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AMP Capital Sustainable Funds

Corporate Governance and Voting Policy



1 Purpose and Scope

As an investment manager, the Sustainable Funds Team at AMP Capital Investors take considerable care in voting. We are committed to effective corporate governance and committed to protecting and enhancing shareholder value in the companies in which we invest on our client's behalf.

We believe that by adopting high corporate governance and social responsibility standards, companies can avoid potential damage to trade or reputation and therefore enhance and protect the long-term wealth-creation of their shareholders.

This policy sets out how AMP Capital Investors Sustainable Funds Team is adopting and implementing the IFSA Guidelines for Corporations¹ and the ASX Corporate Governance Council's Guidelines² in engaging with and voting in the companies' general meetings and in the further development of a broader corporate governance agenda.

This policy applies to our Australian equity investments. Corporate Governance Policy for our International equities is given at www.henderson.com/home/uk/governance/corporate_responsibility/.

1.1 What is Corporate Governance?

Corporate Governance is the way in which companies are directed and managed to protect and develop shareholder wealth and meet the expectations of legitimate stakeholders. Therefore, in addition to the broad objective of looking after the interests of shareholders, corporate governance requires:

- recognition of the expectations of legitimate stakeholders and the relevance to the company's business;
- establishment of objectives to define performance; and
- a strategy to achieve objectives.

The relevant expectations of legitimate stakeholders extends beyond those set out by regulation. Increasingly the expectations cannot be prescribed by law, as the expectations are ever changing, sometimes conflicting and contingent on many variables.

Therefore, Corporate Governance covers more than the important issues of board structure, remuneration and proxy voting. Broad governance issues cover systems, structures, skills and capabilities of persons and culture within the organisation.

¹ Investment & Financial Services Association (IFSA) "Corporate Governance: A Guide for Investment Managers and Corporations" July 1999

² ASX Corporate Governance Council "Principles of Good Corporate Governance and Best Practice Recommendations" March 2003

2 Managing the Principal-Agent Problems

Traditional focus of Corporate Governance is addressing the principal-agent problem of aligning management objectives with company shareholder objectives. As a result, traditional Corporate Governance covers the way in which management performance strategy is reviewed, remunerated and communicated.

The Sustainable Funds Team's view of these issues is covered below.

2.1 Board Composition

The composition of the Board should be balanced with quality executive and non-executive directors (NEDs) to understand and have the competence to deal with the current and emerging issues of the business.

We expect a Board should be able to effectively review and challenge the performance of the management and exercise independent judgement to maximise long-term shareholder value and the interest of legitimate stakeholders.

To address increasingly complex and global issues, it is a strategic imperative that there is a diversity of backgrounds and experience on the Board.

We recognise that for a Board to be effective it must be made up of independent thinking individuals, who can critically examine issues. They must be willing to constructively raise issues, which may challenge the dominant or prevailing thinking of the Board and management. Different directors will bring different skills and experience to the Board and a good dynamic between Directors of the Board, including constructively addressing the differences of opinion, is an important requirement for a well functioning Board.

To achieve this constructive tension on the Board, we encourage the Board to actively seek a diversity of background including representatives of legitimate stakeholders, persons from geographic locations of main operations and increase the representation of women.

2.2 Assessment of Independence

As a starting point, we expect the Board to consist of majority of NEDs. We may accept a minority of NEDs if it can be demonstrated that the Board still acts effectively in its role.

Independent NEDs are directors who are independent of the management and who do not have any business interest or other relationship that could materially interfere with, or have perceived to materially³ interfere with the exercise of their independent judgement. The Sustainable Funds team assess independence with the following criteria. The director:

- is neither a substantial shareholder nor associated directly with a substantial shareholder of the company.
- had neither been employed in an executive position nor as principal of a material professional adviser to the company or directly related companies in the last three years.
- is neither a material supplier or customer or otherwise associated directly or indirectly, with a material supplier or customer of the company.
- has neither a material contractual relationship with the company, other than as a director, nor has any other business interests to materially interfere with the director's ability to act in the best interest of the company as a whole.
- has not served on the Board for a period, which could or could reasonably be perceived to materially interfere with the director's ability to act in the best interest of the company as a whole.

We expect the Board should regularly assess the independence of each director and each director to provide relevant information to the Board.

³ Materiality is relevance requiring careful consideration.

2.3 Directors

Our votes are generally in support of the election of Directors endorsed by the Board. However, the following factors are considered.

- Has the Board performed satisfactorily? Does the Board work well? Has it added to shareholder wealth - acknowledging that share price under-performance in a particular period can be outside the control of the Board?
- We may support a Director, not endorsed by the Board if they represent a legitimate stakeholder and can demonstrate that they and the Board will work effectively.
- Does the Board work in the best interests of all shareholders and legitimate stakeholders?
- Are the majority of Directors 'independent'? AMP Capital Investors Sustainable Funds Team reserves the right to judge on a Director's independence.
- Is there a good mix of skills, experience and core competencies?
- Does the rest of the Board support this Director or will his/her election cause the working relationship to be political/ factionalised?
- Is the Chairperson an independent Director? If not, do independent Directors have a 'lead' Director to monitor issues normally overseen by an independent Chairperson?
- Is the role of Chairman and CEO separate?
- Are Directors 'retired' after each three-year term, requiring re-election? We consider it preferable for all directors to be subject to the discipline of periodic retirement and re-election by shareholders.
- Is there a regular and independent review of the performance of the Board?
- We will Abstain in voting for Directors older than 72 years of age (unless they are involved in the management of the company). This is done to encourage succession and new contributors.

2.4 Board Committees

Companies are encouraged to form Board Committees (e.g. Audit, Remuneration, Nomination, Corporate Social Responsibility and Human Resource). An independent director should chair the committees and at least a majority of the committee should be independent directors.

- The Audit Committee's tasks should include assisting the Board to discharge responsibilities in connection with the financial management, financial performance and financial reporting of the company.
- The Remuneration Committee's tasks should include reviewing the remuneration of directors and senior management, ie. whether the directors' remuneration adequately reflect their responsibilities and risk and whether senior management's remuneration promotes long-term growth in shareholder values and is reasonable when compared with industry benchmarks.
- The Nomination Committee's tasks should include succession planning, proposing new nominees to the Board and advising on the procedures for an assessment of directors' performance.

Companies are encouraged to form other Board Committees, which specifically address key issues and risks for the success for the company.

- Corporate Social Responsibility (CSR) Committee. For all types of companies, it may be appropriate to form a committee to review the standards and policies to manage corporate social responsibility issues affecting the company. For companies in the extractive, materials, or chemical industries we would expect a Health, Safety and Environment Committee or specific reference to Health, Safety and Environment assessment as part of the Board responsibility.
- Human Resources Committee. In many services company, where the management of human capital is critical, a Human Resource Committee may be appropriate.

2.5 Board Member Performance

The Nomination Committee should be ensuring a regular Board and key executive performance review against both measurable and qualitative indicators.

The performance evaluation procedures and results should be made publicly available in the corporate governance section of the annual report and the website.

2.6 Role of Chairperson and Chief Executive

A Chairperson should lead the Board for the efficient organisation and conduct of the Board's function. The Chairperson should facilitate effective contribution of all directors and promote constructive relations between Board members as well as between the Board and the management.

In order to prevent the concentration of power in the hands of one person, we prefer separate a Chairperson and Chief Executive. However, we recognise that in some circumstances, the combination of these roles may be justified. Where the roles are combined, the reasons for should be clearly stated, enabling shareholders to make a judgement on the appropriateness in the particular situation.

2.7 Remuneration and Voting Resolutions

The Sustainable Funds Team recognises that most employees are and should be motivated by more than just financial rewards. The broader issues of remuneration and compensation are discussed in section 3.3. This section outlines the Team's view with respect to remuneration resolutions, which require shareholders' approval.

Resolutions regarding remuneration are assessed on a case-by-case basis, taking into account details provided by the company regarding the nature of the payments, the company's financial situation, executive performance and any other factors seen as relevant at the time.

We prefer Boards to clearly disclose and explain all aspects of executive remuneration policies to enable shareholders to understand the total remuneration package when determining whether to support any proposed scheme.

We will consider the relative components of the total remuneration, eg. fixed, short-term performance bonuses and long-term performance bonuses and assess whether these match the past and future performance of the company. With regard to short-term performance we will encourage, where appropriate, the incorporation of the environment, health and safety and governance performance measures.

Levels of remuneration/compensation will not be supported if they are considered to be excessive and have a low cost-to-benefit ratio. Resolutions proposing options are supported where the options are struck with appropriate performance hurdles, exercise period, and exercise price and where they do not represent excessive dilution. We expect a valuation of options and these to be expensed.

Options issued in lieu of cash remuneration are generally viewed positively. Companies are encouraged to provide detailed background information regarding the nature of the payment, eg. whether it forms an incentive payment or a component of salary. Resolutions to reprice existing options will generally not be supported. The provision of limited recourse loans to finance the acquisition of securities or the exercise of options is unlikely be supported.

2.7.1 Employee Share and Option Plan Guidelines

Employee share and option plans are supported as they enhance the common purpose between employees, shareholders and the company. If designed properly these plans provide incentives for employees to increase productivity and should be offered to a broad range of employees. Plans should be designed such that they reward and motivate staff and drive improved company performance.

Employee share purchase plans are supported where the discount is reasonable, ie below 15%.

2.7.2 Executive Share and Option Incentive Plan Guidelines

Consistent with the Executive Share and Option Incentive Scheme Guidelines issued by IFSA, we support the issue of securities to executives. We encourage companies to design transparent plans that 'encourage senior members of the company's executive team to ensure the company performs well for the shareholders through long-term growth and increasing shareholder value'.

We will generally support executive share and option plans where they provide a method of improving company performance through motivating and retaining key employees. Plans should:

- clearly state their objectives,
- reflect the responsibilities of the executives,
- be reasonable when compared to the market,
- be transparent in providing detail on short-term, long-term and total remuneration,
- be of sufficient duration to retain key executives beyond the short-term, and
- in the case of incentive plans, be designed to reward future superior performance, being clearly linked to appropriate benchmarks. Benchmarks should be challenging; achievement of which genuinely improves the competitiveness of the company.

Rewards should be based on actual company performance in terms of long-term growth, resulting in increased value for shareholders (eg. Total Shareholder Return compared to appropriate peer) rather than being merely linked to a general market indicator (increase in share price). 'Straight' tests of performance are preferred to 'double' hurdles, as double hurdles (such as the requirement to meet both a relative and an absolute benchmark) are often too difficult to achieve and therefore lack sufficient motivating power.

2.7.3 Remuneration of Non-Executive Directors

Consistent with the IFSA guidelines, we would prefer that equity participation by non-executive directors not be acquired through an option plan that has been designed for the executives whose role it is to manage the company. Non-executive director's options plans are generally NOT supported as they may give rise to a conflict of interest. Non-executive directors should represent the general body of shareholders and it is felt that aligning their financial interests with those of management and employees in this way could prejudice their independence, stifling the independent's analysis and/or criticism of the actions of management.

Non-executive directors should rather be encouraged to invest their own capital in the company or to acquire securities from allocation of a portion of their fees. Ideally, the Board is not only responsible for the short-term price performance of the securities but also for creating an economic entity of value.

2.8 Relationship with Auditors

It is vital that auditors remain independent from the company. In order to assist in monitoring the independence and objectivity of the audit, an assessment of the financial relationship between the company and the auditor may be made. Where the 'non-audit' fees appear too high relative to 'audit' fees and there is no obvious explanation, justification may be sought, particularly if the composition of the Audit Committee does not meet the IFSA guidelines.

2.9 Disclosure

There should be continuous disclosure policies and procedures to ensure that company announcements are made in a timely manner, expressed in a clear and objective manner, and include all material information.

2.10 Changes to the Company

Votes on material changes to a company; such as the amendments to the constitution, changing the company's type (eg. from a 'no liability' to a 'limited' company), changing the company's name, etc are decided on a case-by-case basis. Before resolutions are supported we must be comfortable that they are either required by law and/or that they are in the best interests of shareholders. Unequal voting rights are generally not supported.

2.11 Specific Transactions

Our positions on specific transactions such as reductions of capital, selective buy-backs, large placements of securities and related-party transactions are decided on a case-by-case basis. Resolutions are supported where they are in the best interests of shareholders and opposed where they have adverse consequences for existing shareholders. In particular,

- Buy-backs should be done for legitimate corporate purposes and should preferably be for a set amount, over a set period.
- Increase of issued capital will be supported where the funds raised will be used for 'reasonable' purposes, such as DRP, share-split etc.
- We support share placements that are in the best interests of shareholders. We abstain from voting where AMP Capital has participated or expects to participate in the placement of securities. The votes of related parties are excluded.
- The size of the placement must not be excessive, eg. raising only the capital required over the next 12 months, unless compelling reasons have been given.

2.12 Risk Management

Risk management and internal controls have a clear link to the ability of a company to fulfil clear business objectives⁴. The benefits of early risk detection can be considerable in terms of competitiveness, flexibility and new opportunities not just the potential for reduced costs from fewer risk exposures. AMP Capital Sustainable Funds Team believes that a company needs to show how they are managing risks in their operation to achieve their goals. A company needs to demonstrate that they:

- Identify their risks
- Prioritise the risks to achieve the objectives
- Establish a clear risk management policy and control strategies including contingency plans
- Monitor continuously

This information should be available to the legitimate stakeholders in the annual report and/or the website.

The issues to be considered when identifying risks should extend beyond traditional financial risks, such as interest rate, foreign exchange and commodity prices. Issues could include:

- Political risks
- Technology
- Strategy implementation
- Business interruption
- Risks from competitors
- Fraud
- Compliance risks
- Litigation risks
- Key person and human capital risks
- Quality assurance
- Environment risks
- OH&S risks
- Brand and reputation risks

Examples of risk management control strategies are:

- The Board ensures that the company has in place effective systems for managing significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives.

⁴ "Implementing Turnbull – A Boardroom Briefing" by Centre for Business Performance, The Institute of Chartered Accountants in UK, September 1999

- Identify risks and opportunities (including social, environment, health and safety) that may significantly affect the company's short and long term value or legitimate stakeholder interests, and how they might impact on the business.
- Provide information about the extent to which the company has complied with its policies and procedures for managing risks to the shareholders.
- Describe and educate to the employees the company's policies and procedures for managing risks to short and long term values.

3 Corporate Social Responsibility

3.1 Definition

We believe the good management of a range of responsibilities that companies have towards different stakeholders contributes to business success and long-term shareholder value. These are:

- economic responsibilities to shareholders, and fair and legal behaviour in the marketplace, towards consumers, suppliers and competitors.
- responsibilities to minimise and manage environmental impacts.
- responsibilities towards employees.
- responsibilities to the wider community.

In many cases, the good management of these responsibilities is critical to the enhancement of key intangible company assets, such as brand reputation and human capital.

AMP Capital Investors Sustainable Funds team expects all companies in which it invests to adopt standards, policies and management processes covering the corporate social responsibility issues affecting them. These should be based wherever possible on internationally recognised instruments such as the UN Global Compact⁵; the UN Universal Declaration of Human Rights⁶ and the related covenants and conventions; International Labor Organisation conventions on labour standards⁷; the OECD Guidelines for Multinational Enterprises⁸; and the Draft Enterprises with Regard to Human Rights⁹ and applicable industry standards¹⁰.

3.2 Code of Conduct

Employee integrity is needed to achieve corporate responsibility and effective corporate governance. Personal integrity cannot be regulated and therefore each company should design its own Code of Conduct or set of business principles to guide employees, as well as the directors and executives' behaviour.

We recommend that the Code of Conduct¹¹ should include as a minimum the following.

- Managing conflicts of interest
- Preventing corporate opportunities from taking advantage of property, information and opportunities
- Confidentiality of non-public information
- Fair dealing by all employees
- Protection of and proper use of the company's assets
- Compliance with laws and regulations
- Encouraging the reporting of unlawful / unethical behaviour
- Minimum disclosure
- Provisions such as the 'whistle blower' program

⁵ United Nations Global Compact: www.unglobalcompact.org/

⁶ UN Universal Declaration of Human Rights: www.unhcr.ch/udhr/

⁷ ILO standards on labour conditions: www.ilo.org/public/english/standards/norm/whatare/fundam/

⁸ OECD guidelines: www.oecd.org/department/0,2688,en_2649_34889_1_1_1_1_1_1,00.html

⁹ Amnesty International's document: www.amnesty.org.uk/images/ul/U/UN_norms_Business_final_aw.pdf

¹⁰ For example, Australian Minerals Industry Code for Environmental Management (2000) http://www.minerals.org.au/sustainable_development/

¹¹ Recommendations from "ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations" March 2003.

AMP Capital Sustainable Funds Team expects that the company should demonstrate how the Code is communicated to employees and other stakeholders eg. suppliers and contractors.

3.3 Employee Compensation and Performance Management

The employees are the core of any organisation. How effectively an organisation maintains a quality team of employees is linked to its ability to manage them. Past motivation theories have illustrated that financial incentives are not the only reason for motivation to work. Motivation varies between individuals and these depend on meeting the needs of individuals. Needs are neither instinctive nor fixed. They vary with changes in personal circumstances and can be modified by making desired rewards more available or less available.

Therefore, AMP Capital Sustainable Funds Team believes that the reward and compensation scheme in a company must extend beyond traditional financial rewards and promotion and acknowledge and build on other motivations such as a sense of achievement, enriched jobs, improved relationships, personal development and growth opportunities and building up self-worth. This flexibility will be increasingly important as companies respond to the emerging socioeconomic trends of aging population, moves to part-time work and increasing participation of women. Incorporation of this flexibility within compensation programs could be through flexible working hours, work sharing, maternity and paternity leave and other employee benefits.

The fulcrum, which leverages employee motivation, compensation and reward to company performance, is the company's performance management system. The performance management system must integrate:

- employee hiring;
- employee responsibilities and accountability;
- employee experience and competency development;
- alignment of employee performance measures with company performance;
- ways to address non-performance, including dispute resolution; and
- employee resignation, position redundancy or dismissal.

3.4 Disclosure

According to the OECD's Corporate Governance Policy¹², insufficient or unclear information for the shareholders and potential investors may hamper the ability of the markets to function, increase the cost of capital and result in a poor allocation of resources. The company needs to disclose regular, reliable and comparable information for the stakeholders to assess the stewardship of the company and make informed decisions about the valuation of the company and voting of shares.

Legal compliance is a minimum requirement for any corporation. Therefore a key measure of whether Directors are exercising their power and discharging their duties in "the best interest of the Corporation", as required by the Corporation Act, is whether they have systems in place to meet minimum requirements such as compliance. The Sustainable Funds Team believes disclosure within the Directors' Report stating that a company has, or has not, met its legal requirements is appropriate and in the case where it has not met them, further explanation should be provided about what has been undertaken in response to any non-compliance. Non-compliance disclosure should be made irrespective of the direct financial materiality and the annual Directors' Report should disclose the entity's compliance and performance of environment, health and safety, competition, international labour standards and any specific industry regulations.

In addition, the Sustainable Funds Team believes that companies should provide greater discussion and quantification of contingent liabilities. Both the International Accounting Standard (IAS 37) and the Australian Accounting Standards (AASB 1044) recognise that potential contingent liabilities extend beyond legal obligations and include constructive obligations. Constructive obligations are 'governed by social, or moral sanctions or custom' under AASB 1044 or set by the company through such things as company policies, under IAS 37.

¹² OECD Principles of Corporate Governance 2004: <http://www.oecd.org/dataoecd/32/18/31557724.pdf>

We also encourage companies to develop more detailed reporting in the performance and management of environmental, social and workplace issues. The GRI¹³ provides a useful framework.

The Sustainable Funds Team also believes that companies should disclose any political donations and their policy of political donations in the annual report. We would have concerns if political parties were not equally supported or the contributions are considered excessive from industries such as property. We would consider such companies on a case by case basis.

In line with global best practice, the Sustainable Funds Team encourages companies to better discuss 'any known trends, demands, commitments, events and uncertainties'¹⁴, which are important for an understanding the business and future developments impacting the business.

The proposed UK Regulations on the Operating and Financial Review and Director Report¹⁵, highlights the need to discuss issues such as environmental and health and safety matters.

¹³ Global Reporting Initiative www.globalreporting.org

¹⁴ US Securities and Exchange Commission (SEC) Rule Item 303 of Regulation S-K

¹⁵ "Draft Regulations on the Operating and Financial Review and Directors' Report – A consultative document" The Department of Trade and Industry, May 2004: <http://www.dti.gov.uk/cld/financialreview.htm>

4 Activism

4.1 Engagement

The Sustainable Funds Team portfolio managers, in-house research analysts and AMP Capital's Corporate Governance manager maintain regular dialogue with companies. This dialogue allows us to monitor the development of companies' business, including areas such as overall strategy, business planning and delivery of objectives, debt/equity ratios, proposed acquisitions or disposals, corporate responsibility and corporate governance.

We also undertake programs of engagement focusing in specific themes and sectors. Our focused engagement with companies is prioritised according to the scale of our shareholding in the company, the likelihood that we can exercise influence, and the seriousness of the issue as a precedent for inappropriate practice by other companies.

We take an active approach to making our views clear to the company and seeking improvements where we believe there are shortcomings in a company's performance, or the company has failed to apply appropriate standards, or to provide adequate disclosure on its policies and performance. We will continue our dialogue with the company over an extended period if necessary.

If we are unable to resolve the matter through this dialogue, we may work with other institutional investors to put our concerns to the company jointly. We also have the option of using the voting rights held on behalf of clients to impress upon management the need for change or ultimately to support a takeover.

4.2 Voting

We exercise voting rights on behalf of clients at meetings of all Australian companies in which we have a holding. We will not support management proposals which, in our view, are not in the best interests of shareholders. Where we have taken a decision not to support management proposals, we will endeavour to inform the company of our intentions and the rationale for our decision.

5 Conflict of Interest

AMP Capital Sustainable Funds Team acknowledges that conflicts of interest may arise in the context of our corporate governance and corporate social responsibility work. For example, we may have serious concerns about a company or operation where other parts of AMP Capital has a financial interest. Where a serious conflict of interest arises, the matter will be referred to the Chief Investment Officer and, depending on the issue, the Sustainable Fund Advisory Committee. The issue will be discussed with the appropriate members of staff and the decision and rationale for reaching them documented and available to clients.

Conflicts of Interest do not extend to voting on resolutions, where the Sustainable Funds Team can vote differently to the rest of the AMP Capital Investors.

Due to a perceived Conflict of Interest, the decision as to whether AMP Limited meets the environmental and social requirements of the Sustainable Funds Team will be made by the Fund's Advisory Committee, based on the assessment undertaken by the Sustainable Funds Team. If it is considered acceptable, the decision to invest or divest in AMP Limited will be based on the financial assessment of the portfolio manager, subject to AMP Capital's restrictions on trading in AMP Limited shares.

Unless specifically directed by our clients, we do not vote AMP Limited shares due to a perceived 'conflict of interest'

6 Reporting

We keep electronic records of all of our activism, engagement and corporate governance activities. These include notes to meetings and significant correspondence on corporate governance and corporate responsibility issues and notes on the rationale for voting decisions are kept. These notes are used as the basis for our reporting to clients.

Important note

Investors should consider the product disclosure statement available from AMP Capital Investors Limited (ABN 59 001 777 591) (AFSL 232497) for the relevant SRI Funds before making any decision regarding the product. Neither AMP Capital Investors, nor any other company in the AMP Group guarantees the repayment of capital or the performance of any product or any particular rate of return referred to in this document. Past performance is not a reliable indicator of future performance. While every care has been taken in the preparation of this document, AMP Capital Investors makes no representation or warranty as to the accuracy or completeness of any statement in it including, without limitation, any forecasts. This document has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. An investor should, before making any investment decisions, consider the appropriateness of the information in this document, and seek professional advice, having regard to the investor's objectives, financial situation and needs.