



**PERENNIAL INVESTMENT MANAGEMENT LIMITED**

**CORPORATE GOVERNANCE, ESG & PROXY  
VOTING POLICY**

**October 2016**

## PERENNIAL CORPORATE GOVERNANCE & PROXY VOTING POLICY

### Purpose

Perennial Investment Management Limited (Perennial) and its related bodies corporate (Perennial Group) have significant investments in the equities market. These guidelines are aimed at assisting Perennial to exercise its voting rights in a manner designed to ensure effective environment, social and governance (ESG) of the entities in which it invests. It is one way in which the interests of scheme members can be represented.

### Application

This policy is relevant to the following areas:

- Investment teams; and
- Investment administration

### Policy

Corporate governance is concerned with the way corporate entities are governed (as distinct to the day to day management of the entities). In general, good corporate governance practices address the issues facing boards of directors, such as:

- the conduct of the board of directors:
  - board members must act in the best interests of shareholders;
  - the board and its committees are structured to act independently from management and individuals or entities that have control over management and other non-shareholder groups.
- the relationships between the board, management, shareholders and others interested in the affairs of the company, including fund managers, creditors, debt financiers, analysts, auditors and corporate regulators:
  - all shareholders have a right to participate in the governance of the company and receive fair treatment from the board and management.
- the transparency of major corporate decisions and accountability to shareholders:
  - the company must act in a lawful and ethical manner in its dealings with all shareholders;
  - the company's governance activities, as well as its operating and financial activities, are consistently reported to shareholders in a fair, accurate, timely,

reliable, relevant, complete, and verifiable manner.

- ensuring that a company's management practices are aligned with the interests of shareholders:
  - appropriate controls and procedures are in place covering management's activities in running the day-to-day operations of the company including monitoring and reporting on environmental and social issues.

Fund managers should contribute to improving and upholding the environmental, social and governance (ESG) of entities so that they are managed with competence and integrity and in the long-term interests of shareholders through discussions with companies and/or exercising of proxy votes.

The primary mechanisms fund managers use to influence ESG issues are through direct communication with companies and voting on company resolutions. For ESG to be effective, it is necessary for fund managers and shareholders generally to be willing to act as the owners of companies and to exercise their rights of ownership. This includes expressing their views to boards of directors and to organise and exercise their shareholder franchise if they do not receive a satisfactory response.

#### Obligations

- Master Compliance Plan – Obligations 7 & 25
- FSC Guidance Note No. 2.00 Corporate Governance: *A Guide for Fund Managers and Corporations*; and
- FSC Standard No.13.00 Proxy Voting. It will be made available to any unit holder or discretionary client upon request.

#### Procedures / Guidelines/ Checklists

**Attachment 1:** Definitions

**Attachment 2:** Guidelines for effective corporate governance

#### Breaches

Any breach of this policy or any associated procedure must be immediately reported to Head of Legal, Risk and Compliance (LRC).

#### Monitoring

Compliance with this policy will be monitored through a combination of:

- online compliance questions based on **Attachment 2** requirements; and
- random compliance checks.

Reports /  
Records

The results of the monitoring program will be reported the Board of Perennial and to the Perennial Compliance Committee.

Maintenance  
and  
Amendments

Responsibility for maintaining, reviewing and authorising any change to the policy: Head of LRC except where any substantive changes are made which changes need to be approved by Board.

This policy will be reviewed every two years or earlier on an 'as needs basis' in response to legislative or other changes.

History

Approved by Perennial Board 6 October 2016

Next review by Head of LRC 6 October 2018.

## ATTACHMENT 1: DEFINITIONS

<b>Term</b>	<b>Definition</b>
<b>Corporate Governance</b>	concerns the conduct of the board of directors and the relationships between the board, management, shareholders and other key stakeholders such as creditors and auditors. The transparency of major corporate decisions and accountability to shareholders is at the core of governance issues.
<b>Proxy Voting</b>	means the exercise of voting rights by Perennial or its authorised agents in relation to the securities in its clients' portfolios.

## **ATTACHMENT 2: GUIDELINES FOR EFFECTIVE CORPORATE GOVERNANCE**

### **Environment and Social Issues and Corporate Governance**

The governance of a company has long been established as a major factor impacting on potential and actual company financial performance. It is now well accepted that issues such as environmental and social issues faced by a company may contribute towards financial performance in the short, medium and long term.

Perennial recognises its responsibilities to its clients, shareholders and employees, as well as to the community and the environment. As such, Perennial has become a signatory to the United Nations Principles for Responsible Investment (“the Principles”).

The Principles actively integrate ESG issues into the investment management and ownership practices of investment companies in order to create:

- better long-term financial returns for investors; and
- a closer alignment between the objectives of investors and those of society at large.

Through implementation of the Principles, Perennial will seek to engage companies on their significant environment and social issues that have the potential to impact on company perception and performance. This will lead to a more complete understanding of a range of material issues affecting a company and ultimately result in increased returns and lower risk for a portfolio.

By incorporating ESG criteria into investment decision making and ownership practices, Perennial will be directly influencing companies to improve performance in these areas. This, in turn, contributes to efforts to promote good corporate citizenship and to build a more stable, sustainable and inclusive global economy.

The Principles apply across all of the Perennial equity investment businesses and are not designed to be relevant only to Socially Responsible Investment products.

### **Communication**

As an investor, Perennial has direct contact with the companies it invests in, including constructive communication with both senior management and the board of directors about performance, ESG or other matters affecting shareholders’ interests.

The Corporations Act and ASX Listing Rules entitle shareholders to receive reports, accounts and other explanatory materials from companies. Furthermore, shareholders may have the opportunity to ask questions about the affairs of the company at company meetings, corporate road shows and analyst briefings.

Whilst these formal bases for communication are necessary, they may not be sufficient to allow companies and shareholders to gain a full understanding of each other’s aims and requirements.

A direct dialogue will give Perennial a better appreciation of a company's objectives, its potential problems and the quality of its management, whilst making the company aware of our expectations and requirements as a shareholder. With respect to environmental and social issues, Perennial will confer with management in relation to matters which it expects will have a material impact on company earnings and valuations.

The intent of this dialogue and the conduct of Perennial's officers is not, however, to make Perennial an insider in view of the continuous disclosure and insider trading provisions of the Corporations Act.

Direct communication with the board of directors of companies on issues which are price sensitive will be held in confidence and be strictly safeguarded and insulated from Perennial's own objectives.

## **Voting**

Perennial should vote on all company resolutions considered at general meetings where it has the voting authority and responsibility to do so, regardless of the materiality of the resolution.

Voting rights are a valuable asset which should be managed with the same care and diligence as any other asset. Ultimately, shareholders' ability to influence management depends on shareholders' willingness to exercise those rights.

Perennial generally supports boards by positive use of its voting power unless there is good reason for doing otherwise (for example, a proposal which Perennial believes will damage shareholders' rights or economic interests). Where a board has received steady support over a period of time, it should become a matter of concern for the board if that support is not forthcoming on a particular matter.

If Perennial intends to vote against a proposal, it may consider it appropriate to contact the company in time for the problem to be considered with a view to achieving a satisfactory solution.

Where a satisfactory outcome cannot be achieved on an important issue, the relevant fund manager or delegate may attend the meeting of the company to explain why the proposal is being opposed. In such cases a poll may be demanded to ensure that the vote is duly recorded.

Perennial may abstain from voting on proposals in the following circumstances:

- Where it is unable to support the resolution but where it believes that it would be against investors' interests to oppose publicly,
- where exclusions may arise from the Corporations Act or any conflict of interest and
- Where Perennial has already made a decision to dispose of the securities.

All votes must be made in the best interest of the unit holders and clients.

Where Perennial does not vote, that decision will be disclosed as part of the voting requirements of this Policy.

## **Proxy Voting Procedures**

The following procedure is followed to ensure that proxy voting is properly implemented across all of the Perennial businesses. In January 2011, the proxy research services of CGI Glass Lewis were extended to include its voting platform (ViewPoint). ViewPoint greatly assists in the gathering of data for all upcoming meetings, grants access to a single point system for the lodgement of votes and provides comprehensive reporting and analytic capabilities.

The following process has been adopted:

- ViewPoint is reviewed for all upcoming meetings and any special ballot or research papers that might need to be dispersed. System deadline dates are carefully noted.
- The deadline date is then set as Perennial's deadline for all internal responses.
- The Investment Teams can consider to critically examine all proxies or they can choose to set up standing instructions to "Vote With Glass Lewis" as their proxy research provider.
- For those Teams that choose to examine each ballot, a reminder of upcoming meetings is sent to them by the Custody Relations Team. This is usually about five business days ahead of the deadline date which allows them time to consider their position.
- The Perennial default position is to "Vote With Glass Lewis" in those situations where deadlines have passed and timing is critical.
- The Custody Relations Team is responsible for the maintenance and the physical lodgement of all votes on the ViewPoint platform.
- To provide a degree of 'completeness', if a manager chooses to vote against any management recommendation, a simple explanation is required to provide substance to the situation and is stored on ViewPoint for reporting purposes.
- Within ViewPoint, the Custody Relations Team is the only one permitted to physically lodge votes. However, all other areas of the Perennial business can be granted reading and reporting access, as required, facilitating unit holder and client demand.
- The Perennial ESG Committee also has access to generate business wide reports to meet Perennial's ongoing obligations as a signatory of the United Nations Principles for Responsible Investment.

## **Reporting to Clients**

### **Unit holders**

In accordance with the FSC Standard, Perennial will publish at least annually, a summary of its proxy voting record for the previous year. Publication will be made as soon as practicable but within two months of the end of the relevant year.

The aggregate summary of the proxy voting activity must be disclosed to unit holders. The summary should include:

- The number of resolutions for which Perennial exercised its voting discretion;



- The number of resolutions for which Perennial voted in favour;
- The number of resolutions for which Perennial voted against;
- The number of resolutions for which Perennial abstained; and
- The number of resolutions for which Perennial took no action.

The summary will be presented both as numbers and as percentages of the total number of resolutions considered at a general meeting of the companies in which Perennial has discretion to vote on interests held on behalf of scheme members.

The following table will be used to standardise disclosure and will be published on Perennial's website:

	<b>Resolutions</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>No Action</b>
Number					
%					

This will be done in accordance with the Principles.

Additional information may be included at our discretion. This may include an explanation where we have voted on a contentious issue, where we have abstained from voting or where we have delegated the vote to the Chair or some other delegate.

Perennial will keep records of all documentation relating to the consideration of matters on which we are entitled to vote.

### **Discretionary Mandates**

The investment management agreement entered into between Perennial and each discrete mandate client will clearly set out who has the authority and responsibility for exercising proxy votes. Perennial will, however, continue to be subject to the client's instructions on voting issues.

Wherever a discretionary client delegates responsibility for exercising proxy votes, Perennial will report back to the client how votes were cast on investments owned by the client, highlighting that Perennial has voted in the client's best interest.

Reporting should occur regardless of whether votes are cast. Information about abstentions is just as relevant to clients, as abstentions are another form of dealing with proxy votes.

The frequency and content of the report is subject to the investment management agreement and will deal with the following:

- material ESG issues discussed with a company before a general meeting with a view to amending or withdrawing a proposed resolution;
- resolutions where Perennial abstained or voted against the investee company's board's recommendation; and
- issues voted in favour of the board's recommendation where Perennial was aware that there was significant opposition from board members or other investors.

The above table for unit holder reporting may be used to standardise reporting for discretionary mandates.

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