

RIL Engagement Plan 2015

Responsible Investment Leaders Ethics Committee Meeting 2015 Engagement Plan

Introduction

The key engagement themes for 2014 were built on the themes that the RIL Fund has been focussing on for the last couple of years. With the development of the Banking and Finance Sector Assessment and Engagement Framework, this sector was also added to the year's engagement theme list.

The key engagement themes for 2014 were:

- Supply chain
- Climate Change
- Unconventional gas (CSG and shale gas)
- Corporate Governance
- Banking and Finance sector
- Company specific engagement

This 2015 Engagement Plan builds on the outcomes achieved in 2014.

Review of 2014 Engagement Plan

A review of each thematic engagement themes against identified key outcomes/asures of success is outlined below.

1. Corporate Governance

Assessment of Tasks

Task	Status
1. Analyse the level of inconsistency, if any, of the voting across RIL Fund managers for 2014 and identify potential reasons for such inconsistency, e.g. using different proxy advisers	Partially complete
2. Identify opportunities to improve consistency of proxy voting across RIL Funds.	Incomplete
3. Investigate a mechanism to identify shareholder resolutions for RIL holdings that RIL may want to have a specific view on and identify the feasibility of ensuring this is reflected in the underlying managers voting	Still to be initiated
4. Encourage underlying managers to communicate with companies where they have either abstained or voted against management recommendation	Still to be initiated

Assessment of Measures of Success

Key Outcomes/Measures of success	Assessment
System developed that reports on underlying manager Proxy Voting, including consistency of voting by underlying manager	Completed – system developed that reports underlying manager voting (except for CFS EM Fund), which enables consistency to be assessed
Standardised RIL Fund Proxy Voting Reporting format implemented	Completed
Number of shareholder resolutions where underlying managers have voted consistent with the RIL perspective on the resolution.	Partially assessed – still trying to develop a means to identify shareholder resolutions
Percent of companies where underlying managers have written to companies explaining their reason for abstaining or voting against management recommendation	Still to be initiated

2. Coal Seam Gas

Assessment of Tasks

Task	Status
1. Participate in UNPRI CSG Working Group's proposed actions for collective engagement: <ul style="list-style-type: none"> a. Review ESG disclosure of companies b. Identify key companies and issues for engagement c. Engage meetings with companies 	Completed
2. AMPCI to identify key ESG issues for raising with companies during company reporting meetings and identify companies, where risks are considered particularly high, for specific CSG ESG meetings. This will be based on the RIL CSG Reporting framework developed in 2012.	Completed
3. Conduct meetings with Companies	Completed

Assessment of Measures of Success

Key Outcomes/Measures of success	Assessment
Actively contribute to the UNPRI Working Group	Participated in the 5 UNPRI CSG Working Group meetings that occurred during the year
Completion of UNPRI Working Group Work Agenda	Some areas still outstanding, primarily following up other companies involved in CSG or shale gas by others in the work group
Number of meetings with oil & gas companies, where the CSG ESG issue are specifically discussed.	7 explicit CSG focussed discussion with companies, including two sites visit: Santos's Narrabri CSG field and Gladstone LNG facility

3. Human Rights and Supply Chain

Assessment of Tasks

Task	Status
1. Continued monitoring of international supply chain trends to identify emerging risks	Ongoing throughout 2014, through meetings with NGOs, garment workers, Bangladesh field trip and general research.
2. Continued assessment of portfolio companies supply chains against the RIL assessment framework created in 2013, to identify engagement opportunities.	Reviewed companies, updated assessment tables and identified supply-chain engagement opportunities
3. Continued participation in collaborative engagements as part of the Investor Statement on Bangladesh.	Participated in conference calls, distributed insights report from Bangladesh trip, suggested new focus areas for 2015..
4. Identifying and, when appropriate, participating in other investor initiatives on supply chain risk management	No such initiatives identified, although provided education to other investors.
5. Continued dialogue with Australian retailers on supply chain management –	Continued or initiated dialogue with

at management and board level

a wide range of listed companies about supply chain management throughout 2014 at management, board and sustainability management level.

Assessment of Measures of Success

Key Outcomes/Measures of success	Assessment
<p>Raised awareness among investors and companies through participation in appropriate investor or multi-stakeholder forums on supply chain risk management.</p>	<p>Provided significant investor education in 2014, e.g. through ACIS conference and follow-up presentation to ACSI's ESG Group, RIAA Webinar, publication and distribution of insights paper based on Bangladesh field trip to investors in Australia and globally. Presentations at various industry events, highlighting shareholder perspectives on supply chain management, e.g. Sustainability in Australian Business Conference, Banarra's supply chain forum.</p>
<p>Positive change in companies' supply chain management, such as becoming signatories of robust ethical sourcing frameworks, as a result of direct or collaborative engagements.</p>	<p>Almost all applicable Australian listed retailers have now signed the Bangladesh Accord. Continued to make deeper connections with retailers, switching the focus on key underlying issues, such as the living wage issue and the lack of freedom of association. Received significant interest from Wesfarmers in 2014, including presentation at Wesfarmers' Leadership Conference.</p>

4. Improving ESG Reporting

Assessment of Tasks

Task	Status
<p>1. Continue to work through collective reporting initiatives, such as International Integrated Reporting Council, GRI, and FSC to present the investor needs with respect to ESG reporting.</p>	Completed
<p>2. Provide feedback to companies on their ESG reports, with a particular reference to the investor interest in ESG reporting</p>	Completed

Assessment of Measures of Success

Key Outcomes/Measures of success	Assessment
<p>Continue to work through collective reporting initiatives, such as International Integrated Reporting Council, GRI, and FSC to present the investor needs with respect to ESG reporting.</p>	<p>Presented at 5 conferences and/or forums to Sustainability professionals on the ESG reporting requirements of the investors</p> <p>Also continued involvement in global conference calls on Integrated reporting</p>
<p>Provide feedback to companies on their ESG reports, with a particular reference to the investor interest in ESG reporting</p>	<p>Specific feedback on quality and scope of 6 company /ESG reports, including: NAB,BHP, RIO, Transpacific, Amcor, Aurizon and NAB</p>

5. Finance and Banking Sector

Assessment of Tasks

Task	Status
1. Complete program for engagement along lines of that discussed in December 2013	Still to be initiated
2. Identify target areas within the whole Financial universe	Completed
3. Identify relevant standards/protocols for target universe to subscribe to, and discuss with investment managers the efficacy of asking target universe all to subscribe to these standards.	Completed
4. Identify target governance areas for 'action to ensure no repetition' letters	Still to be initiated
5. Identify potential for partnership with other groups on international companies or international initiatives that RIL can support	Still to be initiated
6. Establish list of engagement/Greylisting practices like breaching UN sanctions, financing cluster bombs, support of terrorism, financing of 'environmental vandalism' (large dams or mountain top mining) or projects involving slavery and/or child labour,	Still to be initiated
7. Consult with underlying managers on ensuring proscribed practices are researched and not supported.	Still to be initiated

Assessment of Measures of Success

Key Outcomes/Measures of success	Assessment
Active partnering with underlying managers on research and reporting to RIL on selected target areas	Yet to be initiated
Listing of major banks' standards on target key areas and records of any non-observance	Yet to be initiated
Listing of subscribers and non-subscribers to selected protocols (Equator Principles, etc.) and increase in numbers of major institutions subscribing	Signatories to Equator Principles and UNEP Financial Initiatives have been identified.

6. Specific Australian and International Company Engagement

Key Outcomes/Measures of success	Assessment
Number of Australian company meetings where there is a substantive discussion on ESG issues	During 2014 we had approximately 34 ESG specific company meetings, 57 governance meetings and approximately 57 governance related letters/phone calls with companies
Number of International company meetings or letters where there is a substantive discussion on ESG issues	During the year AMP Capital had meetings with 6 overseas companies covering issues from supply chain to CSG issues.

7. Manager Engagement

Key Outcomes/Measures of success	Assessment
Quarterly Reports from each manager	We have been receiving good quarterly ESG Engagement reports from Investec for both the Developed and Emerging market Funds.

Reporting from CFS and Lazard remains poor

We have received no quarterly ESG reports from Australian Equity managers

Reports covering the key areas identified above

Investec report covers key areas

8. Overall Review

2014 was a productive year with respect to engagement. There were some clear ‘wins’, particularly in the area of supply chain where the RIL Funds continue to drive the investor engagement in Australia and climate change which has been a long-standing engagement area for the funds. While engagement with Australian companies remained very strong, progress on corporate governance of international funds needs further work. One of the reasons for lack of progress was the challenge of establishing a coherent reporting system for managers using different custodians. This has subsequently been resolved. The banking and finance sector engagement theme will also need greater focus in 2015.

A number of unplanned engagement opportunities were capitalised on in 2014. In particular, the engagement with non-executive Directors, discussed more in the 2014 Engagement Report, and the work with the underlying International manager, Lazard and Investec on the integration of EGS into their respective investment processes was particularly fruitful.

Lazard introduced a new ESG screening process and the AMP team worked with them on ensuring the appropriate ESG tilt was maintained within the fund, while we continued work with Investec in their ESG assessment of unrated companies.

2015 Thematic Engagement Plan

1. Corporate Governance

Why is it important?

Company Boards have the responsibility of looking after shareholder interests and therefore from a RIL investment perspective, company governance structures need to be aligned to the best interest of long-term shareholders.

In addition, poor governance has historically led to poor social, environmental and economic outcomes, e.g. GFC, which are not in the broader interest of either society or long-term investors.

Objectives:

To improve the governance of companies in the RIL Funds and the reporting of governance data to the RIL Committee

Proposed Approach and timeline:

Task	Proposed Timing
1. Analyse the level of inconsistency, if any, of the voting across RIL Fund managers for 2015 and identify potential reasons for such inconsistency, e.g. using different proxy advisers	End of March
2. Identify opportunities to improve consistency of proxy voting across RIL Funds.	End of June
3. Investigate a mechanism to identify shareholder resolutions for RIL holdings that RIL may want to have a specific view on and identify the feasibility of ensuring this is reflected in the underlying managers voting	End of June
4. Encourage underlying managers to communicate with companies where they have either abstained or voted against management recommendation	End of June
5. Encourage underlying managers to raise the issue of gender diversity to company boards and senior management. Ask each manager to report back on what actions they have taken to improve gender diversity.	End of June

Key Outcomes/Measures of success

- Measure of consistency, or inconsistency, of voting by underlying managers for RIL Equity Funds.
- Number of shareholder resolutions where underlying managers have voted consistent with the RIL perspective on the resolution, e.g. shareholder resolutions.
- Percent of companies where underlying managers have written to companies explaining their reason for abstaining or voting against management recommendation
- Reports back from underlying managers, including number of companies engaged, on what actions they have taken with respect to gender diversity.

2. Coal Seam Gas

Why is it Important?

A number of Australian companies are investing significant amounts of shareholder capital into the development of unconventional gas, both coal seam and shale gas. There continues to be significant questions over the long-term environmental legacy of CSG developments and community concerns, which raises questions about whether risks to shareholder capital are being appropriately assessed and managed by the companies.

Unsurprisingly, many in society have expressed concern over the environmental impacts, notably water impact, air emissions and disposal of wastes. There has also been significant concern over the potential (negative) social impacts on landowners and local communities. As a responsible owner, it is appropriate the RIL Fund ensure that these concerns, which are material to these stakeholders, are being addressed.

Objective:

Improve the ESG performance of companies involved in coal-seam methane and shale gas in order to reduce long-term investment risk and improve the social license to operate of companies.

Proposed Approach and timeline:

Task	Proposed Timing
1. Participate in UNPRI CSG Working Group’s proposed actions for collective engagement: <ul style="list-style-type: none"> a. Review ESG disclosure of companies b. Identify key companies and issues for engagement c. Engage meetings with companies 	To be determined by UNPRI CSG Working Group
2. Conduct meetings with Companies	

Key Outcomes/Measures of success

- Actively contribute to the UNPRI Working Group
- Completion of UNPRI Working Group Work Agenda
- Better reporting by CSG companies on environmental and social issue management and performance (subjectively assessed)
- Number of meetings with oil & gas companies, where the CSG ESG issue are specifically discussed.

3. Climate change

Why is it Important?

The physical impacts from climate change are predicted to have significant adverse environmental, social and economic impacts. These impacts will have negative impact on returns from most investment asset classes, though the the timing and magnitude of the investment impact will vary between and within asset classes.

To mitigate these potential negative environmental, social and economic impacts a significant reduction in global greenhouse gas emissions is required. The policies chosen to achieve this reduction in emissions may have significant investment impacts on some assets and require broader economic restructuring that will create both investment opportunities and risks. Again, the the timing and magnitude of the investment impact will vary between and within asset classes.

Objectives:

The systemic nature of climate change risk to investors means that a systemic response is needed.

The objectives of this thematic engagement piece are to:

- 1) provide a long-term investors’ perspective input into the policy discussion on the required policy and regulatory regimes needed to reduce greenhouse gas emissions and adapt to physical climate change risks, in order to enable companies and investors to make informed investment decisions and minimise unnecessary investment risk.
- 2) increase the understanding of investors to the risks, and potential management posed by climate change;
- 3) improve the management of climate change risks by companies and assets in which the fund may invest.

Proposed Actions:

Task	Proposed Timing
1. Continue to contribute to the policy debate in Australia through contributions to the IGCC Policy Committee	Ongoing
2. Continue to contribute to the broader investor education on climate change risks through contributions to IGCC Management Committee.	Ongoing
3. Engage with Australian companies on any climate change related shareholder resolutions and, if appropriate, support these resolutions	As required
4. Continue to be a signatory of the Carbon Disclosure Project	Ongoing

Key Outcomes/Measures of success

- IGCC provides valued contribution to climate change public policy.
- IGCC provides valued broader education on climate change risks to the investors
- Number of engagements with companies on climate change
- Number of climate change resolutions supported

4. Human Rights and Supply Chain

Why is it Important?

Retailers and brand companies in developed markets increasingly rely on outsourced production. Increased globalisation and complexity mean companies expose themselves to new types of risks. Suppliers’ factory standards and labour standards can impact buyers’ earnings in several ways, e.g. brand damage, production disruptions and quality issues. Business models relying on underpaid labour and countries with weak labour standards are at risk of unsustainable earnings and supply chain disruption.

Objectives:

Reduce systemic risk by improving investors’ understanding of supply chain issues and engaging with companies on industry-wide issues (directly or through collaborative engagements) and reduce company-specific risk through engagement.

Proposed Actions:

Task	Proposed Timing
1. Continued monitoring of international supply chain trends to identify emerging risks	Ongoing, reporting at each RIL Ethics Committee meeting
2. Continued assessment of portfolio companies supply chains against the RIL assessment framework created in 2013, to identify engagement opportunities.	Ongoing, reporting at each RIL Ethics Committee meeting
3. Continued participation in collaborative engagements as part of the Investor Statement on Bangladesh as appropriate.	Ongoing
4. Identifying and, when appropriate, participating in other investor initiatives on supply chain risk management, particularly those focused on the living wage / freedom of association issues.	Ongoing
5. Continued dialogue with Australian retailers on supply chain management – at management and board level	Ongoing

Key Outcomes/Measures of success

- Continued raised awareness among investors and companies through participation in appropriate investor or multi-stakeholder forums on supply chain risk management.
- Positive change in companies' supply chain management, such as becoming signatories of robust ethical sourcing frameworks, attempts to address key underlying issues such as the living wage / freedom of association issues, and improved transparency, as a result of direct or collaborative engagements.

5. Improving ESG Reporting

Why is it Important?

The majority of the value of most companies, as measured by market capitalisation, is the company's intangible assets. As with the tangible assets of companies, which are reported through traditional financial statements, it is important that companies are managing their intangible assets. Improved ESG reporting is a step towards greater accountability to investors on how companies are managing an important part of their implied value.

Transparency to and trust of stakeholders are important aspects of a company's social license to operate. ESG reporting is an important means of communicating, to broader stakeholders, how companies are managing their material ESG issues and contributing to the broader objectives of society.

Objective:

Improve investor relevant ESG reporting by companies.

Proposed Actions and Timelines:

Task	Proposed Timing
1. Continue to work through collective reporting initiatives, such as International Integrated Reporting Council, GRI, and FSC to present the investor needs with respect to ESG reporting.	Ongoing
2. Provide feedback to companies on their ESG reports, with a particular reference to the investor interest in ESG reporting	Ongoing

Key Outcomes/Measures of success

- Number of new companies where specific constructive feedback is provided on how to improve ESG reporting
- Contribute to Australian and International Integrated Reporting Initiatives

6. Finance and Banking Sector

Why is it Important?

The Financials sector comprises 22%, by market capitalisation, of the MSCI World Index. Banks and Diversified Financials (such as Morgan Chase, Bank of America, Citi, Berkshire Hathaway, Amex, UBS and Goldman Sachs) comprise just over 9.5% and 5.2% respectively. The remainder are Insurance and Real Estate companies.

For the Emerging Market Index, the financial sector accounts for approximately 27% of the index, with banks representing 19%, diversified financials 3%, insurance 3% and real estate 2%.

In the ASX 200, Financials comprise a massive 46% of the ASX200 index, with Banks representing approximately 31%, with Diversified financials 8 % and REITs and property developers approximately 7% of the ASX200. The big four banks alone account for over 30% by market capitalisation of the ASX200.

Given the overall importance of the financial sector, especially banks and diversified financials, in all three of the major indices used by RIL equity funds and the significant issues that arose out of the GFC about the behaviour of the financial sector, it is appropriate that the RIL Fund have a framework by which the Ethics Advisory Committee can assess companies within the sector.

It is important that financial companies are managing appropriately their tangible and intangible assets, including funds over which they have some control, like invested funds. The governance of financial companies has been called into question recently as corruption and money laundering is being found on what seems to be an unprecedented scale. Improved stated (and observed) standards of operation and ESG reporting are steps towards greater accountability to investors on how companies are managing an important part of their implied value.

Objectives:

Improve the investor relevance of ESG reporting by companies. Seek to inadequate governance standards (whether stated or unstated) and to enhance active observance of those standards.

Proposed Actions and Timelines:

Task	Proposed Timing
1. Identify target governance areas for 'action to ensure no repetition' letters	End of May
2. Identify potential for partnership with other groups on international companies or international initiatives that RIL can support	End of May
3. Establish list of engagement/Greylisting practices like breaching UN sanctions, financing cluster bombs, support of terrorism, financing of 'environmental vandalism' (large dams or mountain top mining) or projects involving slavery and/or child labour,	August Ethics Committee
4. Consult with underlying managers on ensuring proscribed practices are researched and not supported.	August Ethics Committee

Key Outcomes/Measures of success

- Active partnering with underlying managers on research and reporting to RIL on selected target areas
- Listing of subscribers and non-subscribers to selected protocols (Equator Principles, etc.) and increase in numbers of major institutions subscribing

Company Engagement

1. Australian Companies

The AMPCI ESG team will also engage with companies as part of their ESG investment research. The topics covered will be broader than the thematic engagement outlined above and will be company specific.

In addition, to this current company specific engagement, AMPCI and underlying managers can undertake limited case by case company engagement as identified by the RIL Ethics Advisory Committee

Key Measures of success

- Number of company meetings where there is a substantive discussion on ESG issues

2. International Companies

The ability of RIL to engage, efficiently and effectively, with International companies changed as a result of changes in the Fund's International managers. While the new International managers have shown some limited appetite to engage on RIL's behalf, e.g. letter by Lazard to Monster and Investec's engagement of Activision, the process of engaging with international companies is challenging given the size of the holding, or potential holding, the RIL Fund has in a company and the lack of access to senior management by AMPCI.

Where possible, we should encourage our International managers to raise issues with companies on our behalf.

One additional option for engagement is letter writing to companies on specific issues. This would be efficient, though we should be realistic about the potential effectiveness of such engagement.

A second additional option is to support collective company engagement through the UNPRI collective engagement. This would be efficient and potentially more effective than letter writing but we may be limited in the issues we can raise or the sense of active involvement in the engagement.

Key Measures of success

- Number of company meetings or letters where there is a substantive discussion on ESG issues

Manager Engagement

Objectives:

To reinforce importance and improve the accountability of underlying managers to meeting the RIL ESG Charter, through improved reporting.

Proposed Actions:

- Have formal review of the ESG processes and activities of direct property and infrastructure assets and report the findings to the RIL Ethics Advisory Committee.
- RIL Work Group to have regular (quarterly) reviews of the ESG performance of equity managers: The proposed scope of the reporting is:
 - For equity managers, voting statistics over the last 6 months, including
 - Companies where manager voted against management
 - How manager voted on any shareholder resolutions
 - Any ESG Engagement with companies
 - Any consideration of ESG in portfolio management, over and above the screening of companies by ESG service provider
 - Any performance attribution of the Fund based on ESG factors
 - Summary of UNPRI report
- To develop a methodology to assess the ESG risks of the RIL Equity portfolios in absolute and relative appropriate Index, to enable AMPCI portfolio managers to more effectively assess the impact of the ESG integration in the portfolios and to assist the portfolio managers engage on ESG issues with the underlying managers.

Keys Measures of Success:

- Quarterly Reports from each manager

- Reports covering the key areas identified above