

Perpetual ESG Credit Income screening process

Perpetual employs a rigorous investment process in managing our suite of Credit and Fixed Income strategies. The Perpetual ESG Credit Income Fund (“the Fund”) employs this same disciplined process, but with additional screening based on Perpetual’s environmental, social and governance (ESG), values-based and sovereign exclusionary screens, to give investors an opportunity to align their investments with their personal values and ESG preferences.

Q Overview

Responsible investment research requires specialist skills. Work in this field is aimed at evaluating the issuer’s performance on a range of ESG and values-based criteria.

Perpetual has a dedicated Responsible Investments team. We also utilise research from external specialists to help us research issuers on the Australian market and overseas exchanges. For screening the Fund, Moody’s Analytics is our primary external specialist, based on their depth of research and quality of systems and resources. Additionally, Perpetual may draw on external ESG research from other external specialists including MSCI ESG Research and RepRisk.

The Perpetual ESG Credit Income Fund has three exclusion screens, with which we assess issuers, including:

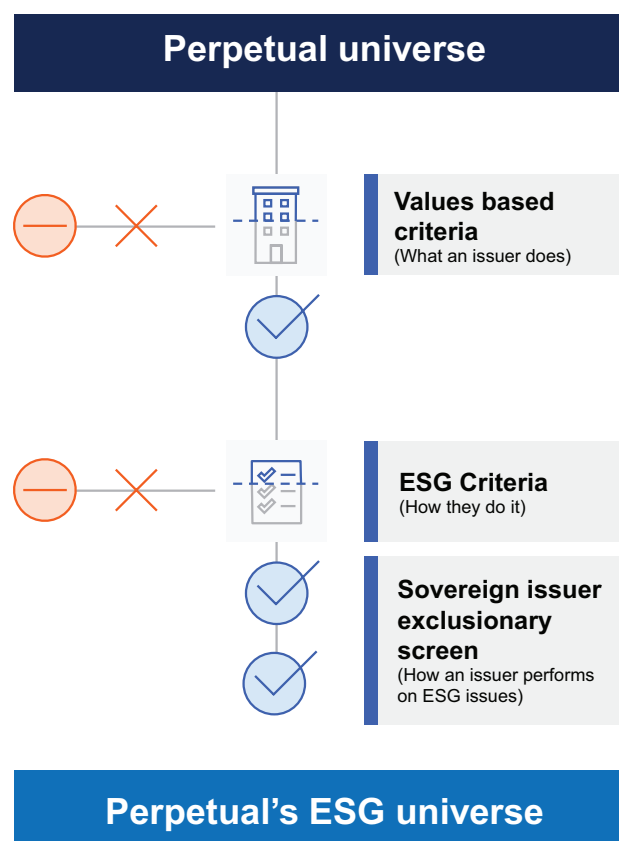
- A values-based exclusionary screen for involvement in certain activities,
- An ESG exclusionary screen based on an evaluation of an issuers’ overall performance on ESG issues, and
- A sovereign (government and government-related) issuer exclusionary screen.

Perpetual’s Responsible Investments team is responsible for the screening process. The team is responsible for determining an issuers suitability for inclusion in the Fund. Screening criteria may change over time to account for emerging issues.

The screening process

Before being considered for investment, issuers must pass the values-based and ESG exclusionary screens. A separate exclusionary screen applies to sovereign issuers. The screening processes is designed to limit the Fund’s investible universe to only those issuers that meet minimum values-based, ESG and sovereign criteria.

The Fund’s Portfolio Manager constructs the portfolio for the Fund from these issuers.



Stage 1: Values-based exclusionary screen

This screen is designed to identify and exclude issuers that derive a proportion of their revenue¹ from involvement in certain activities (see below). This means that issuers breaching any Values-based Activity involvement threshold below (for example earning 10% of revenue from Fossil Fuels, or 1% revenue from Tobacco Production) will fail this Values-based Exclusionary Screen and therefore will not be considered for investment by the Fund.

Values-based activity	What involvement do we consider	Involvement threshold ^{1,2}
Alcohol	Production or distribution of alcoholic beverages, including the wholesaling and retail of alcoholic beverages manufactured by other companies.	5% or more of company revenue ¹
Animal Cruelty	Animal testing by producers of cosmetic products.	5% or more of company revenue ¹
Fossil Fuels	Upstream (exploration and production) of fossil fuels (coal, natural gas, oil, oil sands, oil shale) including the provision of services used in the extraction phase	5% or more of company revenue ¹
Gambling	Gambling operations (for example thoroughbred, sports, financial market and other betting) including online services, casinos, and gambling products including gaming equipment (for example slot/poker machines).	5% or more of company revenue ¹
Genetic Engineering	Production of genetically modified organisms (GMOs) for human consumption (except for medical purposes).	5% or more of company revenue ¹
Nuclear and Uranium	Uranium mining, electricity generation from nuclear power and major parts and services sold to the nuclear industry.	5% or more of company revenue ¹
Pornography	Provision of pornography and adult entertainment services.	5% or more of company revenue ¹
Tobacco (Production)	Production of tobacco including plantations and the manufacture of tobacco products including e-cigarettes and nicotine alternatives.	0% or more of company revenue ¹
Tobacco (Retailing)	Distribution of tobacco including the wholesaling and retail of tobacco products manufactured by other companies.	5% or more of company revenue ¹
Weapons (Nuclear)	Manufacture or development of nuclear weapons, including delivery platforms and munitions for the full weapon along with key parts or services.	0% or more of company revenue ¹
Weapons (Military – Controversial)	Manufacture or development of controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, biological weapons, depleted uranium), including delivery platforms and munitions for the full weapon along with key parts or services.	0% or more of company revenue ¹
Weapons (Military – Conventional)	Production of military conventional (not controversial) weapons.	5% or more of company revenue ¹

¹Calculated using the total gross amount of revenue generated by the sale of goods or services from normal business operations.



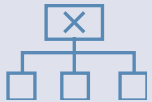
²Issuers will breach the above involvement threshold if their combined revenue from all values-based activities is above 5% or more.

Stage 2: ESG exclusionary screen

Issuers that successfully pass our Values-based exclusionary screen are then subject to an ESG exclusionary screen. To apply this screen, issuers are scored (both positively and negatively) on a broad range of ESG factors shown in the table below. These scores are totalled to arrive at a single score for each issuer.

Issuers that receive a negative total score fail this exclusionary screen and will not be considered for investment. A zero or positive score will allow an issuer to be considered for investment.

To administer the ESG Exclusionary Screen, data is provided by Moody's Analytics to help determine the involvement considerations and the applicable threshold or measure. The data is based on Moody's Analytics' proprietary research and publicly disclosed representations from issuers. Thus, the data provided may not be a complete representation of an issuer's involvement in a particular ESG issue and may include estimates.

Environmental ³	Social ³	Governance ³
		
<ul style="list-style-type: none">• Environmental risk, policy & performance• Energy use and renewables• Product and services environmental impact• Product impacts and approach• Chemicals of concern• ESG-positive products & services	<ul style="list-style-type: none">• Animal welfare (Fur)• Genetically modified (GMO) food• Health and safety risk approach• Human rights• Discrimination and diversity• Community involvement	<ul style="list-style-type: none">• Corporate conduct risk and approach• Corporate conduct performance (misconduct)

Stage 3: Sovereign exclusionary screen

An alternative screening process applies to sovereign issuers (government and government-related) issuers and may include semi-sovereign entities to determine their suitability for investment by the Fund. These sovereign issuers are screened using scoring on ESG factors from indicators including:

- **RepRisk Index for Countries⁴** – reflects history of negative ESG incidents, criticism and controversies of companies and projects in each country, indicating reputational risk related to ESG/business conduct. Incidents cover 28 ESG issues, covering key international standards.
- **World Bank Worldwide Governance Indicators (WGI)⁵** – assesses six dimensions of sovereign governance - voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, control of corruption.
- **Transparency International Corruption Perceptions Index (CPI)⁶** – perceptions of business and country experts of the level of public sector corruption.

Sovereign issuers determined by Perpetual that score well below acceptable norms and standards in any of the above indicators will fail this exclusionary screen and therefore will not be considered for investment by the fund.

³For information regarding the ESG exclusionary screen, please refer to the Product Disclosure Statement.

⁴For more information see www.reprisk.com/news-research/resources/methodology.

⁵For more information see www.govindicators.org/.

⁶For more information see www.transparency.org/en/cpi/2022

Divestment

Issuers are assessed against each exclusionary screen - Values-based, ESG exclusionary and Sovereign every month. Those issuers invested in which fail any screen must be divested promptly from the Fund within 60 days, subject to liquidity and other practical considerations.

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