INVESTMENT MANAGER ESG QUESTIONNAIRE (MAY 2010)
RENAISSANCE ASSET MANAGEMENT

ESG

1. *Can Renaissance discuss the issues associated with investing in small company stocks, the integration of ESG into the investment decision-making process, and the ability of Renaissance to access relevant and timely information and research?*

The investment universe for Australian listed smaller companies is both large and diverse. Consideration of ESG related issues is an important aspect of investment decision making due to the significant impacts that such issues can have on smaller scale businesses. To date, ESG issues have commonly been poorly recognised by smaller company management, meaning that disclosure has often been limited. The combination of these factors makes the integration of ESG into investment decision-making a challenging task in the context of smaller companies.

The recognition of ESG issues in relation to smaller companies is improving and along with it disclosure and research. External research providers are extending their research beyond the ASX100 investment universe and Renaissance will continue to assess external research providers as a potential longer term solution for sourcing input on ESG issues. Stockbroker research has also started to more regularly incorporate ESG factors into mainstream research, thereby providing a useful and more consistent input into the consideration of ESG issues. Renaissance is of the opinion that ESG issues of significance to smaller companies are readily identifiable but somewhat harder to assess and systematically evaluate. For this reason we continue to rely heavily on direct engagement with target companies to understand and evaluate potential risks associated with ESG issues.

Consideration of ESG factors is embedded within Renaissance's research and investment process. As part of our due diligence on target companies, ESG information is sought from numerous sources. This facilitates a better understanding of the potential risks facing the company (as well as providing an insight into management understanding & competence).

As reported in previous submissions, Renaissance currently assesses ESG factors on a case by case basis. We undertake direct engagement and review the ESG related risks on two levels - the level of exposure (a function of the likelihood and magnitude of risk) as well as the company's ability to manage these risks. This approach has been largely qualitative but where direct risks have been identified, we quantify the potential impacts such that our valuations and rationale for specific investments have been properly "stress-tested". This can feed directly into an adjustment for the target valuation for a specific company's securities which would in turn have a bearing on the investment decision. In the majority of cases, consideration of ESG factors leads to a recognition of risk that is managed by an adjusted target weighting of the specific security within the portfolio.

2. *In the previous ESG questionnaire response in 2009, Renaissance commented on their concern in relation to being a small company and the perceived level of commitment associated with signing the PRI. Is this still the view of Renaissance?*

Yes. Renaissance has not signed the UNPRI and periodically reviews this position. Whilst recognising the merits of the principles, Renaissance is a small firm and we remain concerned as to the level of commitment required as a signatory.

3. *In the previous ESG questionnaire response in 2009, Renaissance commented that it did not currently utilise a dedicated external ESG research provider – beside some limited broker research. Has this changed during the year?*

Exempt s43 *

No, Renaissance does not currently utilise a dedicated external ESG research provider although we have assessed many potential providers. Renaissance utilises the services of * to provide research for proxy voting which does encompass ESG related issues. Renaissance also receives input on ESG issues from brokers in the form of specific ESG reports and increasingly as part of company specific research (ie broker research on ESG has increased over the past year).

Externally sourced research specific to ESG issues continues to evolve but is still targeted towards larger companies such as those included in the ASX100 which are not within our mandated investment universe. In some cases coverage extends to the ASX200 which includes only a small portion of our investment universe (less than 20% of our current portfolio by stock number) and frequently the nature of coverage is incomplete (eg covers only "G" issues but not "E" & "S"). We expect the level and relevance of coverage to improve in the future and we have actively encouraged service providers such as brokers and consultants to improve upon the current level of coverage and the deliverability of this information. Discussions with potential providers are focusing on the quality of research to be provided; the scope of coverage of the ASX smaller companies universe; deliverability; and cost.

4. *Have any Renaissance staff attended any external training in relation to ESG in the past twelve months?*

No formal training but we have had informative discussions with ESG research providers.

5. *In the previous ESG questionnaire in 2009, Renaissance commented on the incorporation of ESG issues into their investment decision-making process through a two-tier process – level of exposure and the company's ability to manage the risk? Has this process changed, or been further developed?*

No change – this is still the underlying rationale for consideration of ESG issues.

Renaissance continues to assess ESG factors on a case by case basis. This assessment of ESG issues underpins a recognition of risk that can be managed by an adjusted target stock weighting within the portfolio.

Proxy Voting

6. *Has Renaissance's proxy voting policy and procedures changed over the last 12 months? If so, please provide a revised copy to the ACT.*

No change - the previously provided Proxy Voting Policy and accompanying description is still current.

Summary proxy voting statistics for 2009 were as follows:

- 405 eligible voting resolutions (98.5% voted)
- 329 voted FOR
- 70 voted AGAINST

7. *Does Renaissance continue to use* Exempt s43 *as an external service provider in relation to advice on the execution of proxy voting? Does Renaissance see value in this service?*

Yes. Renaissance utilises the services of Exempt s43 to provide research for proxy voting. This service provides systematic research and sensible opinion on the majority of issues for which Renaissance seeks to lodge proxy votes. In addition, the service provides additional resource to handle the commitment associated with proxy voting responsibilities.

8. *Has Renaissance proposed any shareholder resolutions, or voted in favour of any shareholder resolutions, in the past twelve months?*

Yes. Six shareholder resolutions were co-filed by Renaissance during 2009 – all relating to Redflex Holdings Limited. Three of these resolutions were withdrawn after negotiation with the company leaving three shareholder resolutions to be voted. The shareholder actions resulted in the removal and replacement of three directors (including the chairman) out of a total of six directors.

9. *What does Renaissance think about the effectiveness of shareholder resolutions as a means for company behavioural change?*

Renaissance maintains a high level of company contact via direct engagement and in most circumstances would seek to influence corporate behaviour through active discussion. Shareholder resolutions are considered as a more effective means of communication when direct engagement has highlighted an unwillingness by the company to negotiate on key issues. The inherent advantage in shareholder resolutions is that the issue can be raised for consideration by all shareholders.

Whilst direct involvement in shareholder resolutions can be costly and time consuming, success can be definitive. In the case of Redflex Holdings, Renaissance formed the view that the Board of Directors was not acting in the best interests of shareholders. The shareholder actions taken by Renaissance led to the removal and replacement of three of the six directors, leading to a clear change in company behaviour.

Interaction and Engagement with Companies

10. How many company meetings did/will Renaissance undertake in the 2009-10 financial year?

Renaissance monitors company meetings undertaken on a calendar year basis. In 2009, Renaissance undertook a total of 580 company meetings (731 meetings were logged but a proportion of the meetings involved more than one representative from Renaissance).

11. In the previous ESG questionnaire in 2009, Renaissance commented on the use of a template to promote a systemic approach to ESG issues with company engagement. Can Renaissance comment on the application of this template and provide further description about the content of the template.

Renaissance is still in the early stages of applying this approach to the companies that we research. The aim of the template is to promote discussion and record company positions on key ESG issues to allow monitoring over time and comparison with peer companies. The template itemises key ESG issues, provides examples of typical concerns relating to each of the specified issues and allows for comments to be recorded.

12. Can Renaissance provide any specific examples of where ESG has been raised and discussed with company management over the past twelve months?

The list below provides some examples of engagement on ESG issues during 2009:

Exempt s43

Company Name (& date)	Discussion
(Dec 09)	Environmental policies; social licence
(Nov 09)	Board composition – appropriateness of director
(Nov 09)	Board independence
(Nov 09)	Environmental policies; employee risks; social licence
(Nov 09)	Executive remuneration
(Nov 09)	Environmental policies; climate change; board independence
(Oct 09)	Environmental policies; climate change; governance disclosure (esp remuneration); employee risks
(Oct 09)	Executive remuneration
(Oct/Nov 09)	Board composition & independence. Board restructured.
(Oct/Nov 09)	Board composition & independence. Three directors removed & replaced as a result of Renaissance actions.
(Sep 09)	Environmental policies; employee risks; social licence

Exempt s43

(Sep 09)	Board composition
(Aug 09)	Proposed integration of management company
(Aug 09)	Proposed separation from Babcock & Brown
(Aug 09)	Board independence
(Jul 09)	Management company structure and board independence
(Jul 09)	Board composition - director subsequently retired
(May 09)	Board composition - director subsequently resigned
(May 09)	Director loans / remuneration
(Mar 09)	Board independence
(Feb 09)	Ensure that rights of shareholders are addressed
(Feb 09)	Board independence
(Jan 09)	Proposed changes to company bye laws

13. Does Renaissance currently have any significant investments in listed companies in Australia i.e. shareholding above 5 per cent of issued capital? Please outline the magnitude and number of companies.

Yes. Renaissance currently has one holding above 5 per cent of issued capital – Redflex Holdings (7.6%).

14. In the previous ESG questionnaire in 2009, Renaissance made comment in relation to encouraging companies to improve their reporting disclosures? What areas of reporting are Renaissance looking for and encouraging improvement?

Renaissance encourages improved reporting disclosure in relation to all ESG issues. Recent discussions have included specific focus on energy intensity and carbon emissions.

Stakeholder Engagement

15. Is Renaissance still a member of ESG Research Australia (ESGRA)?

Yes, Renaissance is a member of ESG Research Australia (ESGRA).

16. Has «short_name» participated in any public debates, research initiatives, or external forums, in relation to the discussion and promotion of ESG and the incorporation of ESG into the investment decision-making process?

No, but we have had informative discussions with ESG research providers.

Asset Allocation

	Portfolio %	Index %	Active %
Industrials	65.0	60.6	+4.4
Resources	31.9	39.4	-7.5
Liquidity	3.1	0.0	+3.1
Total	100	100	

The portfolio is constructed from a bottom up basis and the outcome of this has been a underweighting to the resources sector over recent periods. The portfolio is currently 7.5% underweight resources and this has assisted performance during the June quarter. Our conviction regarding this position is being challenged internally as equity prices have far underperformed commodity prices. This can be explained by less optionality being attached to the equity price as the commodity price has not been growing, ie; resource equities tend to be more leveraged to the commodity and when commodities fall the equity prices fall much further. Regardless, we are reviewing resource companies that have underperformed but at this point we have not changed the portfolio to any degree.

The market was quite difficult for smaller industrial companies during the June quarter and we anticipate that outlook statements will be quite subdued when full year results are announced during the upcoming reporting period. Your portfolio is weighted in more defensive smaller industrials unless the valuations significantly outweigh the risk of profit downgrade.

- Comment on the current market environment consequences for your style of management.

The current market is extremely difficult for value based investors. The volatility is extreme and markets change their mind regarding the outlook on virtually a daily basis. There are a number of concerns regarding the global economy including (1) managing a slowing Chinese economy without disrupting activity, (2) an anaemic US economy that has a growing debt burden that needs to be addressed, and (3) the European debt crisis. We suspect that the US & Europe will manage these issues over time and that growth will remain quite slow relative to historic norms but the Chinese situation may provide more volatility. If these events worsened then the underweight resources position will add significant value and if all is resolved resources could out perform.

- Comment on any other factors which you see as relevant to the future performance of the portfolio.

N/A

Environmental, Social & Governance Risks (ESG):

- Please provide an outline of your activities and/or changes to operational processes in relation to the incorporation of ESG risks and issues in the investment process over the quarter.

ESG issues are occupying more of our time over the last year due to the following factors:

(1) Resources super profits tax – required research and analysis, portfolio review and consideration regarding risk of an eventual tax being implemented.

(2) Carbon tax – the announcement of the details associated with the proposed scheme required similar research analysis. Renaissance forwarded the ACT a copy of this research and it was also highlighted in the June Quarter Report.

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(3) General corporate governance issues associated with proxy voting. A list detailing engagement with company management regarding ESG issues is attached below:

ESG Engagement 2010

The list below provides examples of engagement on ESG issues during FY 2010/11:

Company Name (& date)	Discussion
(Jul 2010) * Exempt s43	Proposed corporate restructure – discussion with MD * * & major shareholder representative to voice concerns about the potential mistreatment of minority shareholders as a result of a proposed asset transaction involving the major shareholder. Assurances provided that minority shareholder interests would be recognised.
* Exempt s43 (Aug 2010)	Safety – discussion with MD * & COO * * on safety performance & management initiatives at the Co-O underground mine in the Philippines.
(Aug/Sep 2010) * Exempt s43	Proposed corporate restructure – discussion with MD * * & Chairman * regarding the need for the proposed gold business listing to be offered to existing shareholders and for an ASX listing to be maintained. Assurance was provided and both issues were rectified.
(Aug/Nov 10) * Exempt s43	Board composition – discussion with Chairman * & CEO * in relation to improving board composition & RSC intention to vote against affiliated NED * . Commitment provided to improve board composition going forward. CEO subsequently re-appointed to board.
* Exempt s43 (Aug/Dec 2010)	Environmental issue management – discussion with MD * * in relation to tailings disposal from * nickel project currently under development in PNG.
(Sep/Oct 2010) * Exempt s43	Disclosure – discussion with lawyer pursuing civil action and * chairman * in relation to disclosure. * performance was severely impacted after an environmental permit necessary for mining was denied.
* Exempt s43 (Oct 2010)	Board composition – discussion with MD * about Exec Director * recommends voting against to increase ratio of indep on board. Deputy Chairman to discuss with *
* Exempt s43 (Oct 2010)	Remuneration – * discussed remuneration with * * & recommended discussing outcomes with
* Exempt s43 (Nov 2010)	Discussion with * (CFO) regarding board structure & our intention to vote against * as non independent & represent * suggested that * announce intention to increase independence of board before AGM & if this was done shareholders may change vote. * recommended voting against all three directors up for election,

	2 from * & one whom was appointed by * when the company was managed by * recommended voting against the two * directors to send a message to the board.
* Exempt s43 (Nov 2010)	Discussion with Company secretary * regarding election of * (CFO), * has 4 affiliated directors (affiliated with founder * DF recommended that shareholder vote in favour of * based on his excellent track record with * recommends voting against as this would increase the % independents & skills would still be available to the company (CFO). * highlighted the independence of decisions made by the associated directors of the board. DF recommended voting for * but sought less skilled directors to vote off to increase the independence of the board. This was not forthcoming.
Exempt s43 (Nov 2010)	DB spoke to Company Secretary * regarding upcoming AGM, originated discussion due to issues with 2009 AGM (salaries, incentives etc). Discussed potential issues & DB believes that these issues should not be repeated in 2010. 15/11/2010 AGM issues all OK & RSC voted in favour, * recommends vote in favour.
Exempt s43 (Nov 2010)	GR & DF spoke to company post announcement of takeover bid regarding valuation, it is clear that the founders want to sell, RSC believe that full value is not being reflected in the bid price. Plan to discuss with independent directors.
(Nov 2010) Exempt s43	GR spoke to CFO regarding the large non-audit fees paid to auditor. Fees paid for R&D credit work 3x audit fee, but done to different team, in different office with different partner. Plus the $500k of fees unlikely to sway * to be non-independent. Decided to vote in favour of non-Independent audit committee member board re-election.
Exempt s43 (Nov 10)	Appointment of * fund manager to board – GR spoke to CEO to understand how process of all shareholders treated evenly, specifically on issue of dividend payments to Aus investors being more tax efficient than to UK investors.
(Nov 10) Exempt s43	Engaged CFO & CEO regarding the introduction of an item allowing the company a free hand in employee benefits including the ability to set compensation without limit or hurdles. Update – post engagement the company withdrew this item from its AGM!
Exempt s43 (Nov 10)	GH spoke to Exec Director * re poor structure of options packages and best practice re vesting periods, targets and disclosure
(Nov 10) Exempt s43	DF spoke to Chairman * regarding the election of * who represents the major shareholder * dominates the board & we discussed our objective to improve the independence of the

	board & that Renaissance intended on voting against his election. * is also affiliated with * but it is Renaissance's opinion that * is important to * and that shareholders should support the re-election of *
*Exempt s43 (Nov 10)	DF spoke to MD * about the proposal to change executive options so that they immediately vest under certain circumstances. Renaissance did not support these proposals & discussed our intention to vote against these. *
Exempt s43 Jan 2011	GH spoke to former MD * re potential changes to the board
Exempt s43 Jan 2011	GH & GR spoke to Chairman * re feed back on asset sale process, concerns over management structure and strategy.
Exempt s43 (Mar 2011)	DB, DF & CC multiple discussions with CEO, Chairman & prospective board regarding EGM resolutions to remove existing board & reinstate former MD.
Exempt s43 (May 2011)	SD discussed proposed asset purchases from related parties with CEO. Conclusion was that corporate governance relating to the proposed transactions was adequate but that the larger of the two proposed transactions was not in the best interests of minority shareholders based on our assessment of the investment criteria.
Exempt s43 (Jun 2011)	SD & DF discussed shareholder engagement with CEO & Chairman. This follows shareprice underperformance after company failed to gain shareholder support for proposed foreign listing. Company agreed to review strategy.
Exempt s43 (Jun 2011)	SD discussed proposed remuneration packages with GM Bus Dev, outlining concerns in relation to sub-optimal performance criteria, vesting periods & full vesting on change of control. Facilitated introduction to *

Duties/ **Warranties**	Does/has the Manager: • Promptly notified the Territory of any instruction given to the Manager that has not been complied with • Notified the Trustee in writing immediately upon becoming aware of any event having a significant adverse impact on the financial position of the Fund	4.1(7) 11.2(2)	

4. Voting Report

Please advise if a voting report is required.

5. Significant Changes

There have been no substantive changes to the ownership, management and organisational structure, personnel, financial condition or other characteristics of Renaissance Smaller Companies.

6. Investment Strategy

There has not been any significant change in investment strategy during the period. Investment strategy can be reviewed in each quarterly report.

7. Change to Instructions

We note your new restrictions associated with:

- Investments in stocks that engage in the following activities:
  - the manufacture of tobacco; and
  - the manufacture of cluster munitions and landmines.

Changes in relation to share voting arrangements have also been noted. From 1 July 2013, share voting shall be exercised by Institutional Shareholder Services (ISS).

8. ESG Activities

Renaissance's focus on ESG issues as part of our investment management process continues to be based on direct engagement. More than 800 company meetings were undertaken during the year, raising numerous issues directly with senior company management (and directors as appropriate). Tangible evidence of successful outcomes has been noted in several cases.

Specific ESG related activities undertaken in the past year include:

(1) Documentation of an ESG policy and a revised Proxy Voting Policy.
(2) Improved logging of company engagement activities.
(3) Introduction of ESG templates for portfolio companies to facilitate the consideration of ESG issues as part of the investment decision making process.
(4) Active voting on 365 eligible voting items (a breakdown of proxy voting activity has been reported separately to ACTT).
(5) Continued membership and participation in ESG Research Australia (ESGRA) which aims to integrate ESG research into mainstream broker research.

Should you require any further information please call me on Exempt s41

Yours sincerely,

Exempt s41

Director