Perpetual Private Direct Equities

Corporate engagement report

Trust is earned.

Perpetual

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Perpetual Private Corporate Engagement Report

Engagement policy

We believe it is our role as an investment manager to use our influence and shareholding to engage with the companies we invest in. We do this to advocate on behalf of our clients for improvements across a range of key environmental, social and governance (ESG) issues.

Purpose of policy
(why is engagement important to us)

As investment managers, we are stewards of our clients' capital with the responsibility to safeguard and grow the capital that is entrusted to us. Engaging with the companies we invest in is essential to promoting long-term shareholder value and positive corporate practices. Beyond the financial aspects of investee companies, environmental, social and governance (ESG) considerations can have a material impact on a company's value. We believe our duties extend to analysis of ESG factors and engagement with companies on ESG issues. We do this through an ESG framework that employs a variety of sophisticated tools including our corporate engagement policy.

Our desired outcome through engagement with senior management, company directors and other key stakeholders is to improve corporate ESG practices across the 18 Key Issues we have built our proprietary approach around.

Environment

- Waste management
- Biodiversity & land use
- Water stress
- Supply chain footprint
- Carbon emissions

Society

- Human capital welfare
- Diversity of workforce
- Privacy & data security
- Anti-modern slavery
- Product & customer safety
- Community relations

Governance

- Accounting standards
- Fair pay
- Tax transparency
- Business ethics & best practice
- Board
- Alignment

Impact

- Progress against each company's impact opportunity set

Scope of engagement

The scope of this policy extends to companies that are researched by the Perpetual Private Direct Equities Team and where an area of poor ESG performance or misalignment has been identified. This policy does not relate to companies held in external funds or selected by external fund managers.

Respect and trust should be built with all potential investee companies through regular meetings and discussions with the aim to understand the company, its operations, risks, opportunities, and strategic vision. Constructive feedback should be given to the company in a proactive manner that aligns with our fiduciary duty.

Our engagement will focus on issues material to a company's financial performance or long-term valuation. We aim to collaborate with the company to achieve beneficial outcomes for stakeholders. If material issues remain unresolved, we may divest our holdings or push for change through shareholder group proposals or proxy voting.

Engagement responsibilities

We believe the responsibility for ESG engagement should fall with those making the investment decisions: the analysts and portfolio managers. In our view, companies with strong ESG frameworks tend to operate more sustainably, carry less risk of stakeholder intervention and are more likely to build and sustain valuable brands and reputations. Thus, engagement on ESG is deeply embedded into our ordinary due diligence as part of our investment process. We have also found companies more likely to engage with the decision makers behind their large shareholdings, again putting us in a uniquely effective position for advocacy.

Equally important in the engagement and advocacy process is monitoring to ensure ongoing compliance and alignment. We do this through regular dialogue with senior management and other stakeholders as required. We seek a level of measurable accountability from the companies we invest in, allowing improvement over the duration of our holding period.

Escalation policy

If our attempts at engagement are ignored or material issues remain unresolved, we will escalate any matters of concern beyond corporate senior management teams. This may include contact with the company's board of directors or relevant regulators, the use of proxy voting or collaboration with other shareholders. At all times, we reserve the right to divest our position in any investment that refuses to engage on ESG matters.

Regulatory compliance (Corporations Act)

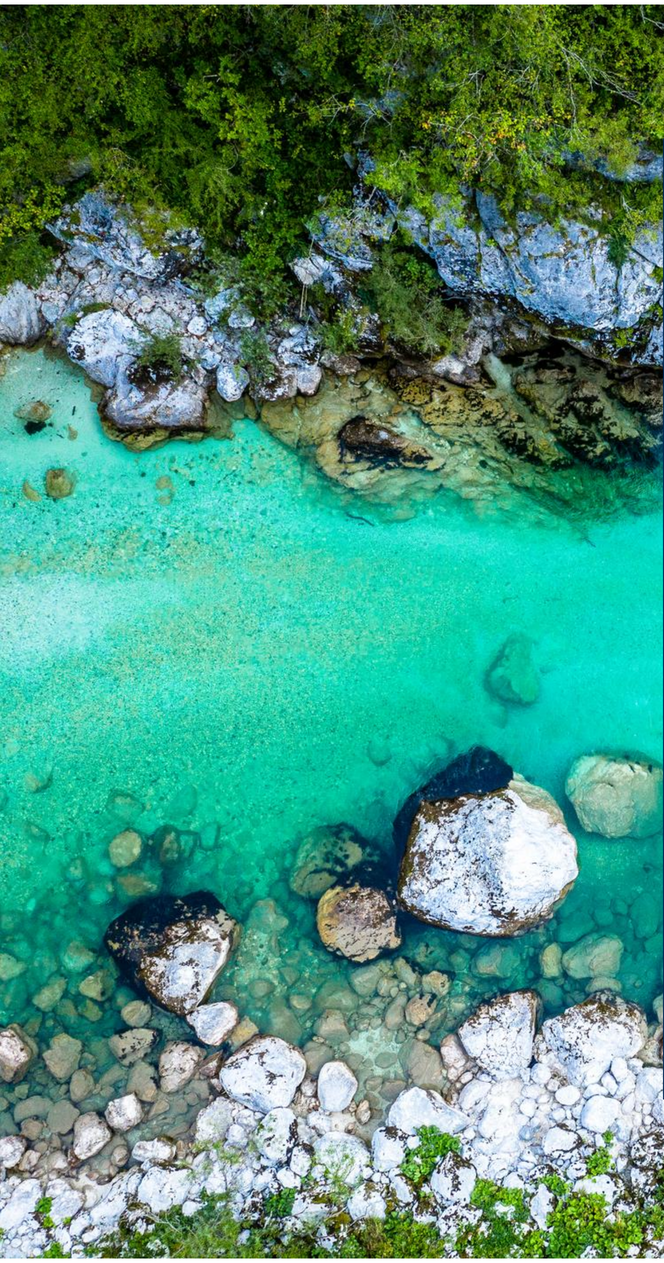
Any collaborations/memberships or commitments that help shape our engagement will always be conducted in accordance with the Corporations Act 2001 and in particular, in compliance with the insider trading provisions of the Corporations Act 2001.

Disclosure

It is our policy to regularly report on the key issues we are raising across our investee companies and the processes we are using to push forward our engagement strategy. We reserve the right to withhold the names of these companies and any stakeholders we may deal with as part of these processes. This is to protect the good faith nature of the working relationship we have with investee companies which is essential to our ongoing investment.

Case Studies

IPH, South32, Woolworths



IPH

Objectives

We reached out to IPH's (ASX:IPH) senior management team in 2023 as we were preparing to make an initial investment. At the time, IPH had been the victim of a cyberattack which we did not believe would be material to its earnings outlook but did raise questions about its risk management and governance. Our objective was therefore to ensure the proper precautions were being taken and that the security framework would be improved going forward to minimise the risk of future cyberattacks.

Engagement

Management were very receptive to our concerns around their risk management policies. They were forthcoming around areas where they believed IPH's framework had shortcomings. They agreed that following such attacks, these shortcomings must be addressed and governance must be strengthened.

Outcomes and monitoring

We were satisfied that IPH understood the seriousness of our concerns, which had also been voiced by several other large investors. We believed that management would resolve the fallout from the cyberattack and strengthen its risk management framework to reduce the chance of further attacks. We continue to monitor IPH's progress on this issue through regular contact with its senior management team.

South32

Objectives

In late 2023, we met with South32 (ASX:S32) as part of regular monitoring and relationship building. One objective of this meeting was to discuss South32's ongoing ownership of its Illawarra coal assets and express our belief as shareholders within our Core Portfolio and potential shareholders in our Responsible Investment Portfolio that a prudent divestment would both bring a financial benefit to current shareholders and attract new shareholders that currently avoid the company's carbon-heavy exposure.

Engagement

Management were receptive to views and while not discussing Illawarra directly, did acknowledge the pathway the company has been on to shift its portfolio of assets toward commodities critical to the energy transition. This has included divesting its other coal assets, acquiring and exploring for copper assets and undertaking studies on developing zinc and battery grade manganese projects.

Outcomes and monitoring

We have since welcomed the company's announcement in early 2024 that it has an agreement to divest its Illawarra asset to a reputable buyer. If the sale goes ahead, the company will be available for inclusion in the Responsible Investment portfolio. We continue to monitor its progress towards divestment of its fossil fuel exposures and intend to maintain ongoing engagement with management as part of our ordinary ongoing due diligence.

Woolworths

Engagement

We engaged with Woolworths via post-results analyst briefings where we had direct access to the senior management team. We brought to their attention that many investors (including ourselves) look through the corporate structure and still consider the company to have exposure to alcohol and gambling activities. Management was receptive to our views and assured us that it was Woolworths' intention to continue selling down its exposure to zero over time. We asked if they were willing to provide a timeline that they are willing to be held to but they declined.

Objectives

Following Woolworths' (ASX:WOW) demerger of its pubs and liquor store division, Endeavour (ASX:EDV) in 2021, it was still left with a large ownership stake in the business. Our objective was to engage with Woolworths to encourage it to sell down this stake. The rationale was that even though it was no longer directly engaged in the sale of alcohol and gambling, it was still an indirect beneficiary.

Outcomes and monitoring

Woolworths has gradually been selling down its ownership in Endeavour and now only owns 9% of the company. We commend this progress and continue to advocate that Woolworths sells down its remaining 9% stake in Endeavour as soon as is practicable. Our future engagement with Woolworths will monitor the progress of selling Endeavour as well as discussing the emerging market dominance issues that are surfacing in light of general cost of living pressures in Australia.

Engagement agenda for FY25

As part of our revamped engagement framework, the PP investment team meets periodically to discuss engagement opportunities across our investment holdings. This is a more systematic approach that is better aligned with our engagement goals and reduces the risk of poor ESG outcomes across the names that we hold. In addition, we intend to stratify our investment universe by key issues to highlight where engagement may make the biggest impact in the areas where Perpetual and our clients are most concerned. One such issue over the last several years has been anti-modern slavery. This is a group-wide focus and one which we intend to dedicate additional time to ensure companies are behaving ethically and managing risks around their labour supply chains.

Another key area of focus over FY25 will be the integrity and robustness of our ESG data feeds. We are continuously working with our data providers (EthosESG, FactSet and others) to ensure that the data we are using is both robust and complete. Good data allows us to support our discussions with corporates with observable metrics.

More information

1800 631 381

perpetualprivate@perpetual.com.au

perpetual.com.au/managed-accounts

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