

August 19, 2016

Dear clients and colleagues,

Australia is the fourth largest pension market in the world with over A\$1.9 trillion in assets. Its fund management industry is underpinned by a mandatory superannuation system that is projected to grow to A\$8.4 trillion by 2040.

This week we would like to profile Perpetual Limited, a leading financial group in Australia that should benefit from the above secular trend. Perpetual is a member of the ASX 100. We initiated the position in Q4 2015. We've met the management three times, the latest being in May 2016.

Perpetual Limited (PPT AU – A\$46.40)

www.perpetual.com.au

Business Overview

Founded in 1886, Perpetual is one of Australia's largest independent wealth managers, an expert advisor to high net worth individuals, families and businesses, and a leading provider of corporate trustee services. As at December 2015, it had A\$30.9 billion in funds under management, A\$12.8 billion in funds under advice and A\$600.1 billion in funds under administration.

Target Market

Australian's pension market is expected to grow at 5%-6% annually and to reach A\$3 trillion by 2020. From July 2014, the Superannuation Guarantee rate increased to 9.5%, i.e. an employer must contribute the equivalent of 9.5% of an employees' salary. The rate will rise incrementally to 12% by 2025.

ESG

Perpetual recognizes that corporate governance is core to ensuring the creation, protection and enhancement of value within the company. Six out of seven board directors are independent. The remuneration scheme is very detailed and fully disclosed.

Perpetual Wholesale Ethical SRI Fund was the winner of the Responsible Investments category at the Money Management/Lonsec Research Fund Manager of the Year Awards for several years, the last time in 2016.

Market Data

Market Cap A\$2.1B, Net cash A\$153M, Dividend Yield 5.3%, P/E (2017/6) 16.8x, Ev/Sales 3.9x, Ev/EBITDA 9.4x, Gross Margin 63.9%, EBITDA Margin 39.9%, Profit Margin 25.6%, ROE 22.1%.

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Competition

In the advisory and asset management business there are a few major competitors such as AMP, Henderson, IOOF and BT Investment. In the trust business, majors are Equity Trustees, Australian Executor Trustees, National Australian Trustees, Sandhurst Trustees and Tasmanian Perpetual Trustees.

Competitive Advantages

- Perpetual has been awarded Fund Manager of the Year awards across multiple categories every year for the past decade.
- Rated number one by Euromoney for its range of advisory services for high net worth clients.
- First in trust services and fund services in Australia with 80% market share.

Growth Strategy

- **Product:** While maintaining its superior outperformance in Australian equity funds, Perpetual launched its Global Share Fund in August 2014 to meet growing demand from Australian investors. It was a logical extension of its highly regarded equities investment business and had a three and a half year incubation period. As of March 31, 2016, the fund outperformed its benchmark for one, three and five years.
- **Distribution:** It continuously conducts national roadshows and targets all major domestic retail platforms.

Risks

- Downturn in equity markets: about 68% of revenue is equity market related.
- Downward fee pressure
- Funds outflow

In May 2016 we attended Perpetual's presentation at the Macquarie Australia Conference. CEO Geoff Lloyd emphasized its growth strategy to lead in core businesses and to grow into adjacent markets. We are confident that its favourable industry trend, consistent outperformance and diversified revenue sources will deliver long-term success.

Have a great weekend.

The Global Alpha team

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