

Colonial First State Global Asset Management

CFS Managed Property Limited

# Corporate governance report June 2008

## Unlisted funds

**Responsible Entity**

CFS Managed Property Limited

ABN 13 006 464 428

AFSL 240550

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# Chairman's letter

**As Chairman of CFS Managed Property Limited, I am pleased to announce that, from 30 June 2008, we have adopted corporate governance disclosures for our unlisted managed investment schemes equivalent to those applicable to Australian Securities Exchange (ASX) listed schemes.**

As a licensed entity responsible for managing investments, we are furthering our commitment to best practice corporate governance standards and increasing transparency for unitholders in our unlisted property and infrastructure funds.

One of the key improvements we are making is to provide to our investors an annual, stand-alone report on our corporate governance practices, benchmarking the practices of our unlisted managed investment schemes with those applicable to ASX listed schemes.

We view this as being a means of assisting our investors in understanding how we:

- achieve good governance
- apply governance standards
- ensure transparent monitoring and reporting
- protect unitholder interests, and
- comply with the law.

Where applicable, we will adhere to the same standards as those outlined in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations released in August 2007 (2nd Edition).

In doing so, we believe we are setting a benchmark for the broader unlisted funds management industry.

We trust these disclosures will assist you in obtaining a greater understanding of our governance processes.



**Walter L C Edgell**

Chairman

CFS Managed Property Limited

22 August 2008

# CFS Managed Property Limited

## Corporate governance



Left to right: Walter Edgell (Chairman), James Evans, Charles Moore.

The corporate governance practices of CFS Managed Property Limited (CFSMPL) were in place throughout the reporting period (year ended 30 June 2008) and were compliant with the Australian Securities Exchange (ASX) Corporate Governance Council's Principles and Recommendations, to the extent applicable to unlisted funds.

### Principle 1: Lay solid foundations for management and oversight

Companies should establish and disclose the respective roles and responsibilities of board and management.

### The Responsible Entity

CFSMPL is the Responsible Entity of a number of registered and unregistered managed investment schemes (Funds). CFSMPL is a wholly owned subsidiary of Commonwealth Bank of Australia (the Bank).

The role of the Responsible Entity is to manage each Fund in the unitholders' best interests in accordance with the Fund Constitution and the Corporations Act 2001 (Cth) (the Act).

### The Board of the Responsible Entity

The Board of the Responsible Entity is appointed by the Bank. Directors are appointed for a fixed term, but are subject to removal by the Bank at any time during that fixed term.

### Charter

The Board has adopted a Charter that sets out the role and responsibilities of the Board of Directors. This may be viewed on the website [cfsgam.com.au/corporate\\_governance](http://cfsgam.com.au/corporate_governance) or by request to the Manager.

The Charter includes, amongst other things, that the Board will:

- monitor the financial and business operations of each Fund against agreed targets
- approve short and medium-term tactical, operational and financial plans of each Fund
- ensure that the interests of unitholders of the schemes for which it is the Responsible Entity are differentiated from those of the company, and manage any potential or actual conflict of interest
- maintain corporate governance standards, and
- review the Board Charter at least annually to ensure it remains current, relevant and effective.

### Compliance Committee

The Compliance Committee is appointed by the Board of the Responsible Entity. The Committee has a Charter, approved by the Board, which sets out the Committee's duties, responsibilities and reporting requirements.

The Committee has a statutory obligation to monitor the extent to which the Responsible Entity complies with the Compliance Plans and Constitutions of each of the registered managed investment schemes and the Act.

The Committee meets quarterly, or as necessary, and is provided with comprehensive compliance reports. The Committee reports its findings to the Responsible Entity.

The Committee consists of six members, four of whom are independent. The members are:

- *Harley McHutchison* (Chairman) independent non-executive member
- *Graeme Lawless* independent non-executive member
- *Penni James* independent non-executive member
- *David Robinson* independent non-executive member
- *Paul Rayson* internal executive member, and
- *James Evans* internal executive member.

<sup>1</sup> Copies of the Corporate Governance Principles and Recommendations, 2nd Edition, ASX Corporate Governance Council, are available from the Australian Securities Exchange, telephone 131 279 (local call cost anywhere in Australia) or from the website at [www.asx.com.au/supervision/governance/index.htm](http://www.asx.com.au/supervision/governance/index.htm)

Independence has been assessed using the same criteria as applying to the independent Directors of the CFSMPL Board.

The Compliance Committee has access to all information relevant to the Responsible Entity's compliance with the Compliance Plans and the Act. Under the Act, the Compliance Committee, in carrying out its functions, may commission independent legal, accounting or other professional advice or assistance, at the reasonable expense of the Responsible Entity.

### Compliance monitoring and reporting

Compliance personnel have been appointed. They are responsible for reviewing and monitoring the efficiency of compliance and operational risk management systems on an ongoing basis, and ensuring that appropriate compliance measures are in place.

CFSMPL's compliance framework is consistent with the Australian Standard for Compliance (AS 3806 Compliance Programs).

The compliance personnel prepare reports for the Board and the Compliance Committee at least quarterly, as well as for the Manager and business areas responsible for the day-to-day delivery of business activities.

Compliance personnel are independent of the business, and may report matters directly to the Board without reference to any other party. This independence is underpinned through the Bank's compliance framework, which has been adopted by CFSMPL.

### The Manager

The Act empowers the Responsible Entity to engage agents to act on its behalf; however, it remains responsible for the actions of those agents.

The Responsible Entity has appointed Colonial First State Property Limited to manage the Funds. Colonial First State Property Limited is a wholly owned subsidiary of the Bank.

The appointment of the Manager is made under a Management Agreement. The Manager provides regular reporting to the Responsible Entity and an annual certification of its ongoing capacity to continue to meet its obligations in accordance with the Agreement.

### Performance evaluation

All personnel engaged in the operational activities of the Funds are employees of the Bank. The Bank has in place a performance evaluation system that includes the setting of annual key performance indicators for each employee that are measurable and quantifiable, and are reviewed on a semi-annual basis. Amongst other things, the evaluation incorporates specific performance targets that directly relate to each Fund for the Fund's management team.

An integral part of the performance structure is the requirement for ongoing professional development of personnel. This includes training programs on a wide range of matters including risk management, compliance, market and industry knowledge and Fund obligations.

#### Principle 2: Structure the board to add value

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

### Composition

There are currently three Directors of CFSMPL. Details of their experience, qualifications and committee membership are set out below. All the Directors were in office at the date of this report.

*Walter Lawrence Cecil Edgell – Chairman, CFS Managed Property Limited*

#### Director since 23 January 2003

Mr Edgell is the Head of the Business Implementation Group within the Property and Alternative Investments division of Colonial First State Global Asset Management, which incorporates business planning and strategy, and responsibility for product structuring both within Australia and offshore.

He has over 30 years experience in the corporate real estate and property funds management businesses within the Bank. Mr Edgell is currently a director of Colonial First State Property Limited and Colonial First State Property Management Limited, and is a board member of the Bank group's fund management and management companies in New Zealand, Luxembourg and Malta.

**Principle 2  
(continued):  
Structure the board  
to add value**

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

*James Kingsman Evans – Director, CFS Managed Property Limited*

**Director since 19 December 2005**

Mr Evans joined the Bank in 1996 and has held roles as General Manager, Finance and Operations, Australian Financial Services and subsequently as General Manager Finance and Strategy for the retail banking division of the Bank. He has more than 30 years experience in corporate banking and risk management, and currently is the Chief Risk Officer of the Wealth Management division of the Bank.

Prior to joining the Bank, Mr Evans held roles including Finance Director of Lend Lease Property Investment Services, and Finance Director GEC Australia.

Mr Evans holds a Bachelor of Economics (Economics and Accounting) and is a Certified Practising Accountant.

*Charles Adam Moore – Director, CFS Managed Limited*

**Director since 21 July 2005**

Mr Moore is the Fund Manager of the Commonwealth Property Office Fund, an Australian Securities Exchange listed property trust, and is responsible for all aspects of management of the fund, including its strategy, financial performance and analysis, acquisitions and disposals.

Mr Moore has over 18 years experience across agency, valuation, structured property finance and asset management. His previous roles have included positions with Capital Finance in structured property finance and Jones Lang LaSalle in sales and leasing.

Mr Moore holds a Bachelor of Business (Land Economy) and a Graduate Diploma in Applied Finance. He is a registered valuer and licensed real estate agent, and holds membership of the Australian Property Institute and Australian Institute of Company Directors.

**Independent professional advice**

Procedures, agreed by the Board, are in place, whereby the Directors may seek independent professional advice, at the expense of the Responsible Entity, to assist them in carrying out their duties as Directors.

**Appointment**

The appointment of Directors to the Board of CFSMPL is made by the Board Performance and Renewal Committee of the Bank, CFSMPL's parent entity.

These appointments are made upon the recommendation of and under delegation from the Bank's Chief Executive Officer to the Chief Executive of the Wealth Management division, having regard to a range of criteria, the skills and experience of the nominee and the business of the company. A formal letter of appointment is issued to the successful nominee.

The senior executives of the Bank serving as CFSMPL Directors are appointed by the Bank having regard to their level of skill, experience and knowledge.

They are not remunerated for their duties as Directors of CFSMPL.

**Board performance**

The composition of all major wholly owned subsidiary companies of the Bank, including CFSMPL, is reviewed annually by the Board Performance and Renewal Committee of the Bank. This Committee is responsible for critically reviewing, at least annually, the composition and effectiveness of the CFSMPL Board, both individually and as a whole, and seeks to identify where improvement might be made and to assess the quality and effectiveness of information that is provided to the CFSMPL Directors.

As a wholly owned subsidiary of the Bank, CFSMPL does not have its own Board Performance and Renewal Committee.

To facilitate optimal performance, the CFSMPL Board participates in professional development programs, including those facilitated by the Bank and those arranged directly for it. All Directors receive a detailed information pack and training in the requirements of the Act as it pertains to Directors, and the program is updated to capture specific issues of relevance from time to time.

**Principle 3:  
Promote ethical and responsible decision-making**

Companies should actively promote ethical and responsible decision-making.

**Board meetings**

Board meetings are held quarterly, with additional meetings held as necessary. The table below is the CFSMPL Board attendance for the 2007-08 financial year:

<b>CFSMPL Board attendance 2007-08</b>		
<b>Director</b>	<b>No. of meetings held</b>	<b>No. of meetings attended</b>
W L C Edgell	9	9
J K Evans	9	5
C A Moore	9	9

**Access to documents**

The Board has access to all documents and information necessary to discharge its duties and responsibilities.

**Code of conduct**

The Directors of CFSMPL and the management teams of the Funds are required to conduct themselves in accordance with the Bank's Statement of Professional Practice.

This Statement sets out standards of professional behaviour in areas such as conflicts of interest, professional conduct and confidentiality, and applies to all staff employed by the Bank.

The Bank also has comprehensive policies prohibiting insider trading by Directors and executives. Any breach of these guidelines is also a breach of the Statement of Professional Practice.

**Insider trading policy**

CFSMPL has no employees and has outsourced all of its functions, excluding those which require the holding of an Australian Financial Services Licence, to agents which include related entities.

The employees of the related entities are all employees of the parent entity, the Bank. The Bank has established an Insider Trading Policy for all employees, and this forms part of the Bank's Statement of Professional Practice.

In addition, the Manager has in place a policy which prohibits the trading of specified securities by key personnel with Fund responsibilities.

**Principle 4:  
Safeguard integrity in financial reporting**

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

**Audit**

At least once a year, the Board meets the external Auditor and the internal audit executive.

Audit reports are provided to the Board in respect of the Funds.

The Board also meets separately with the external Auditor independently of management.

**Appointment of Auditor**

PricewaterhouseCoopers is the current Auditor for:

- CFS Managed Property Limited
- the managed investment schemes for which CFSMPL is the Responsible Entity or trustee, and
- the compliance plans of the registered managed investment schemes.

PricewaterhouseCoopers has appointed a separate audit partner for the compliance plans as required by the Act.

The appointment and removal of the external Auditor is regulated by the Act.

<p><b>Principle 5: Make timely and balanced disclosure</b></p> <p>Companies should promote timely and balanced disclosure of all material matters concerning the company.</p>	<p><b>Ongoing disclosure policy and procedures</b></p> <p>CFSMPL has ongoing disclosure procedures designed specifically to identify matters requiring disclosure and to allow appropriate announcements to be made in a timely manner. These procedures are consistent with those issued by the Bank and are in place to ensure that unitholders are provided with full and timely information about CFSMPL's activities.</p> <p>The ongoing and periodic disclosure requirements are embedded into the registered scheme Fund Compliance Plans, which are subject to ongoing compliance monitoring and form part of the annual external compliance plan audit.</p> <p>For those schemes not registered, the same disclosure practices are applied as if they were registered schemes.</p> <p>The Manager has a duty to promptly inform the Board of any matter that can be reasonably expected to have a material impact on the value of the Fund. It operates with a policy and procedures that are consistent with those of CFSMPL to facilitate CFSMPL's disclosure of material matters. These requirements also form part of the terms of the Management Agreement between CFSMPL and the Manager.</p>
<p><b>Principle 6: Respect the rights of shareholders</b></p> <p>Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.</p>	<p><b>Communication policy</b></p> <p>The Directors of CFSMPL are committed to open and effective communication, ensuring that unitholders are informed of all significant developments concerning the trusts for which CFSMPL is the Responsible Entity.</p> <p>Communication with unitholders is conducted through a combination of electronic mail and the unitholders' secure website.</p> <p>The types of communication available on the unitholders' website include annual reports, periodic reports, investor bulletins and presentations by the Funds' management teams, and all notices from the Board Chairman or Fund Manager notifying unitholders of specific developments.</p> <p>All policies and summaries of charters referred to here can also be accessed on the website <a href="http://cfsgam.com.au/corporate_governance">cfsgam.com.au/corporate_governance</a></p>
<p><b>Principle 7: Recognise and manage risk</b></p> <p>Companies should establish a sound system of risk oversight and management and internal controls.</p>	<p><b>Risk management and internal controls</b></p> <p>CFSMPL is the holder of an Australian Financial Services Licence and accordingly is required to have in place processes including compliance, risk management and internal controls appropriate to the nature, scale and complexity of its business to enable it to meet its obligations under the financial services laws.</p> <p>As part of its overall process to manage risk, the Directors of CFSMPL are provided declarations that are required to be made in accordance with section 295A of the Act.</p> <p>The Board has received assurance from the Chief Financial Officer and Principal Executive Officer of the Funds, through its Audit Committee, that the declarations made in accordance with section 295A are:</p> <ol style="list-style-type: none"> <li>1. founded on a sound system of risk management and internal compliance and controls which, in all material respects, implement the policies adopted by the Board, and</li> <li>2. the risk management and internal compliance and control systems of the Funds are operating effectively and efficiently based on the criteria established in the obligations of an Australian Financial Services Licensee. These include, but are not limited to, matters of compliance, internal controls, reporting, risk identification and management.</li> </ol> <p>In addition, CFSMPL recognises that effective risk management forms part of its approach to creating unitholder value over the life of the Funds.</p> <p>CFSMPL has implemented policies and internal controls to ensure that Fund assets are protected and all material risks are identified and appropriately managed. Risk is managed through the business activities of the Manager, and is independently monitored and reported on by the compliance and risk management personnel, as well as through periodic reporting provided to the Board by the Manager.</p> <p>CFSMPL has in place an integrated risk management framework that enables the identification, assessment, management and reporting of risks. The framework is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS 4360 Risk Management).</p>

CFSMPL has developed a set of core operational risks that it believes most directly affect the Funds and are inherent in the environment in which they operate, which include:

- macroeconomic conditions
- market volatility
- property risk
- financial risk (including refinancing and capital expenditure)
- interest rate movements
- liquidity
- insurance
- changes in laws and government policy, and
- environmental and sustainability risks.

Property-specific risks include:

- property market segment risk
- development risk
- construction risk
- joint venture risk, and
- exit/sale price risk.

Infrastructure-specific risks include:

- operating risk of underlying business
- currency risk
- demand/patronage risk
- consortium participation risk, and
- expected return assumption risk.

These sets of risks are not exhaustive; however, they provide investors with an insight into the primary operating risks that CFSMPL believes can and do influence the operation of the Funds and the markets in which the Funds operate.

Details of current risk issues, as they relate to a specific Fund in its immediate market environment, are contained in the periodic reporting provided by the Manager.

**Principle 8:  
Remunerate fairly  
and responsibly**

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

**Remuneration Committee**

The Board has not appointed a Remuneration Committee since no staff are employed by CFSMPL. All independent Director remuneration is determined and paid by CFSMPL's parent entity, the Bank, and senior executives of the Bank serving as CFSMPL Directors are not remunerated for their duties.

Director remuneration is not paid by the Fund.

The Board of Directors of the Bank has a Remuneration Committee, which considers senior executive appointments and associated remuneration.

It is the Bank's policy to set remuneration that is competitive so as to attract, motivate and retain high calibre local and international executive staff.

Details of the Bank's Remuneration Committee can be found at the website of the Bank (<http://shareholders.commbank.com.au/group>)

Compliance Committee remuneration is not paid by the Fund.

**Expense reimbursement**

Directors and the Compliance Committee members are entitled to be reimbursed for reasonable expenses incurred in the performance of their duties.

# Directory

## **Responsible Entity**

CFS Managed Property Limited  
ABN 13 006 464 428  
AFSL 240550

## **Directors of the Responsible Entity**

W Edgell  
J Evans  
C Moore

## **Company Secretaries**

J Greenhalgh FCIS MNIA  
M Karagiannis BCom (Syd)  
W Lee BA LLB (Syd)

## **Registered Office**

Level 7  
48 Martin Place  
Sydney NSW 2000

## **Website**

[cfsgam.com.au/corporate\\_governance](https://cfsgam.com.au/corporate_governance)

## Further information

If you have any questions about the CFS Managed Property Limited corporate governance report, please email us at [enquiriescfsgam@colonialfirststate.com.au](mailto:enquiriescfsgam@colonialfirststate.com.au).

Questions and answers about corporate governance can also be found on our website at [cfsgam.com.au/corporate\\_governance](https://cfsgam.com.au/corporate_governance).



