



Perpetual Limited

# **RISK MANAGEMENT FRAMEWORK**

June 2018

## COMMITMENT TO RISK MANAGEMENT

As a publicly listed company and provider of financial products and services, Perpetual operates in a highly regulated environment and the Perpetual Board has ultimate responsibility for and commitment to effective risk management. The Board's commitment is reflected through the establishment of appropriate governance structures and Perpetual's Group Risk, Group Compliance and Internal Audit functions, led by the Chief Financial Officer.

## GOVERNANCE STRUCTURE

The functionality of the RMF is supported by a well-established governance framework. Key components of which are outlined below:

**Perpetual Limited Board (the Board):** Responsible, among other things, for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk, so that the strategic and business objectives of Perpetual can be met. The Managing Director sits on the Board. All other members of the Board are independent non-executive directors.

The Committees and Subsidiary Boards referenced below support the Board in fulfilling its risk management and governance obligations.

**Audit, Risk & Compliance Committee (ARCC):** Responsible for overseeing the RMF and the financial reporting process at Perpetual. The ARCC is also responsible for monitoring overall legal and regulatory compliance. The ARCC has a written terms of reference and all members of the ARCC are independent non-executive directors.

**Investment Committee (IC):** Responsible for monitoring the effectiveness of Perpetual's investment governance framework, ensuring management has in place and carries out appropriate investment strategies and processes for investment activities undertaken on behalf of clients and the Group.

**People and Remuneration Committee (PARC):** Responsible for monitoring the Group's people and culture policies and practices.

**Other Committees and Subsidiary Boards:** Subsidiary Boards oversee aspects of risk management relevant to their specific functions. This includes the Boards of regulatory licensed entities and committees of relevant subsidiary companies of Perpetual.

Key management committees, with delegated responsibilities from the Subsidiary Boards, include the Executive Leadership Team (ELT), Executive Project, Compliance, Breach and Due Diligence Committees. All Boards, including the Boards of Perpetual's subsidiary companies, meet regularly, are governed by Terms of Reference and contain appropriately qualified and experienced members.

## RMF SCOPE

This RMF applies to Perpetual Limited and its wholly owned subsidiaries, collectively referred to as Perpetual. Perpetual subsidiaries may elect to implement risk framework elements in addition to this RMF, particularly where these subsidiaries are subject to specific regulatory requirements (such as Perpetual Superannuation Limited or Perpetual (Asia) Limited), however these additional elements must not reduce the level of risk oversight required by this RMF.

Where Perpetual acts in the capacity of Responsible Entity or as Trustee for investment entities (such as Managed Investment Schemes and Managed Investment Trusts), this RMF applies to all the activities that Perpetual undertakes as Responsible Entity or Trustee. While this includes oversight of external parties that support these investment entities (such as external investment managers or administrators), the risk oversight measures set out in this RMF do not fully extend to these external parties. Service provider governance processes are implemented in these instances to provide this oversight.

This RMF does not specifically apply to unrelated Perpetual entities (such as the Perpetual Equity Investment Company), however where Perpetual Limited or its subsidiary companies provide services to these unrelated entities, these services must be subject to the risk oversight measures set out in this RMF.

## **RISK APPETITE STATEMENT (RAS)**

The Board's expectations regarding the consideration of risk in decision making processes and expected behaviours are outlined in Perpetual's RAS.

The RAS sets out the Board's posture in relation to each of Perpetual's eight risk categories (these risk categories are defined later in this RMF) and articulates the desired behaviours, measures and tolerances that management are to take into account when setting and implementing strategy and running of their day to day areas of responsibility. Whilst risk limits and measures are incorporated into business plans and budgets, the RAS identifies boundaries beyond which management should not venture, unless specifically approved by the Board.

## **RISK CULTURE**

Perpetual is committed to promoting an effective risk culture and one that creates an environment of risk awareness and responsiveness. The ARCC is responsible for the oversight and monitoring of Perpetual's risk culture framework. Promoting an effective risk culture helps to ensure all employees exhibit the right values, beliefs and actions in relation to managing risk; take ownership of risk; and manage risk in an effective and efficient manner. The key elements that define an effective risk culture at Perpetual include:

- Clear and established accountabilities
- Timely identification and management of risks
- Early escalation of issues
- An encouraging and open environment
- A willingness to learn from mistakes

## **CODE OF CONDUCT**

Perpetual's Code of Conduct requires our employees to:

- Act with integrity
- Act in accordance with Perpetual's behavioural standards
- Manage conflicts of interest
- Uphold the law
- Be mindful of the impact of decisions on our shareholders and the community
- Be committed to our clients
- Respect confidentiality and privacy
- Maintain a fair and safe work environment
- Protect those who report wrong-doing

All Perpetual employees are required to familiarise themselves with the Code of Conduct as part of commencing employment with Perpetual. A breach of the Code of Conduct is considered a serious matter that may result in disciplinary action.

## **RISK BEHAVIOURS**

Perpetual has developed 'The Way We Work' @ Perpetual to set out the behaviours expected from staff at the different levels of the organisation, including the behaviours expected to embed appropriate risk behaviours in all endeavours and effectively balance risk with opportunity. These risk management behaviours are aligned with Perpetual's desired Risk Culture.

## ROLES AND RESPONSIBILITIES

Perpetual has adopted a 'three lines of defence model' to implement best practice risk management. This model is summarised in the diagram below.



## RISK MANAGEMENT PRINCIPLES

To form a portfolio view of risk, Perpetual has defined eight specific risk categories:

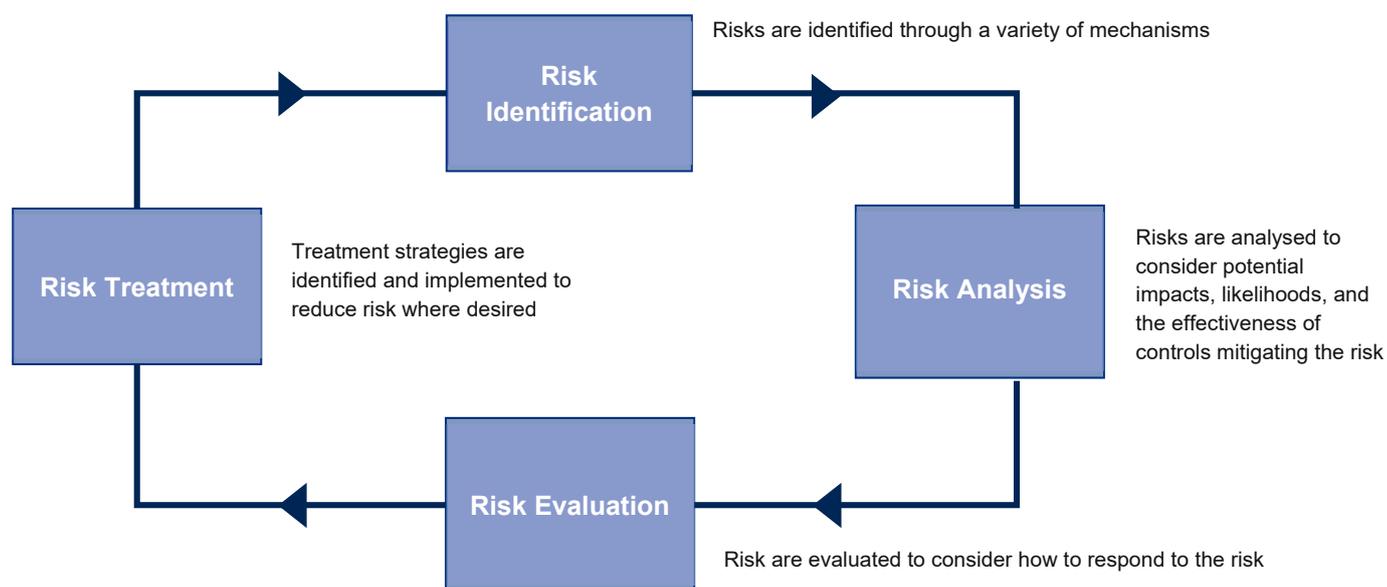
Risk Category	Description
<b>Strategic</b>	Adverse strategic decisions, improper implementation of strategic decisions, a lack of responsiveness to industry changes or exposure to economic, market or demographic considerations that affect our market position and client value proposition.
<b>Financial</b>	Perpetual financial resources are inappropriately used, drivers of financial performance are not well understood or not managed to expectations, or financial results are inappropriately accounted for or disclosed. This risk is considered to include liquidity, market and credit risk.
<b>Compliance, Legal &amp; Conduct</b>	The risk that Perpetual breaches its compliance, legal and ethical obligations (including license conditions and client commitments) leading to reputation damage, adverse regulatory outcomes or breach of contract.
<b>Operational</b>	The risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk includes (but is not limited to) fraud, business continuity and cyber risk.

## RISK MANAGEMENT PRINCIPLES (CONTINUED)

Risk Category	Description
<b>Outsourcing</b>	The risk that services performed by external service providers, including related and third parties, are not managed in line with the servicing contract or the operational standards required by the Board resulting in potential negative impacts to shareholders and / or customers.
<b>People</b>	Exposure to changes in personnel, including an inability to attract and retain quality and appropriate people. Inadequate succession planning strategy.
<b>Investment</b>	The risk of loss resulting from ineffective investment strategies, management or structures resulting in sustained under performance relative to peers and benchmarks.
<b>Reputation</b>	The risk arising from negative perception on the part of both existing and prospective clients, employees, counterparties, shareholders, investors, regulators or other stakeholders that can adversely affect Perpetual's ability to maintain existing, or establish new client relationships and business operations.

## RISK ASSESSMENT AND TREATMENT

Risk assessment and treatment processes under this RMF align with the International Standard ISO 31000:2018 'Risk Management Guidelines'. These processes are summarised below:



## **RISK AND CONTROL SELF-ASSESSMENT PROGRAM**

The Risk and Control Self-Assessment Program sets out Perpetual's primary approach to identify the key risks facing the organisation (across all of the 8 risk categories mentioned earlier). The process involves workshops with senior management across the organisation facilitated by Group Risk. In line with the organisation's overall approach to risk management, key risks are identified, assessed, managed and reported through this Program.

This Program also includes the identification of controls implemented to mitigate these risks and business self-assessment of the effectiveness of these controls (through controls testing).

## **MATERIAL BUSINESS RISKS**

Key business risks that Perpetual faces are outlined in the Operating and Financial Review provided as part of annual and 6 monthly financial result reporting.

## **OTHER SUPPORTING FRAMEWORKS, PROGRAMS AND GROUP POLICIES**

Perpetual has implemented a number of Frameworks, Programs and Group Policies that are regularly assessed for effectiveness to support the management of risks and related activities. These include, but are not limited to the Compliance Risk Management Framework, Issues Management, Controls Assurance Program, Business Continuity Program, Information Security Program, Model Governance Program, Insurance Program, Anti-Money Laundering and Counter Terrorism Financing Program and Whistleblowing.

Group Risk and Group Compliance coordinate risk training initiatives across the organisation which help business and support divisions understand risk management. This includes presentations and online training focused on risk, issues and policies to foster a culture conducive to risk awareness and responsiveness. All new employees receive targeted risk 'on-boarding' training.

## **RISK AND COMPLIANCE SYSTEM**

To support the effective management of risk and compliance obligations, Perpetual has invested in a company wide risk and compliance system (Archer).

Archer helps the business manage their risk and control environment and forms the basis for operational risk reporting. The system includes a variety of modules that support the management and delivery of event management, risk management, compliance management, complaints management, good value claims and business continuity management.

## **CONTINUOUS IMPROVEMENT**

As outlined earlier, the effectiveness and output of the RMF is overseen on an ongoing basis through supervision of the Board and the ARCC. Dedicated day to day responsibility for the maintenance and improvement of the RMF rests with the Chief Financial Officer. To ensure ongoing alignment with best practice the RMF is independently reviewed on a periodic basis.

**NEW SOUTH WALES**

Angel Place  
Level 18, 123 Pitt Street  
Sydney NSW 2000

**AUSTRALIAN CAPITAL  
TERRITORY**

Level 6, 10 Rudd Street  
Canberra ACT 2601

**VICTORIA**

Rialto South Tower  
Level 35, 525 Collins Street  
Melbourne VIC 3000

**SOUTH AUSTRALIA**

Level 11, 101 Grenfell Street  
Adelaide SA 5000

**WESTERN AUSTRALIA**

Exchange Plaza  
Level 29, 2 The Esplanade  
Perth WA 6000

**QUEENSLAND**

Level 15, 345 Queen Street  
Brisbane QLD 4000

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