

Responsible Investment Leaders Funds

APRIL 2017



CHARTER OF OPERATION

Responsible investment criteria

The Responsible Investment Leaders range of funds (“RIL Range”) has a long-term investment strategy recognising that broader environmental, social and ethical considerations, labour standards and corporate governance factors can impact long-term business success. The RIL Range will invest through managers or in funds which have a demonstrable process for taking these matters into account.

Manager selection approach

The process used for identifying prospective managers involves three key elements.

- > Assess managers based on investment and environmental/social/governance factors;
- > Exclude investments in areas of high social impact; and
- > Select the optimal combination of managers.

Assess managers based on investment and environmental/social/governance factors

Managers will be selected based on their investment credentials and process, and their ability to factor broader environmental, social and governance factors into security selection. While investment assessment is the primary consideration, there is growing evidence that environmental, social and governance factors can give insights into a company’s intangible assets, sustainability and long-term market valuation.

Specifically, the RIL Range will strive to seek out managers who are identifying companies that are leaders across industries in their responsible approach in a range of areas including:

- > Ethical considerations - including upholding fundamental human rights, and articulating and implementing a code of conduct;
- > Labour standards - including implementing occupational health and safety regulations, adhering to the standards of the International Labour Organisation (ILO), providing safe and stable working conditions, and excluding child labour;
- > Social considerations - including promoting indigenous relations and community involvement;
- > Environmental considerations - including efficient energy and resource use, and product stewardship (e.g., where a company takes into account the lifecycle of its product, from manufacture to the extent to which the product can be recycled); and
- > Governance considerations, including meeting corporate governance guidelines on board structures and remuneration.

In further support of the responsible investment aim, investment managers will also be well regarded if they actively participate in corporate engagement and corporate governance initiatives on behalf of the RIL Range.

Exclude investment in areas of high social impact

The RIL Range will avoid companies operating within sectors recognised to have a high negative social impact. This means the RIL Range will avoid exposure (either directly or indirectly through underlying managers and funds) to companies with a material exposure to the production or manufacture of:

- > Tobacco;
- > Nuclear power (including uranium);
- > Armaments;
- > Gambling;
- > Alcohol; and
- > Pornography.

A company deriving more than 10% of its total revenue from these industries constitutes material exposure.

However, those companies involved in the production of tobacco or “controversial weapons”, or essential components of them, a zero revenue materiality test applies. Controversial weapons are considered to be land mines, cluster munitions, nuclear weapons and biological or chemical weapons.

In addition, with the combustion of fossil-fuels being the main source of global greenhouse gas emissions, the RIL Range seeks to limit exposure to companies which have a material exposure to the most carbon intensive fossil fuels by excluding any company that has more than a 20% exposure (as measured by percentage of market capitalisation, or other appropriate financial metric) to one, or a combination of, the following:

- > Mining thermal coal
- > Exploration and development of oil sands
- > Brown-coal (or lignite) coal-fired power generation
- > Transportation oil from oil sands
- > Conversion of coal to liquid fuels/feedstock

However, investments in green bonds issued by companies that would otherwise be excluded because of their fossil fuel, or nuclear power exposure, are permitted in recognition of their net positive environment benefit and the restrictions on the use of funds raised in the issue. Green bonds issued by companies excluded for other reasons, that is being on the “grey-listed” or having a material exposure to tobacco, armaments, gambling, alcohol or pornography would continue to be excluded, as would green bonds issued in order to invest in fossil or nuclear fuel-powered generation.

In addition, shorting of excluded companies is permissible.

Select the optimal combination of managers

When selecting managers, consideration will be given to the style and risk diversification impact each manager will have on the overall portfolio. The aim is to construct a style-neutral blend.

Asset class focus

The RIL Range will invest across a wide range of asset classes. The responsible investment focus as described above is applied across the RIL Range for listed equities and fixed interest. Broad environment, social and governance considerations will be taken into account for investments in direct property and alternative assets. We will continue to seek other asset classes for responsible investment over time.

Manager selection

In addition to assessing a manager's capacity to deliver strong investment performance, and the risk/diversification characteristics the manager brings to the overall portfolio; consideration will also be given to the manager's ability to substantially meet the responsible investment criteria outlined in this Charter. At a minimum, a manager must be able to meet the negative screening criteria listed above. Managers will also be well-regarded if they can proactively apply sustainable and responsible investment criteria above and beyond these exclusions, on behalf of the RIL Range.

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