PERPETUAL PROTECTED INVESTMENTS – SERIES 2

Annual Financial Report
30 June 2014

ARSN 127 614 966

Perpetual Investment Management Limited
ABN 18 000 866 535 AFSL 234426

Perpetual

Perpetual Protected Investments - Series 2

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Annual Financial Report - 30 June 2014

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Annual Financial Report - 30 June 2014

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Perpetual Protected Investments - Series 2

Directors' report
For the year ended 30 June 2014

Directors' report

The directors of Perpetual Investment Management Limited (a wholly owned subsidiary of Perpetual Limited), the Responsible Entity of Perpetual Protected Investments (referred to in this annual financial report as Perpetual Protected Investments - Series 2), present their report together with the annual financial report of Perpetual Protected Investments - Series 2 ("the Scheme") for the year ended 30 June 2014 and the auditor's report thereon.

Responsible Entity

The Responsible Entity of Perpetual Protected Investments - Series 2 is Perpetual Investment Management Limited (ABN 18 000 866 535). The Responsible Entity's registered office and principal place of business is Level 12, 123 Pitt Street, Sydney, NSW, 2000.

Directors

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

G Foster (appointed 25 January 2013, Alternate for G Larkins)
M Gordon (appointed 28 March 2013)
J Hawkins (appointed 6 July 2012)
G Larkins (appointed 7 January 2013)
P Lynch (appointed 6 July 2012, Alternate for J Hawkins)
P Statham (appointed 9 September 2013, Alternate for M Gordon)

Principal activities

The Scheme offers gearing with capital protection which aims to accelerate investor's wealth potential in positive markets while safeguarding investor's capital in any downturns. The Scheme aims to deliver investment returns from investments in managed funds, whilst also protecting against losses by employing a capital management technique referred to as Dynamic Management for those investors who remain invested within the Scheme until its protection end date on 30 April 2015.

The Scheme did not have any employees during the year.

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

Review and results of operations

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

Interests in the Scheme

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

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

Directors' report (continued)

Significant changes in state of affairs

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

Likely developments and expected results of operations

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

Matters subsequent to the end of financial year

No matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

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

Environmental regulation

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

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

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

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

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

Indemnification and insurance of officers and auditors

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

Rounding of amounts to the nearest thousand dollars

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

Directors' report (continued)

Lead auditor's independence declaration

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

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

Director

Sydney
18 September 2014

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

To: the directors of Perpetual Investment Management Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Michael O Connell
Partner

Sydney

18 September 2014

Statement of comprehensive income

	Notes	30 June 2014 $'000	30 June 2013 $'000
Investment income			
Distribution income		**179**	100
Net (losses)/gains on financial instruments held at fair value through profit or loss	3	**(609)**	3,838
Total net investment (loss)/income		**(430)**	3,938
Expenses			
Responsible Entity's fees	6	**134**	156
Dynamic management fees		**131**	156
Total operating expenses		**265**	312
Operating (loss)/profit		**(695)**	3,626
Change in net assets attributable to investors (total comprehensive income)	4	**(695)**	3,626

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

Balance sheet

	Notes	30 June 2014 $'000	30 June 2013 $'000
Assets			
Cash and cash equivalents		**3**	1
Financial assets held at fair value through profit or loss	5	**17,361**	19,616
Due from brokers - receivable for securities sold		**206**	1,770
Loans and receivables:			
Distributions receivable		**166**	59
Total assets		**17,736**	21,446
Liabilities			
Redemptions payable		**205**	1,655
Responsible Entity's fees payable	6	**33**	37
Dynamic management fees payable		**32**	37
Total liabilities (excluding net assets attributable to investors)		**270**	1,729
Net assets attributable to investors - liability	4	**17,466**	19,717

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

Statement of changes in equity

The Scheme's net assets attributable to investors are classified as a liability under AASB 132 *Financial Instruments: Presentation.* As such the Scheme has no equity and no items of changes in equity have been presented for the current or comparative period.

Cash flow statement

	Notes	30 June 2014 $'000	30 June 2013 $'000
Cash flows from operating activities			
Distributions received		**72**	428
Responsible Entity's fees paid		**(138)**	(166)
Dynamic management fees paid		**(136)**	(168)
Net cash (outflow)/inflow from operating activities	9(a)	**(202)**	94
Cash flows from investing activities			
Proceeds from sale of investments		**4,792**	8,067
Payments for purchase of investments		**(1,581)**	(1,502)
Net cash inflow from investing activities		**3,211**	6,565
Cash flows from financing activities			
Payments for redemptions by investors		**(3,007)**	(6,600)
Net cash outflow from financing activities		**(3,007)**	(6,600)
Net increase/(decrease) in cash and cash equivalents		**2**	(1)
Cash and cash equivalents at the beginning of the financial year		**1**	2
Cash and cash equivalents at the end of the financial year	9(b)	**3**	1

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

1 General information

This annual financial report covers Perpetual Protected Investments - Series 2 ("the Scheme") as an individual entity. The Scheme is a registered managed investment scheme under the *Corporations Act 2001* . The Scheme was constituted on 2 October 2007. The Scheme will terminate on 30 September 2087 unless terminated earlier in accordance with the provisions of the Scheme's Constitution (as amended). The Scheme is domiciled in Australia.

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

The annual financial report was authorised for issue by the directors of the Responsible Entity on 18 September 2014. The directors of the Responsible Entity have the power to amend and reissue the annual financial report.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of this annual financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Principles of preparation

This general purpose annual financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001* in Australia.

The annual financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated. The annual financial report is presented in Australian dollars, which is the Scheme's functional currency.

Compliance with International Financial Reporting Standards

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

Use of estimates and judgement

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

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

(b) Change in accounting policy

The Scheme has adopted the following standards and amendments for the 30 June 2014 reporting period:

(i) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective for accounting periods beginning on or after 1 January 2013)

AASB 13 improves the consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards. If a financial asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread.

2 Summary of significant accounting policies (continued)

(b) Change in accounting policy (continued)

On adoption of the standard, the Scheme changed its valuation inputs for listed financial assets and liabilities to last traded prices to be consistent with the inputs used for the calculation of unit prices for applications and redemptions. The use of last traded prices is recognised as a standard pricing convention within the industry. In the prior year, the Scheme utilised bid and ask prices for its listed financial assets and liabilities respectively. The change in valuation inputs is considered to be a change in accounting policy in accordance with AASB 108.

As the standard is required to be adopted prospectively, adjustments to the fair values of financial instruments have been recognised at the beginning of the current period presented. As the Scheme invests into unlisted unit trusts and structured notes only, there is no impact on the net gains/(losses) on financial instruments held at fair value through profit or loss.

(ii) AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective for accounting periods beginning on or after 1 January 2013)

AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities* requires additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments did not have any impact on the Scheme's financial position or performance.

(iii) AASB 10 *Consolidated Financial Statements* , AASB 11 *Joint Arrangements,* AASB 12 *Disclosure of Interests in Other Entities* , AASB 127 (revised 2011) *Separate Financial Statements* and AASB 128 (revised 2011) *Investments in Associates and Joint Ventures* (effective for accounting periods beginning on or after 1 January 2013)

The Scheme has early adopted AASB 2013-5 *Amendments to Australian Accounting Standards - Investment Entities* (effective for accounting periods beginning on or after 1 January 2014) which makes amendments to AASB 10, AASB 12 and AASB 127 (the "Amendments").

AASB 10 *Consolidated financial statements* and Amendments to AASB 10:

The objective of AASB 10 is to establish principles for the presentation and preparation of consolidated financial statements. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The amendments to AASB 10 define an investment entity and introduce an exemption from the consolidation requirements for investment entities. The adoption of these standards has had no impact on the Scheme.

Investment entity

The Scheme has multiple unrelated investors and holds multiple investments directly or indirectly. Ownership interests in the interfunding investments are in the form of units which are classified as debt in accordance with AASB 132 and which are exposed to variable returns from changes in the fair value of the Scheme's net assets. The Scheme has been deemed to meet to the definition of an investment entity per AASB 10 as the following conditions exist:

(a) The Scheme has obtained funds for the purpose of providing investors with investment management services;

(b) The Scheme's business purpose, which is communicated directly to investors, is investing solely for returns from capital appreciation and investment income; and

(c) The performance of investments made through the Scheme are measured and evaluated on a fair value basis.

The Scheme meets the typical characteristics of an investment entity.

AASB 12 *Disclosure of interests in other entities* and Amendments to AASB 12:

The standard requires entities to disclose significant judgements and assumptions made in determining whether the entity controls, jointly controls, significantly influences or has some other interests in other entities. Entities will also be required to provide more disclosures around certain 'structured entities'. The amendments also introduce new disclosure requirements related to investment entities. Adoption of the standard has impacted certain disclosures in the Scheme's annual financial report, but has had no impact to the Scheme's financial position or results of operations.

2 Summary of significant accounting policies (continued)

(b) Change in accounting policy (continued)

AASB 127 (revised 2011) *Separate financial statements* and Amendments to AASB 127:

The objective of the standard is to prescribe the accounting and disclosure requirements when an entity prepares separate financial statements. The amendments require an investment entity as defined in AASB 10 to present separate financial statements as its only financial statements in the case where it measures all of its subsidiaries at fair value through profit or loss and to disclose that fact. The adoption of this standard has had no impact on the Scheme.

AASB 11 *Joint arrangements* and AASB 128 (revised 2011) *Investments in Associates and Joint Ventures* and related amendments have also been adopted, however, these standards have had no impact on the Scheme.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2013 that would be expected to have a material impact on the Scheme.

(c) New accounting standards and interpretation

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2014 reporting period and have not been early adopted by the Scheme. The assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

AASB 9 *Financial Instruments (2009 or 2010 version)* , AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* , AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* , AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures* and AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments* (effective from 1 January 2017)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting. The standard is available for early adoption.

Management does not expect this to have a significant impact on the recognition and measurement of the Scheme’s financial instruments as they are carried at fair value through profit or loss.

The derecognition rules have not been changed from the previous requirements, and the Scheme does not apply hedge accounting.

The Scheme has not yet decided when to adopt AASB 9.

(d) Financial instruments

(i) Classification

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

- Financial instruments held for trading

Derivative financial instruments such as futures, foreign exchange forward contracts, options and interest rate swaps are included under this classification. The Scheme does not designate any derivatives as hedges in a hedging relationship.

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

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold. These are investments in unlisted unit trusts and structured notes.

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

2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Recognition/derecognition

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

Investments are derecognised when the right to receive cash flows from the investments has expired or the Scheme has transferred substantially all risks and rewards of ownership.

(iii) Measurement

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

At initial recognition, the Scheme measures a financial instrument at its fair value. Transaction costs of financial assets and liabilities held at fair value through profit or loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets and financial liabilities held at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the ‘financial assets or financial liabilities at fair value through profit or loss’ category are presented in the statement of comprehensive income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets and financial liabilities is the last traded price.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Scheme uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

Loans and receivables

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

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

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

Other financial assets and liabilities

Management considers that the carrying amount of cash and cash equivalents, other receivables and amounts due from brokers approximate fair value.

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

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2 Summary of significant accounting policies (continued)

(e) Net assets attributable to investors

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

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

(f) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown as a liability on the balance sheet.

(g) Investment income

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

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Scheme estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Trust distributions (including distributions from cash management trusts) are recognised on a present entitlement basis.

Other income is brought to account on an accruals basis.

(h) Expenses

All expenses, including Responsible Entity's fees and Dynamic Management fees are recognised in the statement of comprehensive income on an accruals basis.

(i) Income tax

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

(j) Change in net assets attributable to investors

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

(k) Goods and Services Tax (GST)

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

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

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

Net (losses)/gains recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	30 June 2014 $'000	30 June 2013 $'000
Net unrealised (losses)/gains on financial instruments designated at fair value through profit or loss	(1,286)	1,384
Net realised gains on financial instruments designated at fair value through profit or loss	677	2,454
Net (losses)/gains on financial instruments held at fair value through profit or loss	**(609)**	3,838

4 Net assets attributable to investors

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

	30 June 2014 $'000	30 June 2013 $'000
Net assets attributable to investors		
Opening balance	19,717	20,510
Redemptions	(1,556)	(4,419)
Change in net assets attributable to investors	(695)	3,626
Closing balance	**17,466**	19,717

5 Financial assets held at fair value through profit or loss

	Fair Value 30 June 2014 $'000	Fair Value 30 June 2013 $'000
Designated as fair value through profit or loss		
Unlisted unit trusts	6,892	4,668
Structured notes	10,469	14,948
Total financial assets held at fair value through profit and loss	**17,361**	19,616

6 Related party transactions

Responsible Entity

The Responsible Entity of the Perpetual Protected Investments - Series 2 is Perpetual Investment Management Limited (ABN 18 000 866 535), a wholly owned subsidiary of Perpetual Limited (ACN 000 431 827).

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

6 Related party transactions (continued)

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Perpetual Investment Management Limited during the year or since the end of the year and up to the date of this report:

G Foster (appointed 25 January 2013, Alternate for G Larkins)
M Gordon (appointed 28 March 2013)
J Hawkins (appointed 6 July 2012)
G Larkins (appointed 7 January 2013)
P Lynch (appointed 6 July 2012, Alternate for J Hawkins)
P Statham (appointed 9 September 2013, Alternate for M Gordon)

(b) Other key management personnel

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

Key management personnel Scheme investments

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

At 30 June 2014 no key management personnel held investments in the Scheme (2013: nil).

Key management personnel loan disclosures

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

Other transactions within the Scheme

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

Responsible Entity's fees and other transactions

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

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

	30 June 2014 $	30 June 2013 $
Responsible Entity's fees paid and payable directly by the Scheme	133,980	155,595
Fees payable to the Responsible Entity as at reporting date	32,601	37,013

6 Related party transactions (continued)

Investments

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

30 June 2014

Managed Investment Scheme	**Number of units held '000**	**Fair value of investments $'000**	**Interest held (%)**	**Number of units acquired '000**	**Number of units disposed '000**	**Distributions received/ receivable by the Scheme $'000**
Perpetual Wholesale Australian Fund	378	655	0.05	363	238	179

30 June 2013

Managed Investment Scheme	Number of units held '000	Fair value of investments $'000	Interest held (%)	Number of units acquired '000	Number of units disposed '000	Distributions received/ receivable by the Scheme $'000
Perpetual Wholesale Australian Fund	253	473	0.02	258	141	52

7 Involvement with unconsolidated structured entities

The following structured entities are recorded at fair value within financial assets held at fair value through profit and loss.

	Fair value as at 30 June 2014 $'000	**Exposure 30 June 2014 %**	**Maximum exposure to loss 30 June 2014 $'000**
Managed Investment Schemes			
Unlisted unit trusts	6,892	39.70	6,892
Total	**6,892**	**39.70**	**6,892**

The fair value of the exposure will change on a daily basis throughout the period and in subsequent periods and will cease once the investments are disposed of.

The unconsolidated structured entities are managed in accordance with the investment strategy with the respective investment managers. The investment decisions are based on the analysis conducted by the investment managers. The return of the unconsolidated structured entities is exposed to the variability of the performance of the investment strategies. The investment managers receive a management fee for undertaking the management of these investments.

8 Auditor's remuneration

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

	30 June 2014 $	30 June 2013 $
Audit and audit related services		
KPMG		
Total remuneration for audit and audit related services	**30,651**	29,376

9 Reconciliation of operating (loss)/profit to net cash outflow from operating activities

	30 June 2014 $'000	30 June 2013 $'000
(a) Reconciliation of operating (loss)/profit to net cash outflow from operating activities		
Operating (loss)/profit	(695)	3,626
(Increase)/decrease in distributions receivable	(107)	327
Decrease in payables	(9)	(21)
Net losses/(gains) on financial instruments held at fair value through profit or loss	609	(3,838)
Net cash (outflow)/inflow from operating activities	**(202)**	94

(b) Components of cash and cash equivalents

Cash at the end of the financial year as shown in the cash flow statement is reconciled to the balance sheet as follows:

Cash on hand	3	1
Total cash and cash equivalents	**3**	1

10 Financial risk management

The Scheme's investing activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

A risk management framework has been established by the Responsible Entity of the Scheme to define the obligations and regulatory requirements for the Scheme and minimise the risks in investment activities. This framework incorporates a regular assessment process to ensure procedures and controls adequately manage investment activities.

The investment activities of the Scheme are managed in accordance with the investment strategy specifically tailored for the Scheme's objectives. The strategy is approved by the Board of Directors of the Responsible Entity, and must comply with any authorised investments and management restrictions specified in the Scheme's Constitution. The Scheme is permitted to use structured notes. The use of structured notes is considered to be part of the Dynamic Management process to safeguard the capital protected amount at the protection end date and is not managed in isolation.

This note presents information about the Scheme's exposure to each of the above risks. The Scheme uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk, currency risk and price risk and ratings analysis for credit risk.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The potential market risks are currency risk, interest rate risk and price risk.

The Scheme is exposed to market risk influencing investment valuations. At 30 June 2014 the Scheme held structured notes to manage this risk (30 June 2013: the Scheme held structured notes).

(i) Currency risk

A Scheme that invests in financial instruments denominated in currencies other than the Australian dollar is exposed to currency risk. Currency risk arises as the income and value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates.

The Scheme may enter into derivative contracts to protect the valuation of financial assets and liabilities against variations in the exchange rates. However, for accounting purposes, the Scheme does not designate any derivatives as hedges, and hence these derivative financial instruments are classified as at fair value through profit or loss.

As of the balance sheet date, the Scheme does not have significant exposure to currency risk.

10 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

The Scheme is exposed to interest rate risk on its structured notes investments. The valuation is determined by reference to the relevant market interest rate that is applicable for the remaining term to maturity of the structured notes investments (i.e. the time from the valuation date to the protection end date). The relevant market interest rate is the Bank Bill Swap Rate (BBSW) that is applicable for the remaining term to maturity of the structured notes investments. This rate fluctuates on a daily basis. Accordingly, the value of the structured notes fluctuates on a daily basis throughout the term to finally be equal to $1 at the protection end date being 30 April 2015.

Sensitivity analysis

The sensitivity analysis estimates the sensitivity of the Scheme’s operating profit and net assets attributable to investors to interest rate risk. The sensitivity rate is based on management’s best estimate of a reasonably possible movement in the interest rates, having regard to historical levels of changes in interest rates.

An increase of 1% in interest rates applicable at reporting date would have increased the Scheme's operating profit/(loss) and net assets attributable to investors by $86,402 (2013: $240,890). A decrease in 1% in interest rates applicable at reporting date would have decreased profit/(loss) from operating activities by $88,000 (2013: $303,986).

(iii) Price risk

The Scheme is exposed to market price risk. The risk arises from investments held by the Scheme for which prices in the future are uncertain (other than arising from currency risk or interest rate risk).

The Scheme's asset managers aim to manage the impact of market price risk by employing a capital management technique referred to as Dynamic Management during the capital protection period. The Scheme increased its holding in structured notes when the investment value declined and decreased its holdings in structured notes when investment value increased. At the end of the protection period, the Scheme's investment value should equal the capital protected amount.

Sensitivity analysis

The sensitivity analysis estimates the sensitivity of the Scheme’s operating profit and net assets attributable to investors to market price risk. The sensitivity rate is based on management’s best estimate of a reasonably possible movement in the market price, having regard to historical correlation of the Scheme’s investments with the relevant benchmark and market volatility.

An increase of 15% at the reporting date of the underlying investments' prices would have increased the Scheme's operating profit/(loss) and net assets attributable to investors by $1,033,739 (2013: $700,187). This analysis assumes that all other variables remain constant.

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

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts when they fall due. The Scheme is exposed to credit risk on structured notes, cash and cash equivalents, amounts due to broker and other receivables.

(i) Structured notes

The Scheme is exposed to credit risk from holding structured notes issued by its counterparty.

The structured notes are linked to the Dynamic Management Arrangement ("DMA") with the capital provider. Under the DMA, it is the capital protection provider (who is also the counterparty to the option) who is responsible for instructing when to buy or sell the structured notes.

10 Financial risk management (continued)

(b) Credit risk (continued)

(ii) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of AA or higher (as determined by the Standard & Poor's or equivalent rating agency).

(iii) Amounts due from brokers

All transactions in unlisted unit trusts are settled/unitised when unit prices are issued. The risk of default is considered low except when the unlisted unit trusts are suspended.

(c) Liquidity risk

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

The Scheme's governing documents provide for quarterly redemption of investments and therefore the Scheme is exposed to liquidity risk of meeting investors' redemption at these times.

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

In order to manage the Scheme’s overall liquidity, asset managers will only purchase securities (including derivatives) which meet the Scheme’s investment criteria and this includes the assessment of saleability in different market conditions. The Scheme’s investment strategies generally define a minimum liquidity level for the Scheme which is monitored regularly.

The following table represents the contractual maturities of financial liabilities:

30 June 2014	**Carrying amount $'000**	**Contractual cash flow $'000**	**At call $'000**	**6 months or less $'000**
Redemption payable	205	205	-	205
Responsible Entity's fees payable	33	33	-	33
Put option premium payable	32	32	-	32
Net assets attributable to investors	17,466	17,466	-	17,466
Total	**17,736**	**17,736**	**-**	**17,736**

30 June 2013	Carrying amount $'000	Contractual cash flow $'000	At call $'000	6 months or less $'000
Redemption payable	1,655	1,655	-	1,655
Responsible Entity's fees payable	37	37	-	37
Put option premium payable	37	37	-	37
Net assets attributable to investors	19,717	19,717	-	19,717
Total	21,446	21,446	-	21,446

10 Financial risk management (continued)

(d) Fair value measurement

The Scheme discloses fair value measurements by level of the following fair value hierarchy:

- Quoted Prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

(i) Fair value in an active market

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and equity securities) is based on last traded prices at the end of the reporting period without any deduction for estimated future selling costs. For the majority of financial assets and liabilities, information provided by the quoted market independent pricing services is relied upon for valuation. Prior to 1 July 2013, the price used for financial assets was the current bid price and the quoted market price for financial liabilities was the current asking price. The Scheme adopted AASB 13 from 1 July 2013 and changed its fair value inputs to utilise last traded prices for both financial assets and financial liabilities.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. An active market is a market in which transactions for the financial asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

(ii) Fair value in an inactive market or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The Scheme uses a variety of valuation methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Valuation techniques used for non-standardised financial instruments, such as options, swaps and other over-the-counter derivatives, include the use of comparable arm's length transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that is commonly used by market participants which maximises the use of market inputs and relies as little as possible on entity-specific inputs.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated by the asset managers, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that would be received or paid to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparty and the Scheme. The fair value of a forward contract is determined using quoted exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts as at the valuation date. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on applicable yield curves derived from quoted interest rates. The fair value of an option contract is determined by applying the Black-Scholes option valuation model.

Investments in unlisted unit trusts and structured notes are recorded at the redemption value per unit as reported by the investment managers of such trusts.

10 Financial risk management (continued)

(d) Fair value measurement (continued)

(ii) Fair value in an inactive market or unquoted market

The table below sets out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2014 and 30 June 2013:

As at 30 June 2014	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial Assets				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	655	6,237	-	6,892
Structured notes	-	-	10,469	10,469
Total	**655**	**6,237**	**10,469**	**17,361**

As at 30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	473	4,195	-	4,668
Structured notes	-	-	14,948	14,948
Total	473	4,195	14,948	19,616

Valuation techniques used to derive level 2 and level 3 fair values

Financial instruments classified within level 2 are traded in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs including certain market indices, interest rate, credit spreads and market yield. These investments include; investment-grade corporate bonds and certain non-US sovereign obligations, certain listed equities, certain unlisted unit trusts and over-the-counter derivatives. As level 2 investments include asset positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 include structured notes. The valuation technique may use significant unobservable inputs at the underlying asset level. However, the Scheme obtains fair value prices from the relevant issuer of structured notes without significant adjustments and does not calculate any unobservable inputs itself.

Transfers between levels

For the years ended 30 June 2014 and 30 June 2013, there have been no transfers between levels.

10 Financial risk management (continued)

(d) Fair value measurement (continued)

Fair value measurements using significant unobservable inputs (level 3)

The following tables present the movement in level 3 instruments for the years ended 30 June 2014 and 30 June 2013 by class of financial instrument:

As at 30 June 2014	**Structured notes $'000**	**Total $'000**
Opening balance	14,948	14,948
Purchases	1,532	1,532
Sales	(4,533)	(4,533)
Transfers into level 3	-	-
Losses recognised in profit and loss	(1,478)	(1,478)
Closing balance	**10,469**	**10,469**
Total losses for the year included in the statement of comprehensive income for financial assets and liabilities held at the end of the year.	(1,478)	(1,478)

As at 30 June 2013	Structured notes $'000	Total $'000
Opening balance	18,309	18,309
Purchases	1,142	1,142
Sales	(7,500)	(7,500)
Transfers into level 3	-	-
Gains recognised in profit and loss	2,997	2,997
Closing balance	14,948	14,948
Total gains for the year included in the statement of comprehensive income for financial assets and liabilities held at the end of the year.	2,997	2,997

11 Structured notes

In the normal course of business the Scheme enters into structured notes issued by Deutsche Bank AG London Branch, which have certain risks similar to derivative financial instruments. Structured notes are financial instruments or contracts which are settled at the capital protection end date on 30 April 2015 and whose value changes in response to the change in the specified interest rate.

Structured notes are considered to be part of the investment strategy referred to as Dynamic Management and the use of structured notes is an essential part of the Scheme's portfolio management.

Structured notes are not managed in isolation. Consequently, the use of structured notes is multifaceted and includes hedging to protect an asset or liability of the Scheme against a fluctuation in market values or to reduce volatility.

Structured notes are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the market exceeds the underlying value of the Scheme.

12 Events occurring after the reporting period

No significant events have occurred since the balance sheet date which would impact on the financial position of the Scheme disclosed in the balance sheet as at 30 June 2014 or on the results and cash flows of the Scheme for the year ended on that date.

13 Contingent assets, liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2014 or 30 June 2013.

Directors' declaration

In the opinion of the directors of Perpetual Investment Management Limited, the Responsible Entity of Perpetual Protected Investments - Series 2:

(a) the annual financial statements and notes, set out on pages 5 to 22, are in accordance with the *Corporations Act 2001,* including:

  (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), and the *Corporations Regulations 2001;* and

  (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2014 and of its performance for the financial year ended on that date;

(b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable; and

(c) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

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

Director

Sydney
18 September 2014

Independent auditor's report to the unitholders of Perpetual Protected Investments – Series 2

Report on the financial report

We have audited the accompanying financial report of Perpetual Protected Investments – Series 2 (the Scheme), which comprises the balance sheet as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, notes 1 to 13 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of Perpetual investment Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Perpetual Protected Investments – Series 2 is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Scheme's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

KPMG

KPMG

Michael O Connell
Partner

Sydney

18 September 2014

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