

Policy

1. Scope

This policy applies to all of Perpetual Investment Management Limited's (Perpetual Investments Fund Managers in Australia only) corporate governance monitoring and proxy voting activities in respect of companies in which we invest.

2. General

Perpetual Investments manages monies on behalf of institutional and retail clients through managed investment schemes, public offer superannuation funds, and discrete mandates (collectively referred to throughout this Policy as Funds).

3. Environmental, Social and Corporate Governance Considerations

Perpetual Investments has a Responsible Investment (RI) Policy which is available on our website www.perpetual.com.au/responsibleinvesting.aspx

Our RI policy covers Perpetual Investments' approach to incorporating environmental, social and corporate governance considerations into our investment decision-making and ownership practices.

Proxy voting rights are a valuable asset of the investor and are intrinsically linked to the expression of our views on corporate governance practices and to our monitoring of the corporate governance performance of the companies we invest in. This policy expands on the general concepts described in the RI policy in relation to corporate governance and sets out our approach to proxy voting.

This policy will at all times remain consistent with our RI policy.

4. Corporate Governance

Perpetual Investments supports the *ASX Corporate Governance Principles and Recommendations*, *Financial Services Council Guidance Note 2 – Corporate Governance: A Guide for Fund Managers and Corporations*, and commonly accepted good corporate governance practices including:

Respect for shareholders

- Boards and management should act in the interests of all shareholders;
- Corporate structures should ensure shareholders have voting power which is equal to their equity interest in the company; and

- Companies should ensure that their corporate disclosures provide the amount, quality and clarity of information required to make informed judgements on the performance of the company - including on its corporate governance practices.

Board function

- Boards should be comprised of a majority of independent directors;
- Chairmen should generally be an independent director, or where the chairman is not an independent director he/she should not also be the CEO;
- Directors should ensure that other commitments (including other directorships) do not interfere with the proper execution of their duties as a director;
- Nominations committees should be comprised of a majority of independent directors; and
- Boards should be comprised of individuals who have complimentary and relevant skills and experience that are appropriate to the activities of the company.

Auditors

- Audit committees should be comprised wholly of independent directors, or if this is not possible a majority;
- Audit committee chairmen should be independent directors who do not chair the company board; and
- Company auditor's relationship with the company should be restricted to their audit engagement and closely related activities, and in any case should not extend to any activities which could be perceived to impair their independence.

Remuneration

- Remuneration committees should consist of a majority of independent directors;
- Any Director remuneration outside standard director fees (e.g. for consulting) should be fully disclosed;
- Remuneration for senior management should seek to align the interests of management with the long-term interests of shareholders, including appropriate stretch-hurdles for performance based pay.

While we will actively promote these practices through the way in which we vote and our company engagement, we acknowledge that there are instances where one or more of these practices may not be possible during particular stages of a company's development or in certain circumstances e.g. for tightly-held companies. We will always consider a company's corporate governance practices in the context of what is in the best interests of our clients, and have appropriate regard to the company's circumstances.

5. Monitoring Corporate Governance and Company Engagement

Perpetual Investments will monitor the corporate governance practices of companies through independent research, proxy voting advice, and our investment analyst's in-depth knowledge of the company.

Perpetual Investments Australian Equities team employs a proven investment process where we only invest in companies that meet four quality filters:

- Strong balance sheet
- Recurring earnings
- Quality business and;
- Sound management

The quality and appropriateness of a company's corporate governance arrangements form part of our consideration of 'sound management'. Where we perceive a company's corporate governance has some material deficiencies but that management quality overall passes our filter, we will seek to engage with the company through direct contact at senior levels.

In addition to direct contact with companies Perpetual Investments investment managers have a number of forums in which they can exercise their influence, including:

- expressing concerns through the company's advisers
- voting against management resolutions at shareholder's meetings
- engaging in 'active public intervention'
- full or partial divestment.

Engagement with companies will always be conducted in accordance with the Corporations Act and in particular the insider trading provisions.

6. Proxy Voting

Voting at Australian company meetings is carried out by us on all resolutions where Perpetual Investments has the voting authority and responsibility to do so.

Perpetual Investments will vote on all Australian company resolutions regardless of the 'materiality' of that resolution. All resolutions are considered on a case by case basis with consideration from the analyst who covers the company. This

case is then presented to the Head of Equities and/or the Deputy Head of Equities for consideration and signing. Voting decisions will be made in the clients' best interests.

To assist in decision making we subscribe to independent external proxy advisory services. These services analyse the key governance issues in each company and provide recommendations on constructive communication by institutions with the company on those issues. They also analyse resolutions submitted by management for shareholder approval at annual or other general meetings and provide voting recommendations on those resolutions. While we consider these recommendations the final decision is made by the Head of Equities and/or the Deputy Head of Equities.

7. Public Disclosure

Perpetual Investments will publish annually on our website an aggregate summary of our Australian Proxy Voting records for the previous year for our direct investing managed investment schemes and public offer superannuation funds.

8. Institutional clients

The responsibility for exercising proxy votes for institutional clients funds is agreed between Perpetual Investments and the client and is incorporated into the Investment Management Agreement (IMA). The investment manager will, however, still be subject to any client's instructions on voting issues.

Voting rights exercised by the investment manager are reported back to the client by the Institutional Business Department of Perpetual Investments.

9. Review of this Policy

This policy is maintained by the Manager, Responsible Investment and Sustainability. The policy will be reviewed bi-annually or more frequently should circumstances require it.

Appendix 1: Additional guidance on remuneration practices

Perpetual's corporate governance and proxy voting policy provides Perpetual's house view on good corporate governance practices which equity investment managers should consider when deciding on engagement and proxy voting actions for companies. In relation to remuneration the policy states:

- Remuneration committees should consist of a majority of independent directors;
- Any Director remuneration outside standard director fees (e.g. for consulting) should be fully disclosed;
- Remuneration for senior management should seek to align the interests of management with the long-term interests of shareholders, including appropriate stretch-hurdles for performance based pay.

However, given the 'say on pay' reforms currently being implemented globally, and in particular the 'two strikes' rules being implemented in Australia from July 2011, we have developed this additional guidance for equity analysts and portfolio managers. The guidance incorporates generally accepted good practice and Perpetual's style and investment philosophy. This guidance should be used as a 'rule of thumb' measure for considering the appropriateness of remuneration practices.

While in general terms this guidance aligns with the more detailed CGI Glass Lewis Proxy Paper guidelines, it has been written to support Perpetual analysts in using their own judgement and expertise in making the final decision in relation to each company's remuneration report.

1. An independent remuneration committee should be allowed flexibility but must be made accountable for poor practices

- A remuneration committee with an independent chairman, who does not also chair the main board, and a majority of independent directors is in the best position to make decisions on the detail of remuneration practices.
- However, should practices significantly diverge from the general principles below without clear justification a vote against the chair of the remuneration committee should be considered along with voting against the report.
- Abstaining from votes on the remuneration report and potentially the chair of the committee in less serious departures from good practice should also be considered.
- Reasons for voting against or abstaining should be provided to the company.

2. Disclosure should be clear and unambiguous

- Generally simplicity rules. Arrangements which are so complex as to be difficult to estimate how minimum and maximum potential remuneration can be achieved should be questioned.

3. Desired behaviours should be understood and incentivised accordingly

- The appropriateness of the balance between fixed remuneration, STI and LTIs should be considered in the context of the analyst's detailed understanding of the company's size, stage of development, and current operating environment.

For example it may be appropriate for a company to have a greater weighting to milestone linked STIs than its peers if the company is implementing a transformational project (e.g. resource companies going from exploration to production or integrating a significant acquisition).

- STIs and LTIs should be role dependent for senior executives with particular care taken in formulating incentives for control functions (CFO and CRO). While there is no golden rule, incentives which have the potential to encourage accounting distortions or short termism should be avoided. For example a CFO with STI's that comprises >40% of remuneration should be closely examined.
- Use of multiple performance metrics for STI/LTI is preferable to a single measure as single measures risk executives having too narrow a focus. EBIT or other earnings based targets should be carefully balanced with other long-term targets (e.g. balanced scorecard, EVA, relative TSR etc) to avoid the risk that executives will under invest in the business to achieve short term targets.
- Deferment of STI's should be used to avoid short-termism and the temptation to distort shorter term outcomes.
- 'Long term' for LTIs should be a minimum of 3 years.
- The scaling of incentives should be encouraged so that an entire allocation is not forfeited for narrowly missed targets (which has the potential to encourage distorted accounting)
- Vesting arrangements which may not align with shareholder interests should be avoided. For example the automatic vesting of the full allocation of incentives on a change of ownership of the company.

4. Appropriate performance measures should be selected

- STI and LTI's must be stretch targets – analysts should consider their own and consensus forecasts for the relevant metric to judge whether targets are sufficiently challenging without being unrealistic.
- Where relative measures (most commonly relative TSR) are used they should be used against a representative and relevant peer group as opposed to broad multi-sector indices. For example; global companies should have global peers, sector and size should also influence the selected peer group. Where a representative peer group is too small, or where earnings are driven by broader market factors a different peer group maybe appropriate; ultimately the goal of relative measures should be to reward management for value added over and above external earning drivers.

- Both shareholder return derived and operational measures should be included. e.g. depending on the company the inclusion of safety, customer satisfaction, risk management (including environmental and social risks) or productivity improvements can ensure that a focus on the company's intangible and long-term performance drivers are being rewarded.

5. Total compensation should be reasonable and reflect actual performance

- Executive compensation which is materially out of line with peers should be closely examined and justified on value add or relative performance basis.
- Failure to achieve objectives should reduce STI and LTI outcomes and should not be overridden by boards unless circumstances are both exceptional and clearly justified.
- Significant increases in fixed remuneration should be closely examined and justified, particularly where it occurs at the bottom of the cycle, following a period of sustained underperformance (e.g. where increases in base salary could be perceived to be compensating for missed STIs) or where STI and LTIs are based on high multiples of base salary.

6. Managing conflicts of interests for short positions

- A second consecutive 25% no-vote on a remuneration report could have a negative share price impact and therefore pose a conflict of interest for the short side of a portfolio where remuneration votes could be used to trigger share price declines regardless of the merits of the remuneration report. Similarly where Perpetual is a significant holder of a company knowledge of voting intention by a short selling portfolio manager could provide a short selling opportunity that does not align with Perpetual's ethical standards.
- Perpetual manages this risk in several ways:
 - The portfolio manager responsible for the long short fund is not permitted to make or seek to influence voting decisions.
 - Perpetual has internal guidelines preventing the holding of >15% of an investee company's issued shares.

This information was prepared by Perpetual Investment Management Limited (Perpetual Investments) ABN 18 000 866 535, AFSL 234426. The information is believed to be accurate at the time of compilation and is provided by Perpetual Investments in good faith. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.



Further information

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www.perpetual.com.au/responsible-investing