AMP CAPITAL

Corporate Governance 2012 full year report

JANUARY 2013

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The two-strikes rule and why shareholders care about pay

There are many factors to consider when choosing which shares to invest in. When researching companies, AMP Capital prides itself on digging deeper than most investors. While AMP Capital's share analysts focus predominantly on earnings and balance sheet fundamentals, the in-house environmental, social and governance team supplements this research by investigating a broad range of intangible factors and assessing how these may drive performance and the sustainability of each company's business model.

It is important to AMP Capital that the companies we have selected for our clients' portfolios are well managed on their behalf. We have found that intangibles such as how a company is governed, how it manages its talent, relationships and risks can all have an enormous impact on company value.

Well governed companies have boards that are made up of skilled directors who have the necessary time to devote to their considerable responsibilities, and are able to act independently and in the interest of shareholders. These companies also structure the pay of key executives and board members in such a way that it is not only a fair use of shareholder funds but also serves to provide the appropriate retention and motivation mechanisms.

AMP Capital has analysed company pay structures for many years. Since the introduction of the non-binding vote on remuneration reports in 2005 we have analysed and voted on 2,250 such reports. While the majority demonstrated good alignment with shareholder interests, approximately 30 per cent of remuneration reports were not supported as, in AMP Capital's opinion, they included poorly structured incentives, excessive and unjustified quantum, or overly generous termination benefits.

By analysing the pay structures of chief executives and directors, investors can gain considerable insights about not only *who* but also *what* a company values. For example, companies concerned about the retention of key executives may pay bonuses for continued service (with no specific performance requirement); companies focused on growth may pay bonuses upon executives completing a takeover (even if it later proves unsuccessful); or, companies concerned with their reputation may pay bonuses linked to customer satisfaction targets (even when performance is poor). Perhaps more worrying are the instances where non-executive directors are granted the same incentives as management. In those cases, the directors' interests (their bonuses) become more aligned with management than with the shareholders who elected them.

The metrics used for annual bonuses can also provide shareholders with valuable insights. Some companies clearly signal what is important by demonstrating strong links between specific performance targets (e.g. health and safety) and the payment of bonuses. In contrast other companies are far less transparent and provide shareholders with no information, other than disclosing that bonuses are granted 'at the full discretion of the board'.

Engagement

Over the years, AMP Capital has met with many company representatives to discuss governance issues including remuneration, however since the introduction of the government's two-strike rule[1] there has been a much broader scrutiny of this important issue.

Last year we admitted to initially being a reluctant supporter of the two-strike rule due to its potential to create unnecessary distraction and unintended consequences. While we felt the 25 per cent threshold had been set too low, we did admit that despite having voted against poorly structured remuneration for many years and having engaged with companies, the concerns we raised often fell on deaf ears.

Since the introduction of the two-strike rule, companies have shown a greater willingness to listen and respond to the views expressed by shareholders on remuneration issues.

While AMP Capital acknowledges that increased focus on remuneration issues has been time-consuming for both companies and investors, it has also presented investors with welcome opportunities to raise other important issues, mainly governance-related but also environmental and social issues. Recent court cases involving listed companies such as Fortescue, James Hardie and Centro, while focussing on the responsibilities of directors, also remind us that shareholders need to engage with companies and hold directors accountable for those responsibilities. If shareholders are not actively involved it is easy for the board to distance itself.

The 2012 proxy season

During the most recent Annual General Meeting (AGM) season, 20 companies held in portfolios managed by AMP Capital could potentially have received a second-strike. Of these AMP Capital voted in support of 13 remuneration reports, against four and specifically abstained on a further three.

Most of these companies averted a second-strike by engaging with shareholders throughout the year and improving remuneration practices including:

> Improved disclosure (for example greater clarity around performance hurdles)

> Introducing appropriate performance measures to bonus plans that previously had no hurdles

> Improved performance hurdles, more challenging and more aligned with shareholder interests

> Ceasing the practice of granting incentives to non-executive directors (particularly where they are identical to those of management)

> Improving alignment between the interests of management and shareholders by paying a portion of the annual bonuses in shares which need to be held for a period of one to two years

> Disallowing frequent re-testing against performance hurdles that have not been met

> Showing some restraint by freezing base pay levels (though this may be more about the state of the economy than a real measure of austerity), and

> Disallowing automatic vesting of incentives in the event of a change of control.

The four companies where AMP Capital lodged votes against the adoption of the 2012 remuneration report were: Cabcharge Australia Ltd, Cudeco Ltd, Linc Energy Ltd and UGL Ltd. While we had several issues with remuneration at each of these companies, our two main concerns related firstly, to the payment of discretionary bonuses which appeared to be at odds with company performance and/or secondly, to pay levels that were very high relative to similar companies or to the level of their own profitability.

On the three companies where AMP Capital specifically abstained from voting, we had either seen some improvement since last year (but not enough to warrant a 'for' vote) or it was the first time we had voted on that company and we deemed it more appropriate to abstain and communicate our concerns, rather than vote either 'for' or 'against'.

Board spills

So, were any boards spilled?

Of the 20 companies in AMP Capital portfolios only two received a second-strike. These companies were Cabcharge Australia Ltd and Linc Energy. However neither was required to hold a board spill meeting, as less than 50 per cent of shareholders of these companies supported a board spill[2].

Given that these companies received a second-strike, we would expect them to make it a priority to engage with shareholders in the coming year and address concerns raised. AMP Capital has already communicated our specific concerns to both these companies (for more information refer to AMP Capital's voting statistics later in this report).

Looking forward

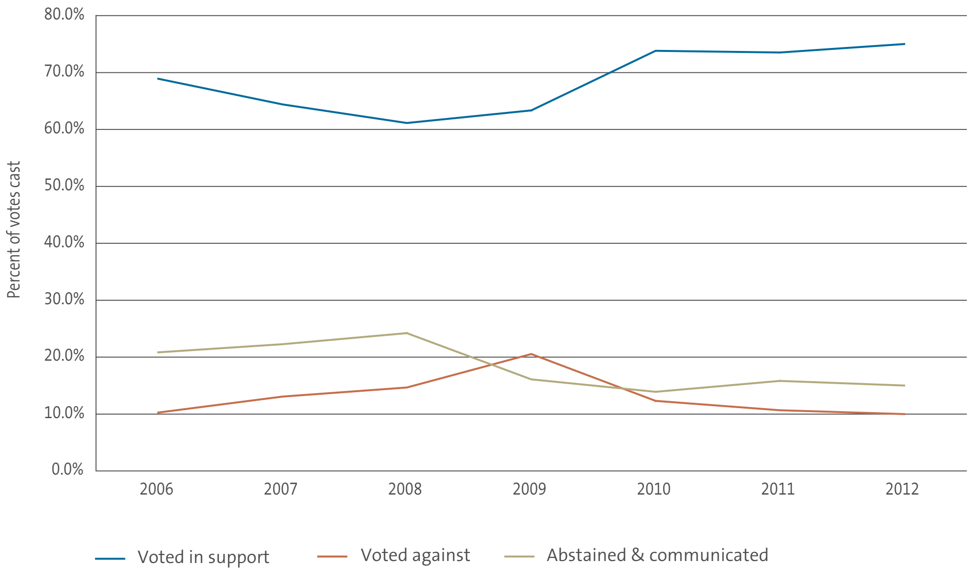
In recent years the global financial crisis, along with corporate collapses and various court rulings have all focussed considerable attention on how companies are governed.

The increased scrutiny and recognition of responsibilities has the potential to bring significant benefits to the efficiency of capital markets particularly if all participants take their responsibilities seriously and hold each other accountable for them.

As a broad investor and large owner of companies and assets on behalf of our clients, AMP Capital has a stake in the effective operation and sustainability of the broader economy. We recognise our responsibility to engage with the boards and management teams of investee companies on a broad range of issues. Since the introduction of the two-strike rule communication channels between companies and investors have opened further. We hope future dialogue will prove constructive and outcomes beneficial to all market participants.

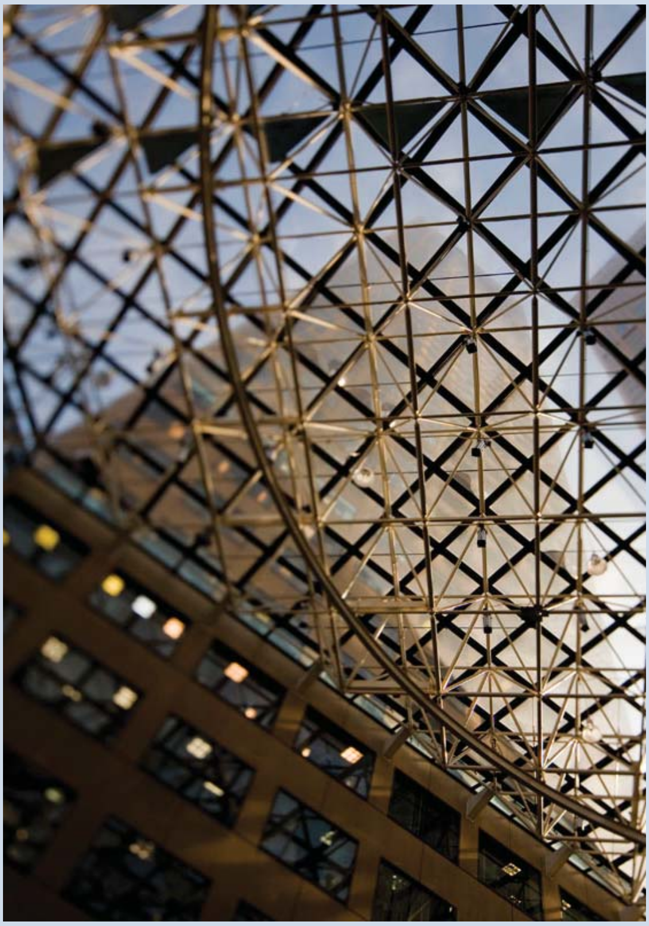
1. Under the two-strike rule if more than 25 per cent of shareholders vote against the adoption of the company's remuneration report in two consecutive years, shareholders are given the opportunity to vote on a spill of the board of directors.
2. 14 per cent of Cabcharge Australia's shareholders voted for a spill meeting and 26 per cent of shareholders at Linc Energy Ltd.

Remuneration reports: voting trend
AMP Capital's votes: 2005-2012



AMP Capital's votes in favour of remuneration reports are now at their highest level since remuneration voting was first introduced in 2005

AREITs – a case study in corporate governance risk



The listed Australian Real Estate Investment Trusts (AREITs) are often seen as an attractive investment option as they offer good sustainable dividends and relatively stable cash flows as tenants are bound by long leases with fixed or semi-fixed rent escalation clauses.

However, although the sector might be perceived as being relatively stable, you only need to go back to the global financial crisis to see how poor governance can have detrimental consequences.

When the credit crisis struck, REITs[3] who had borrowed heavily to buy properties, found themselves with stretched balance sheets and no way to refinance their debt, leaving them with no choice but to raise capital by issuing new equity (albeit at a substantial discount). Existing investors were not happy to have their holdings diluted and the AREIT index promptly fell by almost 75 per cent.

Sector analysis: key findings

AMP Capital's environmental social and governance (ESG) research team recently completed a thorough review of the property sector, including REITs and property developers, and identified key ESG risks that investors need to pay attention to.

There are several significant long-term sustainability trends at play, including climate change and demographic change. In the short to medium term, investors need to pay particular attention to the management of intangible drivers, that is, the intangible factors that may impact an entity's ability to deliver shareholder returns.

At AMP Capital we believe the majority of a company's value is made up of intangibles. For the property sector, intangibles can include: a company's ability to attract, develop and retain key talent, brand, corporate culture, environmental risk management, tenant relationships and corporate governance.

As illustrated by the Global Real Estate Sustainability Benchmark[4], Australian property companies are at the forefront of sustainability, including environmental risk management and sustainable buildings. Listed property companies' disclosures on these issues are generally good, which means these factors should already be priced in by the market.

In our view, however, the key differentiator within the sector is corporate governance, particularly as the property sector has some unique governance risks related to the model of stapled securities (an ordinary share stapled to a unit trust) as well as bribery and corruption risks related to developments in emerging markets.

Focus on governance risks

Adherence to the ASX Corporate Governance Guidelines[5] on board structures is more than a box ticking exercise as poor board independence can represent a real risk to minority shareholders. In particular, investors should be concerned when audit committees are not fully independent or constitute directors without the necessary industry or technical skills to fulfil its role of overseeing the company's financial reporting, internal control systems and risk management systems.

Excessive pay and structures that are poorly aligned with shareholders' best interest also represent risks of significant shareholder value destruction. Investors need to pay particular attention to the various accounting treatments and earnings adjustments applied by some companies in the sector, which can create perverse incentives for management.

It is generally considered best-practice for public entities to be governed by a board of directors which is not only largely independent of management and is thus able to act in the best interest of shareholders, but also possesses the appropriate skills and time required to discharge their responsibilities.

Unfortunately AMP Capital's assessment of the property sector found a number of companies with non-independent chairpersons and boards with poor independence.

Of the companies we reviewed in Australia and New Zealand, five companies did not have a majority of independent directors; at least ten had audit committees that were not fully independent; almost half had directors who sat on at least three other major company boards and many had directors who did not hold equity in the company and/or had missed several board meetings – all these factors leading us to question how effectively these directors represent shareholders.

Given that ownership and voting control in this sector is often dominated by one or a group of large shareholders, it is probably not surprising that there is an increased occurrence of transactions being conducted between the company and these related parties.

Unfortunately our research identified a number of instances where these transactions, while beneficial to the related party, were costly to the broader group of shareholders.

The risks associated with related party transactions is further exacerbated as the AREIT sector is fundamentally a mechanism by which the property sector can access capital, and hence entities tend to be 'takers' of transaction risk.

Another governance risk stems from the long auditor tenure for some AREITS and property developers (in several cases in excess of 15 years). This is of particular concern in companies which have had recent accounting irregularities. Despite often being considered beneficial to keep the same auditing firm in the context of understanding the intricacies of a business, auditors do have to declare their independence. From an investor's perspective, long auditor tenure and large fees paid to the auditor for non-auditing services, may decrease the objectivity and robustness of the audit and increases the risk to investors.

AREIT Remuneration

Prior to the GFC cash bonuses and pay packages for executives in the property sector rose significantly. Following the GFC, many companies have announced substantial remuneration restructuring and reductions.

However, when measured over the last five years, we found that often the reductions are not in proportion to the total shareholder returns and we remained concerned about the remuneration structures of several companies in the property sector.

We have actively engaged with many companies through our voting, correspondence and meetings with representatives of the board but in some cases, progress and change have been slow.

Continued engagement

It is important to AMP Capital that these companies are governed in such a way so as to ensure they will be managed in shareholders' best interests. As such, we will continue to engage with companies to encourage good alignment between the interests of investors and management.

3. The term AREIT is used when referring to Australian Real Estate Investment Trusts where the term REIT refers to Real Estate Investment Trusts in both Australia and abroad. This research included REITS based in New Zealand.

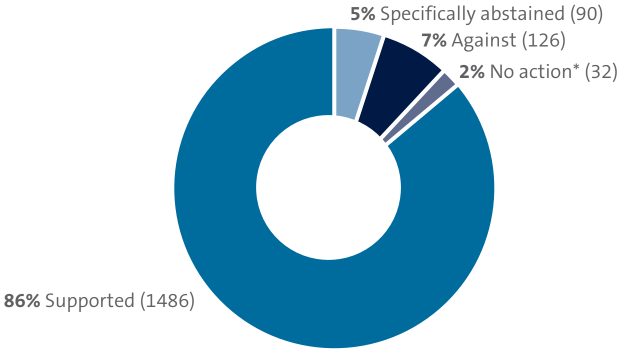
4. Global Real Estate Sustainability Benchmark is an industry-led organisation committed to assessing the sustainability performance of real estate portfolios (public, private and direct) around the globe. The dynamic benchmark is used by institutional investors to engage with their investments with the aim to improve the sustainability performance of their investment portfolio, and the global property sector at large.

5. Corporate Governance Principles and Recommendations with 2010 Amendments (2nd Edition). ASX Corporate Governance Council (Note: The ASX Corporate Governance Council was formed in August 2002 and has been chaired by the ASX Group (ASX) since its inception. Its ongoing mission is to ensure that the principles-based framework it developed for corporate governance continues to be a practical guide for listed companies, their investors and the wider Australian community.)

AMP Capital proxy voting statistics: Australian portfolios

1 January to 31 December 2012

Voting: 2012
AMP Capital voted on 1734 resolutions at 332 company meetings



*resolutions where AMP Capital was excluded from voting

AMP Capital's shareholder activism

AMP Capital takes the responsibility of investing our clients' money seriously. As such we are actively committed to encouraging good corporate governance at the companies owned in the portfolios we manage.

Whilst our lodgement of proxy votes has an impact on governance, we believe communication, either via letters or our meetings with company directors, to be a more constructive and effective form of shareholder activism.

Each year many governance-related letters are written to company chairmen. We continue to be pleased with the companies' positive response – with many companies addressing our specific concerns and improving governance practices in subsequent years. In addition, many company chairmen have accepted our invitation to discuss governance matters further, meeting with us personally to discuss issues of concern. This influence has been constructive, with some visible improvements including greater disclosure and transparency, the appointment of independent directors, improved terms for incentive plans and the abolition of termination benefits for non-executive directors.

Following on from the introduction of the two-strike rule (see page one), the number of companies seeking to engage with AMP Capital almost tripled over the last six months. While some increase in engagement had been anticipated, it was not possible to accommodate all companies' requests for meetings and dialogue during the already busy proxy season. As such we encourage companies to meet with shareholders well outside of the proxy season peaks.

Non-executive director remuneration

In 2012, 49 companies owned in AMP Capital portfolios sought approval for an increase in the maximum aggregate level of fees that could be paid to the company's non-executive directors (NEDs).

Most increases sought were considered reasonable after taking into account various factors including the size of the company, the company's complexity, performance, board composition (including the number of directors and the balance of independent directors), whether options or retirement benefits are paid to directors and the factors put forward by the company to explain the need for the increase being sought. However, AMP Capital did vote against the increase sought at the following two companies:

Cudeco Ltd
M2 Telecommunications Group Ltd

In line with generally accepted principles of good governance, AMP Capital is not in favour of option grants being made to non-executive directors. It is preferred that non-executive directors be aligned with the shareholders they represent rather than potentially being influenced by incentive structures that may not reflect the experience of the public shareholders who hold listed securities.

Preferably, non-executive directors should be encouraged to invest their own capital in the company or to acquire shares from the allocation of a portion of their fees.

Share and option incentive plans

In 2012 AMP Capital submitted votes on 254 incentive-related resolutions (not including votes on remuneration reports, NED fee increases and termination payments).

Over the period, AMP Capital voted against at least one incentive-related resolution at the following companies:

Abacus Property Group	Linc Energy Ltd
Aurora Oil & Gas Ltd	NextDC Ltd
Ausenco Ltd	Northern Star Resources Ltd
Beadell Resources Ltd	Nufarm Ltd
Carsales.com Ltd	Oceanagold Corp
Coalspur Mines Ltd	Rex Minerals Ltd
Discovery Metals Ltd	Senex Energy Ltd
Endeavour Mining Ltd	Sundance Energy Australia Ltd

We endeavour to make contact with the company (usually via a letter to the chairman) to provide reasons for our position.

As investors, we seek to invest in companies that will provide the best relative share market performance over the long term and as such we prefer a significant portion of the CEO's remuneration to be aligned with that goal.

The underlying reasons for not supporting long-term incentive-related resolutions include:

> Poor disclosure of the terms of the incentive plans
> Plans are shorter than the desired three-year minimum
> Plans had no performance hurdles or hurdles lacked sufficient alignment with the interests of shareholders
> Proposed plan amendments would increase the value to employees, without any corresponding benefit to shareholders
> Participation of NEDs in executive schemes, and
> Plans showed no improvement, despite the company having received comments/input and the matter being not supported previously.

AMP Capital continues to consider how incentive grants should respond upon a change of control at the company. We have become wary of incentives that vest automatically on change of control after seeing instances where company executives and directors engaged in behaviour that could potentially destroy shareholder value while themselves reaping significant personal gains.

AMP Capital also specifically abstained from voting on incentive schemes in several other companies. We will specifically abstain from voting where schemes contain minor flaws, or where it may be the first time we have raised the concern with the company. We find this abstention and communication mechanism more constructive than simply voting 'for' a slightly flawed resolution as it allows us to send clear signals to companies, often leading to useful dialogue.

Remuneration reports

Since the introduction of the non-binding votes on remuneration reports in 2005, Australian investors have had a mechanism by which to review and comment on the approach to remuneration used by the companies in which they invest. The impact of a shareholder's 'against' vote on remuneration is now greater since the introduction of the two-strike rule.

When reviewing the appropriateness of remuneration reports, AMP Capital generally considers a wide range of factors.

Remuneration reports should be concise and facilitate a clear understanding of the company's remuneration policy, providing evidence that the policy is both fair and reasonable and is aligned with shareholder interests.

We particularly look for criteria such as the clarity of disclosure, satisfactory short and long-term incentive and termination arrangements and also appropriate non-executive director remuneration.

Over 2012 AMP Capital submitted votes on 258 remuneration reports, supporting 194 (75 per cent) of them. The remuneration reports AMP Capital voted against (as opposed to either 'supporting' or 'abstaining') over this period include:

Abacus Property Group	News Corporation Ltd
Aurora Oil & Gas Ltd	NextDC Ltd
Beadell Resources Ltd	Norfolk Group Ltd
Cabcharge Australia Ltd	Northern Star Resources Ltd
Cudeco Ltd	Nufarm Ltd
Energy World Corporation Ltd	Orotongroup Ltd
Gindalbie Metals Ltd	Qube Logistics Holdings Ltd
Gujarat NRE Coking Coal Ltd	Red Fork Energy Ltd
Ivanhoe Australia Ltd	Resmed Inc
Karoon Gas Australia Ltd	Rex Minerals Ltd
Linc Energy Ltd	Sundance Resources Ltd
M2 Telecommunications Group Ltd	UGL Ltd
Macmahon Holdings Ltd	

AMP Capital voted against remuneration reports which exhibited one or more of the following criteria: poor disclosure; poor alignment with shareholder interests; inclusion of non-executive directors in executive incentive plans; excessive quantum and poorly structured performance hurdles. Poor performance hurdles may include those that are absolute rather than relative, not sufficiently challenging, too short-term, purely accounting-based or allowing too many opportunities for re-testing.

Another area of concern is excessive termination payments (both actual and potential) made to some departing senior executives – particularly as actual payments often bear little resemblance to previously agreed limits.

AMP Capital also specifically abstained from voting on other remuneration reports, adopting the 'abstention and communication' mechanism mentioned earlier.

Board composition

Board composition continues to be one of the most important corporate governance issues for shareholders. Despite its significance, AMP Capital acknowledges it is often difficult for shareholders to determine whether they have the right boards governing their companies. The short biographies available in annual reports provide little detail and without being present in the boardroom, shareholders cannot observe the dynamics of the board, nor its overall effectiveness.

In any proxy season, most company meetings are Annual General Meetings (AGM) which require shareholders to vote on the election or re-election of directors. Votes cast 'against' directors would generally reflect concerns including poor board attendance, an insufficient number of independent directors to represent public shareholders (including too many executive directors on boards that are not majority independent) and finally, issues related to poor governance.

Once again in 2012 AMP Capital supported the majority of directors seeking re-election. Those not supported were predominantly self-nominated, non-board-endorsed candidates who we considered not ideal candidates. However companies where AMP Capital voted against at least one company-endorsed director include:

Cabcharge Australia Ltd	Mount Gibson Iron Ltd
Cudeco Ltd	News Corporation Ltd
Energy World Corporation Ltd	Qube Logistics Holdings Ltd
Gujarat NRE Coking Coal Ltd	Sundance Resources Ltd
Harvey Norman Holdings Ltd	
Karoon Gas Australia Ltd	

In addition, AMP Capital specifically abstained from re-electing directors at several other companies. In these cases there may have been a better representation of independent directors, albeit still a minority, and/or this was the first time the issue of board composition had been raised with the particular company. In almost all cases we endeavoured to communicate our specific concerns to the company involved.

Board spill resolutions

The 2012 AGM season was the first time companies could receive a second-strike; this included 20 companies held in portfolios managed by AMP Capital. Of these AMP Capital voted in support of 13 remuneration reports, against four and specifically abstained on a further three (see page two).

While almost all of these companies are held exclusively in index/passive portfolios AMP Capital has endeavoured to engage with the companies with regard to the issues of concern.

AMP Capital voted in line with company management and rejected a board spill resolution where first-strike companies had engaged with shareholders and had demonstrated sufficient progress toward addressing concerns and ensuring pay was indeed fair and aligned with shareholder interests. As such, there was only one company (Cudeco Ltd) where AMP Capital voted in support of a board spill.

In our opinion, not only do the remuneration practices at Cudeco Ltd continue to appear at odds with the interests of shareholders, but other governance concerns also exist.

Termination payments

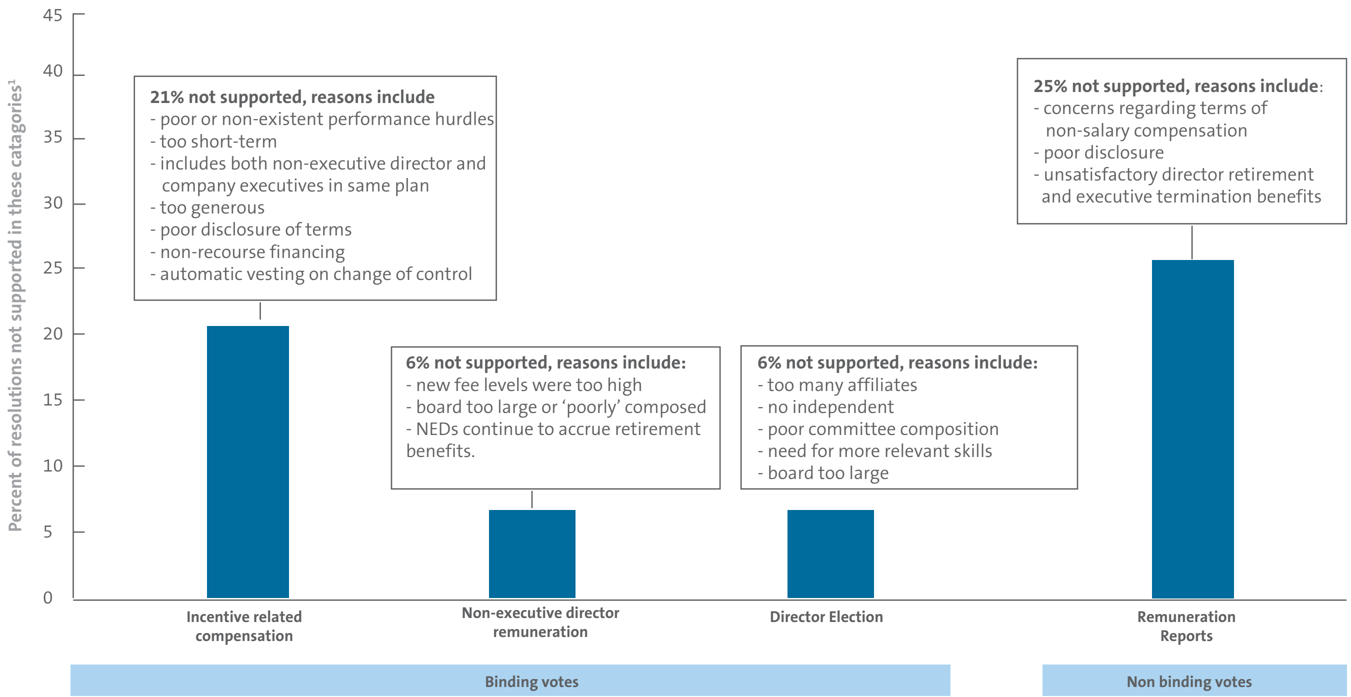
Recent amendments to the Corporations Act 2001 (Cth) have tightened restrictions on termination payments that can be made to executives without shareholder approval.

The amendments now mean any employment contracts entered into (or varied) on or after 24 November 2009 requires shareholder approval for termination benefits (paid to directors or certain executives) in excess of one year's base salary. Previously, termination benefits could reach up to seven times a recipient's total annual remuneration before shareholder approval was required.

These changes were first announced in March 2009 as part of the Federal Government's focus on excessive retirement payments following significant negative media surrounding this issue.

In 2012, there was only one company (NextDC Ltd) where AMP Capital did not support at least one resolution relating to the actual, or potential, payment of termination payments.

Resolutions not supported by AMP Capital Investors in 2012 (includes abstentions)



Source: AMP Capital voting statistics

It has been interesting to observe how different companies have acted in response to the new rules. Some companies have taken a very conservative approach, interpreting an increase in the CEO's base pay as 'an amendment to their employment contract', this in turn leading them to then seek shareholder approval for termination payments under that 'new' contract. In contrast, other companies were far more opportunistic and moved to lock in generous termination payments by amending employments contracts just prior to the November 2010 deadline.

AMP Capital will continue to monitor these developments with interest.

AMP Capital Australian Proxy Voting Statistics (2001 to 2012):

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Number of company meetings where votes were submitted:	332	365	349	406	418	496	413	381	396	336	349	341
Number of resolutions voted on:	1734	1827	1748	2007	2154	2482	2,049	1,824	1,622	1,335	1,700 (est)	1,500 (est)
Meetings where all resolutions supported (by AMP Capital):	63% 208	64% 235	69% 240	55% 224	59% (248)	58% (290)	64% (265)	63% (238)	74%	74%	78%	68%
Meetings where incentive issues considered: (since 2005 includes Rem reports)	82% 272	79% 290	80% (279)	83% (337)	82% (341)	72% (357)	79% (327)	68% (261)	33% (129)	27% (91)	26% (92)	31% (105)
Meetings where remuneration reports considered:	78% 258	74% 271	72% (252)	71% (288)	75% (314)	68% (337)	76% (312)	57% (219)	n/a	n/a	n/a	n/a
Remuneration reports not supported (by AMP Capital):	25% (64/258)	27% (73/271)	26% (66/252)	37% (108/288)	39% (122/314)	36% (120/337)	31% (97/312)	31% (68/219)	n/a	n/a	n/a	n/a

AMP Capital proxy voting statistics: global portfolios

In March AMP Capital announced the decision to end our joint venture with Brookfield Investment Management and bring our global listed real estate (REIT) and infrastructure capabilities in-house. This resulted in a broader remit to vote centrally on all portfolios managed under the Global Listed REITs and Global Listed Infrastructure banner.

Given these changes, this Corporate Governance Report will now also present a snapshot of the voting of these internally-managed global portfolios, as well as the Asian Equities Growth Fund.

International remit – key challenges

AMP Capital's experience and tradition of taking seriously the responsibility of investing our clients' money has held us in good stead as we have adopted a broader international proxy voting remit.

Key governance issues such as non-executive director remuneration, share and option incentive plans, and board independence are features of listed companies throughout the world. Our experience in dealing with these issues locally has helped us to vote on the international listed companies governance resolutions.

There are however some notable differences in governance culture throughout the different regions in the world. For example:

> Board structure

Whilst most Australian listed companies would avoid a combined Chairman/CEO structure, this structure is far more common in US listed companies. While AMP Capital is committed to the basic principles of good governance, and as far as possible would not vote on structures which sacrifice the independence or accountability of the board, the context of a company's situation is also taken into account before we vote on a resolution.

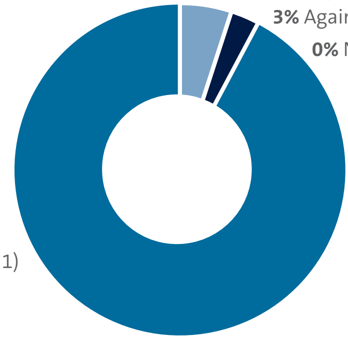
> Disclosure

Disclosure of governance related issues by listed companies overseas is not always as comprehensive as it is in Australia. In this situation it helps to get feedback from our network of portfolio managers and analysts who deal with the companies from day to day and to draw on research and advice from proxy advisers.

> Governance applications

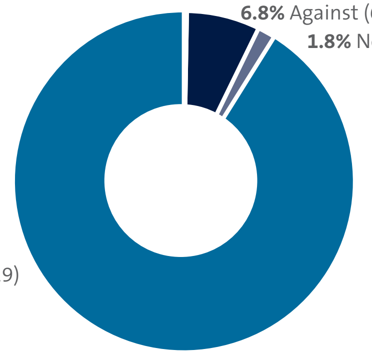
While the decision to bring our global listed real estate and infrastructure capabilities in-house has resulted in extra work locally, it has also been a catalyst for positive developments with regard to both our access to global governance insights and the streamlining of our proxy voting and reporting processes.

Asian Equities Growth Fund*
Votes submitted on 686 resolutions at 82 meetings

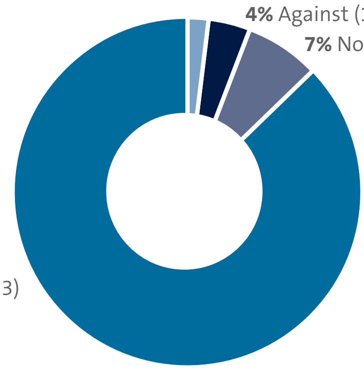


In 2012 for the Asian Equities Growth Fund the majority of the resolutions for which AMP Capital voted against were related to Director elections/re-elections and the issuing of shares.

Global Listed REITS Fund*
Votes submitted on 1021 resolutions at 102 meetings



Global Listed Infrastructure Fund*
Votes submitted on 404 resolutions at 38meetings



* Votes were made in consultation with the fund managers and analysts located across the globe, and also with advice from external proxy voting information providers when required.

Governance in brief

Update: Lost Votes

Do votes still go missing?

Back in 2006, AMP Capital found that at least four per cent of the proxy votes we had cast had gone missing. When this worrying statistic was released, it lead to a significant amount of analysis and self-examination amongst companies, their share registries, various investors, their custodians as well as a range of other stakeholders, including government.

In a 2008 edition of the Company Director Magazine, Stuart Crosby, CEO of Computershare Limited, stated:

"That votes go missing isn't in dispute. Institutional votes are lost during their passage through the complex chain of ownership and the bevy of different service providers that administer the affairs of institutional investors. The questions are: where, how and why do they go missing?"

Since that date, the topic has been the focus of roundtable discussions groups and even a Corporations and Markets Advisory Committee's(CAMAC) inquiry into the AGM and Shareholder Engagement.

Further investigation

While the existence of a problem with regard to the 'plumbing' of the proxy voting system in Australia was never in doubt, it had not been easy to determine the exact magnitude of the problem. To more precisely quantify the extent of the problem, in mid-2012 the Australian Council for Superannuation Investors (ACSI) commissioned specialist governance advisors Ownership Matters to undertake research on their behalf. The Institutional Proxy Voting in Australia study examined the voting experience of 23 major institutional investors in all 1,895 voting resolutions considered at meetings of S&P/ASX300 companies during 2011.

The research participants included 13 of Australia's largest profit-for-members superannuation funds who are members of ACSI, together with two overseas pension funds with significant Australian equity holdings, three major Australian investment institutions outside ACSI's membership, and five institutional investment managers.

The combined ownership interest of these institutions in the surveyed companies was over $180 billion, representing approximately 13.6 per cent of the total market capitalisation of the S&P/ASX300 based on share prices at the relevant meeting dates.

The research compared the voting instructions initially lodged with the results eventually declared by the companies, and then proceeded to work back through the complex chain of intermediaries involved in the system to identify and explain any anomalies. When the study was released in October 2012, it showed there were still operational weaknesses in the systems used to cast votes; including unrealistic deadlines for sub-custodian messages, lack of reconciliation of holdings data with votes lodged and the extensive use of faxes to submit proxies.

Findings and recommendations

Pleasingly a disparity between 'the voting instructions lodged' and 'the votes declared by the company' was observed in only nine of the 1895 instances (0.5 per cent). This finding suggests that the incidence of 'lost votes' is now much lower than the 4 per cent AMP Capital found back in 2006.

Ownership Matters commented this is a "positive development, suggesting a significant improvement in business processes and practices over recent years (particularly in relating to the risk of 'over-voting' by sub-custodians) as investors and their service providers have become more alert to the need for solid and accountable practices in the area of proxy voting and corporate governance".

The study noted that the coincidence of the determination of vote entitlements (not more than 48 hours prior to a meeting) and the deadline for the submission of proxies (normally two calendar days before a meeting) led to unrealistic time pressures and reconciliation difficulties. As such, Ownership Matters' main recommendation for suggested reforms is to separate the coincidence of the determination of voting entitlements (suggested five business days before a meeting) with the deadline for proxy lodgements (retain at two calendar days before a meeting).

Other recommendations made by Ownership Matters include

> That all custodians, sub-custodians and voting agents (both institutional and custodial) make use of the SWIFT proxy voting messages to enable the automated processing of proxy messages on the investor side;

> That companies be required (in electronic form only) to acknowledge that the votes of shareholders have been processed (or discarded) and to confirm what proportion of the final results their votes represented.

As a large manager of investment funds AMP Capital takes our responsibilities seriously. Not only is it important to us that we have purchased companies for our clients' portfolios, but also that those companies are well managed on their behalf. To this end, AMP Capital spends a considerable amount of time analysing companies' governance structures, assessing and submitting considered votes on the various resolutions put to shareholder meetings and also communicating with companies with regard to issues of concern.

As an active share-owner (on behalf of our clients), it is important that the votes we have cast are counted whether this be to elect directors, approve incentive plans and remuneration reports, approve related party transactions and major corporate transactions and other activities.

AMP Capital was glad to participate in the Institutional Proxy voting Study with ACSI and Ownership Matters and was pleased to see that in 2011 less than one per cent of votes went missing. We now look forward to the further developments that may emerge from the CAMAC inquiry.

Update: Gender Diversity

In 2011 editions of this report AMP Capital discussed benefits of increasing board diversity and initiatives such as the Australian Institute of Company Directors' mentoring program and the ASX Corporate Governance Council's guidelines on diversity[6].

Since first gathering our own data on gender diversity in 2010, there has been clear evidence that significant progress has been made with regard to increasing the gender diversity of listed company boards of directors.

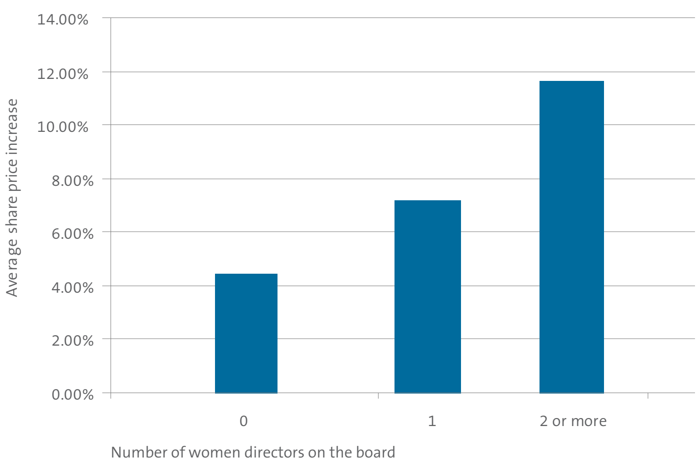
The following statistics show a substantial jump in the number of women now serving as company directors on the boards of companies in which AMP Capital has invested.

In 2010, 60 per cent of boards in the sample had no women directors; pleasingly in 2011 this dropped to 47 per cent and has now dropped even further to 39 per cent. Also the number of boards with two or more women has increased from 11 per cent of the sample in 2010 to 24 per cent in 2012.

	2010	2011	2012
Number of companies in sample	234	213	274
Percentage of directors that are women	7.7%	10.5%	12.7%
Board with no women	60%	47%	39%
Boards with one woman	29%	36%	38%
Boards with two or more women	11%	17%	24%

Curious as to whether there is any clear relationship between the number of women on a board and share price performance of that company, we conducted some simple analysis. The following chart shows the average share price increase of the ASX200 listed companies held in AMP Capital managed portfolios against the number of women on those boards. While we acknowledge the analysis lacks some sophistication the trend is undeniable.

Board diversity and share price increase



* Sample: ASX200 companies held in AMP Capital managed portfolios

Interestingly, when all companies owned in AMP Capital portfolios are included in this analysis (i.e. not just the top 200), the group with no women directors emerges as the top performing group. We have discounted these findings as the results are very heavily skewed by extremely high share-price gains recorded by some small speculative/exploration companies which currently have no women directors.

6. On 30 June 2010, the ASX Corporate Governance Council introduced a number of changes to its Corporate Governance Principles & Recommendations including new recommendations and amendments relating to diversity. These require ASX-listed entities to establish a diversity policy (which includes measureable objectives for achieving gender diversity and how these will be assessed) and to disclose the policy or a summary of that policy.

Contact us

If you would like to know more about how AMP Capital can help you, please visit ampcapital.com.au, or contact one of the following:

Financial Planners	**AMP Capital's Investment Representative on 1300 139 267**
Personal Investors	**Your Financial Adviser or call us on 1800 188 013**
Wholesale Investors	**AMP Capital's Client Service Team on 1800 658 404**

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