PERENNIAL

ENGAGEMENT REPORT 2020

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STEWARDSHIP & ACTIVE ENGAGEMENT

At Perennial, we are particularly focused on engaging on Environmental, Social and Governance (ESG) topics

This is Perennial's engagement report which summarises our corporate engagement activities and Environmental, Social and Governance (ESG) stewardship over the 2020 calendar year across all Perennial funds. Perennial is on the journey to continually improve its approach to ESG & Sustainability and as such, we believe this engagement report will assist stakeholders in understanding Perennial's stewardship & active engagement.

Perennial is an Australian fund manager established in 2000 managing approximately $6.0 billion on behalf of institutional and retail clients.

As an active manager, engagement with ASX listed corporates is a critical component of our strategy and has been since inception. We engage with corporates on both financial and non-financial risks and opportunities and this ultimately leads to better performance for our clients.

We are particularly focused on engaging on ESG topics which provides the opportunity to:

- Assess ESG risks and opportunities;
- Address controversies;
- Determine if management is being authentic in the company's approach to sustainability; and
- Help to improve the outcomes of the business by sharing ESG ideas and industry best practice.

ESG related controversies are arising more frequently and having an impact on stock performance. We have seen a number of examples in the press recently including Rio Tinto and the blasting of Juukan Gorge, AMP and overcharging customers and Cleanaway and cultural concerns.

Engagement is a key component of our strategy to minimize our exposure to stocks with ESG risks, but to also make positive change to companies we hold.

Given our focus on sustainability and our reputation in the market, ASX listed corporates often approach us to discuss ESG & sustainability. We have met with a number of companies in the past 12 months, some which we hold and others which we don't, to provide our views on ESG risks & opportunities, disclosure and best practice. We believe that we have a role to play in driving the industry to become more sustainable.

In this report we discuss the engagement activities across the Group including the statistics from our ~2,000 company meetings during 2020. We will also go through our engagement focus areas for 2020, proxy voting highlights, and engagement activity in our investment products, collaborative engagements efforts and finally the Perennial Sustainable Future Survey which is our annual survey on how ASX listed corporates are thinking about ESG & sustainability in their business.

2.0 ENGAGEMENT STATISTICS

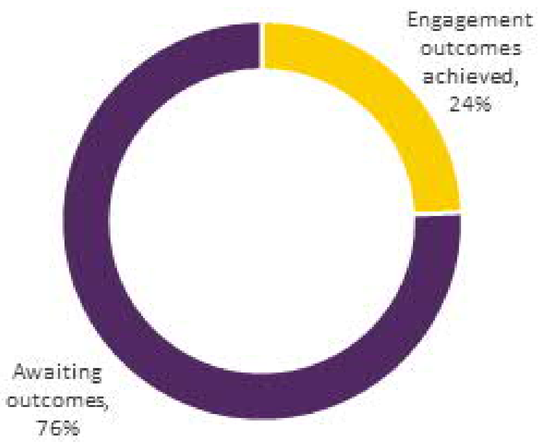
During 2020, analysts and portfolio managers undertook more than 2,000 company and industry meetings.

Environmental, social and/or governance issues were discussed in 139 meetings. Governance issues was raised the most, in 41% of ESG meetings. Social was raised in 37% of meetings and environment in 34%.

The most common topics discussed are outlined as ordered on the right.

More specifically, hydrogen energy was a commonly discussed topic as was independence of directors. For employees, key themes included culture, safety and turnover.

Of the 37 meetings to specifically target ESG outcomes and initiatives, 24% have already made progress, while we await outcomes from the remaining 76%. Some of the targeted changes can take multiple years to eventuate, so we keep a close watch on the company over this time.



- Board composition
- Climate change & environment
- Renewable energy
- Customer treatment & outcomes
- Remuneration
- Diversity
- Employees
- Modern slavery / supply chain
- Indigenous heritage
- Water
- Cyber security
- Circular economy

2.1 Examples of Positive Engagement

Steadfast (ASX: SDF)
We discussed the remuneration policy with the board. We raised concerns with the quantum of remuneration and whether targets were sufficiently challenging. The company subsequently announced an increase in the EPS “gateway” and indicated they would consider our other concerns in next year’s remuneration report.

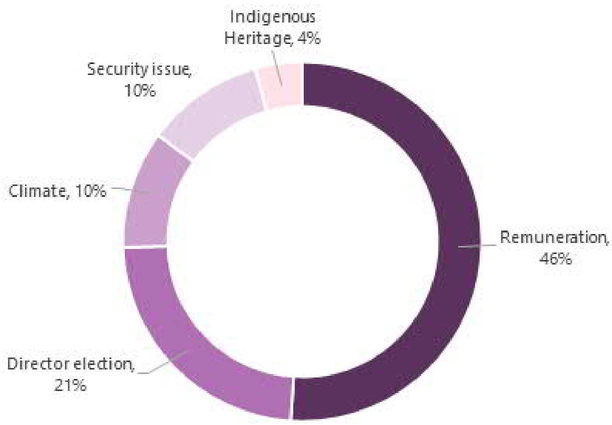
HRL Holdings (ASX: HRL)
We have been engaging with the company for some time on increased board independence. In February 2020, a non-independent director retired from the board.

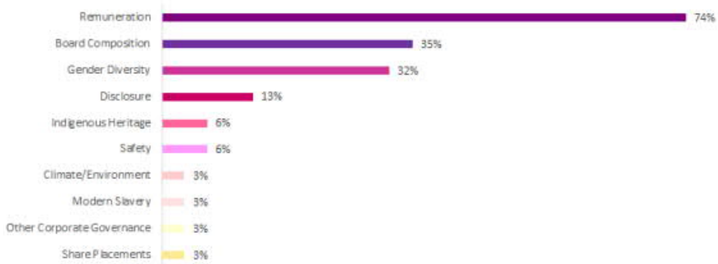
3.1 Voting Statistics

In the 2020 calendar year, Perennial voted on 1,518 proposals. We abstained on 27 occasions regarding ratifying the placement of securities given we are not able to vote if we have participated in the placement.

Perennial voted against management recommendations on 52 occasions across 21 companies. The most common topic we voted against was on remuneration, followed by director elections, climate, security issuance and Indigenous Heritage.

During the 2020 calendar year we had 31 in-depth discussions with companies regarding controversial AGM proposals. The most common discussion was on remuneration, which was raised in 74% of proposal meetings. This was followed by board composition which includes director independence and election, discussed in 35% of meetings and gender diversity was raised in 32% of meetings.





3.2 Voting themes and trends

The 2020 AGM season spurred interesting discussion on climate change, Indigenous Heritage, executive remuneration in a COVID impacted environment and governance including gender diversity, board independence and over-boarding of directors, with greater detail provided throughout the report.

3.3 Voting examples and outcomes

In 2019, we voted against management on the remuneration report of online education company Janison Education (ASX: JAN). We hold the view that a single performance metric on short term EBITDA was not appropriate for Janison Education and remuneration should be based on EPS and share price growth going forward. In 2020, we were pleased to see that the company had taken our advice and put in place a new, more appropriate remuneration framework. We supported the 2020 remuneration report based on the positive corporate governance changes made.

We had a positive voting engagement with Good Drinks Australia (ASX: GDA). Ahead of the AGM, we raised concerns regarding having the MD on the audit committee and encouraged them to address this as soon as possible. We also discussed our intention to vote against the 10% placement capacity and raised concerns on the issue of shares to non-executives. Pleasingly, prior to the AGM the company removed the proposal on the 10% placement capacity and informed us of the removal of the MD from the audit committee. We will continue to monitor the concern on non-executives receiving issue of shares.

You can also find further detail on the BHP proposals below.

4.0 COLLABORATIVE ENGAGEMENTS

4.1 Climate Action 100+

In 2019, we became members of Climate Action 100+ (CA 100+) and have since joined three working groups: Origin Energy (ORG), South32 (S32) and the Oil & Gas Working Group (O&G WG). The mission of CA100+ is for asset owners and managers to engage systematically with the world's largest GHG emitters to guide the energy transition and meet goals of the Paris Agreement. During the year we participated in a number of meetings with CA100+.

We joined the first O&G WG meeting where we broke into groups to discuss the environmental concerns in the oil & gas industry including the Paris Agreement aligned decarbonisation pathways, policy & advocacy and best practice for; disclosures, environmental targets, governance and remuneration. The O&G WG is building a foundation for asset owners and managers to learn about the role of oil & gas in decarbonisation pathways. This will allow Perennial to engage with corporates in the oil & gas industry and promote a consistent and clear message from the investment community.

We also had meetings for the S32 and ORG working groups and met with both management teams. In the S32 meeting we discussed net zero emissions targets, scenario analysis, scope 3 emissions, and industry associations. For ORG, we discussed remuneration linked to emission reduction targets, Science Based Targets, renewables, fugitive emissions and the 1.5 degree pathway.

4.2 IAST APAC: Investors Against Slavery and Trafficking Asia-Pacific

In October 2020, we signed up to the IAST investor statement and joined the investor engagements workstream. The group seeks to set goals for Asian and Australian listed corporates around improving their disclosures, supply chain mapping and processes to remediate supply chain risks.
We intend to contribute to the industry by working with corporates to improve supply chain practices & gain insights on industry best practice. We expect further engagements during 2021.

5.1 Indigenous Heritage - RIO and BHP

Our Resources and Energy analyst, and the ESG Team have been engaged on Indigenous Heritage and Free, Prior and Informed Consent (FPIC) for a period of time, but this particularly intensified after the blasting of Juukan Gorge in the WA Pilbara region by Rio Tinto (Rio). Indigenous relations are extremely important for the mining and oil & gas sectors to ensure empowerment of the traditional owners and social license to operate. We engaged with Rio on 4 occasions with the goal of:

- Acknowledgement of social failure of the incident – Despite having authorisation under Section 18 of the Aboriginal Heritage Act, which allows for damage, destruction or alteration of registered heritage sites, to conduct work, the company’s actions seem to go against the their social license and commitment to respecting the “special connection of the Indigenous people to land and waters”
- An apology to Traditional Owners
- Clarity around the decision-making process
- The appointment of an Indigenous leader to run the internal review
- The appointment of an external & independent leader to run the internal review
- To extend the review more broadly than the iron ore division
- Ensure accountability from senior management
- To put in place ESG policies and systems so that an incident like this does not happen again
- To go beyond the law and take a more proactive role in working with government and Traditional Owners to come up with better solutions in future

Since the incident, Rio’s CEO, Chief Executive of Iron Ore, and Group Executive, Corporate Relations have resigned.

The Juukan incident has created heightened focus on Indigenous Heritage rights. It was also one of the areas flagged by corporates as an increasingly important driver in our 2020 Sustainable Future Survey (see Section 7.0).

At BHP's AGM, a shareholder-led resolution was put forward to improve BHP's approach to Indigenous Heritage including an annual review of activities, removing the enforcement of provisions that limit the ability of Aboriginal and Torres Strait Islander Traditional Owners to speak publicly and disclosing expectations on lobbying by industry associations.

We initiated a call with BHP in regard to the these proposals. We discussed:

- Current & pipeline Section 18's
- Acknowledged BHP is going beyond legal minimum but the minimum is not in line with shareholder expectations
- Whether the Heritage team and Indigenous engagement team had Indigenous representation and how they fit into the process on approvals
- Why BHP had said that the proposal would further disempower Indigenous land owners
- Why their periodic reviews are not publicly disclosed, run independently, and are not Indigenous led

We also joined a group Cultural Heritage call conducted by BHP for shareholders. Based on our engagement and knowledge on FPIC we informed BHP that we had decided to vote against management and support the proposal so that Native Title issues are given greater priority and to ensure that the company enhances its social license to operate.

After we communicated with the company that we had intended to vote against, it was announced that resolution 24 had been withdrawn. This is because BHP and the First Nations Heritage Protection Alliance had jointly agreed a path forward to enhance and influence the voice of traditional owners in relation to heritage protection.

This is a positive step forward and we believe our voting and engagements with the company contributed to the outcome.

5.2 Greenhouse Gas Emission Reduction

We engaged with 47 companies on environmental risks and opportunities and were also involved in collaborative engagements with Climate Action 100+ (see Section 4.1).

The key environmental topics discussed include alignment with the Paris Agreement, decarbonization pathways & net zero targets, Scope 1,2 and 3 greenhouse gas emissions, environmental disclosures and risks, environmental fines, fires, renewable energy & the hydrogen opportunity, water use, waste management & circular economy.

Examples of companies where we engaged on environment include: NEW, CWY, SGM, S32, ORG, IDX, UMG, KMD, SM1, SUN, NUF, GHG, ANZ, BHP, MEZ, MQG, MMM, CXL, FLC, NVX, PET, ZEN, ORA, CBA, JHG, CNI, MQG, NST, GNC, AMI, CCX.

5.3 Executive Pay

At the beginning of the AGM season, our focus was on executive remuneration given the impacts of COVID. This is a particularly contentious topic given that boards are balancing the negative performance outcomes for shareholders in challenging COVID operating conditions, with the need to retain and reward key talent.

We would expect that companies that have raised “emergency” capital at dilutive prices will not provide executives with large increases in fixed pay. This is to be contrasted to those who have raised money for value accretive acquisitions at good prices. We also flagged to analysts to watch for companies that are paying bonuses whilst receiving government wage assistance, such as JobKeeper, and ensuring companies adjust variable remuneration appropriately for the business conditions.

During AGM season, there were a number of companies issuing large one-off bonuses to executives. In some cases we approved the bonus, but we would not expect this to occur next year.

An interesting case study is the engagement with Event Hospitality and Entertainment (ASX: EVT).

EVT issued a proposal to shareholders on a “Recognition and Retention Incentive Award to the CEO” of the value of A$1.5m. The reward was proposed given the difficult business conditions, sacrifices of executives including a voluntary pay cut, and not meeting short term incentives (STI). Our concerns were related to the alignment with shareholder outcomes, the quantum of the pay and our preference for incentives to have performance hurdles. On balance, we decided to support the proposal given the importance to retain the CEO in the current environment. We voiced to the Chair that we would not support future grants out of line with the remuneration policy. We also made numerous suggestions to the chair on how he could improve the remuneration policy in future.

5.4 Cyber Security

Another key topic was cyber security in our engagements in 2020, which is an area of ESG that is not commonly discussed, but is extremely important in the context of increased cyber-attacks, shift to working from home and greater digital penetration. In June 2020, Prime Minster Scott Morrison made a press announcement on details of Australia being the subject of cyber security attacks from a “sophisticated, state-based actor” and announced that federal spending on cyber security will increase to over $1.67 billion in the coming decade.

An industry expert estimated that only approximately 10% of Australian companies are investment grade on cyber security[1]. Evidence to the fact, a number of ASX companies have been subject to cyber-attacks with some having material business disruptions and financial consequences. We have a preference for companies with sound cyber infrastructure who take an active approach to cyber risks rather than a detection and response. A few examples of our cyber engagements are listed below.

In May, BlueScope Steel (ASX: BSL) announced a cyber incident to the market. We wrote to the company requesting further detail and whether confidential information was compromised. We also inquired about steps taken to reduce the risk of a future cyber-attack as we know that when there is one attack, more are likely to follow. BlueScope responded to our email outlining the incident. They stated an investigation is underway but to date, had not found evidence of a compromise of confidential corporate documents. Since the incident, BlueScope deployed enhanced visibility and threat detection capabilities on the majority of the endpoints throughout the organization.
We have engaged with a number of companies on cyber security: BSL, NWL, PPT, IDX, IAG, UMG, AEF.

5.5 Gender Diversity on the Board

At Perennial, we believe a business with diverse employees leads to better performance. Our particular focus this year has been on gender diversity on the board. As members of the 30% Club, we advocate for a minimum 30% representation of women on ASX listed boards, and equal representation where possible.

The Gender Equity Insights report was released on the 17th June 2020 by The Bankwest Curtin Economics Centre (BCEC) and the Workplace Gender Equality Agency (WGEA). The report found a strong correlation between increasing the share of women in leadership and subsequent improvements in company performance. The following are statistics from the report:

- In 2019, only 14.1% of all board chair positions were held by women.
- 29.8% of companies have no female representation at their board and a similar proportion of companies have no females in their key management teams.
- An increase of 10 percentage points or more in female representation on the boards of ASX-listed companies leads to a 4.9% increase in company market value and a 6% increase in the likelihood of outperforming their peers.

In July 2020, the 30% Club (of which we are signatories) published statistics in an article titled “Building Gender Diversity on ASX 300 Boards.” Using April 2020 data, they found that women on boards made up:

31.8% of the ASX 100
30.7% of the ASX 200
28.4% on the ASX 300
22% on the ASX 201 – 300

Calix (ASX:CXL) is a small industrial solutions technology company. We encouraged the company to appoint a female non-executive director to the board given the benefits a diverse board has on company performance. The company subsequently appointed a well-qualified female to the board.

Blackmores (ASX:BKL) is a health company which had only a 20% representation of females on the board. We wrote to them requesting they appoint additional independent female directors to the board. Subsequent to our engagement, they announced a board restructure, including promoting a

1. Macquarie Cyber Security Call 6th August 2020

female to Chairperson.

We engaged on gender diversity with: CXL, BKL, FLC, CXL, M7T, PPT, CWY, SSM, IDX, UMG, SDF, S32, KMD, JHG, IMR.

5.6 Modern Slavery

The Commonwealth Modern Slavery Act (2018) came into force this year requiring companies to release a Modern Slavery statement. Having an ethical and responsible supply chain is critical to minimising the risks associated with Modern Slavery. We asked companies about their Modern Slavery statement, management of the risks identified and areas of greatest concern in the supply chain. The Coronavirus pandemic has further intensified our concern on Modern Slavery in the supply chain given inability to visit sites to check compliance and concerns over COVID safe working conditions.

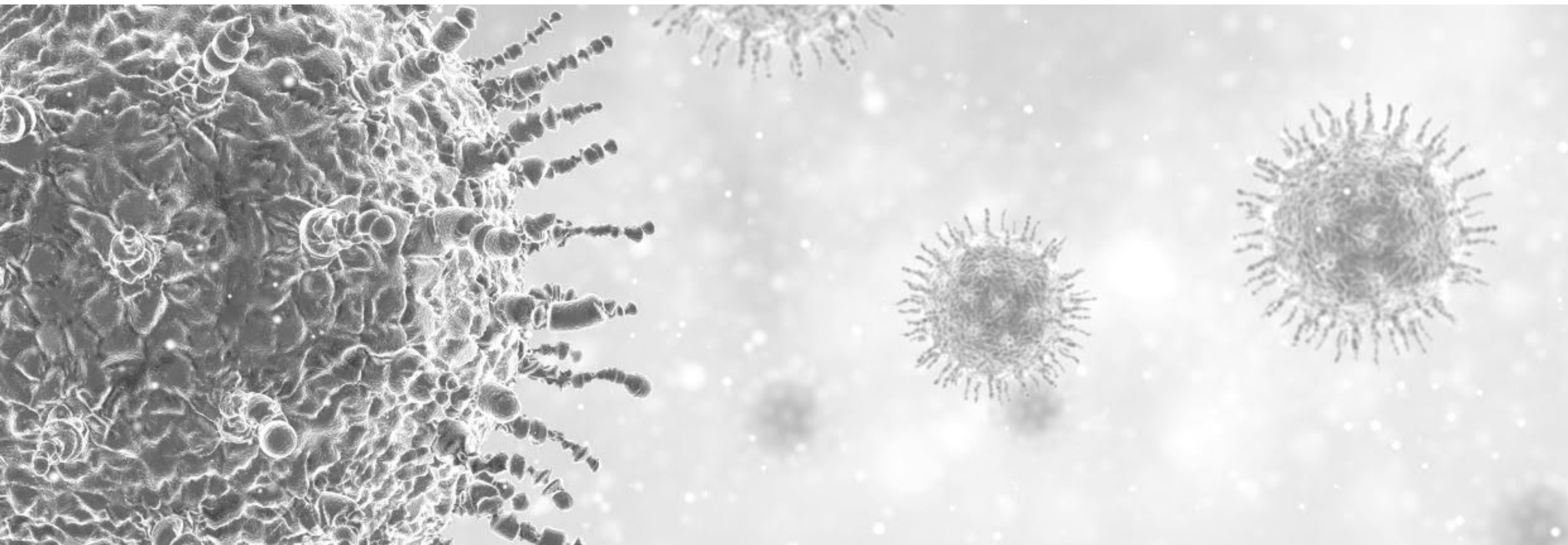
In June, we attended a call with City Chic's (ASX: CCX) Head of Ethical Sourcing. City Chic is a supplier of plus sized women's fashion but has a strong focus on supply chain issues. It has been recognized by Oxfam for its work on the living wage and was involved in campaigning for the Modern Slavery Act. It has implemented worker grievance hotlines and management travels to key suppliers and factories.

We discussed Modern Slavery with: IDX, UMG, CCX, S32, NST, FLC, BSL.

5.7 Covid Pandemic

We encouraged analysts to discuss ESG risks associated from the COVID pandemic including how they are protecting staff & customers from COVID-19 risks, the transition to working from home & flexible working arrangements, employee assistance programs in place (EAPs), hardship requests from customers, managing orders in the supply chain and executive pay given impacts to performance.

Some notable examples of engagement include Kathmandu (ASX: KMD). Given the significant impact of the pandemic on their business, they reduced executive base pay by 20% until conditions improve. They wanted to maintain strong supply chain practices so did not cancel orders, although they did defer orders in some cases. Retail staff were moved to help with online customer service and they utilized government subsidiaries to pay staff where possible. They protected customers and staff when stores re-opened by providing hand sanitizer, staff wearing masks, stickers on floors to ensure social distancing, restructuring store layout to maximise space and employing a store greeter who limits the number of customers.



6.1 Better Future Strategies: Perennial Better Future Trust & eInvest Better Future Fund (Managed Fund) (ASX: IMPQ)

Engagement on ESG issues is central to the investment approach in the Better Future strategies. Damian Cottier, Portfolio Manager, states;

One way that I like to open a company meeting is to ask management 'How are you thinking about sustainability and ESG?' You will often get two types of answers, either management will say, 'We have a sustainability report, go and check our website', or we get a management team that says, 'Thanks so much for asking, we don't often have investors asking us about sustainability and ESG, but we are focused on it because our staff care, our customers care and it leads to better outcomes for the business.' These are the companies we seek to invest in.

STOCK EXAMPLE:

Cleanaway (ASX: CWY)

In August 2020, we engaged with Cleanaway in relation to an environmental fine which we uncovered from a local news article. We discussed a number of issues including environmental management, safe storage of waste and incident management & documentation. Shortly after, during September 2020, Cleanaway announced it had conducted an internal review in relation to bullying claims and a number of other allegations that had been made against the Company's CEO Vik Bansal. We engaged with the company in relation to the allegations and other issues including culture, diversity, turnover, safety and engagement. We discovered inconsistent claims from their prior statement on ESG & sustainability. After considering the company's response, our other recent engagements with the company and the company's prospects, we decided to sell the position. It was announced in January 2021 that the CEO had resigned. In February 2021, a female director was appointed to the board.

6.2 Perennial Value Smaller Companies & Microcaps Opportunities Trust

Andrew Smith, Portfolio Manager and Head of Small Caps believes that engagement with companies has led to a superior investment process;

> *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.*

STOCK EXAMPLE:

GTN Limited (ASX: GTN)

During 2020, we met with the CEO and Chair of GTN Limited to discuss remuneration and board composition. We expressed concerns with the CEO on the long-term incentive structure (LTI) which would be highly dilutive given the weak share price. We suggested a more appropriate LTI structure for the future. We subsequently met with the chair who agreed to cancel the option and replace it with a small cash incentive. This resulted in a much more favourable outcome for shareholders given reduced dilution. We also requested that the board implement a new plan before next year's AGM which reduces the discretionary nature of the LTI. We will assist the company to put a remuneration report that supports good corporate governance and appropriately incentivises the management team for long term performance. Additionally, we discussed the proposed board spill, which had support of other large shareholders, and made the decision to not support it. However, we discussed the board composition changes that we wanted to see without holding them to a disruptive board spill.

6.3 Perennial Value Australian Shares Trust: Australian Large Caps, Shares for Income Trust and Concentrated Australian Shares Trust

Stephen Bruce, Director of Portfolio Management, links Environmental, Social and Governance (ESG) issues with effective risk management;

> *The management of environmental, social and corporate governance issues is an increasingly critical component of overall risk management within a business. The level of attention paid to these issues and the effectiveness with which they are managed, is indicative of the overall approach to and effectiveness of risk management within an organisation. As a result, in-depth engagement with Boards and Management on these issues provides a valuable, broader insight into the level of risk across the business, which can be factored into our investment decision making.*

STOCK EXAMPLE:

United Malt Group (ASX: UMG)

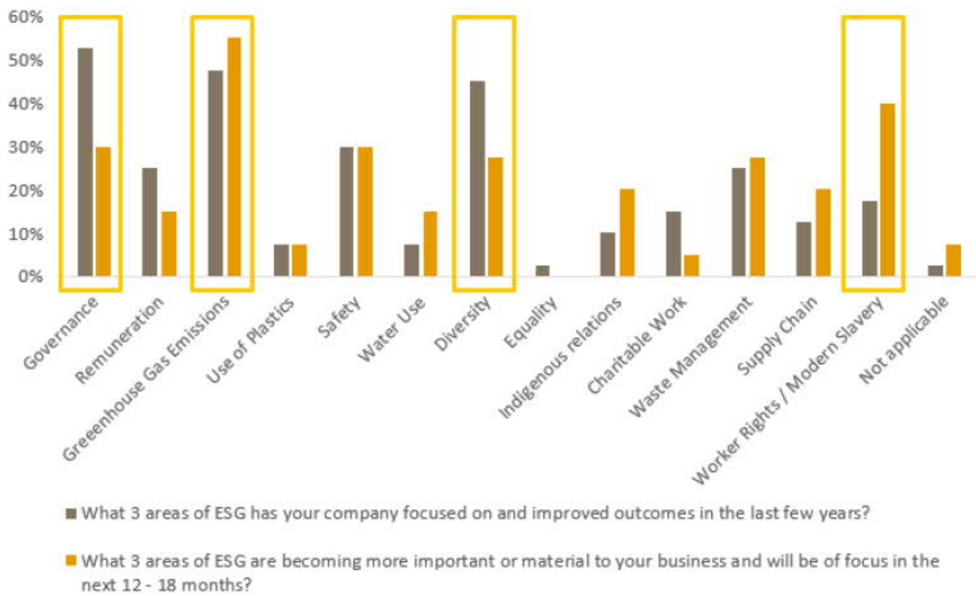
United Malt Group initiated engagement with Perennial to ascertain investors view on key ESG issues and best practice ESG reporting. They asked for our opinion on key sustainability metrics, topics and examples of good disclosure. We discussed with them our views on modern slavery, gender diversity, cyber security, water use, GHG emissions and targets, The Paris Agreement, United Nations Sustainable Development Goals and reporting standards like GRI & SASB.

This year, we completed the second edition of the Sustainable Future corporate survey which was sent to ~250 listed companies in Australia. The survey is designed to take the "ESG Pulse" of ASX listed companies. It seeks to obtain the views of ASX listed companies on where they have been, where they are now and where they are going on all things ESG.

The report outlines the key results of the survey and important themes and conclusions. You can find the report **here**.

The annual Sustainable Future survey is part of our engagement with corporates. It provides us with the data to analyse the current and changing dynamics of corporate ESG and sustainability.

What we found particularly interesting was the change in focus on ESG issues in the next 12-18 months vs in the past few years:



What was pleasing, was that 90% of corporates agreed or strongly agreed that engagement with investors on sustainability and ESG issues is beneficial for their company and 80% of respondents believed that they have experienced positive business outcomes as a result on focusing on sustainability and ESG.

ENGAGING WITH INVESTORS ON SUSTAINABILITY AND ESG ISSUES IS BENEFICIAL TO OUR COMPANY

90% AGREE or STRONGLY AGREE

WE HAVE EXPERIENCED POSITIVE BUSINESS OUTCOMES AS A RESULT ON FOCUSING ON SUSTAINABILITY AND ESG

80% AGREE OR STRONGLY AGREE

If you would like to learn more about the results of our Sustainable Future Survey, the full report can be found **here**.