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PERPETUAL AND RESPONSIBLE INVESTMENT

Report on progress 2011

FORWARD FROM THE CEO

In times of market turbulence, like those we have seen over the last four years, some will look at responsible investment and put it to one side as something to be considered when times are better. We believe such an approach is short-sighted and misses the bigger picture, which is why we continued to implement our responsible investment framework in 2011 and, as you will read in the following pages, we will continue to increase our effort and allocation of resources to this area in 2012.

This responsible investment (RI) report on progress, our second, lays out our achievements and our disappointments in 2011 and maps our goals for 2012. While the United Nations Principles for Responsible Investment (PRI) provides a good basic framework, there is no universally accepted standard for incorporating environmental, social and governance factors into investment practices. The benefit of this is that our approach, like the proven investment process it is being integrated with, can evolve into a unique feature of our business. The disadvantage is that it is a slower process then picking a solution 'off the shelf'.

Over the past two years our efforts have involved trial and error, with some important successes in enhancing our investment process. We have also collaborated with other members of the industry who share our vision and understanding of what responsible investment means.

We are proud to work with and support the PRI, the Investor Group on Climate Change, the Australian Council of Superannuation Investors (ACSI) and the Responsible Investment Association of Australia, among others, who continue to take the industry forward. Initiatives like the Financial Services Council (FSC)/ACSI environment, social and corporate governance (ESG) reporting guidance for companies, investor statements and research on climate change, the PRI clearing house, and the development of the Responsible Investment Academy, pave the way for broader acceptance of responsible investment.

Internally, we have also continued to build our capability. We sought and obtained high quality ESG research and reporting for asset managers and have included responsible investment requirements in our equity analyst's key performance indicators (KPIs). We have also enhanced our responsible investment policy to include specific requirements and guidance on resources companies and remuneration. This progress is reflected in our PRI benchmarking report which showed improvements in all areas.

Overall we are pleased with our progress in 2011 and look forward to taking further steps in 2012. I encourage you to consider our progress in this report and let us know if you have any feedback or questions by contacting our Head of Responsible Investment, Pablo Berrutti on 02 9229 3297.

Geoff Lloyd
CEO and Managing Director

Perpetual

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PERPETUAL INVESTMENTS AND RESPONSIBLE INVESTING

OVERVIEW

With our roots as a trustee company dating back to 1885, Perpetual has a long and proud history of helping people protect, manage and grow their wealth. Today Perpetual manages over $22.9 billion dollars (as at 31 December 2011) in our investment management business (Perpetual Investments) on behalf of retail, wholesale and institutional investors. We do this across the following asset classes:

- Australian equities
- global equities
- listed and unlisted property securities
- credit and fixed income (including mortgages)
- fund-of-funds (multi manager)
- diversified funds.

In October 2009, Perpetual Investments became a signatory to the United Nations Principles for Responsible Investment (PRI) (also known as the UNPRI). The PRI provides a basic framework for integrating environmental, social and corporate governance (ESG) considerations into investment decision-making and ownership practices.

To Perpetual, 'responsible investment' has always meant understanding and actively managing factors that can affect the value of our clients' investments. Our proven investment style and process focuses on quality and value. The PRI's framework is consistent with this investment philosophy, because ESG factors can affect both quality and value measures. In this way we have been managing ESG related investment risks for as long as we have been managing our clients investments.

However, being a signatory to the PRI also recognises the growing social and political expectation that the companies we invest in conduct themselves responsibly and sustainably. If companies do not meet these expectations our clients' investment returns may be compromised through increased reputational, legal and regulatory risks or missed business opportunities. As the prevalence and complexity of these issues grow, so must our ability to understand and quantify their effects.

This report describes our progress since becoming a signatory and our plans for the coming year.

Information on the PRI can be found on the website www.unpri.org. The six 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.

OUR APPROACH TO RESPONSIBLE INVESTMENT

Perpetual's long held and proven investment philosophy is the foundation on which our investment business is built. While the consideration of ESG factors was implicit in our philosophy prior to 2009, it was mostly done informally. We spent considerable time prior to becoming a signatory to the PRI, confirming that the principles fit with our philosophy and whether a more explicit approach to ESG would add value to our investment processes.

To do this, we started by understanding what responsible investment (RI) meant to us and imagining what an effective approach to RI would require. We not only looked at our competitors and the PRI to develop this vision, we also considered what investing in a world with a changing climate, significant demographic shifts and resource constraints would demand of us as investors. This work later became the heart of our RI framework and policy.

On becoming a signatory to the PRI, we created a new position of Head of Responsible Investment, whose role it is to design, implement and maintain an RI framework that embeds our approach and philosophy to responsible investment within our existing investment practices as well as working more effectively with other investors and reporting on our progress.

The RI framework was approved in May 2010 and is described below with more information available on Perpetual's website. The framework describes the governance structures, objectives and organisation of Perpetual's RI implementation activities which we will develop over time.

IMPLEMENTATION WORKSTREAMS

We have divided implementation activities into four workstreams. Each workstream is focused on a particular stakeholder group:

WORK STREAM	STAKEHOLDER	OBJECTIVE
ESG investing (Principle 1)	Perpetual's investment managers	• Increase education and awareness of the impact of ESG issues on company valuations with portfolio managers and analysts • Embed ESG considerations and assessment into our investment management process so analysts routinely consider this when determining the quality and value of assets • Build reporting infrastructure to demonstrate ESG is considered as part of our investment process
ESG engagement (Principle 2 & 3)	Investee companies and managers	• Engage investee companies and managers to better understand their methods for assessing, managing and disclosing ESG risks and opportunities • Raise concerns on current approaches to managing ESG risk and opportunities to encourage improved performance and disclosure
Industry collaboration (Principle 4 & 5)	Investment management and other related industries	• Increase acceptance of RI practices across the industry • Contribute to the development of industry standards for good practice • Collaborate to increase our collective understanding of the investment implications of critical ESG issues like climate change
ESG reporting (Principle 6)	Perpetual internal management, clients and the public	• Ensure that our internal and external stakeholders can easily track our progress • Drive performance improvement through transparent public reporting

While we have internal goals and measures for each workstream, the ultimate test is when we are benchmarked against our peers through the annual PRI self-assessment process. Our scores and goals for our second assessment process are detailed in the following section.

OUR FRAMEWORK ELEMENTS

The RI framework also includes five key elements that give each workstream and the entire programme a unifying structure – they are the DNA of our approach to RI. By having each workstream share the same five elements, we are able to work more flexibly on a range of initiatives while being confident that all activities are contributing and aligned to the broader programme. If a proposed initiative does not have one of these elements, we don't do it.

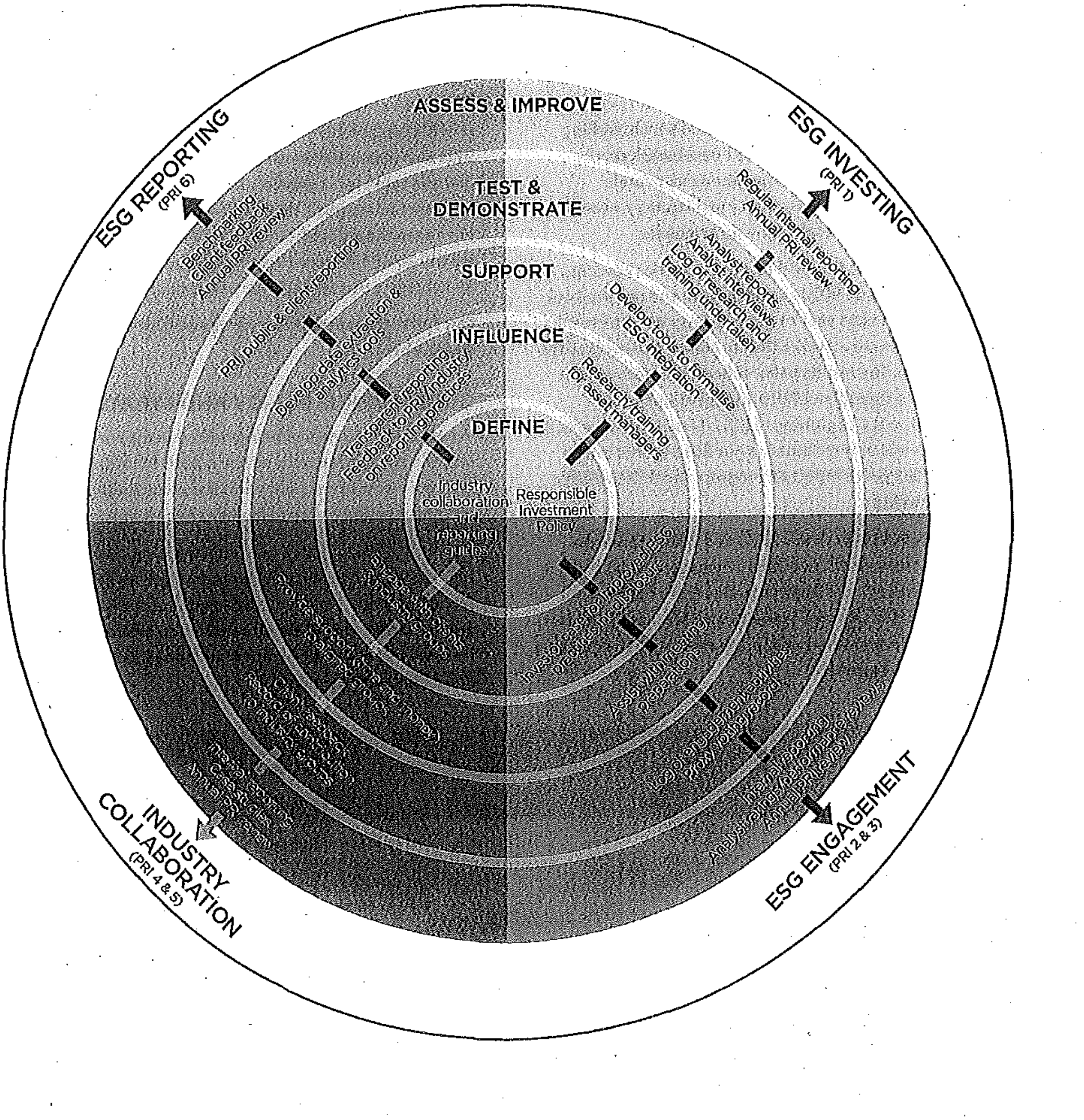
The framework elements are represented by the rings in the framework diagram on the following page and are set out below.

1. **Define** Perpetual's approach to ESG integration, governance and accountability through documented policies.
2. **Influence** target stakeholders over time by creating or sourcing high-quality information and developing key relationships.
3. **Support** ESG integration (and monitoring) by designing and implementing efficient processes and tools.
4. **Test and demonstrate** the success of ESG integration by designing and implementing monitoring processes and internal and external reporting requirements.
5. **Assess and improve** Perpetual's approach by establishing robust and transparent governance, reporting and feedback systems.

Throughout this report we focus on the five framework elements because they most clearly show how the different streams of work come together into a cohesive approach. However, we have also tagged each activity to show which workstream it relates to. The tags are:

ALL	All workstreams	ALL
INV	Workstream 1 ESG investing	INV
ENG	Workstream 2 ESG engagement	ENG
COL	Workstream 3 Industry collaboration	COL
REP	Workstream 4 ESG reporting	REP

RI FRAMEWORK IN ACTION



OUR STARTING POINT – 2010 PERFORMANCE SCORE CARD

Each year in May, PRI signatories complete an unaudited self-assessment survey which is used to draft the PRI's annual report and provide personalised benchmarking reports to each signatory. The PRI Benchmark report compares signatories' performance on an overall assessment of governance, policy and strategy, as well as on implementing each of the six principles.

We have completed the self-assessment twice covering both the 2009 and 2010 calendar years and reported our 2009 results in last year's report on progress. The results are lagged because it takes time to collect and analyse the information. The results below reflect the improvement we achieved throughout 2010 and the status of our framework at the beginning of 2011. Details on the specific initiatives which contributed to our 2010 scores can be found in last year's report on progress which is available from our website.

Below we provide both our 2009 and 2010 scores, the median scores for all investment managers (IMs) and our quartile rank against Australian IMs (out of 51 IMs), all IMs (out of 345 IMs) and mainstream IMs (out of 267 IMs). We also report on whether or not we achieved the goals we set ourselves last year.

The PRI has decided to change its reporting framework from 2012 so this will be the last report where we can provide comparable year-on-year data in the old format. This also means that setting goals (in terms of a score or quartile rank) is not possible in 2012, although we have set implementation goals that we describe on page 12. Once we have seen the output from the new PRI reporting framework we will again look to set score-based goals so that our stakeholders can monitor our performance over time.

Our full response to the survey is available on the PRI website here.

GOVERNANCE, POLICY AND STRATEGY

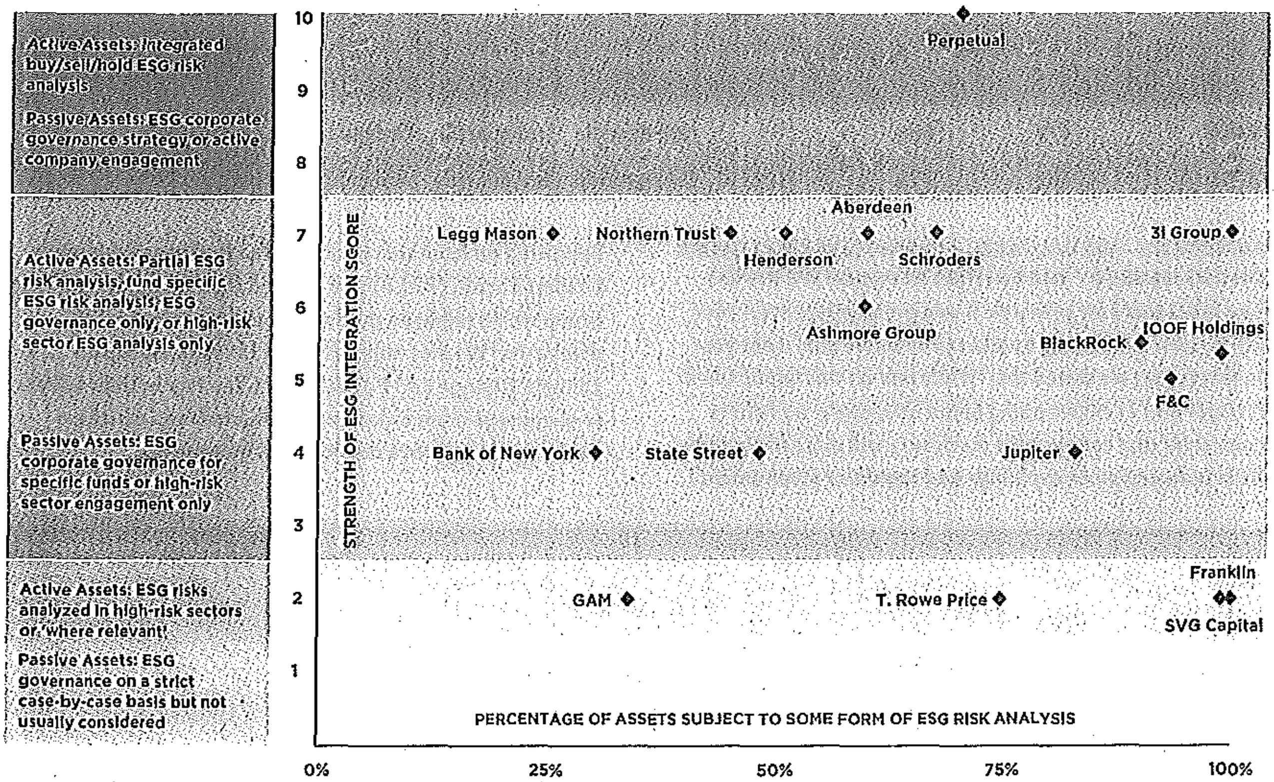
We achieved our goal of being ranked in the second quartile against Australian IMs in 2010 following several enhancements to our policy framework including updating our proxy voting policy to include engagement activities.

During 2011 MSCI rated our framework top quartile in their industry report 'Protecting client assets from ESG risks' (see chart below). While many aspects of our RI Framework are in the process of being implemented, we are pleased that both the PRI benchmark report and the MCSI report show consistent improvements.

	SCORE			QUARTILE RANK			VS GOAL	
	PERPETUAL	MEDIAN	CHANGE	AUST IMs	ALL IMs	MAINSTREAM IMs	STATED VS AUST IMs	ACHIEVED?
2009	75%	78%	-	3rd quartile	3rd quartile	2nd quartile	-	-
2010	89%	79%	+14%	2nd quartile	2nd quartile	1st quartile	2nd quartile	Yes

ESG INTEGRATION BY PERCENTAGE OF CLIENT ASSETS

Description: The following chart highlights only managers who have disclosed an ESG risk management strategy. The x-axis indicates the percentage of assets subject to some disclosed ESG analysis and the y-axis indicates the extent of ESG integration based on our scoring of companies' disclosed strategies.



Source: MSCI Industry Report - Protecting client assets from ESG risks, June 2011.

PRINCIPLE 1 - WE WILL INCORPORATE ESG ISSUES INTO INVESTMENT ANALYSIS AND DECISION MAKING PROCESSES

When rating our performance on principles one, two and three, we are committed to only reporting what we can prove. So while internally we remain confident that material ESG issues are being considered and incorporated, demonstrating how these issues influence investment decision-making is challenging because the wide range of ESG issues are considered in different ways and to differing extents depending on the asset in question.

Achieving our goal of third quartile performance in 2010 placed us in a good position at the start of 2011. During 2011 we implemented ESG dashboard reporting for Australian equity investment analysts along with other initiatives (which we describe later in this report) that will have resulted in further improvements in both our absolute and relative scores during the year. 2012 will see further work in this key area, particular for other asset classes.

INV

	SCORE			QUARTILE RANK			VS GOAL	
	PERPETUAL	MEDIAN	CHANGE	AUST IMs	ALL IMs	MAINSTREAM IMs	STATED VS AUST IMs	ACHIEVED?
2009	33%	57%	-	4th quartile	3rd quartile	3rd quartile	-	-
2010	56%	63%	+23%	3rd quartile	3rd quartile	3rd quartile	3rd quartile	Yes

PRINCIPLE 2 – WE WILL BE ACTIVE OWNERS AND INCORPORATE ESG ISSUES INTO OUR OWNERSHIP POLICIES AND PRACTICES.

Like principle 1, being ranked in the third quartile at the beginning of the year was a good starting point for 2011. During 2011 we nominated an independent director to a company board where we had concerns about corporate governance issues. We also made executive remuneration a key focus by updating our corporate governance policy to specifically address remuneration concerns, obtained additional independent research on remuneration practices and voted against 14% of remuneration reports during the year.

	SCORE			QUARTILE RANK			VS GOAL	
	PERPETUAL	MEDIAN	CHANGE	AUST IMs	ALL IMs	MAINSTREAM IMs	STATED VS AUST IMs	ACHIEVED?
2009	47%	68%	-	4th quartile	3rd quartile	3rd quartile	-	-
2010	55%	67%	+12%	3rd quartile	3rd quartile	3rd quartile	3rd quartile	Yes

ENG

PRINCIPLE 3 – WE WILL SEEK APPROPRIATE DISCLOSURE ON ESG ISSUES BY THE ENTITIES IN WHICH WE INVEST

The 2010 score for principle 3 was greatly improved over 2009, with 2011 being another productive year. Last year in this report we stated that *'While one-on-one engagement is important in encouraging better disclosure, we believe consistent and comparable disclosure will more likely come from industry, stock exchange and regulator involvement.'* Following on from this we joined the Business Reporting Leaders Forum (BRLF) and chaired the FSC's ESG working group which released guidance for companies on ESG disclosure. We also supported the Investor Group on Climate Change and Publish What You Pay in their efforts to encourage companies and the Australian Securities Exchange to improve disclosure requirements.

	SCORE			QUARTILE RANK			GOAL VS AUST IMs	
	PERPETUAL	MEDIAN	CHANGE	AUST IMs	ALL IMs	MAINSTREAM IMs	STATED VS AUST IMs	ACHIEVED?
2009	0%	70%	-	4th quartile	4th quartile	4th quartile	-	-
2010	72%	75%	+72%	2nd quartile	3rd quartile	2nd quartile	3rd quartile	Exceeded

ENG

PRINCIPLE 4 – WE WILL PROMOTE ACCEPTANCE AND IMPLEMENTATION OF THE PRIs WITHIN THE INVESTMENT INDUSTRY

We combine principles 4 and 5 under our industry collaboration work stream and achieved significant improvements in both areas during 2010. We further improved these areas in 2011 by taking more active roles with the Investor Group on Climate Change, Responsible Investment Association of Australia and the FSC. We also increased our allocation of brokerage for ESG research and worked with ACSI on ESG disclosure guidance and proxy voting.

	SCORE			QUARTILE RANK			GOAL VS AUST IMs	
	PERPETUAL	MEDIAN	CHANGE	AUST IMs	ALL IMs	MAINSTREAM IMs	STATED VS AUST IMs	ACHIEVED?
2009	17%	58%	-	4th quartile	4th quartile	4th quartile	-	-
2010	62%	59%	+45%	2nd quartile	2nd quartile	2nd quartile	3rd quartile	Exceeded

PRINCIPLE 5 – WE WILL WORK TOGETHER TO ENHANCE OUR EFFECTIVENESS IN IMPLEMENTING THE PRI.

As stated for principle 4, we became more involved in a number of industry initiatives during 2011, which we expect would maintain the excellent result achieved in 2010.

	SCORE			QUARTILE RANK			GOAL VS AUST IMs	
	PERPETUAL	MEDIAN	CHANGE	AUST IMs	ALL IMs	MAINSTREAM IMs	STATED VS AUST IMs	ACHIEVED?
2009	46%	75%	-	3rd quartile	4th quartile	4th quartile	-	-
2010	95%	75%	+ 49%	1st quartile	1st quartile	1st quartile	2nd quartile	Exceeded

COL

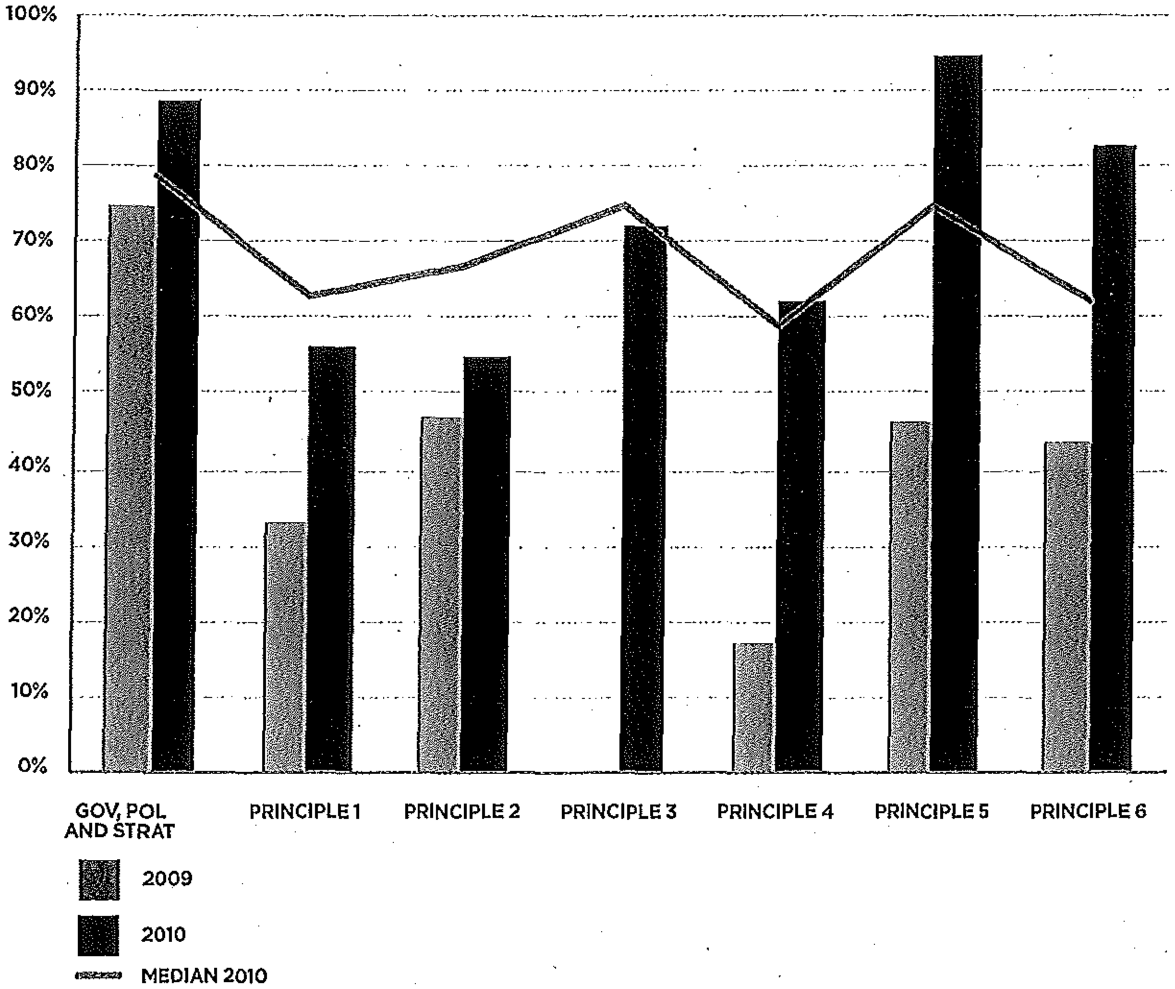
PRINCIPLE 6 – WE WILL EACH REPORT ON OUR ACTIVITIES AND PROGRESS TOWARDS IMPLEMENTING THE PRI

While it was disappointing to miss our goal of being top quartile in disclosure for 2010, we believe the additional information we are providing on our proxy voting in this report (on page 13) will address the main remaining issue.

	SCORE			QUARTILE RANK			GOAL VS AUST IMs	
	PERPETUAL	MEDIAN	CHANGE	AUST IMs	ALL IMs	MAINSTREAM IMs	STATED VS AUST IMs	ACHIEVED?
2009	44%	58%	-	2rd quartile	3rd quartile	3rd quartile	-	-
2010	83%	62%	+39%%	2rd quartile	2rd quartile	2rd quartile	1st quartile	Did not achieve

REP

2009 – 2010 PRI BENCHMARK REPORT SCORES



PRINCIPLE 1 – WE WILL INCORPORATE ESG ISSUES INTO INVESTMENT ANALYSIS AND DECISION MAKING PROCESSES
PRINCIPLE 2 – WE WILL BE ACTIVE OWNERS AND INCORPORATE ESG ISSUES INTO OUR OWNERSHIP POLICIES AND PRACTICES
PRINCIPLE 3 – WE WILL SEEK APPROPRIATE DISCLOSURE ON ESG ISSUES BY THE ENTITIES IN WHICH WE INVEST
PRINCIPLE 4 – WE WILL PROMOTE ACCEPTANCE AND IMPLEMENTATION OF THE PRIS WITHIN THE INVESTMENT INDUSTRY
PRINCIPLE 5 – WE WILL WORK TOGETHER TO ENHANCE OUR EFFECTIVENESS IN IMPLEMENTING THE PRI
PRINCIPLE 6 – WE WILL EACH REPORT ON OUR ACTIVITIES AND PROGRESS TOWARDS IMPLEMENTING THE PRI

2011 SUMMARY OF PROGRESS

While 2010 focused on the define, influence and reporting framework objectives so that we could lay the most solid foundation for long-lasting and sustainable change, 2011 involved more work on the support, influence; and test and demonstrate elements. The following table provides a brief summary of our performance in relation to our 2011 goals.

WHAT WE SAID WE'D DO – 2011 GOALS AS REPORTED

GOAL (FROM 2010 REPORT ON PROGRESS)	PROGRESS	NEXT STEPS
Industry collaboration and reporting guidelines	Not completed	Roll over into 2012 goals
Asset manager goals	Completed	• Original goal for equity teams achieved and now to be expanded to other teams
Asset manager training	Partially completed	• Variety of training opportunities promoted but with low take up • Development of more targeted program needed
Aggregated ESG reporting for asset managers (equities)	Completed	• Dashboard rolled out in December 2011 (see page 10)
Multi-manager due diligence	Completed	• Increased analysis, reporting and external manager engagement will be the next stage of development
Capture of analyst ESG views (equities)	Completed	• As part of dashboard
Agree reporting and mandate clauses with clients	Partially completed	• Client reporting now includes ESG comment • Mandate clauses in place for some clients
Enhanced governance and proxy voting reporting	Completed	• Provided in this report

WHAT ELSE WE DID:

ELEMENT	OUTCOMES	COMPLETED
Define	• Updated corporate governance and proxy voting policy to include more detail on our approach to voting on executive remuneration • Updated responsible investment policy to include a more detailed description of ESG considerations for resources companies • Released first Responsible Investment Report on Progress • RI principles incorporated into Perpetual Investments Asset Management Principles & Guidelines • Australian equity analyst and portfolio manager KPIs updated to include ESG considerations • ESG commentary in client reporting and Perpetual 'Snapshot' client insights posted on our website • Enhanced proxy voting reporting (this report)	85% ALL
Influence and Support	• ESG Dashboard developed for Australian equity analysts • Embedded new research providers CAER (used for mainstream and screened fund research) and Diogenes (remuneration analysis) into existing processes • Chaired the FSC ESG working group including the development and launch of an ESG reporting guide for Australian companies (in conjunction with the Australian Council of Superannuation Investors) • Member of the Research and Low Carbon Finance working groups for the Investor Group on Climate Change • Participated in Business Reporting Leaders Forum, a cross-sector initiative which seeks to promote integrated reporting.	40% INV COL
Test and demonstrate	• ESG Dashboard captures feedback from analysts including engagement priorities (see page 10). • Asset manager survey • Proxy voting analysis and reporting	30% INV ENG
Assess and improve	• Annual RI review • Asset manager survey • Client feedback	90% REP

2011 ACTIONS TAKEN

INV ENG REP INDIVIDUAL ACTION – ESG DASHBOARD

All equity analysts and portfolio managers now have requirements in their KPIs to consider ESG factors in their investment decision-making and ownership practices. These requirements are aligned with our policies related to responsible investment and corporate governance. To support equity analysts and portfolio managers in their consideration of ESG risks and opportunities we have developed a dashboard report. The purpose of the report is to:

1. Provide high-level information on the company's ESG risk profile and management practices. This is intended as a base-level of ESG information for analyst considerations with more detailed information being available from the Head of Responsible Investment or through their own sources
2. Capture analyst views on key ESG issues of concerns
3. Capture analyst's engagement priorities

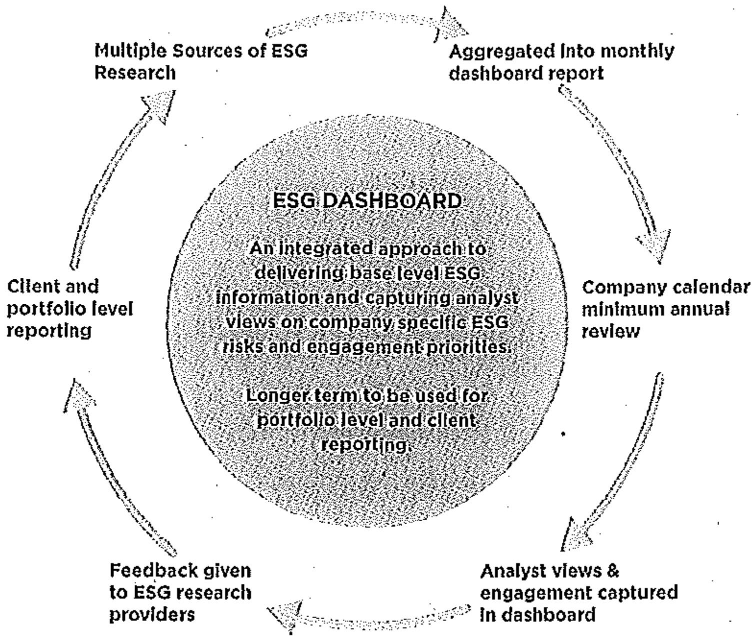
The dashboards are to be completed at least once per year for each company. Analyst feedback and ESG assessments will be used to:

- refine the dashboard over time so that it focuses on Perpetual's key ESG risks
- provide more meaningful ESG reporting to clients, management and other stakeholders
- provide aggregated portfolio level reporting to Portfolio Managers
- as an engagement tool with companies ie analysts can take the dashboard to company meetings to discuss particular issues
- better understand research or training requirements based on analyst's collective and individual views and concerns
- provide evidence of analyst consideration of ESG factors to support KPIs.

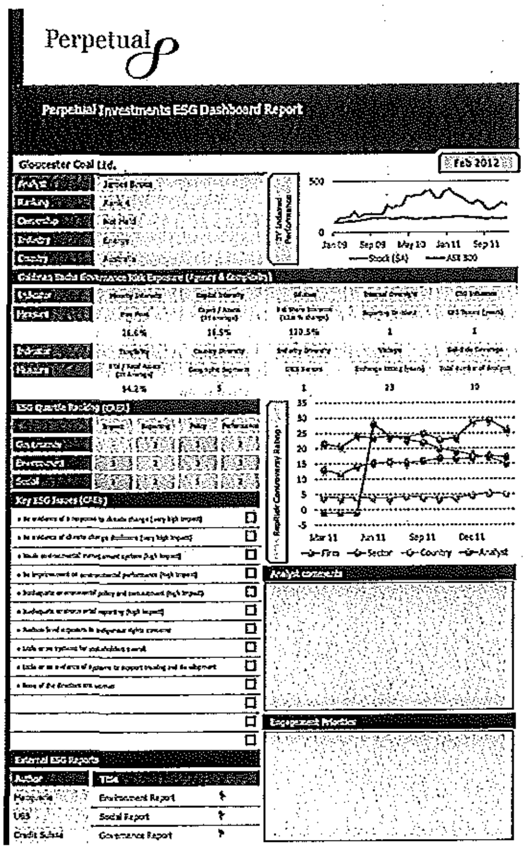
The report itself draws on three different sources of ESG research:

1. Corporate Analysis, Enhanced Responsibility (CAER)
2. Goldman Sachs governance research
3. Reprisk.

It also links to other external research sources.



ESG DASHBORD



ENG INDIVIDUAL ACTION – CORPORATE GOVERNANCE UNLOCKING VALUE:

THE CASE WITH WASHINGTON H. SOUL PATTINSON (SOL)

Corporate governance is the set of processes, rules, and structures by which a company is operated, regulated and controlled. Over time and over the past decade in particular, corporate governance best practice has evolved with current Australian standards, best described on the ASX Corporate Governance Council's website.

From a shareholder perspective, good corporate governance is important because it provides the safeguards needed to ensure that the board and management of a company act in the long-term interests of all shareholders, while considering the needs of other stakeholders.

The case of Washington H. Soul Pattinson (SOL) is an example of how a company with poor governance practice can negatively impact on a company's valuation, and also how active institutional shareholders like Perpetual attempt to influence these companies to improve. We hold shares in SOL and related companies, Brickworks (BKW) and New Hope Coal, because they are good businesses which have performed well over the years, however we believe even greater value is being masked by the existing corporate governance arrangements and we would like to see this value unlocked.

We have been a shareholder in SOL for almost 20 years and have been engaging with them on corporate governance matters for around the last 5 years. Governance practices across the market have improved over time and so while SOL's current governance arrangements were common place 20 years ago they are no longer acceptable. SOL is one of only handful of companies of its size and vintage who have not recognised the importance of progressively improving governance standards overtime. The governance issues we would like SOL to address include:

- lack of independent directors
- cross ownership (SOL owns 48% of Brickworks (BKW), and BKW owns 42.9% of SOL)
- use of the cross ownership and shared directors to entrench control of minority shareholders, the Millner family, over both companies
- lack of an independent audit committee for SOL
- lack of appropriate management of conflicts of interest including the use of related party, Pitt Capital, for advice on corporate actions
- the appointment to the board of Chairman Milner's son, a candidate who we don't believe has the necessary experience to serve on the board of a company the size of SOL.

Despite a long period of engaging with the company on these issues, we had not seen sufficient improvement in the company's governance and so last year we decided to nominate a new independent director to the board, Robert Fraser, to represent all shareholders. Unfortunately the nomination did not have the support of the Chairman of SOL and was ultimately voted down.

While Mr Fraser was not successful in his nomination, the publicity and media attention has focused other shareholders attention on the poor governance of SOL and further pressure will continue to be applied until their practices improve. Throughout the nomination process we worked collaboratively with other interested parties including the Australian Council of Superannuation Investors, the Australian Shareholders Association, and proxy advisors CGI Glass Lewis and ISS.

Corporate engagement is often a slow and resource intensive process however we know that we have a duty to our unit holders which goes beyond buying and selling stock and extends to being good stewards of their shareholdings. We believe better corporate governance will be of benefit to all SOL shareholders and we are working hard to realise these benefits for our unit holders. While this attempt to address the issues at SOL was unsuccessful we will not be deterred and will continue to agitate for change at the company.

COLLECTIVE ACTION – FSC ESG REPORTING GUIDE FOR COMPANIES COL

In November 2010 Perpetual submitted a paper to the FSC recommending the establishment of an ESG working group. In January 2011 the group was formed and is chaired by Perpetual's Group Executive Income and Multi-Sector, Richard Brandweiner with Perpetual's Head of Responsible Investment, Pablo Berrutti also a member.

The group's first action was related to a May 2009 research report[1] completed with ACSI on the barriers to effectively integrating ESG factors for mainstream equity managers. The report found that a lack of data and information due to incomplete or inconsistent company disclosure was a significant barrier.

In considering this report the FSC and ACSI determined that a guide which would assist companies to assess, identify and report on material ESG issues was needed. We found that while the Global Reporting Initiative (GRI) and other reporting standards were in place, their size and complexity was difficult for smaller or less experienced companies to deal with. In response to this we decided to develop an ESG reporting guide for companies.

The ASX's Corporate Governance Council has existing requirements for disclosure of ESG factors which are risk issues for the company. The FSC/ACSI guide is developed around these existing requirements and is focused on helping companies understand what ESG issues are, which ones are material and the metrics/indicators which provide the most useful guide to investors on how the company is managing the issues.

In developing the guide we also referenced the leading sources for calculating various metrics including the GRI and Greenhouse Gas Protocol.

The guide was launched in June 2011 and is available on both the FSC and ACSI websites.

1 ESG integration of mainstream Australian Equity managers.

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THE YEAR AHEAD – GOALS FOR 2012

In addition to the ongoing work required to maintain the new processes and initiatives implemented in 2010 and 2011, we aim to achieve the following in 2012.

ELEMENT	OUTCOMES	WORKSTREAM
Define	**Develop Industry collaboration and reporting guidelines.** The guidelines will set out: • the objective of Perpetual's industry collaboration activities in relation to responsible investment • parameters for collaboration including compliance considerations • list Perpetual's membership to industry groups which are active in promoting responsible investment • reporting requirements and templates.	COL
	Develop additional asset class specific supplements to RI Policy. As per the resources companies supplement developed during 2011, we will be developing similar supplements for fixed income and mortgage investments to provide a clearer understanding of how ESG factors are incorporated for each asset class.	INV
Influence and Support	**Develop ESG aggregated research and data delivery for our fixed income team.** Similar to the ESG dashboard developed for the equities team although with a fixed income focus.	INV
	Integrate equities ESG dashboard with Factset. Perpetual uses Factset as the platform on which all market and investment research information is aggregated. Factset provides powerful functionality and cross-market reach. Integrating CAER and other research sources with Factset to enable more seamless delivery and ease of use for asset managers is the next step in integrating ESG data into Perpetual's investment decision-making processes.	
	Incorporate additional executive remuneration metrics into proxy voting considerations. In addition to advice and research received from CGI Glass Lewis and Diogenes Research on executive remuneration for proxy voting purposes, we have begun developing some simple internal measures which we can use to determine how reasonable remuneration levels are.	

PROXY VOTING RECORD

As part of our efforts to enhance reporting on our responsible investment activities we are providing additional information on our proxy voting record and approach to corporate governance. The data and commentary below provides a clearer insight into one of the key practical outputs of responsible investment, being how we vote at company meetings.

PROXY VOTES ALL

Proxy votes total (Australian companies)

For the 2011 calendar year:

COMPANY MEETINGS	NUMBER OF RESOLUTIONS	VOTED YES	VOTED NO	ABSTAIN OR OTHER
191	883	798	66	19
	Percentage	90.4%	7.5%	2.2%

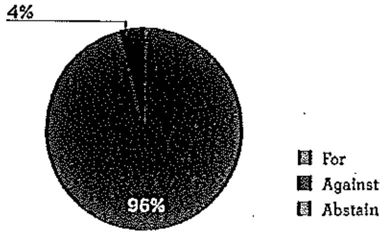
PROXY VOTES BY CATEGORY

In terms of the general categories below where Perpetual voted against management recommendations:

VOTE TYPE	AUDITOR	BOARD/ DIRECTOR CHANGES	CHANGE IN GOVERNANCE STRUCTURE	ADOPTION/ CHANGE IN CONSTITUTION	COMPENSATION/ REMUNERATION	GENERAL MATTER	SHAREHOLDER RESOLUTIONS
Number of no votes	1	8	1	6	40	5	5
% of all no votes	1.5%	12.1%	1.5%	9.1%	60.6%	7.6%	7.6%

BOARD/DIRECTOR CHANGES

ELECTION OF DIRECTORS

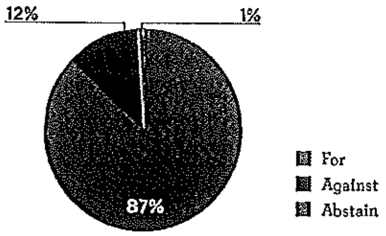


KEY VOTES AND COMMENTS

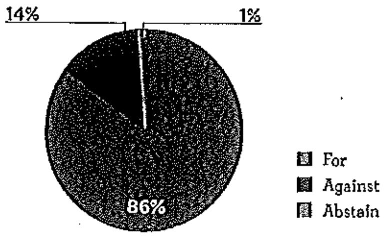
- **Washington H. Soul Pattinson** – Voted for independent shareholder (Perpetual) nominee and against Thomas Milner due to conflicts of interest (Chairman's son) and lack of experience.
- **Gloucester Coal** – Candidate Leiman attended, without explanation, only 36% of board meetings held in financial year 2011.
- **Cabcharge** – Audit committee should be made up of independent directors and so voted against Philip Franet who is affiliated.
- **NewsCorp** – We have continually viewed the Company's lack of independence as potentially impeding the objectivity of the board and its ability to perform its proper oversight role. These concerns have now become reality as the events of the past year have substantially dampened shareholder value. Due to these issues, we voted against nominees James Murdoch, Lachlan Murdoch, Bancroft, Devoe, Knight and Siskind.

COMPENSATION/REMUNERATION

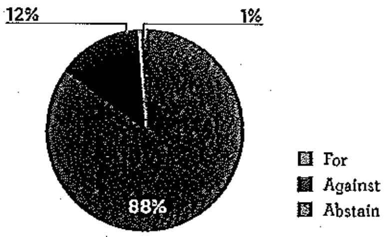
CATEGORY SUMMARY: COMPENSATION



COMPENSATION POLICY*



STOCK GRANTS, OPTIONS AND PURCHASE PLANS*



* Do not add to 100% due to rounding

KEY VOTES AND COMMENTS

- **Australand Property Group** – CEO received a very significant short-term bonus, above normal and peers, without explanation.
- **Bathurst Resources** – The terms and quantity of the Equity Grant were excessive. The remuneration report failed to meaningfully discuss the relationship between the remuneration policy and the Company's performance. The remuneration report failed to provide an adequate explanation of the cash bonus, as well as the maximum amount or percentage of the bonus that can be earned by executives.
- **Iluka Resources** – We were concerned that an absolute total-shareholder-return hurdle would penalise (or reward) executives as a consequence of market conditions despite the contribution of the executive. The Company has not fully explained or justified its policy nor provided a best practice advocated minimum performance period of 3 years. Additionally, the Company failed to provide a valuation for the share rights grant.
- **Pacific Brands** – Very high level of existing remuneration, above twice peer group and the arbitrary lowering of short-term incentive hurdles for 2011 (calling out specifically difficult conditions) were not acceptable.
- **Stockland** – Total level of CEO remuneration, given performance of the company over the long-term, was excessive.
- **Pro Medicus** – Bonus hurdles and disclosure were not appropriate. Additionally, the issue of options to executives at a zero exercise price when company performance has been poor does not hold management accountable.

ALL COMPANIES VOTED AGAINST ON REMUNERATION:

- Australand Property Group
- Iluka Resources
- Ivanhoe Australia Limited
- Minara Resources Ltd
- Westfield Group
- Ausdrill Ltd
- Clough Ltd
- Dexus Property Group
- Pacific Brands
- Stockland
- Whitehaven Coal Ltd
- Bathurst Resources Ltd
- Cabcharge Australia Ltd
- FKP Property Group
- Fleetwood Corp
- Gloucester Coal Ltd
- Goodman Group
- Kresta Holdings
- Lend Lease Group
- Peet Limited
- Pro Medicus
- Sedgman
- News Corporation
- Woolworths Limited

FEEDBACK AND QUESTIONS

If you have any feedback or questions about this report and Perpetual's responsible investment practices please contact us by email pri@perpetual.com.au or call our Head of Responsible Investment, Pablo Berrutti on (02) 9229 3297.

GLOSSARY

ACSI	Australian Council of Superannuation Investors
ALL	All workstreams
BRLF	Business Reporting Leaders Forum
CAER	CAER company (Corporate Analysis. Enhanced Responsibility)
CEO	Chief Executive Officer
COL	Workstream 3 – Industry collaboration
ENG	Workstream 2 – ESG engaging
ESG	Environment, social and corporate governance
FSC	Financial Services Council
GRI	Global Reporting Initiative
IMs	Investment Managers
INV	Workstream 1 – ESG investing
KPI	Key performance indicators
MSCI	MSCI company (previously Morgan Stanley Capital Index)
PRI / UNPRI	United Nations Principles for Responsible Investment
REP	Workstream 4 – ESG reporting
RI	Responsible Investment
SOL	Washington H Soul Pattinson

MORE INFORMATION
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Perpetual

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Corporate Governance and Proxy Voting Policy

September 2011

Policy

1. Scope

This policy applies to all of Perpetual Investment Management Limited's (Perpetual Investments Fund Managers in Australia only) corporate governance monitoring and proxy voting activities in respect of companies in which we invest.

2. General

Perpetual Investments manages monies on behalf of institutional and retail clients through managed investment schemes, public offer superannuation funds, and discrete mandates (collectively referred to throughout this Policy as Funds).

3. Environmental, Social and Corporate Governance Considerations

Perpetual Investments has a Responsible Investment (RI) Policy which is available on our website www.perpetual.com.au/responsibleinvesting.aspx

Our RI policy covers Perpetual Investments' approach to incorporating environmental, social and corporate governance considerations into our investment decision-making and ownership practices.

Proxy voting rights are a valuable asset of the investor and are intrinsically linked to the expression of our views on corporate governance practices and to our monitoring of the corporate governance performance of the companies we invest in. This policy expands on the general concepts described in the RI policy in relation to corporate governance and sets out our approach to proxy voting.

This policy will at all times remain consistent with our RI policy.

4. Corporate Governance

Perpetual Investments supports the *ASX Corporate Governance Principles and Recommendations, Financial Services Council Guidance Note 2 – Corporate Governance: A Guide for Fund Managers and Corporations*, and commonly accepted good corporate governance practices including:

Respect for shareholders

- Boards and management should act in the interests of all shareholders;
- Corporate structures should ensure shareholders have voting power which is equal to their equity interest in the company; and
- Companies should ensure that their corporate disclosures provide the amount, quality and clarity of information required to make informed judgements on the performance of the company - including on its corporate governance practices.

Board function

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

Auditors

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

Remuneration

- Remuneration committees should consist of a majority of independent directors;
- Any Director remuneration outside standard director fees (e.g. for consulting) should be fully disclosed;
- Remuneration for senior management should seek to align the interests of management with the long-term interests of shareholders, including appropriate stretch-hurdles for performance based pay.

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

5. Monitoring Corporate Governance and Company Engagement

Perpetual Investments will monitor the corporate governance practices of companies through independent research, proxy voting advice, and our investment analyst's in-depth knowledge of the company.

Perpetual Investments Australian Equities team employs a proven investment process where we only invest in companies that meet four quality filters:

- Strong balance sheet
- Recurring earnings
- Quality business and;
- Sound management

The quality and appropriateness of a company's corporate governance arrangements form part of our consideration of 'sound management'. Where we perceive a company's corporate governance has some material deficiencies but that management quality overall passes our filter, we will seek to engage with the company through direct contact at senior levels.

In addition to direct contact with companies Perpetual Investments investment managers have a number of forums in which they can exercise their influence, including:

- expressing concerns through the company's advisers
- voting against management resolutions at shareholder's meetings
- engaging in 'active public intervention'
- full or partial divestment.

Engagement with companies will always be conducted in accordance with the Corporations Act and in particular the insider trading provisions.

6. Proxy Voting

Voting at Australian company meetings is carried out by us on all resolutions where Perpetual Investments has the voting authority and responsibility to do so.

Perpetual Investments will vote on all Australian company resolutions regardless of the 'materiality' of that resolution. All resolutions are considered on a case by case basis with consideration from the analyst who covers the company. This case is then presented to the Head of Equities and/or the Deputy Head of Equities for consideration and signing. Voting decisions will be made in the clients' best interests.

To assist in decision making we subscribe to independent external proxy advisory services. These services analyse the key governance issues in each company and provide recommendations on constructive communication by institutions with the company on those issues. They also analyse resolutions submitted by management for shareholder approval at annual or other general meetings and provide voting recommendations on those resolutions. While we consider these recommendations the final decision is made by the Head of Equities and/or the Deputy Head of Equities.

7. Public Disclosure

Perpetual Investments will publish annually on our website an aggregate summary of our Australian Proxy Voting records for the previous year for our direct investing managed investment schemes and public offer superannuation funds.

8. Institutional clients

The responsibility for exercising proxy votes for institutional clients funds is agreed between Perpetual Investments and the client and is incorporated into the Investment Management Agreement (IMA). The investment manager will, however, still be subject to any client's instructions on voting issues.

Voting rights exercised by the investment manager are reported back to the client by the Institutional Business Department of Perpetual Investments.

9. Review of this Policy

This policy is maintained by the Manager, Responsible Investment and Sustainability. The policy will be reviewed bi-annually or more frequently should circumstances require it.

Appendix 1: Additional guidence on remuneration practices

Perpetual's corporate governance and proxy voting policy provides Perpetual's house view on good corporate governance practices which equity investment managers should consider when deciding on engagement and proxy voting actions for companies. In relation to remuneration the policy states:

- Remuneration committees should consist of a majority of independent directors;
- Any Director remuneration outside standard director fees (e.g. for consulting) should be fully disclosed;
- Remuneration for senior management should seek to align the interests of management with the long-term interests of shareholders, including appropriate stretch-hurdles for performance based pay.

However, given the 'say on pay' reforms currently being implemented globally, and in particularly the 'two strikes' rules being implemented in Australia from July 2011, we have developed this additional guidance for equity analysts and portfolio managers. The guidance incorporates generally accepted good practice and Perpetual's style and investment philosophy. This guidance should be used as a 'rule of thumb' measure for considering the appropriateness of remuneration practices.

While in general terms this guidance aligns with the more detailed CGI Glass Lewis Proxy Paper guidelines, it has been written to support Perpetual analysts in using their own judgement and expertise in making the final decision in relation to each company's remuneration report.

1. An independent remuneration committee should be allowed flexibility but must be made accountable for poor practices

- A remuneration committee with an independent chairman, who does not also chair the main board, and a majority of independent directors is in the best position to make decisions on the detail of remuneration practices.
- However, should practices significantly diverge from the general principles below without clear justification a vote against the chair of the remuneration committee should be considered along with voting against the report.
- Abstaining from votes on the remuneration report and potentially the chair of the committee in less serious departures from good practice should also be considered.
- Reasons for voting against or abstaining should be provided to the company.

2. Disclosure should be clear and unambiguous

- Generally simplicity rules. Arrangements which are so complex as to be difficult to estimate how minimum and maximum potential remuneration can be achieved should be questioned.

3. Desired behaviours should be understood and incentivised accordingly

- The appropriateness of the balance between fixed remuneration, STI and LTIs should be considered in the context of the analyst's detailed understanding of the company's size, stage of development, and current operating environment.

  For example it may be appropriate for a company to have a greater weighting to milestone linked STIs than its peers if the company is implementing a transformational project (e.g. resource companies going from exploration to production or integrating a significant acquisition).
- STIs and LTIs should be role dependent for senior executives with particular care taken in formulating incentives for control functions (CFO and CRO). While there is no golden rule, incentives which have the potential to encourage accounting distortions or short termism should be avoided. For example a CFO with STI's that comprises >40% of remuneration should be closely examined.
- Use of multiple performance metrics for STI/LTI is preferable to a single measure as single measures risk executives having too narrow a focus. EBIT or other earnings based targets should be carefully balanced with other long-term targets (e.g. balanced scorecard, EVA, relative TSR etc) to avoid the risk that executives will under invest in the business to achieve short term targets.
- Deferment of STI's should be used to avoid short-termism and the temptation to distort shorter term outcomes.
- 'Long term' for LTIs should be a minimum of 3 years.
- The scaling of incentives should be encouraged so that an entire allocation is not forfeited for narrowly missed targets (which has the potential to encourage distorted accounting)
- Vesting arrangements which may not align with shareholder interests should be avoided. For example the automatic vesting of the full allocation of incentives on a change of ownership of the company.

4. Appropriate performance measures should be selected

- STI and LTI's must be stretch targets – analysts should consider their own and consensus forecasts for the relevant metric to judge whether targets are sufficiently challenging without being unrealistic.
- Where relative measures (most commonly relative TSR) are used they should be used against a representative and relevant peer group as opposed to broad multi-sector indices. For example; global companies should have global peers, sector and size should also influence the selected peer group. Where a representative peer group is too small, or where earnings are driven by broader market factors a different peer group maybe appropriate; ultimately the goal of relative measures should be to reward management for value added over and above external earning drivers.

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- Both shareholder return derived and operational measures should be included, e.g. depending on the company the inclusion of safety, customer satisfaction, risk management (including environmental and social risks) or productivity improvements can ensure that a focus on the company's intangible and long-term performance drivers are being rewarded.

5. Total compensation should be reasonable and reflect actual performance

- Executive compensation which is materially out of line with peers should be closely examined and justified on value add or relative performance basis.
- Failure to achieve objectives should reduce STI and LTI outcomes and should not be overridden by boards unless circumstances are both exceptional and clearly justified.
- Significant increases in fixed remuneration should be closely examined and justified, particularly where it occurs at the bottom of the cycle, following a period of sustained underperformance (e.g. where increases in base salary could be perceived to be compensating for missed STIs) or where STI and LTIs are based on high multiples of base salary.

6. Managing conflicts of interests for short positions

- A second consecutive 25% no-vote on a remuneration report could have a negative share price impact and therefore pose a conflict of interest for the short side of a portfolio where remuneration votes could be used to trigger share price declines regardless of the merits of the remuneration report. Similarly where Perpetual is a significant holder of a company knowledge of voting intention by a short selling portfolio manager could provide a short selling opportunity that does not align with Perpetual's ethical standards.
- Perpetual manages this risk in several ways:
  - The portfolio manager responsible for the long short fund is not permitted to make or seek to influence voting decisions.
  - Perpetual has internal guidelines preventing the holding of >15% of an investee company's issued shares.

Perpetual

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Further information
Email pri@perpetual.com.au
www.perpetual.com.au/responsible-investing