

Responsible Investment Policy

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As a trustee company, supporting our clients for 135 years, our commitment has always been to earn trust through every action, every day and we continue to seek to build a sustainable future for our clients, our people and the communities we support. Increasingly, our clients want to invest with purpose, seek alignment with their values, and in a way that, at a minimum, does no harm. At Perpetual Private, we believe that Environmental, Social and Governance (ESG) issues should be considered as part all investment analysis and decision making as we believe it is a key component to building long-term sustainable value.

Purpose

The purpose of the Responsible Investment (RI) Policy (“the policy”) is to set out Perpetual Private’s approach for how we consider Environmental, Social and Governance (ESG) factors as part of our investment decision-making and ownership practices. The policy applies to members of the Perpetual Private Investment Research team, who are collectively responsible for investments recommended to our clients through the provision and execution of financial advice. It incorporates the product structures, entities, and investment portfolios applicable to the Perpetual Private business.

Our Responsible Investment Beliefs

We have developed a core set of responsible investment beliefs that are integral to how we invest and shape the way our investment research team makes decisions.

1. Sustainable

We believe that promoting more **sustainable economic growth** should translate to more attractive risk adjusted returns over the long term.

2. Integrated

We believe the most effective way of incorporating ESG factors into a portfolio is by embedding it into the **investment decision making process**.

3. Varied

We believe ESG factors can be **applied across most asset classes**, but the extent that they can be implemented will vary.

4. Material

We believe **ESG risks** can have a **material impact** on long-term portfolio outcomes and therefore must be managed appropriately.

5. Proactive

We believe **corporate engagement** and **shareholder action** can have a positive impact on companies’ behaviours and so it is important to engage with companies on ESG issues and exercise share voting rights.

6. Selective

We believe that **negative screens** should be reserved for the worst offenders as restricting the investment universe by too much could have adverse impacts on total portfolio risk & return and will reduce the ability for engagement.

Our Responsible Investment Framework

At Perpetual Private, we define Responsible Investment as a holistic strategy and practice that incorporates ESG factors in investment decisions. We believe that the investment management industry can help promote more sustainable economic growth by investing in businesses and assets that consider social and environmental impacts as part of delivering value to investors. This should translate into more attractive risk adjusted returns.

1. ESG Integration

As a signatory to the United Nations-supported Principles for Responsible Investment (UNPRI), Perpetual Private incorporates ESG issues into all our investment analysis and decision-making processes with the aim of achieving better and more sustainable investment outcomes, over the long term, for our clients. Where we hold direct assets, such as Australian Equities, ESG considerations are intrinsic to the way in which securities are selected. This structure also enables us to tailor portfolios to align with our clients' own missions and values. The table below outlines some examples of the ESG factors that we consider as part of our investment process.

Our Responsible Investment Framework



Environmental

- Climate change
- Pollution and waste
- Green energy transition
- Natural resource scarcity



Social

- Modern slavery
- Gender diversity
- Human rights



Governance

- Board composition
- Executive compensation

Manager Selection Process

The Perpetual Private manager selection process incorporates ESG considerations as part of the due diligence of all investment managers. An integral part of our approach is to understand how these managers identify ESG opportunities and manage risk. This may include:

- A review of the investment manager's ESG policy.
- Whether the manager is a signatory of the UN Principles of Responsible Investment
- An understanding of how ESG risk management is built into the manager's investment process.
- Determining whether ESG risks are being carefully considered as part of the asset or security selection process.
- Ensuring ESG risk management is appropriately built into proxy voting policies, where applicable.
- Consideration of how ESG issues are being managed within the portfolio by the external investment manager and how these ESG issues may impact Perpetual Private's portfolios.

Once an investment manager has been selected, Perpetual Private then engages with the manager and monitors the integration of responsible investment into their processes. Where mandates have been implemented, this will involve a look through to the underlying holdings. For unitised funds, we will seek reporting from the managers.

2. Screening

Exclusion vs Divestment

At Perpetual Private we believe the most effective ESG approach includes a combination of divestment and active engagement, where the worst-case offenders are excluded on a case-by-case basis. This should include a quantitative and qualitative assessment only removing securities where engagement is deemed unviable. This is because exclusionary screens alone can have negative as well as positive implications. This is because divesting from companies or excluding whole sectors can:

- Reduce the ability for investors to have influence over a company's behaviour
- Reduce the ability to engage and create meaningful change
- Limit and restrict the investable universe to a level which could increase volatility and impact returns
- Exclude industries that are required for long term sustainable growth

We believe this approach is most effective for equity and fixed income asset classes. This is more difficult for alternative asset classes such as real estate, infrastructure, private equity and private credit. However, we believe ESG factors can be successfully incorporated into the investment process for these asset classes to help manage these risks and promote more sustainable economic growth.

Tobacco

In January 2019, Perpetual Private removed Tobacco – as defined by the Global Industry Classification Standards (GICS¹) – from our Australian and international shares asset classes. As a result of this change, manufacturers of cigarettes and other tobacco products are not eligible for inclusion.

¹ GICS is a method developed by MSCI and Standard & Poor for assigning companies to a specific economic sector and industry group that best defines its business operations

Australian Direct Equities

All our approved investments undergo a rigorous selection process and must satisfy our quality filters, which includes an assessment of ESG risks, before being recommended to client portfolios. Our screening process then allows us to exclude securities from the portfolio.

This approach can be tailored to incorporate clients' own views and beliefs on screening.

3. Active Ownership and Engagement

We believe that Perpetual Private has a duty, as an investor and owner/manager of assets on behalf of our clients, to achieve better risk adjusted returns over the long term. We believe that it's important to act as a responsible steward of capital using dialogue and our shareholder rights to act where necessary.

We delegate shareholder voting to the managers we invest with. Therefore, as part of our manager selection process we assess voting policies to ensure their approach considers the best interests of investors and aligns to our policies.

In the case of Australian direct equities, we believe that the most effective engagement with a company on specific issues is through direct discussions with senior management and/or the board of directors. We also exercise our shareholder votes where practicably possible.

4. Thematic Investing

Thematic investing involves identifying the elements of ESG that are most meaningful to you or your organisation and selecting investments based on their ability to drive the development of those themes. These themes can differ between individuals or organisations and as such, tailoring is often required.

This type of investing is not without its risks. For example, it can result in a higher concentration in individual sectors which will lead to more cyclical performance. This can result in periods where the portfolio can substantially differ from the broader market. We therefore do not believe it is appropriate to apply this approach to all portfolios.

Where a client is looking to incorporate thematic investing, we have a range of ESG model portfolios and approved managers that identify and target specific ESG themes more directly.

Climate Change

At Perpetual Private, we believe that climate change creates both investment risks and opportunities for all our investment recommendations and as such reflects the need for an orderly transition to a climate resilient economy. We acknowledge, in line with the best available science on the impacts of climate change, there is an urgent need to transition towards global net zero greenhouse gas emissions and that asset managers and owners can play a significant role.

There is a growing understanding of what needs to be done to minimise climate change and a recognition of the industrial and technological change required to achieve it. We acknowledge that a need for 'green' minerals – the minerals that will be required to operate the technology to support a transition to net zero – as being critical for a successful transition to a low carbon economy.

We aim to guide clients and stakeholders through the risks and opportunities posed by climate change and to reduce our own carbon footprint.

Our aspiration is for the investments covered by this policy to be aligned to net zero by 2050. Before Perpetual Private makes this commitment, we are in the process of working with our managers on how best to achieve this. We plan to build out net zero targets over the next year and will keep our clients updated on our progress and approach.

Mining Responsibly

Perpetual Private has never held the view that extracting natural resources is an unpalatable investment, in and of itself. The issue has been that it has needed to be done more responsibly. In other words, mining that considers all stakeholders and takes account of its environmental impact.

The mining industry over the last decade has evolved to incorporate ESG factors into standard operating models and strategies. Some companies have made more advances than others, and this is enabling us to take a closer look at the sector through a responsible investment lens. We believe that if we direct capital to where it is needed then society can benefit from ensuring positive change.

Modern Slavery

We recognise we have a responsibility to reduce the potential for harm caused by modern slavery as it relates to our business and our investments on behalf of our clients. As part of our reporting under the 2018 Commonwealth Modern Slavery Act, Perpetual's Modern Slavery Statement outlines our approach to identify and assess the risks of modern slavery and the actions we are taking internally to manage those risks. This approach has been formalised in our Modern Slavery Framework and is facilitated by a dedicated working group which oversees our activities on this important issue.

UN Sustainable Development Goals

The United Nations Sustainable Development Goals (SDG) recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests. Whilst we do not specifically use these goals as a framework for our investing, our RI process has been designed to support the progression of these goals and we will consider them when assessing and reporting on our approach.

Industry Collaboration

Perpetual Private is a signatory to the United Nations-supported Principles for Responsible Investing (UN PRI), joining in 2017 and Perpetual as a firm has been a member of the Responsible Investment Association of Australasia (RIAA) in 2012.

Signatory of:



Governance, Reporting and Review

Scope

Perpetual Private makes active investment decisions for single and multi-asset class multi-manager funds and portfolios, as well as recommendations of managed and listed securities via model portfolios and the Approved Product List. Perpetual Private invests globally through a range of different asset classes and therefore requires a responsible investment approach that applies to all investment activities. The way responsible investment is integrated will differ depending on the investment characteristics of each strategy.

The policy applies to all Perpetual Private investment management services, regardless of the client or jurisdiction. The policy has been endorsed by the PTCO Investment Committee which is a delegated board committee of various Perpetual entities, including Perpetual Investment Management Limited (PIML).

Roles and Responsibilities

Key responsibilities for the maintenance and implementation of this policy are outlined below:

Perpetual Investment Management Limited (PIML)	Retains ultimate responsibility for governing advice, investment management and trustee duties.
Perpetual Private Investment Committee (PP IC)	The delegated authority for PIML which will approve and monitor against this policy.
Perpetual Private Investment Research Team (PPIRT)	The Investment Research team will manage investments and ensure on-going compliance with the policy.

The Perpetual Private Investment research team is responsible for the Responsible Investment related reporting and review of all Perpetual Private portfolios. This includes:

- Ensuring ESG factors are appropriately considered throughout the entire investment process.
- Ensuring this policy is implemented.
- Ensuring we report annually on our progress and approach to Responsible Investment.
- Monitoring of each appointed external investment manager's ESG policy and incorporation of ESG risk factors into their decision-making processes.
- Reviewing this policy if relevant legislation or regulation requires change.

This publication has been prepared by Perpetual Investment Management Limited ABN 18 000 866 535 and AFSL 234426. It contains general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial or other adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. To view the Perpetual Group's Financial Services Guide, please click [here](#).

Find out more

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