INVESTORS MUTUAL LTD
ABN 14 078 030 752

Level 24, 25 Bligh Street, SYDNEY NSW 2000
PO Box H104 Australia Square SYDNEY NSW 1215
1300 551 132 Ph +61 2 9232 7500 Fax +61 2 9232 7511
www.iml.com.au

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"In light of recent market speculation and shareholder feedback, Insurance Australia Group Limited (IAG) today…has determined not to pursue further investment in China."

- *IAG Press Release 15 October 2015*

Since our inception in 1998, Investors Mutual has always invested as a long term shareholder, positioning the bulk of our portfolios in companies that fulfil our criteria of; strong competitive advantage, recurring earnings, capable management that we believe can grow earnings and dividends going forward.

Unfortunately at times companies we invest in can be tempted by investment banks or advisers into expanding outside the company's core competencies and, in search of earnings growth, are often tempted to try expansion into an entirely new direction or jurisdiction, often involving undue risk. These potential decisions often raise our concerns as a long term shareholder in the company.

This was the case when Lion Nathan, one of Australia's two largest brewers started acquiring wine companies such as Petaluma in 2001, seeming destined to go down the same erroneous path that Fosters did by expanding in a large scale into the wine industry. Or in 2009 when Crown Casinos seemed destined to spend huge amounts of money buying casinos in Las Vegas, at what seemed like very generous prices (particularly given the huge US downturn that followed).

In the above cases IML, through active engagement with Boards and management, reminded these companies of our view; that they should stick to their core businesses and to not persist with what we strongly believed at the time were potentially very value-destructive acquisitions.

Last week's announcement to the ASX by IAG; that the company decided not to pursue further investment in China, is yet another example of IML's shareholder activism for what we believe is the long term betterment of shareholders.

Stories of a large expansion by acquisition into China by IAG, of around $1 billion, had been circulating in financial markets for a little while after the company, at its final results briefings, publicly acknowledged that it was looking closely at a meaningful expansion into China.

Concerned by this news, IML immediately wrote to the Board of IAG. We expressed our apprehensions of such an expansion, given the uncertain regulatory regime in China, that the company had very limited past experience in China and that previous acquisitions overseas by the company had detrimentally impacted shareholder wealth.

The letter was followed by a meeting with members of IAG's senior management at which IML again expressed its strong opinion that, given the uncertain regulatory regime and the fact that the company had limited past experience in China, that we were far from convinced that IAG's

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significant competitive advantages in Australia and New Zealand would help the company invest successfully in China.

Following this meeting, IML wrote a second letter to the IAG Board restating our views and reminding IAG of the scale of losses that the company had incurred for its shareholders because of its previous overseas forays in the last ten years - including its large losses suffered from its acquisitions in the UK, as well as through a write off of $60m on a recent acquisition in China itself.

IML suggested that instead of expanding into a risky geography like China, the company prudently pay some of its current surplus capital to shareholders in the shape of special dividends - as Suncorp has done. We also believe that the company should reserve a portion of its capital to organically expand its presence and scale in Australia through profitable areas of the Australian general insurance sector where IAG appears underrepresented - such as travel insurance and pet insurance.

Releasing a press release last Thursday, IAG's Managing Director and CEO Mike Wilkins said: “While we believe in the fundamentals of China, our future focus will be on pursuing growth opportunities in our other Asian markets and our core businesses in Australia and New Zealand.”

IML is heartened to see management responding to genuine long term shareholder concerns.

At Investors Mutual, we are never comfortable when companies we invest in appear to be going in a new direction which involves undue risk. In such cases, we believe the most effective thing for us to do is too actively engage with the Board of the company. We can then use our presence on the company's register to voice our concerns and to remind the Board of its fiduciary obligations to shareholders. This we do on behalf of our investors, in the hope of influencing the Board's decision - which we believe proved successful in the case of IAG.

Investors Mutual Limited.