

## **RISK MANAGEMENT POLICY**

### **PURPOSE**

The Company considers ongoing risk management to be a core component of the management of the Company. The Company's ability to identify and address risk is central to achieving its corporate objectives.

This Policy outlines the program implemented by the Company to ensure appropriate risk management within its systems and culture.

### **DEFINITIONS**

**ASX** means Australian Securities Exchange.

**Board** means the board of directors of the Company.

**Charter** means the charter of the Committee.

**Committee** means the Company's Audit and Risk Committee.

**Company** means Perpetual Equity Investment Company Limited ACN 601 406 419.

**Investment Manager** means Perpetual Investment Management Limited ACN 000 866 535.

### **RISK MANAGEMENT PROGRAM**

- 1 The Company's risk management program comprises a series of processes, structures and guidelines which assist the Company to identify, assess, monitor and manage its business risk, including any material changes to its risk profile.
- 2 To achieve this, the Board has clearly defined the responsibility and authority of the Committee to oversee the risk management program, while conferring responsibility and authority on the Investment Manager to develop and maintain the risk management program in light of the day-to-day needs of the Company. Regular communication between the Committee and the Investment Manager and review by the Committee of risk management practice provides the Company with important checks and balances to ensure the efficacy of its risk management program.
- 3 In order to identify and assess material business risks, the Company defines risks and prepares risk profiles in light of its business plans and strategies. This involves applying a disciplined process to risk identification, risk assessment and analysis, risk treatment and monitoring and reporting.
- 4 Material risks facing the Company include:
  - Outsourcing risk*
    - (a) The Company has outsourced the following functions to service providers, RBC Investor Services Trust (custody), Link Market Service Limited (share registry) and the Investment Manager (investment management, accounting, administrative, company secretarial and marketing support services). Accordingly, risk issues associated with these activities are handled in accordance with the service provider's policies and procedures.

### *Market related risks*

- (b) The Board is primarily responsible for recognising and managing market related risks. By its nature as a listed investment company, the Company will always carry investment risk because it must invest its capital in securities which are not risk free. However, the Company seeks to manage this investment risk by a policy of diversification of investments across industries and companies operating in various sectors of the market.
- (c) The Investment Manager is required to act in accordance with the Board approved Management Agreement and reports to the Board quarterly on the portfolio's performance, material actions of the Investment Manager during that quarter and an explanation of the Investment Manager's material proposed actions for the upcoming quarter. In addition, the Investment Manager is also required to provide sufficient information to enable the Company to comply with its constitution and its reporting obligations under the Corporations Act 2001 and ASX Listing Rules, and report to the Board quarterly as to any non-compliance with the investment strategy outlined in the Management Agreement.
- (d) In assessing the Company's risk tolerance level the Board considers any instance which materially affects the Company's Net Tangible Asset backing announcements released to the ASX.

### *Administrative risk*

- (e) The Chief Operating Officer, Perpetual Investment Management Limited and the General Manager Product, Perpetual Investment Management Limited (or their equivalent) will provide a certification to the Board in respect of each half year and full year financial period that:
  - i. in their opinion, the financial records of the Company have been properly maintained and that the financial statements and notes for the reporting period comply with accounting standards and the Corporations Regulations 2001 and give a true and fair view of the financial position and performance of the Company; and
  - ii. their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

### *Economic, environmental and social sustainability risks*

- (f) The Board is responsible for approving the Company's disclosure in relation to any material exposure to economic, environmental and social sustainability risks which impact the ability of the Company to continue operating at a particular level of economic activity over the long term.

## **OVERSIGHT AND MANAGEMENT**

### **BOARD**

- 5 The Board acknowledges that it is responsible for the overall system of internal control but recognises that no cost effective internal control system will preclude all errors and irregularities.
- 6 The Board has delegated responsibility for reviewing the risk profile including material business risks and reporting on the operation of the internal control system to the Audit and Risk Committee. However, the Audit and Risk Committee or the Investment Manager may also refer particular risk management issues to the Board for final consideration and direction.
- 7 The Board will review the effectiveness of the Company's risk management and internal control system annually.
- 8 The Board retains oversight and responsibility for setting the Company's risk appetite. The Board regularly monitors the services of the Investment Manager against the Company's risk appetite.

### **AUDIT AND RISK COMMITTEE**

- 9 The oversight of the Company's risk management program has been conferred upon the Audit and Risk Committee. The Committee is responsible for monitoring that the Company maintains

effective risk management and internal control systems and processes and provides regular reports to the Board on these matters. The specific responsibilities of the Committee are set out in its Charter.

## INVESTMENT MANAGER

- 10 The Investment Manager will be responsible for designing and implementing risk management and internal control systems which identify material risks for the Company. The Investment Manager is subject to Perpetual Limited's Risk Management Framework (**Framework**) which aligns with International Standard ISO 31000:2018 'Risk Management - Guidelines'. The risk management principles in the Framework include:
  - (a) defining risks in terms of eight specific risk categories – strategic, financial, operational, investment, people, reputation, outsourcing and compliance, legal and conduct;
  - (b) applying a disciplined process to risk identification, risk analysis, risk evaluation, risk treatment and monitoring and reporting; and
  - (c) using consistent risk assessment rating scales and criteria throughout the risk assessment process.
- 11 The Framework incorporates supporting frameworks and programs including:
  - (a) Risk and Control Self-Assessment Program – sets out the primary approach used to identify the key risks facing the organisation across all of the eight risk categories;
  - (b) Business Continuity Program – used to counter any interruptions to business activities and protect critical business processes from the effects of major failures or disasters;
  - (c) Information Security Program – defines a structure for managing information security, its components and their interrelationships; and
  - (d) Issues Management - the process of issue identification and reporting.

## REVIEW OF RISK MANAGEMENT PROGRAM

- 12 The Company regularly evaluates the effectiveness of its risk management program to ensure that its internal control systems and processes are monitored and updated on an ongoing basis.
- 13 The division of responsibility between the Board, the Investment Manager and the Committee aims to ensure that specific responsibilities for risk management are clearly communicated and understood. The reporting obligations of the Investment Manager and the Committee ensure that the Board is regularly informed of material risk management issues and actions. This is supplemented by the evaluation of the performance of the risk management program.