

## PRINCIPLES OF INTERNAL GOVERNANCE AND ASSET STEWARDSHIP

### PERPETUAL CREDIT AND FIXED INCOME

#### 1. ORGANISATIONAL AND INVESTMENT APPROACH

##### Description

Perpetual Credit and Fixed Income is a boutique investment manager of Perpetual Limited (“Perpetual”), an ASX-listed, diversified financial services company which has been serving Australians since 1886. Perpetual is one of Australia’s most respected and longstanding active investment managers, focused on the needs of Australian and New Zealand retail and institutional investors. This document should be read in conjunction with the Perpetual Credit and Fixed Income Responsible Investment Policy. This policy is available via: [\(https://www.perpetual.com.au/asset-management/institutional-investors/responsible-investing/\)](https://www.perpetual.com.au/asset-management/institutional-investors/responsible-investing/).

##### Purpose and values

Perpetual’s purpose is to create ‘enduring prosperity’ for our people, for our clients and for our community. Our purpose is underpinned by our three core values:

- Excellence - delivering excellent outcomes
- Integrity - doing what’s right, and
- Partnership - succeeding together.

Building on Perpetual’s values are Perpetual’s behaviours:

- Stretch - we challenge the status quo;
- Own it - we trust and empower each other to be successful;
- Make an impact - we deliver sustainable outcomes.

Our values and behaviours form the basis of our culture and directly impact the experience our clients have with us.

Perpetual’s vision in Asset Management is to be a market leading global multi-boutique asset management business, with world-class differentiated active investment capabilities designed to meet the evolving needs of our clients in our chosen markets (US, Europe, UK, Asia and Australia).

##### Ownership, Management and Governance structure

Perpetual Credit and Fixed Income operates through Perpetual Investment Management Limited (“PIML”) ABN 18 000 866 535, AFSL 234426, a fully owned subsidiary of Perpetual.

PIML is:

- the responsible entity for Perpetual registered managed investment schemes;
- the trustee for unregistered Perpetual trusts; and
- the investment manager for managed investment schemes, trusts and mandates.

The PIML Board consists of experienced Executive Directors and operates pursuant to a charter which sets out responsibilities with the express aim of ensuring that the best interests of schemes members are considered and acted upon.

The PIML Board has delegated certain decision making and oversight functions to committees including the Breach Committee and Due Diligence Committee.

The PIML Compliance Committee, established by the PIML Board, monitors compliance with the compliance plans of the Perpetual registered managed investment schemes and also considers the adequacy of the compliance plans. The PIML Compliance Committee is made up of a majority of external members.

##### Key Management and Investment Personnel

Perpetual's Executive Committee is a key management committee with overall responsibility for implementing Perpetual's strategy and managing the business and workforce. Visit <https://www.perpetual.com.au/about/team/executive-team/> for more information about Perpetual's Executive team.

Within Perpetual Credit and Fixed Income, the Head of Credit and Fixed Income reports to the Chief Executive, Perpetual Asset Management Australia, who in turn reports to the CEO of Perpetual. The CEO sits on the Perpetual Limited Board. Visit <https://www.perpetual.com.au/asset-management/our-team/> for further details about the investment personnel in Perpetual Credit and Fixed Income.

## 2. INTERNAL GOVERNANCE

### Ethical conduct and professional practice

Perpetual's Code of Conduct policy sets out the standards of responsibility and ethical conduct required of all employees including contractors, all directors and executives and is designed to assist them in making ethical business decisions.

The Code of Conduct is based on the following principles:

- conducting business in accordance with the highest ethical standards;
- promoting an effective risk culture, in particular one that creates an environment of risk awareness and responsiveness;
- acting in the best interests of clients on the belief that doing so is in the best interests of Perpetual's shareholders;
- adhering to applicable legal and regulatory requirements and complying with the spirit as well as the letter of the law;
- committing to the fight against terrorism and money laundering by implementing an AML/CTF program;
- implementing a fraud control program to develop a culture that will not tolerate fraud and to assist employees to with detecting fraud;
- Perpetual is prohibited, by various global organisations, from conducting transactions with certain foreign governments and designated nationals from those countries, such as terrorists, terrorist organisations or countries involved in weapons of mass destruction;
- to safeguard confidential information and not to inappropriately use or disclose confidential information. In some cases, Perpetual may have in place information barriers or separation protocols to protect one client's confidential information from another part of Perpetual;
- protecting and safeguarding the personal information of Perpetual's clients;
- managing conflicts of interests;
- employees respecting Perpetual's property including equipment, IT systems and services, and not using IT systems in an inappropriate way;
- maintaining a fair and safe workplace;
- commitment to clear, open and transparent communications with external parties;
- commitment to good corporate governance and delivering shareholder value; and
- protecting those who report wrongdoing.

### Personal trading

Personal trading for employees is governed by both Perpetual's Personal Trading in non-Perpetual Securities and Personal Trading in Perpetual Securities policies. Together, the purpose of these policies is to reinforce that clients' priorities take precedence over personal trading and to ensure that personal trading in securities is conducted lawfully and appropriately, and that legal, regulatory and reputational risk is minimised. Compliance with both policies is mandatory for all employees.

Employees must obtain pre-approval to trade certain financial products, trade within a limited window and must maintain a register of his/her personal trading records. Employees are also required to avoid personal trading if it will conflict with their duty to clients, shareholders or Perpetual.

### Management of conflicts of interest to ensure client interests take priority (including gifts and

## **entertainment)**

Perpetual's Conflicts of Interest Policies (Personal and Corporate) provide a framework for identifying, managing and recording actual, potential and perceived conflicts of interest either of the organisation or the employees themselves. The Conflicts of Interest Policies emphasise the importance of acting in the best interests of clients, funds, the organisation and the wider financial market and system.

Perpetual will generally use the following mechanisms to manage conflicts of interest:

- Disclosure of conflicts of interests
- Management of conflicts of interest using internal processes and controls
- Avoid conflicts of interests where disclosure or management of conflicts cannot be achieved.

Perpetual adheres to the Gifts and Entertainment Policy which requires employees not to offer, solicit, accept gift or entertainment that would reasonably compromise their independence or objectivity or create conflict with Perpetual's interest. Employees are required to maintain a register of all gifts and entertainment greater than \$100 and additional approval is required for gifts or entertainment greater than or equal to \$300.

## **Risk Management and Compliance**

Perpetual's Risk Management Framework sets out the organisation's commitment and approach to effective risk management in alignment with better practice standards, regulatory requirements and broader expectations associated with Perpetual's trusted brand.

Perpetual's Risk Management Framework is underpinned by the 'Three Lines of Accountability model' to implement best practice risk management. In this model the first line, being business unit management, is accountable for the day-to-day identification, ownership and management of risks. Risk and Compliance functions represent the second line and are responsible for reviewing and challenging first line activities. Internal Audit, representing the third line, provides independent assurance, and has an independent reporting line to the Chair of the Audit, Risk & Compliance Committee.

## **Error Correction Policy**

Perpetual adheres to the Trade Error Policy which sets out how we treat errors made by Perpetual and is designed to ensure that Perpetual will not profit from any gain arising from a trading error made by Perpetual. Perpetual handles trade errors proactively when they come to light and takes steps to minimise the likelihood of errors.

## **Brokerage and commissions**

Perpetual utilises the services of brokers for activities such as trade execution and research. Perpetual has an Alternative Brokerage Arrangements (ABA) Policy which requires the good or services acquired through an ABA arrangement to reasonably be expected to assist in the provision of investment services, trading activity or making decisions to trade for clients on behalf of who, brokerage is paid.

## **Equitable Asset Valuation and Pricing**

Valuation Policies and Procedures are in place with Perpetuals outsourced providers to ensure all units are valued in a timely and fair manner. Assets are valued with reference to their most recent market values, accordingly to ordinary market practices. The policies and procedures also set out valuation methods in circumstances where market values are unavailable. In valuing the assets and liabilities of each fund, Perpetual applies valuation practises which are consistent with ordinary commercial practise and industry standards.

## **Best execution and trade allocation**

Perpetual seeks to obtain best execution for our clients and to execute trades on the most favourable terms. Perpetuals Best Execution & Trade Policy is in place to ensure our dealing team takes all reasonable steps to execute trades on the best terms and that trades are allocated fairly. The Policy sets out the factors to be considered in placing orders, including price, cost, speed and quality of order execution, likelihood of execution and settlement, size and nature of the order, market depth and liquidity and any other consideration relevant to the execution of the order to the extent that it can reasonably be expected to influence the total outcome of the trade.

## **Remuneration policy**

Perpetual's Remuneration Policy is designed to enable the achievement of business strategy, whilst ensuring that remuneration outcomes are aligned with our shareholders' interests and are market competitive in order to attract, motivate and retain talented people. The policy includes measures of performance, the key components of remuneration (fixed remuneration and short-term incentive awards. Senior employees may also receive long-term incentive awards). The remuneration mix varies depending on the employee's role, level and market practice. The

remuneration mix for each employee is designed to be market competitive and provide the appropriate balance between short and long-term performance focus for the role.

#### **Whistleblower policy**

Perpetual's Whistleblowing policy designed to protect employees, including former employees, who on reasonable grounds make reports of suspected misconduct confidentially. Perpetual is committed to conducting business honestly, with integrity and in accordance with the highest ethical standards as set out in Perpetual's Code of Conduct. To achieve this, Perpetual promotes a workplace where speaking up on matters of conduct and reporting such matters of conduct are encouraged, and where Employees who speak up will be protected from victimisation or other retaliatory behaviour. For those who prefer to raise their concern with an external organisation, all employees have access to an independent and confidential hotline.

#### **Training and Development**

Employees must undertake mandatory training covering Code of Conduct, Conflicts of Interest and key obligations required by Law on commencement and periodically as required. Mandatory training records are maintained and staff are required to complete attestation on specific training modules confirming that they have understood the requirements of key policies.

Specific roles may require professional qualifications or industry accredited certifications. Employees participate in a number of training and development activities including but not limited to continuous professional development, industry conferences, seminars and training sessions run by external consultants.

#### **Complaints and Dispute Resolution**

A Complaints Handling policy is in place to appropriately and expeditiously address complaints. We are committed to ensuring complaints are appropriately handled to increase levels of client satisfaction, improve the overall quality of service we provide and comply with requirements under regulatory licences. The complaints handling process comprises of five steps: capture, acknowledge, investigate, respond and review. Perpetual Investment Management Limited is also a member of an external dispute resolution service, the Australian Financial Complaints Authority (AFCA), which clients can contact for investment and credit product and financial advice related matters should they be dissatisfied with our handling of their complaint.

### **3. ASSET STEWARDSHIP**

#### **Monitoring of Company<sup>1</sup> Performance**

Our bottom-up credit research process requires analysts to seek information directly from existing and prospective debt-issuing companies, as well as market and industry information, on a regular basis in order to support our active investment style. We do this initially prior to making an investment decision as an integral part of our due diligence; and subsequently on an on-going basis as part of our continuing surveillance of our investments. The frequency of this contact is typically semi-annually or annually but sometimes we may reach out to companies for additional information and/or ad-hoc meetings in conjunction with our usual cycle depending on the specific circumstances and the level of the credit risks associated with our investments. The format of these interactions ranges from issuer roadshows, investor group meetings, conferences, one-on-one meetings and teleconferences.

We seek information from companies on matters we believe that may have a material impact on their credit profiles, including ESG matters. We discuss these ESG risks with management in order to establish an understanding on how they may affect a company's credit profile through different investment horizons, and whether the company has effective means in place to mitigate such risks. We consider these ESG risks in conjunction with other material risk factors to form an investment decision. The decision process is based on collective considerations and as such is not unidimensional.

#### **Company Engagement**

It is our policy as investment managers to engage with issuers on matters that could affect their credit profile, including their exposure to, and mitigation of, ESG risks, with the objective of achieving better investment decisions and outcomes over the long term.

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<sup>1</sup> Corporate issuer of credit and fixed income securities

Perpetual Credit and Fixed Income' company engagement approach to ESG issues is outlined in more detail in Perpetual Credit and Fixed Income Responsible Investment Policy. Visit <https://www.perpetual.com.au/investments/institutional-investors/responsible-investing> to learn more.

### **Proxy Voting**

Not applicable - credit and fixed income securities investing in by the Perpetual Credit and Fixed Income team do not carry voting rights.

### **Approach to Environmental, Social and Governance (ESG) Factors**

Perpetual has a long-standing commitment to responsible investment. Perpetual Investments<sup>2</sup> is a signatory to the United Nations-supported Principles for Responsible Investment (PRI). Our duty to our clients requires us to seek to achieve the objectives of our investment funds. Objectives normally included achieving investment returns over specified time periods.

We satisfy this obligation by employing a range of investment techniques. While traditional financial measures are an important consideration, ESG issues can also influence an issuer's investment performance. Our asset class teams consider those ESG issues that are determined to be a factor that may impact the current or future financial performance of the issuer.

This means ESG issues are integrated into our asset stewardship activities as described under "Company Engagement".

More information can be found in our Responsible Investment policy at: <https://www.perpetual.com.au/investments/institutional-investors/responsible-investing>

### **Monitoring of External Managers**

Perpetual Credit and Fixed Income does not employ external managers.

### **Collaborative Engagement and Policy Advocacy**

Perpetual personnel are involved with the following industry associations (of which Perpetual is a member or signatory) and forums to advocate for industry initiatives that best suit the interests of our clients and our ability to support them:

- Responsible Investment Association Australasia (RIAA),
- Investor Group on Climate Change (IGCC), and
- Principles for Responsible Investment (PRI).

### **Client Engagement, Education and Communication**

Perpetual Credit and Fixed Income engages and communicates with clients on asset stewardship matters and publicly discloses information on responsible investing (including asset stewardship) activities.

Visit <https://www.perpetual.com.au/investments/institutional-investors/responsible-investing> for more information.

In addition to this, from time-to-time Perpetual Credit and Fixed Income also publishes other related content on our website.

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<sup>2</sup> In 2009 Perpetual Credit and Fixed Income was part of Perpetual Investments