

Qualitative Fund Research

Perpetual Diversified Income Fund

23 April 2024

 RESEARCHIP Rating



RESEARCHIP

The views and opinions in this document are considered valid for one year from the date published.

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Rating Profile

Research Process Category	Factor Weight	Analyst Score	Maximum Score
Corporate & Investment Governance	15%	4.25	/ 5
Investment Philosophy & Process	20%	4.00	/ 5
People	25%	5.00	/ 5
Portfolio Construction & Implementation	15%	3.83	/ 5
Risk Management	15%	4.00	/ 5
Investment Fees	10%	3.71	/ 5
Overall Average Score		4.23	/ 5

Meet the Manager

Perpetual Limited is an ASX-listed, diversified financial services company which has been serving Australians since 1886. Perpetual provides asset management, private wealth and trustee services to local and international clients, with operations that span Australia, Asia, Europe, United Kingdom and the United States.



Perpetual's global multi-boutique asset management business offers an extensive range of specialist investment capabilities through seven brands across the globe. Within Australia, the combined group has a broad range of capabilities across Australian and global equities, credit, fixed income, multi-asset and environmental, social and governance (ESG) solutions. Further information on the Manager can be found in its [online profile](#).

Perpetual's Australian Asset Management business is a signatory to the United Nations Principles of [Responsible Investment](#) (UNPRI). Our Responsible Investment Policy applies to our employees responsible for making active investment decisions. These include investment analysts and portfolio managers, across strategies that cover Equities, Credit and Fixed Income, and Multi-asset strategies. It is our policy that consideration of environmental, social and corporate governance (ESG) factors are incorporated into our investment analysis and decision making; and ownership practices.

Perpetual's Credit & Fixed Income team offers a range of cash, credit and fixed income solutions and are specialists in investing in quality debt. The team takes a highly active approach to buying and selling credit and fixed income securities, adopting a prudent risk aware approach which seeks to provide the defensive attributes investors expect from fixed income – such as high levels of capital security, consistent income, liquidity and a low correlation to shares.

Access the full range of [investment options here](#).



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Key Takeouts

The Perpetual Diversified Income Fund (“the Fund”) is an active, diversified portfolio of high quality, floating rate debt investments. The Fund is designed for investors seeking predictable outcomes – including above cash rate returns, consistent income and capital stability.

The Fund provides investors with the potential for regular income, above cash returns and lower volatility than other income strategies through an actively managed, highly diversified and liquid investment.

Research IP Says

“The Perpetual Diversified Income Fund has been awarded a “4 IP” rating from Research IP, with a score of 4.23/5.

“The Perpetual Credit and Fixed Income team is lead by Michael Korber, a well-respected hands-on investor with 42 years’ experience in the markets (19 of those at Perpetual). The Fund itself is managed by Vivek Prabhu, Head of Fixed Income, again a seasoned investor and highly regarded amongst fixed income market professionals over his 31 years’ experience (19 of those at Perpetual).

Together they lead an experienced and diversely talented fixed income team who have strong connections amongst key market players and demonstrate a solid understanding of market dynamics, particularly in turbulent environments.”

“The fund brings with it several features that are attractive to a defensive-leaning investor seeking a decent return without excessive levels of risk:

- It focuses on less volatile segments of the fixed income markets – floating-rate, domestic issuers, shorter maturities and primarily investment grade credit ratings.
- A prudent, globally aware, active approach to trading and a sharp eye on downside risk.
- The ability to diversify across a broad range of sectors (e.g. MBS, ABS, CMBS) with a wider opportunity set.
- Carefully constructed risk management policies with strong oversight and appropriately extensive technology
- Competitive fee.”

The Fund

Fund Details	Perpetual Diversified Income Fund
Fund Code	APIR Code: PER0260AU
Responsible Entity / Trustee	Perpetual Investment Management Limited
Geographic Focus	Australia
Sector / Asset Class	Bonds
Investment Objectives	Aims to provide regular income and consistent returns above the Bloomberg AusBond Bank Bill Index (before fees and taxes) over rolling three-year periods by investing in a diverse range of income generating assets. The Fund employs an active and risk aware investment process which invests in a diversified core portfolio of liquid investment grade credit securities. Perpetual believes these assets provide investors with protection in times of market stress.
Benchmark	Bloomberg AusBond Bank Bill Index
Alpha Objective	Bloomberg AusBond Bank Bill Index + 200 bps p.a. over rolling 3 year periods
Management Fee	0.59% p.a.
Performance Fee	None
Estimate of Total Fund Charges	0.60% estimated total ongoing annual fees and costs:

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	<ul style="list-style-type: none"> • 0.59% management fee, • 0.01% estimated management costs, • 0.00% estimated transaction costs (0.03% estimated total gross transaction costs, 0.03% estimated transaction costs recovered by buy/sell spreads).
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Using this Fund

The Fund's approach to delivering returns and managing risk is through an active and risk aware investment process which invests in a diversified core portfolio of liquid investment grade credit securities. Perpetual believes these assets provide investors with protection in times of market stress. When the environment is supportive Perpetual's investment approach seeks to enhance returns by taking more risk whether that be in maturity, credit rating, subordination or gearing. The Fund can also invest in alternative income generating securities such as mortgages, infrastructure debt and private debt. This approach to portfolio construction is Perpetual's preferred method to deliver investors the highest possible risk adjusted returns.

Factor	Lower Limit	Upper Limit	Target
No. of securities in universe			Tens of thousands
No. of securities fully researched			Not specified
Typical number of holdings	100	200	
Expected Portfolio Turnover	150%	250%	
Cash	0%	100%	

Funds Under Management

Fund currency	AUD (as at 31 March 2024)
Current size of the Fund (\$)	\$1,681,591,741
Current FUM in the strategy, including mandates (\$)	\$2,654,149,608
Current total FUM of the Manager (\$)	\$23,814,395,971

Quantitative Tear Sheet - <https://portal.research-ip.com/>

Platform is FREE to access via registration – performance data updated monthly.

[Factsheet](#)

[Report](#)

[PDS](#)

[Articles / Views](#)

For important Fund Facts view the [RIPPL Effect](#)

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What the Manager Says

Who holds accountability for the fund's outcomes and actions? How relevant is the work / career history of the investment team to the management of the funds?

Manager Statement:

The investment team responsible for the Perpetual Diversified Income Fund (Fund) is Perpetual's Credit and Fixed Income Team (Team). Vivek Prabhu is the Portfolio Manager of the Fund and as such ultimate responsibility rests with him. Vivek is supported by the credit team consisting of four other portfolio managers, with Michael Korber acting as the back-up manager for the Fund. The team is well resourced, with the senior portfolio management team; Michael Korber, Vivek Prabhu and Greg Stock, working together for over two decades.

The table below shows the team and their respective areas of responsibility.

NAME	TITLE	PORTFOLIO RESPONSIBILITY	PRIMARY RESEARCH	Experience*
Michael Korber	Managing Director, Credit and Fixed	Overall, Pure Credit Alpha, PCI	OVERALL	42/19
Vivek Prabhu	Head of Fixed Income	Diversified Income, Credit Income, ESG Credit Income	Corporates, Infrastructure, Hybrids, Credit derivatives	31/19
Greg Stock	Head of Credit Research and Senior Portfolio Manager	Active Fixed Interest, Dynamic Fixed Income, Exact Market Return	SSA, Banks and Financials, Corporates, Asset Backed Securities, Structured Credit	31/19
Thomas Choi CFA	Senior Portfolio Manager	High Grade Floating Rate, Securitised Credit, Cash Management, Chairs Fortnightly Credit Meeting	Credit pack, Commercial Paper, RMBS, CMBS, ABS, Property	22/16
Michael Murphy	Associate Portfolio Manager/ Senior High Yield Analyst	Loan Fund, Research	Private debt, High yield	11/5
Simon Poidevin	Senior Credit Analyst	Research	Corporates, infrastructure, and utilities	14/2
Benjamin Chan	Credit & Private Debt Analyst	Research	Loans and Corporate Credit	10/2
Lydia Yin	Credit Analyst	Research	RMBS, CMBS, ABS	1/1
Di Zhu	Dealer	Trading		7/<1

* Industry/Perpetual

Research IP Opinion:

The Perpetual Credit and Fixed Income team is lead by Michael Korber, a well-respected hands-on investor with 42 years' experience in the markets (19 of those at Perpetual). The Fund itself is managed by Vivek Prabhu, Head of Fixed Income, again a seasoned investor and highly regarded amongst fixed income market professionals over his 31 years' experience (19 of those at Perpetual).

Together they lead an experienced and diversely talented fixed income team who have strong connections amongst key market players and demonstrate a solid understanding of market dynamics, particularly in turbulent environments. The team comprises professionals who, while having generalist skills, also have a specialised focus on key sectors of fixed income markets, including government and corporate bonds, high yield, loans, mortgage-backed securities, and other debt instruments. This allows them to have a very broad coverage of the markets.

The team's strength lies in this collective expertise and the ability to leverage diverse perspectives to identify opportunities that others may overlook. They are proficient at conducting thorough credit analyses, evaluating interest rate environments, and understanding the implications of economic indicators on fixed income assets.

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Communication within the team is paramount. Regular strategy meetings and open channels of dialogue ensure that all members are aligned with the team's objectives and aware of the current market conditions. A daily team morning meeting is held at 9.45am to cover overnight events, new issuance, and other important developments. A fortnightly credit meeting reviews top-down Credit Score (which guides risk-taking) and discusses/determines views and positioning across industry, sector, maturity and credit rating. This collaborative approach enables the team to swiftly adapt to changing market scenarios and make informed decisions.

It is Research IP's opinion that the key elements of the team's success to date revolve around the demonstrated attributes of expertise, collaboration, active management, and vigilant risk control.

Has the CIO/ PM / Investment Team personally invested in the Fund? Do they have the same fee / cost structure as other investors?

Manager Statement:

The personal investment information is confidential. However, Perpetual Australia has in place an 'Investing in Funds Plan' Policy in place that provides for nominated investment professionals to invest up to 100% of their annual deferred STI award in a notional investment in an eligible Perpetual Fund. The remaining % is received in Perpetual shares in a Perpetual employee share plan.

Research IP Opinion:

Research IP welcomes the alignment of interests that derive from:

- Perpetual's 'Investing in Funds Plan' Policy which encourages team members to invest in their 'own' strategies
- Perpetual employee share plan – encouraging investment in the firm itself.

Research IP understands that a meaningful number of staff avail themselves of these opportunities, and that they invest at the same fee levels as the clients.

What are the reasons for investing in this fund?

Manager Statement:

The overarching competitive advantage is that our Team's trading agility and experience delivers superior risk adjusted returns.

Team

The Team are pioneers in Australian credit. They thoroughly understand the Australian credit market and understand intimately the needs of Australian fixed income investors. All portfolio managers have three inherent functions – portfolio manager, credit analyst and dealer. The benefits of this team structure include improving market access, strengthening conviction in portfolio construction, speeding up decision making and implementation, and provides advantage of improving market intelligence.

Active Trading Approach

- Extracts value in the non-transparent OTC fixed income markets,
- Improved visibility of market pricing and liquidity,
- Improved trade execution, reducing transaction costs and providing better market access.

Process

Our disciplined process of identifying high-quality, attractively valued investment opportunities, has been tested and proven in Australian equities for 50+ years and the fixed income process has been developed and refined for over 20 years with proven results through different market cycles.

Risk Control

- Investing where risk is best rewarded,

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- Risk adjusted returns are the priority.

We believe our Fund best delivers what investors need for their defensive investments due to the following characteristics:

- A portfolio of floating rate assets
- A predominantly domestic portfolio
- A portfolio with a short weighted average maturity (credit duration)
- A portfolio of high quality, mainly investment grade assets.

Research IP Opinion:

The fund brings with it several features that are attractive to a defensive-leaning investor seeking a decent return without excessive levels of risk:

- It focuses on less volatile segments of the fixed income markets – floating-rate, domestic issuers, shorter maturities and primarily investment grade credit ratings.
- A prudent approach to trading which emphasises low frequency and a sharp eye on downside risk.
- The ability to diversify across a broad range of sectors (e.g. MBS, ABS, CMBS) with a wider opportunity set.
- Carefully constructed risk management policies with strong oversight and appropriately extensive technology
- Competitive fee

What are key criteria for the buying and selling decisions of the Fund?

Manager Statement:

The research and screening process consists of top-down screening and bottom-up research. The process provides the Team's risk appetite and matrix of preferences and a list of approved issuers that are to be considered for inclusion in the portfolio. These are used as inputs into the active management of the portfolios. Relative value analysis allows the decision to be made whether the margin offered by each security is sufficient to compensate for the risk involved. Securities deemed to offer the best value relative to other securities of similar characteristics are considered for inclusion in the portfolio.

In the event of any negative credit episode or deterioration in conviction, our bias is to sell the security. Decisions to sell can be triggered by a few information sources:

- Attribution System - provides daily real time feedback loop on individual securities
- Risk Management systems - identification of securities (by issuer) contributing the highest risk score and those most susceptible to a widening in credit spreads; and sensitivity analysis
- long-standing relationships with key brokers and our active trading approach means we often can swiftly act on 'hot' information
- ongoing evaluation of underlying sectors, companies and individual securities
- CreditSights
- S&P and ratings by other agencies

Research IP Opinion:

Research IP notes that the investment team blends a useful mix of top-down processes that guide overall sector allocation, duration and credit risk (weekly credit meetings along with a macro-style Credit Score) with bottom-up processes that drive security selection through robust credit research and a forensic search for relative value opportunities.

In Research IP's opinion, an interesting and key observation that demonstrates the team's emphasis on capital preservation is the convention that allows any PM the ultimate authority to force-sell any position in any portfolio (not just their own) without seeking approval first. Of course, this is an extreme action only to be taken in extreme circumstances and requires immediate post-trade notification and justification. Mr Prabhu outlined the last example of this happening in 2009 – which shows how rare this is. The decision was taken (and executed) in Australian trading hours and proved to be correct, avoiding considerable cost to the portfolio.

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This example, in itself, is minor. The larger observation is the over-arching attitude of “capital preservation first”. It is an important maxim for Perpetual, and a sensible one for all fixed income investors where securities offer a risk of 100% loss against the reward of a running yield and possibly a small capital gain. This means there is a benefit to taking the path of “least regret” – in an uncertain, but potentially catastrophic situation, selling can avoid major damage to the portfolio if you are right, against relatively minor cost if you are wrong.

What are the key drivers of the Fund’s performance?

Manager Statement:

Our sources of value add/out-performance is expected to come from

Source of Value Add	%
Sector Selection	40%
Yield Curve	20%
Issue Selection	40%

Research IP Opinion:

As the table above demonstrates, large-scale directional duration positions do not form a major part of the value-add for the Fund. Being right on the timing and length of duration positioning is notoriously difficult.

Research IP notes that Perpetual successfully focuses on sector selection and rotation (40%), which is informed by macro analysis and monitoring the multiple variables that make up the Credit Score. Relative value plays an influential role in position-taking in situations where the spread between two sectors is either abnormally thin or uncharacteristically wide. For example, in Feb-2024, the team took the view that spreads for USD issues compared to the AUD counterparts were unsustainably narrow. Consequently, they re-positioned by selling out of their USD issues to buy AUD equivalents.

On a similar view (that relative spreads are too narrow) the Fund has moved to be underweight Hybrids. And overweight bank subordinated debt and securitised product, where yields are relatively more attractive.

The second major driver of performance is security selection where in-depth credit research and detailed relative value analysis combine to identify securities that are mis-priced and represent attractive value.

The team assess the history of credit spreads over time and across sectors to identify situations that are out of kilter with the ‘normal’ relationships observed typically. The ‘anomalies’ found can then be assessed to determine if they are tradeable investment opportunities.

- Current spread of a security relative to its own history
- Current spread of a security relative to spreads of other issuers in the same industry
- Current spread of a security relative to spreads of other issuers in the same rating band
- Current spread of a security relative to spreads on the rest of the issuers’ credit curve
- Current spread of a security relative to spreads up and down the issuers’ credit stack e.g. subordinated, hybrid
- Current spread of a security in AUD relative to spreads for the issuer in other currencies such as USD or EUR

In Research IP’s opinion, these are meaningful and repeatable techniques for finding value in the fixed income market that Perpetual are employing to good effect.

What are the risks / adverse outcomes that could arise from investing in this Fund?

Manager Statement:

The primary investment risk in the Fund is credit risk. This can be defined as the risk of an issuer of the purchased securities not repaying the principal, interest payments or fulfilling other financial obligations in full and/or on time. The market value of an investment can also falls significantly when the perceived risk of a note or bond increases or its credit rating declines.

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Interest rate risk is tightly controlled within the Fund with a view to ensuring volatility is managed in line with an objective of capital stability. Modified duration is restricted to +/-0.75 years from the benchmark. As such, the Fund is not subject to significant potential capital losses due to interest rate movements because it is benchmarked to the Bloomberg AusBond Bank Bill Index - a floating rate (cash) benchmark.

Research IP Opinion:

In Research IP's opinion, the risk management techniques employed by the Fund are commendable and provide the basis for achieving the team's goal of capital preservation through lower drawdowns and lower volatility than its peers.

1. Diversification and Liquidity Limits:

- These limits ensure that the fund is not overly reliant on any single asset or issuer. Diversification reduces the impact of poor performance from individual holdings.
- Investors gain exposure to a broader range of assets, spreading risk and potentially enhancing returns.

2. Credit Risk Control:

- By monitoring credit ratings and capping exposure to specific rating grades, the fund mitigates the risk of credit defaults. A keen eye to industry-relevant macro signals assists
- The Fund is consequently less susceptible to issuer credit problems.

3. Interest Rate Risk Management:

- Tight control over interest rate risk aligns with the fund's objective of capital stability.
- Investors are shielded from significant capital losses due to interest rate fluctuations.

4. Active Risk Management Techniques:

- The rigid sell discipline prioritises timely exits from securities facing negative credit episodes or market downturns.
- Smaller incremental losses are preferable to holding declining securities and risking larger losses (the 'decision of least regret').

5. Proprietary Risk Unit Measurement Model:

- This model provides a holistic view of risk, considering multiple factors beyond traditional metrics.
- This deeper, multi-layered understanding of risk drivers allows for more informed and effective decisions.

These techniques, in Research IP's opinion, enhance investor protection, promote stability, and contribute to better risk-adjusted returns.

What is the justification for the fees and costs that are charged?

Manager Statement:

Please refer to the [Perpetual Investment Funds' PDS](#) – page 37 for fees and costs explanations. The total ongoing annual fees and costs for each Fund comprises of Management fees and costs, performance fees (if any) and Transaction costs.

Management fees

We receive management fees for managing and administering Fund and overseeing the Funds' investments. Fees are reviewed annually and may be adjusted to ensure we remain competitive against peers.

Management costs may be charged directly to the Fund and/or incurred indirectly in underlying funds. Management costs may include:

- operating expenses incurred in the proper performance of our duties and obligations relating to the management and administration of the Fund;
- other indirect management costs, which may be incurred from investing in derivatives or an underlying fund, and costs from underlying funds, e.g., management fees and expense recoveries of the underlying fund.

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Research IP Opinion:

Research IP believes the Manager is transparent from a fee perspective.

Research IP observes that there is no performance fee.

The buy/sell spread is sensible given the active nature of the strategy and resulting transaction costs that will prevail as investors move in or out of the Fund.

Other costs are minimal which keeps the total fee burden low.

Research IP observes that the Fund's basic management fee is in the lower half compared to sector peer relevant funds.

Describe the governance processes for managing organisational and investment decisions.

Manager Statement:

Perpetual has a dedicated Compliance team which sits within the Legal, Audit, Risk, Compliance, Company Secretariat and Sustainability (LARCCS). The LARCCS division is led by Perpetual's Chief Risk and Sustainability Officer who is responsible for Perpetual's enterprise risk management approach toward the efficient and effective governance of Significant risks, including compliance risk.

Intra-day Compliance

Perpetual uses ThinkFolio as its investment management system, and compliance monitoring tool. Compliance checking is an integral part of the ThinkFolio and is available both pre and post trade. We have implemented all investment strategy rules in ThinkFolio and compliance is automatically applied at the input point of a trade.

ThinkFolio can check the value either by percentage of holding or absolute value in a specified currency of the selected attributes against a maximum or minimum value. Carve out can also be selected on the given rules.

Post trade Compliance

The Investment Compliance team is responsible for conducting daily reviews and monitoring of trades to ensure these trades comply with pre-approved investment guidelines. A breach summary is produced daily and on a monthly basis. Confirmation of the breach is also provided to Perpetual's Group Risk & Compliance department as well as the other relevant areas, such as the fund managers or the dealing desk.

Research IP Opinion:

Research IP has been advised that Perpetual will be transitioning to the Charles River Portfolio Management System, a globally recognised, high-quality pre- and post-trade compliance engine that can handle the multitude of security types the global fixed income markets have to offer.

In Research IP's opinion, the thinkFolio system, employed by Perpetual for order management, investment management, and compliance monitoring, demonstrates commendable efficacy in handling intra-day compliance for Credit and Fixed Income portfolios. Its purported successor, the Charles River Portfolio Management System, will prove equally adept, once implemented.

1. Pre-Trade Compliance:

- **Client Mandates and Investment Strategy Rules:** thinkFolio incorporates all client mandates and fund investment strategy rules. Compliance checks are automatically applied at the input stage of a trade.
- **Dynamic and Comprehensive:** The system accommodates complex rules across security attributes and trade activities. It evaluates values based on percentage holdings or absolute amounts in specified currencies.
- **Carve-Out Flexibility:** Carve-out options allow customization within rule parameters.

2. Post-Trade Compliance:

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- **Administrator and Custodian Oversight:** Perpetual's administrator and custodian handle post-trade compliance.
- **Alert Mechanism:** When a potential breach arises, an alert is sent to Perpetual's Investment Compliance team.
- **Investigation and Determination:** The compliance team investigates alerts to ascertain breaches. Valid breaches trigger confirmation and rectification processes.
- **Communication and Reporting:** Breach details are shared with relevant parties, including the Group Risk & Compliance department, fund managers, and dealing desk.
- **Client Communication:** For mandate breaches, Perpetual's Client Services team informs clients following mandated guidelines.

3. Trading/Execution Process:

- **thinkFolio Modeling:** The application models and manages portfolio positions.
- **Fixed Interest Trades:** Portfolio Managers execute fixed interest trades with approved counterparties.
- **Trade Capture:** thinkFolio captures trade details, which are then approved by a secondary manager.
- **Confirmation and Settlement:** Confirmed trades generate deals sent to the Investment Administrator via FTP. The administrator matches trades and arranges settlement, including transmission to the Client's custodian for mandate-related trades.

Describe how the Manager implements ESG, Corporate Sustainability policies and engagement.

Manager Statement:

Perpetual's C&FI Team have an explicit ESG risk scoring process that is integrated in the Credit research and screening process.



The credit analysts assign an ESG Risk score to each corporate issuer within the Credit Research Issuer Review, which includes internal and external research on an issuer's approach to managing ESG factors and the issuer's revenue sources. This allows credit analysts to assess as part of their credit research on each corporate issuer, the ESG risks of that issuer and whether the issuer has any controls or measures in place to address these risks. The credit analyst uses this information to determine an ESG risk score. ESG risk scores can be Low, Medium, High or Very High. This score is included in each corporate issuer's credit profile and is reviewed per the periodic credit research issuer follow up reviews. Our ongoing monitoring of each issuer's credit risk includes monitoring the ESG Risks identified in the ESG Risk scoring process. If monitoring indicates a score change is warranted, an analyst can change this at any time via an inter period follow up review.

Perpetual Australia is a signatory to the UNPRI. Our Responsible Investment Policy and the PRI summary Scorecard 2023 can be accessed on the [Responsible Investing](#) webpage. [FY23 Sustainability Report](#) is always available on the website.

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Research IP Opinion:

Perpetual have been incorporating ESG considerations into their investment process for over a decade now. The integration of ESG factors is most applicable to the active listed equity holdings. Several external ESG research providers and tools are utilised to integrate ESG factors into their decision-making process.

Perpetual's approach to ESG investing is more focused on the materiality and long-term assessment of investments. This is in line with their approach to value and emphasis on risk management. There are no negative screens applied to the portfolio.

In Research IP's opinion, Perpetual also demonstrates a robust commitment to ESG considerations in its fixed income portfolios. The C&FI Team integrates ESG risk assessment into their Credit Research and Screening procedures through a comprehensive risk scoring process:

1. **Explicit ESG Risk Scoring Process:** Perpetual's credit analysts meticulously evaluate each corporate issuer's ESG risks. They consider internal and external research, focusing on the issuer's ESG management approach and revenue sources.
2. **ESG Risk Scores:** Perpetual assigns ESG risk scores (ranging from Low to Very High) to corporate issuers. These scores reflect the issuer's vulnerability to ESG-related challenges. The inclusion of these scores in credit profiles enhances transparency and informs investment decisions.
3. **Ongoing Monitoring:** Perpetual actively monitors ESG risks identified during the scoring process. If necessary, analysts can adjust scores based on real-time monitoring results.
4. **UNPRI Signatory:** As a signatory to the United Nations Principles for Responsible Investment (UNPRI), Perpetual align with global sustainability standards.
5. **Transparency:** Interested stakeholders can access Perpetual's Responsible Investment Policy and the PRI Summary Scorecard 2023 on their Responsible Investing webpage. Additionally, the FY23 Sustainability Report is readily available online.

Research IP holds the view that Perpetual's ESG credentials demonstrate a proactive approach, transparency, and alignment with global best practices.

How does the ownership of the Manager and the compensation of the investment team align with the investors' interests?

Manager Statement:

Structure of asset manager incentive schemes

- Remuneration arrangements for more senior asset managers are typically structured to recognise and reward growth and retention of revenue or manageable profit of the strategies they support. In some instances, this results in an agreed revenue or pre-bonus profit sharing rate between Perpetual and the asset manager or team.
- Incentive arrangements within certain boutiques are funded based on the financial performance of the boutique. In some instances, adjustments are also made for investment performance, growth goals and other strategic focus areas (including risk overlays).
- For research roles and analysts, individual performance is generally assessed with reference to stock recommendations, attribution to performance, and ultimate investment performance against agreed investment targets, measured over a range of time horizons.
- Some funds attract performance fees. In the event an investment strategy exceeds a pre-determined performance hurdle for a specific fund over the measurement period (generally over either a 6 or 12-month period) a performance fee is paid by the client. In some instances, the performance fee is shared between the asset management team and Perpetual.

Deferral/LTI arrangements

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- Generally, asset managers have a portion of their variable remuneration awarded as either deferred short term incentives (STI) or long-term incentives (LTI) each year. This cycle of rolling awards ensures retention arrangements are in place and avoids cliff vesting events.
- For most asset managers, deferred incentives can be invested into either Company equity or units in funds that they are responsible for, further aligning asset managers to client outcomes and shareholder interests.

Research IP Opinion:

Research IP welcomes the alignment of interests that derive from:

- Perpetual's 'Investing in Funds Plan' Policy which encourages team members to invest in their 'own' strategies
- Perpetual employee share plan – encouraging investment in the firm itself.

Research IP understands that a meaningful number of staff avail themselves of these opportunities, and that they invest at the same fee levels as the clients.

Research IP believes that aligning the interests of the investment team, clients and the firm can bring important benefits such as:

- By having "skin in the game," managers are more likely to meticulously analyse investment opportunities and actively monitor fund performance. Such personal stakes encourage prudent risk-taking and long-term value creation.
- Investing in the firm's stock and funds promotes a sense of partnership between managers, clients, and shareholders. They share common goals and outcomes.
- Managers become accountable not only to external investors but also to themselves. This reinforces commitment and responsible decision-making.
- Managers who invest in their own funds are more likely to adopt a long-term perspective. They prioritise sustainable growth over short-term gains.
- Alignment can encourage responsible investment practices, such as considering ESG factors. Managers recognize that their decisions impact not only financial returns but also broader societal and environmental outcomes.

Comment on assets under management, fund flow and capacity.

Manager Statement:

Overall FUM in the strategy was \$2,654 million as at 31 March 2024, with the broader Perpetual Credit & Fixed Income team managing \$7,265 million across the full product suite. We believe it is quite difficult to accurately calculate a hard capacity limit in dollar terms for any of our strategies. We regularly undertake a thorough review of capacity and can confirm ample capacity across all investment strategies.

Research IP Opinion:

Date	Total FUM	Gross Inflows	Gross Outflows	Net Flows
31-Dec-19	\$1,223,107,680	\$473,664,479	-\$560,871,864	-\$87,207,385
31-Dec-20	\$1,130,005,387	\$236,550,719	-\$357,248,396	-\$120,697,677
31-Dec-21	\$1,432,362,417	\$761,570,500	-\$484,614,858	\$276,955,642
31-Dec-22	\$1,466,249,705	\$502,599,123	-\$466,432,453	\$36,166,670
31-Dec-23	\$1,548,038,859	\$447,353,631	-\$476,838,239	-\$29,484,607

Research IP concurs with the Manager's view that there is ample capacity available for this strategy, given the fixed income sectors involved have capitalisation measured in tens of trillions of dollars.

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Investment Fund

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RIPPL Effect

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Research IP is a specialist investment research provider which is used and trusted by investors & financial advisers for investment, KiwiSaver, Superannuation and other Pension schemes throughout the Asia Pacific region.

Research IP has grown its team and footprint by utilising the specialist skills of its analysts which include;

- ❖ data scientists,
- ❖ equity, bond and alternative asset specialists
- ❖ portfolio managers
- ❖ asset allocation analysts
- ❖ and ratings specialists.

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By leveraging the skills of specialists, Research IP is able to provide innovative and tailored financial services solutions to the marketplace. Client focused outcomes are underpinned by the belief that the role of business model innovation and accelerating technological change opens up new possibilities, to put client interests at the centre of the financial services industry focus. We have strong philosophical alignment with John Hagel's work on the possibilities for "Disruption by Trusted Advisors" and John Kay's views in "Other People's Money: Masters of the Universe or Servants of the People".

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