

RESPONSIBLE INVESTMENT POLICY

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. The objective of this policy is to set out Perpetual Private's approach and an overview for considering environmental, social and corporate governance (ESG) factors in our investment decision-making and ownership practices. It has been prepared to specifically incorporate the product structures, entities and investment portfolios applicable to the Perpetual Private business.

Signatory of:



SCOPE

This policy applies to members of Perpetual Private's Investment Research team, who are collectively responsible for investments recommended to Perpetual Private's clients through the provision and execution of financial advice.

Perpetual Private makes active investment decisions for single and multi-asset class multi-manager funds and portfolios, as well as recommendations of managed funds and listed securities via model portfolios and the Approved Product List.

These funds and securities can be classified in the following asset classes and security types:

- Australian listed securities (including equities, hybrids and derivatives)
- Global listed securities (including equities, hybrids and derivatives)
- Listed property securities (including derivatives)
- Credit and fixed income securities (listed or unlisted, including hybrids and derivatives)
- Alternatives (including, but not limited to, private debt and equity, infrastructure, real estate and hedge funds).

Perpetual Private's investment management services are generally available to institutional, wholesale and retail investors through the wholly-owned subsidiary company, Perpetual Investment Management Limited (PIML), which acts as the Responsible Entity for internally managed funds, and Perpetual Superannuation Limited (PSL), which acts as trustee for Perpetual's superannuation products.

Perpetual Private's investment recommendations are provided to clients under its Australian Financial Services License (AFSL), held by Perpetual Trustee Company Ltd (PTCo). These investment recommendations are provided to clients in the following forms.

- 1** Incorporating the application of the prudent person test for:
 - decisions made as part of PTCo's role in delivering Trustee Company services (TTCS)
 - proposals made to Co-Trustees made as part of PTCo's role in delivering TTCS.
- 2** Providing financial product advice to retail and wholesale clients.
- 3** Via the provision of Managed Discretionary Services (MDA) to retail clients.

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

The policy has been endorsed by the boards of PIML, PSL and PTCO through the delegated authority provided to the PTCO Investment Committee.

POLICY

INVESTMENT DECISION-MAKING

It is our policy that, to the extent that information is available, Perpetual Private should incorporate ESG issues into our investment analysis and decision-making, as part of our investment screening. This may include:

- a review of the external investment manager's policy on ESG
- an understanding of the ESG issues (risks) associated with the underlying investments
- the materiality of the ESG issues, taking into account portfolio company and industry level issues
- an analysis of the potential impact the identified material ESG issues may have on the value, earnings and potential performance of the investment
- a review 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.

OWNERSHIP PRACTICES

We believe that Perpetual Private has a duty, as an investor and manager of assets, to achieve better investment outcomes over the long term. In light of our ESG Policy this includes:

- to have processes and systems in place to identify and manage relevant ESG risks and opportunities
- to proactively monitor and engage with external managers on the ESG issues associated with Perpetual Private's investments, namely through investor forums and corporate actions
- to be transparent, honest and accountable, which includes providing the level of disclosure to investors necessary to make informed investment decisions in line with their investment strategy and risk tolerance
- to encourage external investment managers to implement corporate structures and management incentives, which ensure the investment strategy is managed in the long-term interests of investors (this includes sustainable business practices).

We will apply both indirect and direct methods when applying our ESG considerations into Perpetual Private's investment practices. These strategies may include:

- expressing concerns to the external investment manager during a scheduled review or on an ad hoc basis
- providing feedback on ESG issues through the external investment manager's distribution partner
- meeting with the chairman, senior independent director or with other independent directors of the external investment manager and direct investments
- engaging in 'active intervention' including exercising our voting rights regarding management resolutions at unitholder/investor meetings
- full or partial divestment (where practical).

PRINCIPLES FOR RESPONSIBLE INVESTMENT

To demonstrate our commitment to responsible investment, Perpetual became a signatory to the United Nations-supported Principles for Responsible Investment (PRI) on 28 July 2017.

The United Nations-supported 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.

The principles include:

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

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 demonstrate that all facets of the policy are being considered and appropriately prioritised for each asset class.

ROLES AND RESPONSIBILITIES

The Head of Investment Research, Perpetual Private is accountable for all aspects of Perpetual Private's responsible investment (RI) policy.

The Head of Investment Research for Perpetual Private 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 please email pcresearch@perpetual.com.au

REPORTING AND REVIEW

We will report on our progress in our approach to ESG annually.

Perpetual Private's internal Responsible Investment framework governs all other internal and external reporting requirements.

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

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 in line with applicable investment strategies and investment policy statements. We satisfy this obligation by focusing on the quality and downside protection of possible investments.

While traditional research measures are important considerations, external ESG factors can also influence investment¹ performance. We recognise that the following factors are becoming increasingly important when it comes to investment decision making:

- An increased understanding of our effect on the environment coupled with a growing population will force significant changes to economies globally, which will also impact the relative performance of portfolio companies.
- 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.

When deciding whether to buy, retain or sell an investment, Perpetual Private considers those ESG risks that are relevant to the current or future value of the investment.

Some examples are shown in **Table 1**. Where we use an external investment manager, considering these risks would include an assessment of how underlying investment managers consider the ESG factors, and may include looking through the underlying assets as evidence of a manager's process.

For Perpetual Private, the consideration of ESG factors does not include making ethical or moral judgements on particular practices or issues on behalf of our clients, unless it is part of a portfolio managed by Perpetual Private which has stated 'ethical' objectives. Where a portfolio is constructed using a multi-manager approach and is designed to have specific 'ethical' objectives, Perpetual Private will undertake an assessment of the ESG /ethical screens employed by the manager and how they are incorporated into the investment process.

OWNERSHIP PRACTICES

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

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

INDIRECT OUTCOMES OF INTEGRATING ESG

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

- higher standards of business conduct
- increased market efficiency
- sustainable environmental management
- improved outcomes for investors and the broader community
- a more cohesive and fairer society.

For example, if investor engagement contributes to better preparation 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: EXAMPLE ESG RISKS AND OPPORTUNITIES

RISK	DESCRIPTION	EXAMPLE
Reputational	Practices or incidents that 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 effects of the changes themselves.	New regulations in NSW in recent years to constrain the growth of unconventional (e.g. coal seam) gas exploration and production have negatively impacted the value of affected companies and their NSW 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 that failed to warn and protect employees from exposure have since been required to pay very significant monetary compensation.
Competitor	Companies that 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.

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This is certify that we, Perpetual Private's investment managers, have read and understood Perpetual Private's Responsible Investment Policy. We endorse the policy and will support its progressive implementation within our teams in a manner that is appropriate to the different types of assets we manage and the investment styles we employ.

Kyle Lidbury
Head of Investment Research



Stephen Kench
Head of Direct Equities



David Blunt
Portfolio Manager



Daniel Nelson
Portfolio Manager



1 Throughout this document wherever 'investment' is used, this should be taken to mean assets managed by Perpetual Private, including public equity, public debt, private equity, private debt, infrastructure, hedge funds, real estate, or other managed funds and trusts, and fixed income securities.

Perpetual Private advice and services are provided by Perpetual Trustee Company Limited (PTCo) ABN 42 000 001 007, AFSL 236643. This information has been prepared by PTCo. It contains general information only and is not intended to provide you with advice or take into account your objectives, financial situation or needs. You should consider whether the information is suitable for your circumstances and we recommend that you seek professional advice. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries.

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MORE INFORMATION

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