

PERPETUAL PURE VALUE SHARE FUND

ANNUAL FINANCIAL REPORT
30 JUNE 2017

ARSN 130 756 099

Perpetual Investment Management Limited
ABN 18 000 866 535 AFSL 234426

Perpetual 

Perpetual Pure Value Share Fund

ARSN 130 756 099

Annual Financial Report - 30 June 2017

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Directors' report

The directors of Perpetual Investment Management Limited (a wholly owned subsidiary of Perpetual Limited), the Responsible Entity of Perpetual Pure Value Share Fund, present their report together with the annual financial report of Perpetual Pure Value Share Fund ("the Scheme") for the year ended 30 June 2017 and the auditor's report thereon.

Responsible Entity

The Responsible Entity of Perpetual Pure Value Share Fund is Perpetual Investment Management Limited (ABN 18 000 866 535). The Responsible Entity's registered office and principal place of business is Level 18, 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)
 J Hawkins (appointed 6 July 2012, resigned 24 February 2017)
 D Kiddie (appointed 24 February 2016, resigned 3 November 2016)
 D Lane (appointed 20 April 2017)
 G Larkins (appointed 7 January 2013)
 P Lynch (appointed 6 July 2012, resigned 24 February 2017, Alternate for J Hawkins)
 A Shelley (appointed 24 February 2017, resigned 20 April 2017)
 M Smith (appointed 3 November 2016)
 P Statham (appointed 24 February 2016, resigned 3 November 2016, Alternate for D Kiddie)
 D Winterton (appointed 24 February 2016, resigned 14 October 2016, Alternate for D Kiddie)

Principal activities

The principal activity of the Scheme is to provide investors with long-term capital growth and income through investment in quality industrial and resource shares.

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

During the year, the Scheme continued to invest in accordance with target asset allocations as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

The performance of the Scheme, as represented by the results of its operations, was as follows:

| | 2017 | 2016 |
|---|---------------|---------------|
| Operating profit/(loss) before finance costs attributable to unitholders (\$'000) | <u>49,981</u> | <u>25,396</u> |
| Distributions paid and payable (\$'000) | <u>58,625</u> | <u>12,652</u> |
| Distributions (cents per unit) | <u>25.94</u> | <u>5.87</u> |

Directors' report (continued)

Interests in the Scheme

The movement in units on issue in the Scheme during the year is disclosed in note 6 to the financial statements.

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 to the financial statements.

Significant changes in state of affairs

On 21 June 2017 the Responsible Entity approved changes to the Scheme's Constitution to allow it to operate as an Attribution Managed Investment Trust ("AMIT"). These changes will be applicable from the time an election is made by the Responsible Entity to adopt the AMIT regime for the Scheme. This election has not yet been made at the date of this report.

In the opinion of the directors, there were no other 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 the financial year

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

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

Environmental regulation

The operations of the 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 12 to the financial statements.

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

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 12 to the financial statements.

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.

Directors' report (continued)

Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with the legislative instrument, unless otherwise indicated.

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 5.

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



Director

Sydney
14 September 2017



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 of Perpetual Pure Value Share Fund for the financial year ended 30 June 2017 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

Jessica Davis

Partner

Sydney

14 September 2017

Perpetual Pure Value Share Fund
Statement of comprehensive income
For the year ended 30 June 2017

Statement of comprehensive income

| | Notes | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
|---|-------|---------------------------|---------------------------|
| Investment income | | | |
| Dividend/distribution income | | 10,516 | 10,054 |
| Interest income | | 36 | 42 |
| Net gains/(losses) on financial instruments held at fair value through profit or loss | 3 | 46,440 | 21,037 |
| Net foreign exchange gains/(losses) | | (65) | (34) |
| Other income | | 27 | 116 |
| Total net investment income/(loss) | | <u>56,954</u> | <u>31,215</u> |
| Expenses | | | |
| Responsible Entity's fees | 12 | 5,309 | 4,560 |
| Other operating expenses | 4 | 1,664 | 1,259 |
| Total expenses | | <u>6,973</u> | <u>5,819</u> |
| Operating profit/(loss) | | <u>49,981</u> | <u>25,396</u> |
| Finance costs attributable to unitholders | | | |
| Distributions to unitholders | 5 | 58,625 | 12,652 |
| Interest expense | | 3 | - |
| Changes in net assets attributable to unitholders | 6 | (8,647) | 12,744 |
| Profit/(loss) | | <u>-</u> | <u>-</u> |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income | | <u>-</u> | <u>-</u> |

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

Perpetual Pure Value Share Fund
Balance sheet
As at 30 June 2017

Balance sheet

| | Notes | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
|---|-------|---------------------------|---------------------------|
| Assets | | | |
| Cash and cash equivalents | 10(b) | 974 | 1,958 |
| Financial assets held at fair value through profit or loss | 7 | 367,151 | 310,336 |
| Receivables for securities sold | | 6,153 | 15,417 |
| Receivables | 8 | <u>974</u> | <u>1,473</u> |
| Total assets | | <u>375,252</u> | <u>329,184</u> |
| Liabilities | | | |
| Distributions payable to unitholders of the Scheme | 5 | 54,885 | 9,073 |
| Payables for securities purchased | | 3,663 | 6,042 |
| Payables | 9 | <u>594</u> | <u>967</u> |
| Total liabilities (excluding net assets attributable to unitholders) | | <u>59,142</u> | <u>16,082</u> |
| Net assets attributable to unitholders - liability | 6 | <u>316,110</u> | <u>313,102</u> |

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 unitholders 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.

Perpetual Pure Value Share Fund
Statement of cash flows
For the year ended 30 June 2017

Statement of cash flows

| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
|---|------------------------------------|------------------------------------|
| Cash flows from operating activities | | |
| Dividends/distributions received | 10,319 | 11,222 |
| Interest received | 39 | 42 |
| Other income received | 470 | 571 |
| Responsible Entity's fees paid | (5,640) | (4,895) |
| Other operating expenses paid | (1,778) | (1,348) |
| Net cash inflow/(outflow) from operating activities | 3,410 | 5,592 |
| | 10(a) | |
| Cash flows from investing activities | | |
| Proceeds from sale of investments | 881,692 | 690,868 |
| Payments for purchase of investments | (885,247) | (691,624) |
| Net cash inflow/(outflow) from investing activities | (3,555) | (756) |
| Cash flows from financing activities | | |
| Proceeds from applications by unitholders | 70,539 | 75,793 |
| Payments for redemptions by unitholders | (60,799) | (64,666) |
| Distributions paid | (10,576) | (16,483) |
| Interest expense paid | (3) | - |
| Net cash inflow/(outflow) from financing activities | (839) | (5,356) |
| Net increase/(decrease) in cash and cash equivalents | (984) | (520) |
| Cash and cash equivalents at the beginning of the year | 1,958 | 2,478 |
| Cash and cash equivalents at the end of the year | 974 | 1,958 |
| | 10(b) | |

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

1 General Information

This annual financial report covers Perpetual Pure Value Share Fund ("the Scheme") as an individual entity. The Scheme is a registered managed investment scheme under the *Corporations Act 2001*. The Scheme was constituted on 27 February 2006. The Scheme will terminate on 26 February 2086 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's registered office is Level 18, 123 Pitt Street, Sydney, NSW 2000.

The annual financial report was authorised for issue by the directors of the Responsible Entity on 14 September 2017. 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.

(a) Basis of preparation

The annual financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and Interpretations issued by 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.

Compliance with International Financial Reporting Standards

The annual financial report of the Scheme also complies with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

Functional and presentation currency

The annual financial report is presented in Australian dollars, which is the Scheme's functional currency.

Use of estimates

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are continuously evaluated and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

2 Summary of significant accounting policies (continued)

(b) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published, but are not yet mandatory and have not been early adopted by the Scheme for the reporting period ended 30 June 2017. The assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

(i) AASB 9 *Financial Instruments* (and applicable amendments) (effective from 1 January 2018)

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

Management does not expect this standard 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.

(ii) AASB 15 *Revenue from Contracts with Customers* (effective from 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 *Revenue* and AASB 111 *Construction Contracts*.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

The Scheme's main sources of income are interest, dividends/distributions and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, management does not expect the adoption of the new revenue recognition rules to have a significant impact on the Scheme's accounting policies or the amounts recognised in the financial statements.

(c) Financial instruments

(i) *Classification*

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

- Financial instruments held for trading

All derivatives are classified as held for trading. 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 that are not held for trading purposes and which may be sold. These are investments in exchange traded debt, equity instruments, unlisted unit trusts and commercial papers.

These investments are managed and their performance is evaluated on a fair value basis in accordance with the investment strategy of the Scheme.

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Recognition/derecognition

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

Investments are derecognised on the date the Scheme becomes party to the sale contractual agreement (trade date).

(iii) Measurement

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

At initial recognition, a financial asset or liability is measured at fair value. Transaction costs are expensed in profit or loss as incurred. Subsequently all financial assets and liabilities are measured at fair value without any deduction for estimated future selling cost. Gains and losses arising from changes in the fair value measurement are included in profit or loss.

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. Further details of fair value measurement are disclosed in note 14(d).

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is 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.

(d) Net assets attributable to unitholders

Units are redeemable at unitholders' option, however applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities as the Scheme is required to distribute its distributable income, in accordance with the Scheme's Constitution.

The units can be put back to the Scheme at any time for cash based on the redemption price. The units are carried at the redemption amount that is payable at the balance sheet date if the unitholders exercise their right to put the units back to the Scheme.

(e) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, margin accounts, other short term and highly liquid financial assets with a maturity period of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(f) Receivables

Receivables include accrued income and application monies receivables. Receivables are measured at their nominal amounts. Amounts are generally received within 30 days of being accrued for. Given the short term nature of most receivables, the nominal amount approximates fair value.

2 Summary of significant accounting policies (continued)

(g) Payables

Payables include accrued expenses and redemption monies owing by the Scheme which are unpaid at the end of the reporting date. Amounts are generally paid within 30 days of being accrued for. Given the short term nature of most payables, the nominal amount approximates fair value.

(h) Investment income

Interest income on cash balances is recognised in profit or loss as it accrues using the nominated interest rates available on the bank accounts held.

Dividend income is recognised on the ex-dividend date.

Trust distributions (including distributions from cash management trusts) are recognised on an entitlements basis.

Other income is brought to account on an accruals basis.

(i) Expenses

All expenses, including Responsible Entity's fees, are recognised in profit or loss on an accruals basis.

(j) Income tax

The Scheme is not subject to income tax as unitholders are presently entitled to the income of the Scheme, provided the taxable income of the Scheme is fully distributed either by way of cash or reinvestment.

The benefits of franking credits and foreign tax paid are passed on to unitholders, providing certain conditions are met.

(k) Distributions

The Scheme distributes its distributable income, in accordance with the Scheme's Constitution, to unitholders by cash or reinvestment. The distributions are recognised in profit or loss as finance costs attributable to unitholders.

(l) Changes in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Changes in net assets attributable to unitholders are recognised in profit or loss as finance costs attributable to unitholders.

(m) Goods and Services Tax

The Goods and Services Tax ("GST") is incurred on the cost of various services provided to the Scheme by third parties. The Scheme qualifies for Reduced Input Tax Credit; hence expenses such as Responsible Entity's fees have been recognised in profit or loss net of the amount of GST recoverable from the Australian Taxation Office. Payables are stated with the amount of GST included. The net amount of GST recoverable is included in receivables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis.

2 Summary of significant accounting policies (continued)

(n) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in profit or loss on a net basis within net gains/(losses) on financial instruments held at fair value through profit or loss.

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

Net gains/(losses) arising from changes in the fair value measurement comprise:

| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
|--|---------------------------|---------------------------|
| Net unrealised gains/(losses) on financial instruments held for trading | - | 1 |
| Net unrealised gains/(losses) on financial instruments designated at fair value through profit or loss | (8,931) | 13,586 |
| Net realised gains/(losses) on financial instruments held for trading | (24) | 3 |
| Net realised gains/(losses) on financial instruments designated at fair value through profit or loss | <u>55,395</u> | <u>7,447</u> |
| Net gains/(losses) on financial instruments held at fair value through profit or loss | <u>46,440</u> | <u>21,037</u> |

4 Other operating expenses

| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
|-------------------|---------------------------|---------------------------|
| Transaction costs | 1,558 | 1,187 |
| Sundry expenses | <u>106</u> | <u>72</u> |
| Total | <u>1,664</u> | <u>1,259</u> |

5 Distributions to unitholders

The distributions for the year were as follows:

| | 30 June 2017 \$'000 | 30 June 2017 CPU | 30 June 2016 \$'000 | 30 June 2016 CPU |
|-------------------------------|---------------------------|------------------------|---------------------------|------------------------|
| Distributions | | | | |
| Distributions paid - December | 3,740 | 1.61 | 3,579 | 1.70 |
| Distributions payable - June | <u>54,885</u> | <u>24.33</u> | <u>9,073</u> | <u>4.17</u> |
| Total distributions | <u>58,625</u> | | <u>12,652</u> | |

6 Net assets attributable to unitholders

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

| | 30 June 2017 Units '000 | 30 June 2016 Units '000 | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
|---|-------------------------------|-------------------------------|---------------------------|---------------------------|
| Net assets attributable to unitholders | | | | |
| Opening balance | 217,659 | 206,695 | 313,102 | 284,161 |
| Applications | 44,832 | 52,416 | 69,787 | 76,439 |
| Redemptions | (38,419) | (44,804) | (60,369) | (64,920) |
| Units issued upon reinvestment of distributions | 1,522 | 3,352 | 2,237 | 4,678 |
| Changes in net assets attributable to unitholders | - | - | (8,647) | 12,744 |
| Closing balance | <u>225,594</u> | <u>217,659</u> | <u>316,110</u> | <u>313,102</u> |

As stipulated within the Scheme's Constitution, each unit represents a right to an individual unit in the Scheme and does not extend to a right to the underlying assets of the Scheme. There are no separate classes of units and each unit has the same right attaching to it as all other units of the Scheme.

Capital risk management

The Scheme considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications and daily redemptions at the discretion of unitholders.

Applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Scheme's Constitution, the Responsible Entity has the discretion to reject an application and to defer or adjust a redemption if the exercise of such discretion is in the best interests of unitholders.

7 Financial assets held at fair value through profit or loss

| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
|---|------------------------------------|------------------------------------|
| Designated at fair value through profit or loss | | |
| Equities | 304,829 | 246,819 |
| Unlisted unit trusts | <u>62,322</u> | <u>63,517</u> |
| Total financial assets held at fair value through profit or loss | <u>367,151</u> | <u>310,336</u> |

8 Receivables

| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
|------------------------------------|------------------------------------|------------------------------------|
| Dividends/distributions receivable | 608 | 411 |
| Interest receivable | - | 3 |
| Applications receivable | 234 | 986 |
| Other receivables | <u>132</u> | <u>73</u> |
| Total receivables | <u>974</u> | <u>1,473</u> |

9 Payables

| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
|-----------------------------------|------------------------------------|------------------------------------|
| Responsible Entity's fees payable | 486 | 429 |
| Redemptions payable | <u>108</u> | <u>538</u> |
| Total payables | <u>594</u> | <u>967</u> |

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

| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
|---|---------------------------|---------------------------|
| (a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities | | |
| Operating profit/(loss) | 49,981 | 25,396 |
| (Increase)/decrease in dividends/distributions receivable | (197) | 1,168 |
| (Increase)/decrease in interest receivable | 3 | - |
| (Increase)/decrease in other receivables | (59) | 32 |
| Increase/(decrease) in payables | 57 | (1) |
| Net (gains)/losses on financial instruments held at fair value through profit or loss | (46,440) | (21,037) |
| Net foreign exchange (gains)/losses | 65 | 34 |
| Net cash inflow/(outflow) from operating activities | <u>3,410</u> | <u>5,592</u> |

(b) Components of cash and cash equivalents

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

| | | |
|--|-------------------|---------------------|
| Cash on hand | <u>974</u> | 1,958 |
| Total cash and cash equivalents | <u>974</u> | <u>1,958</u> |

(c) Non-cash financing activities

During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan

| | | |
|--|--------------|--------------|
| | <u>2,237</u> | <u>4,678</u> |
|--|--------------|--------------|

11 Remuneration of auditors

| | 30 June 2017 \$ | 30 June 2016 \$ |
|--|-----------------------|-----------------------|
| Amount received or due and receivable by KPMG: | | |
| Audit and review of financial report and compliance plan | <u>24,359</u> | <u>23,248</u> |

Audit fees were paid or payable by the Responsible Entity.

12 Related party transactions

Responsible Entity

The Responsible Entity of Perpetual Pure Value Share Fund 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.

Key management personnel

(a) Directors

The directors of Perpetual Investment Management Limited during the financial year or since the end of the year and up to the date of this report were as follows:

G Foster (appointed 25 January 2013, Alternate for G Larkins)
J Hawkins (appointed 6 July 2012, resigned 24 February 2017)
D Kiddie (appointed 24 February 2016, resigned 3 November 2016)
D Lane (appointed 20 April 2017)
G Larkins (appointed 7 January 2013)
P Lynch (appointed 6 July 2012, resigned 24 February 2017, Alternate for J Hawkins)
A Shelley (appointed 24 February 2017, resigned 20 April 2017)
M Smith (appointed 3 November 2016)
P Statham (appointed 24 February 2016, resigned 3 November 2016, Alternate for D Kiddie)
D Winterton (appointed 24 February 2016, resigned 14 October 2016, Alternate for D Kiddie)

(b) Other key management personnel

There were no other persons with 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 unitholdings

From time to time 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 unitholders of the Scheme.

No key management personnel of the Responsible Entity held material interests in the Scheme at the reporting date.

Transactions with key management personnel

Key management personnel services are provided by Perpetual Investment Management Limited and included in the Responsible Entity's fees. There is no separate charge for these services. There was no compensation paid directly by the Scheme to any of the key management personnel during the year.

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

12 Related party transactions (continued)

Responsible Entity's fees and other transactions

The Responsible Entity's fees are calculated in accordance with the Scheme's Constitution (as amended). The Responsible Entity's fee is 1.500% p.a. of the net asset value of the Scheme.

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 2017 | 30 June 2016 |
|---|-------------------------|-----------------|
| | \$ | \$ |
| Responsible Entity's fees paid and payable directly by the Scheme | 5,309,397 | 4,560,120 |
| Fees payable to the Responsible Entity at the reporting date | 485,889 | 429,073 |

Related party unitholdings

Parties related to the Scheme (including the Responsible Entity, its related parties and other schemes managed by the Responsible Entity) held units in the Scheme as follows:

30 June 2017

| Unitholder | Number of units held '000 | Interest held % | Number of units acquired '000 | Number of units disposed '000 | Distributions paid/payable \$'000 |
|----------------------|---------------------------------|-----------------------|--|--|---|
| Perpetual Super Wrap | 17,438 | 7.7 | 3,975 | 1,731 | 4,492 |

30 June 2016

| Unitholder | Number of units held '000 | Interest held % | Number of units acquired '000 | Number of units disposed '000 | Distributions paid/payable \$'000 |
|----------------------|---------------------------------|-----------------------|--|--|---|
| Perpetual Super Wrap | 15,194 | 7.0 | 5,385 | 644 | 858 |

12 Related party transactions (continued)

Investments

The Scheme held investments in the following scheme which is also managed by the Responsible Entity or its related parties:

30 June 2017

| Investment | 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 \$'000 |
|--|---------------------------------|---|-----------------------|--|--|--|
| Perpetual Institutional Cash Management Trust | 62,322 | 62,322 | 4.7 | 340,005 | 341,200 | 1,314 |

30 June 2016

| Investment | 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 \$'000 |
|--|---------------------------------|---|-----------------------|--|--|--|
| Perpetual Institutional Cash Management Trust | 63,517 | 63,517 | 4.9 | 264,599 | 266,600 | 1,061 |

13 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding control and the relevant activities are directed by means of contractual arrangements.

The Scheme considers all investments in unlisted unit trusts to be structured entities. The Scheme invests in unlisted unit trusts for the purpose of capital appreciation and earning investment income.

The unlisted unit trusts are managed in accordance with the investment strategy by their respective investment managers. The investment decisions are based on the analysis conducted by the managers. The return of the unlisted unit trusts is exposed to the variability of the performance of the investment strategy. The unlisted unit trusts finance their operations by issuing redeemable units which are puttable at the holder's option and entitle the holder to a proportional stake in the respective trusts' net assets and distributions.

The Scheme's interest to unconsolidated structured entities at 30 June 2017 was \$62,322,156 (2016: \$63,516,897). The fair value of these entities is included in financial assets held at fair value through profit or loss in the balance sheet.

The Scheme's maximum exposure to loss from its interests in the unconsolidated structured entities is equal to the total fair value of its investments in these entities as there are no off balance sheet exposures relating to them. The Scheme's exposure to any risk from the structured entities will cease when these investments are disposed of.

13 Structured entities (continued)

The Scheme does not have current commitments or intentions and contractual obligations to provide financial or other support to the unconsolidated structured entities. There are no loans or advances currently made to these entities.

There are no significant restrictions on the ability of the unconsolidated structured entities to transfer funds to the Scheme in the form of cash distributions.

14 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 monitor the Scheme's compliance with its governing documents and to minimise risks in its investment activities. This framework incorporates a regular assessment process to ensure procedures and controls adequately manage investment activities. The Scheme is permitted to use derivative products. However, the use of derivatives must be consistent with the investment strategy and restrictions specified in the Scheme's governing documents.

All securities investments present a risk of loss of capital. The maximum loss of capital on equities and unlisted unit trusts is limited to the fair values of those positions.

The Scheme's asset managers aim to manage these risks through the use of consistent and carefully considered investment guidelines. Risk management techniques are used in the selection of investments. Asset managers will only purchase securities (including derivatives) which meet the prescribed investment criteria. Risk may also be reduced by diversifying investments across several asset managers, markets, regions or different asset classes and counterparties.

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 currency risk, interest rate risk and price risk; and credit ratings analysis for credit risk.

(a) Market risk

(i) Currency risk

Currency risk arises as the fair value or future cash flows of monetary securities denominated in foreign currency will fluctuate due to changes in exchange rates. The currency risk relating to non-monetary assets and liabilities is a component of price risk not currency risk. However, management monitors the exposures on all foreign currency denominated assets and liabilities.

The following table summarises the Scheme's exposure to currency risk (net of currency exposure arising from derivatives where applicable):

| | 30 June 2017 \$'000 |
|--|---------------------------|
| Euro | 38,312 |
| Total foreign currency exposure | <u>38,312</u> |

The table presented in note 14(a)(iv) summarises sensitivity analysis to currency risk. This analysis is based on the assumption that the Australian dollar weakened and strengthened against the foreign currencies to which the Scheme is significantly exposed to at the reporting date.

14 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Scheme is exposed to cash flow interest rate risk on financial instruments with floating interest rates. Financial instruments with fixed interest rates expose the Scheme to fair value interest rate risk.

The Scheme's exposure to interest rate risk arises from cash and cash equivalents and units in cash management trusts, which earn/charge a floating rate of interest.

The following table summarises the Scheme's exposure to interest rate risk:

| | Floating interest rate \$'000 | Total \$'000 |
|---------------------------|--|-----------------|
| 30 June 2017 | | |
| Financial assets | | |
| Cash and cash equivalents | 974 | 974 |
| Cash management trusts | 62,322 | 62,322 |

The table presented in note 14(a)(iv) summarises sensitivity analysis to interest rate risk. This analysis assumes that all other variables, in particular foreign currency rates remain constant.

(iii) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

The Scheme is exposed to price risk predominantly through its investments in equities.

The fair value of the Scheme's investments exposed to price risk at 30 June 2017 was \$304,828,545 (2016: \$310,335,714). From 1 July 2016, the Scheme analysed its exposure to price risk arising from unlisted unit trusts by their type of asset class. The Scheme excluded its holdings in cash management trusts from price risk analysis as the unit price for cash management trusts is valued at \$1 and is subject to insignificant risk of changes in value.

The table presented in note 14(a)(iv) summarises sensitivity analysis to price risk. This analysis assumes that all other variables remain constant.

(iv) Sensitivity analysis

The following table summarises the sensitivity of the operating profit and net assets attributable to unitholders to currency risk, interest rate risk and price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in foreign exchange rates, interest rates and historical correlation of the Scheme's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Scheme invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

14 Financial risk management (continued)

(a) Market risk (continued)

(iv) Sensitivity analysis (continued)

| | Sensitivity rates | Impact on operating profit/net assets attributable to unitholders | |
|----------------------------|-------------------|---|---------------------------|
| | | 30 June 2017 \$'000 | 30 June 2016 ** \$'000 |
| Currency risk | | | |
| EUR | +8% | (3,065) | |
| | -8% | 3,065 | |
| Interest rate risk* | | | |
| | +1% | 633 | |
| | -1% | (633) | |
| Price risk* | | | |
| | +15% | 45,724 | 46,550 |
| | -15% | (45,724) | (46,550) |

*The Scheme changed the risk assessment of its holdings in cash management trusts from price risk to interest rate risk, as discussed in note 14(a)(ii) and note 14(a)(iii), for current year.

**The sensitivity analysis for the comparative year ended 30 June 2016 was not restated.

(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 cash and cash equivalents and receivables for securities sold. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

(i) Cash and cash equivalents

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

(ii) Receivables for securities sold

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment from the counterparty. Payments on securities acquired are only made after the broker has received the securities. The trade will fail if either party fails to meet its obligations.

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

(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 is exposed to daily cash redemptions of redeemable units.

The Scheme's investments in equity securities are considered to be readily realisable. The Scheme primarily holds investments in an active market which can be readily disposed. Only a limited proportion of these investments are not actively traded on a stock exchange.

14 Financial risk management (continued)

(c) Liquidity risk (continued)

The Scheme's investments in unlisted unit trusts expose it to the risk that the responsible entity or the manager of those trusts may be unwilling or unable to fulfill the redemption requests within the timeframe requested by the Scheme. However, these investments are considered readily realisable unless the unlisted unit trusts are declared illiquid or suspended.

The following tables summarise the contractual maturities of financial liabilities, including interest payments where applicable:

| 30 June 2017 | Carrying amount \$'000 | Contractual cash flows | |
|--|------------------------------|---------------------------|------------------------------------|
| | | At call \$'000 | less than 6 months \$'000 |
| Non-derivative financial liabilities | | | |
| Distributions payable to unitholders of the Scheme | 54,885 | - | 54,885 |
| Payables for securities purchased | 3,663 | - | 3,663 |
| Payables | 594 | - | 594 |
| Net assets attributable to unitholders | <u>316,110</u> | <u>316,110</u> | <u>-</u> |
| Total | <u>375,252</u> | <u>316,110</u> | <u>59,142</u> |

| 30 June 2016 | Carrying amount \$'000 | Contractual cash flows | |
|--|------------------------------|---------------------------|------------------------------------|
| | | At call \$'000 | less than 6 months \$'000 |
| Non-derivative financial liabilities | | | |
| Distributions payable to unitholders of the Scheme | 9,073 | - | 9,073 |
| Payables for securities purchased | 6,042 | - | 6,042 |
| Payables | 967 | - | 967 |
| Net assets attributable to unitholders | <u>313,102</u> | <u>313,102</u> | <u>-</u> |
| Total | <u>329,184</u> | <u>313,102</u> | <u>16,082</u> |

(d) Fair value measurement

The Scheme classifies fair value measurement of its financial assets and liabilities using a fair value hierarchy model that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- 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).

14 Financial risk management (continued)

(d) Fair value measurement (continued)

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. For the majority of exchange traded financial assets and liabilities, information provided by the independent pricing services is relied upon for valuation.

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.

Listed securities and exchange traded derivatives are valued at the last traded price. Investments in unlisted unit trusts that are considered actively traded are recorded at the redemption value per unit as reported by the investment managers of such trusts.

(ii) Fair value in an inactive or unquoted market (level 2 and level 3)

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

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

Some of the inputs to a valuation model may not be market observable and are therefore estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions held.

The Scheme did not hold any financial instruments with fair value measurements using significant unobservable inputs (level 3) at 30 June 2017 and 30 June 2016.

The following tables present the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy:

| 30 June 2017 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| Financial assets | | | | |
| Financial assets designated at fair value through profit or loss: | | | | |
| Equities | 304,829 | - | - | 304,829 |
| Unlisted unit trusts | 62,322 | - | - | 62,322 |
| Total | 367,151 | - | - | 367,151 |

14 Financial risk management (continued)

(d) Fair value measurement (continued)

| 30 June 2016 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| Financial assets | | | | |
| Financial assets designated at fair value through profit or loss: | | | | |
| Equities | 246,819 | - | - | 246,819 |
| Unlisted unit trusts | 63,517 | - | - | 63,517 |
| Total | <u>310,336</u> | <u>-</u> | <u>-</u> | <u>310,336</u> |

Transfers between levels

The Scheme's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period.

There were no transfers between levels for the years ended 30 June 2017 and 30 June 2016.

15 Events occurring after the reporting period

No significant events have occurred since the reporting date which would have impact on the financial position of the Scheme disclosed in the balance sheet as at 30 June 2017 or on the results and cash flows of the Scheme for the year ended on that date.

16 Contingent assets, liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2017 and 30 June 2016.

Directors' declaration

In the opinion of the directors of Perpetual Investment Management Limited, the Responsible Entity of Perpetual Pure Value Share Fund:

- (a) the annual financial statements and notes, set out on pages 6 to 26, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2017 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) note 2(a) confirms that the financial statements comply with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

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



Director

Sydney
14 September 2017



Independent Auditor's Report

To the unitholders of Perpetual Pure Value Share Fund

Opinion

We have audited the **Financial Report** of Perpetual Pure Value Share Fund (the Scheme).

In our opinion, the accompanying Financial Report of the Scheme is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Scheme's financial position as at 30 June 2017 and of its financial performance and its cash flows for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Balance sheet as at 30 June 2017;
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' declaration made by the Directors of Perpetual Investment Management Limited (the Responsible Entity).

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Scheme in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Perpetual Pure Value Share Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of the Responsible Entity are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.



Responsibilities of the Directors for the Financial Report

The Directors of the Responsible Entity are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Scheme's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

Jessica Davis

Partner

Sydney

14 September 2017

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