At AMP Capital Investors Limited (AMP Capital), we recognise that environmental, social and governance (ESG) issues can impact the long-term performance of our investment portfolios. Within our Infrastructure business, we continuously review the materiality and management of ESG issues to ensure strong focus and engagement on key risks and opportunities.
AMP Capital has recently completed its second annual review of ESG-related risks and opportunities for the AMP Capital Community Infrastructure Fund (CommIF or the fund). This report follows the previously published *Environmental, Social and Governance considerations in Infrastructure PPPs (June 2011)*.

The purpose of this report is to provide an overview of:
1. the status of ESG initiatives identified for the assets acquired in June 2011;
2. ESG considerations in the acquisition process for new investments;
3. monitoring of ESG performance indicators for each of the investments in the CommIF portfolio.

**CommIF portfolio ESG review**

Following the acquisition of four new investments, CommIF comprises eight operational social infrastructure investments as at 30 June 2012:

- **Southbank Institute of Technology** consists of eight buildings, east of the Brisbane central business district, providing capacity for vocational education and training facilities for up to 30,000 students. This investment accounts for 27.9% of the Fund.
- **South Australian Schools** comprises six schools and child care centres, taking children from birth to year 12 in various configurations in the greater Adelaide region (CommIF acquired 35% of the project equity on 17 May 2012). This investment accounts for 15.5% of the Fund.
- **Riverland Water** consists of ten water treatment plants constructed to service over 90 communities across rural South Australia (CommIF acquired 50% of the project equity on 28 June 2011). This investment accounts for 15.3% of the Fund.
- **Darwin Convention Centre** is located on the Darwin CBD waterfront and has attracted over 340,000 local, interstate and national delegates for events and conferences since it commenced operations in 2008. This investment accounts for 13.9% of the Fund.
- **NSW Schools II** comprises 11 primary and secondary schools in metro and regional New South Wales. This investment accounts for 10.0% of the Fund.
- **NZ Hospital Car parks** consists of two hospital car parks: a car park attached to the Auckland City Hospital and a car park attached to the Greenlane Clinical Centre in Auckland, New Zealand (CommIF acquired 100% of the project equity on 28 June 2011). This investment accounts for 8.5% of the Fund.
- **Emergency Alerting System** comprises 228 sites in the state of Victoria with transmission equipment to manage emergency messaging to over 30,000 emergency services personnel in organisations such as the Country Fire Authority, Ambulance Victoria and the State Emergency Service. This investment accounts for 6.7% of the Fund.
- **Fulham Correctional Centre** is a 845 bed low to medium security facility located near Sale in eastern Victoria (CommIF acquired 100% of the project subordinated debt on 28 June 2011). This investment accounts for 2.2% of the Fund.

**ESG policy guidelines**

When investing in infrastructure assets, we view ESG issues in the same way we do any other investment risk (i.e. risks that have the potential to impact on the performance of an asset). Underpinning this view are five key tenets:

1. Aligning our approach to ESG with our fiduciary duty to act in the best interests of our clients
2. Incorporating ESG considerations into our investment analysis and decision making, active ownership practices and ongoing reporting activities
3. Ensuring a balanced view of broad ESG investment issues and risks that may impact long-term returns (as opposed to adopting specific positive or negative screens common to many socially responsible or ethical funds)
4. Applying our ESG policy across each of the investment portfolios and regions in which we invest
5. Ensuring each member of the Infrastructure team is accountable for ESG integration in accordance with our policy.

This is an excerpt of AMP Capital’s Infrastructure ESG policy guidelines, which can be obtained on request.

**Determining materiality of ESG issues**

When considering the key ESG issues likely to impact these investments, we considered the physical location of the assets, the likely impact on and by the environment in which they are located, the dynamics of the industry in which they operate and the business practices of related counterparties. Furthermore, we consider the scope of governance arrangements in place to protect the long-term interest of investors.

Six key themes were discussed in *Environmental, Social and Governance considerations in Infrastructure PPPs (June 2011)* and equally apply to the fund’s recent acquisitions. The themes are summarised below:

1. Climate change
2. Environmental legislation
3. Workforce dynamics and OH&S
4. Stakeholder management
5. Community safety
6. Sustainable practices and resource conservation
Case Study

SA Schools: ESG DD as a part of the acquisition process

AMP Capital’s due diligence process for the SA Schools project included a dedicated ESG work stream. The origination team reviewed a comprehensive scope of ESG considerations as a part of robust due diligence and undertook confirmatory site visits to validate its findings.

The process culminated in a final due diligence report to the AMP Capital Infrastructure Investment Committee addressing the following ESG considerations:

Environment
- Environmental protocols, energy management activities and past performance against targets.
- Climate change impacts exposure to extreme weather events and adequacy of insurance cover.

Social
- Occupational community health and safety culture, performance of facilities managers and key service providers.
- Risk and compliance controls and disclosures covering OH&S, workforce incidents against KPIs, abatement history and documentation of variations to the project.
- Stakeholder relationships and accountabilities to ensure effective management of key risks and strong working partnerships.
- Community consultation and impact of project objectives to deliver high quality facilities to support educational outcomes for a positive impact on socially disadvantaged areas in South Australia.

Governance
- Appropriate qualification and relevant experience of directors.
- Appropriate governance structures and shareholder agreements to protect investor interests.
Case Study

Fulham Correctional Centre: Social implications of prisoner rehabilitation

Fulham Correctional Centre is Victoria’s second privately owned prison and the state’s first privately operated mens’ prison. Following CommIF’s acquisition of Fulham Correctional Centre, the AMP Capital Social Infrastructure management team visited the Centre with a particular interest in prison operations and prisoner rehabilitation as a core component of the ESG review.

The outcome of this review resulted in the following positive insights of Fulham’s rehabilitation process:

> The prisoner rehabilitation program incorporates active service to the community. Inmates are encouraged to provide a variety of services to support local community needs which are both challenging and rewarding.

> Prisoner industries at Fulham are contracted to manufacture goods for external sale and for clients in the community. Examples include:
  - woodworking – items produced include outdoor furniture, bird houses and children’s cubby houses
  - metalworking – encompassing the manufacture of large industrial and commercial goods, or
  - gardening (horticultural nursery) – plants are available for sale to the public as well as being utilised across the facility grounds.

> Fulham operates under a privilege system where inmates are rewarded with additional privileges for good behaviour. Prisoners at Fulham are encouraged to move through the system through a process of ‘normalisation’ where inmates are equipped with additional life skills and given increased responsibility such as budgeting, laundry and cooking as they move from cell, to lodge, to cottage within the walls, finally transferring to Nalu outside the facility walls and then leaving the prison system.

> Successful prisoner rehabilitation is enhanced through a variety of medical and educational programs to reduce prisoner re-offending in the community.

> Partnerships with TAFE and other educational institutions enable prisoners to gain TAFE certificates I and II in their chosen area, including woodworking, metal industries, food and beverages and horticulture.

A specific initiative demonstrating Fulham’s rehabilitation process is the Licola Wilderness Village “Back from the Wilderness” program.

The Licola Wilderness Village is a youth camp for disadvantaged children and special needs groups. The village officially opened in 1973. The facility accommodates up to 250 people and has a swimming pool, chapel, first aid centre, arts and craft areas and indoor sports stadium.

In recent years, the Licola Wilderness Village in eastern Victoria has been subjected to bush fires, mud slides and floods. These natural disasters led to the closure of the village youth camp facility for almost 18 months until it was revitalised with crucial labour from prisoners from Fulham. Prisoners were predominately responsible for the removal of many cubic metres of rubbish and refurbishment and redecoration of accommodation houses.

As a result of these efforts, Fulham received a Corrections Victoria award for its “Back from the Wilderness” program in conjunction with Lions Village Licola Inc.
Case Study

Riverland Water: OH&S enhancements as a key aspect of ESG monitoring

Since the acquisition in June 2011 the AMP Capital Social Infrastructure management team has worked with Riverland management to improve the performance and safety of personnel working at remote water treatment sites. Initiatives implemented under Commif ownership include:

- Installation of safety platforms for increased safety of plant inspectors working at remote sites
- Photographic evidence of issues identified through risk audits, and
- Monitoring of staff absenteeism and injury.

Other key governance initiatives included:

- Improvements in corporate governance through an increased separation of management and finance activities.
- Monitoring of Riverland Water’s key subcontractor, Trility to ensure ISO14000 accreditation.
- Implementation of data processing systems to improve financial reporting and life cycle maintenance planning.
- Implementation of supervisory control and data software to enable:
  - improved whole-of-life monitoring of equipment reaching advanced operating age and therefore prone to failure
  - review of plant performance through a desktop console comparing KPI targets and dosage rates against equipment failure or malfunction
  - improved asset registers to enable the compilation of a revamped critical spares listing with an increased number of critical spares held on site and by key suppliers to the Riverland Water project.
**Status of CommIF ESG initiatives**

In June 2011, AMP Capital identified a number of ESG related initiatives for improved ESG performance across the portfolio. The status of implementation is summarised below:

<table>
<thead>
<tr>
<th>Initiatives</th>
<th>Status</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ALL ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide AMP Capital appointed board members with formal training from the Australian Institute of Company Directors (or equivalent).</td>
<td>Ongoing</td>
<td>Julie-Anne, Daniel and Riverland Water board have completed AICD course, resulting in contemporary understanding of directors’ duties and obligations.</td>
</tr>
<tr>
<td>Provide AMP Capital appointed board members with formal training relating to IFRIC12 accounting standards.</td>
<td>Completed</td>
<td>Formal training of IFRIC12 accounting standards provides improved assurance of financial integrity.</td>
</tr>
<tr>
<td><strong>NSW Schools II</strong></td>
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</tr>
<tr>
<td>Verify Facilities Manager (Spotless) achieves ISO 14000 accreditation.</td>
<td>Completed</td>
<td>ISO14000 accreditation achieved by Facility Manager (in August 2011) provides assurance of robust governance and risk management processes relating to environmental management policies, plans and actions.</td>
</tr>
<tr>
<td>Schedule and chair stakeholder workshop to reinforce communication channels, consortium responsibilities, working relationships and operational efficiencies.</td>
<td>Incomplete</td>
<td>Unable to schedule workshop in 2012 given high turnover of State counterparty staff. Stakeholder workshop to be scheduled for Q1 2013.</td>
</tr>
<tr>
<td>Augment ESG standard monthly reporting and coverage in operating meetings.</td>
<td>Completed</td>
<td>Greater transparency and governance over a broader scope of ESG issues, including complaints logged through the facilities manager’s help desk and audit findings relating to handyman and sub contractors OH&amp;S risks.</td>
</tr>
<tr>
<td><strong>Darwin Convention Centre</strong></td>
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<tr>
<td>Development of a standardised template for enhanced ESG reporting.</td>
<td>Completed</td>
<td>Facility manager has agreed to enhanced ESG reporting, providing greater transparency and governance of ESG related issues.</td>
</tr>
<tr>
<td>Monitor quality of ESG reporting recently added to the operator and facilities manager standardised reporting suite.</td>
<td>Completed</td>
<td>Continuous improvement in detailed reporting of facility staff metrics, providing strong lead indicators of potential performance issues (eg staff turnover or satisfaction impact on service delivery, OH&amp;S incidents, etc).</td>
</tr>
<tr>
<td>Review project business plan and operating budget with greater emphasis on maximising delegate attendance numbers.</td>
<td>Completed</td>
<td>100% of Incentive payments relating to delegate numbers have been achieved in 2012.</td>
</tr>
<tr>
<td>Schedule and chair ongoing annual stakeholder workshops to enhance working relationships between project counterparties.</td>
<td>Completed</td>
<td>Successful partnering workshop in 2011 resulted in improved co-ordination between subcontractors and Tourism NT as evidenced by joint marketing of destination Darwin. Due to a change in Government in the Northern Territory in September 2012, a partnering workshop is to be scheduled in 2013 with new State counterparty.</td>
</tr>
<tr>
<td><strong>Southbank</strong></td>
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<tr>
<td>Verify Facilities Manager (Spotless) achieves ISO 14000 accreditation.</td>
<td>Completed</td>
<td>ISO14000 accreditation achieved by Facility Manager (in August 2011) provides assurance of robust governance and risk management processes relating to environmental management policies, plans and actions.</td>
</tr>
<tr>
<td>Initiatives</td>
<td>Status</td>
<td>Outcome</td>
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<tr>
<td>Schedule ongoing annual stakeholder workshops to enhance working</td>
<td>2011 workshop completed</td>
<td>Successful partnering workshop in 2011 (between AMP Capital, Spotless, Institute of Technology and the QLD Department of Education) resulted in clearer understanding of counterparties accountabilities and improved working relationships.</td>
</tr>
<tr>
<td>relationships between project counterparties.</td>
<td>2012 workshop to be scheduled in</td>
<td>A subsequent workshop will be scheduled for late 2012 (subject to the availability of stakeholders) to reaffirm the project deliverables and defined accountabilities of each counterparty, to ensure ongoing project cohesion and service delivery standards.</td>
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<tr>
<td></td>
<td>coming months, subject to the</td>
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<td></td>
<td>availability of stakeholders.</td>
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<tr>
<td>Monitor operator initiatives to pursue energy reduction and on-site water</td>
<td>In progress</td>
<td>Trial of improved efficiency lights to assess whether savings achieved outweigh capital cost.</td>
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<td>treatment initiatives for improved environmental performance.</td>
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<tr>
<td>Complete post-flood disaster review against response plan to identify</td>
<td>Completed</td>
<td>Enhancements from flood review have been incorporated into event disaster management plan and were included in training completed in August 2012, resulting in greater awareness of consortium partners responsibilities in the management of a disaster.</td>
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<tr>
<td>future process enhancements.</td>
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<tr>
<td>Establish standardised OH&amp;S reporting within the facilities management</td>
<td>Completed</td>
<td>Standardised OH&amp;S reporting has resulted in scheduled monitoring of OH&amp;S risks and staff turnover.</td>
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<tr>
<td>Contractor reporting.</td>
<td></td>
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<tr>
<td>Emergency Alerting System</td>
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<tr>
<td>Verify OH&amp;S compliance of Operation and Maintenance contractor, as a</td>
<td>Completed</td>
<td>OH&amp;S compliance reporting has resulted in verification of OH&amp;S risk management practices on an on-going basis.</td>
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<tr>
<td>standard reporting item.</td>
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<tr>
<td>Riverland Water</td>
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<tr>
<td>Establish standardised OH&amp;S reporting from the facilities management</td>
<td>Completed</td>
<td>Review of OH&amp;S policy and improvements in reporting has resulted the identification, monitoring and execution of site specific initiatives, such as: the completion of fail-safe hatches at the top of platforms; and 'Spot Me' systems implemented in all subcontractor vehicles to enable quick location and response by Emergency Services organisations in the event of staff difficulty at remote sites.</td>
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<td>subcontractor.</td>
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<td>NZ Hospital Carparks</td>
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<tr>
<td>Improved risk management processes relating to cash collection and</td>
<td>Completed</td>
<td>Cash collection audit initiated following installation of new car parking equipment. Improved complaints logging process and review process initiated to monitor customer satisfaction and lead indicators for potential contractor issues.</td>
</tr>
<tr>
<td>customer satisfaction.</td>
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</tbody>
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Contact us

If you would like to know more about how AMP Capital can help you, please visit ampcapital.com, or contact:

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