

Nikko Asset Management Australia

Australian Equities Proxy Voting Policy & Guidelines

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Document History

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November 2013	Voting policy section added to comply with FSC Standard 13.	2.0	Head of Australian Equities, Operations Manager, Risk and Compliance Manager
September 2014	Policy amended to reflect the following name changes; <ul style="list-style-type: none">• Tyndall Investment Management Ltd to Nikko AM Ltd.• Tyndall Asset Management Ltd to Nikko Asset Management Australia Ltd.	2.1	Head of Australian Equities, Operations Manager,
September 2015	Annual review – no material amendments	2.2	Head of Australian Equities, Head of Operations, Head of Compliance
September 2016	Annual review – no material amendments	2.3	Head of Australian Equities, Head of Operations, Head of Compliance

1. Purpose/Objective

This policy and guidelines sets out the general framework and principles for corporate governance and proxy voting matters.

2. Scope

2.1. Who does it apply to

This policy is adopted by the following entities that collectively are known as 'Nikko Asset Management Australia':

- Nikko Asset Management Australia Limited
- Nikko AM Limited

This policy applies to investment staff(s) acting on behalf of the above entities involved with investment decision making and executing the voting instructions.

2.2. What does it cover

This policy and guidelines applies to the management of Australian equity investments by Nikko AM Limited across the registered managed investment schemes (**Schemes**) for which Nikko Asset Management Australia Limited is the Responsible Entity, and the discrete investment mandates (**Mandates**).

This policy does not cover any discrete mandates where specific client instructions have been received in relation to proxy voting and corporate governance matters.

3. Proxy Voting Policy

The proxy voting policy includes the principles behind the voting policy as well as the specifics of the voting policy.

3.1. Principles

We believe that exercising our entitlement to vote is an important act in fulfilling our fiduciary duty to investors. By voting and interacting with listed company Boards we can positively influence the returns to shareholders. In a broader sense we can encourage better corporate governance and financial decisions by Boards.

As a long-term investor, Nikko AM Limited is focused on the fundamental performance of the corporates in which we invest. By positively influencing corporate governance we can actively improve returns to investors while promoting long-term decision making by Boards and management. Voting is an important tool in promoting long-term corporate decision making.

Nikko AM Limited supports the consideration of Environmental, Social and Governance (ESG) factors by corporates. In the long-term ESG issues can materially affect corporate valuations. By promoting the consideration of ESG factors, Nikko AM Limited aims to positively influence investor returns and corporate decision making. By voting we can improve corporate governance and communicate the importance of ESG factors.

While voting is important, our experience has shown that interacting and communicating with company Boards is equally important as this is a two-way form of communication while voting has limited communication value. Often Boards appreciate the insight into investors' thinking that meetings enable. Expressing concerns and raising issues in meetings can be more effective in promoting positive changes than just voting. Investment personnel are encouraged to communicate with Boards in which we have a material investment and where such interaction can have a positive influence.

3.2. Voting Policy

The guiding principle of our voting policy is that voting rights should be exercised in all cases, in the interests of investors, unless there is a compelling reason not to. The decision to vote, or not, and in favour or not, is to be determined by the covering investment personnel. All relevant and available information should be considered in forming a decision. At times abstaining from voting will be the preferred course of action. Some examples of reasons for abstaining from voting include:

- Where we are excluded from voting by the Corporations Act, or other laws, or where there is a conflict of interest or duty which cannot be appropriately resolved.
- Where it is in the best interests of investors to abstain. An example of this is where a vote against a current Director is preferred but if the Director is not re-elected it could lead to an insufficient number of remaining Board members.
- Where the alternative option is not preferred. In the past we have been faced with the choice of either voting for a resolution or abstaining. Since we did not want to vote for the resolution and there was no option to vote against, we chose to abstain.

Where there is a conflict between our fiduciary duty and the Proxy Voting Guidelines, our fiduciary duty will take precedence. Legal requirements will take precedence over other duties.

3.3. Voting across all holdings

Investments in Australian equities by Schemes and Mandates managed by Nikko AM Limited are driven by a common investment thesis. Since votes are cast with regard to the best long-term interests of investors and with regard to the same investment thesis, voting will be consistent across all holdings.

There is the possibility that legal or fiduciary reasons lead to an exception to this rule. In the event of exceptions, the voting records will accurately reflect these differences.

3.4. External Advisors

No external advisors are engaged in the decision of how and whether to vote. However, if relevant information emerges from an external party, it will be considered.

Issues raised by external advisors will be considered but the Nikko Asset Management Australia Proxy Voting Guidelines will take precedence.

3.5. Disclosure of voting records

A voting record is kept of all proxy voting activities (Scheme and Mandate).

The voting records of the Schemes will be disclosed annually on our website at www.nikkoam.com.au within 3 months of the financial year end as required by *FSC Standard No. 13: Proxy Voting Policy*.

The format of the disclosure of Scheme proxy voting activity is consistent with *FSC Standard No. 13: Proxy Voting Policy* and includes the following:

- The name of the entity;
- The ASX or equivalent code of the security;
- The meeting date;
- Whether the resolution is a General or Special one;
- A brief summary of the resolution;
- Whether the resolution was proposed by the entity or a shareholder;
- How the resolution was voted, or if abstained;
- Whether the vote was for or against the recommendation of the Board.

Best efforts must be employed to ensure that the disclosed activity is correct.

4. Proxy Voting Guidelines

The guidelines below are not intended to operate as a prescriptive set of rules for proxy voting. They have been designed to provide a general framework for clients and investee companies to understand our views on corporate governance matters and our likely response when asked to vote. Naturally, they will evolve as time passes and circumstances change. It is inevitable that we will be presented with situations in future that deviate from those outlined here, but we hope that readers will understand our general way of thinking after reading through these guidelines.

Below are corporate governance matters which we consider:

4.1. Board of Directors

The Board of Directors of Companies generally performs the following key functions on behalf of shareholders, inter alia:

- Approves and oversees corporate strategy
- Appoints and oversees the CEO / Managing Director
- Provides expertise in relevant fields
- Communicates financial performance to shareholders

- Sets executive and recommends own remuneration and incentive structures
- Designs and implements appropriate risk management procedures
- Supervises the audit function
- Prepares and plans for senior management succession.

It is therefore imperative that the Board of a company operates in a functional and productive fashion. We recommend that the Board adopt a formal charter that details their functions and responsibilities and those of management of the company. This document should be reviewed annually.

- *Independence*

The majority of directors should be independent, except in exceptional circumstances. By “independent”, we mean independent of management. It is critical for board decisions to be made after discussion and thinking unconstrained by management. We are therefore unlikely to support relatively large numbers of executive directors on the Board. In most cases, the Chief Executive Officer and, perhaps, the Chief Financial Officer (or equivalent) will be sufficient. We recommend that the annual report disclose which directors qualify as independent directors and the principles supporting their independence.

- *Competence*

Directors should be chosen for their expertise in a particular field relevant to the normal activities of the company. We encourage Boards to seek an independent performance assessment on the election and re-election of a director. Each director should be informed upon appointment of the reasons for his / her selection and the duties expected. These reasons should be disclosed to the market. Incompetent or consistently underperforming directors should be asked to resign as soon as possible.

- *Diversity*

We support a diversity of views in the boardroom, provided it supports the best long-term economic interests of shareholders. We believe a balance of skills and experience is desirable. We expect that a director will bring an independent mind to bear when contributing to the board’s decision-making process.

- *Commitment*

We expect all directors to commit enough time to company affairs to soundly perform their duties. We believe that there is a limit to the number of directorships any one individual can accept due to time constraints. The limit must be considered in each set of circumstances.

- *Board Size*

The size and complexity of the company will normally determine the appropriate size of the board. There should be a sufficient number of directors to ensure that all the major functions of the board and affairs of the company are addressed with maximum efficiency.

- *Chairman – Independent*

We believe an independent director should fill the position of Chairman. We are also generally against a large shareholder taking up the position of Chairman to remove the risk of unequal treatment of shareholders. We do acknowledge, however, the special circumstances involving a founding shareholder. In those cases, we recommend the appointment of a lead director from the ranks of the independent directors. The appointed directors should report to his/her colleagues on issues falling within the normal bounds of a non-executive chairperson. We will strongly oppose a resolution to amalgamate the positions of Chairman and CEO. We will also oppose a former Chief Executive Officer of the company filling the position of Chairman.

- *Board Terms*

We do not support minimum terms for directors, unless we are able to independently assess the contribution of each. The onus of proof should be on the company. We are far more interested in the level of commitment and contribution than arbitrary terms of service.

- *Communication with Shareholders*

One of the most important roles of the Board is to communicate with shareholders. We expect the board to be open and candid with shareholders about the current and likely performance of the company. This should extend to reasonable disclosure of financials and risk management policies. The Board should adopt procedures to ensure the company complies with its legal and ASX Listing Rule disclosure requirements. We strongly encourage directors to make themselves more accessible to shareholders. At present, interaction between shareholders and their Board is usually limited to the annual general meeting. In cases where disclosure and communication have deteriorated during our time as shareholders of the company, we will generally inform the company of our dissatisfaction, as a first step. We reserve our right to vote against directors if we are unsatisfied with the Board's progress in this area.

- *Share Ownership*

We believe that directors should hold meaningful equity in the company, subject to their personal circumstances. This aligns their interests with other shareholders and exposes them to downside risk in the event of poor performance. We usually will not support a director's re-election if we consider that his / her equity holding is unsatisfactory in all the circumstances. We also encourage directors to take a meaningful portion of their fees in the form of equity.

- *Related Party Transactions*

Even though virtually all related party transactions are purported to be structured on an "arms-length" basis or on "normal commercial terms", we are not in favour of the practice of directors generating income from the company outside of directors' fees or equity dividends. We recommend that directors avoid the risk of actual or perceived conflicts of interest.

- *Performance Evaluation*

We expect the Board to adopt a formal performance assessment process. This should cover its own performance, including individual directors, as well as evaluate management and company performance. This should be carried out at regular intervals and be disclosed to shareholders in interim and annual reports. We recommend that independent directors meet as a group to review performance at regular intervals, in addition.

- *Nomination Committee*

A nomination committee should be established to monitor the performance of the Board, assess competency requirements, and provide recommendations for the appointment and removal of directors.

- *Risk Management*

It is essential that the Board develops a detailed policy to manage risk and internal controls within the organisation. Key risks should be identified and material changes in the company's risk profile should be communicated to shareholders. The risk profile should be reviewed regularly.

- *Code of Conduct*

A code of conduct should be adopted to guide the behaviour of directors and senior management. It is intended that a code will promote ethical and responsible behaviour. The code should not be limited to policies regarding trading in company securities.

- *“Whistle-Blowing”*

The Board should adopt favourable policies for the encouragement and protection of “whistleblowers”. This policy should also apply to directors of the company.

- *Financial Statements: Sign-Off by CEO and CFO*

We encourage that all listed companies to adopt the ASX Corporate Governance Council's (ACGC) Recommendation 4.1 requiring both the CEO (or equivalent) and CFO (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

- *Risk Management Policy: Sign-Off by CEO and CFO*

We encourage listed companies to adopt the ACGC's Recommendation 7.2 requiring that the CEO (or equivalent) and CFO (or equivalent) provide to the board a written statement acknowledging that their sign-off on the financial statements (Guideline 1.16) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board; and, the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

4.2. *Remuneration*

- *General Policy*

Remuneration for senior executives should be linked to performance. A reasonable “base” should be paid for the services of the executive on a day-to-day basis. This will depend upon the size and complexity of the business involved. However, a material percentage of total remuneration should be “at-risk” and tied to clearly defined performance targets as part of incentive plans.

- *Compensation Committee*

The Board's compensation committee should comprise a majority of independent directors. We encourage the Board to resist the temptation of relying wholly on compensation consultants to set remuneration rates. Common sense and reasonableness should be the guiding principles. Consultants should be appointed independently of management.

- *Incentive Plans*

- Long Term vs. Short Term

Incentive plans - particularly long-term plans should be linked to the equity of the company so that they align management with the best long-term economic interests of all shareholders. We are not against cash payments resulting from short-term incentive plans. As the reward is cash, these plans are vastly more transparent and easier to value. Rigid performance hurdles should apply to both short and long-term incentive plans, without exception. We expect that hurdles would have both "internal" and "external" components. The internal component should be related to the fundamentals of the company under the direct control of management. An external reference (eg. Peer group comparison) measures performance of management against their peers in related companies.

All plans should be designed to reward superior, and not average, performance. The rewards available under any plan should be reasonable in all the circumstances. Material details of each incentive plan should be disclosed to the market.

- Favourable Loans to Executives

We support the provision of company loans to executives for the purpose of buying equity, provided reasonable collateral is secured and the principal amount is not "forgiven" at some point in future. The quantum involved should not place any executive under financial stress or encourage management focus on short-term results at the expense of the long term economic interests of all shareholders. As these loans-for-equity expose executives to both upside and downside risk, we believe they are a superior mechanism to align management's interests with shareholders. They also display an increased level of personal financial commitment to the company, which we generally view positively.

When a company offers interest rates that are lower than prevailing commercial rates, it should be disclosed to the market.

- Stock Options

Although we acknowledge the current popularity of option grants in corporate Australia, we have a number of grievances with respect to this type of incentive:

- Only the share price determines the final outcome, not the fundamentals of the company. We are predominantly interested in rewarding executives for capably managing the invested capital base of the company. Accordingly, we are prepared to reward good management performance, even if it is not reflected in the company's share price at a particular time;

- There is a tendency to view the grant of options as a “free” expense to the company. This has resulted in the proliferation of option grants over recent years;
- Performance hurdles attached to option grants are often too low; and
- Executives bear no down-side risk over the life of the option plan. This effectively results in only “one-way” (upside) alignment of executives with existing shareholders. Option grants should be subject to exactly the same principles and performance hurdle requirements as any other form of incentive, as outlined previously. However, we further suggest that:

Option grants should not be excessive. There should be no “free kicks” for incoming CEOs or other executives.

- Options should have a term of no more than five years and be priced in excess of the current share price.
- Options should not be re-priced, except where the capital base has been adjusted (eg. rights issues etc.)
- Options should vest in such a way that there is a reasonable balance between an executive’s tenure and pay-off.
- Options should be capped (as a percentage of outstanding capital). We recommend that this cap be in the low single digits.

The award of options must be reasonable in the circumstances and reward superior performance only.

4.3. *Audit Function*

- *Audit Committee*

Only independent directors should serve on the Audit Committee. The Audit Committee should include members with a mix of appropriate skills and experience to properly discharge their duties. The Audit Committee should ensure that the appointment of auditor is a transparent process. The Audit Committee should also have a formal charter and be sufficiently empowered to meet its obligations.

- *External Auditors*

The external accounting firm that performs principal audit work should not be permitted to perform any “non-audit” work. All companies should disclose the length of service provided by an accounting firm for external audit work. Prior services for “non-audit” work by the same firm should also be disclosed, including the quantum of fees paid.

4.4. *Takeover Protection*

We are strongly opposed to proposals or transactions that seek to artificially entrench current management and / or thwart takeover offers. Fortunately, many reprehensible US style practices have not reached Australia (yet). We find them utterly deplorable as they ultimately affect fair market values.

4.5. Shareholder Rights

We are strong advocates for the protection of shareholder rights. The recent large-scale disasters around the globe indicate to us that the focus should be on greater protection of shareholders, not less. The rights of shareholders are paramount. We generally do not support any proposal that removes or dilutes these rights. The burden of proof will always lie with the company. We recognise that there will always be competing interests between shareholder groups. We will endeavour to support a course of action that is in the best long-term interests of our clients, as shareholders.

- *Shareholder Proposals*

All legitimate proposals from shareholders will be considered. Frivolous or vexatious proposals will be rejected.

- *Linked Proposals*

We strongly recommend that proposals be submitted to shareholders in separate resolutions. A resolution should cover no more than one specific subject matter.

- *Plain English*

Proposals should be written in plain English. This increases the likelihood that all shareholders will understand the proposals and recommendations of their Board.

- *Disclosure of Voting Results*

A company should disclose in a report to the ASX the aggregate proxy votes validly received for each item of business in the notice of meeting. In the case of a resolution passed on a show of hands, the report should disclose the aggregate number of proxy votes received in each voting category and the aggregate number of votes not exercised by shareholders who submitted proxies. In the case of a resolution submitted to a poll, the report should further disclose the aggregate number of votes cast "For" and "Against" on the poll.

- *Access to Minutes of Shareholder Meetings*

Shareholders should be able to inspect and obtain copies of minutes of shareholder meetings.

4.6. Share Capital

- *Multiple Class Capital & Preferential Voting Rights*

Generally, we will not support a proposal that creates more than one class of capital with different voting rights. We are concerned about the potential for abuse of one shareholder class in favour of another.