

POSITION ON TOBACCO

February 2017

INTRODUCTION:

AMP Capital is committed to making responsible investment decisions for the benefit of our clients. In line with our ESG and Responsible Investment Philosophy, we continue to evolve how we can best integrate environmental, social and governance (ESG) issues into investment decisions. We were early pioneers of responsible investing within Australia and are well placed to raise the global focus on these issues to influence better outcomes for our investors.

AMP Capital was an early signatory to the UN backed Principles for Responsible Investment in 2007, committing to extend responsible investment and ESG integration activities across our entire investment universe. We believe that responsible investing provides greater insight into areas of potential risk and opportunity that will impact the value, performance and reputation of the investments we make on behalf of our clients.

AMP Capital's Responsible Investment Standpoint

Consistent with AMP's values, AMP Capital also considers the broader impacts to society in delivering investment returns to customers. In exceptional circumstances, AMP Capital may seek to exclude particular companies, asset types or industry sectors from our investable universe on moral or ethical grounds. AMP Capital also recognises that the evolution of market trends, regulatory, policy, legal and social norms may affect growth and risk factors within industry sectors challenging the outlook and sustainability of relevant businesses.

Review of our ESG and Responsible Investment Philosophy

Our ESG and Responsible Investment Philosophy has been revised in February 2017 to reflect our standpoint on the impact of ESG issues on our investment activities, and can be found at www.ampcapital.com.au. To help us deliberate complex ethical matters, a principles-based decision making framework is included in this Philosophy. This framework guides our application of moral and ethical criteria as a factor in the assessment of all our investments across asset classes¹.

Under the new framework:

In exceptional circumstances AMP Capital may seek to exclude particular companies, asset types or industry sectors from our investable universe on moral or ethical grounds. In making such a decision, AMP Capital will take into account the extent (if any) to which a company's activities (conduct), products or services:

- > Violate the principle of respect for persons which affirms the intrinsic dignity of all people irrespective of age, gender, race, religion and prohibits the treatment of any human being merely as a means to an end, and/or

- > Can be used without causing harm to others including those who may choose to make use of the relevant goods or services.

In undertaking its assessment AMP Capital will consider (without limitation):

- > Whether activities (conduct), products or services contravene principles accepted under international human rights laws including but not limited to UN conventions;
- > The principle of 'double effect' – which may allow conduct that is not intrinsically wrong and is undertaken for an ethically justified 'principal effect' even if it has an unintended harmful 'secondary' (double) effect. Where a form of conduct may have a harmful 'double effect', AMP Capital will assess the extent to which the company is actively engaged in minimising and mitigating the unintended harm;
- > The extent to which the relevant activity, product or service is material to the conduct of the company in which the investment is to be made; and
- > Any reasonable argument or rebuttal submitted in good faith, as to why an adverse assessment may be based on an error of fact or assumption.

AMP Capital's Investment Committee is responsible for ensuring that any decision to exclude or divest a company, asset type or industry sector from its investable universe takes into account, among other considerations, fund investment objectives and strategy and recommendations from its own research and investment teams.

¹ Other than cash, sovereign bonds, derivatives and exchange traded funds.

Our Decision to Exclude Tobacco:

Investment in companies with known involvement in the 'production and manufacture', or essential or significant involvement in the 'distribution and sale', of tobacco products does not meet our investment criteria. Accordingly, investment in companies considered by AMP Capital to be materially involved in the 'production and manufacture', and the 'distribution and sale', of tobacco products will be excluded from our portfolios. This is because we consider:

- > tobacco products to be addictive to individuals who smoke;
- > there is no safe level of cigarette smoking (consumption); and
- > there is increasing evidence of negative health impacts of second-hand smoking.

We firmly believe in company engagement in order to effect meaningful change. However, in the case of tobacco, no engagement can address these matters.

Our Investment Policy:

Materiality of involvement

Our decision to divest from and exclude a company will focus on the 'production and manufacture' of tobacco products. To identify said companies, we have referred to those securities in the MSCI Tobacco GICS sub-industry classification (30203010).

In specific circumstances, AMP Capital will exclude a company involved in the 'distribution and sale' of tobacco products. These circumstances are based on the principles of essential and significant involvement.

- > Essential involvement - the company's involvement requires a specific and essential capability, e.g. skill or knowledge, for the specific use of the product, service or activity
- > Significant involvement – the company plays a substantial role in the provision of the product, service or activity (i.e. is there only one company providing the service or multiple).

Under these circumstances, we exclude:

- 1) A distribution company that specialises in the distribution of tobacco products; or
- 2) A wholesaler or retailer that specialises in the sale of tobacco, e.g. tobacconists.

The corollary of these principles is incidental involvement.

- > Incidental involvement - if the capability or contribution is incidental or not specific to the product, activity or service, then the involvement is not considered material.

To the majority of retailers and distributors, activities relating to tobacco products are incidental to their prime business. Where the provision of non-tobacco products has a primary beneficial effect, including supermarkets, we will not consider exclusion.

Scope

All managed funds where AMP Capital has been appointed the investment manager will be subject to the decision to divest from and exclude companies considered by AMP Capital to be materially involved in the 'production and manufacture', and the 'distribution and sale', of tobacco products. Where AMP Capital has appointed an external fund manager under a separate investment mandate, we will instruct those investment managers to adopt these same divestment and exclusion strategies.

Where AMP Capital does not have exclusive control of externally managed funds (for example where we invest in externally managed pooled vehicles without a separate investment mandate), we cannot influence the external manager(s) to uphold our policy. We may continue to invest in such pooled funds, unit trusts or exchange traded funds which may themselves invest in securities of companies considered by AMP Capital to be materially involved in the 'production and manufacture', and the 'distribution and sale', of tobacco products.

Our Process:

Governance

AMP Capital's Investment Committee is responsible for ensuring relevant information is considered prior to reaching a decision to exclude or divest a company, asset type or industry sector from its investable universe.

Excluded stocks will be subject to an annual review by AMP Capital's ESG research function, with oversight from AMP Capital's Investment Committee. Any changes to the exclusion list resulting from this review process will be communicated to portfolio managers within AMP Capital and to our external fund managers. In the event that a new company is added to the exclusion list, generally AMP Capital will, and will instruct its external fund managers to sell down any positions held in the securities issued by that company over a period of up to twelve months.

Reporting

The list of excluded companies will be published on an annual basis. The latest exclusion list can found at www.ampcapital.com.au