

Australian Leisure and Entertainment Property Management Limited

CORPORATE GOVERNANCE

For The Year Ended 30 June 2015

The Board of Directors of Australian Leisure and Entertainment Property Management Limited is accountable to stapled securityholders for the performance of ALE

ALE remains committed to maintaining high standards of corporate governance. The Board considers that ALE's corporate governance framework and practices continue to substantially comply with the requirements of the ASX Corporate Governance Council's (ASXCGC) Principles of Good Corporate Governance Principles and Recommendations, 3rd Edition (Principles and Recommendations) and meet the interests of all stakeholders. A range of policies have been developed and implemented in this regard and may be viewed on our website (www.alegroup.com.au) This Corporate Governance Statement is effective as at 5 August 2015 and has been approved by the Board.

Principle 1 – Lay solid foundations for management and oversight

Roles of the Board and Management

The Board Charter sets out the principles for the operation of the Board. The Board's responsibilities encompass the following:

1. Input to and approving management's development of corporate strategy and performance objectives;
2. Appointing and, where appropriate, removing the Chief Executive Officer and Company Secretary;
3. Ratifying the appointment of and, where appropriate, the removal of the Capital Manager, Asset Manager and Finance Manager;
4. Overseeing the operation of ALE, including its controls and accountability systems;
5. Identifying, assessing and ratifying plans to control and manage risks facing ALE, including interest rate risk, liquidity risk and financial covenant compliance, as well as overseeing of all systems of risk management, including risk reporting;
6. Approving the Annual Review, Annual Report, annual budgets and financial plans;
7. Overseeing and monitoring organisational performance and the achievement of ALE's strategic goals and objectives;
8. Monitoring financial performance and liaising with ALE's external auditor;
9. Reviewing and ratifying systems of internal compliance and control, codes of conduct and legal compliance and ensuring systems are in place to deliver compliance with laws, leases, ASX rules and internal policies and procedures as well as reviewing their effectiveness and the causes of identified breaches (if any);
10. Reviewing capital management strategy formulation including debt and equity raisings, hedging, buybacks and refinancing arrangements;

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11. Approving all new policies and procedures relating to the proper functioning of ALE, including all financial and operational matters;
12. Monitoring senior management performance and implementation of strategy as well as ensuring appropriate resources are available and succession plans are in place;
13. Approving and monitoring the progress of major strategic initiatives, including capital expenditure, capital management, acquisitions and divestitures;
14. Enhancing and protecting the reputation of ALE;
15. Reporting to, and communicating with, ALE's securityholders;
16. Approving and monitoring financial and other reporting; and
17. Establishing and maintaining ethical standards.

The Board delegates to the CEO the responsibility for implementing strategic direction and managing the day-to-day operations of ALE. The CEO consults with the Chairman, in the first place, on matters which are sensitive, extraordinary or of a strategic nature.

In carrying out its responsibilities, the Board undertakes to serve the interests of stapled securityholders, employees, and the broader community honestly, fairly, diligently and in accordance with applicable laws.

Principle 2: Structure the Board to add value

Board composition

The full Board determines the Board size and composition, subject to limits imposed by the Company's Constitution, the Board Charter and the Corporations Act.

The Board has determined that it is currently appropriate to have six directors, the majority of whom (4), including the Chairman, are independent non-executive directors. John Henderson retired at the 2014 AGM and Paul Say was appointed to fill this vacancy. It is proposed that Helen Wright will retire at the 2015 AGM and Nancy Milne has recently been appointed to fill the vacancy that will be created. Therefore presently there are seven directors, of whom five are classed as independent.

The five non-executive directors, Peter Warne, Helen Wright, Pippa Downes, Paul Say and Nancy Milne, are independent directors as defined under section 601JA of the Corporations Act, and satisfy the principles of independence as outlined in the Principles and Recommendations. A review of each director's independence is undertaken by tabling any changes in director interests at each and every ALE Board meeting and more formal assessments of independence are undertaken from time to time. Details of the members of the Board, their experience, expertise, qualifications, terms of office, relationships affecting their independence and their independent status are set out in the Directors' Report under the heading "Information on Directors".

The Chairman is selected by the full Board annually at the first meeting following the annual general meeting (AGM), and is to be an independent director in accordance with the Board Charter and ASX Corporate Governance guidelines

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The Company Secretary reports directly to the Board.

New directors are provided with an induction process to enable them to actively participate in Board decision making as soon as possible. The process ensures that the new directors fully understand ALE's financial position, strategies, operations and risk management policies and explains the respective rights, duties, responsibilities and roles of the Board and senior executives.

All new directors have appropriate checks done prior to appointment.

The company has a written agreement with each director setting out the terms of their appointment.

The Board has implemented an annual performance evaluation process for management, directors, the Board and its committees. Part of this process is to also ensure that the Board and its committees maintain an appropriate balance of skills, experience and expertise.

Details of the performance evaluation process for management are set out in the Directors' Report in the Annual Report.

The Board appoints a specialist governance adviser every three years to review the performance of the Board and that of directors. As a result of recent changes to the Board, the Board decided to defer this independent review which would normally have been undertaken in the first quarter of 2015 to the first quarter of 2016. An internal review process was completed in 2015 instead.

Under the Company's Constitution and the ASX Listing Rules, a director may not hold office for a continuous period in excess of three years or past the third annual general meeting following the director's appointment, whichever is the longer, without submitting for re-election.

If no director would otherwise be required to submit for re-election, but the ASX Listing Rules require that an election of directors be held, the director to retire at the AGM is the director who has been longest in office since their last election.

Helen Wright will be retiring and will not stand for re-election as a director of the Company at its 2015 AGM.

Nancy Milne, who was appointed a director since the last AGM will be standing for election as a director of the Company at its next AGM.

Peter Warne will be retiring and standing for re-election as a director of the Company at its 2015 AGM.

Independence and materiality thresholds

The Board considers that a director is independent if the director is a non-executive director and:

1. Is not a substantial shareholder of ALE or an officer of, or otherwise associated directly with, a substantial shareholder of ALE;
2. Within the last three years has not been employed in an executive capacity by ALE or another Group member, or been a director after ceasing to hold any such employment;
3. Within the last three years has not been a principal of a material professional adviser or a material consultant to ALE or another Group member, or an employee materially associated with the service provided;

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4. Is not a material supplier or customer of ALE or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
5. Has no material contractual relationship with ALE or another Group member other than as a director of ALE;
6. Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of ALE; or
7. Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of ALE.

Peter Warne is also a non-executive director of Macquarie Group Limited (Macquarie). Macquarie has provided banking services and corporate advice to ALE in the past and may continue to do so in the future. Mr Warne does not take part in any decisions to appoint Macquarie in relation to banking services and corporate advice provided by Macquarie to ALE.

The following table detail the length of service of each director as at the date of this report:

Name	Appointed	Length of service
P H Warne (Chairman)	8 September 2003	11.8 years
H I Wright	19 August 2003	11.8 years
P G Say	24 September 2014	1.1 years
N Milne	5 February 2015	0.5 years
P J Downes	26 November 2013	1.3 years
A F O Wilkinson (Managing Director)	16 November 2004	10.6 years
J T McNally	26 June 2013	12.0 years

Independent professional advice

After prior approval of the Chairman, directors may obtain independent professional advice at the expense of ALE on matters arising in the course of their Board duties.

Board Committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Currently the Board has three standing committees; these are the Remuneration Committee, Nomination Committee, and the Audit, Compliance and Risk Management Committee.

The committees operate principally in a review or advisory capacity. Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

All Directors are entitled to attend meetings of the standing committees. Minutes of committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

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Audit, Compliance and Risk Management Committee (ACRMC)

The ACRMC is a standing committee that is currently composed of six members, being five non-executive independent directors and an independent consultant. Membership of the Committee is based on directors' qualifications, skills and experience.

Helen Wright, an independent director, has been appointed as Chair of the Committee. The other members of the Committee are Peter Warne, Pippa Downes, Paul Say and Nancy Milne, all independent directors, and independent consultant David Lawler.

The ACRMC meets at least four times a year.

As the Board comprises 50% or more independent directors, an independent compliance committee has not been appointed. The Board has, however, determined that the ACRMC fulfil this role.

Details of the members of the ACRMC and their attendance at meetings are set out in the Directors' Report in the Annual Report.

Given the small number of staff within the Company, the Company does not have an internal audit function.

To ensure appropriate levels of internal control, ALE commissions an annual controls review. Following the completion of that review, Grant Thornton reported to the Board in August 2015 that the standard of controls was assessed as strong.

Remuneration Committee and Nominations Committee

The Remuneration Committee and Nominations Committee are currently composed of five non-executive independent directors. Peter Warne has been appointed as chairman of the Committee. The other members of the Committee are Helen Wright, Pippa Downes, Paul Say and Nancy Milne.

One of the Committee's responsibilities is to monitor ALE's policies in respect of Board Renewal and Appointment of Directors, and Diversity for the ALE Property Group. Following the appointment of Pippa Downes, Paul Say and Nancy Milne, the Committee is currently not reviewing candidates as part of the Board's Renewal and Appointment of Directors Policy.

The Remuneration Committee is responsible for evaluating the performance of ALE's senior executives. Each 6 months the Remuneration Committee meets to formally review the performance of each senior executive against predetermined criteria of goals and objectives.

We confirm that such a review was undertaken for the year ending 30 June 2015, and the results of that review are outlined within the Remuneration Report (Section 8) which forms part of the Directors Report in the Annual Report.

Details of Committee members and their attendance at meetings held are set out in the Directors' Report in the Annual Report.

Board and executive remuneration

Details of Board and executive remuneration are set out in the Directors' Report in the Annual Report.

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Director skills and experience

The skills, experience and expertise of each Director are described on pages 5 to 7 in the Directors' Report of the 2015 Annual Report.

The Directors possess a range of skills which, as a group, enable the Board to discharge its obligations effectively.

The Board regularly reviews its composition and succession plans. In doing so it uses the skills matrix set out below to guide its assessment of the skills and experience of current directors and to identify any gaps in the collective skills of the Board.

The skills and experience of the Board reflects ALE's business as a listed AREIT.

The following table summarises the key skills of the Directors as a group:

Skills and Experience
Financial acumen
Real estate and valuation
Debt and equity markets
Funds Management/Financial services
Corporate Governance
Strategy
Legal, risk and compliance

The Board currently comprises of 7 Directors – five Non-Executive Directors and two Executive Directors.

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Principle 3: Promote ethical and responsible decision making

Code of Conduct

In accordance with ALE's Code of Conduct, all directors and employees are expected to perform their duties professionally and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of ALE.

Trading in securities

ALE has a Trading Policy with which all directors and employees must comply. Directors, employees and their associates may not utilise information obtained by their position for personal gain or for gain of another person. Each director and employee must ensure that any information in their possession that is not publicly available and which may have a material effect on the price or value of ALE's stapled securities or any derivatives based on these (ALE Securities) is not provided to anyone who may be influenced to subscribe for, buy or sell ALE Stapled Securities.

Directors, employees and their associates may buy or sell ALE securities only during the four week periods commencing the day after:

- the release of the half-year results;
- the release of the full year results; and
- the AGM.

Outside these four week periods are closed periods for trading in ALE Securities, unless exceptional circumstances apply.

All directors and employees are precluded from buying or selling ALE Securities at any time if they are aware of price sensitive information that has not been made public, or at any time while ALE is undertaking a general on-market buyback of that particular type of ALE Security.

All directors or employees are entitled to participate in the Distribution Reinvestment Plan on the same terms as other securityholders, except where the Distribution Reinvestment Plan is partly or wholly satisfied by an on-market buyback of ALE Securities, in which case directors and employees are precluded from participating.

In accordance with provisions of the Corporations Act 2001 and the Listing rules of the ASX, ALE advises the ASX of any transaction conducted by directors in ALE Securities.

All directors, officers and employees must disclose their financing arrangements relating to their ALE Securities to the Chairman and must advise if the following circumstances apply:

- the director, officer or employee holds ALE Securities that have been lent, mortgaged or charged to a financier;
- circumstances have arisen in which the financier is entitled or is likely to become entitled to exercise a right under the finance arrangement to demand payment; and
- the director, officer or employee expects that the demand will not be able to be satisfied without the disposal of securities representing 2.5% or more of the total number of issued securities in ALE.

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Directors, officers and employees who enter into margin loans or other financing arrangements over ALE Securities are directed to ensure that they have sufficient available cash or other acceptable collateral to meet margin calls, including during a period of extreme sudden market downturn. Directors, officers or employees may not be provided with a clearance by ALE to dispose of ALE Securities that are subject to a margin call.

Details of directors, key management personnel and their associates holdings in ALE Securities are set out in the Directors' Report in the Annual report.

Diversity

The Board has adopted a Diversity Policy for the ALE Property Group, which includes details on how the Board and Nominations Committee take into account the diversity criteria when identifying and assessing potential Director candidates and members of the senior management team.

To the best of its abilities and recognising that ALE has a small team of directors and employees, ALE has attempted to introduce diversity standards to ensure the workplace is fair and flexible, promotes personal and professional growth and enables employees to enhance their contributions to ALE by drawing from their different backgrounds, beliefs and experiences. ALE notes the Principles and Recommendations, however, because ALE comprises a small team of directors and employees, the Board has determined that it will not be setting benchmarks for achieving a certain level of gender diversity, and will not be reporting against its progress to achieve any measurable objective. Nonetheless, ALE is committed to ensuring that the best candidates both at a Board and employee level are appointed as opportunities arise regardless of gender, beliefs or racial background. ALE believes that while this is departure from the Principles and Recommendations, it does not diminish the Group's commitment in principle and fact to ensuring gender diversity.

As at 30 June 2015, ALE's gender diversity may best be summarised as follows:

Name	Women in role	Total Positions	Percentage
Independent Board positions	3	6	50%
ACRMC position	3	6	50%
Other committee positions	3	6	50%
Senior management positions	-	4	-
Total women employed in whole organisation	5	13	38%

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Principle 4: Safeguarding integrity in financial reporting

As mentioned above, the Audit, Compliance and Risk Management Committees consist of five independent non-executive Directors and one external consultant.

Members of the Audit, Risk and Compliance Committee are financially literate and have an appropriate understanding of the industries in which ALE operates.

The Audit, Compliance and Risk Management Committee operates in accordance with a charter. The role of the Committee is to assist the Board in:

- Reviewing ALE's financial statements and financial information to be distributed externally;
- Monitoring the internal control framework, procedures that are designed to ensure compliance with statutory responsibilities and other external reporting requirements, and the adequacy of ALE's risk management framework; and
- Liaising with the external auditor.

In fulfilling its responsibilities, the Committee:

- Receives regular reports from management and the external auditors;
- Regularly meets with the external auditor;
- Reviews the processes the Managing Director and Finance Manager have in place to support their certifications to the Board;
- Reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- Meets separately with the external auditors at least once a year without the presence of management; and
- Provides the external auditors with a clear line of direct communication at any time to either the Chair of the Audit, Risk and Compliance Committee or the Chair of the Board.

The Board receives a declaration from the CEO and CFO prior to its approval of the ALE Property Group's half yearly and annual financial statements that confirms that in their opinion, the financial records of the ALE Property Group have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the ALE Property Group, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. This is also a requirement under the Corporations Act.

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External Auditors

ALE's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually.

An analysis of fees paid to the external auditors, including a breakdown of fees for non audit services, is provided in the Directors' Report and in note 26 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Board and the Audit, Compliance and Risk Management Committee.

A representative of the external auditor attends the annual general meeting and is available to answer securityholder questions about the conduct of the auditor and the preparation and content of the audit report.

Principle 5 and 6: Make timely and balanced disclosures and respect the rights of securityholders.

ALE has a Continuous Disclosure Policy which is consistent with the continuous disclosure obligations under the Corporations Act and ASX Listing Rules. The Policy focuses on continuous disclosure of any information concerning ALE that a reasonable person would expect to have a material effect on the price of ALE securities.

Investor relations

ALE is committed to the provision of timely, full and accurate disclosure of material information concerning ALE.

ALE has a Communications Policy that ensures securityholders have equal access to ALE's information and has procedures to ensure that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the Listing Rules of the ASX.

The Board encourages full participation of securityholders at the AGM and provides adequate notice and a suitable venue in Sydney for those Securityholders wishing to attend the AGM or any other securityholder meeting.

The rights of ALE's securityholders are set out in the constitution, legal and regulatory requirements. ALE's Communication Policy allows securityholders to effectively exercise these rights through the provision of high quality, relevant and useful information in a timely manner. In this regard securityholders are informed about strategic objectives and major developments through:

- ASX announcements;
- ALE publications including the Annual Review and Annual Report;
- Annual General Meeting;
- ALE Website; and
- The website of ALE's security register, Computershare Investor Services Pty Limited, including a facility for securityholders to amend their particulars.

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ALE website

All information provided to the ASX is also posted on the ALE website, www.alegroup.com.au. The ALE website includes various corporate governance documents and policies, such as the Board's Charter, ALE's Code of Conduct and the Audit, Compliance and Risk Management Committee's Charter.

Securityholders are encouraged to make their views known to ALE and to directly raise matters of concern. Securityholders are encouraged to attend the Annual General Meeting and use this opportunity to ask questions. The Annual General Meeting remains the main opportunity for securityholders to comment and to question ALE's Board and management.

Principle 7: Recognise and manage risks

Recognise and manage risks

The Board, through the Audit, Compliance and Risk Management Committee, is responsible for ensuring there are adequate policies in relation to risk management compliance and internal control systems. In summary, ALE's policies are designed to ensure that strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of ALE's business objectives.

The Board and Audit, Compliance & Risk Management Committee reviews ALE's risk management framework on an annual basis. To ensure that it continues to be sound.

On a quarterly basis the Audit Compliance & Risk Management Committee receives reports on risk management matters and monitor ALE's risk management framework.

An annual review of ALE Risk Management Framework is normally undertaken in the September quarter, with the last formal review completed in the September 2014 quarter.

ALE is not subject to any material exposure to economic, environmental or social sustainability risks.

ALE has systems in place for the management of its environmental responsibilities and compliance with various regulations associated with this. ALE owns a number of hotel properties some of which in previous years have had either a petrol station or petrol pump on site or at a neighbouring property which may have led to contamination of the underground. ALE currently has three properties where it manages environmental matters through ongoing testing, monitoring and minor remediation works if required. However in most cases ALE is indemnified by third parties for costs associated with any environmental matters. As outlined above, ALE's exposure to any environmental risks is not material.

Corporate Reporting

The Board has received a declaration from the Managing Director and the Finance Manager, that:

- The financial records for the financial period have been properly maintained in accordance with the Corporations Act;
- ALE's financial reports are complete and present a true and fair view of the financial condition and performance of the Group and are in accordance with relevant accounting standards; and

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- The above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- That ALE's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

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Principle 8: Remunerate fairly and responsibly

Details of the Remuneration Committee are outlined in the 2015 Annual Report on page 10. The Remuneration Committee operates in accordance with its charter and is responsible for developing and making recommendations to the Board on a remuneration framework for the Chairman, the Board Committees, non-executive Directors, ALE's remuneration and incentive policies and practices for the Managing Director, direct reports to the Managing Director and other senior executives.

Under ALE's Executive Stapled Security Scheme (ESSS), executives may be granted rights to a certain number of Stapled Securities as part of their remuneration package, which usually vest after a period of 3 years, subject to the forfeiture and clawback provisions described below.

Clawback

At the end of the vesting period, the vesting of the ESSS Rights remains subject to the following clawback tests. ESSS Rights will be forfeited in whole or in part at the discretion of the Remuneration Committee if before the end of the vesting period:

- the Remuneration Committee becomes aware of any executive performance matter which, had it been aware of the matter at the time of the original award, would have in their reasonable opinion resulted in a lower original award. These executive performance matters are restricted to those that had a materially adverse financial impact on ALE Property Group; or
- the executive engages in any conduct or commits any act which in the Remuneration Committee's reasonable opinion, adversely affects the ALE Property Group including, and without limitation, any act which:
 - results in the ALE Property Group having to make any material financial restatements; or
 - causes the ALE Property Group to incur a material financial loss.

Cessation of employment

If the executive ceases to be an employee of the Group within six months of the grant of ESSS Rights, the ESSS Rights will lapse, subject to the Board's discretion to accelerate vesting of the ESSS Rights in the event of the executive becoming incapacitated due to health, permanent disability or death.

If the executive ceases to be an employee of the Group before his ESSS Rights vest because his employment is terminated for cause, all ESSS Rights held by him will lapse.

If the executive ceases to be an employee of the Group before his ESSS Rights vest due to termination without cause, he (or his estate) will continue to hold his ESSS Rights and they will vest in the usual course subject to the ESSS Rules.

Where the executive resigns, the Board retains a discretion to lapse any of his ESSS Rights. If the Board does not exercise this discretion, the ESSS Rights will remain on foot and vest in the usual course subject to the ESSS Rules.

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Other Board discretions

The Board may determine that all or a proportion of the ESSS Rights "early-vest" in exceptional circumstances which include, but are not limited to:

- taxation consequences that could cause or which have caused financial hardship for the executive;
- the executive becoming incapacitated due to his health, permanent disability or death; and
- any other disadvantage that, in the opinion of the Board, could result or has resulted in financial hardship or an unintended outcome for the executive or his family.

In accordance with ALE's ESSS executives are not allowed to enter into derivatives or deal with any rights granted in any manner that would limit the economic risk of participating in the ESSS.

Once the rights have vested and the executive has been issued with Stapled Securities, the executive is required to also comply with ALE's Trading Policy.

Further information on Directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' Report under the heading "Remuneration report" on pages 10 to 17. In accordance with ALE's Trading in Securities Policy, participants in equity based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements. Details of this policy can be found on ALE's website.