

OUR ETHICAL SRI SCREENING PROCESS

Perpetual employs a rigorous investment process in managing our suite of Australian equities strategies. The Perpetual Ethical SRI strategy employs this same disciplined process, but with additional Ethical and SRI screens, to ensure that all investments held in the Fund match investors' personal social, environmental and ethical preferences more closely.



OVERVIEW

Ethical and socially responsible investment (SRI) research requires specialist skills. Work in this field is aimed at evaluating a company's performance on a range of environmental, social, governance (ESG) and ethical criteria which have been traditionally regarded as unrelated to a company's financial performance.

We utilise research from an external specialist to analyse the ESG practices of companies listed on the Australian market and overseas exchanges. After examining a number of SRI research providers, we chose V.E (formerly Vigeo EIRIS) as our dedicated external specialist, based on their depth of research and quality of systems and resources. Additionally, the team may draw on external ESG research from RepRisk, a global research provider covering a broad range of environmental, social and governance risk.

Perpetual's Ethical SRI strategy has two screens, including:

- an exclusion for involvement in certain industries, and
- a performance screen based on an evaluation of companies' overall sustainability performance on SRI criteria.

Perpetual has a dedicated Responsible Investments team, which oversees the screening process and may draw on internal and other supplementary 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 V.E. V.E's research methodology covers 330 ESG indicators and has been developed over their 30-year history. V.E research coverage extends to more than 4,700 listed companies.

Additionally, the team may draw on external ESG research from RepRisk, a global research provider covering a broad range of environmental, social and governance issues.

THE SCREENING PROCESS

Companies that have met Perpetual's broad quality investment criteria are then assessed on a range of ESG and ethical issues to determine their suitability for inclusion in the Ethical SRI universe and portfolio.

The screening process for the Ethical SRI strategy is a combination of ethical screening and an SRI performance screening process.

This combined approach allows exclusions based on specific unethical activities while also identifying the performance of companies on a broader range of SRI factors.

The SRI performance screening process includes a positive scoring element, which allows companies demonstrating ESG leadership to be rewarded in the analysis. This provides a wider scope for differentiation of companies from a socially responsible perspective, and is likely to become increasingly important as companies respond positively to greater investor awareness of ethical and social issues.

DIFFERENTIATION IS LIKELY TO BECOME INCREASINGLY IMPORTANT AS COMPANIES RESPOND POSITIVELY TO GREATER INVESTOR AWARENESS OF ETHICAL AND SOCIAL ISSUES.

STAGE 1: ETHICAL SCREENING

Stage one of the Ethical SRI screening process aims to exclude those companies that are significantly engaged in the production or sale of products and services determined to be ethically unacceptable to the manager's clients. These criteria are relatively objective and rely, where possible, on a quantitative assessment of revenue generated by the products and services. Where the proportion of a company's revenue from such activities exceeds 5% of total revenue, the company will be excluded from consideration for investment.

This step therefore deals with the type of industry the company operates in and the products and/or services that the company produces and/or sells.

The exclusion criteria are currently based on the following activities:

- ▶ alcohol
- ▶ gambling
- ▶ tobacco
- ▶ uranium and nuclear
- ▶ armaments (including weapons)
- ▶ fossil fuels (upstream)
- ▶ genetic engineering
- ▶ pornography
- ▶ animal cruelty (cosmetic testing)

STAGE 2: SRI SCREENING

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

This evaluates how a company's business practices impact on society and the environment. Companies can receive negative scores for poor behaviour, such as a poor approach to human rights, the environment or supply chain. They can also receive positive scores for worthwhile activities such as the use of renewable energy, positive employee policies or charity commitment. We believe this approach allows us to be more innovative in where we can add value for investors as it identifies companies that have responded positively to SRI or ESG issues.

Based on our policies, Perpetual allocates scores for performance in these areas using negative and positive scores. If the company's net total score is negative, the company fails the SRI screen and is therefore excluded from the Fund's investment universe.

The negative and positive scoring issues are outlined on the following page.

TABLE 1: SRI FILTER – SCORING ELEMENTS

Companies are scored (positively or negatively) on their approach to or involvement in the SRI issues shown in the following table. Issues are not scored uniformly but instead on the severity of the issues involved.

ENVIRONMENTAL	SOCIAL	GOVERNANCE
		
Environmental risk	Human capital	Conduct/ethics approach
Environmental policy & strategy	Human rights	Fines and other sanctions
Environmental results	Supply chain	Bribery, fraud
Renewable energy use	Community	Class actions
Product impacts	Animal rights	Other corporate misconduct
E-positive products & services	Product impacts	
Chemicals of concern	GMO	

COMPANIES WITH A NEGATIVE TOTAL SCORE FAIL THIS FILTER

This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426 and issued by Perpetual Trustee Company Limited (PTCo) ABN 42 000 001 007, AFSL 236643. It is 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 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. The PDS for the Perpetual Ethical SRI Fund issued by PIML should be considered before deciding whether to acquire or hold units in the fund. The PDS can be obtained by calling 1800 011 022 or visiting our website www.perpetual.com.au. No company in the Perpetual Group guarantees the performance of any fund or the return of an investor's capital (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries). FD20528 3090_1120

MORE INFORMATION

Adviser Services 1800 062 725
 Investor Services 1800 022 033
 Email investments@perpetual.com.au
www.perpetual.com.au

