

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 employs this same disciplined process, but with additional environmental, social and governance (ESG), values-based and sovereign 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 the issuer's performance on a range of ESG and values-based criteria.

To be included in the investment universe for the Perpetual ESG Credit Income Fund, issuers must meet Perpetual's initial credit investment criteria (quality filters) in addition to passing the Fund's screening process.

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

- an exclusion for involvement in activities based on values-based criteria, and
- a performance screen based on an evaluation of an issuer's overall performance on ESG criteria, and
- where applicable, a separate screening process for non-corporate (sovereign) issuers.

Perpetual has a dedicated Responsible Investments team, which is responsible for the screening process. The team draws on internal and other supplementary specialist research to determine the issuer's suitability for inclusion in the Fund. Screening criteria may change over time to account for emerging issues.

When assessing corporate issuers that are listed on equity exchanges (for example, the ASX), Perpetual utilises external research, provided by Moody's ESG Solutions, a leading global provider of ESG research.

Moody's ESG research methodology is comprehensive and has been developed over their 30-year history¹.

When assessing unlisted corporate issuers, Perpetual utilises a range of publicly available sources and research, and the media.

Additionally, the team may draw on external ESG research from other sources including RepRisk, a global research provider covering a broad range of ESG issues.

The screening process

Issuers² that have met Perpetual's broad quality investment criteria are then screened on a range of ESG and values-based criteria to determine their suitability for inclusion in the Perpetual ESG Credit Income universe and portfolio.

The screening process for the Perpetual ESG Credit Income Fund for corporate issuers considers both ESG performance and values-based criteria. This combined approach allows exclusions based on specific activities that conflict with the Fund's values-based criteria while also identifying the performance of issuers on a broader range of ESG criteria.

The ESG performance screening process includes a positive scoring element, which allows issuers demonstrating ESG leadership to be rewarded in the analysis.

A separate screening process for non-corporate (sovereign) issuers applies in the Perpetual ESG Credit Income Fund.

Perpetual 

Stage 1: Values-based criteria

The values-based criteria means not investing in companies or issuers that derive a material proportion (5% or more) of their revenue³ from:

- ▶ the manufacture or sale of alcohol or tobacco⁴
- ▶ the operation of gambling facilities or the manufacture or supply of gambling products
- ▶ fossil fuels (exploration and extraction)
- ▶ uranium and nuclear
- ▶ animal cruelty (cosmetic testing)
- ▶ genetic engineering
- ▶ pornography
- ▶ armaments (including weapons)⁴

Stage 2: ESG criteria

The ESG screen is the second screening stage, where issuers are scored on a broad range of environmental, social and governance criteria.

The negative and positive scoring criteria are outlined below.

Issuers are scored (both positively or negatively) on their approach to or involvement in the ESG criteria shown in the following table. Issuers can receive negative scores for poor management of the ESG criteria listed below. They can also receive positive scores for strong management approaches to ESG criteria and/or making ESG commitments, such as the use of renewable energy and inclusive employee policies.

The criteria used for scoring issuers is not assessed uniformly, rather the weight of each criteria is based on the industry that the issuer is operating in. All issuer positive and negative scores are totalled and issuers that receive a negative overall score fail this screen and are excluded from investment.

Environmental



- ▶ Environmental risk
- ▶ Environmental policy & strategy
- ▶ Environmental results
- ▶ Renewable energy use
- ▶ Product impacts
- ▶ E-positive products & services
- ▶ Chemicals of concern

Social



- ▶ Human capital
- ▶ Human rights
- ▶ Supply chain
- ▶ Community
- ▶ Animal rights
- ▶ Product impacts
- ▶ GMO

Governance



- ▶ Conduct/ethics approach
- ▶ Fines and other sanctions
- ▶ Bribery, fraud
- ▶ Class actions
- ▶ Other corporate misconduct

Issuers with a negative total score fail this screen.

Stage 3 Screening: Sovereign issuers

Sovereign issuers (governments) are analysed on ESG factors, based on a scoring system utilising research from external specialists. This may include, but is not limited to, considering any unethical practices such as corruption, rule of law and political instability of the sovereign.

The following indicators are used to assess these practices:

- ▶ RepRisk ESG Country Index – 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) – assess 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) – perceptions by business people and country experts of the level of public sector corruption. The most widely used indicator of corruption worldwide.

1 For more information regarding Moody's ESG Solutions and methodologies, please visit: <https://esg.moody's.io/>.

2 This includes affiliate companies whereby the company holds over 50% of voting rights in a subsidiary company and 20%-50% of the voting right in an associate company.

3 Generally calculated using the total gross amount of income generated by the sale of goods or services from normal business operations.

4 For involvement in the production of tobacco, manufacture of nicotine alternatives and tobacco-based products and the development, production and maintenance of controversial weapons, a 0% revenue threshold is applied.

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