

ENGAGEMENT



Regnan undertook **77 engagements** with **51 stocks** in 2012-13, reaching nearly half (47%) of the current S&P/ASX200 by market weight. 17 of the stocks had not been engaged in the prior two years. Over the last two years, engagement has reached 87 stocks (68% of the current index by weight).

Active pursuit of the engagement strategy agreed with clients is evident with 73% of activity relating to an explicit engagement plan – the highest level yet achieved.

Sustained effort is evident with 31 stocks engaged in both of the last two years and 57% of stocks engaged on multiple occasions during the current year.

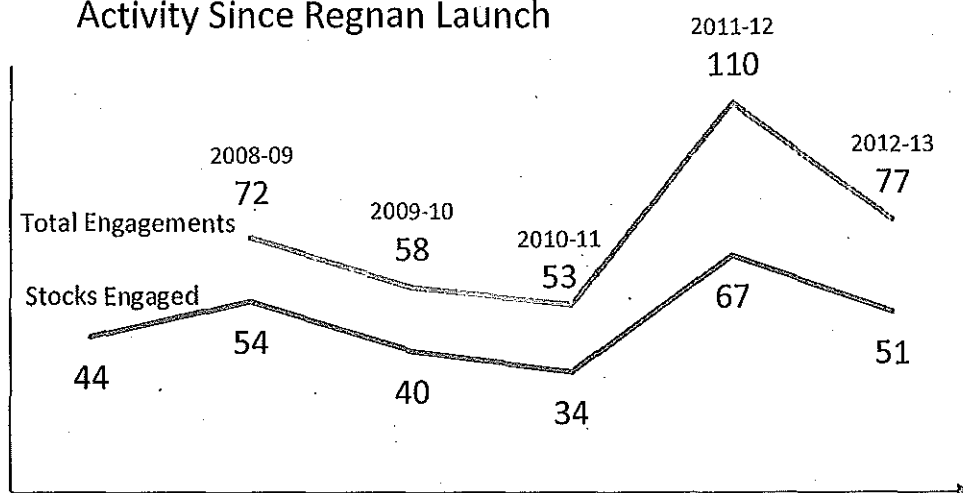
S&P/ASX200
2-year Cumulative
Index Cover
68% (87 stocks)

21%
engaged
2011-12

9% NEW 2012-13

38% ONGOING
(stocks engaged
in each of the
last 2 years)

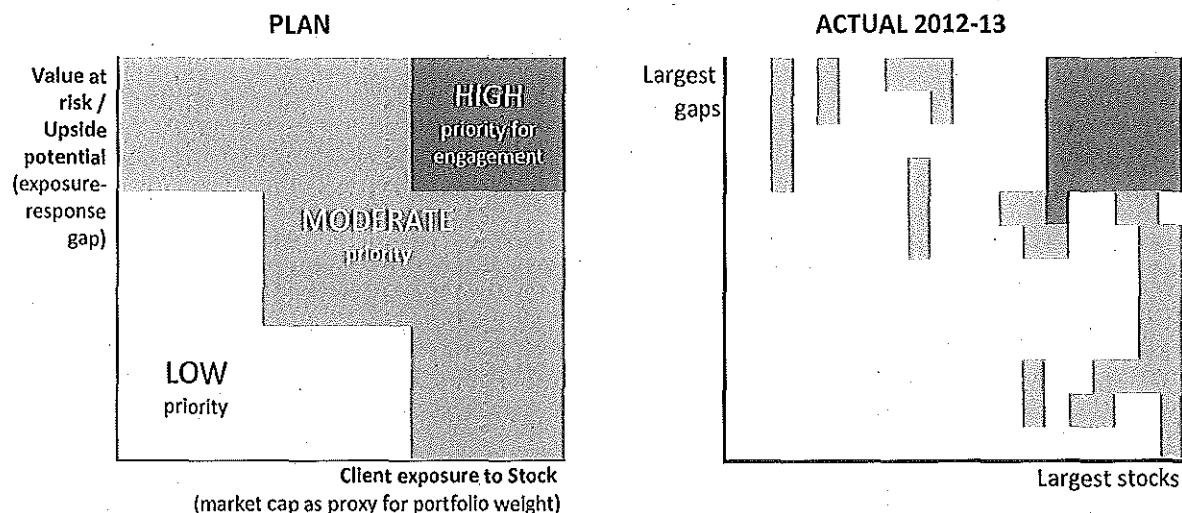
Activity Since Regnan Launch



Activity levels show **growth on long-term trend**, although lower than 2011-12. The spike in activity in 2011-12 related to implementation of the 'two-strikes rule' - (shareholder vote on pay plans) which drove large volumes of inbound engagement requests. This also accounts for a decline in board share from 60% in 2012 to 48% in 2013.

Regnan's objective in engagement is to sustain and enhance value for clients and their beneficiaries and we accordingly prioritise the size of the value at risk from the issue identified (exposure-response gap) and weight in client portfolios.

The charts below compare prioritisation principles (left) and practice for 2012-13 (right) and demonstrate a strong degree of effective prioritisation in practice with the pattern of engagement activity bearing strong resemblance to 'optimal' prioritisation.

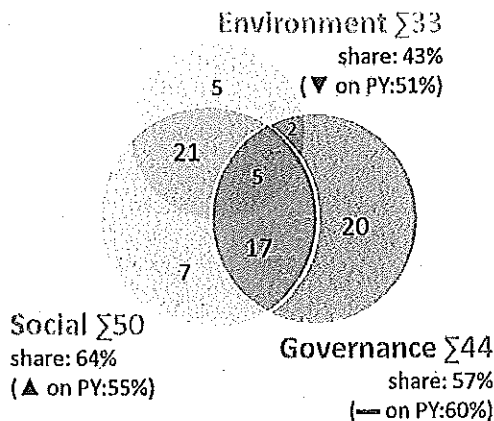


Engagement Statistical Summary (since Regnan launch):

Metric	Details	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12	2012 -13	CY v PY	%Δ YOY	
Stocks engaged	number of listed entities	44	54	40	34	67	51	-16	-24%	▼
S&P/ASX200 coverage	percentage of index market cap reached by engagement activities	nr	nr	nr	nr	57%	47%	-10%	na	▼
TOTAL Engagements	number of engagement events	nr	72	58	53	110	77	-33	-30%	▼
Multiple share	percentage of stocks engaged on multiple occasions during year	nr	nr	55%	60%	40%	57%	17%	na	▲
Face to face share	percentage of engagement by meeting	nr	88%	90%	75%	61%	66%	5%	na	▲
Board share	percentage of engagements involving non executive directors	nr	22%	43%	66%	60%	48%	-12%	na	▼
Planned share	percentage of engagement where change objectives specified prior	na	na	53%	68%	70%	73%	3%	na	▲
Topics	number of distinct topics raised	54	66	nr	140	229	213	-16	-7%	▼

nr = not reported in that year / data not available

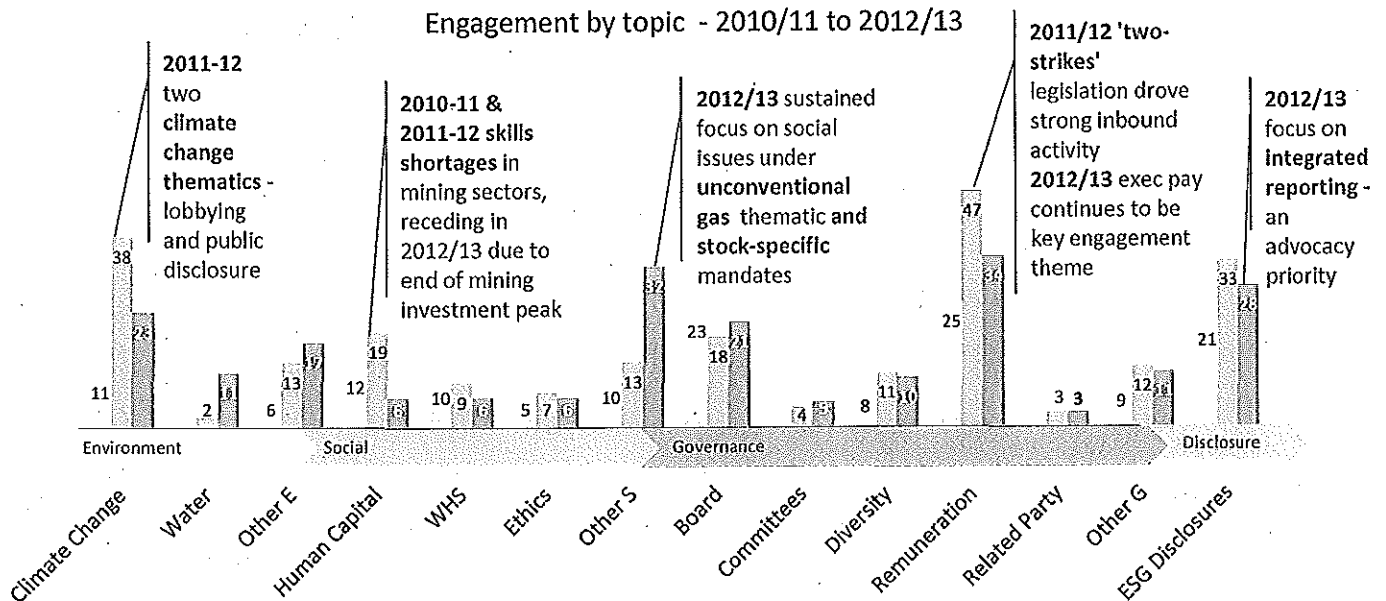
Engagement by area 2012/13 (proportional)



Social topics appeared most often in engagement in 2012/13 (supplanting governance in 2011/12) with 50 out of 77 engagements (64%) addressing social topics, either alone or alongside E and G issues. This reflects a deliberate focus on these often challenging topics.

- Engagement on unconventional gas (including coal seam gas) addresses community and social licence risks as well as environmental impact.
- Stock-specific social topics pursued include problem gambling and community consent for project developments.
- We have been tactical in using board discussions (typically governance, often dominated by remuneration) to redirect attention and communicate investor interest in relevant social risks.

Engagement by topic - 2010/11 to 2012/13



The 'Other Social' category grew significantly in share and total and became the 2nd most frequently raised topic in 2012-13. This category relates to community relations and social licence risks.

Remuneration and ESG disclosure, were 1st and 3rd most frequently discussed respectively, each have appeared in the top 3 topics consistently over the past 3 years.

ADVOCACY

6	2	23	25	5	3
Formal Submissions	Position Papers	Alerts to Clients	Media Mentions	Speakers Provided	Functions Hosted

Achievements:

- ✓ ASIC guidance (RG247) expanded to acknowledge annual statutory reporting by companies requires a discussion of material ESG risks, following **submission** to Australian Securities and Investments Commission (ASIC) on consultation paper 187: effective disclosure in an operating and financial review
- ✓ Better information about the emissions footprint of Coal Seam Gas will result from proposals supported by a Regnan-initiated joint **submission** with IGCC (Investor Group on Climate Change) to DIICCS RTE on Proposed amendment of the National Greenhouse and Energy Reporting (Measurement) Determination 2008. The regulator also accepted our proposal that improved accuracy of emissions should be extended to all unconventional energy (this had not previously been under consideration).
- ✓ Expertise contributed to the development of integrated reporting – a new reporting framework designed to better meet long-term investor information needs - via investor pilot program membership and formal submission on draft framework. Integrated reporting raised in 17 engagement meetings.
- ✓ Engagement expertise contributed to RI Academy's RI Essentials training course (now launched).

In progress (highlights):

- **Submission** made to Climate Change Authority (CCA) Caps and Targets Issues paper.
- Best practice ESG principles and recommendations on unconventional gas (**position paper**) now released to listed entities, and to investors via the PRI Clearinghouse and Australian CSG working group.
- **Submission** to and participation in roundtables on Corporations and Markets Advisory Committee (CAMAC) enquiry: The AGM and shareholder engagement.
- **Submission** and participation in roundtable on amendment to the Corps Act (Remuneration and Other Measures) Bill 2012. **Position paper** on executive remuneration (in progress, subject to further input).
- **Submission** made to Standing Council on Energy Resources (SCER) draft National Harmonised Framework on Coal Seam Gas.

Events (highlights):

- Hosted round table lunches involving senior S&P/ASX200 directors and investor representatives building consensus on board quality and diversity, investor-director engagement, and executive remuneration.
- Participated in round table events on the above topics via events hosted by industry and investor groups such as the Chartered Secretaries Association, KPMG.
- Ran workshop at Conference of Major Super Funds on NGO activism targeting investors.

Media Details:

1. 'Rio slipped up in China', *The Australian*, 19 July 2012
2. 'Pay for Excellence', *Australian Financial Review*, 22 August 2012
3. 'Super funds show greater awareness of ESG issues', *Investments and Pensions Asia News*, 22 August 2012
4. 'Could high frequency trading lead to our own 'flash crash'?', *The Conversation*, 17 September 2012
5. Live interview on executive remuneration, ABC News24, 25 October 2012
6. 'Strike rate slides as boards fall into line on pay deals', *The Australian*, 27 October 2012
7. 'Woolworths poker machine vote fails, but push to continue'
 TheSustainabilityReport.com.au, 23 November 2012
8. 'Take pay back to first principles', *Australian Financial Review*, 27 November 2012
9. 'Board blamed for RIO debacle – Investors want more action', *The Australian*, 21 January 2013
10. 'Scathing report released into Hastie collapse', *ABC Premium News*, 21 January 2013
11. 'Administrators produce damning report into Hastie collapse', *ABC News (TV) and PM (radio)*, 21 January 2013
12. 'Guarding against greenwash', *BRW*, 7 February 2013
13. "'Dinosaur' should move with the times", *Australian Financial Review*, 25 March 2013
14. 'Building Tensions', *The Business (ABC TV)*, 25 March 2013
15. 'Supers see greater value in ESG investing', *Investment & Pensions Asia*, 12 April 2013
16. 'Investor questions about risks, oversight of coal seam gas', *The Sustainability Report*, 12 April 2013
17. 'New framework to improve company reporting', *Financial Standard*, 16 April 2013
18. 'IIRC publishes Integrated Reporting consultation draft', *The Sustainability Report*, 17 April 2013
19. 'Memo to retailers: Climate change is about you too', *BRW*, 30 April 2013
20. 'How Myer CEO Bernie Brookes caused a social media stink with his comments on the NDIS'
 BRW, 3 May 2013
21. 'One Almighty Crash', *The Australian (magazine)*, 4 May 2013
22. 'Greenpeace fundraises for TV ad linking Coca-Cola litter to dead birds', *BRW*, 6 May 2013
23. 'Newcrest launches disclosure review after pre-announcement share slump', *PM (ABC radio)*, 25 June 2013
24. 'Baker gets fresh with supermarket giant', *Australian Financial Review*, 26 June 2013
25. 'A very poor effort', *Australian Financial Review*, 29 June 2013