PERENNIAL INVESTMENT MANAGEMENT LIMITED

# RESPONSIBLE INVESTMENT POLICY

July 2020

# PERENNIAL RESPONSIBLE INVESTMENT POLICY

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| Purpose | To ensure Perennial Investment Management Limited (PIML) and Perennial Value Management Limited (PVM) comply with undertakings as a signatory to the Principles for Responsible Investment ("The Principles"). |
| Application | This policy applies to PIML as Responsible Entity of the registered schemes, PVM as its delegated manager and to PVM where it is required to do so under a mandate agreement. |
| Policy | PIML and PVM will endeavour to comply with undertakings as a signatory to the Principles for Responsible Investment at all times. |
| Obligations | Principles for Responsible Investment (see further below) |
| Procedures / Guidelines/ Checklists | **Attachment 1 – Perennial Responsible Investment Policy** |
| Breaches | Any breach of this policy must be immediately reported to Head of Legal, Risk and Compliance and the relevant Portfolio Manager |
| Monitoring | Meet with companies from time to time in accordance with Perennial's normal engagement procedure. |
| Reports / Records | The results of each relevant meeting will be written up and kept as a record of the monitoring process. |
| Maintenance and Amendments | Responsibility for maintaining, reviewing and authorising any change to the policy: Perennial Head of Legal, Risk & Compliance (LRC) in conjunction with Portfolio Managers except where any substantive changes are made which changes need to be approved by Board.<br><br>This policy will be reviewed by LRC and the relevant Portfolio Manager/s every two years or earlier on an 'as needs basis' in response to legislative or other changes. |
| History | Reviewed by LRC 21 July 2020<br>Next review by LRC 21 July 2022<br>Approved by the Board 28 March 2019 |

Attachment 1

# Perennial Responsible Investment Policy

Perennial has been a signatory to the United Nations Principles for Responsible Investment ("the Principles") since 2009. The Principles state:

> "As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).
>
> We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:
>
> Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
>
> Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
>
> Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
>
> Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
>
> Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
>
> Principle 6: We will each report on our activities and progress towards implementing the Principles."

Through implementation of the Principles, Perennial will seek to analyse and engage companies on their significant governance, environmental and social issues that have the potential to impact on company perception and performance. This leads to a more complete understanding of a range of issues affecting a company which should lead to increased returns and lower risk for a portfolio.

By incorporating ESG criteria into investment decision making and ownership practices, Perennial will seek to influence companies to improve performance in these areas. This, in turn, contributes to efforts to promote good corporate citizenship and to build a more stable, sustainable and inclusive global economy.

The Principles apply across all of the Perennial investment products and are not designed to be relevant only to socially responsible investment products.

Approach to investing and incorporation of ESG into our investment process 4 Pillars of ESG Incorporation:

1. Our in-house proprietary ESG&E scoring system
2. Engagement with management and boards on material ESG risks and opportunities
3. Proxy voting responsibilities
4. Portfolio Management

**ESG&E Score**

The ESG&E Score is a proprietary scoring system set up and run in-house by the Perennial sustainability team with input and insight from the sector analysts. Each company is given a score for Environment, Social and Governance performance as well as a score for company engagement.

**Engagement**

Engagement with companies to discuss material ESG issues, risks and opportunities.

**Proxy Voting**

Perennial should vote on all company resolutions considered at general meetings where it has the voting authority and responsibility to do so, regardless of the materiality of the resolution.

**Portfolio Management**

The company's ESG performance and characteristics are one of the considerations in portfolio construction. Stocks with ESG&E related concerns are either unlikely to be held or have a lower weight in the portfolio relative to other stocks with similar characteristics.

Source: Perennial Responsible Investment Policy

*Approach*

Perennial is an investment manager which seeks to generate superior risk adjusted returns for our investors over the medium to long term.

The investment style of our investment options is generally that of 'value investing' and we seek to be 'true-to-label' value investors.

The nature of commercial activities that most listed companies undertake involves the use of resources (including human resources) to create value and opportunities for stakeholders. Companies should undertake their activities in compliance with the law, in an efficient manner and seek to avoid harm to stakeholders, the environment and society in general.

At Perennial, we believe that a holistic view of a company, including the consideration of ESG factors, promotes a well-rounded approach to investing. We think this provides better risk adjusted returns and superior outcomes for our clients. When making investment decisions, we consider ESG through a multi-lensed approach including a proprietary ESG&E scoring system, external sustainability data and engagement with companies to assist with decision making.

We have developed a dedicated Sustainable Future Strategy including the Perennial Smaller Companies Sustainable Future Trust, the Perennial Smaller Companies Responsible Portfolio (available as a managed portfolio on the HUB24 platform) and the eInvest Future Impact Small Caps Fund (ASX: IMPQ) which incorporate negative screens and also seek to invest in companies making a positive contribution to creating a sustainable future. Further details on the investment approach of these investment options is set out below.

*Incorporation*

The portfolio manager and the analyst with primary responsibility for ESG ("ESG Team Members") are responsible for overall co-ordination and implementation of our ESG policy.

We have developed an internal ESG database which covers each stock in our investment universe and contains data in relation to a number of indicators to each of environmental, social and governance matters.

We have also developed a methodology to allocate an environmental, social, governance and engagement score ("ESGE Score") for each stock in our investment universe. In respect of our responsible investment options we have also developed the Perennial Responsible Investment screen which seeks to rank stocks having regard to the ESGE Score, valuation and balance sheet metrics.

ESG issues are considered at each stage of the investment process, including in stock research reports and the portfolio management process. The ESG Team Members are responsible for staying informed of broader ESG issues and relating these to other members of the investment team.

Each analyst is responsible for the consideration of ESG issues in respect of stocks under coverage (including the ESGE scoring process) with support from the ESG Team Members.

The portfolio managers take ESG issues into account in portfolio construction process. This is particularly the case in respect of the responsible investment portfolios.

## ESG FACTORS

We take a variety of ESG factors into account, including:

*Environment*

- Environmental impact of operations generally
- Greenhouse gas emissions, electricity and water use, waste generated together with policies and targets in relation to these issues

*Social*

- Occupational health and safety
- Workforce diversity
- Employee retention and development
- Supply chain including modern slavery
- Community engagement

*Corporate Governance*

- Board and committee structure, independence and diversity

*Corporate governance policies generally*

- Remuneration practices
- Business ethics and competitive behaviour

We also take into account the extent to which a company is engaged in adopting ESG principles in the management of its business and improving ESG outcomes in its business.

## ENGAGEMENT

As an investor, we seek to engage on ESG and other issues with companies in which we invest as well as companies within our investment universe that we do not hold from time to time.

The ESG Team Members are responsible for overall co-ordination and implementation of our ESG engagement policy.

We typically meet with companies several times a year, both in meetings post each six month reporting period and at other times during the year. At these meetings we seek to engage with the company on relevant issues, including issues relating to ESG.

We will also engage with companies on ESG issues when a specific ESG issue arises in relation to a company or where a broader ESG issue impacts upon a company. We may also participate in industry or investor collaborative engagement projects from time to time.

When a company-specific ESG issue arises we will typically seek to engage with Company management on the issue. If we have significant unresolved concerns in relation to the issue we will seek to escalate the issue by one or a combination of the following:

- writing to Company management;
- meeting with the Chairperson or Lead Independent Director; or
- writing a formal letter to the Board of Directors.

If the issue remains unresolved, we will consider divesting our holding in the Company.

In engaging with companies we recognize that the information that may be able to be disclosed to us may be limited due to implications under insider information legislation and we will remain conscious of our obligations in relation to such legislation during the course of any engagement.

## CLIMATE CHANGE

We acknowledge that climate change is potentially a significant risk to the planet and the global economy. Accordingly, it is likely that significant parts of the international community will seek to move towards a lower-carbon economy (transitional risk) over time for the benefit and sustainability of the planet, society and the economy. This transition will have impacts on our investments and we will seek to understand and engage with companies on the impacts of both climate change and a move towards a lower-carbon economy on their businesses, including the introduction of low carbon technology, GHG emission disclosure and reduction targets.

Physical climate change risk includes damage or destruction to physical assets and the implication of stranded assets. As part of the investment process, we consider physical risks including the geographical location of our holding companies assets or asset exposure in climate prone regions, including coastlines.

The Perennial Board acknowledges climate change in their assessment of business and investment risks and opportunities.

We became members of Climate Action 100+ in 2019, which is an investor initiative to ensure the worlds largest corporate GHG emitters take the necessary action on climate change. As signatories, we agree to the sign on the following statement:

*We, the institutional investors that are signatories to this statement, are aware of the risks climate change presents to our portfolios and asset values in the short, medium and long term. We therefore support the Paris Agreement and the need for the world to transition to a lower carbon economy consistent with a goal of keeping the increase in global average temperature to well below 2 degrees Celsius above pre-industrial levels.*

## VOTING

Perennial should vote on all company resolutions considered at general meetings where it has the voting authority and responsibility to do so, regardless of the materiality of the resolution.

Voting rights are a valuable asset which should be managed with the same care and diligence as any other asset. Ultimately, shareholders' ability to influence management depends on shareholders' willingness to exercise those rights.

Perennial generally supports Boards by positive use of its voting power unless there is good reason for doing otherwise (for example, a proposal which Perennial believes will damage shareholders' rights or economic interests).

If Perennial intends to vote against a proposal, we will typically contact the company in time for the problem to be considered with a view to achieving a satisfactory solution.

Perennial may abstain from voting on proposals in the following circumstances:

- Where it is unable to support the resolution but where it believes that it would be against investors' interests to oppose publicly,
- Where exclusions may arise from the Corporations Act or any conflict of interest; and
- Where Perennial has already made a decision to dispose of the securities.

All votes must be made in the best interest of the unit holders and clients.

We publish our semi-annual voting record on the Perennial "Corporate Social Responsibility & ESG" webpage.

## INVESTMENT APPROACH FOR SUSTAINABLE FUTURE PORTFOLIOS

We manage responsible investment portfolios including the Perennial Smaller Companies Sustainable Future Trust, eInvest Future Impact Small Caps Fund and the HUB24 Perennial Smaller Companies Responsible Investment Portfolio ("Sustainable Future Portfolios").

The Sustainable Future portfolios seek to invest in companies that at the time of acquisition:

1. Conduct businesses that are making a positive contribution to creating a sustainable future, defined as deriving the majority*[1] of their revenue from business operations that:
   a) are generating renewable energy, improving energy efficiency or seeking to reduce greenhouse gas emissions; or
   b) involved in water treatment or remediation; or
   c) are focused on providing environmental services or otherwise focussed on environmental outcomes; or
   d) contribute to social welfare outcomes; or
   e) relate to health outcomes; or
   f) support education outcomes; or
   g) have strong governance frameworks including a diverse and independent board

Or, have a Perennial Environmental, Social, Governance and Engagement Score ("ESGE Score") that exceeds the ESGE score of the benchmark index.

2. Exclusionary items/negative screens: The responsible investment strategies do not invest in companies that derive any revenue from:
   a) the manufacture, distribution or sale of tobacco or alcohol products;
   b) the manufacture, distribution or sale of weapons or armaments;
   c) extraction or sale of thermal coal, uranium, oil or gas;
   d) gambling or betting operations;
   e) the production, sale or distribution of pornography;

f) the manufacture or distribution of toxic pesticides;
g) old growth forest logging; or
h) operations or transportation associated with the live exportation of animals offshore.

*1*majority refers to >50% of annual revenue.*