

# RESPONSIBLE INVESTMENT POLICY

2023

## 1. OBJECTIVE

The objective of this policy is to set out Perpetual Asset Management, Australia's ("PAMA" or "we") approach and expectations for considering environmental, social and corporate governance (ESG) factors in our investment decision-making and ownership practices or otherwise referred to as "responsible investment" (RI). For further information on responsible investments, refer to section "CONTEXT - WHAT RESPONSIBLE INVESTMENT MEANS TO US" on page 4.

## 2. SCOPE

This policy applies to PAMA personnel 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.

PAMA makes active investment decisions across strategies that cover the following asset classes:

- Equities
- Credit and fixed income, and
- Multi-asset strategies.

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

The policy applies to PAMA's investment management services regardless of the client or jurisdiction, which are provided by PIML, when it is acting in the following roles:

- responsible entity of a managed investment scheme;
- trustee of a trust; or
- investment manager of a managed investment scheme, trust, or mandate,

(collectively referred to as "investment manager" in this policy).

## 3. PREAMBLE

### PERPETUAL LIMITED

PAMA is a business unit of Perpetual Limited ("Perpetual"). Perpetual is an ASX-listed, diversified financial services company. Perpetual and its related bodies corporate have been serving Australians since 1886. Across our four businesses – PAMA, Perpetual Asset Management International (PAMI), Perpetual Private and Perpetual Corporate Trust – Perpetual aims to protect and grow our clients' wealth, knowing that by doing so we can make a difference in their lives. Every day we continue to strive to earn the trust of our clients.

Perpetual's corporate purpose – 'Enduring Prosperity' – embodies these aims. Our values - integrity, partnership and excellence – define how we pursue these objectives.

In addition to our clients, at Perpetual we are proud of the other positive impacts our business has had on society and our other stakeholders. Some examples are:

- Philanthropy is a major part of Perpetual's culture. Perpetual is trustee for over a thousand charitable trusts and endowments and works every day with philanthropists and Not-For-Profit organisations.
- Our vision for indigenous reconciliation is a better, more equal Australia, where every child can go to school, grow up, have a job and make a contribution. Where every community is safe to live, work and play. As a corporate leader, we recognise our social and economic responsibility to create opportunities for greater participation in the economy by all Australians. Perpetual is committed to actions that will open up these opportunities, including our Reconciliation Action Plan.
- Perpetual has maintained its Workplace Gender Equality Agency Employer of Choice citation for 2021, for the fourth year running.

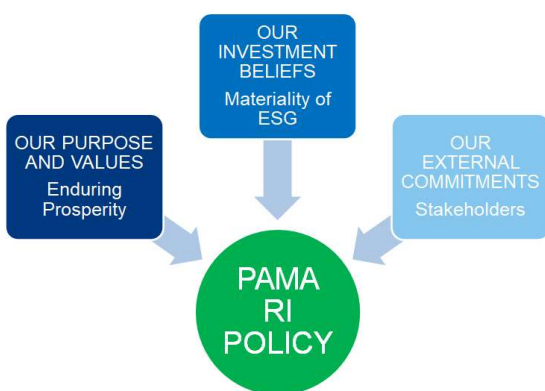
## PAMA

In terms of RI, PAMA has been a responsible steward of clients' funds for many years. That is, our investment processes have always carefully considered investment risk when investing client capital – for example our Australian equities process seeks to ensure we only invest in quality companies that we consider will prove to be long-term investments. The value philosophy underpinning this process typically has outperformed in times of negative financial market returns, when minimising the negative impact on client's returns is paramount. The Australian equities team also has a long track record of being an active investor, including engaging with companies to encourage them to improve their ESG practices, where we believe it is the best interests of the investors in our funds.

Over time we recognise that the relevance of RI issues to the performance of our investment products has become more apparent and consistent with our fiduciary responsibilities as an investment manager, where applicable in accordance with the law.<sup>1</sup> We recognise the growing expectation that companies conduct themselves responsibly and sustainably. Perpetual has a long-standing commitment to responsible investing; and in 2009 PAMA became a signatory to the United Nations supported Principles for Responsible Investment (PRI).<sup>2</sup> The PRI is the world's leading proponent of RI.

We note that across asset classes and investment capabilities, the ways and means of practically applying the principles are still developing. The processes for implementing this policy across all asset classes and investment capabilities will continue to evolve over time. There are certain investments where ESG factors are not taken into account when deciding whether to select, retain or sell an investment. This may include derivatives, commodities and ETFs.

In summary, this policy is driven by our corporate purpose and values, the increasing relevance of RI to our investment products and the expectations of our clients and other stakeholders:



There are foundational elements of our approach to RI which underpin our investment activities in equities and fixed income and credit:

### What We Believe

- We believe ESG risks and opportunities impact the long-term investment performance of our clients' portfolios and our funds
- We believe that, aligned with being active managers, being active stewards of our clients' capital can improve the investment outcomes for our clients, including in regard to ESG issues
- We believe that improving ESG practises can have broader benefits, like improved outcomes for our investee organisation's stakeholders and broader society
- We believe that some of our clients wish to align their investments with additional ESG principles or values
- We believe our success as a business is dependent on a sound approach to ESG within our own business.

### What We Do

- We integrate consideration of ESG issues into investment analysis and decision making within investment portfolios where these issues are assessed by PAMA personnel to be relevant to the current or future financial performance of an investment<sup>3</sup>
- We engage and advocate for positive change on relevant ESG issues where we can have influence with our investee organisations and policy-makers and we believe it is in the best interest of our clients
- We utilise our shareholder rights to vote at company meetings and lodge or support shareholder resolutions where appropriate
- We join industry and other collaborative initiatives with other like-minded investors to help achieve our ESG goals
- We disclose our approach to ESG to our clients and other stakeholders
- We offer specialist ESG investment strategies that incorporate additional ESG considerations to meet the various investing principles or values of our clients
- We implement appropriate ESG principles within our own business

<sup>1</sup> See *2019 Fiduciary Duty in the 21st Century - PRI, UNEP Finance Initiative*

<sup>2</sup> In 2009, PAMA was known as Perpetual Investments.

<sup>3</sup> For further information on how we integrate ESG factors into our investment decision making process, refer to "CONTEXT – WHAT RESPONSIBLE INVESTMENT MEANS TO US".

## 4. POLICY

### INVESTMENT ANALYSIS AND DECISION-MAKING

It is our policy that investment managers should incorporate ESG issues into investment analysis and decision-making where relevant and possible to each investment capability and asset class.

In enacting this policy, ESG will be relevant to all our fundamental, active investment capabilities where these issues are assessed by PAMA personnel to be a factor that may impact the current or future financial performance of an investment. 'Incorporate ESG issues' typically refers to an analysis of:

- What ESG issues the investment is exposed to and whether any of these factors present risks to the investment's current or future financial performance;
- What impact ESG issues are likely to have on the investment's prospects; and
- How well ESG issues are being managed by the company, and therefore how likely the possible impacts are to occur.

We recognise that ESG risks will vary across asset classes and capabilities. There are certain asset classes where ESG factors are not taken into account when deciding whether to select, retain or sell an investment. This may include derivatives, commodities and exchange traded products.

Investment opportunities of an ESG nature are also considered as part of our normal investment activities in Australian equities and fixed income and credit.

We use a variety of ESG incorporation tools and processes to implement this policy, for example:

- Australian equities – an ESG integration tool that we have developed called the 'ESG Workbook', which draws together both internal and external research using qualitative and quantitative data to highlight a company's ESG risks and issues. This tool provides the portfolio manager with information to assess as part of their investment decision-making process whether these factors may have an impact on the current or future financial performance of the company. Examples of ESG related information captured in the tool include the company's environmental policy, worker health and safety policy and corporate governance.
- Perpetual Global Innovation Share Fund– the Portfolio Manager reviews ESG data and internal and external research to highlight a company's ESG risks and issues. An assessment is made on those risks and issues that are likely to impact a company's future earnings and valuation when making investment decisions. The research focuses on governance issues such as board composition and shareholder rights, social issues such as human capital development and environmental considerations such as carbon emissions.

- Credit and Fixed Income – our ESG Risk Scoring process, which includes internal and external research on an issuer's approach to managing ESG factors and the issuer's revenue sources, allows credit analysts to assess as part of their credit research on each corporate issuer the ESG risks of that issuer and whether the issuer has any controls or measures in place to address these risks. The credit analyst uses this information to determine an ESG Risk Score. ESG risk scores can be Low, Medium, High or Very High. This score is included in each corporate issuer's credit profile. It assists the portfolio manager to evaluate credit risk and relative value pricing.

The impact of the above analysis on investment analysis and decision-making is discussed further in the **CONTEXT – WHAT RESPONSIBLE INVESTMENT MEANS TO US** section on page 4.

### OWNERSHIP PRACTICES

#### Corporate Engagement

It is our policy that investment managers that have influence as a shareholder/asset manager have a duty to use this influence 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 ESG risks effectively that may impact the current or future value of the company
- 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).

Some examples are shown in the Appendix.

For equity investments, our investment managers have a number of forums, or courses of action, 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 Chairperson, 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 public intervention (use of a public forum to drive change), and
- Full or partial divestment.



Engagement with companies will always be conducted in accordance with the applicable laws and regulations and our policies.

PAMA may also engage with other parties (for example government entities) on ESG issues where appropriate.

## Voting

Proxy voting rights are a valuable asset of the investor. It is our policy that voting at company meetings is carried out by us on all resolutions where PAMA has the voting authority and responsibility to do so, except where it is not practicable due to particular regulatory requirements or other constraints. PAMA will endeavour to vote on all company resolutions regardless of the ‘materiality’ of that resolution.

All resolutions are considered on a case-by-case basis by our investment teams. Voting decisions will be made in the clients’ best interests, based on our views as an investor / shareholder. Exercising voting rights is an intrinsic part of how we manage equity portfolios. The same process is applied to voting on shareholder resolutions.

To assist in decision making we may subscribe to independent external proxy advisory services. These services analyse resolutions submitted by management for shareholder approval at annual or other general meetings and provide voting recommendations on those resolutions.

Where any PAMA Australian equity team capability includes taking both long and short positions in the same company across different Funds, a potential conflict exists as to how voting rights are exercised. It is our policy that these conflicts will be appropriately managed. For example, within the Australian equities team, the portfolio managers responsible for managing long/short funds are not permitted to make or seek to influence voting decisions for companies where these Funds have an existing short position.

## Where We Do Not Have Influence

For asset classes and investment capabilities where the above influence is not present, for example where we do not have voting rights, it is our policy to incorporate ESG considerations into PAMA ownership practices in a manner appropriate to the nature of the asset, which may involve employing a range of direct and indirect methods.

Our ownership practises are discussed further in the “CONTEXT – WHAT RESPONSIBLE INVESTMENT MEANS TO US” following section.

## 5. CONTEXT – WHAT RESPONSIBLE INVESTMENT MEANS TO US

### INVESTMENT ANALYSIS AND DECISION-MAKING

Our duty to our clients requires us to seek to achieve the objectives of our investment funds. Objectives normally included achieving the investment returns over specified time periods.

We satisfy this obligation by employing a range of investment techniques. While traditional financial measures are an important consideration, (ESG) factors can also influence a company’s<sup>4</sup> investment performance.

Our investment managers consider those ESG risks that are determined to be a factor that may impact the current or future financial performance of the company<sup>5</sup>. Some examples are shown in the Appendix.

This includes the ESG risks of investing in companies that are involved in products or services considered to be unethical or contrary to societal values. We employ additional screening up front, based on these values and other ESG criteria, to the capabilities and funds we manage that have a defined ESG purpose. Here, ethical or moral judgements are made on particular practises or issues and investments are removed from consideration for investment based on the application of these screens.

However it is not our policy to apply these ethical or moral judgements (for example values-based or ESG screening) based on particular involvement across all our investment capabilities and funds. Imposing such considerations to the investment decisions affecting all our clients would not be appropriate or practical, as values are personal and subjective to each client and change over time as society mores and values change. This approach also ensures that we remain focused on, and there is no conflict with, our fund objectives - typically investment performance.

We believe that integrating ESG has indirect benefits for our clients and broader society (see the section “Indirect outcomes of integrating ESG” below for further information).

We also recognise that the influence of ESG 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

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<sup>4</sup> Throughout this document wherever ‘company’ is used, this could equally relate to other non-equity assets managed by PAMA including other managed funds and trusts, and fixed income securities.

<sup>5</sup> 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.

- 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.

Our investment managers considering ESG factors in the way described in this section 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 (immaterial) 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/or Board of a company to raise ESG and other concerns and encourage more focused management of the issue(s) where we believe it is in the best interest of our clients. This engagement may reduce the ESG risk above, making the company a more attractive investment. Increased recognition and improved management of ESG risks will enable companies to better deal with a changing environment and may improve their overall performance.

Some examples are shown in the Appendix.

In terms of corporate governance, PAMA supports commonly accepted good corporate governance standards and practices as follows, however we recognise these standards and practises do not uniformly apply across investment markets and geographies:

### Respect For Shareholders

- Boards and management should act in the interests of all shareholders;
- Corporate structures should ensure shareholders have voting power which is equal to their equity interest in the company, and should not include 'poison pill' or other anti-takeover provisions which seek to deter appropriate takeover offers; and
- Companies should ensure that their corporate disclosures provide the amount, quality and clarity of information required to make informed judgements on the performance of the company - including on its ESG practices.

### Board Function

- Boards should be comprised of a majority of independent directors;

- Chairpersons should generally be an independent director, or where the Chair is not an independent director he/she should not also be the CEO;
- Directors should ensure that other commitments (including other directorships) do not interfere with the proper execution of their duties as a director;
- Nominations committees should be comprised of a majority of independent directors; and
- Boards should be comprised of individuals who have complementary and relevant skills and experience that are appropriate to the activities of the company.

### Auditors

- Audit committees should be comprised wholly of independent directors, or if this is not possible a majority;
- Audit committee Chairpersons should be independent directors who do not chair the company board; and
- Company auditor's relationship with the company should be restricted to their audit engagement and closely related activities, and in any case should not extend to any activities which could be perceived to impair their independence.

### Remuneration

- Remuneration committees should consist of a majority of independent directors;
- Any director remuneration outside standard director fees (e.g. for consulting) should be fully disclosed;
- Remuneration for senior management should seek to align the interests of management with the long-term interests of shareholders, including appropriate stretch-hurdles for variable (performance based) pay. The appropriateness of the balance between fixed and variable remuneration and the performance metrics used for the latter should be considered in the context of PAMA's detailed understanding of the company's size, stage of development, and current operating environment,
- Executive compensation which is excessive in absolute terms or materially out of line with peers should be closely examined and justified on value add or relative performance basis.

While we will actively promote these practices through the way in which we vote and our company engagement, we acknowledge that there are instances where one or more of these practices may not be possible during particular stages of a company's development or in certain circumstances. We will always consider a company's corporate governance practices in the context of what is in the best interests of our clients and have appropriate regard to the company's circumstances.

## 6. INDIRECT OUTCOMES OF INTEGRATING ESG

We are also aware of, and encourage, the broader benefits which improved ESG practices in our investee companies can bring including:

- Higher standards of business conduct
- Increased market efficiency
- Sustainable environmental management for the use of future generations,
- 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 enduring 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.

## 7. ROLES AND RESPONSIBILITIES

- The Group Executive, PAMA is accountable for all aspects of PAMA's RI policy.

- PAMA's senior asset managers support the implementation of this policy within their teams as appropriate.
- The Head of Responsible Investments is responsible for the development and maintenance of PAMA's RI framework and policies and supporting implementation of this policy.

If you would like more information on this policy please email [PAMA.ResponsibleInvestment@perpetual.com.au](mailto:PAMA.ResponsibleInvestment@perpetual.com.au)

## 8. REPORTING

We will publicly report on our approach to ESG. More information can be found at [www.perpetual.com.au/Investments/Institutional-Investors/Responsible-Investing/](http://www.perpetual.com.au/Investments/Institutional-Investors/Responsible-Investing/)

## 9. REVIEW AND APPROVAL OF THIS POLICY

This policy is maintained by the PAMA Responsible Investment Team and overseen by PAMA's Investment Risk Forum. The policy will be reviewed annually or more frequently should circumstances require it.

The policy has been approved by the PIML board.

## APPENDIX

### ESG RISK EXAMPLES

Risk	Description	Examples
Environmental	The impact of a company's operations, products, services, or other activities on the physical environment (air, water, etc.) creates environmental externalities (costs) for which the company is ultimately held to account.	<ul style="list-style-type: none"> <li>Climate change – companies contributing to global warming (for example fossil fuel companies) face increasing regulation, higher costs and other hurdles that will curtail growth.</li> <li>Pollution – companies responsible for toxic air or water releases are subject to legal action, financial penalties or other negative consequences.</li> </ul>
Social	The company's actions negatively impact on its 'stakeholders' – in particular its employees, customers, suppliers, government and the community at large – harming a company's reputation (or 'social license to operate'), leading to negative financial impact.	<ul style="list-style-type: none"> <li>Human capital - the human rights of people working directly for the company or in the company's supply chain are violated. For example, child labour can result in consumer boycotts.</li> <li>Indigenous or local communities - company operations (e.g., mining) that ignore concerns of these groups can prove unsustainable and lead to negative financial impact.</li> </ul>
Governance	Weaknesses in how the company is controlled and operated can lead to poor culture and conduct and decision-making and a lack of accountability, to the detriment of shareholders.	<ul style="list-style-type: none"> <li>Board of Directors – a conflicted, inexperienced or otherwise ineffective Board can mean company management are badly appointed, inappropriately remunerated and/or poorly supervised, leading to poor shareholder outcomes.</li> <li>Conduct – poor culture and/or a lack of conduct policy and controls can allow bribery, corruption or other unethical behaviour to arise.</li> </ul>

### OWNERSHIP PRACTICES (COMPANY ENGAGEMENT) EXAMPLES

Risk Issue	Examples
Board governance	Director independence, accountability, motivation (e.g. shareholdings), expertise, Board renewal
Climate change	Demonstrable pathway to carbon emissions reductions
Corporate conduct	Approach to crime avoidance, e.g. money laundering
Executive remuneration	Appropriately set vesting hurdles for variable remuneration
Human capital	Culture and employee engagement
Supply chain	Worker underpayments and other human rights issues

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#### MORE INFORMATION

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