Perpetual Asset Management Australia

ESG Report 2025

Environmental, social and governance

Trust is earned.

Perpetual

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Foreword

I am pleased to present Perpetual Asset Management Australia's (PAMA) ESG Report for 2025. This report showcases the actions we have taken during the year and the outcomes we have delivered in addressing and managing environmental, social and governance (ESG) issues across our investment portfolios.

PAMA has a longstanding commitment to ESG principles, joining the UN-supported Principles for Responsible Investment (PRI) in 2009, not long after it was formed in 2006. We acknowledge the growing focus globally and from our clients on the importance of ESG and this year we have taken additional steps to continue to improve our approach.

As an active manager, our investment teams assess ESG factors through detailed bottom-up research and incorporate these factors into the investment research and decision making process.

A fundamental belief underpins this analysis – good governance is critical at all our investee companies – this is a key prerequisite for us to consider allocating client capital. Our deep experience in the Australian market and well-resourced investment teams allow us to probe deeper and prioritise key factors we believe are most important. Similarly, when it comes to environmental and social issues, we analyse on a bottom-up basis what issues the company is exposed to and whether any of these factors present risks to the investment's current or future financial performance. The issues will vary across industries and sectors, with key ESG risks including but not limited to climate change, human capital, supply chain, and corporate conduct.

Since we set up our first Ethical SRI Fund in 2002 (now named Perpetual ESG Australian Share Fund), we have been managing money specifically on behalf of responsible investors for two decades and have continued to evolve the suite of dedicated ESG investment strategies since that time.

This report is intended to provide our clients and stakeholders with more information on PAMA's approach to ESG issues and to highlight the key activities we have taken over the past year to further embed ESG into our investment process. Our approach is founded on the belief that ESG issues, risks and opportunities can impact the long-term investment performance of our clients' portfolios and our funds. Our active, fundamental process is focused on identifying and analysing these issues and incorporating them into investment decision-making. We hope you find the report of value.

Amanda Gillespie

Chief Executive
Perpetual Asset Management Australia

About Perpetual

Perpetual Group is an ASX-listed company (ASX:PPT) headquartered in Sydney, Australia, consisting of 11 leading brands across three distinct businesses: asset management, wealth management and corporate trust. Through these businesses, we aim to protect and grow our clients' wealth, knowing that by doing so we can make a difference in their lives.

Perpetual's purpose:

To create enduring prosperity for our clients .

Perpetual Asset Management Australia (PAMA)

As an asset manager we provide a range of investment management services to institutional, wholesale and retail investors. We are a trusted, dynamic, active manager, offering an extensive range of specialist investment capabilities designed to meet the evolving needs of our clients across the globe.

This report covers investment management activities[1] across Perpetual Equities, Perpetual Credit & Fixed Income and Perpetual Multi-Asset, to the extent they employ these capabilities. The investment activities of other investment management capabilities and businesses within the Perpetual Group are outside the scope of this report.

What ESG means to us

- **We focus on improving the investment outcomes of our clients**
- **Improving ESG practices has broader benefits to our stakeholders and society**

Our policies – what we believe

Our Perpetual Australian Equities and Perpetual Credit and Fixed Income **Responsible Investment Policies*** apply to our employees responsible for making active investment decisions, including investment analysts and portfolio managers. It is our policy that consideration of ESG factors is incorporated into our investment analysis, decision making and ownership practices.

Perpetual Australian Equities and Perpetual Credit & Fixed Income's **Principles of Internal Governance and Asset Stewardship*** provides information on our approach to investing, governance and asset stewardship, based on relevant internal governance and stewardship standards.

At PAMA, our duty to our clients requires us to seek to achieve the objectives of our investment funds. Objectives normally include achieving the investment returns over specified time periods.

We satisfy the obligations by employing a range of investment techniques. While traditional financial measures are important considerations, ESG factors can influence a company's investment performance.

Our investment managers consider those ESG risks that are determined to be a factor that may impact the current or future financial performance of the company.

We are also aware of, and encourage, the broader benefits that improved ESG practices can bring including:

- Higher standards of ethical business conduct;
- Increased market efficiency;
- Sustainable environmental management for the use of future generations;
- Improved outcomes for company stakeholders including employees, customers, suppliers and the broader community; and
- Ultimately a more cohesive and fairer society.

We believe that if the investment management industry can help promote more sustainable economic growth, this should translate into higher and more consistent investment 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.

For more information see www.perpetual.com.au/asset-management/institutional-investors/responsible-investing/

* For more information on our approach to ESG see www.perpetual.com.au/asset-management/institutional-investors/responsible-investing/

There are foundational elements of our approach to responsible investing which underpin our investment activities:

What we believe

- We believe ESG risks and opportunities impact the long-term investment performance of our clients' portfolios and our funds
- We believe that, aligned with being active managers, being active stewards of our clients' capital can improve the investment outcomes for our clients, including in regard to ESG issues
- We believe that improving ESG practices can have broader benefits, like improved outcomes for our investee organisation's stakeholders and broader society
- We believe that some of our clients wish to align their investments with additional ESG principles or values
- We believe our success as a business is dependent on a sound approach to ESG within our own business.

What we do

- We integrate consideration of ESG issues into investment analysis and decisions making within investment portfolios where these issues are assessed by Perpetual Australian Equities personnel or Perpetual Credit and Fixed Income personnel to be relevant to the current or future financial performance of an investment^
- We engage and advocate for positive change on relevant ESG issues where we can have influence with our investee organisations and policy-makers and we believe it is in the best interest of our clients
- We utilise our shareholder rights to vote at company meetings and lodge or support shareholder resolutions where appropriate
- We join industry and other collaborative initiatives with other like-minded investors to help achieve our ESG goals
- We disclose our approach to ESG to our clients and other stakeholders
- We offer specialist ESG investment strategies that incorporate additional ESG considerations to meet the various investing principles or values of our clients
- We implement appropriate ESG principles within our own business.

^For further information on how we integrate ESG factors into our investment decision making process, refer to our Perpetual Australian Equities Responsible Investment Policy 2024 and Perpetual Credit and Fixed Income Responsible Investment Policy 2024, available via: www.perpetual.com.au/4a8415/globalassets/_au-site-media/01-documents/04-group/03-sustainability/2024/perpetual-australian-equities-responsible-investment-policy-2024.pdf and www.perpetual.com.au/4a8414/globalassets/_au-site-media/01-documents/04-group/03-sustainability/2024/perpetual-credit-and-fixed-income-responsible-investment-policy-2024.pdf

What we do in practice

ESG Integration

It is our policy that investment managers should incorporate ESG issues into investment analysis and decision-making[2] where relevant and possible to each investment capability.

In enacting this policy, ESG will be relevant to our fundamental, active investment capabilities where these issues are assessed by Perpetual Australian Equities and Perpetual Credit and Fixed Income personnel to be a factor that may impact the current or future financial performance of an investment. 'Incorporate ESG issues' typically refers to an analysis of:

- What ESG issues the investment is exposed to and whether any of these factors present risks to the investment's current or future financial performance;
- What impact ESG issues are likely to have on the investment's prospects; and
- How well ESG issues are being managed by the company, and therefore how likely the possible impacts are to occur.

Investment opportunities of an ESG nature are also considered as part of our normal investment activities in Australian equities and credit and fixed income.

ESG integration in Australian Equities

We use a variety of ESG incorporation tools and processes to implement this policy, for example an ESG integration tool that we have developed called the 'ESG Workbook', which draws together both internal and external research using qualitative and quantitative data to highlight a company's ESG risks and issues. This tool provides the portfolio manager with information to assess as part of their investment decision-making process whether these factors may have an impact on the current or future financial performance of the company. Examples of ESG related information captured in the tool include the company's environmental policy, worker health and safety policy and corporate governance. Gaining a greater understanding of the modern slavery risks in supply chains facing our portfolio companies was a particular focus over 2025.

Corporate Stewardship in Australian Equities

It is our policy that investment managers that have influence as a shareholder/asset manager have a duty to use this influence in order to achieve better investment outcomes over the long term ("corporate engagement").

From an ESG perspective this means encouraging the Boards and management of investee companies:

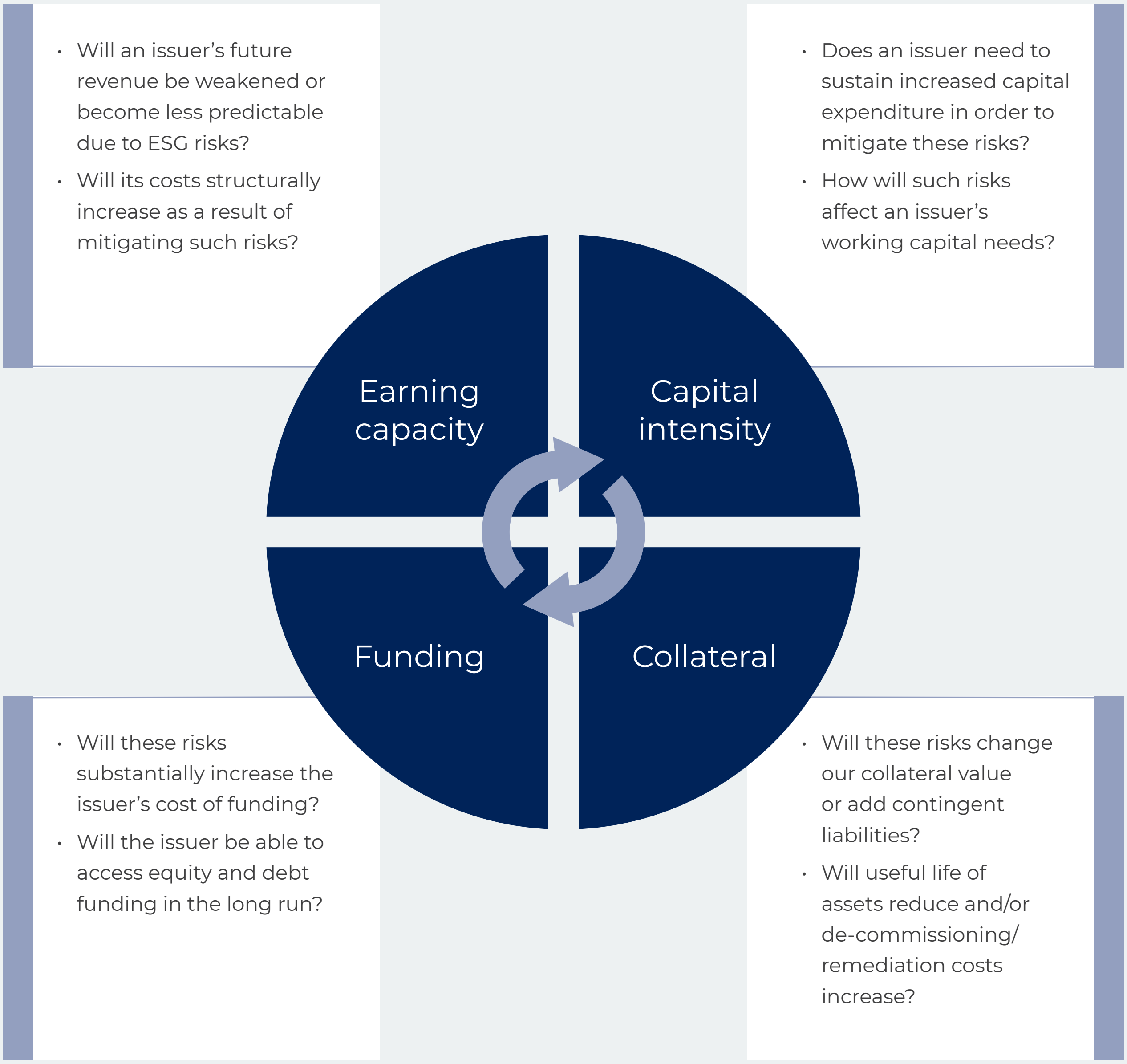
- To have the processes and systems in place to identify and manage ESG risks effectively that may impact the current or future value of the company
- To be transparent, honest and accountable, which includes providing the level of disclosure necessary for informed investment decision-making, and
- To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

ESG integration in Credit and Fixed Income

Our Credit and Fixed Income Team has designed and implemented a process to systematically assess how ESG risks may affect an issuer's credit profile. The ESG Risk Process consists of three steps within our credit research issuer review process for Corporate (including financials) issuers; namely assigning an ESG Risk Score, periodic ESG Risk Score review, and ongoing ESG risk monitoring. The ESG scores provide a clear, consistent and comparable assessment which provides additional focus on ESG risk factors and is a signal to portfolio managers on how these factors may affect an issuer's credit profile.

This acts as a tool to help portfolio managers manage credit risk in their portfolios and incorporate these risks into relative value pricing considerations. The following diagram shows our view of ESG's impact on our credit issuers:

ESG Impacts on Credit



Recent ESG highlights

The Perpetual ESG Australian Share Fund received its Morningstar Medalist Rating™ of 'Gold' as of 11-12-2024. The Perpetual ESG Australian Share Fund and Perpetual ESG Credit Income Fund maintained a 'Recommended' rating with research houses Lonsec and Zenith^.

Perpetual was nominated for the 2025 Zenith Fund Awards 'Sustainable and Responsible Investments – Income' award as well as the 2025 Morningstar Australia Awards for the Fund Manager of the Year (Sustainable Investing) for the Perpetual ESG Credit Income Fund^.

In late 2024, the Australian Equities team created an ESG analyst role in the Proprietary Research Team, reporting to the Head of Proprietary Research. The role was created to further strengthen the incorporation of ESG issues into the teams' research, and to provide support to the analysts and portfolio managers in their incorporation of ESG issues into their stock coverage and portfolio construction.

The Proprietary Research team is building out an ESG research data base for our proprietary ESG data. This will allow for increased ESG analysis and more detailed insights, at a whole of investment universe, sector and portfolio levels.

Continued to identify material investment risks and opportunities from climate change within our Australian equity portfolios, including:

- Proprietary deep-dive research into decarbonisation pathways and emerging technologies to assist in Australia's energy sector transitioning to net zero, see page 10 for additional research themes.
- Expanded climate portfolio reporting to portfolio managers.

In FY24, Perpetual Group continued to develop our approach to greenhouse gas (GHG) emissions reporting for our operations and the financed emissions from our equity investment portfolios at a Group level, as highlighted in the Sustainability Report 2024*.

^ Refer to the Morningstar, Lonsec and Zenith disclaimers on page 23 for more information.
* Refer to www.perpetual.com.au/4a6073/globalassets/_au-site-media/01-documents/04-group/03-sustainability/2024/perpetual-group-sustainability-report-fy24.pdf for more information.

ESG themes for 2025

- **Australian corporate ESG: Back to basics amid political uncertainty**
- **Energy transition: Progress meets pragmatism**
- **Safety: Mixed results amid persistent challenges**
- **Labor markets: Stabilisation with an increased focus on modern slavery risks**
- **Technology and governance: AI integration accelerates**

The first half of FY25 marked a shift in how Australian corporations approach Environmental, Social, and Governance (ESG) priorities, with companies adopting a more pragmatic "back-to-basics" strategy focused on material issues rather than peripheral concerns. This transformation came as businesses navigated the rapidly changing US policy landscape following Donald Trump's election win in November 2024, and his inauguration the following January. The Australian Federal Election in May 2025 added to the uncertainty, but the resulting landslide victory for the incumbent Labour Government ensured significant policy continuity.

The energy transition story started to diverge for many companies. While some companies achieved notable milestones — Santos' Moomba Carbon Capture and Storage project becoming fully operational, BlueScope's New Zealand Steel electric arc furnace installation progressing toward 2026 operation, and AGL expanding its renewable development pipeline to 7.0 GW — clear signs of pullback are emerging.

Worley exemplified this shift, reporting that its pipeline shows "early signs of a shift to Traditional and Transitional opportunities" despite $3.5 billion in sustainability-related revenue. Fortescue Metals Group reduced energy capex by 20%, while several companies pushed out emissions targets, including Santos moving its scope 2 net zero target from 2040 to 2050 due to grid decarbonisation delays.

Despite these headwinds, decarbonisation targets remain largely on track, with a large majority of companies maintaining or achieving targets versus relatively few experiencing delays. One area of concern is the increasing reliance on carbon offsets over actual decarbonisation, particularly in oil, gas, and coal mining, raising questions about achieving the 40Mt GHG reduction required by Australia's Safeguard Mechanism by 2030.

Workplace safety has delivered mixed results. While more companies in Perpetual's investment universe improved overall injury rates, fatalities rose significantly to over two dozen across covered companies. Notable incidents included Rio Tinto's four fatalities from the Diavik plane crash, and single fatalities at companies including Aurizon, Cleanaway, Origin Energy, and South32. The resources sector showed material improvements in injury rates across most major players, with building materials and retail sectors continuing positive safety trends. However, energy companies like Woodside experienced notable deterioration, with the Total Recordable Injury Frequency Rate (TRIFR) rising to 2.44 from 1.86 the previous year.

Labor conditions emerged as a key theme, with companies reporting improved availability and staff retention as market conditions normalised. BHP noted that inflationary labour pressures are easing in Australia, with wage growth moderating after peaking in the first half of 2024. Workforce optimisation became prevalent, with several companies reducing headcount through restructuring and productivity initiatives. Notably, companies reported significant productivity gains — Australian Clinical Labs achieved an additional 12% year-over-year improvement, while McMillan Shakespeare saw a 15% increase in customers per full-time equivalent employee,year on year, through a new digital application which provides customers with greater control and convenience.

Many companies with offshore operations and supply chains increased their due diligence and reporting on modern slavery risks in their supply chains, a positive step given the prevalence of ASX-listed firms with supply chains in high-risk Asian geographies.

Artificial Intelligence emerged as a defining governance theme, with an increasing number of companies implementing AI initiatives across operations. The focus at this early stage of adoption have centered on three key areas: productivity

Leading examples in 1H25 include Temple & Webster quantifying $4 million annual cost savings from AI-powered customer support, while Coles deployed AI for theft prevention at self-serve checkouts and optimised store layouts. AGL now processes over 11 million automated transactions annually through AI, while TPG's cyber defence lab developed AI tools detecting over 95% of SMS scam messages.

Notably, many companies emphasised responsible AI governance, with the Commonwealth Bank focusing on responsible AI frameworks while launching AI-based fraud detection systems and BlueScope Steel implementing a Responsible AI Framework owned by the Chief Digital and Information Officer, a CEO direct report, that provides guardrails and standards for safe AI adoption.

As Australian corporations navigate this evolving ESG landscape, the shift toward materiality-focused approaches suggests a maturing market that prioritises substance over symbolism, positioning companies for sustainable long-term value creation while maintaining stakeholder trust.

Proprietary thematic ESG research

At PAMA we utilise both external and internal ESG research sources. External ESG research is provided by specialist firms including MSCI ESG Research, proxy advisors and other sources. Internal research resources include our Australian Equities and Credit & Fixed Income teams.

Over 2025 we produced internal research on a number of ESG themes including:

Transition to net zero economy

Deep-dive research into decarbonisation pathways and emerging technologies to assist in Australia's energy sector transitioning to net zero.

Artificial Intelligence

Analysis of current and potential future impacts on our investment universe.

Modern Slavery in Supply Chains

Understanding the linkages and areas of modern slavery risk in supply chains, especially in high-risk geographies.

Cyber Security

Cyber security risks continue to grow, with incidents increasing in frequency and cost. Supply chain software links has also been a focus.

ESG strategies and product

In addition to integrating ESG across PAMA products, we also offer dedicated ethical equities, credit and multi-asset investment strategies. These strategies have more explicit ethical objectives and are designed for clients who want to align their investments with their values. These strategies include:

Perpetual ESG Australian Share Fund – aims to provide long-term capital growth and regular income through investment predominantly in quality Australian shares that meet Perpetual's ESG and values-based criteria and to outperform the S&P/ASX300 Accumulation Index (before fees and taxes) over rolling three-year periods.

Perpetual ESG Credit Income Fund – aims to provide regular income and consistent returns above the Bloomberg AusBond Bank Bill Index (before fees and taxes) by investing in a diverse range of income generating assets that meet Perpetual's ESG and values-based criteria.

Perpetual ESG Real Return Fund – a multi-asset fund that predominantly invests in a diversified portfolio of assets. The Fund applies ESG screens to Australian and international shares and fixed income and credit asset classes.

Perpetual ESG Australian Share Active ETF (ASX: GIVE) – a unit class in the Perpetual ESG Australian Share Fund that is quoted and traded on the ASX as an Exchange Traded Fund (ETF). Invests predominantly in quality Australian shares that meet Perpetual's ESG and values-based criteria.

ESG engagement and advocacy

- **PAMA has a long track record as an active shareholder in the Australian market**
- **Company engagement is an integral part of how we invest – we do not outsource it**
- **We engage based on our client interests first and foremost**
- **We maximise our influence by engaging for all our portfolios where possible and not on a fund-by-fund basis**
- **Unsuccessful engagements can be escalated through a variety of means**
- **We may also engage and advocate with other parties (for example government entities) on ESG issues where appropriate**

Our policy is that investment managers should use their influence as an asset manager in order to achieve better investment outcomes over the long term.

ESG shareholder engagement

Due to our significant presence in the Australian equities market and our philosophy as an active shareholder, PAMA has achieved positive engagement outcomes for our investors over a long period.

Rather than trying to change every company, or target every issue, we focus our engagement efforts on quality companies where we have, or are considering, a financial interest. Where it is in the interest of our clients for us to engage, we seek an open and positive dialogue with the companies in which our portfolios invest. From time to time Perpetual may intervene when there are significant concerns about a company's publicly available strategy, performance, management, remuneration, governance or approach to other ESG issues.

We seek to be constructive in all our engagements and have a uniform goal – to improve investment outcomes for all shareholders.

Engagement is therefore not a separate activity, but an integral part of our approach to investing.

As an active manager, we may choose to engage with the management and/or Board of a company or use other means to raise ESG and other concerns and encourage more focused management of the issue(s) where we believe it is in the best interest of our clients.

This is why engagement activities are conducted by the investment team – the same team that makes investment decisions – and is not outsourced. Engagement, like proxy voting, is an important tool for an active investor, to be utilised to the fullest extent to achieve the best results for our clients. We believe this integrated approach adds weight to our engagement efforts – companies are more likely to change if this message is communicated directly by the individuals who decide which companies we will invest in and how we will vote.

Rather than engaging and voting differently on a fund-by-fund basis, where possible we pool our total assets under management invested with each company to maximise our influence. See page 17, 'Proxy voting' for further details.

If a satisfactory outcome on concerns raised cannot be achieved through active dialogue with a company, we may choose to escalate the matter. To this end our investment managers can utilise a number of forums and actions to exercise their influence, including:

- Expressing concerns to the company's management directly;
- expressing concerns through the company's advisers;
- meeting with the Chairperson, senior independent director or with other independent directors to express concerns directly;
- exercising our voting rights regarding management resolutions at shareholder's meetings;
- engaging in public intervention (use of a public forum to drive change); and/or
- full or partial divestment.

Engagement with companies will always be conducted in accordance with applicable laws and regulations and our policies.

We also engage with regulators and Government on relevant ESG issues.

ESG bondholder engagement

The Perpetual Credit and Fixed Income team also 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 ("corporate engagement").

From an ESG perspective this means encouraging investee issuers' management and boards:

- To have the processes and systems in place to identify and manage ESG risks effectively that may impact the current or future value of the issuer
- 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 issuer is managed in the long-term interests of stakeholders (which includes sustainable business practices).

Analysts also engage with credit rating agencies on ESG matters related to specific sectors and companies.

ESG collaborative engagement

Members from PAMA's Investment Solutions and Oversight team continue to participate within the Responsible Investment Association Australasia's (RIAA) Nature Working Group and Leader's Subgroups, collaborating to address nature-related financial risks and expand opportunities in Australia and Aotearoa New Zealand. Participation in the Leader's Subgroup seeks to build awareness and education for investors, companies and fellow RIAA members to engage and understand some of the key international nature-related developments such as the Taskforce on Nature-related Financial Disclosures (TNFD).

ESG engagement examples

Perpetual Australian Equities case studies

ESG theme:

Climate change

Investment team: Australian Equities
Engagement details: This energy company has historically had significant emissions totals. They published updated emissions reduction targets in late 2020, aiming to reduce Scope 1 & 2 absolute emissions by 26-30% on 2020 baselines by 2030, and to have Scope 1&2 absolute emissions be net-zero by 2040. This target looked optimistic at the time they were announced, given the previous emissions profile of the company. The company set-up a new business division to focus on facilitating the decarbonisation of operations and to provide decarbonisation solutions to clients. PAMA engaged with the company constantly to understand this business and the path to achieving the revised net-zero goals. This included 1-on-1 meetings, site visits and continued communications to further PAMA's understanding of the company's strategy and approach. This was especially relevant given the company was implementing technology that had previously not been overly effective when implemented by other companies. The company was able to provide high levels of detail to PAMA and the implementation of new technology has so far been a success. Our engagement not only provided clarity on the company's strategy, but also allowed PAMA to begin valuing the new business before the rest of the market.

ESG theme:

Corporate Governance

Investment team: Australian Equities
Engagement details: Management succession is vital for any company, particularly for this well known Australian retailer given controversies related to its previous CEO.

PAMA has noted the following:

1. Board has been largely invisible during recent media storms.
2. CEO resignation and notice period (over 6 months from announcement until retirement) probably hasn't been as helpful as hoped. Succession transition not well handled.
3. CEO designate is an internal appointment (generally a good thing) but unknown to most (market, staff of main enterprises, supplier base etc); publicly unproven in commercial activities and not directly experienced in the company's core food operations. There is a clear sense that this appointment has been rushed; and not a match for the size and opportunity inherent to this CEO role.
4. Logical possibility that other divisional heads will become despondent as a consequence of this appointment. Overall staff morale likely low.
5. All operating divisions are currently in varying degrees of turmoil and strategic upheaval, something an internal appointment would normally mitigate against.
6. Much of the rebuild and investment occurring over past decade have suddenly disintegrated and become discordant with overriding strategy now unclear perhaps.
7. Where is Board accountability in all this where a key requirement is hiring and firing of CEO?

PPT have engaged with the company on more than one occasion regarding the direction of the company. We have tried to impart a sense of urgency to management to recognise and address.

Perpetual Australian Equities case studies

ESG theme:

Human Capital Management

Investment team: Australian Equities

Engagement details: This small-cap alternative energy generator talks to its high-quality safety performance within its presentations and annual reporting. However, it does not include any injury/safety statistics such as TRIFR or similar. PAMA has engaged with the company on this issue. We have found the management to be impressive during our engagement with this company and are confident they will adequately resolve this reporting issue.

ESG theme:

Climate change

Investment team: Australian Equities

Engagement details: This operator and developer of housing communities doesn’t currently have a sustainability report and provides no disclosure of emissions and power consumption. As this company grows in size this is an area we will engage with the company on to seek improvement, however given the current market cap (less than $1b), this is not currently a pressing issue.

ESG theme:

Human Capital Management

Investment team: Australian Equities

Engagement details: This company, which operates in the travel and tourism sector, publishes Modern Slavery Statements but compliance assessments indicated limited details on due diligence processes. Given the global supply chain of this company, we support more due diligence being carried out on the supply chain, and for more compliance audits. The reputational damage from not doing this, should problems be uncovered, would be significant and costly to remedy.

Perpetual Credit and Fixed Income engagement and case studies

ESG theme:

Corporate Governance

Investment team: Credit and Fixed Income
Integration details: The Managing Director of this mining company was allegedly involved in personal tax fraud and misuse of company's assets. The issues were known to the board for some time without informing the market and its investors, leading to a deterioration of its governance credibility.
As a result, we raised the company's governance score to high (from medium) and decided to hold any further investment in this company's debt instruments until meaningful improvements to its corporate culture and governance were made.

ESG Themes:

Corporate Governance

Social license to operate

Investment team: Credit and Fixed Income
Engagement details: A financial company has historically had a strong risk framework, experienced risk group executive and strong risk culture. This amongst other factors had resulted in our Credit ESG Risk Score of 'Low'. However, in March 2023 this score was reduced/elevated to 'Medium' on the back of deteriorating risk governance 'G'. This was due to several factors including notable change and appointment of senior executives (including for the first time a group executive without extensive risk or financial control experience), and increased staff turnover within the risk group. This was at a time when the complexity of the group and associated risks remained elevated, compared to industry trends of simplification, and increased experienced resourcing. The ensuing two years saw multiple risk incidents and fines.

Whilst generally the financial company has sound governance and risk practices, we had observed they had notably weakened, noted as such, and factored that into our relative value decisions and position sizing. We also discussed this repeatedly with ratings agencies and challenged their views.

ESG Theme(s):

ESG Disclosure

Investment team: Credit and Fixed Income
Engagement details: An ASX-listed company did not provide an adequate level of information by either avoiding our questions or providing very succinct answers, therefore failing their transparency and reporting responsibilities to one of their bondholders. We engage with the company highlighting that, as bond investors, we require a similar degree of transparency and responsiveness as equity investors. The company responded positively by offering access to relevant staff and answering our questions thoroughly.

Proxy voting

- **Like engagement, voting is a valuable tool for an active investor like PAMA and is not outsourced**
- **We will support resolutions that are in our clients' best interests**
- **We consider a company Board's effectiveness holistically, rather than box-ticking**
- **Individual company directors should be held to account for poor company stewardship**
- **Quality company management produces better outcomes for shareholders but is not always easy to find – executive remuneration is important in attracting and retaining good management**
- **It is important for shareholders to voice their concerns at AGM time where remuneration structures or outcomes are excessive or otherwise misaligned with shareholder interests**
- **We assess shareholder resolutions through the same process as company resolutions – we consider carefully what is good for shareholders and therefore our clients**

Proxy voting

Perpetual Australian Equities exercise our voting rights over all shares we own where possible, carefully considering our vote to ensure it is made in our clients' best interests – supporting resolutions that will maximise shareholder value.

While we use research from proxy advice firms to help inform our views, we will always vote independently and sometimes differently to their recommendations, and those of company management, if we feel it is necessary to achieve our clients' goals. We take a pragmatic approach to voting based on our deep knowledge of individual companies and their management and Boards, gained in some cases over many years as a shareholder, rather than a rigid one-size-fits-all approach.

Much like our engagement approach, we view proxy voting as a valuable tool for us as an active investor and do not outsource it. It is our policy that voting at company meetings is carried out by us on all resolutions[3] where Perpetual Australian Equities has the voting authority and responsibility to do so, except where it is not practicable due to particular regulatory requirements or other constraints or considerations. This may include Power of Attorney, share blocking or other practical restrictions that apply in certain markets. We may Abstain from voting if appropriate (for example if we had divested our shareholding prior to the shareholder meeting).

Where possible, Perpetual Australian Equities does not apply different voting decisions to different equity portfolios (or "Funds"). To maximise the influence of our vote and for practical reasons, we vote consistently across all Funds where Perpetual Australian Equities retains the right to vote (subject to the practical and other constraints listed above). This means that we apply the same voting decision taken on every (listed company meeting) resolution to our entire shareholding[4] across our Funds.

Voting case studies

ESG	Theme	Theme detail	Management recommen-dation	Vote decision	Vote rationale
G	Board related	Election of Directors	For	Against	PAMA was dissatisfied with the Chair's performance during a joint takeover bid. We believe the chair failed to appreciate the critical responsibility the company has in facilitating the energy transition. This included passing this to foreign investors without the history or relationship with Australian stakeholders. As Chair of an ASX 20 company, a research institute, a cancer charity and several other directorships, the Chair has other heavy and diverse responsibilities. After almost a decade on the board, we think it is time for renewal of board leadership.
G	Board related	Election of Directors	For	For	We believe that finding a director with an appropriate skill set is more important than reaching a Gender quota alone. This proposed director was previously COO of a telecommunications business and has experience in running wireless business solutions. PAMA believes he has the right skill mix to assess future M&A that this health/tech business will likely undertake in their plans to expand into the Saas area to build out their ecosystem.
G	Board related	Election of Directors	For	For	As one of just two board members with Public Policy backgrounds, one of three with Legal experience and a member of the remuneration committee, this director is an important contributor to board operations. With other directorships of REITs, this directors workload is not extreme. She also contributes to the gender diversity of the board.
G	Compen-sation	Remuneration Report (Retrospective)	For	Against	The reduction in 2024 STI related to the supply chain disruption is not commensurate with the significant disruption to operations and impact on shareholders. Even if, as management argues, the capital raise was due to the supply chain disruption, the co-incidental timing impacted the valuation at which the capital raise occurred. Furthermore, resetting forward-looking ROCE hurdles to only 5-10% rewards mediocre performance, allows management to side-step the impact of the raise on returns and reduces focus on leveraging an improved operating environment to maximise returns. Instead, we fear that these arguably low ROCE hurdles encourages further poor capital allocation decisions. Finally, the start date for performance rights has been set just post the capital raise, giving management the benefit of the impact of the raise on the company's share price.
G	Board Related	Election of Directors	For	Against	PAMA is of the view that board oversight has been poor by allowing the CEO to sell stock ahead of a material update to the market. In addition, capital management decisions to sell the treasury stock have been disappointing.

ESG	Theme	Theme detail	Management recommen-dation	Vote decision	Vote rationale
G	Compen-sation	Remuneration Report (Retrospective)	For	Against	PAMA identified a number of issues that created concern regarding this banks non-financial risk performance. These issues related to: 1. Inaccuracies in data reporting of secondary bond trading to AOFM which had occurred for a number of years and had been undetected until recently; 2. Poor behaviour in the Sydney markets trading room; and 3. ASIC's investigation of a 2023 AOFM bond issue which was managed by this bank. The first two of these has led to APRA increasing its operational risk capital add-on from $500M to $750M. This has occurred while other banks have been allowed to reduce or remove their capital add-ons. The board has responded by reducing both annual and long-term incentives for senior executives, with the greatest reductions experienced by the CEO, the head of the Institutional Bank and the CRO. Nevertheless, they still received between 50% and 65% of their target annual bonus. The LTI reduction was only 10%. We felt it appropriate to vote against the remuneration report for these reasons. The board set the risk modifier at 90% (indicating a 10% reduction from the 100% target), which is favourable to executives in view of the company's non-financial risk shortcomings. This is concerning because it indicates the favourable view that the board could take when evaluating performance hurdles for the vesting of restricted rights.
G	Compen-sation	Remuneration Report (Retrospective)	For	For	The incoming Executive Chair's fixed remuneration of $1.9m is a big step up on the prior CEO's ($1.25m) and high vs peer companies. Whilst there's no STI, he has an LTI at 250% of TFR (prior CEO had an STI at 100% plus an LTI at 150%). Whilst the package is big, the new Executive Chair is very well credentialled and has a good reputation, having most recently been CEO at a much larger business. This company has been through a very challenging period and the execution of their BTB strategy has been poor. The business is fundamentally solid but is vulnerable at the moment and needs strong leadership to shore up supplier relationships and retention of front-line staff. There are also some changes to the STI structure from FY23 including replacing the ROIC measure with a Revenue growth measure which makes sense given ROIC is already a key measure within the LTI plan. The TSR and ROIC hurdles for the LTI look reasonable. All up, given the circumstances, we are comfortable voting For the Remuneration Report.
G	Compen-sation	Approve Director Retirement Payment	For	For	Given the amount of the retirement payment is not excessive, this director's extended tenure on the Board and the success of the company over this period, we are comfortable voting for this. Given the significant shareholding of the Chair and CEO we believe any payment such as this will be a result of a strong contribution to the Board over many years.

ESG	Theme	Theme detail	Management recommen-dation	Vote decision	Vote rationale
G	Compen-sation	Remuneration Report	For	For	We carefully considered the quantum of remuneration in both the current year, and for completeness over recent years. The company's approach to the remuneration report is complex in that FY24 outcomes relate to the FY23 financial year, however FY23 was a year of improved performance and stronger earnings. One would expect FY24 outcomes to not be as favourable. Whilst the quantum is high, it is not in our view sufficiently excessive to warrant voting against the remuneration report. Our view is that the strategic actions undertaken by management have been pleasing, and performance regarding many of the factors within the company's control, as opposed to those out of their control has been satisfactory. Remuneration should be viewed in that context. Remuneration in recent years has also included recognition and retention incentives which were issued in two tranches. Perpetual supported the first tranche in recognition of forgone incentives (impacted heavily by enforced lockdowns) and the importance of continuity through the COVID period. For the record Perpetual voted AGAINST the second tranche as it viewed the first tranche as adequate. For completeness we are undertaking a program of engagement with the company Chair post-AGM, focusing on further strategic objectives and amongst other things, some proposed improvements to the remuneration structure designed to enhance shareholder value. The response provided will be amongst considerations for next year's remuneration report, noting our stake is large enough to potentially cause a first strike if we view this as an appropriate course of action.
G	Compen-sation	Equity Grant	For	Against	Our concerns are the board's evaluation of the non-financial performance hurdle which determines vesting of the restricted rights and that only a 10% reduction in the restricted rights has been applied relative to the maximum opportunity.
G		Stock Option Grants	For	Against	In our view the options appear excessive, and will result in material dilution. Non-executive directors are being granted management-like options as well, which is not ideal.
E	SHP*:	SHP regarding transition plan assessments	Against	Against	This proposal deals with transition plans relating to climate change. Shareholders already have the ability to make our views known and this bank has a comprehensive climate change plan which is detailed in its 66 page climate report for 2024.

ESG	Theme	Theme detail	Management recommen-dation	Vote decision	Vote rationale
S	SHP*: Social	SHP Regarding Report on Affirmative Action Risks	Against	For	Additional disclosure concerning DEI risks is warranted.
G	SHP*: Governance	SHP proposal regarding mandatory director resignation policy	Against	For	Adoption could contribute to board accountability and ensure responsiveness to shareholder concerns.
E	SHP*:	SHP regarding transition plan assessments	Against	Against	This proposal deals with transition plans relating to climate change. Shareholders already have the ability to make our views known and this bank has a comprehensive climate change plan which is detailed in its 66 page climate report for 2024.

Footnotes

1 Except for certain quantitative and niche portfolios.

2 We also consider opportunities of an ESG nature in the course of our normal investment analysis.

3 Except for certain quantitative and other portfolios.

4 Except for certain segregated mandates where the client has elected to make the voting decision.

*Shareholder proposal

Find out more

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