

RESPONSIBLE INVESTMENT POLICY

OBJECTIVE

The objective of this policy is to set out Perpetual Investments' approach and expectations for considering environmental, social and corporate governance (ESG) factors in our investment decision-making and ownership practices.

SCOPE

This policy applies to Perpetual Investments employees responsible for making active investment decisions. This includes:

- investment analysts – who research and rate the quality and value of assets; and
- portfolio managers – who make the decision to buy, retain or sell a particular asset to achieve the objectives of an investment portfolio.

Perpetual Investments employees who make active investment decisions are in one of two business divisions being, Equities and Income and Multi Sector. The two divisions manage investments in the following asset classes:

- Australian equities
- global equities
- listed and unlisted property securities
- credit and fixed income (including mortgages).

The Income and Multi Sector division also has a 'fund-of-funds' (multi-manager) and diversified funds capability, to which this policy also applies.

In this policy these business divisions are collectively referred to as Perpetual Investments. Investment analysts and portfolio managers are referred to as investment managers.

Perpetual Investments investment management services are available to institutional, wholesale and retail investors through two of Perpetual Limited's wholly owned subsidiary companies:

- Perpetual Investment Management Limited (PIML); and
- PI Investment Management Limited (PIIML).

The policy applies to all of Perpetual Investments investment management services, regardless of the client or jurisdiction.

POLICY INVESTMENT DECISION-MAKING

It is our policy that, to the extent that information is available, investment managers must understand for each investment they manage:

- what ESG issues the investment is exposed to (risks and opportunities)

- how material the ESG issues are, taking into account industry and individual company exposure
- what impact material ESG issue are likely to have on the value, earnings and future prospects of the investment
- how well ESG issues are being managed, and therefore how likely the possible impacts are to occur.

OWNERSHIP PRACTICES

It is our policy that investment managers have a duty to use their influence as a shareholder/asset manager in order to achieve better investment outcomes over the long term. From an ESG perspective this means encouraging the Boards and management of investee companies:

- to have the processes and systems in place to identify and manage relevant ESG risks and opportunities effectively;
- to be transparent, honest and accountable, which includes providing the level of disclosure necessary for informed investment decision-making; and
- to implement corporate structures and management incentives which ensure the company is managed in the long-term interests of shareholders (which includes sustainable business practices).

For equity investments our investment managers have a number of forums in which they can exercise their influence, including:

- holding additional meetings with management to discuss concerns
- expressing concerns through the company's advisers
- meeting with the Chairman, senior independent director or with all independent directors
- voting against management resolutions at shareholder's meetings
- engaging in 'active public intervention'
- full or partial divestment.

For other asset classes, it is our policy to incorporate ESG considerations into Perpetual Investments' ownership practices in a manner appropriate to the nature of the asset, with a view to employing a range of direct and indirect methods.

OTHER REQUIREMENTS

The United Nations Principles for Responsible Investment (PRI) and formalised ESG integration are relatively new concepts, and while they have received broad industry support, the ways and means of practically applying the principles are still developing. While implementing this policy across all asset classes will take time, those responsible for administering the policy must have clear planning and reporting (including public reporting) in place which demonstrates that all facets of the policy are being considered and appropriately prioritised for each asset class.

UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT

The consideration of ESG factors in the manner described in this policy is known as responsible investment. To demonstrate our commitment to

responsible investment, we became a signatory to the PRI on 21 October 2009. The principles are:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

ROLES AND RESPONSIBILITIES

The Group Executive Equities is accountable for all aspects of Perpetual's responsible investment (RI) policy.

The Manager, Responsible Investment and Sustainability is responsible for the development and maintenance of Perpetual's RI framework and policies. Perpetual's RI framework includes the support, monitoring and reporting elements necessary to ensure transparent and thorough implementation of this policy.

If you would like more information on this policy please email pri@perpetual.com.au

REPORTING AND REVIEW

We will publicly report on our progress in implementing this policy annually. Perpetual Investments' RI framework governs all other internal and external reporting requirements.

The policy will be reviewed bi-annually or more frequently should circumstances require it.

CONTEXT - WHAT RESPONSIBLE INVESTMENT MEANS TO US INVESTMENT DECISION-MAKING

Our duty to our clients requires us to seek the best risk-adjusted investment returns over specified time periods. We satisfy this obligation by focusing on both the quality and value of possible investments. This proven investment philosophy recognises that while traditional financial measures are an important consideration, extra-financial factors can also influence company¹ performance. We also recognise that the influence of these factors is growing and will require closer scrutiny as:

- an increased understanding of our effect on the environment coupled with a growing population force significant changes to economies globally, which will also impact the relative performance of individual businesses
- globalisation, the rise of non-government organisations and the free flow of information heighten social and environmental risks for an increasing number of companies
- businesses have become larger and more complex, and so require good corporate governance practices to ensure management accountability, transparency and focus, while avoiding unethical practices.

For us, the consideration of ESG factors does not include making ethical or moral judgements on particular practices or issues². Instead, when deciding whether to buy, retain or sell an investment, our investment managers consider those ESG risks and opportunities that are relevant to the current or future value of the investment³. Some examples are shown in table 1.

1 Throughout this document wherever 'company' is used, this could equally relate to other non-equity assets managed by Perpetual Investments including mortgages, other managed funds and trusts, and fixed income securities).

2 Unless it is part of a discrete portfolio's investment objectives e.g. Perpetual's Ethical SRI Fund (in these cases the 'ethical' judgements are made by an independent research provider).

3 For our multi-manager team considering these risks would include an assessment of how underlying investment managers consider the ESG factors, and may include looking through to the underlying assets as evidence of a manager's process.

TABLE 1 – ESG RISKS AND OPPORTUNITIES

Risk	Description	Example
Reputational	Practices or incidents which have the potential to result in media or public action against a company. Damage to a company's reputation can result in reduced sales and distract management from managing the business.	Child labour, whether used in a company's direct operations or in its supply chain, can damage a company's reputation resulting in consumer boycotts. Child labour and other labour practices are particularly prevalent in today's globalised economy.
Regulatory	Changes or pending changes in regulation can result in a company facing increased costs, reduced revenues, or the reputational and financial costs of being prosecuted for a violation of law. The preparation for and management of regulatory changes can be as important as the effect of the changes themselves.	Emissions trading or other regulation designed to constrain greenhouse gas emissions. While these regulations have been on the horizon for a considerable period of time, not all affected companies have adequately prepared, which will create a competitive advantage for those that have begun to lower the emissions intensity of their operations.
Legal	Adverse effects from a company's products or services (whether intentional or not) that demonstrate a failure in a company's duty of care can result in legal action by victims that create liabilities, damage the company's reputation and distract management from managing the business.	Asbestos products; where companies did not react quickly enough to evidence that the product caused serious health issues. Companies who failed to warn and protect employees from exposure have since been required to pay billions of dollars in compensation.
Competitor	Companies who fail to recognise or act on changing social or consumer demands related to ESG trends and therefore sacrifice competitive advantage.	Demand for fuel efficient vehicles because of environmental concerns and rising oil prices allowed manufacturers of more efficient vehicles (including hybrids) to gain market share, particularly in the American auto market.
Systemic	Systemic issues or shifts that result in changes to a company's operating environment and therefore require contingency planning and investment.	Many experts predict peak oil will occur within the next 20 to 50 years if it hasn't already. Energy intensive businesses need to plan for the increasing costs of energy and the potential for supply disruption. Planning may include measures such as energy efficiency and diversification of supply.

OWNERSHIP PRACTICES

Considering ESG factors in this way can have three possible outcomes:

1. The risks are too high compared to the likely reward and so the investment is not made, or is fully or partly sold.
2. The risks are significant but the likely reward is sufficient compensation for the risk and so an investment is made or is held.
3. The risks are low and so ESG factors are not a major consideration in making the investment decision.

In all three scenarios, as an active manager, we may choose to engage with the management and Board of the company to raise ESG and other concerns and encourage more focused management of the issues. Increased recognition and improved management of ESG risks will enable companies to better deal with a changing

environment and may improve their overall performance. This approach is well aligned with Perpetual's investment philosophy which includes filters for sound management and quality of business.

INDIRECT OUTCOMES OF INTEGRATING ESG

While we consider ESG factors in our investment decision-making and ownership practices in order to reduce investment risk, we are also aware of, and encourage, the broader benefits which improved ESG practices can bring including:

- higher standards of business conduct
- increased market efficiency
- sustainable environmental management, and
- ultimately a more cohesive and fairer society.

These indirect benefits do not contribute to our investment performance when

compared to a benchmark. However, if the investment management industry can help promote more sustainable economic growth, this should translate into higher and more consistent benchmark returns. For example, if investor engagement contributes to companies being better prepared for the regulatory and environmental impacts of climate change, a more efficient and less disruptive transition to a low carbon economy becomes more likely.

Notwithstanding the possibility of these indirect benefits it remains the responsibility of governments and broader society to set the rules and standards by which businesses are held to account. In this context we will always look to maximise the investment returns of our clients given the prevailing social and regulatory norms.

MAY 2010

This is to certify that we, Perpetual Investments' senior asset managers, have read and understood Perpetual Investments' Responsible Investment Policy. We endorse the policy and will support its progressive implementation⁴ within our teams in manner which is appropriate for the different types of assets we manage and the investment styles we employ:

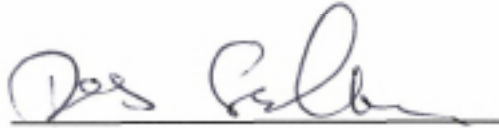
John Seviour
Head of Equities



Matthew Williams
Deputy Head of Equities



Des Sullivan
Chief Investment Officer (Joint)
PI Investment Management Limited



John Nolan
Chief Investment Officer (Joint)
PI Investment Management Limited



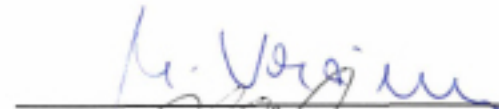
Ganesh Suntharam
Head of Quantitative Investments



Michael Korber
Head of Credit



Marion Kraemer
Head of Mortgages



Damien Webb
Head of Multi-manager



⁴ The implementation of the policy is governed by Perpetual Investments Responsible Investment Framework. The policy and framework require us to report on progress annually. Annual reports will be available on our website: www.perpetual.com.au/responsible-investing For more information please email pri@perpetual.com.au

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.

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APPENDIX 1: RESOURCE COMPANIES - ESG CRITERIA

BACKGROUND

Perpetual's four quality filters are the foundation of our Australian equities investment process. The four quality filters are:

- sound management
- conservative debt levels
- quality of business
- recurring earnings streams

Like other companies, environmental, social and corporate governance (ESG) risks and opportunities associated with the resources industry generally fall under the sound management and quality business filters. However, as there is significant interest in ESG risks for these industries we have developed this policy to highlight our approach to considering ESG risk and opportunities in the resources sector.

This document highlights some of the ESG factors we regularly consider for resources companies. Many of these factors are also relevant to non-resource companies while some are more commonly used for differentiating between different resource companies, for example by assessing:

- specific risks associated with the resource being extracted;
- different mine types and extraction methods employed; and
- geographic risks from sovereign risk to the difficulty of extraction in different environments.

These types of ESG considerations have been standard in our resource investments for many years.

However, given the increasing focus on ESG issues including; resource scarcity, environmental degradation, globalisation (including development of emerging economies) and climate change, it is important that investors like Perpetual formalise and clearly disclose those factors which can influence our investment decisions.

The formalisation and transparent disclosure of policies such as this ensures that our clients are well informed of how we manage ESG risks, and also sends a clear message to investee companies of how the management of non-financial factors can make them a more or less attractive investment.

The following pages detail the main considerations and engagement priorities we have when assessing resource companies for investment; however, it is not an exhaustive or 'one size fits all' list as each company will have unique circumstances.

Where the exposure to these risks is through outsourced providers or joint ventures we consider how the investee company assesses, monitors and manages those relationships.

The risks areas covered are:

- corporate Governance
- sovereign risks
- safety
- human capital management (HCM)
- community
- environmental management

It is important to note that we take a conservative and active approach in assessing these risks with a focus on protecting our clients assets and enhancing long-term investment performance.

ESG RISK CONSIDERATIONS FOR RESOURCE COMPANIES

CORPORATE AND SOVEREIGN GOVERNANCE

	Relevant to	Considerations	Assessment criteria	Resources
Corporate governance	All companies but of particular relevance to large, complex and/or geographically diversified companies or companies with high agency risks.	Board composition and independence	<ul style="list-style-type: none"> • Experience • Track record • Skill mix • Independent directors • Split CEO and chairman roles 	<ul style="list-style-type: none"> • Company reporting • Company meetings • AGM and meetings with independent directors • CGI Glass Lewis advice • Specialist remuneration research from Diogenes' Research • Other research
		Committee structures	<ul style="list-style-type: none"> • Number of committees • Independent directors • Board Chairman role • Reporting processes 	
		Executive remuneration	<ul style="list-style-type: none"> • Complexity • Mix of fixed, short and long term • Behaviours encouraged • Mix of performance measures • Stretch targets • Peer comparison 	
		Risk management and audit	<ul style="list-style-type: none"> • Risk management framework robustness and disclosure • Committee structures • Audit committee independence • Leadership and culture 	
		Shareholder rights and disclosure	<ul style="list-style-type: none"> • Voting rights • Use of mechanisms like poison pills and preferential shares • Minority shareholder rights • Responsiveness to criticism 	
Sovereign risk	Companies with a material proportion of assets in high risk countries.	Risk of appropriation	<ul style="list-style-type: none"> • Country record • Current conditions • Policies and management systems for bribery, corruption, community engagement • Company due diligence and past record 	<ul style="list-style-type: none"> • Analyst experience • Ability to perform site visits • External research (e.g. transparency international, Publish what you Pay) • Company reporting
		Risk of corruption		
		Social issues and stability		
		Respect for law and property rights		
	Materiality of company exposure	Determined by analyst/ portfolio manager and includes factors like of revenues, present and future capital requirements, future cash flows, all in the context of the level of specific country risk	<ul style="list-style-type: none"> • Analyst models • Company reporting 	

SOCIAL - INTERNAL AND EXTERNAL STAKEHOLDER RISKS

	Relevant to	Considerations	Assessment criteria	Resources
Safety	All companies.	Approach to managing safety (policy, systems, training)	<ul style="list-style-type: none"> Prominence of safety systems and assessment of culture on site visits Disclosure of systems and practice Management focus and remuneration linked to safety 	<ul style="list-style-type: none"> Site visits Company disclosure Incidents reported Management meetings and investor briefings
		Performance and response to incidents	<ul style="list-style-type: none"> Compliance with laws and regulations Use of best practice systems e.g. AS/NZS 4801 	
		Disclosure	<ul style="list-style-type: none"> Disclosure of leading and lagging indicators Disclosure of targets and plans for meeting them Explanation of missed targets and rectification plans 	<ul style="list-style-type: none"> Company disclosure Assessment by ESG researchers including sell-side Comparison to competitors
HCM	All companies, but particular where labour supply is tight or company relies on human capital/ intellectual capital.	Reputation	<ul style="list-style-type: none"> Disclosure of engagement scores Policies and processes for managing people e.g. EEO, flexibility, IR etc 	<ul style="list-style-type: none"> Company disclosure Assessment by ESG researchers including sell-side Comparison to competitors
		Retention and attraction	<ul style="list-style-type: none"> Employee turnover (absolute and relative) 	
		Diversity, anti-discrimination	<ul style="list-style-type: none"> Industrial action 	
Community	Companies operating in areas near or 'upstream/upwind' of existing communities. Including indigenous and non-indigenous communities particularly where the company relies on the community for a license to operate, labour, supplies, etc.	Approach to managing community relations including senior management focus	<ul style="list-style-type: none"> Level of community engagement by company including understanding who the company is talking to and what plans it has to cement positive relations Involvement of community leaders in development plans Use of local community labour Efforts to mitigate negative environmental or public health impacts from operations on communities Infrastructure and other benefits provided by the company 	<ul style="list-style-type: none"> Site visits Meeting with community representatives Engagement with companies Monitoring of NGO and government reports on specific issues Other ESG research
		Disclosure	<ul style="list-style-type: none"> Disclosure of approach Disclosure of payments made to governments (EITI)¹ Response to allegations of wrong doing and remediation plans 	<ul style="list-style-type: none"> Company disclosure Assessment by ESG researchers including sell-side

¹ Extractive Industries Transparency Initiative

ENVIRONMENTAL MANAGEMENT

	Relevant to	Considerations	Assessment criteria	Resources
Environmental management	All, however different operations will have different risks depending on the local environment and resource type.	Waste management – for both toxic and non-toxic waste streams and management e.g. preventing acid mine drainage, cyanide releases etc.	<ul style="list-style-type: none"> • Level of initial and ongoing stakeholder engagement • Demonstration of full life cycle planning including post closure • Environmental management plan's scale compared to the scale of the project • Understanding of unique characteristics of the site e.g. climate, biodiversity and geology • Robustness of monitoring program • Clear disclosure of key issues, management plans, targets and performance • Clear targets set for all key impacts • Senior management or board accountability for all key risks and meeting targets 	<ul style="list-style-type: none"> • Site visits • Management and company track record • Company assessments • Government and independent assessments • Management meetings and investor briefings • Controversy monitoring
		Water (pollution and competition for scarce supplies)		
		Emissions to air, dust, noise and other public health impacts		
		Biodiversity and habitat impacts		
		Land use and reclamation		
		Energy use, dependency		
		Greenhouse gas emissions		
		Disclosure		

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