Perpetual

Responsible Investment Policy

May 2010

Objective

The objective of this policy is to set out Perpetual Investments' approach and expectations for considering environmental, social and corporate governance factors in our investment decision-making and ownership practices.

Scope

This policy applies to those Perpetual Investments employees who are responsible for making active investment decisions. This includes:

- investment analysts – who research and rate the quality and value of assets
- portfolio managers – who make the decision to buy, retain or sell a particular asset in order to achieve the objectives of an investment portfolio or fund.

Perpetual Investments employees who make active investment decisions are part of one of two business divisions being, Equities and Income and Multi Sector. The two divisions manage investments in the following asset classes:

- Australian equities (fundamental and quantitative)
- global equities
- listed and unlisted property securities
- credit and fixed income (including mortgages).

The Income and Multi Sector division also has a 'fund-of-funds' (multi-manager) and diversified funds capability, to which this policy also applies.

In this policy these business divisions are collectively referred to as Perpetual Investments. Investment analysts and portfolio managers are referred to as investment managers.

Perpetual Investments investment management services are available to institutional, wholesale and retail investors through two of Perpetual Limited's wholly owned subsidiary companies:

- Perpetual Investment Management Limited (PIML)
- PI Investment Management Limited (PIIML).

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

Context – what responsible investment means to us

Investment decision-making

Our duty to our clients requires us to seek the best risk-adjusted investment returns over specified time periods. We satisfy this obligation by focusing on both the quality and value of possible investments. This proven investment philosophy recognises that while traditional financial measures are an important consideration when judging quality and value, extra-financial factors can also influence company[1] performance and so must be considered. We also recognise that the influence of these factors is increasing and requires closer scrutiny due to the following:

- Scientific understanding of our effect on the environment, and an increasing population will force significant changes to economies globally, that will also impact the relative performance of individual businesses.
- Globalisation, the rise of non-government organisations and the free flow of information have made social and environmental issues an important consideration for an increasing number of companies.
- As businesses have become larger and more complex, good corporate governance practices have taken on added significance because they reduce risk by ensuring management accountability, transparency and focus, while avoiding unethical practices.

1 Throughout this document wherever 'company' is used, this could equally relate to other non-equity assets managed by Perpetual Investments including mortgages, other managed funds, and trusts and fixed income securities.

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For Perpetual Investments, consideration of environmental, social and governance (ESG) factors in investment decision-making does not include making ethical or moral judgements on particular practices or issues[2]. Instead, when considering whether to buy, retain or sell an investment, Perpetual Investments investment managers consider the risks and opportunities associated with those ESG factors that are relevant to the current or future value of the investment. This may include but is not limited to:

Risk	Description	Example
Reputational	Practices or incidents which have the potential to result in media or public action against a company. Damage to a company's reputation can result in reduced sales and distract management from managing the business.	Child labour, whether used in a company's direct operations or in its supply chain, can damage a company's reputation resulting in consumer boycotts. Child labour and other labour practices are particularly prevalent in today's globalised economy.
Regulatory	Changes or pending changes in regulation can result in a company facing increased costs, reduced revenues, or the reputational and financial costs of being prosecuted for a violation of law. The preparation for and management of regulatory changes can be as important as the effect of the changes themselves.	Emissions trading or other regulation designed to constrain greenhouse gas emissions. While these regulations have been on the horizon for a considerable period of time, not all affected companies have adequately prepared, which will create a competitive advantage for those that have begun to lower the emissions intensity of their operations.
Legal	Adverse effects from a company's products or services (whether intentional or not) that demonstrate a failure in a company's duty of care can result in legal action by victims that create liabilities, damage the company's reputation and distract management from managing the business.	Asbestos products; where companies did not react quickly enough to evidence that the product caused serious health issues. Companies who failed to warn and protect employees from exposure have since been required to pay billions of dollars in compensation.
Competitor	Companies who fail to recognise or act on changing social or consumer demands related to ESG trends and therefore sacrifice competitive advantage.	Demand for fuel efficient vehicles because of environmental concerns and rising oil prices allowed manufacturers of more efficient vehicles (including hybrids) to gain market share, particularly in the American auto market.
Systemic	Systemic issues or shifts that result in changes to a company's operating environment and therefore require contingency planning and investment.	Many experts predict peak oil will occur within the next 20 to 50 years if it hasn't already. Companies with significant reliance on energy security and stable energy prices need to plan for business with increasing costs of energy. Planning may include measures such as energy efficiency and diversification of supply.

For our multi-manager team considering these risks would include an assessment of how underlying investment managers consider the ESG factors, and may include looking-through to the underlying assets as evidence of a manager's process.

Ownership practices

Considering ESG factors in the manner described above can have three possible outcomes. The investment manager considers the ESG risks, and how well they are being managed, along with traditional investment criteria and concludes that:

1. The risks are too high compared to the likely reward and so the investment is not made, or is fully or partly sold.

2. The risks are significant but the likely reward is sufficient compensation for the risk and so an investment is made or is held.

3. The risks are low and so ESG factors are not a major consideration in making the investment decision.

In all three scenarios, as an active manager, Perpetual Investments may choose to engage with the management and Board of the company to raise ESG and other concerns and encourage more focused management of the issues. Increased recognition and improved management of ESG risks will enable companies to better deal with a changing environment and, over the long term, should translate into to higher or more consistent investment returns. This approach is well aligned with Perpetual's proven investment philosophy which includes four quality filters including sound management and quality businesses.

Indirect outcomes of integrating ESG

As previously stated, we believe this approach to considering ESG factors in our investment decision-making and ownership practices is important because it reduces investment risk by providing a fuller consideration of relevant issues. However, we are also aware of, and encourage, the broader benefits which improved ESG practices can bring including:

- higher standards of business conduct
- increased market efficiency

2 Unless it is part of a discrete portfolio's investment objectives eg Perpetual's Ethical SRI Fund (in these cases the 'ethical' judgements are made by an independent research provider).

- sustainable environmental management
- ultimately a more cohesive and fairer society.

These indirect benefits do not contribute to our investment performance when compared to a benchmark. However, if this approach to investing is widely adopted, the investment management industry can help promote more sustainable economic growth and more efficient use of resources. This in turn can translate into higher and more consistent benchmark returns. For example, if investor engagement contributes to companies being better prepared for the regulatory and environmental impacts of climate change, the economy as a whole will be more likely to make a lower cost and more efficient transition to a low carbon economy.

Notwithstanding the possibility of these indirect benefits it remains a matter for society and policy makers to set the rules by which businesses are held to account. In this context Perpetual Investments will always look to maximise the investment returns of our clients given the prevailing environment, even where governments and society choose to take a less sustainable path.

United Nations Principles for Responsible Investment

The consideration of ESG factors in the manner described in this policy is known as responsible investment (RI). To demonstrate our commitment to responsible investment, Perpetual Investments became a signatory to the United Nations Principles of Responsible Investment (PRI) on 21 October 2009. The principles are:

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

Policy

Investment decision-making

It is Perpetual Investments' policy that, to the extent that information is available, investment managers must understand for each investment they manage:

- what ESG issues the investment is exposed to (risks and opportunities)
- how material the ESG issues are, taking into account industry and individual company exposure
- what impact the ESG issue is likely to have on the value, earnings and future prospects of the investment
- how well ESG issues are being managed, and therefore how likely the possible impacts are to occur.

Ownership practices

It is Perpetual Investments' policy that investment managers have a duty to use their influence as a shareholder/asset manager in order to achieve better investment outcomes for investors over the long-term. From an ESG perspective this means encouraging the boards and managements of investee companies:

- to have the processes and systems in place to identify and manage relevant ESG risks and opportunities effectively
- to be transparent, honest and accountable, which includes providing the level of disclosure necessary for informed investment decision-making
- to implement corporate structures and management incentives which ensure the company is managed in the long-term interests of shareholders (which includes sustainable business practices).

For equity investments Perpetual Investments investment managers have a number of forums in which they can exercise their influence, including:

- holding additional meetings with management to discuss concerns
- expressing concerns through the company's advisers
- meeting with the Chairman, senior independent director or with all independent directors
- voting against management resolutions at shareholder's meetings
- engaging in 'active public intervention'
- full or partial divestment.

For other asset classes, it is Perpetual Investments' policy to incorporate ESG considerations into Perpetual Investments ownership practices in a manner appropriate to the nature of the asset, with a view to employing a range of direct and indirect methods.

Other requirements

PRI and formalised ESG integration are relatively new concepts, and while they have received broad industry support, the ways and means of practically applying the principles are still developing. It is Perpetual Investments' policy that while implementing this policy across all asset classes may take time, those responsible for administering the policy must have clear planning and reporting (including public reporting) in place which demonstrates that all facets of the policy are being considered and appropriately prioritised for each asset class.

Roles and responsibilities

The Group Executive Equities is accountable for all aspects of Perpetual's responsible investment (RI) policy.

The Manager, Responsible Investment and Sustainability is responsible for the development and maintenance of Perpetual's RI framework and policies. Perpetual's RI framework includes the support, monitoring and reporting elements necessary to ensure transparent and thorough implementation of this policy.

Reporting and review

Perpetual Investments will publicly report on our progress in implementing this policy annually. Perpetual Investments RI framework governs all other internal and external reporting requirements.

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

More information

If you would like more information on this policy please write to pri@perpetual.com.au

INVESTING FOR GENERATIONS

Perpetual

Further information

Email pri@perpetual.com.au

www.perpetual.com.au/responsible-investing

INVESTMENT MANAGER – PERPETUAL

ACT TREASURY
2010 ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG) QUESTIONNAIRE

ESG

1. What actions are being undertaken by Perpetual to implement the PRI since becoming a signatory in October 2009? Can Perpetual confirm the appointment any persons over the past twelve months with appropriate experience in relation to the PRI/ESG?

Since becoming a signatory we have:

1. **Created a new role Manager Responsible Investment and Sustainability to implement and maintain Perpetual's ESG framework**
   We have appointed Pablo Berrutti to this role. Pablo joined Perpetual in 2007 as a Risk Manager following four years in similar roles at the Commonwealth Bank Group and a total of 8 years industry experience. Since starting at Perpetual, Pablo took a leading role in promoting and assessing environmental risks to Perpetual's business and investments with a particular focus on climate change.

   Pablo has a diploma of superannuation and certificate IV in financial planning. Pablo is currently studying an undergraduate degree focused on environmental management through the Harvard Extension School.

2. **Developed a Responsible Investment (RI) Framework**
   Perpetual's RI Framework has been approved by the Investment Review Committee (IRC) which includes the Group Executives of each asset management area and Perpetual's Managing Director. The IRC acts as a steering committee for all of Perpetual's RI activities.

   A high-level description of our RI Framework has been included at appendix 1.

3. **Developed a RI Policy**
   Please see policy attached in answer to the next question.

4. **Drafted a road map of implementation activities**
   We have developed a RI Implementation Matrix which maps out a two to three year plan for implementing our RI Framework in each of Perpetual's 7 asset management styles/classes.

   The matrix details our current view of the specific actions necessary to achieve good RI practice, however it is not intended to be a static document and will instead evolve as we grow our own experience and as industry standards emerge.

5. **Performed a gap analysis on ESG research received and conducted a tender process for specialist ESG research providers**
   We have conducted an exhaustive tender process for ESG research and are

currently finalising recommendations. We expect to appoint providers by the end of financial year.

6. **Met and begun working with industry**
   We have met with clients and groups including ESG Research Australia, the Investor Group on Climate Change, brokers, IFSA, the Responsible Investment Association of Australia and the Responsible Investment Academy.

   We are exploring a range of opportunities to collaborate with industry and expect to make decisions around memberships, sponsorship and collaborations in the coming months.

2. Can Perpetual outline the progress in the development of a standalone ESG/sustainability policy in relation to investment decision making, as well as providing a description of the framework to be adopted? How will Perpetual be incorporating ESG into their investment decision-making process? Has Perpetual developed a documented approach for their analysts when engaging with the management of companies, not just on future financial returns and risks, but ESG as well?

   Please see Perpetual Investments' Responsible Investment Policy below. A description of the framework to be adopted has been included as appendix 1.

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3. Does Perpetual continue to use RMG/Glass Lewis & Co/Integrated Strategies/SIRIS as external service providers to access information and research in relation to the identification and assessment of ESG?

   Yes, however as described above we are in the process of finalising a tender process for ESG research. We will advise you should we change from the providers listed above.

4. Has Perpetual provided any in-house or external training to their analysts in relation to ESG in the past twelve months?

   While analysts are not expected to be experts on environmental or social issues they should have the level of knowledge necessary to understand the ESG risks and issues faced by the companies they cover.

   As a relatively new signatory we have yet to establish a training program or monitoring systems focused on ESG training, however, analysts have attended conferences and other events which have included information on ESG issues. Developing an ESG training program is part of our RI Framework.

Proxy Voting

5. Has Perpetual's proxy voting policy and procedures changed over the last 12 months? If so, please provide a revised copy to the ACT.

   No change since last year.

6. Does Perpetual continue to use ISS and Glass Lewis & Co. in relation to advice about the execution of proxy voting? Does Perpetual see value in these services?

   Yes we still use these providers.

   We consider the proxy voting advice to provide a useful guide on voting, particularly in raising specific issues, however our investment analysts always review and make their own judgement on proxy votes based on their own in-depth company knowledge.

   The execution service adds considerable value as, given our diverse holdings, it would require additional administrative resources and expertise to execute so many proxy votes internally.

7. Has Perpetual proposed any shareholder resolutions, or voted in favour of any shareholder resolutions, in the 2009-10 financial year?

   We have not proposed any shareholder resolutions.

   We treat all resolutions on their merits and generally vote all Australian company resolutions. While historically we haven't tracked shareholder vs. company resolutions, our records indicate that we voted in favour of at least one shareholder resolution in the 09/10 financial year. We note that all resolutions related to the election of company directors, with more than half (5 of 9) being for one individual applying to be director for five different companies.

8. What does Perpetual think about the effectiveness of shareholder resolutions as a means for company behavioural change?

   We believe that shareholder resolutions can be an extremely effective method for altering company behaviour in cases where management and boards have failed to respond to engagement.

   We consider shareholder resolutions in the same way we consider company resolutions and vote on the merits of the resolution.

Interaction and Engagement with Companies

9. How many company meetings did/will Perpetual undertake in the 2009-10 financial year?

   Company engagement is a fundamental part of our investment process, and as one of Australia's largest fund managers we are provided a high-level of access to both the management and boards of the companies we invest in. We routinely undertake over a 1,000 company meetings annually including individual face-to-face meetings with management and boards, analyst briefings, and phone calls, however, we do not count the exact number of meetings.

10. Does Perpetual currently have any significant investments in listed companies in Australia i.e. shareholding above 5 per cent of issued capital? Please outline the magnitude and number of companies.

As at 30 April 2010 we hold greater than 5% in 63 companies. Statistics are as follows:

% Holding	5 – 10%	10 – 15%	>15%
# Companies	31	32	0

We have an internal compliance rule which prevents us from holding greater than an accumulative 15% in any company across our funds.

11. Can Perpetual provide any specific examples of where their analysts have raised and discussed ESG issues with company management over the past twelve months?

As a relatively new signatory to UNPRI we do not currently have the systems in place to track these activities which occur on an ad-hoc/as-needed basis.

Where an ESG issue poses a material risk to a company our analysts will engage with the relevant company. An example of this was meetings held with companies to discuss the effect of the proposed Carbon Pollution Reduction Scheme.

12. Does Perpetual encourage companies to improve their level of reporting disclosures, including disclosures on ESG?

Requests for improved ESG disclosure is not done in a systematic manner and we do not currently have the systems in place to track these requests which occur on an ad-hoc basis.

We would like to make the following observations on requests for improved ESG disclosure:

- o the rapid growth of PRI has meant that companies are being asked to complete a variety of ESG surveys and to answer a range of ESG questions which are not always consistent (in the methodology for the same metric), relevant (to the companies strategy or operations) or well structured (for investment analyst consumption). As a result we are reluctant to endorse or encourage a company to complete a particular survey or set of disclosures until we have had more time to consider what is being requested and form our own view on what is necessary from an investment perspective;+
- o conversely we note that many companies' existing ESG reporting takes the form of lengthy marketing material rather than investor focused disclosure. We would like to see companies make more succinct disclosures which are focused on the ESG risks relevant to their business, and which provide relevant metrics, targets and past performance; and
- o IFSA has a project underway to develop standardised base-level company disclosure and we have asked to be involved in this project. While the ESG risks of each company will be somewhat unique we believe there is scope for

standardised baseline reporting which is not as complex as GRI and other reporting standards.

Stakeholder Engagement

13. Has Perpetual participated in any public debates, research initiatives, or external forums, in relation to the discussion and promotion of ESG and the incorporation of ESG into the investment decision-making process?

    As described above we are currently exploring opportunities to collaborate with industry on ESG investment. We have been involved in the following forums:
    - IFSA/ACSI workshop to discuss the barriers to ESG integration (held on 10 February 2010); and
    - attended a number of conferences and met with key industry participants.

Appendix 1 – Perpetual's RI Framework Overview.

Our framework for responsible investment
Since becoming a signatory to the UN Principles of Responsible Investing (PRI) we have developed a Responsible Investment (RI) framework to guide our implementation activities. The PRI is made up of six principles which our RI Framework has divided into four work streams for implementation.

The framework also outlines the five elements required in the development of each stream to ensure robust process can be put in place so that both the spirit and the letter of the principles can be met.

Framework work streams

1. **ESG investment stream (Principle 1)**
   The ESG investment stream will implement all activates associated with the consideration of ESG factors in investment decision making across asset classes.

   The target stakeholders for this stream of work are our investment managers.

2. **ESG engagement stream (Principle 2 and 3)**
   The ESG Engagement stream will implement all activities associated with active asset ownership practices. For example board and management engagement for equity investments or investment manager engagement where Perpetual Investments invests via another investment manager.

   The target stakeholders for this stream of work are the companies we invest in.

3. **Industry collaboration stream (Principle 4 and 5)**
   The industry collaboration stream will implement all activates associated with the promotion of robust ESG practices across the financial service industry. For example; working with clients, joining industry groups or producing thought leadership pieces.

   The target stakeholders for this stream are our clients and peers in the financial service industry.

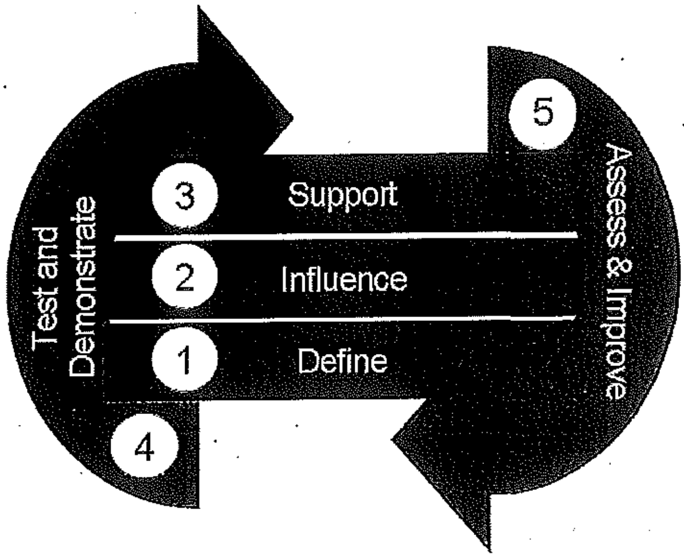
4. **ESG reporting stream (Principle 6)**
   The ESG reporting stream will implement all reporting requirements including to the UN, our clients, the public. The stream will also manage the internal monitoring and reporting of progress.

   The target stakeholders for this stream of work are internal and external parties interested in Perpetual's progress in relation to responsible investment.

Framework elements

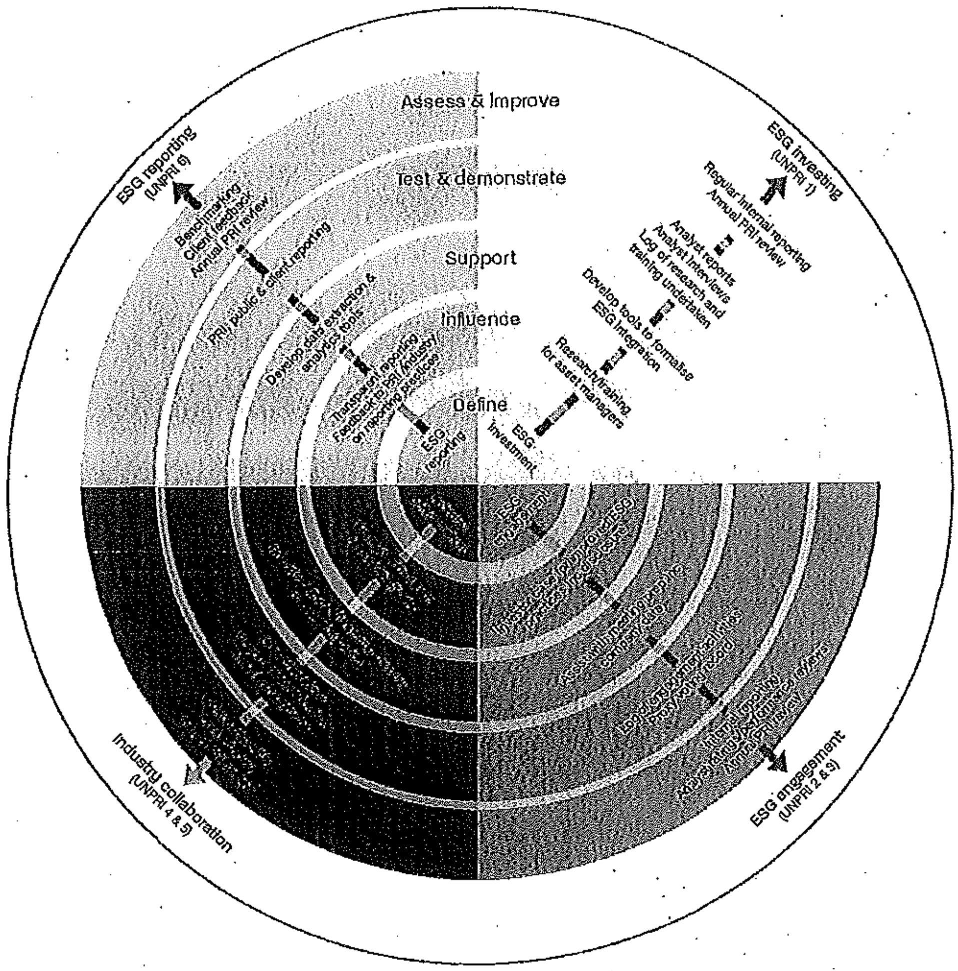
1. Documented policies which **define** Perpetual's approach to ESG integration.
2. Create or source high quality information and develop key relationships which will **influence** relevant stakeholders overtime.
3. Design and implementation of processes and tools which **support** ESG integration (and monitoring).
4. Design and implementation of monitoring processes which **test and demonstrate** the success of ESG integration for internal and external reporting requirements.
5. Implementation of governance, reporting and feedback systems which continuously **assess and improve** Perpetual's approach to ESG integration.

Perpetual's RI Framework elements



When the five RI framework elements are overlaid with the four ESG streams, a clear picture emerges of the types of implementation activities required to apply the principles in practice.

Perpetual's RI Framework



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- Comment on any other factors which you see as relevant to the future performance of the portfolio.

  We position our portfolios in high quality companies that are attractively valued relative to their peers, which we are confident will produce strong returns for unit holders when that value is realised.

  Additionally:

  - People: We have a solid investment team that is characterised by long serving team members.
  - Process: Our process has remained unchanged for many years.
  - Business: Despite recent changes at a corporate management level, the frontline operation of our Australian equities business remains unaffected with the underlying funds continuing to perform well.

Environmental, Social & Governance Risks (ESG):

- Please provide an outline of your activities and/or changes to operational processes in relation to the incorporation of ESG risks and issues in the investment process.

  http://www.perpetual.com.au/pdf/Responsible-Investing-Policy.pdf

Perpetual Investments

RESPONSIBLE INVESTMENT POLICY

OBJECTIVE

The objective of this policy is to set out Perpetual Investments' approach and expectations for considering environmental, social and corporate governance (ESG) factors in our investment decision-making and ownership practices.

SCOPE

This policy applies to Perpetual Investments employees responsible for making active investment decisions. This includes:

- Investment analysts – who research and rate the quality and value of assets, and
- Portfolio managers – who make the decision to buy, retain or sell a particular asset to achieve the objectives of an investment portfolio.

Perpetual Investments make active investment decisions across strategies that cover:

- Australian equities
- Global equities
- Listed and unlisted property securities
- Credit and fixed income (including mortgages), and
- Diversified strategies.
- Perpetual Investments investment management services are generally available to institutional, wholesale and retail investors through the wholly owned subsidiary company, Perpetual Investment Management Limited (PIML).

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

POLICY

INVESTMENT DECISION-MAKING

It is our policy that, to the extent that information is available, investment managers should incorporate ESG issues into investment analysis and decision making. For example:

- What ESG issues the investment is exposed to (risks and opportunities)
- How material the ESG issues are, taking into account industry and individual company exposure
- What impact material ESG issues are likely to have on the value, earnings and future prospects of the investment, and
- How well ESG issues are being managed, and therefore how likely the possible impacts are to occur.

OWNERSHIP PRACTICES

It is our policy that investment managers have a duty to use their influence as a shareholder/asset manager in order to achieve better investment outcomes over the long term. From an ESG perspective this means encouraging the Boards and management of investee companies:

- To have the processes and systems in place to identify and manage relevant ESG risks and opportunities effectively
- To be transparent, honest and accountable, which includes providing the level of disclosure necessary for informed investment decision-making, and
- To implement corporate structures and management incentives which ensure the company is managed in the long-term interests of shareholders (which includes sustainable business practices).

For equity investments our investment managers have a number of forums in which they can exercise their influence, including:

- Holding additional meetings with management to discuss concerns
- Expressing concerns through the company's advisers

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- Meeting with the Chairman, senior independent director or with all independent directors
- Voting against management resolutions at shareholder's meetings
- Engaging in 'active public intervention', and
- Full or partial divestment.

For other asset classes, it is our policy to incorporate ESG considerations into Perpetual Investments' ownership practices in a manner appropriate to the nature of the asset, with a view to employing a range of direct and indirect methods.

OTHER REQUIREMENTS

The United Nations Principles for Responsible Investment (PRI) and formalised ESG integration are relatively new concepts, and while they have received broad industry support, the ways and means of practically applying the principles are still developing. While implementing this policy across all asset classes will take time, those responsible for administering the policy must have clear planning and reporting (including public reporting) in place which demonstrates that all facets of the policy are being considered and appropriately prioritised for each asset class.

UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT

The consideration of ESG factors in the manner described in this policy is known as responsible investment. To demonstrate our commitment to responsible investment, we became a signatory to the PRI on 21 October 2009. The principles are:

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

ROLES AND RESPONSIBILITIES

The Group Executive Perpetual Investments is accountable for all aspects of Perpetual's responsible investment (RI) policy.

The Manager, Responsible Investment is responsible for the development and maintenance of Perpetual's RI framework and policies. Perpetual's RI framework includes the support, monitoring and reporting elements necessary to ensure transparent and thorough implementation of this policy.

If you would like more information on this policy please email pri@perpetual.com.au

REPORTING AND REVIEW

We will publicly report on our progress in implementing this policy annually. Perpetual Investments' RI framework governs all other internal and external reporting requirements.

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

CONTEXT – WHAT RESPONSIBLE INVESTMENT MEANS TO US

INVESTMENT DECISION-MAKING

Our duty to our clients requires us to seek the best risk-adjusted investment returns over specified time periods. We satisfy this obligation by focusing on both the quality and value of possible investments. This proven investment philosophy recognises that while traditional financial measures are an important consideration, extra-financial factors can also influence company[1] performance.

We also recognise that the influence of these factors is growing and will require closer scrutiny as:

- An increased understanding of our effect on the environment coupled with a growing population force significant changes to economies globally, which will also impact the relative performance of individual businesses
- Globalisation, the rise of non-government organisations and the free flow of information heighten social and environmental risks for an increasing number of companies, and
- Businesses have become larger and more complex, and so require good corporate governance practices to ensure management accountability, transparency and focus, while avoiding unethical practices.

For us, the consideration of ESG factors does not include making ethical or moral judgements on particular practices or issues[2]. Instead, when deciding whether to buy, retain or sell an investment, our investment managers consider those ESG risks and opportunities that are relevant to the current or future value of the investment[3]. Some examples are shown in table 1.

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1 Throughout this document wherever 'company' is used, this could equally relate to other non-equity assets managed by Perpetual Investments including mortgages, other managed funds and trusts, and fixed income securities.

2 Unless it is part of a discrete portfolio's investment objectives e.g. Perpetual's Ethical SRI Fund (in these cases the 'ethical' judgements are made by an independent research provider).

3 For our multi-manager team, considering these risks would include an assessment of how underlying investment managers consider the ESG factors, and may include looking through to the underlying assets as evidence of a manager's process.

OWNERSHIP PRACTICES

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

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

In all three scenarios, as an active manager, we may choose to engage with the management and Board of the company to raise ESG and other concerns and encourage more focused management of the issues. Increased recognition and improved management of ESG risks will enable companies to better deal with a changing environment and may improve their overall performance. This approach is well aligned with Perpetual's investment philosophy which includes filters for sound management and quality of business.

INDIRECT OUTCOMES OF INTEGRATING ESG

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

- Higher standards of business conduct
- Increased market efficiency
- Sustainable environmental management, and
- Ultimately a more cohesive and fairer society.

These indirect benefits do not contribute to our investment performance when compared to a benchmark. However, if the investment management industry can help promote more sustainable economic growth, this should translate into higher and more consistent benchmark returns. For example, if investor engagement contributes to companies being better prepared for the regulatory and environmental impacts of climate change, a more efficient and less disruptive transition to a low carbon economy becomes more likely.

Notwithstanding the possibility of these indirect benefits, it remains the responsibility of governments and broader society to set the rules and standards by which businesses are held to account. In this context we will always look to maximise the investment returns of our clients given the prevailing social and regulatory norms.

TABLE 1 – ESG RISKS AND OPPORTUNITIES

RISK	DESCRIPTION	EXAMPLE
Reputational	Practices or incidents which have the potential to result in media or public action against a company. Damage to a company's reputation can result in reduced sales and distract management from managing the business.	Child labour, whether used in a company's direct operations or in its supply chain, can damage a company's reputation resulting in consumer boycotts. Child labour and other labour practices are particularly prevalent in today's globalised economy.
Regulatory	Changes or pending changes in regulation can result in a company facing increased costs, reduced revenues, or the reputational and financial costs of being prosecuted for a violation of law. The preparation for and management of regulatory changes can be as important as the effect of the changes themselves.	Emissions trading or other regulation designed to constrain greenhouse gas emissions. While these regulations have been on the horizon for a considerable period of time, not all affected companies have adequately prepared, which will create a competitive advantage for those that have begun to lower the emissions intensity of their operations.
Legal	Adverse effects from a company's products or services (whether intentional or not) that demonstrate a failure in a company's duty of care can result in legal action by victims that create liabilities, damage the company's reputation and distract management from managing the business.	Asbestos products; where companies did not react quickly enough to evidence that the product caused serious health issues. Companies who failed to warn and protect employees from exposure have since been required to pay billions of dollars in compensation.
Competitor	Companies who fail to recognise or act on changing social or consumer demands related to ESG trends and therefore sacrifice competitive advantage.	Demand for fuel efficient vehicles because of environmental concerns and rising oil prices allowed manufacturers of more efficient vehicles (including hybrids) to gain market share, particularly in the American auto market.
Systemic	Systemic issues or shifts that result in changes to a company's operating environment and therefore require contingency planning and investment.	Many experts predict peak oil will occur within the next 20 to 50 years if it hasn't already. Energy intensive businesses need to plan for the increasing costs of energy and the potential for supply disruption. Planning may include measures such as energy efficiency and diversification of supply.

FEBRUARY 2013

This is certify that we, Perpetual Investments' senior asset managers, have read and understood Perpetual Investments' Responsible Investment Policy. We endorse the policy and will support its progressive implementation[4] within our teams in a manner that is appropriate to the different types of assets we manage and the investment styles we employ:

Matthew Williams
Head of Equities

Charlie Lanchester
Deputy Head of Equities

Michael Blayney
Head of Diversified Strategies

Michael Korber
Head of Credit

Marion Kraemer
Head of Mortgages

Damian Webb
Head of Multi-manager

4 The implementation of the policy is governed by Perpetual Investments' Responsible Investment Framework. The policy and framework require us to report on progress annually. Annual reports (starting November 2010) will be available on our website: www.perpetual.com.au/institutions-responsible-investing.aspx.

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Perpetual

ESG RISK CONSIDERATIONS FOR RESOURCE COMPANIES

CORPORATE AND SOVEREIGN GOVERNANCE

	RELEVANT TO	CONSIDERATIONS	ASSESSMENT CRITERIA	RESOURCES
CORPORATE GOVERNANCE	All companies but of particular relevance to large, complex and/or geographically diversified companies or companies with high agency risks	Board composition and independence	• Experience • Track record • Skill mix • Independent directors • Split CEO and chairman roles	• Company reporting • Company meetings • AGM and meetings with independent directors • CGI Glass Lewis advice • Specialist remuneration research from Diogenes' Research • Other research
		Committee structures	• Number of committees • Independent directors • Board Chairman role • Reporting processes	
		Executive remuneration	• Complexity • Mix of fixed, short and long term • Mix of performance measures • Stretch targets • Peer comparison	
		Risk management and audit	• Risk management framework robustness and disclosure • Committee structures • Audit committee independence • Leadership and culture	
		Shareholder rights and disclosure	• Voting rights • Use of mechanisms like poison pills and preferential shares • Minority shareholder rights • Responsiveness to criticism	
SOVEREIGN RISK	Companies with a material proportion of assets in high risk countries	Risk of appropriation	• Country record • Current conditions • Policies and management systems for bribery, corruption, community engagement • Company due diligence and past record	• Analyst experience • Ability to perform site visits • External research (e.g. transparency international, Publish what you Pay) • Company reporting
		Risk of corruption Social issues and stability Respect for law and property rights	• Country record • Current conditions • Policies and management systems for bribery, corruption, community engagement • Company due diligence and past record.	• Analyst experience • Ability to perform site visits • External research (e.g. transparency international, Publish what you Pay) • Company reporting
		Materiality of company exposure	Determined by analyst/portfolio manager and includes factors like revenues, present and future capital requirements, future cash flows, all in the context of the level of specific country risk	• Analyst models • Company reporting

Perpetual Investments

APPENDIX 1: RESOURCE COMPANIES – ESG CRITERIA

BACKGROUND

Perpetual's four quality filters are the foundation of our Australian equities investment process. The four quality filters are:

- Sound management
- Conservative debt levels
- Quality of business, and
- Recurring earnings streams.

Like other companies, environmental, social and corporate governance (ESG) risks and opportunities associated with the resources industry generally fall under the sound management and quality business filters. However, as there is significant interest in ESG risks for these industries we have developed this policy to highlight our approach to considering ESG risk and opportunities in the resources sector.

This document highlights some of the ESG factors we regularly consider for resources companies. Many of these factors are also relevant to non-resource companies while some are more commonly used for differentiating between different resource companies, for example by assessing:

- Specific risks associated with the resource being extracted
- Different mine types and extraction methods employed, and
- Geographic risks from sovereign risk to the difficulty of extraction in different environments.

These types of ESG considerations have been standard in our resource investments for many years. However, given the increasing focus on ESG issues including; resource scarcity, environmental degradation, globalisation (including development of emerging economies) and climate change, it is important that investors like Perpetual formalise and clearly disclose those factors which can influence our investment decisions.

The formalisation and transparent disclosure of policies such as this ensures our clients are well informed of how we manage ESG risks, and also sends a clear message to investee companies of how the management of non-financial factors can make them a more or less attractive investment.

The following pages detail the main considerations and engagement priorities we have when assessing resource companies for investment; however, it is not an exhaustive or a 'one size fits all' list as each company will have unique circumstances. Where the exposure to these risks is through outsourced providers or joint ventures, we consider how the investee company assesses, monitors and manages those relationships. The risk areas covered are:

- Corporate governance
- Sovereign risks
- Safety
- Human capital management (HCM)
- Community, and
- Environmental management.

It is important to note that we take a conservative and active approach in assessing these risks with a focus on protecting our clients' assets and enhancing long-term investment performance.

Perpetual

SOCIAL – INTERNAL AND EXTERNAL STAKEHOLDER RISKS

	RELEVANT TO	CONSIDERATIONS	ASSESSMENT CRITERIA	RESOURCES
SAFETY	All companies	Approach to managing safety (policy, systems, training) Performance and response to incidents	• Prominence of safety systems and assessment of culture on site visits • Disclosure of systems and practice • Management focus and remuneration linked to safety • Compliance with laws and regulations • Use of best practice systems e.g. AS/NZS 4801	Site visits • Company disclosure • Incidents reported • Management meetings and investor briefings
SAFETY		Disclosure	• Disclosure of leading and lagging indicators • Disclosure of targets and plans for meeting them • Explanation of missed targets and rectification plans	• Company disclosure • Assessment by ESG researchers including sell-side • Comparison to competitors
HCM	All companies, but particular where labour supply is tight or company relies on human capital/ intellectual capital	Reputation Retention and attraction Diversity, anti-discrimination	• Policies and processes for managing people e.g. EEO, flexibility, IR etc • Employee turnover (absolute and relative) • Industrial action	• Company disclosure • Assessment by ESG researchers including sell side • Comparison to competitors
COMMUNITY	Companies operating in areas near or 'upstream/ upwind' of existing communities. Including indigenous and non-indigenous communities particularly where the company relies on the community for a license to operate, labour, supplies, etc.	Approach to managing community relations including senior management focus	• Level of community engagement by company including understanding who the company is talking to and what plans it has to cement positive relations • Involvement of community leaders in development plans • Use of local community labour • Efforts to mitigate negative environmental or public health impacts from operations on communities • Infrastructure and other benefits provided by the company	Site visits • Meeting with community representatives • Engagement with companies • Monitoring of NGO and government reports on specific issues • Other ESG research
COMMUNITY		Disclosure	• Disclosure of approach • Disclosure of payments made to governments (EITI)[1] • Response to allegations of wrong doing and remediation plans	• Company disclosure • Assessment by ESG researchers including sell side

1 Extractive industries transparency initiative

ENVIRONMENTAL MANAGEMENT

	RELEVANT TO	CONSIDERATIONS	ASSESSMENT CRITERIA	RESOURCES
Environmental management	All, however different operations will have different risks depending on the local environment and resource type	Waste management – for both toxic and non-toxic waste streams and management e.g. preventing acid mine drainage, cyanide releases etc. Water (pollution and competition for scarce supplies) Emissions to air, dust, noise and other public health impacts Biodiversity and habitat impacts Land use and reclamation Energy use, dependency Greenhouse gas emissions Disclosure	• Level of initial and ongoing stakeholder engagement • Demonstration of full life cycle planning including post closure • Environmental management plan's scale compared to the scale of the project • Understanding of unique characteristics of the site e.g. climate, biodiversity and geology • Robustness of monitoring program • Clear disclosure of key issues, management plans, targets and performance • Clear targets set for all key impacts • Senior management or board accountability for all key risks and meeting targets	• Site visits • Management and company track record • Company assessments • Government and independent assessments • Management meetings and investor briefings • Controversy monitoring

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