First State Investments

Colonial First State Global Asset Management

Global Stewardship Statement

November 2016

"Responsible Investment (RI) and Stewardship touches every aspect of our business. The foundations of our approach to RI are built on aiming for the highest professional and ethical standards of behavior and are a key part of the stewardship of our clients' capital".

Mark Lazberger
Chief Executive Officer

Introduction

First State Investments (FSI) is the investment management business of the Commonwealth Bank of Australia. We are a global asset manager with established offices across Europe, the US, Middle East, and Asia Pacific regions. In Australia we are known as Colonial First State Global Asset Management (CFSGAM).

We are stewards of assets managed on behalf of institutional investors, pension funds, wholesale distributors, investment platforms, financial advisers and their clients worldwide.

With expertise across a range of asset classes and specialist investment sectors, our approach to investment is driven by a commitment to provide the best possible outcomes over the long term for our investors. To achieve this, we ensure our interests are aligned with our investors and uphold a culture of consistently acting in our clients' best interests.

We aspire to be a global leader in Responsible Investment and are continually striving for improved practices in Environmental, Social and Governance (ESG) integration and increased industry engagement on this topic.

What do we mean by 'Stewardship'?

As an asset manager, we are the stewards of our clients' capital, and we recognise the significant responsibilities and obligations that this brings. We define stewardship as:

- Actively monitoring and engaging with company management on issues that may impact their ability to generate long term sustainable returns, including environmental, social and governance issues.
- Voting on all issues and in all jurisdictions where we have the authority to do so.
- Maintaining the integrity and quality of markets in which we operate.
- Allocating investment capital to productive purposes.
- Using sound judgement and detailed analysis to make investment decisions which protect & enhance our clients' capital over the long term.
- Collaborating with other investors to meet common objectives or to improve the quality of the markets where we invest our client's capital.
- At all times, the interests of our clients are put first and we are committed to minimising conflicts of interest and implementing the highest standards of governance and control. Our Conflicts of Interest Statement can be accessed here.

Our role as stewards of our clients' capital is a fiduciary obligation that we take seriously. Our Global Stewardship Principles described fully our approach and can be accessed here.

Our Responsible Investment and Stewardship Principles

1. Incorporating ESG factors and RI practices into our investment process is in the best long-term interests of our clients.

- It is part of our fiduciary duty to proactively assess ESG factors as part of our investment process and to be active owners of our clients' assets.
- Companies that recognise their responsibilities for environmental stewardship, positive societal engagement and strong corporate governance can reduce investment risk and add value over time.

2. Engagement with company management on ESG and RI topics is a fundamental part of our investment process.

- Entering into dialogue with companies in order to achieve positive environmental, social and corporate governance outcomes will deliver better value with lower risk over the long-term.
- Through engagement, we seek to highlight areas for potential improvement and risk reduction, encourage improved ESG disclosure and commend companies that are making progress in this area.

3. Proxy voting is an important investor right and is exercised wherever possible.

- As active owners of our clients' funds, we will exercise the ownership rights and vote every share where we have the ability and authority to do so.
- We will make informed and independent voting decisions, applying due care and judgement across our investment portfolios, in the best interests of our clients.

4. We work constructively with our clients, their consultants, our peers, regulators and other stakeholders to broaden the reach of RI and stewardship practices globally.

- We will be actively involved in industry trade groups and thought leadership activities to encourage long-term investing and sustainable financial markets.
- We will seek to break down barriers to the sustainable allocation of capital and help develop industry standards that promote responsible investment and stewardship practices.

5. We seek to avoid conflicts of interests and always act in the best interests of our clients.

- All employees are required to understand conflicts of interest, how they may arise and what should be done when conflicts are identified.
- We maintain a rigorous conflicts of interest policy which outlines how we define, monitor, escalate and resolve potential conflicts.

6. Reporting and disclosing our stewardship activities is the ultimate proof of our approach to responsible asset management.

- We provide our clients with regular reports on our stewardship activities through specific client reports and our industry leading annual responsible investment report.
- We disclose our full proxy voting record and statistics on the independence of our team's voting in the web version of our annual Responsible Investment & Stewardship Report.

Our Approach

Our approach to responsible investment is based upon the three key strategic pillars (highest quality investment processes that integrate ESG factors, strong stewardship and ownership practices over our clients' assets, and a culture and internal engagement from our global staff members that promotes responsibility and stewardship).

Governance

Our approach to RI and Stewardship is underpinned by a strong internal governance framework which is supported by our responsible investment team. The team engages the entire business to deliver the RI strategy which is overseen by a Global Responsible Investment Steering Group, which is chaired by the CEO, whose role it is to provide oversight of and direct the responsible investment practices and policies and principles across the business.

Each of our investment teams have a dedicated responsible investment coordinator who ensures that material information flows across their respective teams. The RI coordinator's also sit on an Environmental, Social and Governance (ESG) Committee, which plays a key governance role by representing their teams, reporting on team progress, contributing to thought leadership and looking at new approaches to addressing current and emerging ESG risks and opportunities. The ESG Committee is an important in ensuring that we have the highest quality of ESG integration embedded within our investment processes across the organisation.

In 2016, a new ESG Risk forum has been created to review any investments which, due to ESG reasons, may not be in line with our stated RI and Stewardship policies and/or comprise a wider reputational risk to the business and/or our clients. The forum, comprising of members of our executive team, monitor such issues and decide whether such investments are acceptable or consistent (or other) with any of the businesses stated policies and guidelines and provide recommendations to the RI Steering Group regarding any policy gaps or weaknesses.

In addition each quarter, the Investment Assurance team provide a report on ESG risks to the Global Investment Committee as a part of their oversight of investment risks and product integrity.

Engagement

Engagement with company boards and management is a fundamental part of our active equity teams' investment processes. Through company engagement, we seek to highlight areas for potential improvement and risk reduction, encourage improved disclosure on ESG issues, and commend companies which are making progress in this area.

Engagement is more difficult for fixed income investors. We have, however, effectively engaged with counterparties, semi-government and supranational issuers and continue to increase our focus on effectively engaging bond issuers.

We also engage with credit rating agencies and collaborate with other fixed income investors to improve ESG integration practices and to enhance our understanding of ESG issues as sources of long term risk and return.

For unlisted infrastructure, our seats on company boards allow greater direct governance oversight and influence.

Given the varying nature of the asset classes we manage, the geographies in which they operate and the size of our holdings, each of our investment teams' engagement approaches are tailored to individual companies and the specific issues in question.

In all cases there is a focus on material ESG issues which could impact on investment value overall periods, but particularly over the long term. Material issues could include topics such as executive remuneration, human rights or climate risk, however there are a vast number of issues which we may engage on at any one point in time and these will differ depending on the sector and geography of the company.

Each of our investment teams has their own unique approach and investment philosophy and will therefore make decisions on a team by team basis as to how they engage and their process for escalation. On occasions where our engagement activities with company management are unsuccessful, teams may escalate the issue by, for example:

- writing to or meeting with the chairperson or lead independent director;
- voting against directors who we believe are providing inappropriate oversight;
- collaborating on further engagement with other like-minded investors.

Collaborative engagements are conducted via collective engagement platforms and networks as well as via active participation in industry trade groups and associations, think tanks and industry forums.

Ultimately we may choose to sell down or exit our holdings in companies where we lose confidence in management following unsuccessful outcomes from our engagements.

Details of our collaborations are published in our annual Responsible Investment & Stewardship Report.

Proxy Voting

The business will vote on all issues at company meetings where it has the authority to do so, except in share blocking markets and some power of attorney markets. Voting rights are a valuable asset which should be managed with the same care and diligence as any other asset. Ultimately, shareholders' ability to influence management depends on shareholders' willingness to exercise those rights.

Prior to voting, the relevant investment manager and analyst carefully consider the resolution, with guidance provided by our 'Guidelines and principles for corporate engagement on governance, environment and social issues'. Recommendations from a selection of independent corporate governance research providers are also sought, however our investment teams retain full control of their voting decisions.

We generally support boards by positive use of its voting power unless there is good reason for doing otherwise. Where a board has received steady support over a period of time, it should become a matter of concern for that board if support is not forthcoming on a particular matter. When we intend to vote against a proposal, we may choose to make representations to a company prior to the vote so that appropriate consultation may take place with a view to achieving a satisfactory solution.

All votes must be made in the best interest of the unitholders and clients. It is acknowledged that our goal is to apply our corporate governance guidelines and principles in a consistent manner. However, on rare occasions we may deem it to be in the best interests of unitholders and clients to exercise its proxy vote in a manner that is not consistent on certain occasions, as a degree of subjectivity may be required. For example, it may be acceptable for a non-executive director to hold six board positions and provide a meaningful contribution, while for another director six board positions may be too demanding and result in a less meaningful contribution.

All teams have an approval and escalation process for proxy votes and maintain records when they vote against management or against the recommendations of the proxy voting advisors (Glass Lewis and Ownership Matters).

We do not actively participate in stock lending. The FSI proxy voting policy is available here and the CFSGAM proxy voting policy is available here.

Monitoring Investee Companies

Actively monitoring and reporting on company performance, including ESG performance is central to our approach to the stewardship of our clients' assets. All of our equity and direct investment teams regularly meet with management of companies in which we have invested our clients' capital. In addition to these meetings, all of our investment teams monitor company performance including that of the board and management. This process may also be informed by input from a company's wider stakeholders including its customers, industry trade groups and civil society organisations.

In addition to direct meetings and company oversight, our teams monitor their investee companies via our ESG data services including RepRisk, a controversy monitoring tool, and Sustainalytics and MSCI our ESG data service providers. The teams also have a host of other monitoring tools such as news alerts, Bloomberg and front office system alerts and proxy voting decision support tools. Issues that the teams monitor include: strategy, performance, risk, capital structures, and the plethora of ESG factors some of which are mentioned above.

Individuals within investment or dealing teams may be contacted by third parties, such as brokers or corporate finance advisers, to discuss potential corporate action by an issuer, for example raising new capital, issuing debt, or any other form of restructuring. The intention is to bring the buy-side individual "inside" to gain input or support for the proposed course of action. Under normal circumstances, we are unwilling to become an insider as it could present a conflict of interest between our equity investment teams and their clients or between different groups of clients.

In certain circumstances however, it may be appropriate or desirable for a particular investment team to become an insider, allowing us to provide constructive input on the proposed action for our clients. In such circumstances investment teams must, in conjunction with the Risk & Compliance team, follow processes to control and manage any potential conflicts of interest, and to ensure we are not brought inside without our prior agreement.

Additionally, it is possible to be brought inside unintentionally. Guidance has been given to Investment teams globally to ensure it is understood ahead of meetings or calls with issuers or other third parties whether there is an intention to discuss non-public price sensitive information. Investment team members are also required to consider, either during or after a call or meeting, whether they have been given inside information either accidentally or indirectly.

Training is provided on a regular basis and Portfolio Managers are encouraged to reinforce understanding on clients' interests and inside information.

Conflicts of Interest

Conflicts of interest can arise from the interaction between different business units and our affiliates, their clients, external parties and personal conflicts with employees. Where the interests of these stakeholders are different, this can create a conflict of interest, which need to be managed fairly. Conflicts can also occur between our business and our parent, the Commonwealth Bank of Australia.

A conflict of interest may arise where:

- Our interests conflict with client duty.
- Our interest to one client conflicts with its duty to another client.
- We owe a duty of confidentiality to one party but are obligated to have undivided loyalty to all clients.

All employees are required to understand conflicts of interest, how they may arise and what should be done when conflicts are identified. The overarching approach to be followed by all employees on managing a conflict of interest is as follows:

- **Identify** – understand what a conflict is and how it may arise in relation to our day to day responsibilities and activities.
- **Act** – act in a manner aligned with the principles set out in our policies and procedures to manage identified conflicts.
- **Report** – all actual and potential conflicts must be recorded in their business unit's conflicts of interest registers.

Our Risk and Compliance teams assist in the identification and monitoring of actual and potential conflicts of interest whilst also maintaining a record of any conflicts of interest.

Where a conflict of interest or a potential conflict of interest is identified, the appropriate course of action to ensure fair treatment of clients and may include:

- Disclosure of the interest to clients; for instance in investment management agreements disclosure that we act for more than one client and we will seek to treat each fairly.
- Rely on a policy of independence; for instance where we are acting for both sides of a transaction i.e. "agency cross" ensure that terms of the transaction are normal commercial terms.
- Establish internal arrangements; for instance preventing the transfer of information internally by implementing information barriers.
- If necessary, decline to act for a client.

Reporting and Disclosure

We take a global approach to formally disclosing our stewardship responsibilities across our entire investment portfolios ensuring that client interests are at the core of our investment process. We see our Global Stewardship Principles and our reporting and disclosures as fulfilling the requirements of stewardship codes across the world.

We provide our clients with regular reports on our stewardship activities through specific client reports and our annual Responsible Investment & Stewardship Report. Not all of our stewardship activities will be made public and may remain confidential for a period of time in instances where we believe that this is in the best interests of our clients. Continually improving the quality of reporting is a goal of the business and we will actively seek feedback and comment from our clients and other stakeholders of where we can improve.

We disclose our full proxy voting record and statistics on the independence of our team's voting in the online version of our Responsible Investment & Stewardship Report.

FSI also disclose our stewardship policies and activities against the UK's Pensions and Lifetime Savings Association's Stewardship framework.

Assurance

FSI have committed to obtaining and publishing a statement of assurance from our auditors on our execution of our stewardship activities as they pertain to the UK Stewardship Code as a proxy for all other stewardship codes in various jurisdictions in which we operate and invest our clients' capital. The first statement will be published in 2016.