareness and inclusion.

In 2016, the Cultural Diversity pillar of the Diversity Strategy is centred on strengthening Perpetual’s relationship with the Aboriginal and Torres Strait Islander peoples and increasing employee awareness of Indigenous culture and community. Key focus areas in 2016 include:

- Implementation of Perpetual Reconciliation Action Plan (RAP)
- Meaningful celebration of NAIDOC Day
- Continued participation in JAWUN

### Perpetual’s Reconciliation Action Plan

In 2016, in support of our Diversity & Inclusion strategy, we delivered our ‘Stretch’ RAP, following on from our inaugural ‘Reflect’ RAP. The focus of our ‘Stretch’ RAP is on turning good intentions into actions and promoting change through building relationships, respect and opportunities for Aboriginal and Torres Strait Islander peoples. Perpetual launched its ‘Stretch’ RAP in partnership with Reconciliation Australia during National Reconciliation Week (NRW) and held functions in its six offices across Australia. Employees in Sydney also deepened their cultural knowledge during NRW by taking part in cultural heritage tours.

Perpetual sent four employees on secondment to work with Aboriginal and Torres Strait Islander organisations in Cape York, continuing its commitment to Jawun (the Indigenous Corporate Partnerships Program). Employees also mentor Aboriginal and Torres Strait Islander high school students through the Australian Indigenous Education Foundation.

Perpetual holds positions on the Business Council of Australia (BCA) – Business Indigenous Network including contributing to their supplier diversity forum. To support our commitment to supplier diversity, we currently engage with more than 13 Aboriginal and Torres Strait Islander suppliers for a wide range of goods and services including teleconferencing, stationery supplies, bottled water, graphic design services, legal services, cultural awareness training and technology equipment.

### 3.2.4 STAFF GIVING

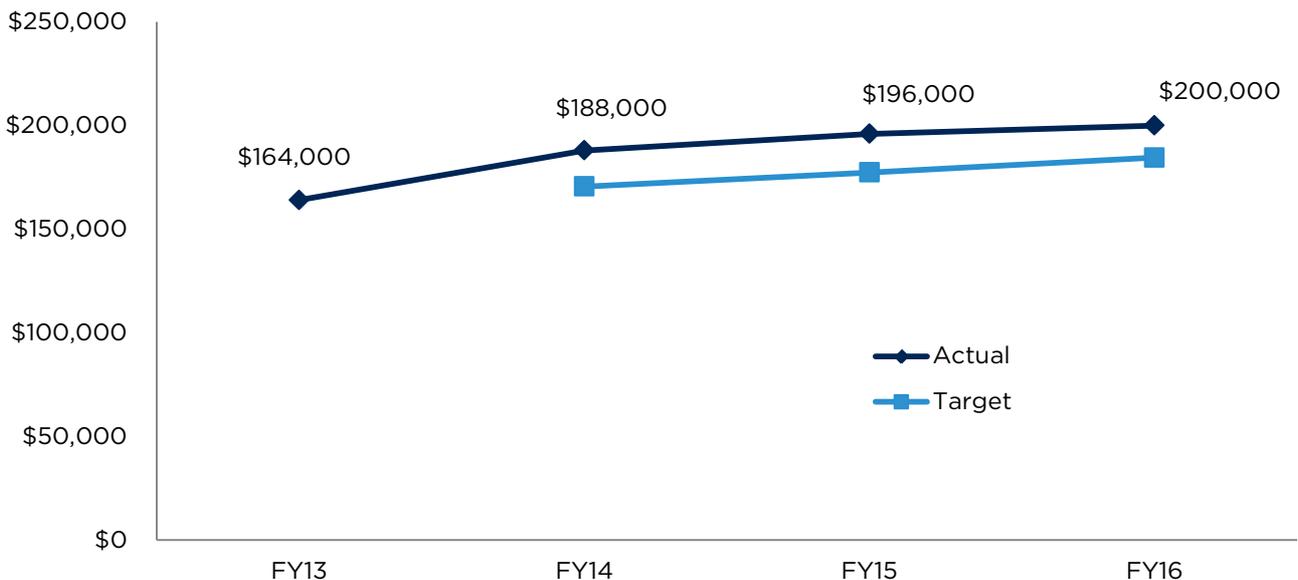
The Perpetual Giving program encourages employees to donate to its recognised partner charities in a tax-effective way, with all donations being matched dollar-for-dollar by Perpetual. We support a range of charities including:

- Australian Red Cross
- Starlight Children’s Foundation
- The Smith Family
- The Cancer Council
- Alzheimers Australia
- RSPCA

Perpetual also encourages employees to support causes that they are personally passionate about. Throughout the year employees engage in fundraisers supported and matched by Perpetual. In addition to monetary donations, Perpetual’s Staff Giving program also encourages employees to volunteer their time to charitable causes.

Perpetual targets an annual increase in Staff Giving of 4%. The amounts raised by the staff giving program in the last four years are set out in Chart 3.

**Chart 3: Perpetual Staff Giving FY13 - FY16**



### 3.2.5 IMPACT PHILANTHROPY

#### Impact Philanthropy Model

Philanthropy is an intrinsic part of Perpetual’s heritage and creating impact has long been the central theme in our approach to working with philanthropists and partnering with the NFP sector.

As one of Australia’s largest managers of philanthropic funds, we manage more than 1000 charitable trusts, private ancillary funds and endowment funds which support medical, social, environmental, religious, cultural and educational causes. We are proud to be Australia’s largest independent distributor of funds to Australia’s not-for-profit sector.

Perpetual's IMPACT Philanthropy model is designed to ensure that our clients' charitable investments deliver maximum benefit for communities. It combines a strategic approach to philanthropy with sustained support for NFPs that can demonstrate leadership, capability, understand their strategy and are outcomes focused. Perpetual's support also involves ongoing investment in the NFP sector through commissioning research, supporting scholarships and providing advice on financial governance.

We are committed to assisting individuals and families in their philanthropic endeavours and recognise that to do so, we need a strong and responsive NFP sector.

### **Not For Profit Capability Building**

Each year Perpetual, with the support of our philanthropic clients, has been providing funding to capacity building activity for the benefit of the NFP sector as a whole. In recent years one of the initiatives has been to fund NFP directors to attend Australian Institute of Company Directors (AICD) scholarships. Having funded the scholarships for five years, putting over 1,700 NFP directors across Australia through the courses, a decision has been made to put funding towards new ways of building capacity within the sector.

In an exciting new initiative, Perpetual has embarked on a global partnership with Stanford University's Center on Philanthropy and Civil Society (Stanford PACS), to raise awareness of the risks, challenges and opportunities associated with operating in the digital age, and help equip NFPs to face the challenges and take advantage of the opportunities.

This is particularly topical and important for NFPs given the rapid pace at which our digital world is evolving and the risks and benefits opening up for NFPs – such as new ways of fundraising, data sharing, security of donor data and implications for how NFPs carry out services to the communities/causes they assist.

## 4. GOVERNANCE

This section includes an overview of Perpetual's governance structures including:

- Board composition and operating practices
- Board committees
- Governance documents
- Performance Evaluation and Remuneration practices

### 4.1 GOVERNANCE OVERVIEW

The following section outlines Perpetual's approach to ensuring transparent governance processes and includes the role of the Board and its operating practices.

#### 4.1.1 BOARD GOVERNANCE FRAMEWORK

The workings of the Company, and the responsibilities and duties of its officers, are regulated by the:

- Corporations Act
- ASX Listing Rules
- Company's Constitution
- Board Charter, Committee Terms of Reference and Company Policies, and
- General law.

#### 4.1.2 ROLE OF THE BOARD

The Board has its own Board Charter which sets out the functions and responsibilities reserved to the Board and delegations made to management. The Board delegates day-to-day responsibility for the management and operation of the Company to the Managing Director but remains responsible for overseeing management's performance. The Managing Director may make further delegations within the parameters specified by the Board but is accountable for the exercise of delegated powers.

The Board's specific responsibilities include:

- setting Perpetual's values and standards
- monitoring that management has an appropriate framework in place to identify and effectively manage business risks
- monitoring business performance and the group's financial position
- setting Perpetual's direction, strategies and financial objectives
- ensuring that the performance of management and the Board is regularly assessed
- monitoring the integrity of financial accounts and reporting
- overseeing investment activities
- monitoring compliance with regulatory, prudential, legal and ethical standards
- appointing the CEO and reviewing the performance of the CEO and his direct reports.

The Board Charter is reviewed annually to ensure the balance of responsibilities remains appropriate to Perpetual. The roles and responsibilities of Perpetual's Board and management are established in accordance with ASX Principle 1.

#### 4.1.3 COMPOSITION OF THE BOARD

As at 30 June 2016, the Board comprised seven Directors: six Non- Executive Directors and the Managing Director. The roles of Chairman and Managing Director are performed by different individuals.

The Chairman is responsible for leadership of the Board and ensuring it performs its role and functions. He is also responsible for facilitating the effective contribution of Directors by ensuring that each Director fully participates in Board activities.

During the year, the composition of the Board underwent three changes. Nancy Fox was appointed as a director on 28 September 2015, whilst Paul Brasher and Elizabeth Proust retired on 31 August 2015 and 5 November 2015 respectively. This is part of the normal refresh of the Perpetual board.

Details of the background, experience, professional skills and expertise and tenure of each Director in office at 30 June 2016 are set out in the 2016 Directors' Report.

The structure of the Board accords with ASX Principle 2.

#### 4.1.4 BOARD SKILLS MATRIX

The Nominations Committee is responsible for reviewing the size and structure of the Board. The aim is to ensure that the Board comprises an appropriate balance of skills, diversity, experience and independence in order to enhance Board performance and maximise value for shareholders. The mix of skills and diversity represented on the Board as at 30 June 2016 is shown in Table 5.

Table 5 : Skills and diversity		
CATEGORY	SKILL / QUALITY	NO. OF DIRECTORS (TOTAL = 6)
Professional knowledge and experience	Financial services industry knowledge	6
	Management skills	6
	Governance	6
	Strategy	6
	Marketing	3
	Sales and distribution	4
	International knowledge and experience	4
Tenure	0-3 years tenure	2
	3-6 years tenure	2
	6-9 years tenure	1
	9+ years tenure	1
Gender	Female	2
	Male	4

#### **4.1.5 NON-EXECUTIVE DIRECTOR SUCCESSION**

The Nominations Committee is responsible for administering Perpetual's Policy on the Appointment of Directors, which sets out the selection process and selection criteria for identifying candidates to fill Board vacancies. The Policy is disclosed in full on our website. The Nominations Committee also takes diversity considerations into account when recommending any new appointment to the Board (see 'Diversity' above for Perpetual's approach to diversity).

If a Board vacancy arises, the Nominations Committee will conduct a search in accordance with the Policy and the Board will appoint the most suitable candidate, having regard to the recommendation of the Nominations Committee. External consultants may be engaged to assist with the identification of appropriate candidates.

As part of the process of appointing a Director to the Board, Directors are subject to appropriate and prudent background and screening checks.

A Director appointed to fill a casual vacancy must stand for election at the next Annual General Meeting (AGM). Additionally, Directors who have been in office without re-election for three years since their last appointment must retire and seek re-election at the company's AGM. In each case, Perpetual provides to shareholders all material information in Perpetual's possession, concerning the Director standing for appointment or re-election, in the accompanying information memorandum to the relevant notice of meeting.

#### **4.1.6 INDEPENDENCE OF DIRECTORS**

The Board considers all Non- Executive Directors to be independent Directors, including the Company's Chairman.

In assessing the independence of each Director, the Board considers, on a Director-by-Director basis, whether the Director has any relationships that would materially affect his or her ability to exercise unfettered and independent judgment in the interests of Perpetual's shareholders. Consistent with the emphasis on 'substance over form' advocated by the ASX Principles, Perpetual takes a qualitative approach to materiality rather than setting strict quantitative thresholds, and considers each Director's individual circumstances on its merits.

The independence of each Director is formally reviewed annually and at any time when a change occurs that may affect a Director's independence. Non-Executive Directors also formally advise the Chairman of any relevant information, and update the Chairman if their circumstances change at any time.

In determining the independence of individual Directors, the Board has considered the factors relevant to assessing Director independence listed in Box 2.3 of the ASX Principles. These elements include whether the Director:

- is, or has been, employed in an executive capacity by the entity or any of its child entities and there has not been a period of at least three years between ceasing such employment and serving on the Board
- is, or has within the last three years been, a partner, director or senior employee of a provider of material professional services to the entity or any of its child entities
- is, or has been within the last three years, in a material business relationship (e.g. as a supplier or customer) with the entity or any of its child entities, or an officer of, or otherwise associated with, someone with such a relationship
- is a substantial security holder of the entity or an officer of, or otherwise associated with, a substantial security holder of the entity
- has a material contractual relationship with the entity or its child entities other than as a director
- has close family ties with any person who falls within any of the categories described above or
- has been a director of the entity for such a period that his or her independence may have been compromised.

To refresh the composition of the Board, Directors agree not to seek re-election after three terms of three years unless the Board requests them to do so. The nine year principle does not displace shareholders' rights to vote on the appointment and removal of Directors, as set out in the ASX Listing Rules and the Corporations Act 2001 (Cth) (Corporations Act).

At the time of announcing Mr Scott's succession to the role of Chairman of the Board in 2010, the Board announced that, to ensure continuity in the Chairman's role, it was the Board's intention to invite Mr Scott to serve an additional term of three years after his nine year term as a Director expired in 2014. Accordingly Mr Scott was re-elected by shareholders at the 2014 AGM. Mr Scott is also Director and Chairman of Perpetual Equity Investment Company Limited (PIC), an ASX listed investment company. PIC is a separate legal entity and Perpetual Investment Management Limited, a subsidiary of Perpetual, provides services to PIC at arm's length. The Board does not consider that Mr Scott's tenure at Perpetual, or his role at PIC, affects his independence.

Paul Brasher and Ian Hammond receive post-termination benefits from their former employer, PricewaterhouseCoopers (PwC). PwC has been appointed as Perpetual's remuneration consultant and occasionally provides consulting services to Perpetual, which are not considered material in nature or quantity. The Board does not believe that this appointment of PwC affects the independence of Paul Brasher or Ian Hammond.

From time to time, funds managed by the Perpetual Group may take holdings, including substantial holdings, in securities of listed entities. Perpetual Directors may also serve as Non-Executive Directors on the Boards of these entities. This factor alone is not considered to impact Director independence as decisions as to stock selection are not made by the Board of Perpetual but by Perpetual's asset management team in accordance with client or fund investment mandates.

In the 2016 financial year, no Director disclosed a material personal interest in any contract entered into by any member of the Perpetual Group other than the remuneration paid to the Directors as outlined in the Annual Report and the deeds of indemnity described below.

It is the Board's view that no Directors currently have any interests, positions, associations or relationships that materially affect their ability to exercise independent judgement in the interests of Perpetual shareholders.

#### **4.1.7 MEETINGS OF THE BOARD**

In the 2016 financial year, the Board met 10 times, including a strategic planning session. The Board receives performance, operations and risk reports from the Managing Director, the Chief Financial Officer, and the heads of each business division.

The Board also receives reports and updates on strategic issues.

In addition, Directors spend time reading and analysing Board papers and reports submitted by management and they engage in regular informal discussions with management. The views of the Chairman and the Non-Executive Directors are canvassed regularly by the Managing Director and the Group Executive on a range of strategic and operational issues.

The Chief Financial Officer and Company Secretary attend all Board meetings. Other Group Executives and senior management attend Board and committee meetings to report on particular issues and to engage in discussion on these issues. Senior executive attendance at Board and committee meetings is subject to the overriding requirement that no senior executive will be directly involved in deciding their own remuneration.

Non-Executive Directors regularly confer without management present and the Chairman presides over these sessions.

Attendance of Directors at Board and committee meetings is set out in Perpetual's 2016 Directors' Report.

#### **4.1.8 COMPANY SECRETARIES**

The Board has access to the services and advice of Joanne Hawkins, the Company Secretary, and Glenda Charles, Deputy Company Secretary. The Company Secretary is directly accountable to the Board on governance matters and all matters to do with the proper functioning of the Board.

Details of the experience and qualifications of Joanne Hawkins and Glenda Charles are set out in the 2016 Directors' Report.

#### **4.1.9 PERPETUAL'S SUBSIDIARY BOARDS**

The Boards of Perpetual's subsidiaries are generally made up of executive directors. There are, however, a number of subsidiary Boards which are composed of a majority, or entirely, of independent directors. These Boards include:

- Perpetual Superannuation Limited, which carries out Perpetual's superannuation activities
- Queensland Trustees Pty Limited, which acts as trustee for Perpetual's employee share plans, and
- The Trust Company (Sydney Airport) Limited, which is the responsible entity of the Sydney Airport Trust 1, a trust whose units are stapled to shares in Sydney Airport Limited, the company that owns a lease to operate Sydney Airport.

Perpetual's corporate governance policies are applied to its subsidiaries but adapted to reflect the size and nature of each subsidiary's operations. The subsidiary Boards are a key component of Perpetual's Risk Management Framework.

#### **4.1.10 INDEMNITY OF DIRECTORS AND OFFICERS**

Perpetual has entered into deeds to indemnify Directors and Officers of the Perpetual Group, to the extent permissible by law, from all liabilities incurred as Directors or Officers. Liabilities to the Perpetual Group, and liabilities that arise out of conduct that was not in good faith, are not covered in the indemnities.

In addition, Perpetual has Directors' and Officers' insurance against claims Perpetual may be liable to pay under these indemnities. This policy insures Directors and Officers directly.

#### **4.1.11 ACCESS TO INDEPENDENT ADVICE AND INFORMATION**

Perpetual has a formal policy allowing the Board or an individual Director to seek independent professional advice at the Perpetual Group's expense, provided that the Director has obtained the prior approval of the Chairman, or if the relevant Director is the Chairman, the prior approval of a majority of Perpetual's Non-Executive Directors. No individual Director has asked for independent advice during the year.

All Directors have unrestricted access to company records and information.

#### **4.1.12 INDUCTION AND CONTINUING EDUCATION**

Upon appointment, new Directors receive a detailed letter of appointment and participate in a comprehensive induction program designed to familiarise them with Perpetual's business, strategy, operations, Group Executives and senior management team. Similarly, all Group Executives, as with all employees, enter into a detailed contract of employment, and undergo appropriate background and screening checks, when commencing employment with Perpetual.

Directors receive regular updates on changes in the regulatory environment affecting Perpetual and the financial services industry. Directors are also encouraged to attend relevant conferences and seminars.

## 4.2 BOARD COMMITTEES

A key component of the Board's governance structure is its four Board committees. Each committee has a written charter known as its Terms of Reference.

All committees, except the Nominations Committee, generally meet at least quarterly, and more frequently if required. Aside from the Nominations Committee, the Managing Director attends all committee meetings except where matters relating to his own remuneration and performance are discussed.

The qualifications and skills of the members of each committee are set out on pages 20 to 22 of Perpetual's 2016 Annual Report.

The membership and key responsibilities of each of the Board committees (as at September 2016) are set out below.

Committee members regularly confer without management present and the Chairman presides over these sessions.

### 4.2.1 AUDIT RISK AND COMPLIANCE COMMITTEE

Members: Ian Hammond (Chairman), Philip Bullock, Nancy Fox and Craig Ueland.

Ian Hammond was appointed a member of the Committee in May 2015 and as Chairman of the Committee in August 2015 following Paul Brasher's retirement. Philip Bullock and Nancy Fox were appointed as members of the Committee in September 2015. Sylvia Falzon ceased to be a member as at 28 September 2015. Elizabeth Proust ceased to be a Committee member on 5 November 2015.

The Committee's role is to oversee the Perpetual Group's accounting policies and practices, the integrity of financial statements and reports, the scope, quality and independence of Perpetual's external audit arrangements, the monitoring of the internal audit function, the effectiveness of the risk management framework and the adequacy of insurance programs, and to report on these matters to the Board. This Committee is also responsible for monitoring overall legal and regulatory compliance.

All members of the Committee (of which there must be at least three) are independent Non-Executive Directors and are required to be financially literate. At least one member must have accounting or finance related expertise. Members are also required to have an understanding of the financial services industry in which Perpetual operates. The Chairman of the Committee cannot be the Chairman of the Board.

### 4.2.2 NOMINATIONS COMMITTEE

Members: Peter Scott (Chairman), Sylvia Falzon, Ian Hammond and Craig Ueland.

Ian Hammond was appointed a member of the Committee in August 2015 following Paul Brasher's retirement. Sylvia Falzon was appointed as a member following Elizabeth Proust's retirement on 5 November 2015.

The Committee's role is to recommend to the Board nominees for appointment/election (including re-election of existing Board members) and to review Board succession plans. At least annually, the Committee reviews the size and structure of the Board to ensure that it comprises appropriately qualified and experienced people. This Committee is also responsible for the formal evaluation of the Board's performance as a whole and the program of Director education.

All members of the Committee are independent Non-Executive Directors. In accordance with its Terms of Reference, it is made up of the Chairman of the Board, the Chairman of the Audit Risk and Compliance Committee, the Chairman of the Investment Committee and the Chairman of the People and Remuneration Committee.

### **4.2.3 INVESTMENT COMMITTEE**

Members: Craig Ueland (Chairman), Sylvia Falzon and Ian Hammond.

Ian Hammond was appointed a member of the Committee in August 2015 and Philip Bullock ceased to be a member as at 28 September 2015.

The Committee's role is to assist the Board in monitoring the effectiveness of Perpetual's investment governance framework in relation to the investment activities the Company and its subsidiaries perform for its clients. The Committee has no management role. This Committee does not select stocks for individual Perpetual funds as stock selection is carried out by Perpetual's asset management team.

All members of the Committee (of which there must be at least three) are independent Non-Executive Directors. The Chairman of the Committee cannot be the Chairman of the Board.

### **4.2.4 PEOPLE AND REMUNERATION COMMITTEE**

Members: Sylvia Falzon (Chairman), Philip Bullock and Nancy Fox

Sylvia Falzon was appointed as a member of the Committee in August 2015 and Chairman on 5 November 2015. Nancy Fox was appointed as a member of the Committee in September 2015. Paul Brasher ceased to be a Committee member when he retired in August 2015 and Elizabeth Proust ceased to be a Committee member and Chairman on 5 November 2015.

The Committee's role is to monitor the Perpetual Group's people and culture policies and practices, including the diversity of Perpetual's workforce, and to assist the Managing Director to implement fair, effective and market competitive remuneration and incentive programs designed to retain high calibre employees and which demonstrate a clear relationship between performance and remuneration. The Committee is authorised to directly engage external remuneration advisers and, after obtaining their advice as and when appropriate, the Committee recommends remuneration for Non- Executive Directors, the Managing Director, the Group Executives and other senior managers, to the Board.

The Committee reviews succession and career plans for key executives.

All members of the Committee (of which there must be at least three) are independent Non-Executive Directors. The Chairman of the Committee cannot be the Chairman of the Board.

## **4.3 GOVERNANCE DOCUMENTS**

### **4.3.1 ETHICS AND CONDUCT**

Perpetual has a Code of Conduct which draws from and expands on Perpetual's Values. The Code of Conduct applies to all Directors, executives and employees and is designed to assist them in making ethical business decisions. It is based on the following principles:

- acting with integrity
- avoiding conflicts of interests
- upholding the spirit as well as the letter of the law
- respecting confidentiality and privacy
- maintaining a fair and safe work environment, and
- protecting those who report wrongdoing.

Additional policies deal with a range of ethical issues such as the obligation to maintain client confidentiality and to protect company information, the need to make full and timely disclosure of any price sensitive information and to provide a safe workplace for employees, which is free from discrimination. The Code of Conduct and associated policies are in keeping with ASX Principle 3.

Perpetual's Chief Risk Officer and the General Manager, Legal, Compliance and Company Secretary are the contact officers for Perpetual's Code of Conduct and are available to all staff for a confidential discussion in relation to Code of Conduct matters. All new Perpetual employees are required to familiarise themselves with the Code of Conduct as part of their induction training requirements.

Perpetual has a Whistleblowing Policy to protect employees who make reports in good faith of wrongdoing, prejudice or disadvantage. As part of Perpetual's Whistleblowing Policy, a third party has been engaged to provide an independent and confidential hotline for Perpetual employees who prefer to raise their concern with an external organisation.

#### **4.3.2 COMMUNICATIONS WITH SHAREHOLDERS**

The Board remains committed to ensuring that investors and investment market participants are fully informed of material matters concerning Perpetual's strategy, financial performance and governance that could affect Perpetual's brand, value and prospects. The Board seeks to communicate effectively and regularly with investors and investment market participants to ensure they are fully informed of the company's strategy, financial performance, prospects and governance using various mediums, including, electronic communication, webcasts and keeping the website updated in a timely manner.

Perpetual has an investor relations engagement program that includes engaging with institutional investors (domestically and internationally), buy-side and sell-side research analysts and individual investors on a scheduled (including following the release of its half and full year results) or ad hoc (including industry conferences, strategy and operational updates) basis. The Board understands the importance of these interactions as it allows the company to clearly articulate its strategy and also receive feedback from investors and the investment markets on its strategy, financial performance and reporting, and governance. Key information released to shareholders includes:

- the Operating and Financial Review and Financial Statements for the Half Year Results
- the Operating and Financial Review and Financial Statements for the Full Year Results
- the Annual Report
- the Chairman's and Managing Director and Chief Executive Officer's addresses to the AGM
- market briefings and other significant information, and
- presentations made at relevant investment bank and industry conferences.

Perpetual also publishes an "event calendar" on its website which sets out important dates relevant to shareholders (for example, the date Perpetual releases its Full Year Results and the date of its AGM).

From time to time, the company might also update investors and sell-side research analysts on other matters including strategy, operations, capital and mergers and acquisitions. A webcast of these events as well as copies of any presentations made to investors and wider market participants will be made available on the website. The events above are generally webcast and copies of presentations and releases are posted to the company's website as soon as these presentations and releases are disclosed to the market and the ASX. Shareholders can submit their email addresses if they wish to receive a reminder of these dates.

Perpetual will hold its AGM in November and a copy of the notice of AGM is posted on Perpetual's website as well as being provided directly to shareholders via their nominated means of communication (including by electronic means).

The Board encourages shareholders to attend the AGM or to appoint a proxy to vote on their behalf if they are unable to attend. Shareholders are also encouraged to submit written questions in advance of the AGM, either by returning the question form provided with the notice of AGM or through an online facility that enables shareholders to submit questions via their investor centre log-in. The Chairman seeks to address as many of the more frequently raised topics as possible in his AGM address.

The formal addresses at the AGM are webcast for those shareholders who are unable to be present. In accordance with the Corporations Act, a representative of the external auditor, KPMG, attends the AGM for the purpose of answering shareholder questions about the audit report and audit process.

Perpetual periodically holds briefings for institutional investors and research analysts who produce financial research on the company. These briefings aim to increase the two-way flow of information and engagement with investors and research analysts outside of the scheduled reporting season. All briefings are conducted in accordance with Perpetual's Continuous Disclosure Policy (see further below).

Further information about Perpetual and its governance practices are available at Perpetual's website.

#### **4.3.3 MARKET DISCLOSURE**

Perpetual has a Continuous Disclosure Policy to ensure compliance with its continuous disclosure obligations under ASX Listing Rule 3.1 and the Corporations Act. The Managing Director, Chief Financial Officer, and Company Secretary are the current members of the Continuous Disclosure Committee responsible for deciding information that is required to be disclosed to the ASX. Perpetual ensures that all senior management give regular sign-offs as to whether there are matters that require disclosure to the ASX.

The Board considers its disclosure obligations at each scheduled Board meeting. Perpetual's Continuous Disclosure Policy contains the matters recommended by ASX Principle 5.

Perpetual's website includes copies of announcements lodged with the ASX by Perpetual. In addition, advance notification of scheduled analyst briefings are provided to shareholders and the briefings are webcast. These can be found on the company's website along with media releases, briefings and annual reports for the last five years.

#### **4.3.4 TRADING IN PERPETUAL SECURITIES**

Perpetual has a Securities Trading Policy that complies with the requirements of ASX Listing Rule 12.12.

Perpetual's overriding policy in respect of personal trading is that there should be no dealings in the company's shares by any Director or employee who is in possession of price sensitive information or where the dealing is for short-term or speculative gain. Provided they do not have price sensitive information, Directors and employees are permitted to deal in the company's shares only in three specified trading windows. The Securities Trading Policy was updated in June 2016.

The Securities Trading Policy requires prior approval for any share dealings from the Chairman in the case of Directors, from a nominated Director in the case of the Chairman and from the Managing Director in the case of senior executives. Prior approval is also required from the Managing Director or Company Secretary in the case of certain employees who are more likely to have access to information that is potentially price sensitive due to their role with the company.

The policy also prohibits Non- Executive Directors and employees from entering into 'hedging arrangements' in relation to Perpetual securities. Perpetual employees cannot enter into arrangements and/ or trade in financial

products issued over Perpetual securities by third parties or trade in any associated products which limit the economic risk of holding Perpetual securities. Perpetual employees and Directors are prohibited from margin lending in relation to Perpetual securities.

## **4.4 PERFORMANCE EVALUATION AND REMUNERATION**

### **4.4.1 DIRECTOR PERFORMANCE EVALUATION**

The Board undertakes ongoing self-assessment as well as a formal annual review of the performance of the Board, individual Directors and its committees. Performance reviews were conducted in FY16 looking back at FY15 performance. Similarly, the Board is in the process of completing these annual reviews for 2016 with the assistance of an external assessor. As part of the Board's annual review process:

- Directors and key management stakeholders complete questionnaires
- individual meetings are conducted between the Chairman and Directors (and for the purposes of the review meeting of the Chairman, between a nominated independent Director and the Chairman), and
- a general Board discussion takes places.

The review process aims to ensure that individual Directors continue to contribute effectively to the Board's performance and that the Board as a whole and its committees continue to function effectively.

### **4.4.2 EXECUTIVE PERFORMANCE EVALUATION**

Each year, the Board's People and Remuneration Committee oversees the performance review process for the Managing Director and Group Executives. The Group Executives report directly to the Managing Director.

The Managing Director's performance objectives are set by the Board at the beginning of each financial year.

At the end of the financial year, the Chairman of the Board reviews the Managing Director's performance against his goals with input from all Board members.

The Managing Director sets performance objectives for each Group Executive at the beginning of each financial year. The Board's People and Remuneration Committee reviews the performance objectives set for the Group Executives. The Managing Director carries out the performance review of each Group Executive against their objectives with input from appropriate stakeholders including Board members.

In FY16, performance reviews of the Managing Director and each Group Executive were conducted in accordance with this process.

### **4.4.3 DIRECTOR AND EXECUTIVE DIRECTOR REMUNERATION**

Perpetual has formed a People and Remuneration Committee consistent with ASX Principle 8 and ASX Listing Rule 12.8. Its role is set out above. Details of Board and executive remuneration are set out in the remuneration report, found in Perpetual's 2016 Director's Report.

In accordance with the ASX Principles, the structure of Non- Executive Director remuneration is clearly distinguished from that of executive Directors and senior management. In particular, Non-Executive Directors do not receive performance-related remuneration and are not entitled to receive performance shares, rights or options over Perpetual shares.

Non-Executive Directors are not entitled to receive any retirement benefits, other than superannuation in accordance with Perpetual's statutory superannuation obligations.

## 5. RISK MANAGEMENT AND INTERNAL CONTROLS

### 5.1 RISK MANAGEMENT

The Board is committed to effective risk management and all Group Executives are accountable for managing risk within their area of responsibility. They are also required to manage risk as part of their business objectives with risk management integrated across business processes.

The risk management framework is underpinned by the Three Lines of Defence model. This model sees the first line, being business unit management, accountable for the day to day identification and management of risks. The Group Risk function represents the second line and consists of risk management professionals who provide the framework, tools, advice and assistance to enable management to effectively identify, assess and manage risk and is responsible for overseeing first line activities. Internal Audit provides independent assurance, representing the third line, and reports to the Audit Risk and Compliance Committee (ARCC).

Consistent with ASX Principle 7, Perpetual's Risk Management Framework sets out Perpetual's overall approach to managing risk. The framework consists of programs and policies which are designed to address specific risk categories - strategic, financial, operational, outsourcing, investment, people and compliance, legal & conduct risk.

The Board and the Group Executive seek to ensure that the Risk Management Framework remains consistent with industry best practice. The Risk Management Framework was last updated and approved by ARCC in 2016. Programs supporting the Framework are regularly reviewed to confirm their appropriateness.

Perpetual's Risk Appetite Statement (RAS) seeks to define the amount of risk the Board is willing to take in the pursuit of its strategic vision and objectives. An annual review of the RAS takes place to consider the current strategic direction of the Company, referenced against the indicators and measures set out in the RAS.

The Board and its committees are provided with independent reporting of the effectiveness of Perpetual's management of its material business risks. The Board also reviews the company's key risks on a regular basis.

### 5.2 MATERIAL RISKS

The Board considers that a number of identified risks, across various risk categories, have the potential to impact upon the economic sustainability of the organisation in one way or another. Details of these types of risk and the way in which they are managed, including application of the 'Three Lines of Defence' model, are set out in the Operating and Financial Review of the 2016 Director's Report. Material social sustainability risks have been identified. These are discussed in the People and Community section of this statement. No material environmental sustainability risks were identified.

### 5.3 INTERNAL CONTROLS FRAMEWORK

Consistent with the Three Lines of Defence model, management is responsible for developing and implementing appropriate controls to manage their risks and processes. A Risk and Control Self-Assessment (RCSA) Program is in place to identify business risks and mitigating controls and test the effectiveness of these controls on at least an annual basis, or more regularly where appropriate. This RCSA Program is subject to Group Risk oversight

Perpetual also has an internal audit function. The Head of Internal Audit reports to the Audit Risk and Compliance Committee as well as to the Chief Risk Officer and is independent from the external auditor. Internal Audit provides independent assurance over the effectiveness of Perpetual's risk management, internal control, and governance processes.

The Internal Audit team does not make management decisions or engage in other activities which could be perceived as compromising its independence.

Each of the Chief Risk Officer, Head of Internal Audit and General Manager Legal and Compliance has the right to, and do, meet with the Audit Risk and Compliance Committee, or its Chairman, without other management present.

The Managing Director and Chief Financial Officer report to the Board on the effectiveness of Perpetual's management of its material business risks in accordance with ASX Principle 4. The Board received this report in 2016 together with the declarations and statements outlined in the section headed Managing Director and Chief Financial Officer Certifications below.

## 5.4 MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER CERTIFICATIONS

The Board has adopted policies designed to ensure that Perpetual's financial reports:

- are true and fair
- meet high standards of disclosure and audit integrity, and
- when read with Perpetual's other reports to shareholders, provide all material information necessary to understand Perpetual's financial performance and position.

In accordance with section 295A of the Corporations Act and Principle 4 'Safeguard Integrity in Corporate Reporting', for each half and full year financial period the Managing Director and Chief Financial Officer provide the Board with a written declaration that, in their respective opinions:

- the financial records of the Company have been properly maintained in accordance with section 286 of the Corporations Act and
- the financial statements and notes comply with the accounting standards and present a true and fair view of the Company's financial condition and performance.

To underpin the integrity of Perpetual's financial reporting and Risk Management Framework, it is also Perpetual's practice for the Managing Director and Chief Financial Officer to state to the Board in writing that, in their respective opinions:

- the statements made regarding the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control systems which implement the policies adopted by the Board of Directors
- the risk management and internal compliance and control systems, to the extent they relate to financial reporting, are operating effectively and efficiently, in all material respects, based on the Risk Management Framework adopted by the Company and
- the Company's material business risks (including non-financial risks) are being managed effectively.

The statements referred to above are supported by written statements from senior management, detailed financial analysis and Perpetual's Risk Management Framework. The Chief Financial Officer is present when the Board considers financial matters, as she attends all Board meetings.

In 2016, the Board received the declarations and statements referred to above in relation to the half-year ending 31 December 2015 and the full-year ending 30 June 2016.

## 5.5 AUDIT PROCESS

The Perpetual Group's financial reports are subject to an annual audit by an independent, professional auditor, who also reviews the Group's half yearly financial statements.

The Audit Risk and Compliance Committee oversees this process on behalf of the Board, in accordance with its Terms of Reference.

The external auditor attends each meeting of the Committee, and it is the Committee's policy to meet with the auditor for part of these meetings without management present. The Committee Chairman meets with the audit partner at least once every quarter, also in the absence of management. The auditor has a standing invitation to meet with the Committee, its Chairman or with the Board's Chairman in the absence of management. The auditor attends the Board meetings at which the annual and half yearly financial reports are adopted, and at these meetings the Non-Executive Directors have an opportunity to meet with the auditor without management present.

The current external auditor is KPMG. The lead audit partner for FY2016 was Mr Martin McGrath and the engagement partner was Ms Kim Lawry.

## 5.6 AUDITOR INDEPENDENCE

The Board has policies in place relating to the quality and independence of Perpetual's external auditor. These policies include:

- an annual review of the external audit firm's fees and performance, as well as the independence of the external audit firm, the results of which are reported to the Audit Risk and Compliance Committee and the Board
- the lead audit partner on each Perpetual audit must be rotated at least every five years, with a two year gap before a partner may be reappointed
- former audit partners and audit firm employees involved in our audit cannot become Directors or employees of Perpetual Group companies for at least two years and
- the external audit firm is prohibited from providing non-audit services that may materially conflict with its ability to exercise objective and impartial judgment on issues that may arise within Perpetual's audit, such as:
  - Book-keeping or other services related to the accounting records or financial statements
  - Financial information systems design and implementation
  - Valuation or appraisal services in relation to matters that are material to the audit
  - Actuarial services
  - Outsourced internal audit services
  - Management functions, including acting as an employee and secondment arrangements, where the secondee performs any decision-making, supervisory or ongoing monitoring functions
  - Human resource and recruitment services
  - Broker-Dealer, investment adviser or investment banking services
  - Legal services
  - Providing expert opinion or other expert service for the purpose of advocating the interests of Perpetual, a Consolidated Entity or a Fund in litigation or in regulatory or administrative proceedings or investigations
  - The marketing, planning or positively opining on the tax treatment of potential transactions
  - Tax services to a person in a financial reporting oversight role.

The Audit Risk and Compliance Committee is responsible for making recommendations on the annual engagement of the external auditor.

In 2016, the greater part of fees paid to KPMG for work other than audit of Perpetual Group accounts was for audit services in relation to investment funds of which Perpetual companies are the responsible entity, manager or trustee. It is the Board's view that these services are consistent with KPMG's appointment as auditor and are not services of a kind that might impair their impartial judgement in relation to the Perpetual Group's audit.

## 6. CONCLUSION

This Corporate Responsibility Statement (CRS) includes an overview of Perpetual's CRS philosophy, the material risks that have been identified using the Perpetual Risk Management Framework and relevant information about the associated strategies in place to mitigate these risks.

As an organisation, we are committed to ensuring sustainable business practices and continuing to improve the positive impact we have on our people, communities and the environment.

**“The Corporate Responsibility Statement for us is more than just a listing rule; it actually brings together PRI, ESG principles, sustainable investing and good governance - all things that are really core to what we do. In turn, they link to our long-held value investment style and its four quality lenses – sound management, conservative debt levels, recurring earnings and a quality business. These, in reality, are sustainability lenses”.**  
**Geoff Lloyd, CEO – September 2016**

## 7. APPENDIX: RELEVANT DOCUMENTS

Copies or summaries of the Company documents outlined in the table below can be found on Perpetual's website at [www.perpetual.com.au/About/Corporate-Governance](http://www.perpetual.com.au/About/Corporate-Governance)

Table 6: Relevant documents	
GOVERNANCE STRUCTURE	SUPPORTING DOCUMENTS
Governance - General	Code of Conduct Continuous Disclosure Policy Securities Trading Policy
Board of Directors	Company Constitution Board Charter Summary Policy on the Appointment of Directors Board Tenure and Performance Policy
Board Committee	Audit Risk and Compliance Committee Terms of Reference Nominations Committee Terms of Reference Investment Committee Terms of Reference People and Remuneration Committee Terms of Reference
Performance evaluation and remuneration	Board Charter Summary Board Tenure and Performance Policy People and Remuneration Committee Terms of Reference
Risk Management and Internal Control	Board Charter Summary Audit Risk and Compliance Committee Terms of Reference Risk Management Framework