

An investment manager's perspective on environmental, social and governance research

03 February 2009

Below is a transcript of a presentation given by David Dixon, Chief Investment Officer, at ESG Research Australia.

Thank you all for coming along tonight to hear about the new initiative; ESG Research Australia. Colonial First State Global Asset Management is proud to be a signatory to the United Nations Principles for Responsible Investment and is working hard to continually improve our approach to considering the Environmental, Social and Governance issues associated with our investments across all of our asset class strategies. We are pleased to have been part of the discussions with HESTA and VicSuper in the lead up to this launch of the ESG Research Australia initiative.

HESTA and VicSuper have really been the driving force between the proposed collaboration on ESG research in Australia and we have appreciated the opportunity to work with them.

I will take a few minutes to outline the investment manager's perspective on ESG research generally. I am going to outline:

1. why we signed the UNPRI
2. the importance of mainstreaming the delivery of ESG research, and
3. the need for collaboration across the superannuation and investment management industry

There are two key reasons why we signed the PRI:

When we initially looked at the PRI and discussed signing with all of our portfolio managers – what became very clear very quickly was that in many ways a consideration of ESG issues was already implicit in the research that we do. It is not difficult to see that many ESG issues are already considered by a bottom-up manager that has a rigorous research process. In many ways to consider ESG issues is just a common sense part of investing.

Take for example human capital. As part of our research process we have always considered factors such as succession planning, the quality of management and the skills and safety of a company's labour force. We just did not call it ESG research.

We very much saw the PRI as an opportunity to help us make such ESG considerations more explicit. We also saw the opportunity to use the PRI to add rigour to our investment process to ensure all the relevant environmental, social and governance issues were considered and 'priced' into our investment decisions. PRI provides discipline and an avenue for communication and since signing the PRI we have done considerable work towards incorporating these objectives.

The second reason for signing PRI was about ensuring alignment with our asset owner client's interests.

I believe that there are currently 27 Australian asset owner signatories to the PRI – there are over 160 globally - and growing. If this is not a signal to Investment Managers that these principles are important to clients then I don't know what is!

CFSGAM is frequently being asked by major clients what are we doing on the ESG front. We are able to respond very clearly with our progress to date and more importantly show them evidence. We really are "walking the talk".

I would like to now outline our views on the importance of mainstreaming the delivery of ESG research

I think you would all agree one of the fundamental challenges of implementing PRI into an investment process is accessing good quality ESG research. There are now a number of service providers who deliver ESG research and we are extremely well serviced in traditional financial research for ASX companies. However, there is very limited research that actually combines traditional financial research and ESG research, and explores the materiality of ESG issues to long-term company performance. This is what we, as mainstream investment managers, would like to see. We would like to be challenged in our views and provided with rigorous detailed analysis that can be used to supplement our own in-house thinking on ESG issues. We would also like to have a barometer of what the market is thinking on ESG issues and the sell side community is the best placed to provide that.

And my final point is that we believe there is a need for collaboration if this is to be achieved.

For the mainstream research market to deliver the research we require they need to get consistent signals from their investment manager and superannuation fund clients. There is still persistent misunderstanding by the broader market that ESG issues are socially responsible or ethical issues that are only of interest to a niche group of investors that want to invest in accordance with their moral or ethical beliefs.

This is clearly not the case for the mainstream investment managers that have signed the PRI. As an industry we are not yet being supplied with rigorous research to further support these objectives. Through collaboration we are able to send a clear signal to the sell side community that this is something we desire and expect. Under Principle 5 of the PRI we signatories commit to work together to enhance our effectiveness in implementing the Principles. Collaboration with our asset owner clients, with each other and with the broker community to facilitate the development of quality ESG research, will assist us all in fulfilling our commitments under this Principle.

And further, under Principle 3 of the PRI we also commit to seek appropriate disclosure on ESG issues by the entities in which we invest. The challenge with getting companies to report on ESG issues is that they often perceive the investment community as being very short-term in focus and only concerned with short term earnings type reporting – not longer term ESG issues. Through the extensive engagement we have had with companies on ESG issues we are often told we are the only investment managers asking these questions. Most of the time management respond well, but in some cases we do not always get a favourable response from companies when we question them.

One very recent example of an unfavourable response on an ESG issue was when a senior equity portfolio manager asked a CEO of a large mining contractor about their safety record and injury downtime as it was not at an acceptable level from what we had heard. The CEO took exception to this line of questioning even though we explained why it was important to investors and the fact that it would also be important to their major mining customers. He shut the meeting down and walked out. We take this reaction on the chin but factor it into our investment decision making. Another hurdle for this company to jump over before we put our clients' money to work with that CEO – it's about quality of management.

I think you would all agree though – as a result of the limited engagement from the investment community – the information companies provide is not written in a form and style consistent with what we need to integrate the information into our investment processes.

By asking our brokers to produce ESG research they too will start to ask companies for information on ESG issues. Once we have reached a critical mass of the investment community requesting ESG performance information we will all have better information to work with. More so, company management will expect this line of questioning when meeting with the investment community.

So with all of that in mind, CFSGAM commend the work HESTA and VicSuper have done to date to formalise the initiative of ESG Research Australia as part of the broader Principles for Responsible Investment.

Thank you

- Ends -

For further information please contact:

Amanda McCluskey

Head of Sustainability and Responsible Investment

Telephone: +61 2 9303 7971

Email: amclluskey@colonialfirststate.com.au

Disclaimer

Product Disclosure Statements (PDS) and Information Memoranda (IM) for the funds issued by Colonial First State Investments Limited ABN 98 002 348 352, Commonwealth Managed Investments Limited ABN 33 084 098 180, and CFS Managed Property Limited ABN 13 006 464 428 (collectively CFS) are available from Colonial First State Global Asset Management. Investors should consider the relevant PDS or IM before making an investment decision. Past performance should not be taken as an indication of future performance.

No part of this material may be reproduced or transmitted in any form or by any means without the prior written consent of CFS. This material contains or is based upon information that we believe to be accurate and reliable. While every effort has been made to ensure its accuracy we cannot offer any warranty that it contains no factual errors. We would like to be told of any such errors in order to correct them.

This material has been prepared for the general information of clients and professional associates of CFS. You should not rely on the contents. To the fullest extent allowed by law, CFS excludes all liability (whether arising in contract, from negligence or otherwise) in respect of all and each part of the material, including without limitation, any errors or omissions.

This material is intended only to provide a summary of the subject matter covered. It does not purport to be comprehensive or to render specific advice. It is not an offer document, and does not constitute a recommendation of any securities offered by CFS. No person should act on the basis of any matter contained in this material without obtaining specific professional advice.

Colonial First State Global Asset Management is the consolidated asset management division of the Commonwealth Bank of Australia ABN 48 123 123 124.

Copyright © CFS February 2009

All rights reserved.