

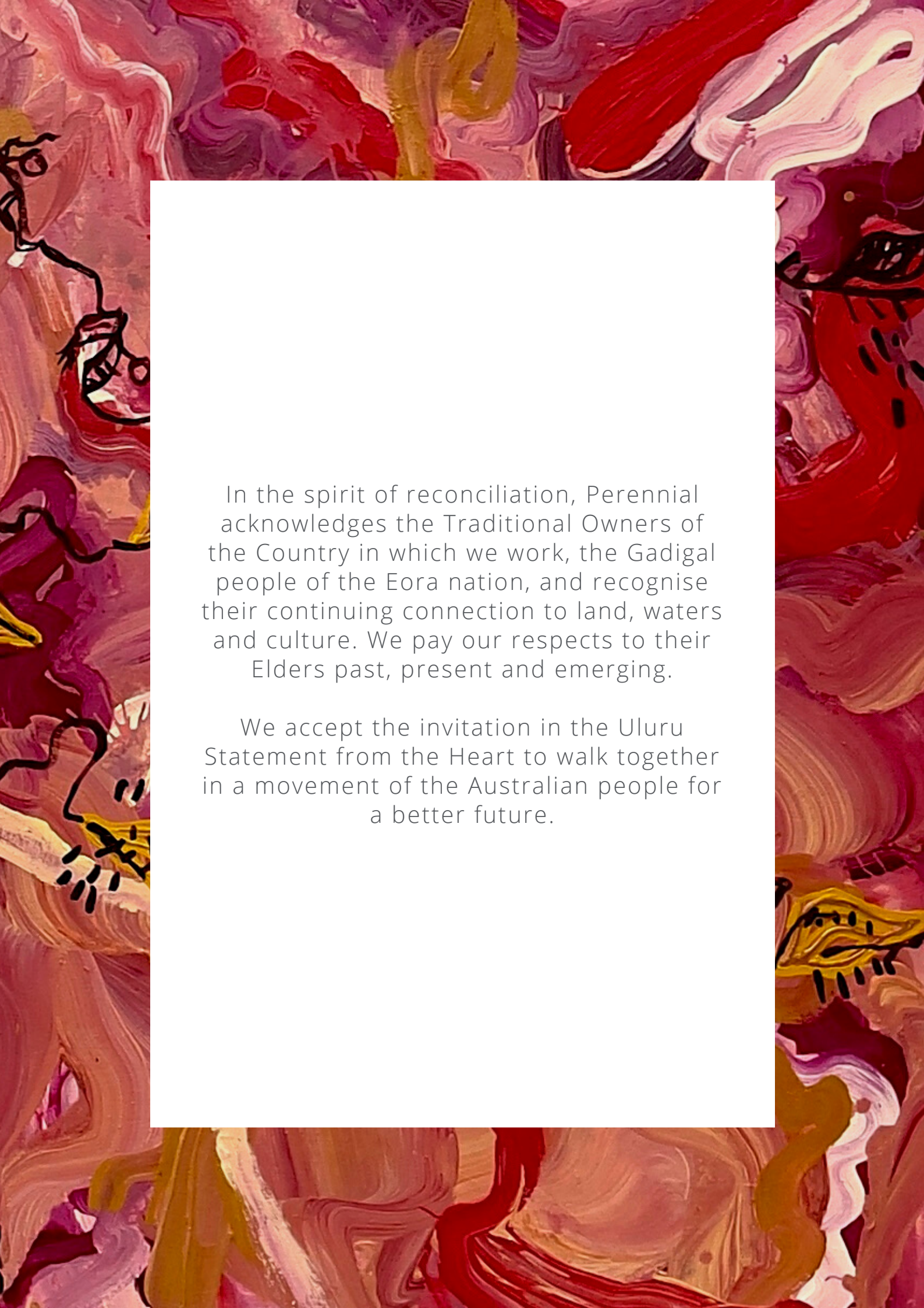


INTEGRATED ESG & ENGAGEMENT REPORT FY23

For the period 01 July 2022 - 30 June 2023

Released November 2023

WWW.PERENNIAL.NET.AU



In the spirit of reconciliation, Perennial acknowledges the Traditional Owners of the Country in which we work, the Gadigal people of the Eora nation, and recognise their continuing connection to land, waters and culture. We pay our respects to their Elders past, present and emerging.

We accept the invitation in the Uluru Statement from the Heart to walk together in a movement of the Australian people for a better future.

Contents

04

Welcome
UN PRI Signatory
ESG at Perennial

06

ESG Investment Process

Perennial's 4 Pillars of ESG integration
Updates to Responsible Investment Policy
Cyber security tool

08

ESG Initiatives

Perennial Diverse Boards Event
Perennial Better Future Survey
Reconciliation Journey

13

Engagement at Perennial

17

Proxy Voting Record

19

ESG Focus Areas

Climate Change
Gender Diversity
Modern Slavery
Cyber security

25

Fund Engagement Highlights

Perennial Better Future
Perennial Smaller Companies
Perennial Australian Shares

28

Industry and Community Participation

30

Perennial Better Future Strategy

Welcome

Established in 2000, Perennial is an Australian fund manager managing approximately A\$7.4 billion on behalf of institutional and retail clients.

This is Perennial's second annual Integrated ESG and Engagement Report. This report aims to provide insight into the firm's integration of ESG at both a corporate and investment level, in addition to our ESG engagement efforts with companies in our investible universe for the FY23 financial year period.

Perennial believes that environmental, social and governance (ESG) issues can impact the performance of companies. Therefore, ESG & Sustainability performance can influence the returns generated by our investment portfolios. We are dedicated to integrating ESG & Sustainability into our investment decisions and improving our corporate ESG & Sustainability.

UN PRI Signatory

Perennial has been a signatory to the United Nations Principles of Responsible Investment (UN PRI) since 2009. As a signatory, we agree to comply with the six principles of Responsible Investment.

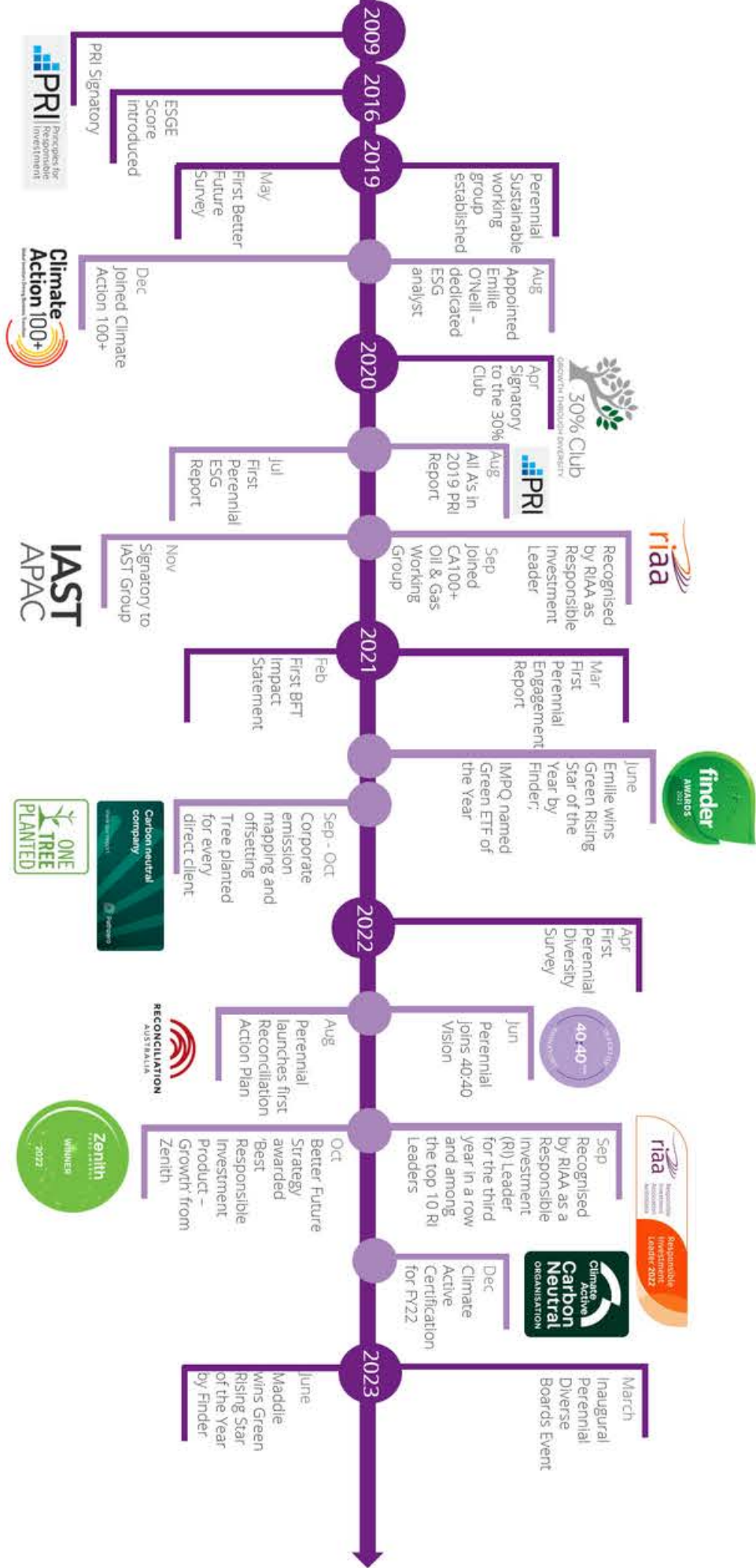


ESG at Perennial

From a corporate perspective, this year we have made progress on our ESG integration and corporate sustainability strategy.

- Perennial was recognised as a Responsible Investment Leader by the Responsible Investment Association Australasia (RIAA) in 2022 for the third consecutive year and ranked among the top 10 asset managers/asset owners. This recognition highlights our continued commitment to responsible investment across the business. Subsequent to the end of this reporting period, we were also identified as a Responsible Investment Leader in 2023 for the fourth consecutive year.
- We launched our Reflect Reconciliation Action Plan and are in the process of launching our Innovate RAP.
- We undertook our second internal diversity survey.
- Our firmwide operations have been certified as operationally carbon neutral for FY21 and FY22 in partnership with Pathzero. An overview of our emissions profile can be found [here](#). Additionally, we achieved Climate Active Certification for FY22 – an Australian government-backed program to certify carbon-neutral claims. We are in the process of achieving Climate Active certification again for FY23.
- We continued our partnership with One Tree Planted for the third consecutive year, planting a tree for every incremental direct client of Perennial as at 30 June 2023. One Tree Planted is an environmental non-profit organisation focused on global reforestation. We pursue this initiative to further our commitment to sustainability and extend ESG integration within our corporate strategy.





ESG Investment Process

PERENNIAL'S 4 PILLARS OF ESG INTEGRATION

Our approach to integrating ESG in the investment process is based on the following 4 pillars:

1. In-house proprietary Environment, Social, Governance & Engagement (ESG&E) Scoring system
2. Stewardship - engagement & proxy voting
3. Exclusions / Negative screens
4. Portfolio management

ESG&E Score

The ESG&E Score is a proprietary scoring system established 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. Each portfolio must have an ESG&E score above the weighted average benchmark score.

Stewardship

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

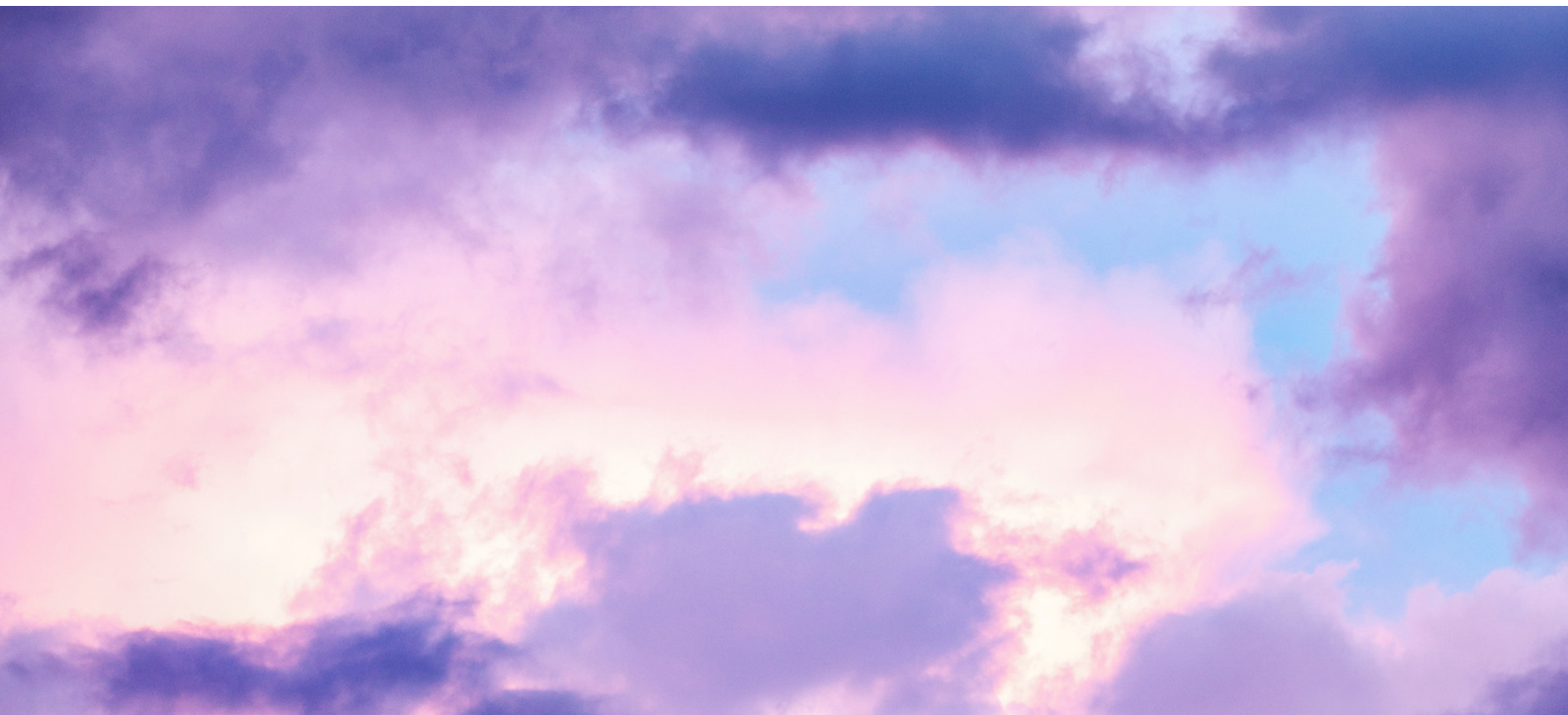
As responsible stewards of capital, we use our voting discretion in the best interests for our clients.

Exclusions / Negative Screens

Each portfolio has negative screens, excluding investment in certain industries.

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.



ESG Investment Process

UPDATES TO OUR RESPONSIBLE INVESTMENT POLICY

In October 2023, we re-published our [Responsible Investment Policy](#) for our updated Proxy Voting Policy. The updated Proxy Voting Policy formalises much of the processes we have followed for some time.

As part of our updated Proxy Voting Policy, we outline the role of the Proxy Advisor, process for voting against management, controversial resolutions, circumstances where we may abstain from voting, our engagement and stewardship in the voting process, voting principles and proxy voting disclosures.

NEW ESG INVESTMENT TOOL - CYBER RESILIENCE ASSESSMENT FRAMEWORK

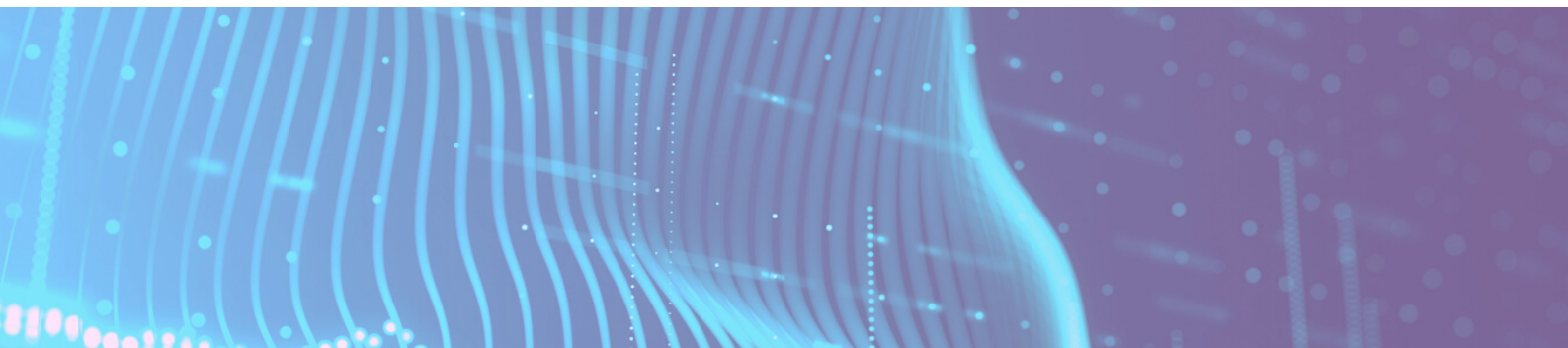
The Perennial Better Future team formalised a more structured framework to assess the cyber resilience of portfolio companies with higher exposure to cyber risks. We believe that with the increase in cyberattacks in both severity and frequency, all companies are vulnerable to data breaches and should ensure they maintain robust cybersecurity policies and risk management plans accordingly.

Materiality in our scoring framework is defined as how significantly a cyberattack would affect the business. This is based on an assessment of information sensitivity, volume and magnitude, defence provided from business continuity plans and response management.

Risk in our proprietary scoring framework is defined as how exposed a company is to a cybersecurity attack. This is based on an assessment of compliance and policies, governance, and sector exposure. In relation to the "sector exposure", factors considered include: Has the company been subject to material cyberattacks recently? Evidence shows that when an organisation has experienced one attack, more are likely to follow. Additionally, we also consider whether the company is in a sector prone to cyber and/or privacy attacks?

To understand portfolio companies' approaches to cybersecurity, questions are posed regarding the nature of the information held on customers, how cyber is embedded in risk management practices, the governance structure of cyber risk and the level of preparedness for a cyberattack.

The company responses, as well as our understanding of the business, and supplemented with publicly available information, allow us to score the companies using our framework. The process allows us to monitor companies identified as higher risk in our framework, including engaging to drive improvements in their cybersecurity strategy.



ESG Initiatives

PERENNIAL DIVERSE BOARDS EVENT

In March 2023, Perennial hosted its Inaugural Perennial Diverse Boards Speed Networking Event as a collaborative effort between Perennial Better Future, Perennial Private Investments and Perennial Smaller Companies. We connected 13 portfolio companies with 16 female directors. We hoped to continue to facilitate valuable connections with the goal of increasing gender diversity on boards.



ESG Initiatives

PERENNIAL BETTER FUTURE SURVEY



A key component of Perennial’s engagement with companies on ESG issues is the Better Future Survey. In 2022, Perennial conducted its fourth Better Future Survey. The survey is designed to take the "ESG Pulse" of ASX-listed companies. It seeks to obtain the views of companies on where they have been, where they are now and where they are going on all things ESG. We use the findings from the survey to guide our engagement with companies in the following 12 months.

The Perennial Better Future Survey Report outlines the key results of the survey and important themes and conclusions. It also draws comparisons to previous years' responses to assess how thinking on these topics has evolved since 2019.

One of the interesting findings of the survey is the ESG topics in focus for corporates over the next 12-18 months, and how these focus areas have changed over time. Read the latest survey summary report [here](#).

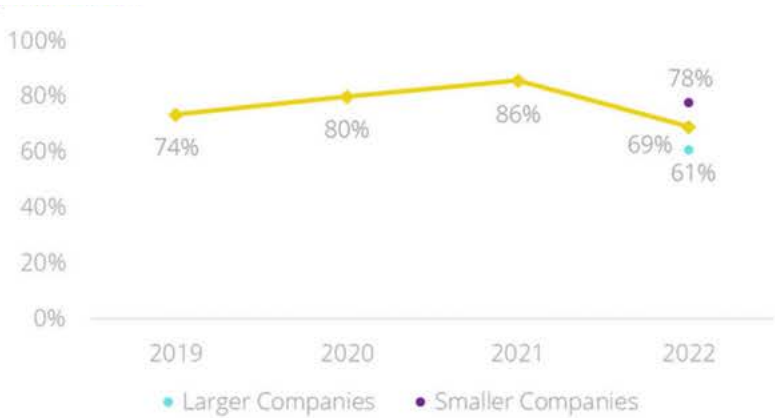
ESG focus areas over the next 12-18 months for corporates ranked in order of importance

2019	2020	2021	2022
Diversity	GHG Emissions	GHG Emissions	Cyber Security
Safety	Modern Slavery	Diversity	GHG Emissions
Governance	Safety	Modern Slavery	Diversity
	Governance	Cyber Security	

Even though ESG priorities have moved around from year to year, generally Greenhouse Gas (GHG) Emissions, Diversity, Governance and Modern Slavery were considered the most important to ASX-listed corporates. However, in 2022, Cyber Security emerged as the most important theme

Positive business outcomes as a result of focusing on ESG & Sustainability matters in 2022, declined year on year. Interestingly, the proportion of smaller companies, 78%, that answered agree or strongly agree was significantly higher than the proportion of larger companies, which trailed behind at 61%.

We have experienced positive business outcomes as a result of focusing on Sustainability and ESG



ESG Initiatives

PERENNIAL'S RECONCILIATION JOURNEY

Perennial is proud to have launched its first Reconciliation Action Plan in 2022 – our Reflect RAP – the first stage of Reconciliation Australia's RAP framework – and see this as a demonstration of our commitment and respect for the Traditional Owners of Australia.

We believe that reconciliation is a crucial step for Australian businesses towards building strong and authentic connections with Aboriginal and Torres Strait Islander peoples. Our Reflect RAP will serve as a solid foundation to ensure our contributions to the reconciliation movement are meaningful and sustainable. Karen Mundine, CEO of Reconciliation Australia, notes that "This Reflect RAP enables Perennial to deepen its understanding of its sphere of influence and the unique contribution it can make to lead progress across the five dimensions (race relations, equality and equity, institutional integrity, unity and historical acceptance)." We look forward to sharing our reconciliation journey with the broader community to grow awareness and support of the national reconciliation movement.

As an investment manager, Perennial is also committed to addressing Indigenous heritage issues in our investments and engagements with companies. In the past few years, the investment team has engaged on cultural heritage issues and Indigenous rights protections with relevant companies in our investment universe, particularly in the mining and energy sectors. We believe Indigenous relations are extremely important for these sectors to ensure the empowerment of traditional owners and to maintain their social license to operate.

After the end of the reporting period, we completed our Reflect RAP and began the next RAP in our journey, the Innovate RAP.



For National Reconciliation Week 2023, the Perennial Reconciliation Action Plan working group organised a staff visit to the Yiribana Gallery at the [Art Gallery NSW](#).

The team enjoyed exploring the depth and dynamism of art practice across Indigenous Australia, in addition to learning about our shared history and cultures

ESG Initiatives

EXCLUSIONARY SCREENS

The Perennial Better Future Trust has implemented exclusions and negative screens since its inception in 2018. In 2021, the Perennial Smaller Companies Trust, Perennial Microcaps Opportunities Trust, Perennial Australian Shares Trust and the Perennial Concentrated Australian Shares Trust adopted negative screens as outlined in our Responsible Investment (RI) policy.



40:40 VISION

In 2022, Perennial joined the 40:40 Vision, an investor-led initiative working towards gender-balanced executive teams by 2030. The Vision seeks to bring transparency and accountability to companies' commitments to gender diversity in senior leadership and calls for at least 40% women in executive teams by 2030. 40:40 stands for 40% women, 40% men and 20% any gender.

We have been appointed the lead investor for 3 portfolio companies and have been taking charge of conversations with these corporates on enhancing the representation of women in their executive teams.



We believe the collective support of the ASX300 and investors is critical to achieving gender-balanced executive teams that will help strengthen corporate governance and performance for shareholders. We encourage other investors and ASX300 companies to join the pledge to achieve the 40:40:20 gender balance target in executive leadership by 2030, to bring about tangible, structural change.

30% CLUB

Since April 2020, Perennial has been a signatory to the 30% club and supported the view that the board of directors of ASX-listed companies should have a minimum 30% representation of women. We strive for equal representation where possible.



RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA (RIAA)

We are members of the Responsible Investment Association Australasia (RIAA). RIAA champions responsible investing and a sustainable financial system in Australia and New Zealand. In 2022, we were recognised by RIAA as a Responsible Investment Leader for the third consecutive year and ranked among the top 10 Responsible Investment Leaders. We have been recognised again for the fourth consecutive year in 2023. The Perennial Better Future Trust is also certified as a RIAA Responsible Investment Product.



ESG Initiatives

CLIMATE ACTION 100+

Perennial is a signatory to Climate Action 100+ (CA100+). CA100+ partners with investors to ensure the world's largest emitters take the necessary action on climate change. A key goal of the group is for asset owners and managers to collaborate on engagement activities to encourage corporates to cut emissions to help achieve alignment with the Paris Agreement. Perennial sits on the working groups of South 32 (ASX: S32) and the Oil & Gas Working Group (O&G WG).



PERENNIAL DIVERSITY SURVEY

In March 2023, Perennial conducted its second firm-wide diversity survey, seeking to understand the diversity of our organisation. We had an 74% participation rate. Key findings on diversity and inclusion were shared firmwide.

The survey also provided an opportunity for employees to put forward suggestions to the business on important areas of focus. Senior management, the ESG team and the Perennial Sustainability Working Group are seeking to incorporate such feedback.



INVESTORS AGAINST SLAVERY & TRAFFICKING ASIA-PACIFIC (IAST APAC)

Perennial is a founding signatory of Investors Against Slavery & Trafficking Asia-Pacific (IAST APAC). Established in 2020, IAST APAC is an investor-led initiative to promote effective action by corporates to identify, resolve and prevent modern slavery, labour exploitation and human trafficking across supply chains. IAST APAC comprises of 45 investors with AU\$11.9 trillion in Assets Under Management (AUM), together with the Australian Council of Superannuation Investors (ACSI), Walk Free and the Finance Against Slavery and Trafficking (FAST) initiative.



IAST APAC operates across two workstreams: 1) Investor statement on modern slavery and 2) Engagements with specific companies. We are participants in both workstreams 1 and 2.

ESG Initiatives

CLIMATE ACTIVE CERTIFICATION

Since FY21, Perennial has achieved operational carbon-neutral status for its corporate GHG emissions. At Perennial, we carbon offset our flights, use 100% renewable energy, have an organic waste bin, and use carbon neutral paper. Perennial purchased Australian Carbon Credit Units (ACCUs) to offset the firm's corporate Scope 1, 2 and 3 greenhouse gas emissions. In 2022, we further progressed this initiative to achieve Climate Active certification on our operationally carbon neutral status. We are pursuing this again for 2023. Read more [here](#).



PERENNIAL BETTER FUTURE PODCAST

In FY22, the Perennial Better Future team created the Better Future podcast series to educate listeners on sustainable investment. During the series, the team discusses topical sustainable thematic and stock holdings, and undertakes interviews to explore ESG & Sustainability. Episodes to date focus on the relationship between small caps and ESG, Perennial's reconciliation journey and the Perennial ESG&E scoring system. Available [here](#).



TREE PLANTING

In FY23, for the third consecutive year, in partnership with One Tree Planted, a tree was planted in Australia for every incremental direct client of Perennial as at 30 June 2023, including our investment boutique partner, Daintree Capital. This initiative will contribute to the revegetation of Marna Banggara, South Australia in Point Pearce, Yorke Peninsula. The site is located on an Indigenous Protected Area (IPA) and managed by Traditional owners of the land, the Narungga people. This project will restore native vegetation and increase landscape connectivity within Yorke Peninsula, and provide important habitat for numerous threatened species including the Southern Hairy Nosed Wombat (*Lasiornis latifrons*). The project site will be revegetated with Eucalyptus porosa Mallee Box woodland.



INTERNAL SUSTAINABILITY WORKING GROUP

Perennial has an internal Perennial Sustainability Working Group which includes representatives across investment teams as well as from our operations and corporate functions. The working group meets quarterly and seeks to not only improve our approach to responsible investing, but also develop our corporate ESG & Sustainability strategy. In 2023, Perennial undertook a corporate volunteer day at Wayside Chapel and introduced the option for salary sacrificing for charitable donations.

Engagement at Perennial

We consider it our responsibility as investment managers to engage with portfolio companies on behalf of our clients to understand ESG & Sustainability issues. This helps to drive positive change that will ultimately improve corporate performance.

Understanding a corporate's material ESG drivers through engagement aids our investment decision-making, enabling us to identify ESG risks and opportunities in the business and improve business outcomes by sharing ESG ideas and best practice approaches in sustainability.

We actively engage with portfolio companies on pertinent ESG issues to improve sustainability practices within the business on topics such as climate change, gender diversity and modern slavery. Typically, our engagements with companies are on a one-on-one basis, however, we also enact change through collaborating with like-minded investors as a member of several asset owner and asset manager collaborative engagement groups.

Our active engagement with companies on ESG issues allows us to:

- identify ESG-related risks and opportunities;
- address ESG-related controversies;
- assess the authenticity of a company's approach to sustainability; and
- help improve business outcomes by sharing ESG ideas and industry best practices.

As part of our strategy, Perennial participated in several industry initiatives with the purpose to learn from other investors, heighten our presence in the responsible investment market and strengthen our ESG credentials which included being an active member of several collaborative engagement groups, including Climate Action 100+, 40:40 Vision and IAST APAC.

Previous reporting on Perennial's company engagement efforts are available here: [2022](#), [2021](#), [2020](#)

Overview of Engagement

In FY23, Perennial portfolio managers and investment analysts undertook almost 2,000 company and industry meetings. We encourage our analysts to engage on ESG topics in all meetings with management.

We undertook 263 ESG engagements with 108 companies dedicated to discussing environmental, social and/or governance issues.

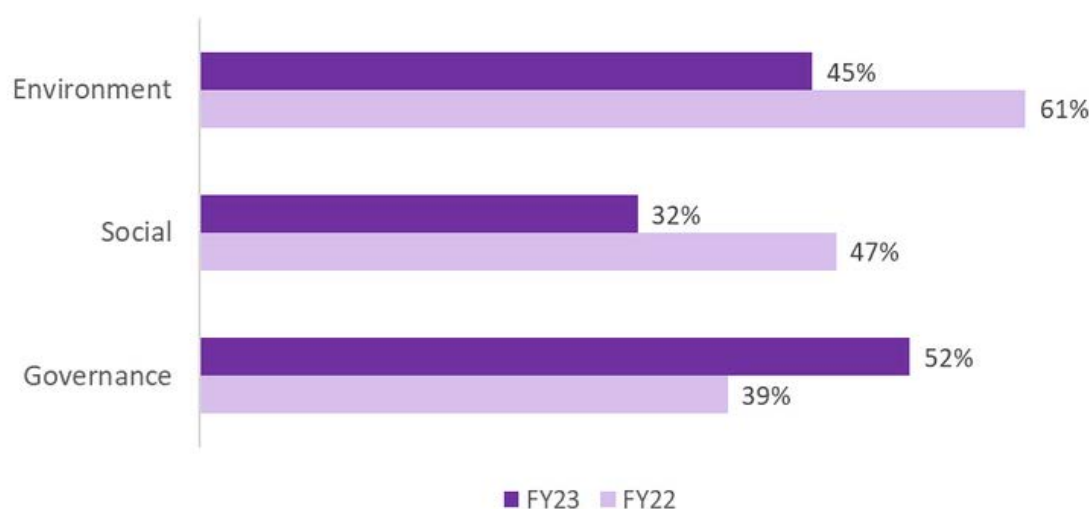
Governance issues were discussed the most in meetings in FY23, in 52% of meetings where ESG was discussed. This compares to environmental issues at 45% and social at 32%.

Governance discussions increased the most year on year, following increased conversations related to board composition including gender diversity, remuneration structures, cyber security and data privacy management, reporting standards and changing regulation.

Environmental discussions centered around GHG Emissions and reduction targets, Scope 3 emissions, the Inflation Reduction Act, safeguard mechanism, renewable energy, capital expenditure related to the green agenda, water management, CCS, biodiversity, material use and animal welfare.

Common social issues discussed included gender diversity, supply chain risks, employee management & wellbeing given the various corporate changes and challenging operating environment.

Governance issues were raised the most in company meetings where ESG topics were discussed, followed by environmental and then social.



Perennial FY23 company meetings where ESG topics were discussed.

ESG Engagement Outcomes

In FY23, we had positive ESG outcomes in 24 occasions relating to female director appointments, GHG emission reporting, ESG disclosures, remuneration structure, board composition including the right skillset and female executive position appointments.

Engagement outcome examples:

Following engagement on ESG topics, several positive outcomes were achieved in FY23, including:

- Inaugural sustainability report, improved reporting or new ESG strategy published by: Netwealth (ASX: NWL), Perpetual (ASX: PPT), MoneyMe (ASX: MME), Pacific Edge (ASX : PEB)
- Improved scope, progress towards or first public disclosures of greenhouse gas emissions by: Moneyme (ASX: MME), Pacific Edge (ASX: PEB)
- Appointment of a female Non-Executive Director by: Steadfast (ASX: SDF), AlphaHPA (ASX: A4N), Arena REIT (ASX: ARF), MoneyMe (ASX: MME), Microba Life Sciences (ASX: MAP), Perpetual (ASX: PPT), Calix (ASX: CXL)
- Improvement in executive gender diversity: Spark NZ (ASX : SPK), Chorus (ASX : CNU), Kathmandu (ASX: KMD)
- Introduction of ESG-linked remuneration by: MoneyMe (ASX: MME)
- Improved capital allocation strategy following engagement: Viva Leisure (ASX : VVA), Impedimed (ASX: IPD)



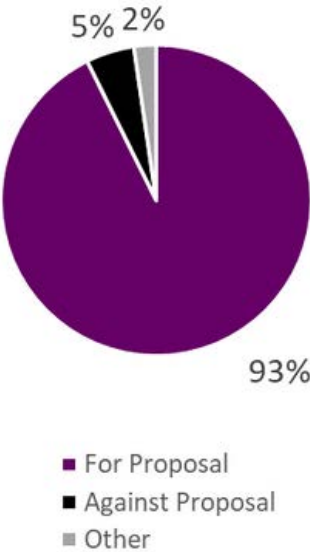
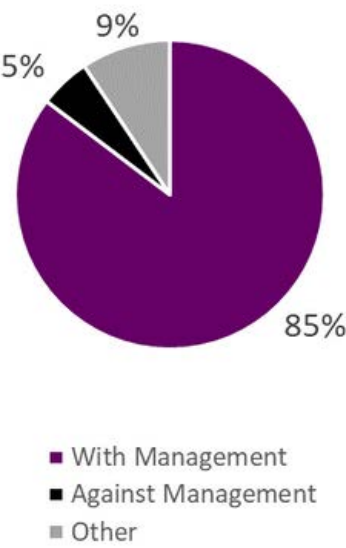
FY23 Proxy Voting Record

We publish our semi-annual voting record on the Perennial [“ESG & Sustainability”](#) webpage.

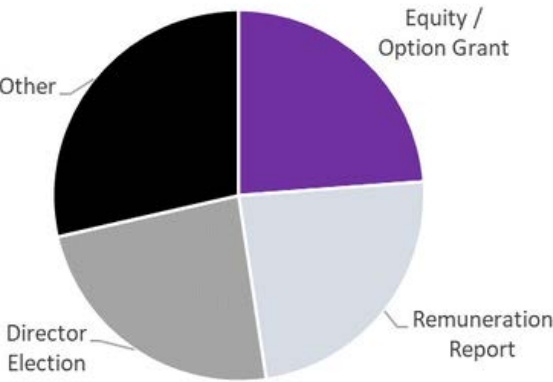
In FY23, Perennial voted on 1,254 proposals across 180 Australian listed companies.

Perennial voted against management recommendations on 67 occasions across 33 companies. This represented ~5% of resolutions (or ~18% of companies). The most common topic we voted against management on was placements, remuneration report and equity / option grants.

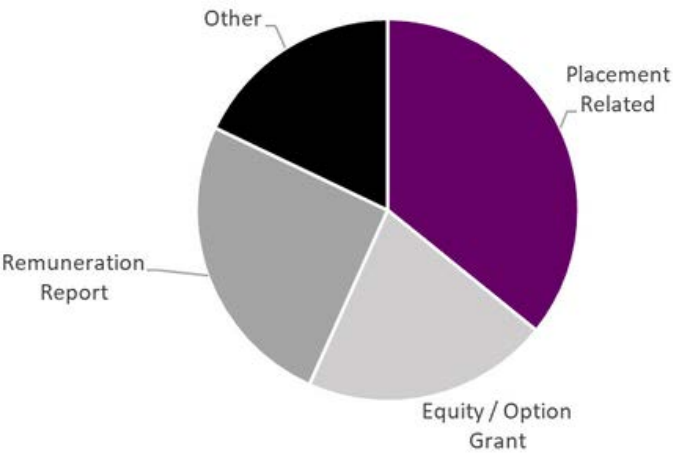
Perennial FY23 Vote Decisions



Key Topics when Voting Against FY23 Proposals



Key Topics when Voting Against Management Recommendations

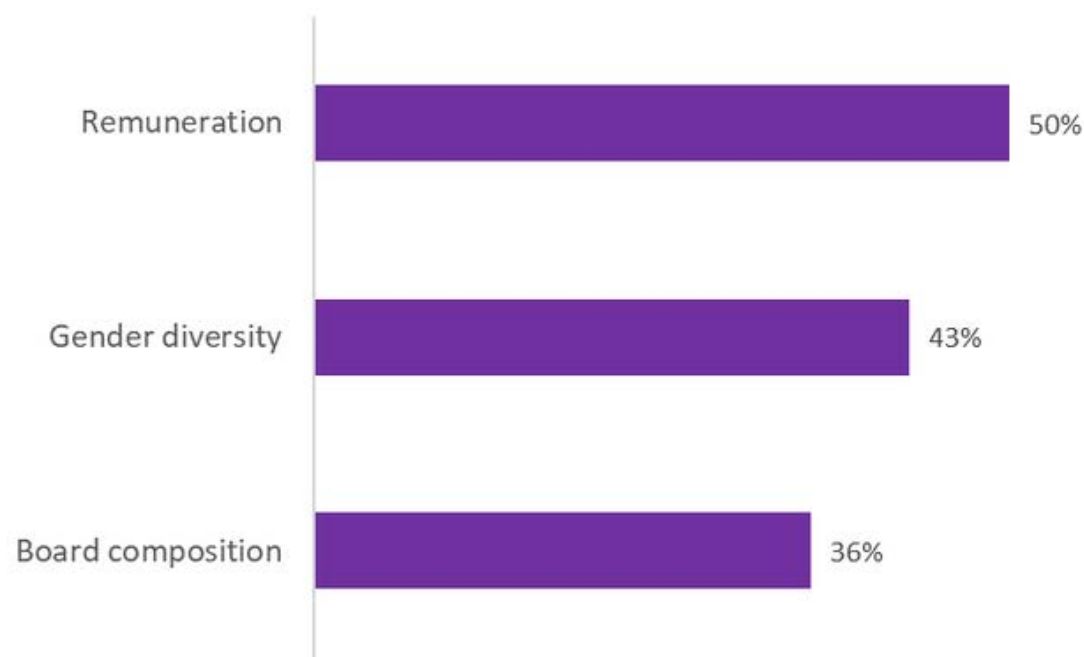


Note: We abstained on occasions regarding ratifying the placement of securities given we are not able to vote if we have participated in the placement. Source: Perennial FY23 voting record. “Other” may include abstain from voting, or not voted.

FY23 Proxy Voting Record

During FY23, we had 12 dedicated discussions with companies regarding controversial AGM proposals. The most common discussion was on remuneration, followed by gender diversity and board composition (independence, structure of committees and size).

Common Proxy Voting Discussions in FY23



ESG Focus Areas

CLIMATE CHANGE AND ALIGNMENT WITH THE PARIS AGREEMENT

Climate change and alignment with the Paris Agreement's objective to limit global warming to 1.5 degrees Celsius are key environmental concerns for investors. Alignment with the Paris Agreement initially requires corporates to disclose their greenhouse gas emissions. This is considered important even for companies with a relatively small emissions profile. Transparent greenhouse gas emissions disclosures are critical not only for companies to track and minimise their emissions profile, but also for investors to understand their exposure to climate transition risks and for policymakers to implement climate policies and sustainable emissions reduction strategies.

The Australian Accounting Standards Board (AASB) is actively considering releasing the International Sustainability Standards Board (ISSB) standards in Australia. ASIC has also recommended that Australian-listed companies adopt the Taskforce for Climate-Related Disclosures (TCFD) Recommendations in preparing for the potential transition to ISSB Standards, which includes disclosing GHG emissions.

Our engagement has progressed in 2023 from disclosure of GHG emissions; to targets aligned with Paris Agreement, integrating performance against these targets into management KPIs, setting short, medium and long term targets, assessing feasibility of targets, capital expenditure to meet decarbonisation objectives. and Scope 3 disclosures.



ESG Focus Areas

CLIMATE CHANGE AND ALIGNMENT WITH THE PARIS AGREEMENT (CONT.)

To convey the importance of greenhouse gas emissions disclosures and setting climate goals in alignment with the Paris Agreement, in January 2022, the Better Future team emailed companies within the Better Future Trust that did not disclose Scope 1 and 2 greenhouse gas emissions to encourage them to publish disclosures. In 2023, the Better Future team followed up with those companies that are still yet to disclose to progress towards our own target for Better Future portfolio companies reporting Scope 1 and 2 CO2 emissions by 2024 and put in place targets to align with the Paris Agreement by 2025. This target applies to any company that we have been holding for an extended period, to ensure we have been able to directly engage with the company.

We also engage on climate change across all of the Perennial portfolio. Examples of Perennial-wide companies where we engaged on the environment, including alignment with the Paris Agreement and measuring and disclosing greenhouse gas emissions in FY23 include:

Netwealth (ASX: NWL), Calix (ASX: CXL), MoneyMe (ASX: MME), IAG (ASX: IAG), South32 (ASX: S32), Immutep (ASX: IMM), Impedimed (ASX: IPD), 4D Medical (ASX: 4DX), Micro-X (ASX: MX1), Rio Tinto (ASX: RIO), Origin Energy (ASX: ORG), Santos (ASX: STO), Buescope (ASX: BSL), Cleanspace (ASX: CSX), Nanosonics (ASX: NAN), Healthco Healthcare and Wellness Reit (ASX: HCW), Charter Hall Social Infrastructure REIT (ASX: CQE), APM Human Services International (ASX: APM), Telix (ASX: TLX), Fortescue (ASX: FMG), Janison Education (ASX: JAN), Limeade (ASX: LME), Genetic Signatures (ASX: GSS), Next Science (ASX: NXS), 3P Learning (ASX: 3PL), Opthea (ASX: OPT), Alpha HPA (ASX: A4N), Pacific Edge (ASX: PEB), Charter Hall (ASX: CHC), Ecofibre (ASX: EOF), DUG Technology (ASX: DUG), De.mem (ASX: DEM), Idp Education (ASX: IEL), Perpetual (ASX: PPT), Chorus (ASX: CNU).

Pleasingly, following engagement with the Perennial investment team in FY23, the following progress was made on GHG emissions and targets:

- Netwealth (ASX: NWL) confirmed that they will be releasing their GHG emissions to the market in FY24 following the appointment of a consultant to measure their emissions profile. This follows several years of discussions on the importance of GHG emission disclosure
- E-road (ASX: ERD) released its inaugural Sustainability Report including its first disclosure of Scope 1 + 2 GHG emissions
- Money Me (ASX: MME) Reported Scope 1, 2 and 3 GHG emissions

ESG Focus Areas Continued

CLIMATE CHANGE AND ALIGNMENT WITH THE PARIS AGREEMENT (CONT.)

Engagement highlights



In mid 2023, we sought out a dedicated ESG engagement meeting with Nanosonics (ASX: NAN), an Australian infection prevention company that has successfully developed a unique automated disinfection technology. Our goal for the engagement was to encourage GHG emission disclosure (we have raised this with management for a number of years) and improved Modern Slavery policies and procedures in the business. We also wanted to discuss integrated ESG reporting, leadership gender diversity and modern slavery assessment and supplier audits. It was obvious that the management team was engaged on the ESG agenda. They had made progress towards Scope 1 and 2 GHG emission disclosure in Australia and have aspirations to widen the disclosures internationally and report on Scope 3 GHG emissions, as well as set GHG emission targets. They explained that their process actually reduces GHG emissions compared to other peer processes including preventing the soaking of toxic chemicals and preventing disposal of those chemicals.



We wrote to Pacific Edge in March 2023, requesting disclosure of Scope 1 and 2 (and 3 where possible) GHG emissions to get on the front foot of potential sustainability-related regulation. We provided advice around how to get started on reporting and conveyed that once you have measured your GHG emissions, it is possible to make short, medium and long term science-based commitments to reduce your carbon footprint and, where difficult to abate in the short term, offset those emissions. We conveyed that the decision to measure and offset our emissions resonates with stakeholders, including shareholders, clients, potential clients and staff. At the FY23 result, Pacific Edge reported a well-progressed update on GHG emissions disclosure (measured Scope 1,2 and 3 in FY23 and intends to report data in FY24). They also stated that they are working with an environmental consultant to audit and measure. ESG matters, including carbon reporting, which has now been integrated into the Audit and Risk Committee Charter.



In mid-2022, we engaged with Origin on the timeline and planning around closure of Eraring which would eliminate the biggest source of emissions. In mid 2023 we again engaged on the closure timeline for Eraring of 2025, its biggest source of emissions, and possible government intervention. Also discussed plan to construct large scale battery at Eraring site, ran through costs and timeline.

ESG Focus Areas

GENDER DIVERSITY

The Perennial investment team regularly engages with portfolio companies on improving gender diversity, at both executive and board levels. As a signatory to the 30% Club, Perennial supports the view that the board of directors of ASX-listed companies should have a minimum 30% representation of women and should strive for equal representation where possible. In 2022, Perennial joined the 40:40 Vision as an investor signatory, supporting gender parity on executive leadership teams – 40% women, 40% men and 20% of either gender by 2030.

In March 2023, Perennial hosted its Inaugural Perennial Diverse Boards Speed Networking Event as a collaborative effort between Perennial Better Future, Perennial Private Investments and Perennial Smaller Companies. We connected 13 portfolio companies with 16 female directors. We hope to continue to facilitate valuable connections with the goal of increasing gender diversity on boards.

In our view, a diverse board and management team leads to better outcomes for the business. Companies with greater representation of women on the board and executive teams benefit from the diversity of thought, background, and experience. This typically delivers stronger outcomes for the company, stakeholders, and shareholders over the medium to long term.

In FY23, we have been focused on improving gender diversity in line management roles. These are positions of which are likely to progress to P&L responsibility roles.

Portfolio companies that appointed a female Non-Executive Director to the board in FY23 following engagement with our investment team include: Family Zone (ASX: FZO), Spark (ASX: SPK), Steadfast (ASX: SDF), AlphaHPA (ASX: A4N), Arena REIT (ASX: ARF), MoneyMe (ASX: MME), Microba Life Sciences Ltd (ASX: MAP), Perpetual (ASX: PPT), Calix (ASX: CXL).

Engagement highlights



We engaged with IAG regarding the deteriorating gender diversity on the board hoping to seek further information. We got a response from management that the chair was looking to address the issue at the AGM. On balance, we indicated that we would be voting against the re-election of Tom Pockett at the AGM to show our commitment to improving gender diversity on the board.



We have been discussing many sustainability topics with Calix and have been pleased with their progress and the dedication of the management team towards ESG issues. This has also included gender diversity on the board which is a topic we have discussed over the last few years. Early 2023, the company announced the appointment of Alison Deans to the board as a NED. She is currently the Chair of Cochlear and a NED at Ramsay Health Care. Calix now has a board of 40% female NEDs compared to 0% when we first invested.

ESG Focus Areas

MODERN SLAVERY AND ETHICAL SUPPLY CHAIN

Perennial is committed to ensuring corporates take necessary action to combat supply chain and modern slavery risks. Companies exposed to modern slavery risks face compliance, brand and reputational risk, and potential financial liability. More than ever, global markets and regulatory bodies are paying attention to supply chain and modern slavery issues. In Australia, The Commonwealth Modern Slavery Act 2018 requires organisations with a consolidated revenue above A\$100m to report on the risks of modern slavery in their operations and supply chains and the initiatives they are undertaking to address such risks. Scrutiny of Modern Slavery statements has started to accelerate with public criticism that companies are not making enough progress in identifying the high risk parts of the supply chain.

As investors, we expect companies to adhere to the reporting obligations and provide transparent disclosure to shareholders surrounding their supply chain processes. As a signatory of IAST-APAC, alongside a group of investors, Perennial engages with companies to promote effective action in finding, fixing and preventing modern slavery in operations and supply chains. Sitting on the Woolworths (ASX: WOW) working group, we have reviewed and shared detailed feedback on the Company's modern slavery statement with the engagement group. We believe that companies should go beyond the minimum legal reporting requirements and take proactive and effective action in combatting modern slavery in their supply chains, particularly given the increasing risks that have emerged since the COVID-19 pandemic.

In FY23, we engaged with several companies on ethical supply chains and modern slavery including Chorus (ASX: CNU), Calix (ASX: CXL), MoneyMe (ASX: MME), Trajan Group Holdings (ASX: TRJ), AUB Group (ASX: AUB), IDP Education (ASX: IEL), Woolworths (ASX: WOW), Charter Hall (ASX: CHC), Baby Bunting Group (ASX: BBN), Arena REIT (ASX: ARF), Nanosonics (ASX: NAN), Impedimed (ASX: IPD), APM Human Services International (ASX: APM), Healthco Healthcare and Wellness Reit (ASX: HCW), PEXA (ASX: PXA).

Engagement highlights

We met with WOW as part of our commitments under IAST APAC. WOW was the first company to report instances of modern slavery under the Modern Slavery Act. They told us there is ongoing risk mitigation to prevent modern slavery incidents occurring again. The instance of modern slavery found excessive recruitment fees for work in Malaysia. It would take workers 10 years to pay back recruitment fees. WOW assisted with returning 132 passports to migrant workers and \$1m in repayments to 990 workers across the supply chain. WOW now has a workstream on specific modern slavery risks by country and industry. The IAST working group suggested Oritain who can trace fibres as a way of addressing the opaqueness of supply chain. We also encouraged modern slavery performance to be integrated into the remuneration framework.



ESG Focus Areas

CYBER SECURITY

Cyber Security has emerged as an important and material ESG risk in the context of the increasing frequency and severity of cyber attacks and a number of high profile data privacy concerns in Australia. We engaged with companies across our portfolios at high risk of a cyber security attack, and also attended numerous conferences to broaden our understanding, including the UBS ESG Insights Data security, the Wilsons Cybersecurity Forum and the Macquarie Conference - Cyber Security Panel.

The Better Future Team emailed all companies identified as high risk of cyber attacks and asked a series of questions related to:

- the nature of the customer personal data that you hold
- to what extent cyber security is embedded within risk management practice
- how your cyber strategy is proactively overseen and reviewed and the teams/individuals responsible;
- your preparedness for a significant cyber security incident

Engagement highlights



Qoria is a global technology company, helping to keeping children safe and well in their digital lives including tools for detection and intervention, education and engagement and prevention and enablement. Cyber security forms part of their business model.

We met with the UK business, Smoothwall, in Leeds and discussed ESG topics including cybersecurity. We discussed the sensitive information that schools may hold, and Qoria explained that they educate schools with white papers on data privacy as well as offer advisory services to protect schools.



We reached out to 3PL in November 2022, to understand their cyber security and data privacy process in more depth. We subsequently had a dedicated call with management in which we discussed nature of information they hold, accountability for cyber security, technical infrastructure, training and simulations which allowed us to assess the risk and management of cyber security in the business.

Fund Engagement Highlights

PERENNIAL BETTER FUTURE

“

Companies are increasingly being asked about the size of their carbon footprints as other stakeholders focus on their net zero commitments. The importance of understanding carbon footprints is becoming clearer, even for companies that are not particularly carbon intensive. This is providing momentum to our engagement activities on the issue.

*Damian Cottier
Portfolio Manager of the Better Future
Strategies and Co-Head of ESG*

”

APM Human Services (ASX: APM)

We have been engaging with APM for sometime on ESG & Sustainability including environmental footprint, employee engagement, NPS, ESG reporting suite, modern slavery, certification programs, and remuneration.

We participated in their materiality assessment of which they released following the FY23 results. Based on this materiality assessment, the company developed its first sustainability strategy. It also measured Scope 1 + 2 GHG emissions for the first time. They have appointed sustainability lead and announced the first social loan linked debt facility in Australia.

	ESG&E Score	Carbon Intensity	UN SDG Contribution
Perennial Better Future Trust	7.4	27.1	64.0%
S&P/ASX Small Ordinaries	5.7	188.8	48.4%
Premium/(Discount)	+29.0%	-85.6%	+32%

As at 30 June 2023, using Perennial data, estimates made where GHG disclosures not available. SDG data from Sustainable Platform.

*According to the RIAA 2023 Benchmark Report

PERENNIAL SMALLER COMPANIES

“

We have found the increased engagement with the board members of our portfolio companies is a constructive way to improve governance, environmental and social practices. Through these detailed conversations we have also gained valuable insights into the companies and their approach to risk – forming another tool in our stock selection process.

*Andrew Smith
Portfolio Manager and Head of Smaller
Companies and Microcaps*

”

Envirosuite (ASX: EVS)

From June 2023 onwards, we had repeated interactions with several directors on the Envirosuite board to encourage a review of the skills matrix to ensure the composition of the board was appropriate for the now larger, global and more complex structure of the business. Given the strong demand (and in some regions regulated growth) in environmental compliance we wanted to ensure the board had skills in scaling technology businesses to ensure the risks and opportunities were appropriately managed. We also encouraged more independence on the board. To this end board renewal has been announced and already one new director has been added bringing global technology skills particularly in the water vertical.

	ESG&E Score	Carbon Intensity
Perennial Value Smaller Companies Trust	6.1	110.7
S&P/ASX Small Ordinaries	5.7	139.7
Premium/(Discount)	+7.5%	-20.8%

As at 30 June 2023, using Perennial data, estimates made where GHG disclosures not available.

PERENNIAL AUSTRALIAN SHARES



It has been pleasing to see that most of the companies we deal with continue to make progress toward improving their overall ESG performance, incorporating ESG-related goals into their business planning and operational execution. It has also been interesting to observe how the broader discussion of ESG-related issues has evolved as investors, companies, regulators and politicians seek to develop practical and effective solutions to what are, in many cases, very complex problems

*Stephen Bruce
Director of Portfolio Management*



Santos (ASX: SDS) and Woodside Energy (ASX: WPL)

We recently had detailed discussions over multiple meetings with Santos and Woodside regarding ESG. The primary focus was on the Environmental Plans for their new projects, Barossa and Scarborough, which have been subject to challenges over their legality. We were keen to understand the steps the companies had taken to meet NOPSEMA's guidelines in the face of ongoing concerns around the respective projects' impact on marine life and areas of cultural significance. Both have been challenged in the courts and we spent a lot of time with management understanding what they were doing to ensure that there was no/minimal disruption to the environment. Beyond this we also ran through the respective decarbonisation strategies for both companies and how they were progressing. In particular we impressed upon them that we needed to continue to see their plans progress and yield tangible results to reduce their initial emissions profile rather than just being offset with carbon credits.

	ESG&E Score	Carbon Intensity
Perennial Value Australian Shares Trust	.7.0	161.0
S&P/ASX 300	6.8	157.4
Premium/(Discount)	+2.6%	+0.02%

As at 30 June 2023, using Perennial data, estimates made where GHG disclosures not available.

Industry & Community Participation

The Perennial sustainability team is highly engaged in the sustainable finance industry, regularly participating in ESG-related events and sharing ESG insights on various media platforms. We believe that industry participation allows us to add value to improve the sustainable investment industry overall. As a business we also aim to contribute to our community and staff have undertaken a number of community events throughout the year.

FY23 HIGHLIGHTS

- Perennial corporate volunteer day at Wayside Chapel combined team members across the business to learn about the organisation and cook and serve lunch to the local community
- Perennial staff attended the Balmoral Burn to raise funds for the Humpty Dumpty Foundation
- Perennial Better Future, Small Companies and Private Investments hosted the inaugural Perennial Diverse Boards event - matching female non-executive directors in our network with companies looking to improve the gender diversity on the board



Perennial staff at the Balmoral Burn in May 2023, raising funds for the Humpty Dumpty Foundation.



Equity Mates Finfest October 2022



Perennial's Inaugural Diverse Boards Event in March 2023



Perennial Corporate Volunteer Day at Wayside Chapel

Industry & Community Participation

FY23 HIGHLIGHTS

- Damian Cottier (from the Perennial Better Future Team) presented at the Financial Standard ESG Best Practice Forum on 23rd May about ESG Analysis, Sustainable Investment and the Expectation Gap
- Madeleine Huynh and George Whiting (from the Perennial Better Future Team) presented at the Equity Mates Media Finfest on ESG Investing in October 2022
- Emilie O'Neill (from the Perennial Better Future Team) collaborated with the Darden School of Business on a case study to use in educational materials on gender diversity
- Participated in ESG surveys and materiality studies with Citi, Bendigo and Adelaide bank, QBE, 40:40 Vision, Climate Action 100+, PWC & PRI
- Damian presented at the Lonsdale/Alliances Conference with a presentation called Sustainable Innovation Outside ASX50
- Damian presented at the Lonsec conference on Green Washing: What's in a name?
- Emilie was interviewed on RASK ESG MasterClass podcast which is helping to educate financial advisors about the ESG landscape
- Emilie joined Rachel from FS Sustainability for a podcast on better future investing in small caps
- Emilie participated on a panel for an ASX/Ausbiz Event on investor trends discussing future themes for investment including sustainability & decarbonisation
- Emilie presented on a panel about ESG to board of directors "ESG & Technology: Australia's evolving Role" hosted by Jarden
- Emilie presented on ESG & Sustainability at the Morgan Stanley Adelaide Advisor Symposium and then had a one-on-one Q&A session
- Emilie & Damian presented at the FPA conference on "ESG Analysis" vs "Sustainable Investing"

Better Future Strategy

Perennial Better Future is part of the next generation of authentic ESG investors. We are focused on pursuing strong, consistent returns while investing in companies that are shaping a better future.

With a large and highly experienced team dedicated to finding opportunities, we focus on companies with sustainability tailwinds and strong global growth drivers. ESG analysis and company engagement are core to our strategy, and can help us to assess the risks and opportunities in the business and drive improved performance. We aim to build robust and balanced investment solutions, pursue strong risk-adjusted returns and help to shape a better future.

Perennial Partners Better Future Trust was crowned winner at the 2022 Zenith Fund Awards for best "Sustainable and Responsible Investment - Growth". The Perennial Better Future Trust is also Zenith Recommended and has the Zenith "Impact" designation.



Madeleine Huynh from the Better Future team was awarded the Green Rising Star of the Year at Finder Green Awards 2023.



Further information about the strategy is available [here](#).

The rating issued 09/2023 WPC5600AU & 10/2023 WPC5600AU (Sustainability Report), are published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445 (Lonsec). Ratings are general advice only, and have been prepared without taking account of your objectives, financial situation or needs. Consider your personal circumstances, read the product disclosure statement and seek independent financial advice before investing. The rating is not a recommendation to purchase, sell or hold any product. Past performance information is not indicative of future performance. Ratings are subject to change without notice and Lonsec assumes no obligation to update. Lonsec uses objective criteria and receives a fee from the Fund Manager. Visit lonsec.com.au for ratings information and to access the full report. © 2023 Lonsec. All rights reserved.

The Zenith Fund Awards were issued on 1 March 2023 by Zenith Investment Partners (ABN 27 130 132 672, AFSL 226872) and are determined using proprietary methodologies. The Fund Awards are solely statements of opinion and do not represent recommendations to purchase, hold or sell any securities or make any other investment decisions. To the extent that the Fund Awards constitutes advice, it is General Advice for Wholesale clients only without taking into consideration the objectives, financial situation or needs of any specific person, including target markets where applicable. Investors should seek their own independent financial advice before making any investment decision and should consider the appropriateness of any advice. Investors should obtain a copy of and consider any relevant PDS or offer document before making any investment decisions. Past performance is not an indication of future performance. Fund Awards are current for 12 months from the date awarded and are subject to change at any time. Fund Awards for previous years are referenced for historical purposes only.

Thank you

Thank you for your interest in how we approach ESG at Perennial. As you can see in this report, Perennial is taking an active approach to integrating ESG & Sustainability into our investment strategies and corporate strategy more broadly.

For more information on Perennial's ESG strategy, please visit our ESG & Sustainability webpage at <https://perennial.net.au/our-story/corporate-socialresponsibility-esg/> or reach out to the team.



L-R: George Whiting, Emilie O'Neill, Damian Cottier and Madeleine Huynh.

Contact

invest@perennial.net.au
1300 730 032 or
international +61 2 8823 2534
www.perennial.net.au



Talented teams, great opportunities.

This information has been prepared and issued by Perennial Investment Management Limited ABN 13 108 747 637, AFSL No. 275101 (PIML) as Trustee and Responsible Entity and Perennial Partners Limited ABN 90 612 829 160 (Perennial Partners) as a Corporate Authorised Representative (No. 1293138) of Perennial Value Management Limited (PVM) ABN 22 090 879 904, AFSL No. 247293.

The information in this report has been provided for information purposes only. Accordingly, reliance should not be placed on this information as the basis for making an investment, financial or other decision. This information does not take into account your investment objectives, particular needs or financial situation and is not intended to constitute advertising or advice of any kind and you should not construe the contents of this material as legal, tax, investment or other advice. While every effort has been made to ensure the information in this report is accurate; its accuracy, reliability or completeness is not guaranteed. Past performance is not a reliable indicator of future performance. Gross performance does not include any applicable management fees or expenses. Net performance is based on redemption price for the period and assumes that all distributions are reinvested. Fees indicated reflect the maximum applicable. Contractual arrangements, including any applicable management fee, may be negotiated with certain large investors. Investments in the Trusts must be accompanied by an application form. A copy of the relevant PDS and/or Information Memorandum, additional information booklet, application forms and Target Market Determinations relating to a PIML financial product or service are available at www.perennial.net.au. Use of the information on the website is governed by Australian law and is subject to the terms of use.