Corporate Governance: 2010 full year report

JANUARY 2011

In this issue:

Has the GFC provided a 'tipping point' for ESG?

2010 ICGN Conference, San Francisco

The global financial crisis (GFC) was one of the greatest assaults on the stability of the global economy. Failure to address systemic risk in the finance sector triggered a global economic crisis requiring extraordinary levels of government intervention and causing widespread social consequences. While examination of the crisis is still in its early stages, the volatility in markets brought on by the GFC highlights the challenges of assessing 'risk' within complex and interdependent systems. It shows the stark realities of what can happen when governance and risk oversight is overlooked or even deliberately ignored. If stability is to be restored and the lessons of the GFC taken fully on board, new frontiers driving greater integrity, accountability, ethics and risk oversight are needed across an increasingly complex global economy.

"The bailouts produced an extreme moral hazard we have not yet sorted out...stable economic systems can only be built upon sound social systems." Lord John McFall, former Chairman of the House of Commons Treasury Select Committee and Member of the Future of Banking Commission, UK

"Lack of risk oversight, due diligence and corporate governance all contributed to the meltdown... the need for best practice and higher standards has never been greater." Donald McDonald, BT Pension Scheme and outgoing Chair UNPRI

Many now point to 2010 as a 'watershed' year for governance and market reforms. Recognition of a deeper, more thorough understanding of all risks, their complexities and inter-connectedness are considered fundamental in sustainable markets being able to detect and manage systemic risks. Environmental, Social & Governance (ESG) risks are similarly global, complex and exposed to an array of decentralised actions. Often quarantined as 'externalities' or 'non-financial' in nature, recent events have proven that ESG risks are very capable of accumulating within businesses, assets and portfolios. Such events can trigger financial liabilities, reputational risk, asset and company devaluations, credit downgrades and in the case of climate change, pose major systemic risk to the global economy. In the fallout of the GFC, greater understanding, acceptance and willingness is now emerging to move beyond words and rhetoric toward the practicalities of unbundling, demystifying and integrating ESG risks within the mainstream investment process.

The remarkable growth in signatories to the UN Principles for Responsible Investment (UNPRI) - now some 850 asset owners, investment managers and service providers responsible for USD$25 trillion in assets - provides tangible evidence of these shifts. Once the primary domain of dedicated responsible investment funds, the concept of large institutional investors as 'universal owners' that need to factor in 'externalities', is now becoming part of broader 'risk language'. Previously considered 'a bit of a moving target', 'immaterial', 'interesting but all too hard', ESG considerations are increasingly seen as a risk imperative.

"We came to the point where we realised as a mainstream investor the need to move quickly into areas of social and environmental interest that were previously only addressed by socially responsible or ethical funds.

The GFC shows we need better analytical tools and more robust ESG metrics...our job as asset owners and managers is to look at all tensions, strategic issues and risks." Donald McDonald, BT Pension Scheme and outgoing Chair of the UNPRI

Adopting a holistic, wide ranging, risk-based approach to mainstream ESG integration, where a fuller spectrum of potential risks are considered together, can only work to strengthen the quality of an underlying investment decision and the long-term risk adjusted returns generated. Establishing a flexible framework or platform to support ESG integration offers the ability to identify best practice within specific investment styles and asset classes and adapt the specific integration techniques to achieve greater alignment between investment managers and their clients' interests.

"A range of integration techniques are being used including bottom up stock selection and evaluation, strategic assessments of business models and long-term competitiveness issues, application of ESG overlays, positive and negative screening, discounted cash flows, and ESG as a proxy for management quality." Ann Byrne, ACSI

Deeper inroads are needed to enhance the quality of ESG information. However ensuring companies and investors don't misprice, overlook or miss out on upside gains from ESG factors requires more than getting companies to report and disclose absolute ESG performance data. Proposals to shift to mandatory, integrated ESG and financial reporting and the evolution of global accounting standards deserve consideration and will add significant weight. However, significant standardisation challenges also means achieving such goals will take a lot of time to get right and ultimately will likely fall short of giving investors everything they need.

Lack of governance and risk oversight identified among the root causes of the GFC demonstrates that as ESG moves into the mainstream, the value of active ownership and direct engagement on governance, risk and how to deal with the complexities of ESG issues cannot be underestimated. Ultimately it comes down to the experience and capability of analysts and investment teams to identify and focus on the strategic ESG risks affecting a particular investment or portfolio. Those capable of asking the right questions to better understand the impacts upon the business model will ensure their clients' interests and their own fiduciary duty of managing 'all risks' are being fulfilled within the ESG space.

Adam Kirkman, Head of ESG at AMP Capital Investors attended the International Corporate Governance Network (ICGN) "Financial Stability Forum" held in San Francisco in October 2010. Above he shares the underlying shifts that are bringing ESG into the mainstream.

Governance spotlight

Proxy advisers: are investors better off with them?

Proxy advisers are increasingly being referred to as powerful and influential. It is not surprising then their role has come under greater scrutiny. But who are proxy advisers? And how well do they help investors?

Background

For most shareholders the only way to communicate with the public companies in which they invest is by way of shareholder meetings and proxy voting. Through this forum, important issues such as board composition, executive pay and company-changing transactions are decided.

While some shareholders are well informed on company matters, others have neither the knowledge nor the time to pass such judgement – especially as voting tends to be conducted in a very compressed time frame.

This is where proxy advisers come in.

"Without proxy advisers, many [United States] pension plans - particularly smaller funds with limited resources - would have difficulty managing their highly seasonal proxy voting responsibilities for the thousands of companies in their portfolios.

Proxy advisory firms play an important role in helping managers fulfil their fiduciary duties with respect to proxy voting by providing an analysis of issues on the ballot, executing votes and maintaining voting record." Glenn Davis, US Council of Institutional Investors[1]

Who are Proxy Advisers?

The global proxy advisory industry has evolved considerably over the last 25 years in response to an increasing focus on good governance and the power of proxy voting.

Of the many proxy advisers that now exist, the two largest are Riskmetrics (now an indirect, wholly-owned subsidiary of MSCI Inc.) and Glass Lewis (who in 2007 became an independent wholly-owned subsidiary of Ontario Teachers' Pension Plan Board).

Both Riskmetrics and Glass Lewis have a significant global presence. Riskmetrics serves 72 of the 100 largest investment managers, 35 of the 50 largest hedge funds and 16 of the 30 OECD central banks[2]. In 2009, Riskmetrics had 3,500 clients in 53 countries. The Glass Lewis website states that it currently serves institutional investors collectively managing more than $17 trillion in assets. Other major proxy advisers include Egan-Jones Proxy Services, Marco Consulting Group, Proxy Governance Inc., Governance Metrics International and CtW Investment Group.

In Australia the two main providers of proxy advice are ISS (Riskmetrics) and CGI-Glass Lewis. A significant number of Australian institutions subscribe to the services of either (or both) of these proxy advisers.

How do investors use proxy advice?

Investors use proxy advice to make voting decisions in much the same way stockbroking research is used when making investment decisions. More specifically, institutions with fewer resources dedicated to the task may be more reliant on the advice, while others may utilise advice as a cross-check or as an input into their own analysis and decision making.

For example, in discussions with international fund managers AMP Capital learned that many find it most effective to subscribe to proxy advice and then vote automatically in accordance with a custom voting policy. This approach helps ensure fund managers vote consistently across their holdings in hundreds or even thousands of different companies' shares.

In Australia, where the number of discreet portfolio holdings is generally not as large, some investors choose to be more hands-on with their voting. Other investors may choose a halfway-option and automatically follow the adviser's recommendations on 'routine' matters – but may incorporate advice into their own analysis on more controversial issues.

Our process

AMP Capital acknowledges proxy voting is not an easy task. The decisions are often complex and the time to make them is often very compressed.

In Australia, due to the nature of company calendars, reporting cycles and legal requirements, it is not unusual for AMP Capital to cast votes at 250 company meetings in the six to eight week peak proxy season. AMP Capital takes its fiduciary duties as an investor seriously, directly employing dedicated corporate governance resources and also subscribing to proxy research to provide additional input and cross-check against our own analysis.

With these resources AMP Capital can closely evaluate company proposals to determine, for example, whether a particular remuneration structure, performance hurdle or company director is appropriate for portfolio companies at that particular point in time.

From time to time clients are interested to know the extent to which votes lodged by AMP Capital match those of the proxy adviser. A comparison between votes cast by AMP Capital and proxy advice shows:

- 61 per cent of AMP Capital's votes matched adviser recommendations
- 21 per cent were voted 'more strongly' (either abstain or against, rather than 'for')
- 18 per cent were voted 'more loosely' (e.g. in favour rather than against, and usually based on further discussions held with companies).

Given similar views as to what constitutes good governance it is not surprising that in the majority of cases AMP Capital's voting matched proxy advice. Perhaps more unexpectedly, in almost 40 per cent of cases AMP Capital's specific analysis led to a different voting decision. For example, contrary to proxy advice, AMP Capital will generally not vote in support of remuneration reports that we view as including significantly flawed incentive plans – in those cases we prefer to specifically abstain from voting and to communicate our concerns to the company.

AMP Capital is also less tolerant of poor disclosure, non-executive options and incentives automatically vesting on change of control.

Communication is another feature of AMP Capital's governance activity. Where AMP Capital has voted against a resolution and there has been no recent communication, we will typically write a constructive letter to the company to explain our views.

Criticisms of proxy advisers

AMP Capital generally considers the proxy research and recommendations of advisers to be of assistance to investors. However, it must be acknowledged that proxy advisers are sometimes criticised for the quality of their research, conflicts of interest and their immense power and influence.

We consider Australian proxy research to be of a high (and improving) standard and conflicts of interest are rare as Australian advisers do not generally provide corporate advice to the companies they report on.

The impact of voting recommendations on voting outcomes presents a more complex judgement.

"It's deeply ironic to me that the whole motion toward shareholder responsibility has ended up in the hands basically of one firm (ISS) whom people accept advice from.

By and large, the votes of $10 trillion of assets under management are determined in the first instance by one company... It's too much power in one place and a total abrogation of power by everyone else." David Beatty, corporate director and board chair of Inmet Mining Corp and adviser to ISS competitor Glass Lewis & Co. LLC.

To counter this investors argue that voting decisions are their own and advisers argue that clients make their own voting decisions.

"We don't fire the bullets, we make them," Dean Paatsch, formerly of Riskmetrics Australia.

Yet with so many clients relying on proxy research and custom policies, a degree of influence is inevitable. Interestingly, recent research by the University of Pennsylvania concludes 'that popular accounts substantially overstate the influence of (proxy advisers).[3]

Bottom line

Institutional shareholders have a fiduciary duty to clients to protect their interests in the investments made on their behalf. Taking an active role, identifying governance risks and lodging considered votes at company meetings all serve to protect clients' interests.

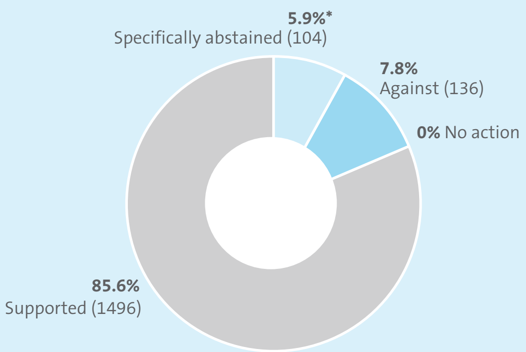
Proxy advisers support investors in this activity by providing research and voting recommendations that identify potential issues of concern. As such, investors are better off with proxy advisers – provided research is used thoughtfully.

AMP Capital Investors proxy voting statistics:

1 January to 31 December 2010

Voting 2010

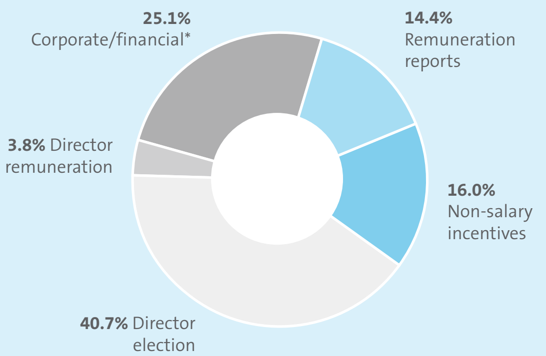
AMP Capital voted on 1748 resolutions at 349 company meetings



* Includes resolutions where AMP Capital was excluded from voting eg. participated in share issues

Categories of resolutions considered in 2010

as a percentage of all votes cast by AMP Capital Investors



* Includes: approving financial statements, consitutional amendments, schemes of arrangement, share issues etc

AMP Capital's shareholder activism

AMP Capital continues to be 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 to these letters – 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.

Non-executive director (NED) remuneration

In 2010, 67 companies sought approval for an increase in the maximum aggregate level of fees that could be paid to the company's 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.

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 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.

Companies where AMP Capital did not support the increases in NED remuneration included:

Gujarat NRE	Hills Industries Ltd

AMP Capital Investors Proxy Voting Statistics (2001 to 2010):

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Number of company meetings where votes were submitted:	349	406	418	496	413	381	396	336	349	341
Number of resolutions voted on:	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):	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)	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:	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):	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

Share and option incentive plans

This year AMP Capital submitted votes on 280 incentive-related resolutions (not including votes on NED fees and remuneration reports).

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

Ampella Mining Ltd	Gold One Intl Ltd
Atlas Iron Ltd	Gujarat NRE
Australand Property Group	GWA International Ltd
Bathurst Resources Ltd	Harvey Norman Holdings Ltd
Berkeley Resources Ltd	Linc Energy Ltd
Bow Energy Ltd	Lynas Corp Ltd
Cape Lambert Resources Ltd	Mac Services Group Ltd
Challenger Group Ltd	Northern Iron Ltd
Eastern Star Gas Ltd	Platinum Australia Ltd
Extract Resources Ltd	Straits Resources Ltd
FKP Property Group	Sundance Resources Ltd

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, which can often lead to useful dialogue.

In almost all cases we endeavoured 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 is aligned with that goal.

The underlying reasons for not supporting 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 that 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.
- 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. In 2007 we became interested in this feature after seeing instances where company executives and directors engaged in behaviour that could potentially destroy shareholder value while themselves reaping significant personal gains.

Remuneration reports

Since the introduction of the non-binding votes on remuneration reports in 2005, Australian investors now have a mechanism by which to review and comment on the approach to remuneration used by the companies in which they invest.

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 2010, AMP Capital submitted votes on 252 remuneration reports, supporting 186 (74%) of them. The remuneration reports AMP Capital voted against (as opposed to either "supporting" or "abstaining") over this period include:

Abacus Property Group	Cudeco Ltd
Ampella Mining Ltd	Eastern Star Gas Ltd
Aristocrat Leisure Ltd	FKP Property Group
Asciano Group	Industrea Ltd
Austar United Communications Ltd	Leighton Hldg Ltd
Austereo Group Ltd	Linc Energy Ltd
Australand Property Group	Lynas Corp Ltd
Billabong Intl Ltd	Macmahon Holdings Ltd
Bow Energy Ltd	Nexus Energy Ltd
Cabcharge Aust Ltd	Nufarm Ltd
Cape Lambert Resources Ltd	Onesteel Ltd
Challenger Finl Svcs Group Ltd	Riversdale Mining Ltd
Cockatoo Coal Ltd	Straits Resources Ltd
Crane Group 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 (eg. absolute rather than relative, not sufficiently challenging, too short-term, purely accounting-based, allow too many opportunities for re-testing etc).

Another feature of concern has been the excessive termination payments (both actual and potential) that were made to some departing senior executives – particularly as actual payments often bore 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, 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 which require shareholders to vote on the election or re-election of directors. AMP Capital supported the majority of directors seeking re-election. Instances where AMP Capital voted against a director election in 2011 include:

APN News & Media Ltd	Harvey Norman Holdings Ltd
Austereo Group Ltd	Nufarm Ltd
Cabcharge Aust Ltd	SP Ausnet
Energy World Corp Ltd	

Votes were cast against some directors seeking re-election at these companies due to concerns including poor board attendance, an insufficient number of independent directors to represent public shareholders and issues related to poor governance.

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.

In addition, there were companies where, after weighing up the merits of the nomination, AMP Capital rejected the election of self-nominated, non board-endorsed candidates.

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 will require 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.

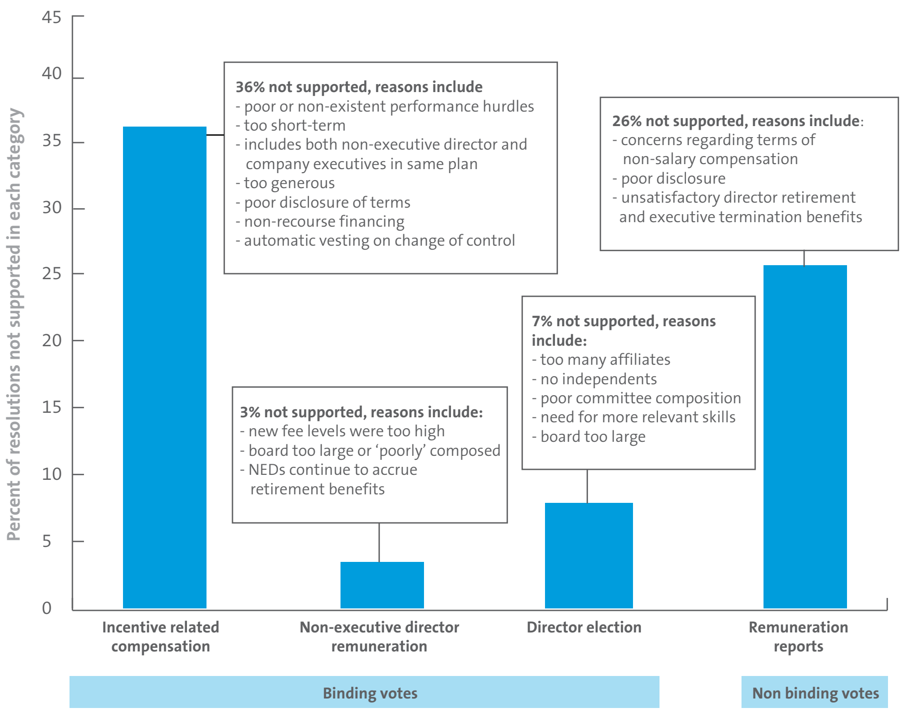
These changes were first announced in March 2009 as part of the Federal Government's focus on excessive retirement following significant negative media surrounding this issue.

In the latest proxy season, it was interesting to observe how different companies responded to these recent amendments.

Some companies viewed an increase in base pay as an 'amendment to their employment contract' and therefore chose voluntarily to seek shareholder approval for the termination payments while it appeared others were more opportunistic – seeking to lock in generous and long-term termination arrangements by issuing new employment contracts just prior to the 24 November deadline.

AMP Capital has recently communicated with various companies on this issue. From next year we expect to publish AMP Capital's voting record with regard to termination payments.

Resolutions not supported by AMP Capital Investors in 2010



Source: AMP Capital voting statistics

Governance in brief

CalPERS - Private engagement: proxy resolutions supersede focus list

CalPERS is about to do away with its famous 'focus list', an annual compilation of poorly performing publicly traded companies.

Instead, the California Public Employees' Retirement System will privately nudge companies to do better. If they don't cooperate, the pension fund will go public with its complaints through shareholder proxy fights.

In its November 15 2010 press release CalPERS says it will adopt a new plan for engaging underperforming portfolio companies[4]:

> SACRAMENTO, CA – The California Public Employees' Retirement System (CalPERS) today adopted a new strategy for engaging underperforming public stock companies through private contacts and proxy actions rather than by posting a public "name-and-shame" Focus List.
>
> Wilshire found in a review of 155 companies between 1999 through 2008 that the 96 non-Focus List companies that CalPERS engaged only privately, significantly outperformed the 59 Focus List companies over five-year time periods, compared with benchmarks.
>
> For the 2011 proxy season, CalPERS will use a new screening process to identify target companies for possible shareowner resolutions that in earlier years might have been placed on the Focus List.
>
> The process will include these steps:

- CalPERS will review the performance of the top 500 U.S.-based public companies in terms of CalPERS market value ranging from $15 million to $1 billion, including stocks and corporate bonds.
- The pension fund initially will screen companies for total stock returns for one, three, and five years relative to a broad index and industry group.
- CalPERS will conduct a secondary screening for key governance factors, financial analysis and market expectations – including board independence, election practices, executive compensation, board diversity and skill sets, and environmental and social issues.
- CalPERS will sponsor or support shareowner resolutions addressing practices of selected companies that continue to resist positive corporate governance change.

> "This approach expands our playing field with bigger companies than before," said George Diehr, Chair of the CalPERS Investment Committee. "It's consistent with our overall effort to stop the destruction of share value; to raise the bar for better environmental, social and governance practices by companies; and to comply with legislative mandates."

Update on gender diversity on company boards

Both the Reibey Institute and the Australian Institute of Company Directors (AICD) have recently released further research and updates with regard to women directors. While it appears much progress is being made through initiatives such as the AICD's mentoring program and the ASX Corporate Governance Council's guidelines on diversity, there is still a long way to go.

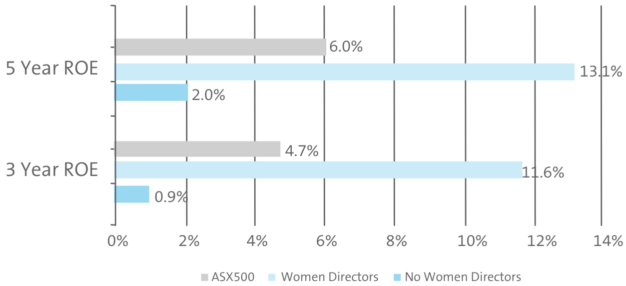
Interestingly, in the most recent proxy season AMP Capital found that 61% of the Australian companies it reviewed had no women directors at all.

Reibey Institute: ASX500 Companies with women directors deliver higher return to shareholders[5]

The Reibey Institute is a fully independent, not-for-profit research centre which provides non-judgemental insight and exploration of women's leadership. In September 2010, the Reibey Institute published its first research note detailing preliminary findings on Women Leaders in the ASX500 and the corresponding performance of those companies with and without women directors.

The Reibey report suggests that "Perhaps the most notable finding for this research note is the difference in Return on Equity (ROE) between our samples. Companies with women on the board had a higher return on equity over a 3 and 5 year time frame, than those without. The research found an 11.1% difference for 5 year average ROE."

These numbers are shown below:



Australian Institute of Company Directors: Directors welcome a year of improvement in board diversity[6]

The AICD notes there has been a significant increase in the number of women appointed to ASX 200 listed boards in 2010 – indicating that initiatives taken by the Australian Institute of Company Directors, the ASX Corporate Governance Council and other organisations are starting to have an effect.

A year ago, the Australian Institute of Company Directors released a media statement calling for action to increase diversity on boards and foreshadowing a number of concrete measures aimed at helping to achieve that.

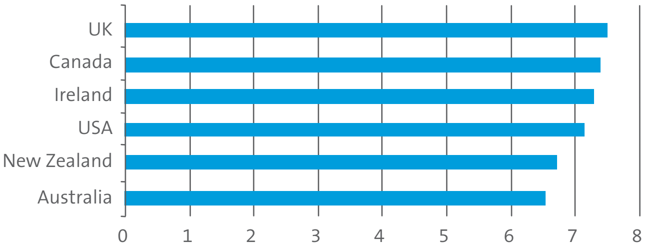
The AICD believes these measures have delivered as promised, contributing to a year of real progress which is evident in the latest figures. The AICD release states that so far in 2010, 51 women have been appointed to ASX 200 boards, compared to only 10 in 2009. A total of 27 per cent of appointees this year have been female compared with 5 per cent in 2009. The proportion of female board members is now 10.3 per cent, compared to just 8.3 per cent at the beginning of this year.

Australia slips to sixth place in global governance rating

Each year GovernanceMetrics International®, an independent corporate governance research and rating agency, publishes global corporate governance rankings. The most recent global ranking, as at September 2010, shows Australia has slipped to a sixth place ranking from fourth place in both 2008 and 2009.

GMI country rankings as at 27 September 2010: overall rating by country

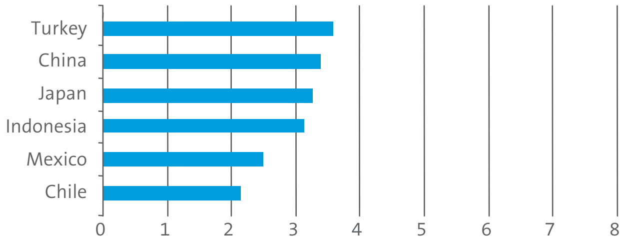
Top 6



It appears Australia's fall in relative rankings is due to a poor showing in environmental and social measures which have now become a more substantial component of the GMI ratings. Australia's environmental and social disclosures are generally considered to lag those of countries such as the UK and Canada.

"Over the past year, GMI has increased stock coverage in Australia from the ASX 100 to the ASX 200, bringing in smaller companies whose governance practices are not as good as the larger companies. This has had the effect of lowering the average overall global rating for Australia." Scott Stokes, GovernanceMetrics International's Deputy Director of Research

Bottom 6



Source: GovernanceMetrics International www.gmiratings.com

The GMI Country Rankings is based on the average company rating for companies from markets covered by GMI where more than 10 companies are covered. The United Kingdom ranks top in the Country Rankings followed by Canada, Ireland and the United States. The leading market in Asia remains Singapore and the top Emerging Market is South Africa, where the new King III reforms[7] are expected to further enhance corporate governance as it comes into play in the coming annual report season. Japan remains the lowest average in developed markets with the problem of limited independent oversight still prevailing.

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[1] Glenn Davis Senior Research Associate Council of Institutional Investors: S.E.C. Concept Release on the U.S. Proxy System October 14, 2010

[2] Riskmetrics Group corporate website: http://www.riskmetrics.com/history

[3] Choi, Stephen J., Fisch, Jill E. and Kahan, Marcel, The Power of Proxy Advisors: Myth or Reality? Emory Law Journal, Vol. 59, p. 869, 2010; University of Penn, Institute for Law & Economics Research Paper No. 10-24.

[4] CalPERS Adopts New Plan for Engaging Underperforming Portfolio Companies (November 15, 2010) http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2010/nov/underperforming-portfolio.xml

[5] Reiby Institute: Australian Research Institute for Women's Leadership: Women Leaders Report (2010) http://www.reibeyinstitute.org.au/wp-content/uploads/2010/09/Reibey-Research-Note-Aug-2010.pdf

[6] Australian Institute of Company Directors (24 November 2010) Directors welcome a year of improvement in board diversity. http://www.companydirectors.com.au/Media/Media+Releases/2010/Directors+welcome+a+year+of+improvement+in+board+diversity.htm

[7] The King Code of Governance Principles and the King Report on Governance for South Africa (King III) were published on 1 September 2009 and became effective on 1 March 2010. http://african.ipapercms.dk/IOD/KINGIII/kingiiireport

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**