

Perpetual ESG Australian Share screening process

Perpetual employs a rigorous investment process in managing our suite of Australian equities strategies. The Perpetual ESG Australian Share Fund employs this same disciplined process, but with additional screening based on Perpetual's environmental, social and governance (ESG) and values-based criteria, to give investors an opportunity to align their investments with their personal values and ESG preferences.



Overview

Responsible investment research requires specialist skills. Work in this field is aimed at evaluating a company's performance on a range of ESG and values-based criteria.

We utilise research from an external specialist to help us analyse the ESG practices of companies listed on the Australian market and overseas exchanges. Moody's ESG Solutions is our dedicated external specialist, based on their depth of research and quality of systems and resources. Additionally, Perpetual may draw on external ESG research from RepRisk, a global research provider covering a broad range of environmental, social and governance risks.

The Perpetual ESG Australian Share Fund has two exclusion screens, with which we assess companies, including:

- an exclusion for involvement in certain activities based on values-based criteria, and
- a performance screen based on an evaluation of companies' overall performance on ESG criteria.

Perpetual has a dedicated Responsible Investments team, which is responsible for the screening process. The team draws on internal and other supplementary specialist research to determine the company's suitability for inclusion in the Fund. Screening criteria may change over time to account for emerging issues.

When assessing companies, the Responsible Investments team is supported by specialist ESG research data provided by Moody's ESG Solutions. Moody's ESG research methodology is comprehensive and has been developed over their 30-year history¹.

Additionally, the team may draw on external ESG research from other sources including RepRisk, a global research provider covering a broad range of ESG issues.

The screening process

Companies² that have met Perpetual's broad quality investment criteria are then screened on a range of ESG and values-based criteria to determine their suitability for inclusion in the Perpetual ESG Australian Share universe and portfolio.

The screening process for the Perpetual ESG Australian Share Fund considers both ESG performance and values-based criteria.

This combined approach allows exclusions based on specific activities that conflict with the Fund's values-based criteria, while also identifying the performance of companies on a broader range of ESG criteria.

The ESG performance screening process includes a positive scoring element, which allows companies demonstrating ESG leadership to be rewarded in the analysis.

Stage 1: Values-based criteria

The values-based criteria means not investing in companies or issuers that derive a material proportion (5% or more) of their revenue³ from:

- ▶ the manufacture or sale of alcohol or tobacco⁴
- ▶ the operation of gambling facilities or the manufacture or supply of gambling products
- ▶ fossil fuels (exploration and extraction)
- ▶ uranium and nuclear
- ▶ animal cruelty (cosmetic testing)
- ▶ genetic engineering
- ▶ pornography
- ▶ armaments (including weapons)⁴

Stage 2: ESG criteria

The ESG screen is the second screening stage, where companies are scored on a broad range of environmental, social and governance criteria.

The negative and positive scoring criteria are outlined below.

Companies are scored (both positively or negatively) on their approach to or involvement in the ESG criteria shown in the following table. Companies can receive negative scores for poor management of the ESG criteria listed below. They can also receive positive scores for strong management approaches to ESG criteria and/or making ESG commitments, such as the use of renewable energy and inclusive employee policies.

The criteria used for scoring companies is not assessed uniformly, rather the weight of each criteria is based on the industry that the company is operating in. All company positive and negative scores are totalled and companies that receive a negative overall score fail this screen and are excluded from investment.

Environmental



- ▶ Environmental risk
- ▶ Environmental policy & strategy
- ▶ Environmental results
- ▶ Renewable energy use
- ▶ Product impacts
- ▶ E-positive products & services
- ▶ Chemicals of concern

Social



- ▶ Human capital
- ▶ Human rights
- ▶ Supply chain
- ▶ Community
- ▶ Animal rights
- ▶ Product impacts
- ▶ GMO

Governance



- ▶ Conduct/ethics approach
- ▶ Fines and other sanctions
- ▶ Bribery, fraud
- ▶ Class actions
- ▶ Other corporate misconduct

Companies with a negative total score fail this screen.

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- 1 For more information regarding Moody's ESG Solutions and methodologies, please visit: <https://esg.moody's.io/>.
 - 2 This includes affiliate companies whereby the company holds over 50% of voting rights in a subsidiary company and 20%-50% of the voting right in an associate company.
 - 3 Generally calculated using the total gross amount of income generated by the sale of goods or services from normal business operations.
 - 4 For involvement in the production of tobacco, manufacture of nicotine alternatives and tobacco-based products and the development, production and maintenance of controversial weapons, a 0% revenue threshold is applied.

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