Attention: Board of directors of Perpetual Limited

Profeta Investments has recently been acquiring shares in Perpetual Limited. We have an intimate knowledge of the business, with our Chief Investment Officer, Garry Laurence being part of the investment team at Perpetual from 2007-2020. We have invested in Perpetual Ltd because we know that the value of its businesses is greater than the value that the share market is currently attributing to the business. But we also acknowledge that the reason the shares are trading where they are is due to the recent failures of the board and management. Investors now expect the board to continue to make bad capital allocation decisions which are not in the best interests of shareholders. If this continues, the share price will continue to fall and the share market will be proven right in valuing the shares at current levels.

We implore the board to stop its value destroying acquisitions and divestments. The sale of Perpetual's Corporate Trust and Wealth management businesses to Kohlberg Kravis Roberts & Co (KKR) is not in the best interests of shareholders. The amount of tax the company would need to pay is value destructive. The Corporate Trust business is effectively the crown jewels in Perpetual's group of assets. This is why KKR is willing to pay an earnings multiple of over 20x, compared to Perpetual's current price to earnings multiple of 10x. The funds management businesses that Perpetual has acquired over the past five years are much lower quality businesses and deserve to trade at much lower multiples. The only way to increase the Perpetual share price is to divest the funds management businesses that were recently acquired and are in outflow. By reducing the weight of lower quality businesses in Perpetual's group of assets, this will allow the market to re-rate the entire company up to a Trustee company multiple, as it used to trade. Further, for tax purposes, it makes much more sense to sell lower quality businesses that you have generated a tax loss on, rather than sell your better assets and give the ATO a chunk of the value.

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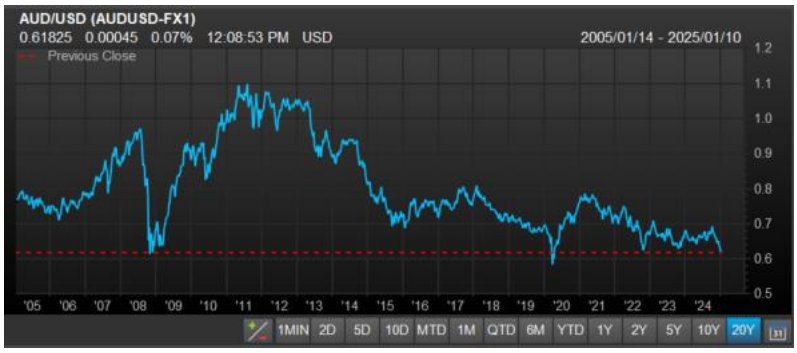
We think Perpetual's shareholders will benefit from a sale of some of the global asset management businesses that they have bought recently. Perpetual made a bad acquisition buying Barrow Hanley and then subsequently acquired Pendal to hide the continued outflows from this business.

Now is the opportune time to sell Barrow Hanley as well as JO Hambro for three reasons:

Firstly, the Australian dollar has fallen to 20-year lows, and we expect it to bottom in 2025. Reducing the company's exposure to US dollar assets at this point makes sense, not doing the exact opposite by selling the majority of Australian dollar assets, which the sale of the Trust business does.



Secondly, the US's S&P500 is trading at peak valuations. This will make it harder for this AUM base to increase organically. If US markets fall, this will create another hit to Perpetual's AUM on top of the outflows seen in the Barrow Hanley and JO Hambro businesses. At the moment the falling AUD/USD and rising US markets are hiding the outflows. It is possible that all three drivers of Perpetual's revenues could turn negative if the outflows continue, US markets fall and the AUD/USD starts rising from 20 year lows.

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Lastly, by selling these offshore businesses, Perpetual can re-weight its earnings back to Australian earnings and increase the level of franking credits. Perpetual used to pay fully franked dividends, like the Australian banks and its shares used to trade at much higher earnings multiple. Its last dividend was only 50% franked due to the higher weighting to offshore earnings. This means that Perpetual shares are much less attractive to Australian investors especially retail investors. Perpetual has seen its PE multiple fall from 20x to 10x due to a combination of these factors during a time when the Australian banks have seen their earnings multiples substantially increase with the Commonwealth Bank of Australia going from 10x to 25x over this same period. Australian investors would flock back to Perpetual if most of its earnings were weighted back to a growing, stable earnings stream, not linked to volatile equity markets, which the Corporate Trust provides.

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Corporate Trust – the Crown Jewel

Perpetual was established as a trustee company in 1886 and is one of Australia's longest running companies. It is a company rich in history with one of its founders being Sir Edmund Barton, Australia's first prime minister. The trustee business was successfully grown, predominantly organically, over the past 139 years and this created a tremendous amount of value for shareholders. I worked at Perpetual in the investment team for nearly 13 years, covering Australian and global equities and then being the Portfolio manager for the Perpetual Global share fund for ten years. During my final years I joined the senior leadership team and got more exposure to the Trust business and wealth management business. While I was there, the company predominantly grew organically, even under four different chief executives over that period. Geoff Lloyd, the Chief Executive Officer between 2012-2018, made one memorable acquisition in 2013, the Trust Company, which turned out to be a successful acquisition turning the Perpetual Trustee business into the clear leader in Australia.

Geoff Lloyd's tenure followed a bid by KKR in 2010 for Perpetual, which valued the company at $38-$40 a share or $1.8 billion. That was double the current share price, 15 years ago. The board rejected this offer, but is now trying to sell the corporate trust business to KKR, which would be a nail in the coffin in a litany of bad deals since 2020.

Over the past 20 years, Perpetual's corporate trust business has been growing at an impressive rate. Even during 2020, when markets were hit by covid, it managed to grow profits by 16%.

Corporate Trust								
	2017	2018	2019	2020	2021	2022	2023	2024
	$m	$m	$m	$m	$m	$m	$m	$m
Revenue	92.7	103.3	112.9	125.5	134.9	158.5	178	187.8
Profit before tax	36.7	42.6	47.7	55.2	63.8	72.6	81.6	85
PBT growth		16%	12%	16%	16%	14%	12%	4%

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Private equity groups and corporate raiders have been able to see the growing value of the Corporate trust business. This is why they keep bidding for Perpetual. However listed equity market investors have also been savvy to the equity value destruction by the board with its recent acquisition spree in asset management.

In 2023, Washington H Soul Pattinson (Soul Patts), bid for Perpetual, valuing the company at $3.5 billion, and $27 a share. The board rejected this offer. What was interesting about this offer is that Soul Pattinson was offering scrip in their listed vehicle in order to acquire the Perpetual Corporate Trust business and wealth management businesses, at a value of $1.885 billion. They wanted to spin out the funds management business to shareholders. Soul Patts remains the largest shareholder in Perpetual with 11.6% of the shares. The company has just as long a history as Perpetual does and is run by the Milner family, who are descendants of Lewy Pattinson, the founder of the business in 1886. The Milners are savvy long-term investors, who regularly attend Berkshire Hathaway's annual meetings. They are sitting on the Perpetual register, trying to extract the value of Perpetual's corporate trust business.

We agree with what the Milners were trying to achieve in 2023, but we don't think they should get the right to take Perpetual's corporate trust business, which has been under the ownership of Perpetual's shareholders for 139 years. Perpetual could simply sell some of its asset management businesses or the entire asset management business and leave the corporate trust and wealth management business listed with the Perpetual brand for the current owners and shareholders of these assets.

Sum of the parts

Perpetual is arguably worth $30 a share and potentially more over time. This is why we have seen so many bids for the business over the past few years. However the only way to achieve this value is to sell the assets that will generate a tax loss, the asset management assets that were purchased.

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Given that Barrow Hanley, TSW and Trillium are US based fund managers, they should be valued at multiples that US asset managers trade on. We think these assets should be sold to a US manager who can focus and manage them better than an Australian domiciled company.

	EV/EBITDA (FY1)
Invesco	11.5
T.Rowe Price	7.8
Affiliated Managers Group	8.94
Artisan Partners Asset Management	8.64
Franklin Resources	10.97
Janus Henderson Group	7.4
Federated Hermes	7.6
Ameriprise Financial	8.3
Average	**8.9**

The average EV/EBITDA multiple for these businesses is 8.9x. If we use this valuation and assume no tax leakage, because Perpetual could sell or spin out the tax loss assets in Perpetual Asset Management, we get to over $30 a share. This can be achieved without selling the entire Perpetual business and the brand and 139 years of history.

Sum of the parts			
	EBITDA FY24	EV/EBITDA multiple	EV
Corporate Trust	96	17	1632
Wealth management	67	8	536
Perpetual Asset management	235	8.9	2092
stranded group costs	-55.8	8	-446
Borrowings			-679
Cash & seed assets			222
Unrealised capital			123
Implied Market capitalisation			3479.1
Value per share			**30.25**
shares (m)			115

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Value destruction – 2020-2025

It saddens me to see the amount of value destruction caused by the board since 2020, following its first large funds management acquisition, Barrow Hanley in the United States. In February 2020, the Perpetual share price was at $45, today it is below $20. Perpetual bought 75% of Barrow Hanley in 2020, paying A$439 million (US$310 million) to acquire US41 billion of AUM. Barrow Hanley was a fund manager generating outflows for several years back then and over the past four years, Perpetual has failed to turn around this declining business. Perpetual has proven itself not to be capable of building or growing international funds management businesses organically and is not the natural owner of offshore funds management businesses.

Perpetual decided to double down on its global asset management acquisitions in order to conceal the continued outflows from the Barrow Hanley business. In late 2022 a consortium made up of private equity firm BPEA and ASX listed fund manager Regal Partners bid $33 for Perpetual, conditional on Perpetual walking away from the Pendal acquisition. The Perpetual board refused to entertain this offer and proceeded to overpay for Pendal and destroy more shareholder value. They paid $2 billion for Pendal in a combination of cash and shares, financing the $757 million cash payment with debt, levering up a once bullet proof balance sheet. Two years later, the Perpetual board admitted its mistakes, and wrote down $547 million from this acquisition. Perpetual's share price has ironically moved with an inverse relationship to equity markets due to these board decisions. If the board didn't make these acquisitions the stock would have risen with rising equity markets, which the asset management business benefits from as well as the growing corporate trust business.

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Who actually owns Perpetual and why aren't there any representatives on the board?

Perpetual is owned predominantly by Australian retail investors and Australian institutions. However, these owners of the business are not adequately represented on the board.

The board barely owns any shares and the management team really don't have much skin in the game either. This explains the recent decision making which has focused on increasing the size of assets under management at the expense of shareholder value. While salaries of management and the board have increased, shareholders have lost billions of dollars of value.

The current board reflects a group of people assembled to reflect the recent assets purchased rather than to represent the owners of the business who want to see the value of the shares rise. The tail is wagging the dog at the moment.

As of the last annual report (30 June 2024), the board owned a total of 40,770 shares (excluding Ian Hammond and Nancy Fox who retired). Profeta Investments currently owns more than this total amount of shares. While Perpetual has been adding new board members since the acquisition of Pendal, adding more international experience, it is surprising that a company that prides itself as being one of the oldest businesses in Australia in financial services with highly

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qualified investment teams led by esteemed portfolio managers, does not have one person on the board who has managed equities their whole life and prices businesses daily for a living. Or board members that are truly aligned with shareholders, solely remunerated by whether the share price goes up or not.

We understand that the board made the recent decisions to acquire Barrow Hanley, Pendal Asset management, JO Hambro, TSW, Regnan and Trillium, in order to reduce the influence that Perpetual's asset management team used to have on the business. Those managers were just looking at the share price, trying to organically grow the business so that shareholders benefited from those actions.

We think the board can sell Barrow Hanley, JO Hambro and some of the other global asset management brands they acquired while still achieving their aim of reducing the influence of the Perpetual asset management team. BUT by doing so they can finally also act in the best interests of shareholders, which is their fiduciary duty.

We can't see how recommending the sale of the corporate trust business by either an independent valuer or the Perpetual board can conceivably be in the best interests of shareholders. But keeping the corporate trust business is only the first step in a number of steps that need to be taken to repair the damage that the board has done to Perpetual shareholders and return the share price to anywhere near the $30-$40 that corporate raiders have been bidding over the past 20 years.

Yours Sincerely,

Garry Laurence

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