

Voting and Engagement Policy - April 2011

Solaris Investment Management Limited (Solaris) is a mainstream Australian equities manager. This position allows Solaris to engage in active and ongoing dialogue with the companies in which we invest, regarding issues that are significant to the companies' operations.

This document details the approach we take in interacting with the companies that lie within our investable universe.

We have developed this Policy to express how we view our responsibilities and how they apply in a practical way to the day to day running of our portfolios. They are reviewed annually to ensure they remain relevant.

Voting and Engagement Policy

Contents

1. Introduction	3
2. Why Engage?.....	3
3. How do we Engage?.....	4
4. Solaris Voting Policy.....	4
4.1 Description.....	4
4.2 Policy Statement.....	4
4.3 Proxy Voting Process Overview and Procedures.....	4
4.4 Routine Proposals.....	5
4.5 Non-Routine Proposals.....	5
4.6 Corporate Governance Proposals.....	5
4.7 Solaris Analyst Voting Rationale	6
5. Meetings with Companies	6
6. Engagement on Environmental, Social & Governance (ESG) Issues.....	6
7. Memberships of Collaborative Groups of Investors.....	7
8. Tracking our Engagement	8
8.1 Proxy Voting.....	8
8.2 Company Meetings.....	8
8.3 Collaborative Engagements.....	8
8.4 Reporting on our Engagement Activities.....	8
Appendix 1: Expected Returns Framework.....	9
Appendix 2: Memberships & Collaborations	10

Voting and Engagement Policy

1. Introduction

Solaris Investment Management Limited (Solaris) is a mainstream Australian equities manager. This position allows Solaris to engage in active and ongoing dialogue with the companies in which we invest, regarding issues that are significant to the companies' operations.

Through the assessment of these interactions and their outcomes, Solaris' analysts form opinions on a company's ability to perform; to meet and adapt to the various challenges that the company may encounter. These opinions are fed into stock valuation models to assist in the overall valuation of each company within the Solaris universe (through the Solaris Expected Returns Framework – see Appendix 1).

Solaris does not include stocks in clients' portfolios purely on the basis of engagement or to provide an avenue for shareholder activism. Stocks are included on the basis of positive expected returns. In some instances where issues of concern are raised with a company and the issues fail to be resolved to Solaris' satisfaction, the stock may be divested (if so warranted by the analyst valuation within Expected Returns).

2. Why Engage?

Solaris believes it is important to exercise its rights as an active owner through ongoing engagement with the companies in which we invest. Solaris believes that the best way to learn about a company's operations and therefore enable a robust assessment of their long term prospects is to meet with management and members of the Board, visit operating sites and talk to the "people on the ground" to gain insight into a company's modus operandi.

This process of engagement with companies is repeated constantly by all analysts on a daily basis and forms a normal part of Solaris' company valuation process. Solaris analysts have over 500 meetings per annum with listed Australian companies.

Engagement is a useful tool of change. Solaris analysts may be able to add value to a company through sector overviews gained through the course of their analysis, or through sharing their knowledge of the listed equity market.

3. How do we Engage?

Solaris' engagement activities take a number of forms:

- Engagement via the exercise of our clients' voting rights in accordance with the Solaris Voting Policy
- Meetings with Board Members, Management and staff on significant issues
- Membership of collaborative groups of investors on topics of interest

4. Solaris Voting Policy

4.1 Description

The Solaris Voting Policy is based on fiduciary responsibilities to act in the best interests of clients as shareholders. It describes Solaris' approach to resolutions put forward at Annual General Meetings and Extraordinary General Meetings of the companies Solaris invests in.

4.2 Policy Statement

The purpose of the Solaris Voting Policy is to ensure that Solaris staff act in the best interest of clients as shareholders.

It is the policy of Solaris to vote on all resolutions. In the event that Solaris receives a direction from a client in relation to the appointment of a proxy and the way the proxy should be voted, Solaris will use its best endeavours to implement the direction. In the absence of any direction, Solaris will exercise the right to vote as it sees fit, having regard to any direction contained in the Investment Management Agreement with the client.

4.3 Proxy Voting Process Overview and Procedures

To assist in decision making, Solaris subscribes to ISS Proxy Australia. ISS Proxy Australia provides independent analysis and voting recommendations on key governance issues. Solaris considers these recommendations when arriving at a decision. Solaris may depart from ISS' recommendations where Solaris believes they are doing so in the best interests of the Solaris clients.

The Proxy Voting Analyst logs onto ISS Proxy Australia daily to check if there are any company meetings scheduled for the companies in which Solaris has invested client funds. Where meetings are scheduled, the Proxy Voting Analyst downloads the explanatory notes.

The explanatory notes are then distributed to the relevant Solaris Analyst for review. The Solaris Analyst will review each resolution on a case by case basis in arriving at a voting recommendation. In arriving at a recommendation two main principles are adhered to:

- Any resolution should treat shareholders fairly
- Resolutions should be individual and clearly stated. Composite resolutions are not regarded as optimal.

Where possible, contentious issues are resolved outside the meeting by prior discussions between the Solaris Analyst and the company involved.

The Solaris Analyst advises the Proxy Voting Analyst how the resolution is to be voted. The Proxy Voting Analyst votes directly via the ISS Proxy Exchange (RiskMetrics) website.

Solaris maintains a record of all voting on behalf of clients. Solaris publishes, at least annually (usually quarterly), a summary of the proxy voting record for the previous year on its website. The reporting is in the form required by paragraph 10.3 of the Financial Services Council Standard No.13.00.

Number	Resolutions	For	Against	Abstain	No Action
%					

4.4 Routine Proposals

Routine proposals are those which do not affect the structure, by laws, or operations of the corporation to the detriment of shareholders. Given the routine nature of these proposals, proxies are nearly always voted with management.

Traditionally, routine proposals include:

- Approval of independent auditors
- Name changes
- Election of directors (subject to competency, independence and limited number of board positions)
- Coupling executive compensation with financial performance.

4.5 Non-Routine Proposals

Issues in this category are more likely to have a greater impact on shareholder value. Solaris' main concern is to protect the value of our clients' investments. With this in mind these resolutions are subject to scrutiny on case by case basis. These types of resolutions may include:

- Mergers and acquisitions
- Restructuring
- Employee share purchase plans

4.6 Corporate Governance Proposals

Solaris will generally vote against any management proposals that have the effect of restricting the full potential of our clients' investments. These would include (list is not exhaustive):

- Excessive senior executive and non-executive management remuneration
- Golden handshakes
- Special interest representation on the board
- Share and Option schemes that do not reflect:
 - the responsibilities of the executive
 - comparability to market practice
 - appropriate performance hurdle benchmarks
 - appropriate disclosure
- Unequal voting rights
- Takeover Protection – eg, Poison Pills – generally involves issuing preferred stock purchase rights or warrants unilaterally declared as a dividend without shareholder participation or approval. Poison pills can be used to insulate existing management against competitive bids.

4.7 Solaris Analyst Voting Rationale

The Solaris Analysts' voting rationale is available for client information where required.

5. Meetings with Companies

Solaris may enter into dialogue with a company to voice concerns in relation to actions or the direction a company is taking in relation to performance, corporate governance or other matters affecting shareholders' interests.

Solaris' Analysts may engage with companies on a plethora of issues depending upon which sector the company operates in.

6. Engagement on Environmental, Social & Governance (ESG) Issues

Solaris view ESG issues as part of the many factors that modern companies must be cognisant of in their operations (as per the Solaris ESG Policy). ESG factors are gaining some prominence in the psyche of corporate Australia with the impact (or perceived impact) on company valuations of:

- Environmental Issues:
 - Climate Change
 - Water Supply
 - Energy Use
 - Pollution
 - Biodiversity
- Governance Issues:

- Board Independence
- Remuneration
- Bribery and corruption
- Shareholders' rights
- Social Issues
 - Human Rights
 - Supply chains
 - Health & Safety
 - Indigenous Rights

This list forms a snapshot of some of the issues facing the companies in which Solaris invests. Solaris attempts to identify those issues that are material and integrate that materiality into the valuation of the company through the Expected Returns framework.

Solaris views ESG issues as part of their mainstream assessment of companies and as such does not attempt to approach ESG issues in isolation. Solaris utilises a holistic approach when in discussions with companies and always attempts to place ESG issues in the context of the overall valuation of the company.

7. Memberships of Collaborative Groups of Investors

Solaris also engages with companies on a variety of topics through our membership of various organisations and collaborative groups. It is Solaris' belief that some issues may benefit from being raised by a cohort of investors.

Solaris is currently a signatory to (see Appendix 2 for more detail):

- UN Principles for Responsible Investment
- CEO Water Mandate
- Forestry Footprint Disclosure
- Carbon Disclosure Project (CDP)
- Oil Companies Letter
- Global Investor Statement on Climate Change
- CDP Water Disclosure Project
- Sustainable Stock Exchanges Collaboration

Solaris is also a member of:

- Responsible Investment Association of Australia (RIAA)
- ESG Research Australia

8. Tracking our Engagement

8.1 Proxy Voting

A record of all proxy votes cast are maintained by the Proxy Voting Analyst and this information is available to clients where required. The information is also published on Solaris' website. In addition, Solaris tracks every resolution voted on and records our response and reasoning where the vote concerns a contentious issue. The final outcome of the meeting is also recorded.

8.2 Company Meetings

Solaris maintains a database of all company meetings attended by our Analysts. This database details who participated in the meeting, the date, time, location and type of meeting e.g. one-on-one meeting, conference, site visit, etc. Each Analyst maintains their own notes regarding these meetings.

When an ESG issue is raised in a meeting, the information is stored in the ESG database. It additionally details the issue raised, the company's comments and whether this information affected the Analyst's valuation of the company or not. (Refer ESG Policy).

8.3 Collaborative Engagements

Where Solaris is participating in a collaborative engagement, the ESG Analyst is responsible for updating the Analysts of the progress of the issues and recording that progress.

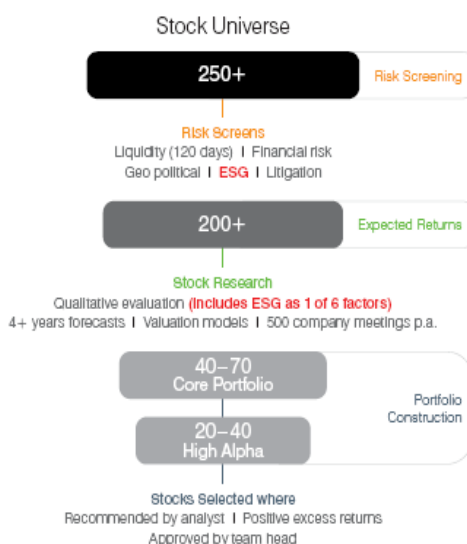
8.4 Reporting on our Engagement Activities

Solaris provides a quarterly summary of our proxy voting activities on the Solaris website.

In addition, Solaris provides our clients with a more detailed Proxy Voting Report on a quarterly basis plus a quarterly ESG Report that details the number and type of engagements our analysts have undertaken.

Appendix 1: Expected Returns Framework

The main portfolio construction technique that Solaris uses is based on expected return. Simply put, if a company has a high excess return that company will, prima facie, be included in the portfolio and equally a low excess return (or negative excess return) will see a company excluded from Solaris portfolios.



Analyst empowerment is an important feature of the Solaris investment process. Every company in the S&P/ASX200 is covered by a dedicated analyst and the decision to include or exclude that company in Solaris' investment portfolios is predominantly the decision of that analyst.

The Solaris Investment Process (as illustrated above) consists of the following steps:

- The **initial risk screening stage** where Liquidity, Financial, Geo-political, ESG and Litigation risks are assessed. Stocks that fail to pass any of these risk screens are considered non-investment grade and are not included in the Solaris universe.
- **Qualitative assessment stage** – The criteria examined by our analysts include:
 - Management
 - Business Model
 - ESG factors
 - Balance Sheet
 - Cash Flow profile
 - Trend in Return on Equity

The conclusions drawn by analysts from their qualitative assessment feeds into the appropriate rating applied to each company's valuation. For the most commonly used valuation technique: DCF, this involves adjusting the *beta* to incorporate positive or negative factors discovered in the qualitative assessment.

Appendix 2: Memberships & Collaborations

Organisation/ Collaboration	Date Joined	Brief Description
UN Principles for Responsible Investment	May 2009	<p>The United Nations-backed Principles for Responsible Investment Initiative (PRI) is a network of international investors working together to put the six Principles for Responsible Investments into practice.</p> <p>The Principles were devised by the investment community. They reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large.</p>
Carbon Disclosure Product	June 2010	Thousands of organisations from across the world's major economies measure and disclose their greenhouse gas emissions and climate change strategies through CDP.
CEO Water Mandate	July 2010	Private-public initiative with a focus on developing strategies and solutions to contribute positively to the emerging global water crisis.
Forest Footprint Disclosure	July 2010	An initiative that aims to enhance transparency for the investor community by ensuring that those companies using biofuels, soy, palm oil and beef that may have been grown on recently cleared natural forest can identify and manage associated deforestation risks. Information has been requested from 290 companies globally.
Oil Companies – Group Collaboration (led by Ceres)	July 2010	The ongoing BP Gulf of Mexico disaster has made clear the potentially catastrophic financial implications of poor ESG risk management and disclosure. In response, Ceres has begun the process of coordinated engagement with companies in the oil and gas and insurance/reinsurance sectors that have significant exposure to deepwater offshore operations, with the ultimate goal of both improving corporate management of ESG risks, as well as increasing transparency for investors.
Global Investor Statement on Climate Change	November 2010	Investors asking governments globally for strong, credible, effective policies on climate change.
CDP Water Disclosure Project	January 2011	Request information on the risks and opportunities companies face in relation to water; on water usage and exposure to water stress in companies' own operations and in their supply chains; and on companies' water management plans and governance.
Sustainable Stock Exchanges Collaboration	January 2011	Call to the listing authorities of the global stock markets to consider possible actions exchanges can take, including improving company disclosure of ESG factors.