

# Perpetual ESG Credit Income Fund 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.**



## Overview

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

We also utilise research from external specialists to help us research companies listed on the Australian market and overseas exchanges.

For screening the Fund, Perpetual sources data from third party providers. The data provided is based on proprietary research of those providers and publicly disclosed representations from the issuers they research.

**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 is responsible for determining an issuers suitability for inclusion in the Fund. Screening criteria may change over time to account for emerging issues.

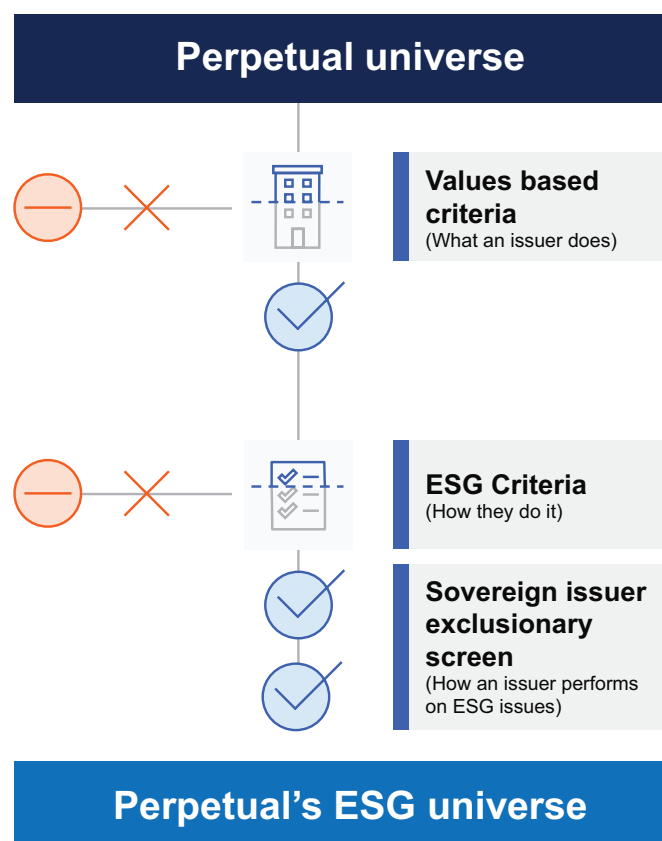
<sup>1</sup> Certain direct issuers of credit securities are not able to be screened - for example, a subsidiary, special-purpose or securitised entity where relevant information such as revenue, or approach to ESG issues is not available. In these cases, Perpetual will analyse the issuer's ownership / corporate structure to determine an alternative appropriate parent corporate entity to screen. For example, if the issuer is an unlisted subsidiary of a parent listed (public) company, the parent company would be screened.

<sup>2</sup> No exclusionary screens are applied to derivatives and cash.

## The screening process

Before being considered for investment, issuers must pass the values-based and ESG exclusionary screens.<sup>1,2</sup> 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 revenue<sup>1</sup> 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 <sup>3</sup>
<b>Alcohol</b>	Production of alcoholic beverages, including the wholesaling and retail of alcoholic beverages manufactured by other companies.	5% or more of issuer revenue
<b>Animal Cruelty (Testing)</b>	Animal testing by producers of cosmetic products.	Any involvement
<b>Animal Cruelty (Production)</b>	Production of fur or exotic leather	5% or more of issuer revenue
<b>Fossil Fuels</b>	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 issuer revenue
<b>Gambling</b>	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 issuer revenue
<b>Genetic Engineering</b>	Production of genetically modified organisms (GMOs) for human consumption (except for medical purposes).	5% or more of issuer revenue
<b>Nuclear and Uranium</b>	Uranium mining, electricity generation from nuclear power and major parts and services sold to the nuclear industry.	5% or more of issuer revenue
<b>Pornography</b>	Production and distribution of pornography and adult entertainment services.	5% or more of issuer revenue
<b>Tobacco (Production)</b>	Production of tobacco including plantations and the manufacture of tobacco products including e-cigarettes and nicotine alternatives.	0% or more of issuer revenue
<b>Tobacco (Retailing)</b>	Distribution of tobacco including the wholesaling and retail of tobacco products manufactured by other companies.	5% or more of issuer revenue
<b>Weapons (Nuclear)</b>	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 issuer revenue
<b>Weapons (Military - Controversial)</b>	Manufacture or development of controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, biological weapons, depleted uranium, incendiary weapons and white phosphorous), including delivery platforms and munitions for the full weapon along with key parts or services.	0% or more of issuer revenue
<b>Weapons (Military - Conventional)</b>	Production of military conventional (not controversial) and civilian weapons.	5% or more of issuer revenue

<sup>3</sup> The involvement threshold is calculated using the total gross amount of revenue generated by the sale of goods or services from normal business operations.

## 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 rated on a broad range of ESG factors shown in the table below.

Issuers rated below an acceptable threshold, as determined by Perpetual, will not be considered for investment by the Fund.

To administer the ESG Exclusionary Screen, data is provided by one or more third party providers to assist in determining the issuer's management of, and performance against, each relevant ESG theme.

The data is based on proprietary research and publicly disclosed representations from companies. Thus, the data provided may not be a complete representation of a company's involvement in a particular ESG Issue and may include estimates.

Environmental	Social	Governance
		
<ul style="list-style-type: none"><li>• Energy transition</li><li>• Environmental performance</li><li>• Products and services environmental impact</li></ul>	<ul style="list-style-type: none"><li>• Human capital management</li><li>• Workplace health and safety (WHS)</li><li>• Human rights, labour rights, and modern slavery</li><li>• Customers and product responsibility</li></ul>	<ul style="list-style-type: none"><li>• Stakeholder relations</li><li>• Ethical conduct</li></ul>
<h3>United Nations Sustainable Development Goals<sup>3</sup> (UN SDGs)</h3> <p>Products and services that either contribute to, or detract from, the UN SDGs grouped under six themes - energy &amp; climate change, clean water and sanitation, protection of ecosystems, food and nutrition, good health and wellbeing, and sustainable cities and communities.</p>		

For more information about the ESG exclusionary screen including the measures used to rate companies, please refer to the Product Disclosure Statement.

## Stage 3: Sovereign exclusionary screen

The Fund applies a Sovereign Issuer exclusionary screen as the Fund may invest in the securities of sovereign (government and government-related) issuers and may include semi-sovereign entities. An alternative screening process applies to these sovereign issuers to determine their suitability for investment by the Fund. These sovereign issuers are screened using scoring on ESG factors from indicators including:

- **World Bank Worldwide Governance Indicators (WGI)<sup>4</sup>** – 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)<sup>5</sup>** – perceptions of business people and country experts of the level of public sector corruption.

Sovereign issuers determined by Perpetual to score 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.

<sup>4</sup><https://www.worldbank.org/en/publication/worldwide-governance-indicators>

<sup>5</sup><https://www.transparency.org/en/cpi/>

## Divestment

Companies are assessed against each applicable 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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