Perpetual Investments

RESPONSIBLE INVESTMENT POLICY

September 2017

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 make active investment decisions across strategies that cover:

- Australian equities
- Global equities
- Credit and fixed income, and
- Diversified strategies.

Perpetual Investments' investment management services are generally available to institutional, wholesale and retail investors through the wholly owned subsidiary company, Perpetual Investment Management Limited (PIML).

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

The policy has been endorsed by PIML's senior asset managers (see page 4) and approved by the PIML Board.

POLICY

INVESTMENT ANALYSIS AND DECISION-MAKING

It is our policy that, to the extent that information is available, investment managers should incorporate ESG issues into investment analysis and decision-making. Enacting this policy may involve an analysis of:

- What ESG issues (risks) the investment is exposed to
- 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, and
- How well ESG issues are being managed, and therefore how likely the possible impacts are to occur.

The impact of this analysis on investment decision-making is discussed further in the 'Context – What responsible investment means to us' section on page 2.

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).

Perpetual

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

- Expressing concerns to the company's management directly
- Expressing concerns through the company's advisers
- Meeting with the Chairman, senior independent director or with other independent directors to express concerns directly
- Exercising our voting rights regarding management resolutions at shareholder's meetings
- Engaging in 'active public intervention', and
- 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-supported Principles for Responsible Investment 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. The processes for implementing this policy across all asset classes will continue to evolve over time.

UNITED NATIONS-SUPPORTED PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

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 PRI is the world's leading proponent of responsible investment. The PRI's six principles for responsible investment 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, Perpetual Investments is accountable for all aspects of Perpetual's responsible investment (RI) policy.
- Perpetual's senior asset managers support the implementation of this policy within their teams as appropriate.
- The Manager, Responsible Investment is responsible for the development and maintenance of Perpetual's RI framework and policies and supporting 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 our approach to ESG annually through our reporting to the PRI at https://www.unpri.org/organisation/perpetual-investments-143560. More information can be found at https://www.perpetual.com.au/Investments/Institutional-Investors/Responsible-Investing/

The policy will be reviewed 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 company[1] 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, and
- 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.

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

For us, the consideration of ESG factors does not include making ethical or moral judgements on particular practices or issues[2]. Instead, when deciding whether to buy, retain or sell an investment, our investment managers consider those ESG risks that are relevant to the current or future value of the investment[3]. Some examples are shown in table 1.

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.

OWNERSHIP PRACTICES

In all three scenarios above, 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
- Improved outcomes for company stakeholders including employees, customers, suppliers and the broader community and
- Ultimately a more cohesive and fairer society.

We believe that if the investment management industry can help promote more sustainable economic growth this should translate into higher and more consistent investment 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.

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.	New regulations in recent years to constrain the growth of unconventional (e.g. coal seam) gas exploration and production have negatively impacted the value of effected companies and their assets.
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 very significant monetary 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.

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 informed by an independent research provider, based on the Fund design) or investment mandate.

3 Where we use external investment managers, 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.

SEPTEMBER 2017

This is 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 implementation within our teams in a manner that is appropriate to the different types of assets we manage and the investment styles we employ:

PAUL SKAMVOUGERAS HEAD OF EQUITIES	
VINCE PEZZULLO DEPUTY HEAD OF EQUITIES	
MICHAEL O'DEA HEAD OF DIVERSIFIED STRATEGIES	
MICHAEL KORBER HEAD OF CREDIT	
GORDON THOMPSON SENIOR PRODUCT MANAGER – PLATFORMS	

MORE INFORMATION

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