

PI Investment Management Limited

Pillar 3 Disclosures

10 December 2009

1. Overview

1.1 Background

The 2006 Capital Requirements Directive (CRD) of the European Union (EU) created a revised regulatory capital framework in the EU based on the provisions of the Basel 2 Capital Accord.

The CRD comprises 3 Pillars which together form a prudential capital framework for credit institutions and investment firms.

Pillar 1: Minimum capital requirements

Pillar 1 minimum capital requirement addresses credit risk and market risk.

Pillar 2: Internal capital adequacy assessment

Under CRD, the firm's regulatory capital requirement is no longer the minimum capital requirement (Pillar 1). Firms must now consider all their risks over and above those addressed in Pillar 1 and assess the requirement for any additional capital. This assessment process is termed the "Internal Capital Adequacy Assessment Process" or ICAAP. Firms were required to have an ICAAP in place by 1 January 2008. Pillar 2 also encompasses supervisory review of the firm's risks, risk management and capital adequacy.

Pillar 3: Disclosure

Pillar 3 requires firms to publicly disclose information specified in the Directive, subject to certain provisions. The objective of Pillar 3 is to improve market discipline through effective public disclosure to complement requirements under Pillars 1 and 2. To that end, Pillar 3 introduces new public disclosure requirements, and represents a significant increase in the amount of information made publicly available by banks and investment firms around capital structure, capital adequacy, risk management and risk measurement.

Firms are required to adopt a formal policy to comply with the disclosure requirements laid down in the directive and have policies for assessing the appropriateness of their disclosures, including their verification and frequency.

1.2 Scope of Pillar 3 Application

The disclosures in this document are made in respect of PI Investment Management Limited (PIIML/the firm). PIIML is an investment management firm based in Dublin, was established in September 2004, received its authorisation from the Irish Financial Regulator in February 2005 and began managing client portfolios in March 2005. PIIML manages institutional funds by investing in global equities through a model portfolio.

PIIML is a wholly owned subsidiary of Perpetual Limited (Perpetual) an independent diversified financial services group established in Australia over 120 years ago. Perpetual operates businesses in the funds management, financial advisory, fiduciary services and corporate trust markets.

1.3 Basis and Frequency of Disclosures

This disclosure document has been prepared by PIIML management in accordance with the requirements of Pillar 3. All figures included in the disclosures are as at 30 June 2009, the firm's financial year end.

Future disclosures will be issued on an annual basis.

1.4 Location and Verification

These disclosures have been reviewed by the Perpetual Group Risk & Compliance team, the PIIML Audit & Risk Committee and approved by the PIIML Board of Directors. These disclosures have not been subject to external audit and are published on the company website (www.piiml.com).

For more information or queries please email: compliance@piiml.com.

2. Risk Management Objectives and Policies

2.1 PIIML's Risk Management Framework (RMF)

PIIML's RMF provides the approach, infrastructure and processes for risk management. It describes the way in which risk is defined, identified, managed, assessed and monitored. The RMF is dynamic and constantly evolving thereby allowing management to manage risks efficiently and effectively, facilitating the achievement of short and long term strategic and business objectives.

PIIML's RMF is underpinned by three key components including;

- Corporate Governance Structure;
- Assurance; and
- People and Culture.

➤ Governance Structure

a. PIIML Board of Directors (the Board)

The Board has ultimate responsibility for ensuring that significant business risks are identified and managed effectively. As the Board has ultimate responsibility for managing risk it is therefore responsible for ensuring that management has an appropriate framework in place to identify and effectively manage business risks and to monitor business performance and PIIML's financial position. The Board is also responsible for monitoring compliance with regulatory, prudential, legal and ethical standards.

A board charter outlining these responsibilities is updated annually.

b. Audit & Risk Committee (the ARC)

The ARC is a committee of the Board, with delegated responsibilities in relation to risk management and the financial reporting process at PIIML. The ARC is responsible for overseeing the integrity of the company's statutory financial reports and statements, the implementation and maintenance of the company's risk management programme and compliance with relevant legislation.

The ARC has written terms of reference which are reviewed annually and updated as necessary.

c. Management

At the business unit level management are responsible for managing their risks which includes ensuring appropriate processes and controls are in place within their business units.

To give the Board and ARC comfort that management are responding to and managing their risks appropriately, they receive regular reports from management on risk matters throughout the year.

The risk and compliance department exists as a separate function within the operational team. It is responsible for monitoring and enforcing client, firm and regulatory requirements. The Chief

Compliance Officer is a director of PIIML and reports directly to the PIIML ARC and Managing Director.

➤ Assurance – support, monitor and report

There are different levels of assurance in relation to the effectiveness and efficient of PIIML's RMF and associated processes and controls. At first instance, assurance is provided from business units and management through management reports, processes and forums. Assurance also comes from the independent monitoring, oversight and reporting undertaken by the risk & compliance team as well as from the independent testing, review and reporting undertaken by both Internal and External Audit.

Independent external auditors are engaged to provide an audit opinion as required by law. Process, surveillance, controls and other reviews are performed as required.

➤ People & Culture

PIIML relies on and expects all people supporting its business to participate and assist in risk management at the Company. PIIML is committed to recruiting, training and retaining the best people and to promoting a culture of risk awareness and responsiveness.

Elements within PIIML's RMF

As discussed earlier, PIIML's RMF provides the infrastructure and processes for risk management including:

➤ Key Risk Assessment (KRA)

The KRA process is a top-down approach to risk management designed to identify the key risks faced by PIIML. The KRA process involves facilitated workshops coordinated by the risk and compliance department, which promote open discussion between management and the risk team to highlight risks, controls and any weaknesses or gaps.

The results of these workshops are processed by management and appropriate action is taken to implement necessary tools, controls, policies and procedures to mitigate or reduce the effect of the identified risks. Risks are assessed continuously throughout the business and corresponding mitigating measures are amended to reflect the changing environment in which PIIML operates.

➤ Control Self Assessment

The CSA process is a bottom-up approach to risk management, designed to identify risks and their associated controls in every business function within the company. It is a self assessment process where once risks and controls are identified, controls are then tested and findings reported.

CSA test results are reported to the PIIML ARC and Board as well as to the Perpetual Group bi-annually.

➤ Programs, Policies and Procedures

Programs are used to manage specific risks and obligations faced by PIIML, including anti-money laundering, counter terrorism and fraud. These programs are owned by the risk & compliance department and outline key processes and tools in place to manage such risks, including any associated legislative obligations.

Policies and procedures are one of the means to document and clearly articulate PIIML's position and expectations in relation to particular legal and regulatory requirements, risk matters and processes. Written Company policies and procedures covering operations, legal and regulatory aspects of the Company's activities are published on the company intranet and are updated on a regular basis.

➤ Reporting and certification

Established issue identification, escalation and reporting mechanisms at PIIML are facilitated by a Group wide centralised workflow based register ("Arrows") which contains and tracks material issues as well as CSA test results and management action plans to deal with exceptions. A series of quarterly and six monthly certifications and/or reports are required from management.

➤ Business Continuity Planning (BCP)

BCP is used to counter interruptions to business activities and to protect critical business processes from the effects of major failures or disasters.

PIIML has a fully operational BCP facility with a fully replicated IT infrastructure in place in Dublin to provide efficient recovery of key services in the event of business interruptions. Testing of PIIML's ability to resume critical operations after a major disruption occurs annually.

2.2 Risk Exposures

➤ Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk is a key focus of PIIML management. It is inherent in all activities in the firm, in outsourced activities and in all interactions with external parties. It includes process risk, legal & regulatory risk, people/key person risk, systems/infrastructure risk, strategic risk and reputational risk.

The management of operational risk is fundamental to the success of the business.

Operational risk is managed through the use of continuous risk assessment and reporting, robust internal controls, company policies and procedures, the CSA programme which bi-annually tests the effectiveness of the internal control environment and internal and external audits.

➤ Market Risk

Market risk is the risk arising from changes in the value of financial instruments held by the firm due to fluctuation in asset prices, interest and exchange rates and other market indices including volatility.

PIIML is exposed to market risk on two fronts: (i) equity risk, or the risk that stock prices will change, (ii) currency risk, or the risk that foreign exchange rates will change. The risk to PIIML is that revenue derived from the management of clients funds will fall as the value of the underlying securities fall.

The PIIML asset management team employ investment techniques such as asset allocation and diversification, investing client funds into highly liquid exchange traded global equity securities and foreign exchange contracts to hedge FX exposure to manage such market exposures.

➤ Credit Risk

Credit risk is the risk of loss arising from a counterparty failing to meet its financial obligations.

The risk of clients failing to pay management fees due is mitigated by the fact that all of the firm's clients are members of the Perpetual Group, of which PIIML is also a member. For its bank deposits, PIIML only uses reputable deposit taking institutions and carries out a due diligence exercise on such institutions on an ongoing basis.

3. Capital

3.1 Capital Resources

PIIML's Capital Resources are calculated below based its 30 June 2009 audited statutory financial statements.

Capital Resources	€'000
Eligible Capital:	
Paid up share capital	19,130
Capital contribution	<u>29,311</u>
	48,441
Eligible Reserves:	
Reserves	<u>(35,796)</u>
	(35,796)
Capital resources available to meet regulatory capital requirements	12,645

3.2 Capital Planning & Monitoring

Capital planning forms part of the annual budgeting process at the company and group level. In addition, a capital review is undertaken monthly and reported internally to PIIML management and Group Finance.

Monitoring of compliance with regulatory capital is a continuous process undertaken by PIIML finance and reported to the PIIML ARC and Board on a quarterly basis.

3.3 Regulatory Capital Requirements

PIIML uses the Standardised Approach prescribed by the Financial Regulator to calculate its Pillar 1 capital requirements.

In assessing Pillar 2 capital requirements, PIIML management identified risks not addressed in the Pillar 1 regulatory calculations, identified exceptional but plausible events that may potentially crystallise these risks and finally calculated the potential impact of such events on the firm's financial results. The capital adequacy was then stress tested by incorporating the earnings impact of the Pillar 2 risks into the regulatory capital calculations. The stress testing was conducted using sensitivity analyses applied to each risk category identified by management.

At 30 June 2009, the firm's Regulatory Capital Requirements were:

Regulatory Capital Requirement	€'000	€'000
CRD Pillar 1 Capital Requirement: The higher of		
(i) Minimum capital requirement	125	
(ii) Fixed overhead requirement	1,599	
(iii) 8% of the risk weighted credit exposures and foreign currency exposures (calculated in accordance with the Financial Regulator's guidance)	<u>1,190</u>	
Pillar 1 Capital Requirement		1,599
Pillar 2 Capital Requirement		<u>218</u>
PIIML's Regulatory Capital Requirement (Total of Pillar 1 & Pillar 2 Capital Requirements)		<u>1,817</u>